# IFF and Subsidiaries

Consolidated Financial Report
December 31, 2012

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McGladrey

# Independent Auditor's Report

To the Board of Directors
IFF and Subsidiaries
Chicago, Illinois

## Report on the Financial Statements

We have audited the accompanying consolidated financial statements of IFF and its subsidiaries (Home First, Illinois, LLC; IFF NMTC Senior Lender, LLC; IFF Real Estate Services, LLC; and IFF Housing, LLC), which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended and the related notes to the consolidated financial statements.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of IFF and its subsidiaries as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

McGladrey LLP

Chicago, Illinois
April 25, 2013

**IFF and Subsidiaries**

**Consolidated Statements of Financial Position**
**December 31, 2012 and 2011**

| | 2012 | 2011 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | **$ 17,390,925** | $ 26,412,367 |
| Interest-bearing deposits in banks | **250,000** | 250,000 |
| Department of Education restricted cash and interest-bearing deposits in banks | **18,396,839** | 18,529,092 |
| Other restricted cash and interest-bearing deposits | **12,365,053** | 2,567,698 |
| Grants receivable, other receivables, prepaids and deposits | **1,925,706** | 1,886,560 |
| Loans receivable, net | **174,286,960** | 160,435,065 |
| Accrued interest receivable | **716,127** | 701,889 |
| NSP property | **4,169,859** | 5,949,042 |
| Home First Illinois property | **2,027,873** | - |
| Federal Home Loan Bank stock, at cost | **206,900** | 176,200 |
| Other assets | **13,078** | 11,056 |
| Foreclosed assets, net | **1,867,500** | 2,250,138 |
| Property and equipment, net | **429,067** | 501,723 |
| Capitalized finance costs, net | **295,776** | 317,147 |
| | **$ 234,341,663** | $ 219,987,977 |
| **Liabilities and Net Assets** | | |
| Liabilities | | |
| Accrued liabilities | **$ 1,169,849** | $ 1,271,734 |
| Accrued interest payable | **848,859** | 840,605 |
| Home First Illinois deferred grant revenue | **2,027,873** | - |
| Investor Consortium collateral trust notes | **61,855,618** | 63,358,334 |
| Borrowings | **78,777,037** | 84,381,875 |
| Equity equivalent borrowings | **16,894,000** | 12,044,000 |
| Loan participations payable | **2,189,906** | 1,686,926 |
| | **163,763,142** | 163,583,474 |
| Net Assets | | |
| Unrestricted | **23,053,117** | 18,472,217 |
| Temporarily restricted | **47,525,404** | 37,932,286 |
| | **70,578,521** | 56,404,503 |
| | **$ 234,341,663** | $ 219,987,977 |

See Notes to Consolidated Financial Statements.

**IFF and Subsidiaries**

**Consolidated Statements of Activities**
**Years Ended December 31, 2012 and 2011**

| | 2012 | 2011 |
|---|---|---|
| Unrestricted - Operating | | |
| Support and revenue: | | |
| Corporations, foundations, and individuals | **$ 148,449** | $ 153,750 |
| Interest on loans | **9,248,918** | 8,931,813 |
| Consulting contract fees | **947,262** | 1,265,877 |
| Management and sponsor fees | **89,281** | 106,670 |
| Syndication fees | **640,000** | - |
| Loan fees | **156,193** | 189,090 |
| Other interest income | **47,649** | 30,540 |
| Rental income | **103,395** | 104,328 |
| Net assets released from restrictions | **1,930,595** | 1,208,328 |
| Net assets released from restrictions - NSP property | **6,267,974** | 1,089,187 |
| Net assets released from restrictions - Pass through Grants | **981,413** | - |
| | **20,561,129** | 13,079,583 |
| Expenses: | | |
| Salaries and benefits | **5,302,192** | 4,635,642 |
| Professional fees | **702,263** | 592,873 |
| Occupancy and office | **689,147** | 584,232 |
| Printing and marketing | **74,907** | 55,685 |
| Interest | **5,121,222** | 5,259,601 |
| Other operating expenses | **352,571** | 353,979 |
| Provision for foreclosed assets losses | **348,000** | - |
| Pass through NSP property | **6,267,974** | 1,089,187 |
| Pass through Grants | **981,413** | - |
| Meetings and travel | **281,109** | 205,150 |
| Depreciation and amortization | **312,839** | 286,036 |
| Income taxes | **398** | 3,702 |
| | **20,434,035** | 13,066,087 |
| **Increase in unrestricted net assets - operating** | **127,094** | 13,496 |
| Unrestricted - Capital | | |
| Support and revenue: | | |
| Loan grants | **4,453,806** | 4,500,000 |
| Net assets released from restrictions | **6,613,949** | 2,022,647 |
| | **11,067,755** | 6,522,647 |
| Expenses: | | |
| Provision for loan losses | **6,613,949** | 2,022,647 |
| **Increase in unrestricted net assets - capital** | **4,453,806** | 4,500,000 |
| **Increase in unrestricted net assets** | **4,580,900** | 4,513,496 |

**Consolidated Statements of Activities (Continued)**
**Years Ended December 31, 2012 and 2011**

| | **2012** | 2011 |
|---|---|---|
| Temporarily Restricted | | |
| Program and operating grants | **$ 10,361,687** | $ 7,370,140 |
| Loan capital grants | **14,998,094** | 4,906,000 |
| Interest income | **27,268** | 25,511 |
| Net assets released from restrictions - operating | **(1,930,595)** | (1,208,328) |
| Net assets released from restrictions - NSP property | **(6,267,974)** | (1,089,187) |
| Net assets released from restrictions - Pass through Grants | **(981,413)** | - |
| Net assets released from restrictions - capital (provision for loan losses) | **(6,613,949)** | (2,022,647) |
| **Increase in temporarily restricted net assets** | **9,593,118** | 7,981,489 |
| **Increase in net assets** | **14,174,018** | 12,494,985 |
| Net assets: | | |
| Beginning of year | **56,404,503** | 43,909,518 |
| End of year | **$ 70,578,521** | $ 56,404,503 |

See Notes to Consolidated Financial Statements.

**IFF and Subsidiaries**

**Consolidated Statements of Cash Flows**
**Years Ended December 31, 2012 and 2011**

| | 2012 | 2011 |
|---|---|---|
| Cash Flows from Operating Activities | | |
| Increase in net assets | $ 14,174,018 | $ 12,494,985 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization expense | 274,239 | 243,396 |
| Amortization expense for capitalized finance costs | 38,600 | 42,640 |
| Provision for foreclosed asset losses | 348,000 | - |
| Provision for loan losses | 6,613,949 | 2,022,647 |
| Pass through NSP property | 6,267,974 | 1,089,187 |
| Changes in assets and liabilities: | | |
| Grants receivable, other receivables, prepaids and deposits | (39,146) | (731,344) |
| Accrued interest receivable | (14,238) | (84,591) |
| Other assets | (2,022) | - |
| Accrued liabilities | (101,885) | (325,426) |
| Accrued interest payable | 8,254 | (27,987) |
| **Net cash provided by operating activities** | 27,567,743 | 14,723,507 |
| Cash Flows from Investing Activities | | |
| Net change in Department of Education restricted cash and interest-bearing deposits in banks | 132,253 | 138,365 |
| Net change in other restricted cash and interest-bearing deposits in banks | (9,797,355) | (718,275) |
| Sale of foreclosed assets | 409,638 | - |
| Purchases of Federal Home Loan Bank Stock | (30,700) | (176,200) |
| Loan disbursements | (44,643,150) | (43,294,056) |
| Loan principal payments received | 23,802,306 | 32,442,077 |
| Purchases of equipment | (201,583) | (31,653) |
| Purchase of NSP property | (4,488,791) | (4,418,450) |
| Purchase of Home First Illinois property | (2,027,873) | - |
| **Net cash used in investing activities** | (36,845,255) | (16,058,192) |
| Cash Flows from Financing Activities | | |
| Proceeds from Home First Illinois grant | 2,027,873 | - |
| Proceeds from borrowings, equity equivalent borrowings and participations payable | 10,790,916 | 26,344,992 |
| Repayment of borrowings, equity equivalent borrowings and participations payable | (11,042,774) | (7,205,931) |
| Proceeds from Investor Consortium collateral trust notes | 13,136,364 | 10,286,480 |
| Repayment of Investor Consortium collateral trust notes | (14,639,080) | (9,803,447) |
| Finance costs paid | (17,229) | (112,705) |
| **Net cash provided by financing activities** | 256,070 | 19,509,389 |
| **(Decrease) increase in cash and cash equivalents** | (9,021,442) | 18,174,704 |
| Cash and cash equivalents: | | |
| Beginning of year | 26,412,367 | 8,237,663 |
| End of year | $ 17,390,925 | $ 26,412,367 |
| Supplemental Disclosure of Cash Flow Information | | |
| Interest paid on borrowings | $ 5,112,968 | $ 5,287,589 |
| Supplemental Schedule of Noncash Investing Activities | | |
| Real estate acquired in settlement of loans | $ 375,000 | $ 85,000 |

See Notes to Consolidated Financial Statements.

