

IFF and Subsidiaries

Consolidated Financial Report
December 31, 2013

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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 Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, 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 from material misstatement.

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

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

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, 2013 and 2012, and the changes in its net assets 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 consolidated 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 28, 2014

IFF and Subsidiaries

Consolidated Statements of Financial Position December 31, 2013 and 2012

	2013	2012
Assets		
Cash and cash equivalents	\$ 18,864,718	\$ 17,640,925
Department of Education restricted cash and interest-bearing deposits in banks	18,262,465	18,396,839
Other restricted cash and interest-bearing deposits in banks	14,134,789	12,365,053
Grants receivable, other receivables, prepaids and deposits	9,717,289	1,925,706
Loans receivable, net	184,745,993	174,286,960
Accrued interest receivable	788,036	716,127
NSP property	3,158,768	4,169,859
Home First Illinois property, net	5,095,706	2,027,873
IFF CILA Lease Program property, net	1,595,081	-
Access Housing I property	766,180	-
Federal Home Loan Bank stock, at cost	206,900	206,900
Foreclosed assets, net	1,918,432	1,867,500
Furniture, equipment and leasehold improvements, net	461,810	429,067
Capitalized finance costs, net	329,302	295,776
Other assets	12,978	13,078
	<u>\$ 260,058,447</u>	<u>\$ 234,341,663</u>
Liabilities and Net Assets		
Liabilities		
Accrued liabilities	\$ 1,280,507	\$ 1,169,849
Accrued interest payable	839,755	848,859
Home First Illinois deferred grant revenue	4,983,756	2,027,873
Investor Consortium collateral trust notes	66,036,912	61,855,618
Borrowings	89,511,209	78,777,037
Equity equivalent borrowings	17,144,000	16,894,000
Loan participations payable	1,593,219	2,189,906
	<u>181,389,358</u>	<u>163,763,142</u>
Commitments and Contingencies (Notes 5 and 14)		
Net Assets		
Unrestricted	22,173,176	23,053,117
Temporarily restricted	56,495,913	47,525,404
	<u>78,669,089</u>	<u>70,578,521</u>
	<u>\$ 260,058,447</u>	<u>\$ 234,341,663</u>

See Notes to Consolidated Financial Statements.

IFF and Subsidiaries

Consolidated Statements of Activities Years Ended December 31, 2013 and 2012

	2013	2012
Unrestricted - Operating		
Support and revenue:		
Corporations, foundations, and individuals	\$ 183,300	\$ 148,449
Interest on loans	9,706,705	9,248,918
Consulting contract fees	1,346,268	947,262
Management and sponsor fees	136,844	89,281
Syndication fees	360,000	640,000
Loan fees	104,723	156,193
Other interest income	27,052	47,649
Rental income	188,955	103,395
Unrealized losses on investments	(336)	-
Net assets released from restrictions	1,567,382	1,930,595
Net assets released from restrictions - NSP property	1,811,216	6,267,974
Net assets released from restrictions - Pass through Grants	4,116,044	981,413
	<u>19,548,153</u>	<u>20,561,129</u>
Expenses:		
Salaries and benefits	5,484,567	5,302,192
Professional fees	900,868	702,263
Occupancy and office	973,158	689,147
Printing and marketing	75,262	74,907
Interest	5,157,819	5,121,222
Other operating expenses	353,146	352,571
Provision for losses on foreclosed assets	125,000	348,000
Pass through NSP property	1,811,216	6,267,974
Pass through Grants	4,046,044	981,413
Meetings and travel	300,006	281,109
Depreciation and amortization	290,822	312,839
Income taxes	7,300	398
	<u>19,525,208</u>	<u>20,434,035</u>
	<u>22,945</u>	<u>127,094</u>
Increase in unrestricted net assets - operating		
Unrestricted - Capital		
Support and revenue:		
Loan grants	-	4,453,806
Net assets released from restrictions - loan capital grants	2,022,057	-
Net assets released from restrictions - capital (provision for loan losses)	1,480,038	6,613,949
Reclassification to temporarily restricted net assets	(2,924,943)	-
	<u>577,152</u>	<u>11,067,755</u>
Expenses:		
Provision for loan losses	1,480,038	6,613,949
	<u>(902,886)</u>	<u>4,453,806</u>
Increase (decrease) in unrestricted net assets - capital		
	<u>(879,941)</u>	<u>4,580,900</u>
Increase (decrease) in unrestricted net assets		

IFF and Subsidiaries

Consolidated Statements of Activities (Continued)
Years Ended December 31, 2013 and 2012

	2013	2012
Temporarily Restricted		
Program and operating grants	\$ 12,481,996	\$ 10,361,687
Loan capital grants	4,517,637	14,998,094
Interest income	42,670	27,268
Net assets released from restrictions - operating	(1,567,382)	(1,930,595)
Net assets released from restrictions - NSP property	(1,811,216)	(6,267,974)
Net assets released from restrictions - Pass through Grants	(4,116,044)	(981,413)
Net assets released from restrictions - loan capital grants	(2,022,057)	-
Net assets released from restrictions - capital (provision for loan losses)	(1,480,038)	(6,613,949)
Reclassification to temporary unrestricted net assets	2,924,943	-
	8,970,509	9,593,118
Increase in temporarily restricted net assets		
	8,090,568	14,174,018
Increase in net assets		
Net assets:		
Beginning of year	70,578,521	56,404,503
End of year	\$ 78,669,089	\$ 70,578,521

See Notes to Consolidated Financial Statements.

IFF and Subsidiaries

Consolidated Statements of Cash Flows Years Ended December 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Increase in net assets	\$ 8,090,568	\$ 14,174,018
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	250,283	274,239
Amortization expense for capitalized finance costs	40,539	38,600
Provision for losses on foreclosed asset	125,000	348,000
Provision for loan losses	1,480,038	6,613,949
Unrealized loss on investments	336	-
Pass through NSP property	1,811,216	6,267,974
Changes in assets and liabilities:		
Grants receivable, other receivables, prepaids and deposits	(7,791,583)	(39,146)
Accrued interest receivable	(71,909)	(14,238)
Other assets	100	(2,022)
Accrued liabilities	110,658	(101,885)
Accrued interest payable	(9,104)	8,254
Net cash provided by operating activities	4,036,142	27,567,743
Cash Flows from Investing Activities		
Net change in Department of Education restricted cash and interest-bearing deposits in banks	134,038	132,253
Net change in other restricted cash and interest-bearing deposits in banks	(1,769,736)	(9,797,355)
Sale of foreclosed assets	651,024	409,638
Purchases of Federal Home Loan Bank Stock	-	(30,700)
Loan disbursements	(48,903,202)	(44,643,150)
Loan principal payments received	36,137,175	23,802,306
Purchases of equipment	(283,026)	(201,583)
Purchase of NSP property	(800,125)	(4,488,791)
Purchase of Home First Illinois property	(3,067,833)	(2,027,873)
Purchase of IFF CILA Lease Program property	(1,595,081)	-
Purchase of Access Housing I property	(766,180)	-
Net cash used in investing activities	(20,262,946)	(36,845,255)
Cash Flows from Financing Activities		
Proceeds from Home First Illinois grant	2,983,701	2,027,873
Use of proceeds from Home First Illinois grant	(27,818)	-
Proceeds from borrowings, equity equivalent borrowings and participations payable	19,372,968	10,790,916
Repayment of borrowings, equity equivalent borrowings and participations payable	(8,985,483)	(11,042,774)
Proceeds from Investor Consortium collateral trust notes	15,496,065	13,136,364
Repayment of Investor Consortium collateral trust notes	(11,314,771)	(14,639,080)
Finance costs paid	(74,065)	(17,229)
Net cash provided by financing activities	17,450,597	256,070
Increase (decrease) in cash and cash equivalents	1,223,793	(9,021,442)
Cash and cash equivalents:		
Beginning of year	17,640,925	26,662,367
End of year	\$ 18,864,718	\$ 17,640,925
Supplemental Disclosure of Cash Flow Information		
Interest paid on borrowings	\$ 5,166,923	\$ 5,112,968
Supplemental Schedule of Noncash Investing Activities		
Real estate acquired in settlement of loans	\$ 826,956	\$ 375,000

See Notes to Consolidated Financial Statements.

IFF and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

IFF and Subsidiaries (IFF), an Illinois nonprofit corporation, is one of the largest community development financial institutions (CDFI) serving nonprofit corporations currently in Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, Ohio and Wisconsin. IFF makes below-market rate loans to nonprofit human service and community development agencies for the acquisition, construction, remodeling, and renovation of facilities. IFF is also engaged in real estate development for nonprofit corporations and provides development planning, financial, and technical assistance. In addition, IFF undertakes research and public policy activities on behalf of the nonprofit corporations in its target market. In 2012, IFF created its Community Strategies division in which it will bring all of IFF's 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's headquarters in Chicago, Illinois with additional offices in St. Louis (Missouri), Milwaukee (Wisconsin), Davenport (Iowa), and Indianapolis (Indiana). IFF closed its Davenport (Iowa) office in June 2013. IFF opened its Detroit (Michigan) office in January 2014.

IFF conducts its activities in conjunction with its subsidiaries as follows:

- IFF Real Estate Services, LLC
- IFF Housing, LLC
- IFF NMTC Senior Lender, LLC
- Home First Illinois, LLC
- IFF CILA Lease Program, LLC
- Home First, LLC
- Access Housing I MM, LLC
- Access Housing I, LLC

IFF is the sole corporate member. IFF CILA Lease Program was created in 2012. Access Housing I, LLC, Access Housing I MM, LLC, and Home First, LLC were created in 2013. IFF and these subsidiaries included in these consolidated financial statements are referred to individually and collectively as "IFF."

In addition, IFF has ownership interest in the following limited liability companies:

- IFF Capital LLC
- IFF Capital II LLC
- IFF Capital III LLC
- IFF Capital IV LLC
- IFF Capital V LLC
- Chase NMTC II LLC
- Chase NMTC Erie Elementary Investment Fund LLC

The accounts and activities of these limited liability companies are not included in these consolidated financial statements.

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:

IFF and Subsidiaries

Notes to Consolidated Financial Statements

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

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 nonprofit organizations with a controlling and economic interest in other organizations to consolidate those other organizations. Accordingly, the consolidated financial statements include the accounts of the subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Various affiliated limited liability companies 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.

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.

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.

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

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. Restricted cash for this program as of December 31, 2013 and 2012, was \$1,403,305 and \$1,266,068, 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, 2013 and 2012, was \$238,107 and \$750,000, 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, 2013 and 2012, was \$743,010 and \$344,380, respectively. 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, 2013 and 2012, was \$9,705,978 and \$10,004,605, respectively. Also included in restricted cash is proceeds received from the Village of Oak Park and Housing and Urban Development (HUD) for establishing a TOD Loan Fund in 2013. Restricted cash for this program as December 31, 2013 was \$2,044,389. 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.

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.

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

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.

NSP property and grant revenue: Aggregate property acquisition and improvement costs in connection with the Neighborhood Stabilization Program are capitalized on the consolidated statements 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.

IFF and Subsidiaries

Notes to Consolidated Financial Statements

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

Home First Illinois: Home First Illinois, LLC 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. 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.

IFF CILA Lease Program: IFF CILA (Community Integrated Living Arrangement) Lease Program, LLC is working with a third party to acquire property to be used as group homes for people with developmental disabilities. An agreement to purchase up to 10 homes has been made. IFF Real Estate Services, LLC purchases and develops the homes and then sells them to IFF CILA Lease Program, LLC, who leases them to the third party, whose intent is to purchase the facilities when economically feasible. The affiliate is typically able to secure State of Illinois funding for all clients prior to beginning operations in a newly-purchased and renovated home. From the point of site purchase, the average time to securing funding and occupying a home is 90 days. Individuals receive assistance for all their activities of daily living from a professional in-home support team on a 24/7 basis. Clients living in the affiliate's residential homes receive funding from the State of Illinois Department of Human Services. This funding, combined with the client's public aid and social security income, comprises the affiliate's support for site operations and maintenance. Depreciation will be computed using the straight-line method over the estimated useful lives of the properties, when placed in service.

Access Housing I: Access Housing I, LLC was created when Home First, LLC was awarded an allocation of Low-Income Housing Tax Credits from IHDA to acquire and develop two- to four-flats for people with all types of disabilities. The project combines construction of approximately 10 new 2-unit or 3-unit buildings on vacant lots, and acquisition/rehabilitation of approximately 15 foreclosed 2-unit to 4-unit buildings. At least ten percent of units will be accessible for wheelchair users, and all units will incorporate energy star appliances and other features to promote energy efficiency. Access Housing I 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.

Federal Home Loan Bank Stock: IFF, as a member of the Federal Home Loan Bank of Chicago (FHLB), is required to maintain an investment in capital stock of the FHLB. FHLB 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, 2013 and 2012.

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 using the equity method of accounting under which IFF's share of the net income of the affiliates is recognized as income in IFF's consolidated statements of activities and added to the investment account, and distributions, if any, received from the affiliates are treated as a reduction of the investment account. IFF does not control these limited liability companies, due to various rights held by other members.

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.

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

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

Capitalized finance costs: Capitalized finance costs consist of loan fees and related costs from IFF borrowings which are amortized using the straight-line method over 2 to 22 years, depending on the term of the related loan. Costs are reported net of accumulated amortization of \$246,526 and \$205,987 at December 31, 2013 and 2012, 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 \$40,263 and \$38,674 for 2013 and 2012, respectively.

IFF and Subsidiaries

Notes to Consolidated Financial Statements

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

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 2013 or 2012. IFF is generally no longer subject to examination by the Internal Revenue Service for years before 2010.

IFF files forms 990 in the U.S. federal jurisdiction and the state of Illinois. Access Housing I, LLC, Access Housing I MM, LLC, Home First, LLC, Home First Illinois, LLC, IFF CILA Lease Program, 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.

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, 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.

Reclassification: Management has identified certain restrictions on grants and has determined that \$2,924,943 should be reclassified to temporarily restricted net assets.

Subsequent events: IFF has evaluated subsequent events for potential recognition and/or disclosure through April 28, 2014, 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 \$19,888 and \$22,662 in 2013 and 2012, respectively. The grant funds including interest thereon, as well as pledged amounts, are included in temporarily restricted net assets.

IFF and Subsidiaries

Notes to Consolidated Financial Statements

Note 2. Department of Education Restricted Cash and Interest-Bearing Deposits in Banks (Continued)

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, 2013 and 2012:

	2013	2012
Pledged - \$8 million DOE grant	\$ 7,946,725	\$ 8,216,267
Pledged - \$10 million DOE grant	7,786,498	5,649,424
Total pledged	<u>15,733,223</u>	<u>13,865,691</u>
Unpledged - \$8 million DOE grant	450,608	243,051
Unpledged - \$10 million DOE grant	2,078,634	4,288,097
Total unpledged	<u>2,529,242</u>	<u>4,531,148</u>
Total within restricted cash and interest-bearing deposits in banks	<u>\$ 18,262,465</u>	<u>\$ 18,396,839</u>

Recourse to IFF with regard to any bonds or loan financing issued is limited to the grant funds pledged in support of individual or pooled bond issues or loan financing (bonds or the loan financing are not an obligation of IFF). As of December 31, 2013, there have not been any payment defaults or delinquencies requiring utilization of the pledged funds.