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

IFF and Subsidiaries, an Illinois nonprofit corporation, is one of the largest community development financial institutions (CDFI) serving nonprofit corporations currently in Illinois, Indiana, Iowa, Missouri and Wisconsin. IFF and Subsidiaries makes below-market rate loans to nonprofit human service and community development agencies for the acquisition, construction, remodeling, and renovation of facilities. IFF and Subsidiaries is also engaged in real estate development for nonprofit corporations and provides development planning, financial, and technical assistance. In addition, IFF and Subsidiaries undertakes research and public policy activities on behalf of the nonprofit corporations in its target market. In 2012, IFF and Subsidiaries created its Community Strategies division in which it will bring all of IFF and Subsidiaries' skills, expertise and resources in finance, real estate, research and policy, to a comprehensive community development approach in low-income communities. Activities are primarily conducted from IFF and Subsidiaries' headquarters in Chicago, Illinois with additional offices in St. Louis (Missouri), Milwaukee (Wisconsin), Davenport (Iowa), and Indianapolis (Indiana). IFF and Subsidiaries closed its Springfield (Illinois) office in February 2011.

IFF and Subsidiaries conducts its activities in conjunction with its subsidiaries, Home First Illinois, LLC, IFF NMTC Senior Lender, LLC, IFF Real Estate Services, LLC and IFF Housing, LLC, of which IFF is the sole corporate member. Home First Illinois, LLC and IFF NMTC Senior Lender, LLC were created in 2011. IFF and these subsidiaries included in these consolidated financial statements are referred to individually and collectively as "IFF."

Significant accounting policies are described below.

**Basis of accounting**: These consolidated financial statements have been prepared 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.

**Principles of consolidation**: Accounting guidance on reporting of related entities requires non-for-profit organizations with a controlling and economic interest in other organizations to consolidate those other organizations. Accordingly, the consolidated financial statements include the accounts of Home First Illinois, LLC, IFF NMTC Senior Lender, LLC, IFF Real Estate Services, LLC and IFF Housing, LLC. All intercompany balances and transactions have been eliminated in consolidation.

Various affiliated limited liability companies (Note 17) do not meet the criteria requiring consolidation and are therefore not included in the consolidated financial statements.

**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.

**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, restricted cash and interest-bearing deposits in banks, 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. Borrowings, which carry current interest rates, are approximately equivalent to fair value.

**Cash and cash equivalents**: IFF considers all highly liquid deposit accounts in banks, including interest-bearing accounts 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 and cash equivalents.

**Interest-bearing deposits in banks**: Interest-bearing deposits in banks mature within one month and are carried at cost.

**Department of Education restricted cash and interest-bearing deposits in banks**: Restricted cash and interest-bearing deposits in banks 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. Restricted interest-bearing deposits in banks mature within five years and are carried at cost.

**Other restricted cash and interest-bearing deposits**: Restricted cash and interest-bearing deposits relates to Investor Consortium collateral trust notes, which are restricted for use as loss reserve in accordance with the Investor Consortium loan sales (see Note 10). Restricted cash for this program as of December 31, 2012 and 2011, was $1,266,068 and $1,567,698, respectively. Restricted cash also relates to the Chicago Metropolitan Agency for Planning (CMAP) Energy Efficiency program with IFF, which is restricted for loan loss reserves on qualified energy efficient loans made by IFF. Restricted cash for this program as of December 31, 2012 and 2011, was $750,000 and $1,000,000, respectively. Restricted cash also relates to the various reserve accounts maintained for the Home First Illinois Property for the Illinois Accessible Housing Initiative Program with the Illinois Housing Development Authority (IHDA), a new program in 2012. Restricted cash for this program as of December 31, 2012, was $344,380. Restricted cash also includes proceeds received from the Illinois Department of Commerce and Economic Opportunity (DCEO) for the Illinois Fresh Food Fund (IFFF), also a new program in 2012. Restricted cash for this program as of December 31, 2012, was $10,004,605. Restricted interest-bearing deposits are held in money market accounts and are carried at cost.

**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 collectible.

**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 generally up to 15 years. Loans are 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.

**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.

**Troubled debt restructurings**: A loan is classified as a troubled debt restructuring when a borrower is experiencing financial difficulties that leads to a restructuring of the loan, and the IFF grants concessions to the borrower in the restructuring that it would not otherwise consider. These concessions may include rate reductions, principal forgiveness, extension of maturity date, temporary adjustments for interest-only payments and other actions intended to minimize potential losses. A loan that is modified at a market rate of interest may no longer be classified as a troubled debt restructuring in the calendar year subsequent to the restructuring if it is in compliance with the modified terms. Performance prior to the restructuring is considered when assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual at the time of the restructuring or after a shorter performance period.

**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.

## 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 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.

**Home First Illinois**: Home First Illinois, LLC (Home First) acquires condominium units and capitalizes acquisition and improvement costs; depreciation will be computed using the straight-line method over the estimated useful lives of the properties, when placed in service. At December 31, 2012, improvements for acquired properties were still in progress. Illinois Housing Development Authority (IHDA) grants received in connection with the Illinois Accessible Housing Initiative program are in effect forgivable loans. Home First believes there is reasonable assurance that it will meet the terms of the forgiveness and therefore will recognize grant amounts as revenue ratably over the expected life of each condominium property, once placed in service and in proportion to depreciation expense. The unamortized grant amounts are therefore recorded as a deferred revenue liability on the consolidated statements of financial position.

**Federal Home Loan Bank and Federal Reserve Bank Stock**: IFF, as a member of the Federal Home Loan Bank of Chicago (the FHLB), is required to maintain an investment in capital stock of the FHLB. Federal Home Loan Bank stock does not have a readily determinable fair value as ownership is restricted and there is no ready market for this stock. As a result, these stocks are carried at cost and evaluated periodically by management for impairment. Management reviews for impairment based on the ultimate recoverability of the cost basis in the FHLB stock. No impairment was noted as of December 31, 2012 and 2011.

**Other assets**: Capital contributions paid in exchange for managing member interests in certain limited liability companies are included in other assets on the consolidated statements of financial position, and are recorded at fair value, which approximates original cost.

**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.

### 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 2 to 22 years, depending on the term of the related loan. Costs are reported net of accumulated amortization of $205,987 and $167,387 at December 31, 2012 and 2011, 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.

**Pass through grant revenue and expense**: IFF has received several grants in which a portion of the grant proceeds have been passed through to developers or other agencies for acquisition and improvement costs or other professional fees. Grantors fund the costs of the acquisition and improvements and budgeted professional fees, and IFF records temporarily restricted grant revenue when proceeds are received from the grantors. Amounts are released from restrictions when disbursements are made to the developers or agencies and a corresponding expense is recorded on the consolidated statements of activities in Pass through Grants.

**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 consolidated statements 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 $38,674 and $27,702 for 2012 and 2011, respectively.

**Income taxes**: IFF is 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.

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 consolidated 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 unrelated business tax benefits identified or recorded as liabilities during 2012 or 2011. IFF is generally no longer subject to examination by the Internal Revenue Service for years before 2009.

IFF files forms 990 in the U.S. federal jurisdiction and the state of Illinois. Home First Illinois, LLC, IFF Real Estate Services, LLC and IFF Housing, LLC are disregarded as separate entities for income tax purposes and are, therefore, included within IFF’s forms 990.

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

IFF NMTC Senior Lender is taxed as a C-corporation and files forms 1120 in the U.S. federal jurisdiction and the state of Missouri and form E-234 in the city of St. Louis.

**Estimates**: In preparing consolidated 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, the disclosure of contingent assets and liabilities, and 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 and fair value of foreclosed assets are material estimates that are particularly susceptible to significant change in the near term.

**Subsequent events**: IFF has evaluated subsequent events for potential recognition and/or disclosure through April 25, 2013, the date these consolidated financial statements were available for issuance.

## Note 2. Department of Education Restricted Cash and Interest-Bearing Deposits in Banks

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 $22,662 and $25,511 in 2012 and 2011, 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. Pledged and unpledged amounts under the grants, the cash for which is maintained in separate accounts, were as follows at December 31, 2012 and 2011:

| | 2012 | 2011 |
|---|---|---|
| Pledged - $8 million DOE grant | $ 8,216,267 | $ 8,213,237 |
| Pledged - $10 million DOE grant | 5,649,424 | 4,011,700 |
| Total pledged | 13,865,691 | 12,224,937 |
| Unpledged - $8 million DOE grant | 243,051 | 303,720 |
| Unpledged - $10 million DOE grant | 4,288,097 | 6,000,435 |
| Total unpledged | 4,531,148 | 6,304,155 |
| Total within restricted cash and interest-bearing deposits in banks | $ 18,396,839 | $ 18,529,092 |

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, 2012, there have not been any payment defaults or delinquencies requiring utilization of the pledged funds.

Recoverable expenses for these grant projects in 2012 and 2011 were $154,915 and $163,875, respectively.

## Note 3. 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 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, 2012, 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, 2012 and 2011, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

| | Fair Value Measurements at December 31, 2012 | | | |
|---|---|---|---|---|
| | Totals | Level 1 | Level 2 | Level 3 |
| Investment in limited liability companies | $ 12,046 | $ - | $ - | $ 12,046 |

| | Fair Value Measurements at December 31, 2011 | | | |
|---|---|---|---|---|
| | Totals | Level 1 | Level 2 | Level 3 |
| Investment in limited liability companies | $ 10,024 | $ - | $ - | $ 10,024 |

**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. Three new investments (Level 3) in 3 LLCs were made in 2012 for $2,023. There was no change in the balance of investment in limited liability companies (Level 3) during 2011. These investments are included within other assets on the consolidated statements of financial position.