Recoverable expenses for these grant projects in 2013 and 2012 were \$154,262 and \$154,915, 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.

IFF and Subsidiaries

Notes to Consolidated Financial Statements

Note 3. Fair Value of Financial Instruments (Continued)

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, 2013, 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:

IFF has no assets and liabilities recorded at fair value on a recurring basis.

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, 2013			
	Totals	Level 1	Level 2	Level 3
Assets				
Impaired loans	\$ 2,650,528	\$ -	\$ -	\$ 2,650,528
Foreclosed assets	1,918,432	-	-	1,918,432
	<u>\$ 4,568,960</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,568,960</u>

	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
	<u>\$ 6,579,895</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,579,895</u>

Impaired loans: Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. Impaired loans measured at fair value at December 31, 2013 and 2012, 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.

IFF and Subsidiaries

Notes to Consolidated Financial Statements

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

The total grants receivable, other receivables, prepaids and deposits at December 31, 2013 and 2012, consisted of the following:

	2013	2012
Grants receivable	\$ 8,356,337	\$ 1,012,147
Contract and other receivables	1,159,745	728,290
Prepaids and deposits	201,207	185,269
	<u>\$ 9,717,289</u>	<u>\$ 1,925,706</u>

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

	2013	2012
Amounts receivable / realizable in less than one year	\$ 9,396,396	\$ 1,614,859
Amounts receivable / realizable in one to five years	266,412	256,366
Amounts receivable / realizable in over five years	54,481	54,481
	<u>\$ 9,717,289</u>	<u>\$ 1,925,706</u>

Note 5. Loans Receivable

Loans receivable at December 31, 2013 and 2012, were comprised of the following:

	2013	2012
Facility	\$ 138,443,985	\$ 136,879,959
Affordable housing	27,608,590	27,371,077
Equipment and vehicle	5,383,955	4,911,231
Pre-development	4,049,852	3,582,852
Other	18,844,286	11,970,952
	<u>194,330,668</u>	<u>184,716,071</u>
Allowance for loan losses	<u>(9,584,675)</u>	<u>(10,429,111)</u>
Loans receivable, net	<u>\$ 184,745,993</u>	<u>\$ 174,286,960</u>

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.

IFF and Subsidiaries

Notes to Consolidated Financial Statements

Note 5. Loans Receivable (Continued)

Facility related loan credit is extended to borrowers for facility acquisition, construction, renovation/rehabilitation, leased improvements and refinancing to expand programming. This also can be for facility improvement for major maintenance and repairs. Approximately 66 percent of outstanding facility loans are collateralized with mortgages in a first position lien and 16 percent are collateralized by mortgages with second position liens. The remaining 18 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 89 percent of outstanding affordable housing loans are collateralized with mortgages in a first position lien and 8 percent are collateralized by mortgages with second position liens. The remaining 3 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.

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 37 percent of outstanding pre-development loans are collateralized with mortgages in a first position lien and 12 percent are collateralized by mortgages with second position liens. The remaining 51 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, 2013 and 2012:

	Current	31 - 60 Days Past Due	61 - 90 Days Past Due	90+ Days Past Due	Total	Nonaccruing Loans
December 31, 2013						
Facility	\$ 132,335,466	\$ 1,632,191	\$ -	\$ 4,476,328	\$ 138,443,985	\$ 5,614,555
Affordable housing	26,948,983	-	-	659,607	27,608,590	998,084
Equipment and vehicle	5,333,968	36,760	-	13,227	5,383,955	79,702
Pre-development	3,756,619	-	-	293,233	4,049,852	293,233
Other	18,725,146	-	-	119,140	18,844,286	418,313
	<u>\$ 187,100,182</u>	<u>\$ 1,668,951</u>	<u>\$ -</u>	<u>\$ 5,561,535</u>	<u>\$ 194,330,668</u>	<u>\$ 7,403,887</u>
Nonaccruing loans	<u>\$ 1,544,768</u>	<u>\$ 504,301</u>	<u>\$ -</u>	<u>\$ 5,354,818</u>	<u>\$ 7,403,887</u>	

IFF and Subsidiaries

Notes to Consolidated Financial Statements

Note 5. Loans Receivable (Continued)

	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	-
	<u>\$ 175,027,749</u>	<u>\$ 408,331</u>	<u>\$ -</u>	<u>\$ 9,279,991</u>	<u>\$ 184,716,071</u>	<u>\$ 10,616,097</u>
Nonaccruing loans	<u>\$ 1,005,768</u>	<u>\$ 330,338</u>	<u>\$ -</u>	<u>\$ 9,279,991</u>	<u>\$ 10,616,097</u>	

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 "Watch List," "Substandard," and "Doubtful" which correspond to risk ratings 4+, 4- and 5, respectively.

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

Loans that do not currently expose 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 Watch List, or risk rating 4+. Risk ratings are updated any time the situation warrants.

IFF and Subsidiaries

Notes to Consolidated Financial Statements

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, 2013 and 2012:

	General Portfolio	Watch List (4+)	Substandard (4-)	Doubtful (5)	Total
December 31, 2013					
Facility	\$ 121,619,993	\$ 8,520,644	\$ 3,975,758	\$ 4,327,590	\$ 138,443,985
Affordable housing	26,610,506	-	72,217	925,867	27,608,590
Equipment and vehicle	4,388,869	937,279	42,224	15,583	5,383,955
Pre-development	3,756,619	-	-	293,233	4,049,852
Other	18,578,111	147,035	-	119,140	18,844,286
	<u>\$ 174,954,098</u>	<u>\$ 9,604,958</u>	<u>\$ 4,090,199</u>	<u>\$ 5,681,413</u>	<u>\$ 194,330,668</u>
Current	\$ 173,561,080	\$ 9,604,958	\$ 3,568,881	\$ 365,263	\$ 187,100,182
Past Due 31-60 Days	1,164,650	-	212,236	292,065	1,668,951
Past Due 61-90 Days	-	-	-	-	-
Past Due 90 + Days	228,368	-	309,082	5,024,085	5,561,535
	<u>\$ 174,954,098</u>	<u>\$ 9,604,958</u>	<u>\$ 4,090,199</u>	<u>\$ 5,681,413</u>	<u>\$ 194,330,668</u>
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
	<u>\$ 167,037,044</u>	<u>\$ 7,499,138</u>	<u>\$ 2,015,177</u>	<u>\$ 8,164,712</u>	<u>\$ 184,716,071</u>
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
	<u>\$ 167,037,044</u>	<u>\$ 7,499,138</u>	<u>\$ 2,015,177</u>	<u>\$ 8,164,712</u>	<u>\$ 184,716,071</u>

IFF and Subsidiaries

Notes to Consolidated Financial Statements

Note 5. Loans Receivable (Continued)

Activity in the allowance for loan losses for the years ended December 31, 2013 and 2012, was as follows:

	Facility	Affordable Housing	Equipment and Vehicle	Pre-Development	Other	Total
December 31, 2013						
Beginning balance	\$ 7,922,433	\$ 1,561,697	\$ 228,474	\$ 491,206	\$ 225,301	\$ 10,429,111
Provision for loan losses	1,354,251	68,456	(7,437)	118,264	(53,496)	1,480,038
Charge-offs	(1,933,394)	(423,666)	-	-	-	(2,357,060)
Recoveries	32,586	-	-	-	-	32,586
Ending balance	<u>\$ 7,375,876</u>	<u>\$ 1,206,487</u>	<u>\$ 221,037</u>	<u>\$ 609,470</u>	<u>\$ 171,805</u>	<u>\$ 9,584,675</u>
Allowance for loan losses:						
Allocated	\$ 2,045,262	\$ 439,316	\$ 15,583	\$ 293,233	\$ -	\$ 2,793,394
General	5,330,614	767,171	205,454	316,237	171,805	6,791,281
	<u>\$ 7,375,876</u>	<u>\$ 1,206,487</u>	<u>\$ 221,037</u>	<u>\$ 609,470</u>	<u>\$ 171,805</u>	<u>\$ 9,584,675</u>
Loans:						
Impaired loans	\$ 5,179,989	\$ 1,072,901	\$ 15,583	\$ 293,233	\$ 119,141	\$ 6,680,847
Non-impaired loans	133,263,996	26,535,689	5,368,372	3,756,619	18,725,145	187,649,821
	<u>\$ 138,443,985</u>	<u>\$ 27,608,590</u>	<u>\$ 5,383,955</u>	<u>\$ 4,049,852</u>	<u>\$ 18,844,286</u>	<u>\$ 194,330,668</u>
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	<u>\$ 7,922,433</u>	<u>\$ 1,561,697</u>	<u>\$ 228,474</u>	<u>\$ 491,206</u>	<u>\$ 225,301</u>	<u>\$ 10,429,111</u>
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
	<u>\$ 7,922,433</u>	<u>\$ 1,561,697</u>	<u>\$ 228,474</u>	<u>\$ 491,206</u>	<u>\$ 225,301</u>	<u>\$ 10,429,111</u>
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
	<u>\$ 136,879,959</u>	<u>\$ 27,371,077</u>	<u>\$ 4,911,231</u>	<u>\$ 3,582,852</u>	<u>\$ 11,970,952</u>	<u>\$ 184,716,071</u>

IFF and Subsidiaries

Notes to Consolidated Financial Statements

Note 5. Loans Receivable (Continued)

Impaired loan information as of December 31, 2013 and 2012, 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, 2013							
With no related allowance recorded:							
Facility	\$ 1,208,518	\$ 1,208,518	\$ -	\$ -	\$ 1,266,291	\$ 2,456	\$ 2,456
Affordable housing	72,384	72,384	-	-	72,384	-	-
Equipment and vehicle	-	-	-	-	-	-	-
Pre-development	-	-	-	-	-	-	-
Other	119,141	119,141	-	-	122,581	-	-
	<u>1,400,043</u>	<u>1,400,043</u>	<u>-</u>	<u>-</u>	<u>1,461,256</u>	<u>2,456</u>	<u>2,456</u>
With an allowance recorded:							
Facility	4,104,166	3,971,471	132,695	2,045,262	5,578,187	70,155	70,155
Affordable housing	1,000,517	1,000,517	-	439,316	1,208,740	1,856	1,856
Equipment and vehicle	15,583	15,583	-	15,583	18,850	1,263	1,263
Pre-development	293,233	293,233	-	293,233	293,233	-	-
Other	-	-	-	-	-	-	-
	<u>5,413,499</u>	<u>5,280,804</u>	<u>132,695</u>	<u>2,793,394</u>	<u>7,099,010</u>	<u>73,274</u>	<u>73,274</u>
	<u>\$ 6,813,542</u>	<u>\$ 6,680,847</u>	<u>\$ 132,695</u>	<u>\$ 2,793,394</u>	<u>\$ 8,560,266</u>	<u>\$ 75,730</u>	<u>\$ 75,730</u>
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	-	-	-	-	-	-	-
	<u>905,412</u>	<u>510,742</u>	<u>394,670</u>	<u>-</u>	<u>876,189</u>	<u>4,077</u>	<u>4,077</u>
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	-	-	-	-	-	-	-
	<u>8,990,125</u>	<u>8,832,143</u>	<u>157,982</u>	<u>4,294,866</u>	<u>6,172,595</u>	<u>220,620</u>	<u>220,620</u>
	<u>\$ 9,895,537</u>	<u>\$ 9,342,885</u>	<u>\$ 552,652</u>	<u>\$ 4,294,866</u>	<u>\$ 7,048,784</u>	<u>\$ 224,697</u>	<u>\$ 224,697</u>

IFF and Subsidiaries

Notes to Consolidated Financial Statements

Note 5. Loans Receivable (Continued)

Three loans and nine loans were modified during the years ended December 31, 2013 and 2012, respectively, 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. The pre and post modification balance of the loans modified in 2013 were \$844,634 and \$711,939, respectively. The pre and post modification balance of the loans modified in 2012 were \$2,477,771 and \$1,950,593, respectively. There were \$132,695 and \$552,652 of charge-offs recorded during the years ended December 31, 2013 and 2012, respectively, as a result of these modifications.

At December 31, 2013 and 2012, there were \$2,599,714 and \$2,754,395 of loans identified as troubled debt restructurings, respectively.

Loans carried at \$78,533,753 and \$74,749,421 were pledged to secure borrowings as of December 31, 2013 and 2012, respectively.

Scheduled loan receipts for the year ending December 31, 2013, are expected to be approximately \$12,091,000.

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 consolidated statements of financial condition. 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, 2013 and 2012, were \$28,999,389 and \$36,523,889, 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 third-party nonprofit which IFF identified prior to the time of purchase.

IFF and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. Neighborhood Stabilization Program (NSP) (Continued)

IFF purchased and made improvements to 21 properties during 2010 and 2011, with costs accumulating \$7,601,947. In 2012, IFF purchased 1 additional property and incurred costs of \$4,419,039 on all properties it held during the year. Additional costs incurred in 2013 totaled \$800,125. As of December 31, 2013 and 2012, IFF recorded temporarily restricted grants revenue of \$876,537 and \$4,857,718, including fees granted of \$53,512 and \$438,679, respectively. At December 31, 2013, IFF had construction commitments of approximately \$100,000 related to NSP properties.

Two properties with an aggregate value of \$1,811,216 and twelve properties with an aggregate value of \$6,267,974 were transferred to the end-users during 2013 and 2012, 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 \$3,158,768 and \$4,169,859 at December 31, 2013 and 2012, respectively. Two properties exist at the end of 2013 and are to be transferred in 2014.

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

In 2011, Home First Illinois, LLC was awarded a \$5,000,000 grant by IHDA to enable Home First Illinois to purchase and rehabilitate 20 properties under the Illinois Accessible Housing Initiative program. In 2013, it was awarded another \$10,000,000 to purchase and rehabilitate 50 properties. Grant and regulatory agreements restrict the use of the funds, set objectives and requirements for the projects, and provide IFF with funds for its holding costs and indirect costs. When improvements are complete, Home First will rent the units to qualified individuals and manage the properties through a management company.

Home First Illinois purchased and made improvements to 12 and 17 condominium properties during 2013 and 2012, respectively, with costs accumulating in 2013 and 2012 of \$3,095,650 and \$2,027,873, respectively. These 29 properties are reflected on the consolidated statements of financial position as Home First Illinois property. During 2013, 11 of the units were completed and rented, and depreciation expense totaled \$27,818.

IHDA grant funds are secured by a non-interest bearing mortgage on each property. Home First Illinois 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 Illinois 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 Illinois records grant amounts received, accumulating \$5,011,974 and \$2,027,873, as of December 31, 2013 and 2012, respectively, as deferred revenue and amortizes amounts to revenue ratably over the expected life of the properties, once placed in service. Amounts amortized into revenue for 2013 was \$27,818.

Home First Illinois recorded temporarily restricted grant revenue in the years ended December 31, 2013 and 2012, totaling \$1,024,114 and \$900,723, respectively, 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 the periods ending December 31, 2013 and 2012, \$643,096 and \$542,744, respectively, were released from restrictions.

IFF and Subsidiaries

Notes to Consolidated Financial Statements

Note 8. IFF CILA Lease Program Property

IFF Real Estate Services Department has acquired and developed five group homes in 2013. Four of the houses have been developed and sold to IFF CILA Lease Program, LLC and leased to a third party, the group home operator. Individuals in this program experience the responsibilities of community living and enjoy ample opportunities for personal growth. Services and supports are tailored to meet each individual's specific needs and wishes. The cost basis of the 4 properties purchased by IFF CILA Lease Program LLC in 2013 is \$1,595,081. These properties are depreciated over 40 years using the straight-line method. Costs are reported net of accumulated depreciation of \$5,354 at December 31, 2013.

Note 9. Access Housing I Property

Access Housing I, LLC was created when Home First, LLC was awarded an allocation of Low-Income Housing Tax Credits from IHDA to acquire and develop residential buildings (two- to four-flats) for people with all types of disabilities. At the end of December 31, 2013, four properties had been purchased and another 4 were under contract. Construction will commence in summer 2014. Access Housing I, LLC will capitalize acquisition and improvement costs and depreciation will be computed using the straight-line method over the estimated useful lives of the properties, when placed in service.

Note 10. Furniture, Equipment and Leasehold Improvements

Property and equipment at December 31, 2013 and 2012, were comprised as follows:

	2013	2012
Furniture, equipment, and software	\$ 2,566,947	\$ 2,377,504
Leasehold improvements	436,556	376,145
	<u>3,003,503</u>	<u>2,753,649</u>
Less accumulated depreciation and amortization	(2,541,693)	(2,324,582)
	<u>\$ 461,810</u>	<u>\$ 429,067</u>

Depreciation and amortization expense for 2013 and 2012 were \$217,111 and \$274,239, respectively.

IFF and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Borrowings and Equity Equivalent 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, 2013, is provided for borrowings where the Annual Rate is indicated as Variable. IFF borrowings consisted of the following:

Lender	Maturity Date	Scheduled Repayments				Principal Balance at December 31, 2013	Principal Balance at December 31, 2012
		Principal		Interest			
		Amount	Due	Annual Rate	Due		
*Allstate Insurance Company	1/1/2015	Amortized over ten years	Quarterly starting 1/1/2005	3.000%	Quarterly	\$ 400,000	\$ 800,000
*Allstate Insurance Company	1/1/2015	Amortized over ten years	Quarterly starting 1/1/2005	3.000%	Quarterly	100,000	200,000
Bank of America	11/7/2018	\$ 2,500,000 2,500,000 3,000,000	11/07/16 11/07/17 11/07/18	3.750%	Quarterly	8,000,000	8,000,000
Bank of America	12/15/2020	Balance	Maturity	1.000%	Quarterly	2,000,000	2,000,000
The Blowitz-Ridgeway Foundation	6/30/2013	\$ 5,000	Quarterly	2.750%	Quarterly	-	110,000
The Blowitz-Ridgeway Foundation	10/1/2015	\$ 5,000	Quarterly	2.750%	Quarterly	35,000	55,000
The Blowitz-Ridgeway Foundation	7/1/2016	\$ 5,000	Quarterly	2.750%	Quarterly	50,000	70,000
The Blowitz-Ridgeway Foundation	7/1/2017	\$ 5,000	Quarterly	2.750%	Quarterly	70,000	90,000
The Blowitz-Ridgeway Foundation	7/1/2018	\$ 5,000	Quarterly	2.750%	Quarterly	90,000	-
Calvert Social Investment Foundation	11/30/2013	Balance	Maturity	4.000%	Semi-annually	-	2,000,000
Calvert Social Investment Foundation	11/30/2013	Balance	Maturity	4.000%	Semi-annually	-	1,000,000
Calvert Social Investment Foundation	6/19/2020	Balance	Maturity	2.750%	Quarterly	6,700,000	-
Catholic Health Initiatives	4/1/2014	\$ 100,000	Annually starting 04/01/10	3.000%	Annually	600,000	700,000
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
Total carried forward						25,812,096	22,792,096

IFF and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Borrowings and Equity Equivalent Borrowings (Continued)

Lender	Maturity Date	Scheduled Repayments				Principal Balance at December 31, 2013	Principal Balance at December 31, 2012
		Principal		Interest			
		Amount	Due	Annual Rate	Due		
Total brought forward						\$ 25,812,096	\$ 22,792,096
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	632,287	715,577
Circle of Service Foundation	3/31/2021	Amortized over fifteen years	Quarterly	3.000%	Quarterly	674,021	756,048
Communities at Work Fund, L.P.	9/9/2017	Balance	Maturity	4.300%	Monthly	15,000,000	15,000,000
Everence Community Investments, Inc.	8/15/2016	Balance	Maturity	3.000%	Quarterly	500,000	-
Federal Home Loan Bank	11/6/2014	Per schedule	Quarterly starting 01/15/10	None	N/A	73,580	138,060
*Federal Home Loan Bank	5/30/2023	Balance	Maturity	2.640%	Monthly	2,000,000	-
*Federal Home Loan Bank	1/9/2013	Balance	Maturity	0.175%	Monthly	-	1,000,000
First United Bank (Assumed by Old Plank Trail Community Bank)	12/15/2013	Balance	Maturity	3.000%	Quarterly	-	99,950
Goldman Sachs Bank USA	4/30/2019	Per schedule	Quarterly starting 01/01/15	4.000%	Quarterly	2,597,968	-
Harris Trust and Savings Bank (BMO Harris)	10/1/2019	\$ 31,250	Quarterly starting 01/01/10	3.250%	Quarterly	750,000	875,000
Helen Bader Foundation	9/30/2015	6,250	Quarterly starting 09/01/09	None	N/A	37,500	62,500
The Kresge Foundation	9/1/2013	Balance	Maturity	3.000%	Quarterly	-	2,500,000
The Kresge Foundation	4/30/2022	Per Schedule	Quarterly	3.000%	Quarterly	4,708,757	2,500,000
Living Cities Catalyst Fund LLC	3/15/2018	\$ 1,500,000 1,500,000	3/15/2017 3/15/2018	3.500%	Quarterly	3,000,000	-
Total carried forward						65,286,209	55,939,231

IFF and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Borrowings and Equity Equivalent Borrowings (Continued)