### Note 3. 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, 2012 | | | |
|---|---|---|---|---|
| | Totals | Level 1 | Level 2 | Level 3 |
| Assets | | | | |
| Impaired loans | $ 4,712,395 | $ - | $ - | $ 4,712,395 |
| Foreclosed assets | 1,867,500 | - | - | 1,867,500 |
| | $ 6,579,895 | $ - | $ - | $ 6,579,895 |

| | Fair Value Measurements at December 31, 2011 | | | |
|---|---|---|---|---|
| | Totals | Level 1 | Level 2 | Level 3 |
| Assets | | | | |
| Impaired loans | $ 1,701,695 | $ - | $ - | $ 1,701,695 |
| Foreclosed assets | 2,250,138 | - | - | 2,250,138 |
| | $ 3,951,833 | $ - | $ - | $ 3,951,833 |

**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, 2012 and 2011, on the consolidated statements of financial position and included above represent 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 or impaired loans that have been charged down to fair value. Fair value is measured based on the value of the collateral securing these loans or management's discounted cash flow analysis and is classified as 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.

### Note 4. Grants Receivable, Other Receivables, Prepaids and Deposits

The total grants receivable, other receivables, prepaids and deposits at December 31, 2012 and 2011, consisted of the following:

| | 2012 | 2011 |
|---|---|---|
| Grants receivable | $ 1,012,147 | $ 1,121,959 |
| Contract and other receivables | 728,290 | 643,532 |
| Prepaids and deposits | 185,269 | 121,069 |
| | $ 1,925,706 | $ 1,886,560 |

## Note 4. Grants Receivable, Other Receivables, Prepaids and Deposits (Continued)

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

| | 2012 | 2011 |
|---|---|---|
| Amounts receivable / realizable in less than one year | $ 1,614,859 | $ 1,427,551 |
| Amounts receivable / realizable in one to five years | 256,366 | 417,366 |
| Amounts receivable / realizable in over five years | 54,481 | 41,643 |
| | $ 1,925,706 | $ 1,886,560 |

## Note 5. Loans Receivable

Loans receivable at December 31, 2012 and 2011, were comprised of the following:

| | 2012 | 2011 |
|---|---|---|
| Facility | $ 136,879,959 | $ 125,144,043 |
| Affordable housing | 27,371,077 | 25,751,984 |
| Equipment and vehicle | 4,911,231 | 4,751,904 |
| Pre-development | 3,582,852 | 2,879,766 |
| Other | 11,970,952 | 7,703,162 |
| | 184,716,071 | 166,230,859 |
| Allowance for loan losses | (10,429,111) | (5,795,794) |
| Loans receivable, net | $ 174,286,960 | $ 160,435,065 |

All loans are underwritten after evaluating and understanding the borrower's operations. As part of the underwriting process IFF examines 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.

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 61 percent of outstanding facility loans are collateralized with mortgages in a first position lien and 19 percent are collateralized by mortgages with second position liens. The remaining 20 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. Approximately 87 percent of outstanding affordable housing loans are collateralized with mortgages in a first position lien and 9 percent are collateralized by mortgages with second position liens. The remaining 4 percent are collateralized by leasehold mortgages and other liens.

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

## Note 5. Loans Receivable (Continued)

Pre-development credit is provided to affordable housing developers to finance up-front project requirements such as site control, architectural, legal, and financing costs. Approximately 42 percent of outstanding pre-development loans are collateralized with mortgages in a first position lien and 27 percent are collateralized by mortgages with second position liens. The remaining 31 percent are collateralized by leasehold mortgages and other liens.

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

The following table presents the contractual aging of the recorded investment in past due loans by loan segment as of December 31, 2012 and 2011:

| | Current | 31 - 60 Days Past Due | 61 - 90 Days Past Due | 90+ Days Past Due | Total | Nonaccruing Loans |
|---|---|---|---|---|---|---|
| December 31, 2012 | | | | | | |
| Facility | $ 129,119,650 | $ 264,322 | $ - | $ 7,495,987 | $ 136,879,959 | $ 8,564,491 |
| Affordable housing | 25,826,069 | 77,992 | - | 1,467,016 | 27,371,077 | 1,668,601 |
| Equipment and vehicle | 4,821,459 | 66,017 | - | 23,755 | 4,911,231 | 89,772 |
| Pre-development | 3,289,619 | - | - | 293,233 | 3,582,852 | 293,233 |
| Other | 11,970,952 | - | - | - | 11,970,952 | - |
| | $ 175,027,749 | $ 408,331 | $ - | $ 9,279,991 | $ 184,716,071 | $ 10,616,097 |
| Nonaccruing loans | $ 1,005,768 | $ 330,338 | $ - | $ 9,279,991 | $ 10,616,097 | |

| | Current | 31 - 60 Days Past Due | 61 - 90 Days Past Due | 90+ Days Past Due | Total | Nonaccruing Loans |
|---|---|---|---|---|---|---|
| December 31, 2011 | | | | | | |
| Facility | $ 116,089,571 | $ 4,203,456 | $ - | $ 4,851,016 | $ 125,144,043 | $ 8,107,954 |
| Affordable housing | 23,967,299 | 86,382 | - | 1,698,303 | 25,751,984 | 1,698,303 |
| Equipment and vehicle | 4,681,647 | - | - | 70,257 | 4,751,904 | 70,257 |
| Pre-development | 2,586,533 | - | - | 293,233 | 2,879,766 | 293,233 |
| Other | 7,703,162 | - | - | - | 7,703,162 | - |
| | $ 155,028,212 | $ 4,289,838 | $ - | $ 6,912,809 | $ 166,230,859 | $ 10,169,747 |
| Nonaccruing loans | $ 2,469,297 | $ 787,641 | $ - | $ 6,912,809 | $ 10,169,747 | |

IFF utilizes an internal asset classification system as a means of reporting problem and potential problem loans. Under its risk rating system, IFF classifies problem and potential problem loans as “Special Mention,” “Watch List,” and “Substandard” which correspond to risk ratings 4+, 4- and 5, respectively.

Watch List loans include those characterized by the distinct possibility that IFF will sustain some loss if the deficiencies are not corrected. Loans classified as Substandard, or risk rating 5, have all the weaknesses inherent in those classified as Watch List 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 IFF 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 Special Mention, or risk rating 4+. Risk ratings are updated any time the situation warrants.

## Note 5. Loans Receivable (Continued)

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, 2012 and 2011:

| | General Portfolio | Special Mention (4+) | Watch List (4-) | Substandard (5) | Total |
|---|---|---|---|---|---|
| December 31, 2012 | | | | | |
| Facility | $ 122,348,651 | $ 6,481,680 | $ 1,870,505 | $ 6,179,123 | $ 136,879,959 |
| Affordable housing | 25,624,485 | - | 77,991 | 1,668,601 | 27,371,077 |
| Equipment and vehicle | 3,803,337 | 1,017,458 | 66,681 | 23,755 | 4,911,231 |
| Pre-development | 3,289,619 | - | - | 293,233 | 3,582,852 |
| Other | 11,970,952 | - | - | - | 11,970,952 |
| | $ 167,037,044 | $ 7,499,138 | $ 2,015,177 | $ 8,164,712 | $ 184,716,071 |
| Current | $ 166,727,598 | $ 7,418,537 | $ 453,252 | $ 428,362 | $ 175,027,749 |
| Past Due 31-60 Days | - | - | 408,331 | - | 408,331 |
| Past Due 61-90 Days | - | - | - | - | - |
| Past Due 90 + Days | 309,446 | 80,601 | 1,153,594 | 7,736,350 | 9,279,991 |
| | $ 167,037,044 | $ 7,499,138 | $ 2,015,177 | $ 8,164,712 | $ 184,716,071 |

| | General Portfolio | Special Mention (4+) | Watch List (4-) | Substandard (5) | Total |
|---|---|---|---|---|---|
| December 31, 2011 | | | | | |
| Facility | $ 114,200,466 | $ 4,615,105 | $ 3,501,532 | $ 2,826,940 | $ 125,144,043 |
| Affordable housing | 23,619,528 | 969,285 | 86,382 | 1,076,789 | 25,751,984 |
| Equipment and vehicle | 4,243,337 | 438,310 | 31,634 | 38,623 | 4,751,904 |
| Pre-development | 2,586,533 | - | - | 293,233 | 2,879,766 |
| Other | 7,702,142 | - | 1,020 | - | 7,703,162 |
| | $ 152,352,006 | $ 6,022,700 | $ 3,620,568 | $ 4,235,585 | $ 166,230,859 |
| Current | $ 147,309,387 | $ 4,607,222 | $ 1,790,053 | $ 1,321,550 | $ 155,028,212 |
| Past Due 31-60 Days | 3,415,815 | 89,409 | 86,382 | 698,232 | 4,289,838 |
| Past Due 61-90 Days | - | - | - | - | - |
| Past Due 90 + Days | 1,626,804 | 1,326,069 | 1,744,133 | 2,215,803 | 6,912,809 |
| | $ 152,352,006 | $ 6,022,700 | $ 3,620,568 | $ 4,235,585 | $ 166,230,859 |

## Note 5. Loans Receivable (Continued)

Activity in the allowance for loan losses for the years ended December 31, 2012 and 2011, was as follows:

| | Facility | Affordable Housing | Equipment and Vehicle | Pre-Development | Other | Total |
|---|---|---|---|---|---|---|
| December 31, 2012 | | | | | | |
| Beginning balance | $ 4,450,314 | $ 831,669 | $ 185,358 | $ 300,536 | $ 27,917 | $ 5,795,794 |
| Provision for loan losses | 5,452,751 | 730,028 | 43,116 | 190,670 | 197,384 | 6,613,949 |
| Charge-offs | (1,981,132) | - | - | - | - | (1,981,132) |
| Recoveries | 500 | - | - | - | - | 500 |
| Ending balance | $ 7,922,433 | $ 1,561,697 | $ 228,474 | $ 491,206 | $ 225,301 | $ 10,429,111 |
| Allowance for loan losses: | | | | | | |
| Allocated | $ 3,258,947 | $ 793,931 | $ 23,755 | $ 218,233 | $ - | $ 4,294,866 |
| General | 4,663,486 | 767,766 | 204,719 | 272,973 | 225,301 | 6,134,245 |
| | $ 7,922,433 | $ 1,561,697 | $ 228,474 | $ 491,206 | $ 225,301 | $ 10,429,111 |
| Loans: | | | | | | |
| Impaired loans | $ 7,357,296 | $ 1,668,601 | $ 23,755 | $ 293,233 | $ - | $ 9,342,885 |
| Non-impaired loans | 129,522,663 | 25,702,476 | 4,887,476 | 3,289,619 | 11,970,952 | 175,373,186 |
| | $ 136,879,959 | $ 27,371,077 | $ 4,911,231 | $ 3,582,852 | $ 11,970,952 | $ 184,716,071 |

| | Facility | Affordable Housing | Equipment and Vehicle | Pre-Development | Other | Total |
|---|---|---|---|---|---|---|
| December 31, 2011 | | | | | | |
| Beginning balance | $ 3,430,358 | $ 466,673 | $ 132,716 | $ 245,769 | $ 206,103 | $ 4,481,619 |
| Provision for loan losses | 1,651,573 | 364,996 | 52,642 | 54,767 | (101,331) | 2,022,647 |
| Charge-offs | (691,843) | - | - | - | (76,855) | (768,698) |
| Recoveries | 60,226 | - | - | - | - | 60,226 |
| Ending balance | $ 4,450,314 | $ 831,669 | $ 185,358 | $ 300,536 | $ 27,917 | $ 5,795,794 |
| Allowance for loan losses: | | | | | | |
| Allocated | $ 1,214,930 | $ 124,797 | $ 38,623 | $ 218,233 | $ - | $ 1,596,583 |
| General | 3,235,384 | 706,872 | 146,735 | 82,303 | 27,917 | 4,199,211 |
| | $ 4,450,314 | $ 831,669 | $ 185,358 | $ 300,536 | $ 27,917 | $ 5,795,794 |
| Loans: | | | | | | |
| Impaired loans | $ 3,620,085 | $ 1,076,789 | $ 38,623 | $ 293,233 | $ - | $ 5,028,730 |
| Non-impaired loans | 121,523,958 | 24,675,195 | 4,713,281 | 2,586,533 | 7,703,162 | 161,202,129 |
| | $ 125,144,043 | $ 25,751,984 | $ 4,751,904 | $ 2,879,766 | $ 7,703,162 | $ 166,230,859 |

## Note 5. Loans Receivable (Continued)

Impaired loan information as of December 31, 2012 and 2011, is as follows:

| | Unpaid Principal Balance | Recorded Investment | Partial Charge-Offs | Allowance for Loan Losses Allocated | Average Recorded Investment | Interest Income Recognized | Cash Basis Interest Income Recognized |
|---|---|---|---|---|---|---|---|
| December 31, 2012 | | | | | | | |
| With no related allowance recorded: | | | | | | | |
| Facility | $ 833,027 | $ 438,357 | $ 394,670 | $ - | $ 803,802 | $ 3,351 | $ 3,351 |
| Affordable housing | 72,385 | 72,385 | - | - | 72,387 | 726 | 726 |
| Equipment and vehicle | - | - | - | - | - | - | - |
| Pre-development | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - |
| | 905,412 | 510,742 | 394,670 | - | 876,189 | 4,077 | 4,077 |
| With an allowance recorded: | | | | | | | |
| Facility | 7,076,921 | 6,918,939 | 157,982 | 3,258,947 | 4,395,600 | 194,539 | 194,539 |
| Affordable housing | 1,596,216 | 1,596,216 | - | 793,931 | 1,472,282 | 25,201 | 25,201 |
| Equipment and vehicle | 23,755 | 23,755 | - | 23,755 | 11,480 | 880 | 880 |
| Pre-development | 293,233 | 293,233 | - | 218,233 | 293,233 | - | - |
| Other | - | - | - | - | - | - | - |
| | 8,990,125 | 8,832,143 | 157,982 | 4,294,866 | 6,172,595 | 220,620 | 220,620 |
| | $ 9,895,537 | $ 9,342,885 | $ 552,652 | $ 4,294,866 | $ 7,048,784 | $ 224,697 | $ 224,697 |
| December 31, 2011 | | | | | | | |
| With no related allowance recorded: | | | | | | | |
| Facility | $ 1,578,211 | $ 1,497,247 | $ 80,964 | $ - | $ 1,291,730 | $ 28,753 | $ 28,753 |
| Affordable housing | 826,993 | 826,993 | - | - | 649,571 | 15,483 | 15,483 |
| Equipment and vehicle | - | - | - | - | - | - | - |
| Pre-development | - | - | - | - | - | - | - |
| Other | - | - | - | - | 40,454 | - | - |
| | 2,405,204 | 2,324,240 | 80,964 | - | 1,981,755 | 44,236 | 44,236 |
| With an allowance recorded: | | | | | | | |
| Facility | 2,122,838 | 2,122,838 | - | 1,214,930 | 1,506,028 | 58,760 | 58,760 |
| Affordable housing | 249,796 | 249,796 | - | 124,797 | 205,964 | 370 | 370 |
| Equipment and vehicle | 38,623 | 38,623 | - | 38,623 | 19,311 | 925 | 925 |
| Pre-development | 293,233 | 293,233 | - | 218,233 | 293,233 | - | - |
| Other | - | - | - | - | - | - | - |
| | 2,704,490 | 2,704,490 | - | 1,596,583 | 2,024,536 | 60,055 | 60,055 |
| | $ 5,109,694 | $ 5,028,730 | $ 80,964 | $ 1,596,583 | $ 4,006,291 | $ 104,291 | $ 104,291 |

Nine loans were modified during the year ended December 31, 2012, that were identified as troubled debt restructurings. These modifications resulted in one or a combination of the following: reduction of interest rates, temporary adjustments for interest-only payments, partial deferral of interest and partial charge-offs. There were no loans in 2011 modified as troubled debt restructurings. The pre and post modification balance of the loans modified in 2012 were $2,477,771 and $1,950,593, respectively. There was $552,652 of charge-offs recorded during the year ended December 31, 2012, as a result of these modifications. In the year ended December 31, 2011, $80,964 was charged-off for a loan modified in 2010.

## Note 5. Loans Receivable (Continued)

At December 31, 2012 and 2011, there were $2,754,395 and $1,386,933 of loans identified as troubled debt restructurings, respectively.

Loans carried at $74,749,421 and $64,460,730 were pledged to secure borrowings as of December 31, 2012 and 2011, respectively.

Scheduled loan receipts for the year ending December 31, 2013, are expected to be approximately $11,760,793.

IFF 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. IFF'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. IFF 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, 2012 and 2011, were $36,523,889 and $25,498,068, 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. IFF 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.

## Note 6. Neighborhood Stabilization Program (NSP)

In 2011, IFF was awarded a $3,471,781 grant by the City of Chicago and Mercy Housing. 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. These grants 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 a nonprofit organization or individuals 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. In 2011, IFF purchased 3 additional properties and incurred additional costs of $4,418,450 on all properties held during the year. In 2012, IFF purchased 1 additional property and incurred costs of $4,419,039 on all properties held during the year. As of December 31, 2012 and 2011, IFF recorded temporarily restricted grants revenue of $4,857,718 and $4,940,010, including fees granted of $438,679 and $521,560, respectively. At December 31, 2012, IFF had construction commitments of approximately $1,165,000 related to NSP properties.

Twelve properties with an aggregate value of $6,267,974 and four properties with an aggregate value of $1,089,187 were transferred to the end-users during 2012 and 2011, respectively. This reduced the basis of the asset, and resulted in an expense in the consolidated statements 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 consolidated statements of financial position reflects the remaining aggregate costs of the NSP property of $4,169,859 and $5,949,042 at December 31, 2012 and 2011, respectively.

## Note 7. Home First Illinois Property (Illinois Accessible Housing Initiative)

In 2011, Home First Illinois, LLC (Home First) was awarded a $5,000,000 grant by IHDA to enable Home First to purchase and rehabilitate 20 properties under the Illinois Accessible Housing Initiative program. Grant and regulatory agreements restrict the use of the funds, set objectives and requirements for the projects, and provides IFF with funds for its holding costs and indirect costs. When improvements are complete, Home First will rent the units out to qualified individuals and manage the properties through a management company.