Lender	Maturity Date	Scheduled Repayments				Principal Balance at December 31, 2013	Principal Balance at December 31, 2012
		Principal		Annual Rate	Interest		
		Amount	Due		Due		
Total brought forward						\$ 65,286,209	\$ 55,939,231
Mercy Investment Services, Inc.	12/31/2018	Balance	Maturity	3.000%	Quarterly	1,000,000	-
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
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
Religious Communities Investment Fund, Inc.	3/15/2018	Balance	Maturity	3.000%	Quarterly	300,000	-
Seton Enablement Fund	4/1/2018	Per Schedule	Semi-annually starting 10/1/14	3.000%	Semi-annually	250,000	-
Sisters of Saint Dominic, Congregation of the Most Holy Rosary of Adrian, MI	8/15/2018	Balance	Maturity	3.000%	Quarterly	100,000	-
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
Walton Family Foundation	12/17/2019	\$ 1,000,000 2,000,000 2,000,000	12/17/17 12/17/18 12/17/19	None	N/A	5,000,000	5,000,000
Walton Family Foundation	11/30/2021	\$ 1,000,000 2,000,000	11/30/20 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:						\$ 89,511,209	\$ 78,777,037
**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	500,000
** Guaranty Bank	3/1/2017	Balance	Maturity	3.000%	Quarterly	250,000	250,000
Total carried forward						1,250,000	1,250,000

IFF and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Borrowings and Equity Equivalent Borrowings (Continued)

Lender	Maturity Date	Scheduled Repayments				Principal Balance at December 31, 2013	Principal Balance at December 31, 2012
		Principal		Interest			
		Amount	Due	Annual Rate	Due		
Total brought forward						\$ 1,250,000	\$ 1,250,000
** Guaranty Bank	3/1/2017	Balance	Maturity	3.000%	Quarterly	250,000	250,000
**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
**Institute of the Blessed Virgin Mary	6/24/2018	Balance	Maturity	3.000%	Quarterly	50,000	-
**MacArthur Foundation	1/1/2022	Balance	Maturity	3.000%	Quarterly	750,000	750,000
**MacArthur Foundation	1/1/2022	Balance	Maturity	3.000%	Quarterly	1,000,000	1,000,000
**MacArthur Foundation	1/1/2022	Balance	Maturity	3.000%	Quarterly	1,000,000	1,000,000
**M & I Community Development Corporation	4/9/2015	\$ 25,000	Quarterly starting 4/1/2013	4.000%	Quarterly	425,000	500,000
**Nazareth Literacy Benevolent Institution/ dba Sisters of Charity of Nazareth	11/6/2018	\$ 100,000	Maturity	3.000%	Quarterly	100,000	-
**North Shore Bank FSB	5/9/188	Balance	Maturity	3.000%	Quarterly	50,000	-
**Our Lady of Victory Missionary Sisters, Inc.	12/2/2018	Balance	Maturity	3.000%	Annually	25,000	-
**Sisters of Most Precious Blood/St. Mary's Institute of O'Fallon	9/27/2018	Balance	Maturity	3.000%	Quarterly	50,000	-
**Sisters of St. Francis Clinton, Iowa	6/1/2017	Balance	Maturity	3.000%	Quarterly	100,000	100,000
**Sisters of St. Francis Clinton, Iowa	6/5/2018	Balance	Maturity	3.000%	Quarterly	50,000	-
**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	1,000,000
**Wells Fargo Bank	4/1/2018	Balance	Maturity	2.000%	Quarterly	1,000,000	1,000,000
Total equity equivalent borrowings:						\$ 17,144,000	\$ 16,894,000

IFF and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Borrowings and Equity Equivalent 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, 2013.

As of December 31, 2013, the required principal reduction of borrowings is as follows:

2014	\$ 2,682,658
2015	2,104,566
2016	7,588,748
2017	24,191,086
2018	21,980,722
Thereafter	48,107,429
	<u>\$ 106,655,209</u>

Undrawn commitments at December 31, 2013 and 2012, were \$11,039,891 and \$15,019,461, respectively.

IFF and Subsidiaries

Notes to Consolidated Financial Statements

Note 12. 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, 2013.

Investor Consortium ^(a) Series	Maturity Date	Interest Rate	Principal Balance at December 31, 2013	Principal Balance at December 31, 2012
Sale 2004-1	1/15/2020	3.000%	\$ 1,622,631	\$ 3,271,421
Sale 2005-1	10/15/2020	3.473%	3,111,080	3,574,449
Sale 2006-1	10/15/2021	3.000%	6,124,833	7,829,799
Sale 2007-1	10/15/2022	3.000%	5,042,889	5,735,051
Sale 2008-1	10/15/2023	3.000%	4,958,330	6,083,596
Sale 2009-1	10/15/2024	3.823%	7,627,986	10,040,233
Sale 2010-1	7/15/2025	4.170%	2,448,525	2,846,433
Sale 2011-1	7/15/2026	4.020%	7,486,537	9,491,151
Sale 2012-1	10/15/2027	3.247%	12,118,036	12,983,485
Sale 2013-1	1/15/2029	3.422%	15,496,065	-
Total Investor Consortium collateral trust notes:			<u>\$ 66,036,912</u>	<u>\$ 61,855,618</u>

^(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, RBS Citizens, NA, 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.

IFF and Subsidiaries

Notes to Consolidated Financial Statements

Note 12. Investor Consortium Collateral Trust Notes (Continued)

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, 2013 and 2012, was \$1,403,305 and \$1,266,068 at cost, respectively, which represents fair value. Included in these amounts at December 31, 2013 and 2012, was \$73,189 and \$59,025, 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, 2013, the scheduled principal reduction of Investor Consortium collateral trust notes is as follows:

2014	\$ 6,964,569
2015	5,885,990
2016	5,870,771
2017	5,719,278
2018	5,642,569
Thereafter	35,953,735
	<u>\$ 66,036,912</u>

Undrawn commitments in the Investor Consortium Program at December 31, 2013 and 2012, were \$4,541,400 and \$7,358,508, 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 \$14,250,000 at December 31, 2013.

IFF and Subsidiaries

Notes to Consolidated Financial Statements

Note 13. 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, 2013 and 2012, was \$3,823,313 and \$6,045,906, respectively. IFF loan participations payable consisted of the following:

Lender	Maturity Date	Scheduled Repayments				Principal Balance at December 31, 2013	Principal Balance at December 31, 2012
		Principal		Interest			
		Amount	Due	Annual Rate	Due		
Partners for the Common Good	7/23/2015	Per Schedule & Balance at Maturity	Monthly	6.000%	Monthly	\$ 414,760	\$ 437,470
Partners for the Common Good	7/26/2015	Per Schedule & Balance at Maturity	Monthly	5.875%	Monthly	82,893	107,907
Partners for the Common Good	2/17/2016	Per Schedule & Balance at Maturity	Monthly	5.875%	Monthly	447,324	473,356
Partners for the Common Good	9/23/2016	Per Schedule & Balance at Maturity	Monthly	6.000%	Monthly	185,585	194,993
Partners for the Common Good	9/28/2016	Per Schedule & Balance at Maturity	Monthly	6.375%	Monthly	462,657	476,180
Partners for the Common Good	9/9/2013*	Per Schedule & Balance at Maturity	Monthly	5.250%	Monthly	-	500,000

* loan paid off on this date. Original maturity date was 7/13/2017

Total loan participations payable:

\$ 1,593,219 \$ 2,189,906

IFF and Subsidiaries

Notes to Consolidated Financial Statements

Note 13. Loan Participations Payable (Continued)

As of December 31, 2013, the scheduled principal reduction of loan participations payable is as follows:

2014	\$	107,621
2015		107,721
2016		808,498
2017		569,379
	\$	<u>1,593,219</u>

Note 14. 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 \$221,976 and \$197,097 at December 31, 2013 and 2012, respectively, and is included in accrued liabilities. IFF is also obligated under office leases in St. Louis (through December 2017), Detroit (through March 2017), Milwaukee (through December 2016), and Indianapolis (through October 2014). IFF also has a storage lease in the Chicago office building (through June 2015).