Home First purchased and made improvements to 17 condominium properties during 2012, with costs accumulating $2,027,873, reflected on the consolidated statements of financial position as Home First Illinois property. As property improvements are still in progress, no depreciation has been recorded for 2012.

IHDA grant funds are secured by a non-interest bearing mortgage on each property. Home First is required to comply with the terms of the grant and regulatory agreements, and grant amounts are required to be repaid to IHDA only upon the occurrence of a default, but otherwise are to be forgiven by IHDA on dates 30 years after property acquisition. Home First intends to hold and manage the properties for the 30-year term and believes there is reasonable assurance that it will meet the terms of the forgiveness; therefore, Home First has recorded grant amounts received as a deferred revenue liability of $2,027,873, and will amortize amounts to revenue ratably over the expected life of the properties, once placed in service. No amounts were amortized into revenue for 2012.

Home First recorded temporarily restricted grant revenue totaling $900,723 received for developing the properties, establishing reserves, and for other certain property and project costs. These amounts are released from restriction when utilized for the restricted purpose. For 2012, amounts totaling $542,744 were released from restriction.

## Note 8. Property and Equipment

Property and equipment at December 31, 2012 and 2011, were comprised as follows:

| | 2012 | 2011 |
|---|---|---|
| Furniture, equipment, and software | $ 2,377,504 | $ 2,228,261 |
| Leasehold improvements | 376,145 | 323,804 |
| | 2,753,649 | 2,552,065 |
| Less accumulated depreciation and amortization | (2,324,582) | (2,050,342) |
| | $ 429,067 | $ 501,723 |

Depreciation and amortization expense for 2012 and 2011 were $274,239 and $243,396, respectively.

## 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 and are subordinated to IFF's other borrowings. The interest rate as of December 31, 2012, is provided for borrowings where the Annual Rate is indicated as Variable. IFF borrowings consisted of the following:

| | | Scheduled Repayments | | | | Principal Balance at December 31, 2012 | Principal Balance at December 31, 2011 |
|---|---|---|---|---|---|---|---|
| | | Principal | | Interest | | | |
| Lender | Maturity Date | Amount | Due | Annual Rate | Due | | |
| *Allstate Insurance Company | 1/1/2015 | Amortized over ten years | Quarterly starting 1/1/2005 | 3.000% | Quarterly | $ 800,000 | $ 1,200,000 |
| *Allstate Insurance Company | 1/1/2015 | Amortized over ten years | Quarterly starting 1/1/2005 | 3.000% | Quarterly | 200,000 | 300,000 |
| Bank of America | 11/7/2018 | $ 2,500,000<br>2,500,000<br>3,000,000 | 11/07/16<br>11/07/17<br>11/07/18 | 3.750% | Quarterly | 8,000,000 | 8,000,000 |
| Bank of America | 12/15/2020 | Balance | Maturity | 1.000% | Quarterly | 2,000,000 | - |
| The Blowitz-Ridgeway Foundation | 6/30/2012 | 5,000 | Quarterly | 2.750% | Quarterly | - | 110,000 |
| The Blowitz-Ridgeway Foundation | 6/30/2013 | 5,000 | Quarterly | 2.750% | Quarterly | 110,000 | 130,000 |
| The Blowitz-Ridgeway Foundation | 10/1/2015 | 5,000 | Quarterly | 2.750% | Quarterly | 55,000 | 75,000 |
| The Blowitz-Ridgeway Foundation | 7/1/2016 | 5,000 | Quarterly | 2.750% | Quarterly | 70,000 | 90,000 |
| The Blowitz-Ridgeway Foundation | 7/1/2017 | 5,000 | Quarterly | 2.750% | Quarterly | 90,000 | - |
| Calvert Social Investment Foundation | 11/30/2013 | Balance | Maturity | 4.000% | Semi-annually | 2,000,000 | 2,000,000 |
| Calvert Social Investment Foundation | 11/30/2013 | Balance | Maturity | 4.500% | Semi-annually | 1,000,000 | 1,000,000 |
| Catholic Health Initiatives | 4/1/2014 | $ 100,000 | Annually starting 04/01/10 | 3.000% | Annual | 700,000 | 800,000 |
| | | **Total carried forward** | | | | 15,025,000 | 13,705,000 |

## Note 9. Borrowings (Continued)

| Lender | Maturity Date | Scheduled Repayments – Principal – Amount | Scheduled Repayments – Principal – Due | Scheduled Repayments – Interest – Annual Rate | Scheduled Repayments – Interest – Due | Principal Balance at December 31, 2012 | Principal Balance at December 31, 2011 |
|---|---|---|---|---|---|---|---|
| | | **Total brought forward** | | | | $ 15,025,000 | $ 13,705,000 |
| Central Bank of Kansas City CDE VIII, LLC | 11/30/2033 | Per schedule | Annually starting 12/1/18 | 5.109% | Annually | 7,767,096 | 7,767,096 |
| Chase New Markets Corporation | 4/28/2018 | Balance | Maturity | 4.000% | Monthly | 9,500,000 | 9,500,000 |
| Circle of Service Foundation | 9/30/2020 | Amortized over fifteen years | Quarterly | 3.000% | Quarterly | 715,577 | 796,414 |
| Circle of Service Foundation | 3/31/2021 | Amortized over fifteen years | Quarterly | 3.000% | Quarterly | 756,048 | 835,660 |
| Communities at Work Fund, L.P. | 9/9/2017 | Balance | Maturity | 4.300% | Monthly | 15,000,000 | 20,000,000 |
| Federal Home Loan Bank | 12/14/2012 | Per schedule | Quarterly starting 01/15/08 | None | N/A | - | 166,808 |
| *Federal Home Loan Bank | 1/9/2013 | Balance | Maturity | 0.175% | Monthly | 1,000,000 | - |
| Federal Home Loan Bank | 10/1/2013 | Per schedule | Quarterly starting 01/15/09 | None | N/A | - | 241,216 |
| Federal Home Loan Bank | 11/6/2014 | Per schedule | Quarterly starting 01/15/10 | None | N/A | 138,060 | 194,405 |
| Federal Home Loan Bank | 11/6/2014 | Per schedule | Quarterly starting 01/15/10 | None | N/A | - | 49,970 |
| First United Bank (Assumed by Old Plan Trail Community Bank) | 12/15/2013 | Balance | Maturity | 3.000% | Quarterly | 99,950 | 100,000 |
| Harris Trust and Savings Bank (BMO Harris) | 10/1/2019 | $ 31,250 | Quarterly starting 01/01/10 | 3.250% | Quarterly | 875,000 | 1,000,000 |
| | | **Total carried forward** | | | | 50,876,731 | 54,356,569 |

## Note 9. Borrowings (Continued)

| Lender | Maturity Date | Scheduled Repayments – Principal – Amount | Scheduled Repayments – Principal – Due | Scheduled Repayments – Interest – Annual Rate | Scheduled Repayments – Interest – Due | Principal Balance at December 31, 2012 | Principal Balance at December 31, 2011 |
|---|---|---|---|---|---|---|---|
| | | **Total brought forward** | | | | $ 50,876,731 | $ 54,356,569 |
| Helen Bader Foundation | 9/30/2015 | 6,250 | Quarterly starting 09/01/09 | None | N/A | 62,500 | 87,500 |
| Illinois Finance Authority | 11/1/2012 | Balance | Maturity | None | N/A | - | 1,000,000 |
| The Kresge Foundation | 9/1/2013 | Balance | Maturity | 3.000% | Quarterly | 2,500,000 | 2,500,000 |
| The Kresge Foundation | 4/30/2022 | Per Schedule | Qurterly | 3.000% | Quarterly | 2,500,000 | - |
| MacArthur (1) Foundation | 1/1/2015 | 250,000 | Annually starting 01/01/13 | 3.000% | Quarterly | - | 750,000 |
| MacArthur (1) Foundation | 1/1/2015 | 330,000<br>330,000<br>340,000 | 01/01/13<br>01/01/14<br>01/01/15 | 3.000% | Quarterly | - | 1,000,000 |
| MacArthur (1) Foundation | 1/1/2015 | 330,000<br>330,000<br>340,000 | 01/01/13<br>01/01/14<br>01/01/15 | 3.000% | Quarterly | - | 1,000,000 |
| Monarch Community Fund | 9/30/2012 | Balance | Maturity | 4.000% | Semi-annually | - | 500,000 |
| The Northern Trust Company | 1/3/2016 | Balance | Maturity | 2.000% | Quarterly | 2,500,000 | 2,500,000 |
| The Northern Trust Company | 1/2/2017 | Balance | Maturity | 3.000% | Semi-annually | 2,000,000 | 2,000,000 |
| *The Northern Trust Company | 3/1/2014 | $ 175,000 | Semi-annually | 3.000% | Semi-annually | 262,806 | 612,806 |
| Opportunity Finance Network | 3/29/2019 | Balance | Maturity | 3.000% | Quarterly | 5,000,000 | 5,000,000 |
| PNC Bank | 11/3/2021 | Balance | Maturity | 2.775% | Quarterly | 4,000,000 | 4,000,000 |
| Trinity Health | 6/30/2014 | Balance | Maturity | 3.000% | Quarterly | 500,000 | 500,000 |
| Trinity Health | 6/30/2015 | Balance | Maturity | 3.000% | Quarterly | 500,000 | 500,000 |
| | | **Total carried forward** | | | | 70,702,037 | 76,306,875 |

(1) These borrowings were amended to be Equity Equivalent Investments during the year ended December 31, 2012.

## Note 9. Borrowings (Continued)

| | | Scheduled Repayments | | | | Principal Balance at | Principal Balance at |
|---|---|---|---|---|---|---|---|
| | | Principal | | Interest | | | |
| Lender | Maturity Date | Amount | Due | Annual Rate | Due | December 31, 2012 | December 31, 2011 |
| | | **Total brought forward** | | | | $ 70,702,037 | $ 76,306,875 |
| Walton Family Foundation | 12/17/2019 | 1,000,000<br>2,000,000<br>2,000,000 | 12/17/17<br>12/17/18<br>12/17/19 | None | N/A | 5,000,000 | 5,000,000 |
| Walton Family Foundation | 11/30/2021 | 1,000,000<br>2,000,000 | 11/30/20<br>11/30/21 | None | N/A | 3,000,000 | 3,000,000 |
| Wisconsin Preservation Fund | 10/1/2024 | Balance | Maturity | None | N/A | 75,000 | 75,000 |
| **Total borrowings:** | | | | | | $ 78,777,037 | $ 84,381,875 |
| **Cathay Bank | 10/14/2021 | Balance | Maturity | 3.250% | Quarterly | $ 500,000 | $ 500,000 |
| **Evergreen Bank Group | 3/8/2017 | Balance | Maturity | 3.000% | Quarterly | 500,000 | - |
| **Harris Trust and Savings Bank (BMO Harris) | 12/15/2019 | Balance | Maturity | 3.250% | Quarterly | 1,250,000 | 1,250,000 |
| **Harris Trust and Savings Bank (BMO Harris) | 6/30/2020 | Balance | Maturity | 2.000% | Quarterly | 500,000 | 500,000 |
| ** Guaranty Bank | 3/1/2017 | Balance | Maturity | 3.000% | Quarterly | 250,000 | - |
| ** Guaranty Bank | 3/1/2017 | Balance | Maturity | 3.000% | Quarterly | 250,000 | - |
| **MacArthur Foundation | 1/1/2022 | Balance | Maturity | 3.000% | Quarterly | 750,000 | - |
| **MacArthur Foundation | 1/1/2022 | Balance | Maturity | 3.000% | Quarterly | 1,000,000 | - |
| **MacArthur Foundation | 1/1/2022 | Balance | Maturity | 3.000% | Quarterly | 1,000,000 | - |
| **M & I Community Development Corporation | 4/9/2015 | 25,000 | Quarterly starting 4/1/2013 | 4.000% | Quarterly | 500,000 | 500,000 |
| **Sisters of St. Francis | 6/1/2017 | Balance | Maturity | 3.000% | Quarterly | 100,000 | - |
| **Small Business Lending Fund US Treasury | 9/15/2019 | Balance | Maturity | 2.000% | Quarterly | 8,294,000 | 8,294,000 |
| **Village Bank & Trust | 9/19/2017 | Balance | Maturity | 3.250% | Quarterly | 1,000,000 | - |
| **Wells Fargo Bank | 4/1/2018 | Balance | Maturity | 2.000% | Quarterly | 1,000,000 | 1,000,000 |
| **Total equity equivalent borrowings:** | | | | | | $ 16,894,000 | $ 12,044,000 |

## Note 9. Borrowings (Continued)

IFF is subject to several loan covenants, which among other items, require minimum net asset, liquidity, allowance for loan losses, leverage, and collateral levels. IFF is in compliance with these covenants as of December 31, 2012.

As of December 31, 2012, the required principal reduction of borrowings is as follows:

| | |
|---|---|
| 2013 | $ 8,332,705 |
| 2014 | 2,375,512 |
| 2015 | 1,213,455 |
| 2016 | 6,188,727 |
| 2017 | 22,781,886 |
| Thereafter | 54,778,752 |
| | $ 95,671,037 |

Undrawn commitments at December 31, 2012 and 2011, were $15,019,461 and $8,524,000, respectively.

Also, IFF had an $8,000,000 line of credit with Harris N.A. that expired in July 2011 and was not renewed. This line was secured with eligible regional loans. Outstanding borrowings bore interest, payable monthly, at a rate equal to the greater of the bank's prime rate or 4.50 percent.

## Note 10. Investor Consortium 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 on the underlying collateral. The interest rate is the blended interest rate as of December 31, 2012.

| Investor Consortium [(a)] Series | Maturity Date | Interest Rate | Principal Balance at December 31, 2012 | Principal Balance at December 31, 2011 |
|---|---|---|---|---|
| Sale 2004-1 | 1/15/2020 | 3.000% | $ 3,271,421 | $ 6,038,254 |
| Sale 2005-1 | 10/15/2020 | 3.440% | 3,574,449 | 4,110,203 |
| Sale 2006-1 | 10/15/2021 | 3.000% | 7,829,799 | 9,609,133 |
| Sale 2007-1 | 10/15/2022 | 3.000% | 5,735,051 | 6,657,941 |
| Sale 2008-1 | 10/15/2023 | 3.685% | 6,083,596 | 9,840,566 |
| Sale 2009-1 | 10/15/2024 | 4.048% | 10,040,233 | 12,516,975 |
| Sale 2010-1 | 7/15/2025 | 4.059% | 2,846,433 | 4,544,837 |
| Sale 2011-1 | 7/15/2026 | 4.205% | 9,491,151 | 10,040,425 |
| Sale 2012-1 | 10/15/2027 | 3.410% | 12,983,485 | - |
| **Total Investor Consortium collateral trust notes:** | | | $ 61,855,618 | $ 63,358,334 |

**Note 10. Investor Consortium Collateral Trust Notes (Continued)**

[(a)] 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 Eagle Bank, First Midwest Bank, First Savings Bank of Hegewisch, Harris Trust & Savings Bank (BMO Harris), 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), PNC Bank, PrivateBank, St. Charles Bank and Trust, State Bank of the Lakes, State Farm, Town Bank, US Bank, Village Bank and Trust, and Wheaton Bank and Trust.

Quarterly 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. The balance of the reserves for the collateral trust notes, included in other restricted cash and interest-bearing deposits, at December 31, 2012 and 2011, was $1,266,068 and $1,567,698 at cost, respectively, which represents fair value. Included in these amounts at December 31, 2012 and 2011, was $59,025 and $432,100, respectively, for loans that were bought out of the consortium and paid to the investors subsequent to December 31 of each year, respectively.
As of December 31, 2012, the scheduled principal reduction of Investor Consortium collateral trust notes is as follows:

| | |
|---|---|
| 2013 | $ 7,794,028 |
| 2014 | 5,617,781 |
| 2015 | 5,456,402 |
| 2016 | 5,432,427 |
| 2017 | 5,426,408 |
| Thereafter | 32,128,572 |
| | $ 61,855,618 |

Undrawn commitments in the Investor Consortium Program at December 31, 2012 and 2011, were $7,358,508 and $13,444,873, respectively.

IFF is also in the process of establishing an Investor Consortium Collateral Trust Note program for originated Healthy Food Access Loans. Unfunded pledges for this program were $4,750,000 at December 31, 2012.

## Note 11. Loan Participations Payable

IFF entered into participation agreements with Partners for the Common Good, Inc. (PCG) with respect to underlying notes, in which PCG purchased an interest in each loan. IFF has the obligation to pass through payments with respect to interest at various rates 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 loan at the maturity of the agreement, IFF has a further obligation to purchase PCG's participation interest in the loan. The current balance of the loans receivable as of December 31, 2012 and 2011, was $6,045,906 and $3,790,475, respectively. IFF loan participations payable consisted of the following:

| | | Scheduled Repayments | | | | Principal Balance at | Principal Balance at |
|---|---|---|---|---|---|---|---|
| | | Principal | | Interest | | | |
| Lender | Maturity Date | Amount | Due | Annual Rate | Due | December 31, 2012 | December 31, 2011 |
| Partners for the Common Good | 7/23/2015 | Per Schedule & Balance at Maturity | Monthly | 6.000% | Monthly | $ 437,470 | $ 458,860 |
| Partners for the Common Good | 7/26/2015 | Per Schedule & Balance at Maturity | Monthly | 5.875% | Monthly | 107,907 | 131,498 |
| Partners for the Common Good | 2/17/2016 | Per Schedule & Balance at Maturity | Monthly | 5.875% | Monthly | 473,356 | 497,906 |
| Partners for the Common Good | 9/23/2016 | Per Schedule & Balance at Maturity | Monthly | 6.000% | Monthly | 194,993 | 109,793 |
| Partners for the Common Good | 9/28/2016 | Per Schedule & Balance at Maturity | Monthly | 6.375% | Monthly | 476,180 | 488,869 |
| Partners for the Common Good | 7/13/2017 | Per Schedule & Balance at Maturity | Monthly | 5.250% | Monthly | 500,000 | - |
| **Total loan participations payable:** | | | | | | $ 2,189,906 | $ 1,686,926 |