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

2014	\$	495,238
2015		518,520
2016		529,945
2017		500,956
2018		482,406
Thereafter		741,013
	\$	<u>3,268,078</u>

The total rent expense for the years ended December 31, 2013 and 2012, were as follows:

	2013	2012
Chicago	\$ 467,389	\$ 380,869
St. Louis	19,875	20,079
Milwaukee	26,723	26,196
Davenport (closed in June 2013)	4,350	5,825
Indianapolis	13,026	2,083
Detroit	-	-
	<u>\$ 531,363</u>	<u>\$ 435,052</u>

IFF and Subsidiaries

Notes to Consolidated Financial Statements

Note 15. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2013 and 2012, were available for the following purposes:

	2013	2012
Department of Education Grant for Credit Enhancement	\$ 18,262,465	\$ 18,396,839
Loan Issuance	22,549,507	18,609,022
NSP Property	3,158,768	4,169,859
Grants for Specific Programs	12,525,173	6,349,684
	<u>\$ 56,495,913</u>	<u>\$ 47,525,404</u>

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

In 2013 and 2012, net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions as follows:

	2013	2012
Net assets released from restrictions:		
Time and performance restrictions (operating)	\$ 1,567,382	\$ 1,930,595
Performance restrictions - NSP property (operating)	1,811,216	6,267,974
Performance restrictions - Pass through Grants (operating)	4,116,044	981,413
Loan capital grants (capital)	2,022,057	-
Provision for loan losses (capital)	1,480,038	6,613,949
	<u>\$ 10,996,737</u>	<u>\$ 15,793,931</u>

Note 16. 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, 2013 and 2012, was \$218,312 and \$172,943, respectively.

IFF and Subsidiaries

Notes to Consolidated Financial Statements

Note 17. Functional Expense Classifications

IFF's unrestricted expenses for the years ended December 31, 2013 and 2012, reported on a functional basis are as follows:

	2013	2012
Program expenses:		
Capital Solutions (Lending)	\$ 10,467,267	\$ 14,941,325
Community Strategies	6,832,162	8,562,765
Real estate services	1,888,525	1,909,802
Public policy and communications	487,760	456,135
Research	340,650	319,489
	<u>20,016,364</u>	<u>26,189,516</u>
Supporting services	988,882	858,468
	<u>\$ 21,005,246</u>	<u>\$ 27,047,984</u>

Note 18. Concentration of Credit Risk

Approximately 36 percent and 38 percent of IFF's borrowers are located in the Chicago metropolitan area as of December 31, 2013 and 2012, 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 19. Limited Liability Companies

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 IFF Capital II (IFFC II) upon its formation in 2006. 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. IFFC's tax credit period expired in December 2012 and IFFC was dissolved in January 2013.

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.

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.

IFFC III received an allocation from IFF of \$4,000,000 in tax credits.

IFF and Subsidiaries

Notes to Consolidated Financial Statements

Note 19. Limited Liability Companies (Continued)

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

IFFC V received an allocation from IFF of \$11,000,000 in tax credits in 2012 and \$5,000,000 in 2013. In 2012, 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.

IFF is the managing member and has a stated ownership interest in each of these limited liability companies as of December 31, 2013 and 2012, as follows:

	2013	2012
IFF Capital LLC	-	0.01%
IFF Capital II LLC	0.10%	0.10%
IFF Capital III LLC	0.01%	0.01%
IFF Capital IV LLC	0.01%	0.01%
IFF Capital V LLC	0.01%	0.01%
Chase NMTC II LLC	0.10%	0.10%
Chase NMTC Erie Elementary Investment Fund LLC	0.01%	0.01%

IFF is the non-member manager of Chase NMTC IFF Charter School Investment Fund, LLC.

The following table shows IFF's investment in these limited liability companies recorded in the consolidated statements of financial position in other assets as of December 31, 2013 and 2012.

	2013	2012
IFF Capital LLC	\$ -	\$ 1,000
IFF Capital II LLC	7,007	7,007
IFF Capital III LLC	400	-
IFF Capital IV LLC	500	1,500
IFF Capital V LLC	1,600	1,100
Chase NMTC II LLC	2,017	2,017
Chase NMTC Erie Elementary Investment Fund LLC	423	423
	<u>\$ 11,947</u>	<u>\$ 13,047</u>

IFF provides certain asset management and compliance oversight services to the limited liability companies, as provided in the respective operating agreements. IFF receives management fees from these limited liability companies and is recorded on the consolidated statements of activities in management and sponsor fees.

IFF and Subsidiaries

Notes to Consolidated Financial Statements

Note 19. Limited Liability Companies (Continued)

The following table shows the management fees received by IFF from these limited liability companies at December 31, 2013 and 2012.

	2013	2012
IFF Capital LLC	\$ -	\$ 66,427
IFF Capital III LLC	22,822	-
IFF Capital IV LLC	32,500	6,861
IFF Capital V LLC	81,522	12,423
	<u>\$ 136,844</u>	<u>\$ 85,711</u>

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

Supplementary Information

IFF and Subsidiaries

**Consolidating Statement of Financial Position
December 31, 2013**

	IFF*	IFF NMTC Senior Lender	Home First Illinois, LLC	IFF CILA Lease Program, LLC	Home First, LLC	Access Housing I MM, LLC	Access Housing I, LLC	Eliminations	Consolidated
Assets									
Cash and cash equivalents	\$ 18,841,108	\$ 2,834	\$ 18,276	\$ -	\$ 1,500	\$ 500	\$ 500	\$ -	\$ 18,864,718
Department of Education restricted cash and interest-bearing deposits in banks	18,262,465	-	-	-	-	-	-	-	18,262,465
Other restricted cash and interest-bearing deposits in banks	13,391,780	-	743,009	-	-	-	-	-	14,134,789
Grants receivable, other receivables, prepaids and deposits	14,658,148	-	196,332	62,482	-	-	141,545	(5,341,218)	9,717,289
Loans receivable, net	179,258,052	6,757,642	-	-	-	-	-	(1,269,701)	184,745,993
Accrued interest receivable	793,884	25,146	-	-	-	-	-	(30,994)	788,036
NSP property	3,158,768	-	-	-	-	-	-	-	3,158,768
Home First Illinois Property, net	-	-	5,095,706	-	-	-	-	-	5,095,706
IFF CILA Lease Program Property, net	315,438	-	-	1,279,643	-	-	-	-	1,595,081
Access Housing I Property	-	-	-	-	-	-	766,180	-	766,180
Federal Home Loan Bank stock, at cost	206,900	-	-	-	-	-	-	-	206,900
Foreclosed assets, net	1,918,432	-	-	-	-	-	-	-	1,918,432
Furniture, equipment and leasehold improvements, net	461,810	-	-	-	-	-	-	-	461,810
Capitalized finance costs, net	329,302	-	-	-	-	-	-	-	329,302
Other assets	2,727,275	-	-	-	1,000	500	-	(2,715,797)	12,978
	<u>\$ 254,323,362</u>	<u>\$ 6,785,622</u>	<u>\$ 6,053,323</u>	<u>\$ 1,342,125</u>	<u>\$ 2,500</u>	<u>\$ 1,000</u>	<u>\$ 908,225</u>	<u>\$ (9,357,710)</u>	<u>\$ 260,058,447</u>
Liabilities and Net Assets									
Liabilities									
Accrued liabilities	\$ 1,264,454	\$ 2,750	\$ 378,655	\$ 21,527	\$ -	\$ -	\$ -	\$ (386,879)	\$ 1,280,507
Accrued interest payable	839,755	26,692	-	4,302	-	-	-	(30,994)	839,755
Home First Illinois deferred grant revenue	-	-	4,983,756	-	-	-	-	-	4,983,756
Investor Consortium collateral trust notes	66,036,912	-	-	-	-	-	-	-	66,036,912
Borrowings	89,511,209	4,046,614	-	1,269,701	-	-	907,725	(6,224,040)	89,511,209
Equity equivalent borrowings	17,144,000	-	-	-	-	-	-	-	17,144,000
Loan participations payable	1,593,219	-	-	-	-	-	-	-	1,593,219
	<u>176,389,549</u>	<u>4,076,056</u>	<u>5,362,411</u>	<u>1,295,530</u>	<u>-</u>	<u>-</u>	<u>907,725</u>	<u>(6,641,913)</u>	<u>181,389,358</u>
Net Assets									
Unrestricted	22,176,902	-	(48,090)	46,595	-	-	-	(2,231)	22,173,176
Temporarily restricted	55,756,911	-	739,002	-	-	-	-	-	56,495,913
Member's Equity									
Capital contributions	-	2,711,797	-	-	2,500	1,000	500	(2,715,797)	-
Retained earnings	-	(2,231)	-	-	-	-	-	2,231	-
	<u>77,933,813</u>	<u>2,709,566</u>	<u>690,912</u>	<u>46,595</u>	<u>2,500</u>	<u>1,000</u>	<u>500</u>	<u>(2,715,797)</u>	<u>78,669,089</u>
	<u>\$ 254,323,362</u>	<u>\$ 6,785,622</u>	<u>\$ 6,053,323</u>	<u>\$ 1,342,125</u>	<u>\$ 2,500</u>	<u>\$ 1,000</u>	<u>\$ 908,225</u>	<u>\$ (9,357,710)</u>	<u>\$ 260,058,447</u>