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

As of December 31, 2012, the scheduled principal reduction of loan participations payable is as follows:

| | | |
|---|---|---|
| 2013 | $ | 127,221 |
| 2014 | | 125,780 |
| 2015 | | 161,358 |
| 2016 | | 1,219,678 |
| 2017 | | 181,247 |
| 2017 | | 374,622 |
| Thereafter | $ | 2,189,906 |

### 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 $197,097 and $193,245 at December 31, 2012 and 2011, respectively, and is included in accrued liabilities. IFF is also obligated under office leases in St. Louis (through December 2014), Milwaukee (through December 2016), Davenport (through April 2013), and Indianapolis (through October 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:

| | | |
|---|---|---|
| 2013 | $ | 450,623 |
| 2014 | | 472,113 |
| 2015 | | 472,503 |
| 2016 | | 480,691 |
| 2017 | | 473,670 |
| Thereafter | | 1,223,419 |
| | $ | 3,573,019 |

The total rent expense for the years ended December 31, 2012 and 2011, were as follows:

| | | 2012 | | 2011 |
|---|---|---|---|---|
| Chicago | $ | 380,869 | $ | 370,202 |
| St. Louis | | 20,079 | | 19,035 |
| Milwaukee | | 26,196 | | 14,770 |
| Davenport | | 5,825 | | - |
| Indianapolis | | 2,083 | | - |
| Springfield | | - | | 1,275 |
| | $ | 435,052 | $ | 405,282 |

## Note 13. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2012 and 2011, were available for the following purposes:

| | 2012 | 2011 |
|---|---|---|
| Department of Education Grant for Credit Enhancement | $ 18,396,839 | $ 18,529,092 |
| Loan Issuance | 18,609,022 | 10,224,877 |
| NSP Property | 4,169,859 | 5,949,042 |
| Grants for Specific Programs | 6,349,684 | 3,229,275 |
| | $ 47,525,404 | $ 37,932,286 |

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 2012 and 2011, net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions as follows:

| | 2012 | 2011 |
|---|---|---|
| Net assets released from restrictions: | | |
| Time and performance restrictions (operating) | $ 1,930,595 | $ 1,208,328 |
| Performance restrictions - Pass Through Grants (operating) | 981,413 | - |
| Performance restrictions - NSP Property (operating) | 6,267,974 | 1,089,187 |
| Provision for loan losses (capital) | 6,613,949 | 2,022,647 |
| | $ 15,793,931 | $ 4,320,162 |

## 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, 2012 and 2011, was $172,943 and $143,708, respectively.

## Note 15. Functional Expense Classifications

IFF's unrestricted expenses for the years ended December 31, 2012 and 2011, reported on a functional basis are as follows:

| | 2012 | 2011 |
|---|---|---|
| Program expenses: | | |
| Lending | $ 14,593,325 | $ 9,713,207 |
| Community Strategies | 8,562,765 | 2,016,037 |
| Real estate services | 1,909,802 | 1,675,442 |
| Public policy and communications | 456,135 | 545,101 |
| Research | 319,489 | 279,201 |
| | 25,841,516 | 14,228,988 |
| Supporting services | 858,468 | 859,746 |
| | $ 26,699,984 | $ 15,088,734 |

Balances for 2011 have been reclassified to move expenses associated with Community Strategies into this line item for comparison purposes.

## Note 16. Concentration of Credit Risk

Approximately 38 percent and 40 percent of IFF's borrowers are located in the Chicago metropolitan area as of December 31, 2012 and 2011, 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

IFF Capital LLC (IFFC) a for-profit limited liability company was 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.

IFFC's tax credit period expired on December 31, 2012, which is the end of the seventh calendar year after the last equity investment was made by the investing members. This entity was dissolved in January 2013. Under the terms of the operating agreement, in the event of an election to dissolve IFF Capital LLC at the end of the tax credit period, IFF must use reasonable efforts to obtain a credit facility from third party lending sources sufficient to purchase all qualifying loans held by IFFC for an amount equal to the then-outstanding principal plus any accrued and unpaid interest. At December 31, 2012, IFF Capital LLC had approximately $1,299,000 in loans receivable. IFF acquired these loans at the carrying amount of the loans in January 2013.

IFF is the managing member of IFFC and has stated ownership interest of 0.01 percent in the limited liability company. IFF's investment in this limited liability company totals $1,000 and is recorded on the consolidated statements of financial position in other assets. IFFC has three investor members.

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 $66,427 and $100,955 for 2012 and 2011, respectively, and is recorded in the consolidated statements of activities in management and sponsor fees.

IFF has an accounts payable due to IFFC at December 31, 2011, for $6,696. No amount was due at December 31, 2012. In 2012, IFF had an accounts receivable of $4,408 from IFFC. No amount from IFFC was due in 2011.

As managing member in IFFC, 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.

### IFF Capital II LLC and Chase NMTC II LLC

IFF Capital II LLC (IFFC II) a for-profit limited liability company was formed by IFF in 2006 for the purpose of allocating federal tax credits from the New Markets Tax Credit program of the U.S. Department of Treasury. At that 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 interest of 0.1 percent in each of these limited liability companies. IFF's investments in the limited liability companies total $9,024 and are recorded on the consolidated statements of financial position in other assets. IFFC II has one investor member, Chase NMTC II LLC, which has one member other than the managing member.

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

IFFC II's tax credit period expires on December 31, 2014, which is the end of the seventh calendar year after the last equity investment was made by the investing members. Under the terms of the operating agreement, in the event of an election to dissolve IFFC II at the end of the tax credit period, the company would be liquidated and capital would be returned to the members according to their membership interest. IFF could decide to purchase its loan portfolio at the time of dissolution. IFF Capital II LLC had approximately $6,021,000 and $6,100,000 in loans receivable for the years ended December 31, 2012 and 2011, 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 these in fees 2012 or 2011 and they have been waived. IFF is entitled to a similar 2 percent fee from Chase NMTC II. There was no payment or accrual of these fees in 2012 or 2011 and have been waived.

IFF has an accounts payable due to IFFC II at December 31, 2012 and 2011, for $8,533 and $6,077, respectively.

At December 31, 2012 and 2011, IFF has recorded a loan receivable due from Chase NMTC II LLC of $254,069 and $165,069, respectively. The maturity date of this receivable is December 1, 2014.

As managing member in IFFC II and Chase NMTC II LLC, 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 member against all recapture liability and any other economic losses incurred by the member as a result of any such recapture event.

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.

***New Limited Liability Companies in 2012:***

In 2012, IFF was awarded $25,000,000 in federal tax credits from the New Markets Tax Credit program of the U.S. Department of Treasury. Upon receiving this award, IFF formed for-profit limited liability companies; IFF Capital III LLC (IFFC III), IFF Capital IV LLC (IFFC IV), IFF Capital V LLC (IFFC V), IFF Capital VI LLC (IFFC VI), IFF Capital VII LLC (IFFC VII), and IFF Capital VIII LLC (IFFC VIII).

IFFC VI, IFFC VII, and IFFC VIII are dormant and will be used if IFF receives another allocation.

**IFF Capital III LLC**

IFFC III received an allocation from IFF of $4,000,000 in tax credits. IFF is the managing member of IFFC III and has stated ownership interest of 0.01 percent in the limited liability company. No contribution was made by IFF in 2012, but subsequently was made in 2013 for $400. IFFC III has one investor member.

IFF provides certain asset management and compliance oversight services to the limited liability company, as provided in the respective operating agreement. IFF receives an annual asset management fee of 0.65 percent of the Qualified Equity Investment (QEI) made in IFFC III, or $26,000. No fees were recognized in 2012 as the NMTC deal did not close until 2013.

As managing member in IFFC III, 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 member against all recapture liability and any other economic losses incurred by the member as a result of any such recapture event.

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

**IFF Capital IV LLC and Chase NMTC Erie Elementary Investment Fund LLC**

IFFC IV received an allocation from IFF of $5,000,000 in tax credits. At this time, an additional for-profit limited liability company was formed, Chase NMTC Erie Elementary Investment Fund LLC, in order to pool debt and the tax credit equity for investment in IFFC IV. IFF is the managing member of IFFC IV and Chase NMTC Erie Elementary Investment Fund, LLC and has stated ownership interest of 0.01 percent in these limited liability companies. IFF's investments in the limited liability companies total $923 and are recorded on the consolidated statements of financial position in other assets. IFFC IV has one investor member, Chase NMTC Erie Elementary Investment Fund 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 an annual asset management fee of 0.65 percent of the Qualified Equity Investment (QEI) made in IFFC IV, or $32,500. This fee was prorated in 2012 and amounted to $6,861 and is recorded on the statement of activities in management and sponsor fees. IFF also received a syndication fee of $100,000 each from IFFC IV and Chase NMTC Erie Elementary Investment Fund LLC. This revenue is recorded on the consolidated statements of activities in syndication fees.

As managing member in IFFC IV and Chase NMTC Erie Elementary Investment Fund LLC, 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 member against all recapture liability and any other economic losses incurred by the member as a result of any such recapture event.

**IFF Capital V LLC and Chase NMTC IFF Charter School Investment Fund LLC**

IFFC V received an allocation from IFF of $11,000,000 in tax credits. At this time, an additional for-profit limited liability company was formed, Chase NMTC IFF Charter School Investment Fund LLC, in order to pool debt and the tax credit equity for investment in IFFC V. IFF is the managing member of IFFC V and the non-member manager of Chase NMTC IFF Charter School Investment Fund, LLC and has stated ownership interest of 0.01 percent in IFFC V. IFF's investment in the limited liability company totals $1,100 and is recorded on the consolidated statements of financial position in other assets. IFFC V has one investor member, Chase NMTC IFF Charter School Investment Fund LLC, which has one member. IFF made a subordinated leverage loan to Chase NMTC IFF Charter School Investment Fund LLC for $2,703,360. This loan is recorded on the consolidated statements of financial position in loans receivable, net.

IFFC V will receive an additional $5,000,000 allocation from IFF upon identification of a qualified active low income community business to which it can lend the Funds.

IFF provides certain asset management and compliance oversight services to the limited liability companies, as provided in the respective operating agreements. IFF receives an annual asset management fee of 0.65 percent of the Qualified Equity Investment (QEI) made in IFFC V, or $71,500. This fee was prorated in 2012 and amounted to $12,423 and is recorded on the consolidated statements of activities in management and sponsor fees. In 2012, IFF had an accounts receivable of $5,958 from IFFC V. IFF also received a syndication fee of $220,000 each from IFFC V and Chase NMTC IFF Charter School Investment Fund LLC. This revenue is recorded on the consolidated statements of activities in syndication fees.

As managing member in IFFC V and non-member manager of Chase NMTC IFF Charter School Investment Fund LLC, 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 member against all recapture liability and any other economic losses incurred by the member as a result of any such recapture event.

# Supplementary Information

**IFF and Subsidiaries**

**Consolidating Statement of Financial Position**
**December 31, 2012**

| | IFF* | IFF NMTC Senior Lender | Home First Illinois, LLC | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | $ 17,386,496 | $ 4,429 | $ - | $ - | $ 17,390,925 |
| Interest-bearing deposits in banks | 250,000 | - | - | - | 250,000 |
| Department of Education restricted cash and interest-bearing deposits in banks | 18,396,839 | - | - | - | 18,396,839 |
| Other restricted cash and interest-bearing deposits | 12,020,674 | - | 344,379 | - | 12,365,053 |
| Grants receivable, other receivables, prepaids and deposits | 5,893,256 | 3,100 | 117,292 | (4,087,942) | 1,925,706 |
| Loans receivable, net | 167,553,111 | 6,733,849 | - | - | 174,286,960 |
| Accrued interest receivable | 716,774 | 23,793 | - | (24,440) | 716,127 |
| NSP property | 4,169,859 | - | - | - | 4,169,859 |
| Home First Illinois Property | - | - | 2,027,873 | - | 2,027,873 |
| Federal Home Loan Bank stock, at cost | 206,900 | - | - | - | 206,900 |
| Other assets | 2,724,875 | - | - | (2,711,797) | 13,078 |
| Foreclosed assets, net | 1,867,500 | - | - | - | 1,867,500 |
| Property and equipment, net | 429,067 | - | - | - | 429,067 |
| Capitalized finance costs, net | 295,776 | - | - | - | 295,776 |
| | $ 231,911,127 | $ 6,765,171 | $ 2,489,544 | $ (6,824,179) | $ 234,341,663 |
| **Liabilities and Net Assets** | | | | | |
| Liabilities | | | | | |
| Accrued liabilities | $ 1,128,921 | $ 2,500 | $ 104,196 | $ (65,768) | $ 1,169,849 |
| Accrued interest payable | 848,859 | 24,440 | - | (24,440) | 848,859 |
| Home First Illinois deferred grant revenue | - | - | 2,027,873 | - | 2,027,873 |
| Investor Consortium collateral trust notes | 61,855,618 | - | - | - | 61,855,618 |
| Borrowings | 78,777,037 | 4,022,174 | - | (4,022,174) | 78,777,037 |
| Equity equivalent borrowings | 16,894,000 | - | - | - | 16,894,000 |
| Loan participations payable | 2,189,906 | - | - | - | 2,189,906 |
| | 161,694,341 | 4,049,114 | 2,132,069 | (4,112,382) | 163,763,142 |
| Net Assets | | | | | |
| Unrestricted | 23,049,362 | - | (505) | 4,260 | 23,053,117 |
| Temporarily restricted | 47,167,424 | - | 357,980 | - | 47,525,404 |
| Member's Equity | | | | | |
| Capital contributions | - | 2,711,797 | - | (2,711,797) | - |
| Retained earnings | - | 4,260 | - | (4,260) | - |
| | 70,216,786 | 2,716,057 | 357,475 | (2,711,797) | 70,578,521 |
| | $ 231,911,127 | $ 6,765,171 | $ 2,489,544 | $ (6,824,179) | $ 234,341,663 |

* Includes IFF Real Estate Services, LLC and IFF Housing, LLC

**IFF and Subsidiaries**

**Consolidating Statement of Activities**
**December 31, 2012**

| | IFF* | IFF NMTC Senior Lender | Home First Illinois, LLC | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Unrestricted - Operating | | | | | |
| Support and revenue: | | | | | |
| Corporations, foundations, and individuals | $ 148,449 | $ - | $ - | $ - | $ 148,449 |
| Interest on loans | 9,229,404 | 402,207 | - | (382,693) | 9,248,918 |
| Consulting contract fees | 947,262 | - | - | - | 947,262 |
| Management and sponsor fee | 104,281 | - | - | (15,000) | 89,281 |
| Syndication fees | 640,000 | - | - | - | 640,000 |
| Loan fees | 156,193 | - | - | - | 156,193 |
| Other interest income | 47,596 | 53 | - | - | 47,649 |
| Rental income | 103,395 | - | - | - | 103,395 |
| Net assets released from restrictions | 1,840,667 | - | 89,928 | - | 1,930,595 |
| Net assets released from restrictions - NSP property | 6,267,974 | - | - | - | 6,267,974 |
| Net assets released from restrictions - Pass through Grants | 698,913 | - | 282,500 | - | 981,413 |
| | 20,184,134 | 402,260 | 372,428 | (397,693) | 20,561,129 |
| Expenses: | | | | | |
| Salaries and benefits | 5,302,192 | - | - | - | 5,302,192 |
| Professional fees | 657,812 | 17,850 | 41,601 | (15,000) | 702,263 |
| Occupancy and office | 640,750 | - | 48,397 | - | 689,147 |
| Printing and marketing | 74,907 | - | - | - | 74,907 |
| Interest | 5,121,222 | 382,693 | - | (382,693) | 5,121,222 |
| Other operating expenses | 352,635 | (499) | 435 | - | 352,571 |
| Provision for foreclosed asset losses | 348,000 | - | - | - | 348,000 |
| Pass through NSP property | 6,267,974 | - | - | - | 6,267,974 |
| Pass through Grants | 698,913 | - | 282,500 | - | 981,413 |
| Meetings and travel | 281,109 | - | - | - | 281,109 |
| Depreciation and amortization | 312,839 | - | - | - | 312,839 |
| Income taxes | - | 398 | - | - | 398 |
| | 20,058,353 | 400,442 | 372,933 | (397,693) | 20,434,035 |
| **Increase in unrestricted net assets - operating** | 125,781 | 1,818 | (505) | - | 127,094 |
| Unrestricted - Capital | | | | | |
| Support and revenue: | | | | | |
| Loan grants | 4,453,806 | - | - | - | 4,453,806 |
| Net assets released from restrictions | 6,613,949 | - | - | - | 6,613,949 |
| | 11,067,755 | - | - | - | 11,067,755 |
| Expenses: | | | | | |
| Provision for loan losses | 6,613,949 | - | - | - | 6,613,949 |
| **Increase in unrestricted net assets - capital** | 4,453,806 | - | - | - | 4,453,806 |
| **Increase in unrestricted net assets** | 4,579,587 | 1,818 | (505) | - | 4,580,900 |

**IFF and Subsidiaries**

**Consolidating Statement of Activities (Continued)**
**December 31, 2012**

| | IFF* | IFF NMTC Senior Lender | Home First Illinois, LLC | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Temporarily Restricted | | | | | |
| Program and operating grants | $ 9,631,280 | $ - | $ 730,407 | $ - | $ 10,361,687 |
| Loan capital grants | 14,998,094 | - | - | - | 14,998,094 |
| Interest income | 27,267 | - | 1 | - | 27,268 |
| Net assets released from restrictions - operating | (1,840,667) | - | (89,928) | - | (1,930,595) |
| Net assets released from restrictions - NSP property | (6,267,974) | - | - | - | (6,267,974) |
| Net assets released from restrictions - Pass through Grants | (698,913) | - | (282,500) | - | (981,413) |
| Net assets released from restrictions - capital (provision for loan losses) | (6,613,949) | - | - | - | (6,613,949) |
| **Increase in temporarily restricted net assets** | 9,235,138 | - | 357,980 | - | 9,593,118 |
| **Increase in net assets** | 13,814,725 | 1,818 | 357,475 | - | 14,174,018 |
| Net assets/retained earnings: | | | | | |
| Beginning of year | 56,402,061 | 2,442 | - | - | 56,404,503 |
| End of year | $ 70,216,786 | $ 4,260 | $ 357,475 | $ - | $ 70,578,521 |

* Includes IFF Real Estate Services, LLC and IFF Housing, LLC