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

IFF and Subsidiaries

Consolidating Statement of Activities
December 31, 2013

	IFF*	IFF NMTC Senior Lender	Home First Illinois, LLC	IFF CILA Lease Program, LLC	Home First, LLC	Access Housing I MM, LLC	Access Housing I, LLC	Eliminations	Consolidated
Unrestricted - Operating									
Support and revenue:									
Corporations, foundations, and individuals	\$ 183,300	\$ -	\$ -	\$ 70,000	\$ -	\$ -	\$ -	\$ (70,000)	\$ 183,300
Interest on loans	9,693,672	402,526	-	-	-	-	-	(389,493)	9,706,705
Consulting contract fees	1,614,404	-	-	-	-	-	-	(268,136)	1,346,268
Management and sponsor fee	151,844	-	-	-	-	-	-	(15,000)	136,844
Syndication fees	360,000	-	-	-	-	-	-	-	360,000
Loan fees	104,723	-	-	-	-	-	-	-	104,723
Other interest income	27,044	5	3	-	-	-	-	-	27,052
Rental income	120,512	-	61,884	6,559	-	-	-	-	188,955
Unrealized losses on investments	(336)	-	-	-	-	-	-	-	(336)
Net assets released from restrictions	1,424,286	-	143,096	-	-	-	-	-	1,567,382
Net assets released from restrictions - NSP property	1,811,216	-	-	-	-	-	-	-	1,811,216
Net assets released from restrictions - Pass through Grants	3,616,044	-	500,000	-	-	-	-	-	4,116,044
	<u>19,106,709</u>	<u>402,531</u>	<u>704,983</u>	<u>76,559</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(742,629)</u>	<u>19,548,153</u>
Expenses:									
Salaries and benefits	5,752,703	-	-	-	-	-	-	(268,136)	5,484,567
Professional fees	844,612	17,750	41,106	12,400	-	-	-	(15,000)	900,868
Occupancy and office	788,230	-	178,245	6,683	-	-	-	-	973,158
Printing and marketing	75,262	-	-	-	-	-	-	-	75,262
Interest	5,157,819	383,966	-	5,527	-	-	-	(389,493)	5,157,819
Other operating expenses	347,788	5	5,353	-	-	-	-	-	353,146
Provision for losses on foreclosed assets	125,000	-	-	-	-	-	-	-	125,000
Pass through NSP property	1,811,216	-	-	-	-	-	-	-	1,811,216
Pass through Grants	3,616,044	-	500,000	-	-	-	-	(70,000)	4,046,044
Meetings and travel	299,959	-	47	-	-	-	-	-	300,006
Depreciation and amortization	257,650	-	27,818	5,354	-	-	-	-	290,822
Income taxes	-	7,300	-	-	-	-	-	-	7,300
	<u>19,076,283</u>	<u>409,021</u>	<u>752,569</u>	<u>29,964</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(742,629)</u>	<u>19,525,208</u>
Increase (decrease) in unrestricted net assets - operating	30,426	(6,490)	(47,586)	46,595	-	-	-	-	22,945
Unrestricted - Capital									
Support and revenue:									
Loan grants	-	-	-	-	-	-	-	-	-
Reclassification to temporary restricted net assets	(2,924,943)	-	-	-	-	-	-	-	(2,924,943)
Net assets released from restrictions - loan capital grants	2,022,057	-	-	-	-	-	-	-	2,022,057
Net assets released from restrictions - capital (provision for loan losses)	1,480,038	-	-	-	-	-	-	-	1,480,038
	<u>577,152</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>577,152</u>
Expenses:									
Provision for loan losses	1,480,038	-	-	-	-	-	-	-	1,480,038
Decrease in unrestricted net assets - capital	(902,886)	-	-	-	-	-	-	-	(902,886)
Increase (decrease) in unrestricted net assets	(872,460)	(6,490)	(47,586)	46,595	-	-	-	-	(879,941)

IFF and Subsidiaries

Consolidating Statement of Activities (Continued)
December 31, 2013

	IFF*	IFF NMTC Senior Lender	Home First Illinois, LLC	IFF CILA Lease Program, LLC	Home First, LLC	Access Housing I MM, LLC	Access Housing I, LLC	Eliminations	Consolidated
Temporarily Restricted									
Program and operating grants	\$ 11,631,140	\$ -	\$ 1,024,114	\$ -	\$ -	\$ -	\$ -	\$ (173,258)	\$ 12,481,996
Loan capital grants	4,517,637	-	-	-	-	-	-	-	4,517,637
Reclassification to temporary restricted net assets	2,924,943	-	-	-	-	-	-	-	2,924,943
Interest income	42,666	-	4	-	-	-	-	-	42,670
Net assets released from restrictions - loan capital grants	(2,022,097)	-	-	-	-	-	-	-	(2,022,097)
Net assets released from restrictions - operating	(1,597,544)	-	(143,096)	-	-	-	-	173,258	(1,567,382)
Net assets released from restrictions - NSP property	(1,811,216)	-	-	-	-	-	-	-	(1,811,216)
Net assets released from restrictions - Pass through Grants	(3,616,044)	-	(500,000)	-	-	-	-	-	(4,116,044)
Net assets released from restrictions - capital (provision for loan losses)	(1,480,038)	-	-	-	-	-	-	-	(1,480,038)
Increase in temporarily restricted net assets	8,589,447	-	381,022	-	-	-	-	-	8,970,469
Increase (decrease) in net assets	7,716,987	(6,490)	333,436	46,595	-	-	-	-	8,090,528
Net assets/retained earnings:									
Beginning of year	70,216,786	4,260	357,475	-	-	-	-	-	70,578,521
End of year	\$ 77,933,773	\$ (2,230)	\$ 690,911	\$ 46,595	\$ -	\$ -	\$ -	\$ -	\$ 78,669,049

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