

New Hope Community Development Corporation

BOARD OF DIRECTORS

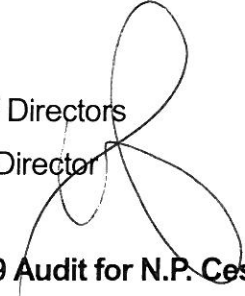
Lisa A. Baker, Executive Director

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DATE: May 13, 2010
TO: New Hope CDC Board of Directors
FROM: Lisa A. Baker, Executive Director
By: Mark Stern, Treasurer
SUBJECT: **Receive and File the 2009 Audit for N.P. Cesar Associates L.P.**



RECOMMENDED ACTIONS:

That the Board of Directors receive and file the 2009 audit for N.P. Cesar Associates L.P.

BACKGROUND / DISCUSSION

Staff presents the audit report from N.P. Cesar Associates L.P.'s independent Certified Public Accounting firm for the year ended December 31, 2009. The auditors have issued an unqualified opinion on the financial statements. No material weaknesses were identified in either compliance or internal control. The auditors report no findings, comments or recommendations.

FISCAL IMPACT

There is no fiscal impact from the audit. New Hope CDC is one of the limited partners in this venture.

CONCLUSION:

Staff recommends that the Board receive and file the audit as submitted.



February 8, 2010

To the General Partner of N.P. Cesar Associates L.P.:

We have audited the financial statements of N.P. Cesar Associates L.P. for the year ended December 31, 2009, and have issued our report thereon dated February 8, 2010. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated November 24, 2009, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by N.P. Cesar Associates L.P. are described in Note 1 to the financial statements. During the year ended December 31, 2009, the Partnership adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, that provides a framework for measuring fair value of certain assets. The application of existing policies was not changed during the year ended December 31, 2009. We noted no transactions entered into by the Partnership during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were: depreciation expense and amortization expense. We evaluated the key factors and assumptions used to develop the estimates described above in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no misstatements that were material, either individually or in the aggregate, to the financial statements taken as a whole.



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The General Partner of N.P. Cesar Associates L.P.:

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 8, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Partnership's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Partnership's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention

This information is intended solely for the use of partnership of N.P. Cesar Associates L.P. and is not intended to be and should not be used by anyone other than these specified parties

WILLIAMS & OLDS
Certified Public Accountants



**N.P. CESAR ASSOCIATES, L.P.,
A California Limited Partnership
CalHFA Project No. CA 2006-813**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**FOR THE YEAR ENDED
DECEMBER 31, 2009**

**With Accompanying Information Required by The
California Housing Finance Agency**

**N.P. CESAR ASSOCIATES L.P.,
A California Limited Partnership
CalHFA Project No. CA 2006-813**

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INDEPENDENT AUDITORS' REPORT

The Partners

N.P. Cesar Associates L.P., CalHFA Project No. CA 2006-813

We have audited the accompanying balance sheet of N.P. Cesar Associates L.P., a California Limited Partnership, CalHFA Project No. CA 2006-813, as of December 31, 2009 and 2008, and the related statements of operations, changes in partners' equity and cash flows for the years then ended. These financial statements are the responsibility of the project's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States and for purposes of supplemental information, the standards for financial and compliance audits contained in *Audited Financial Statements Handbook for Multi-Family Rental Housing Financed by the California Housing Finance Agency*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes consideration of internal control over the financial reporting process as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of N.P. Cesar Associates L.P.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of N.P. Cesar Associates L.P., a California Limited Partnership, as of December 31, 2009 and 2008, and the results of its operations, changes in partners' equity and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards and the *Audited Financial Statements Handbook for Multi-Family Rental Housing Financed by the California Housing Finance Agency*, we have also issued a report dated February 8, 2010 on our consideration of the project's internal control over financial reporting, and on its compliance with laws, regulations, contracts and grants applicable to the Partnership. This report is an integral part of an audit performed in accordance with *Audited Financial Statements Handbook for Multi-Family Rental Housing Financed by the California Housing Finance Agency* which should be read in conjunction with this report in considering the results of our audit.



Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information included in the report is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Rancho Cordova, California
February 8, 2010

N.P. CESAR ASSOCIATES, L.P.,
A California Limited Partnership
CalHFA Project No. CA 2006-813

BALANCE SHEETS

DECEMBER 31, 2009 AND 2008

	2009	2008
<i>ASSETS</i>		
CURRENT ASSETS		
Cash on hand and in bank	\$ 21,680	\$ 287,672
Accounts receivable	8,851	10,035
Prepaid expenses and deposits	13,892	13,830
TOTAL CURRENT ASSETS	44,423	311,537
RESTRICTED FUNDS		
Tenant security deposits	25,051	24,053
Reserve for replacements	189,528	166,468
Operating reserve	70,200	69,465
Insurance and other impound accounts	25,607	15,011
Property tax impound account	25,155	9,318
TOTAL RESTRICTED FUNDS	335,541	284,315
FIXED ASSETS		
Land	900,000	900,000
Buildings	8,711,655	8,715,334
Improvements	704,567	704,567
Equipment and furnishings	163,024	163,024
	10,479,246	10,482,925
Less accumulated depreciation	(610,050)	(317,170)
NET FIXED ASSETS	9,869,196	10,165,755
OTHER ASSETS		
Tax Credit Application fees, net of accumulated amortization of \$5,624 in 2009 and \$2,841 in 2008	22,208	24,991
Deferred financing costs, net of accumulated amortization of \$5,926 in 2009 and \$2,540 in 2008	78,728	82,114
TOTAL OTHER ASSETS	100,936	107,105
TOTAL ASSETS	\$ 10,350,096	\$ 10,868,712

See notes to financial statements.

**N.P. CESAR ASSOCIATES, L.P.,
A California Limited Partnership
CalHFA Project No. CA 2006-813**

BALANCE SHEETS - Continued

DECEMBER 31, 2009 AND 2008

LIABILITIES AND PARTNERS' EQUITY

	2009	2008
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 1,021,591	\$ 1,000,529
Accounts payable and accrued expenses	16,449	19,033
Construction payables	-	3,679
Due to related parties	-	16,750
Developer fee payable	477,500	780,000
Current portion of accrued interest	56,724	65,632
Prepaid rent	700	1,377
Tenant security deposits	25,051	24,179
TOTAL CURRENT LIABILITIES	1,598,015	1,911,179
LONG-TERM LIABILITIES		
Long-term debt, net of current portion	6,004,167	7,012,056
Accrued interest, net of current portion	178,665	100,382
TOTAL LONG-TERM LIABILITIES	6,182,832	7,112,438
COMMITMENTS AND CONTINGENCIES	-	-
PARTNERS' EQUITY		
General partners' equity	899,997	945,061
Limited partner's equity	1,669,252	900,034
TOTAL PARTNERS' EQUITY	2,569,249	1,845,095
TOTAL LIABILITIES AND PARTNERS' EQUITY	\$ 10,350,096	\$ 10,868,712

See notes to financial statements.

N.P. CESAR ASSOCIATES, L.P.,
A California Limited Partnership
 CalHFA Project No. CA 2006-813

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
INCOME		
Total gross potential rents-tenants	\$ 278,233	\$ 262,935
Housing Authority income	58,731	43,139
Less vacancy loss	(23,677)	(8,850)
	313,287	297,224
Interest income	3,402	2,448
Late charges	425	200
Damages and cleaning charges	5,202	3,528
Laundry and vending income	3,791	4,084
Solar rebate	17,296	-
Miscellaneous	700	640
TOTAL INCOME	344,103	308,124
PAYROLL AND RELATED COSTS		
On-site manager	36,439	29,250
Employee benefits	9,869	5,707
Repairs and maintenance	15,190	6,712
Office salaries	-	360
Payroll processing charges	1,227	915
Payroll taxes and workers' compensation	8,803	7,331
TOTAL PAYROLL AND RELATED COSTS	71,528	50,275
ADMINISTRATIVE		
Audit and legal	11,490	16,093
Management fee	24,893	22,154
Office	6,979	25,651
Computer	1,255	5,300
Telephone	5,217	5,245
Marketing	1,387	1,411
Compliance monitoring	6,000	9,000
Miscellaneous	1,992	2,705
TOTAL ADMINISTRATIVE COSTS	59,213	87,559
UTILITIES		
Water and sewer	22,706	14,192
Electricity	7,144	6,329
Gas	2,205	4,035
TOTAL UTILITIES	32,055	24,556

See notes to financial statements.

N.P. CESAR ASSOCIATES, L.P.,
A California Limited Partnership
CalHFA Project No. CA 2006-813

STATEMENTS OF OPERATIONS - Continued
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
OPERATING AND MAINTENANCE		
Garbage and trash removal	\$ 6,380	\$ 3,678
Grounds contract	5,805	4,500
Grounds supplies	580	40
Janitorial supplies	2,314	2,426
Exterminating	1,485	2,445
Decorating and painting	1,925	174
Security expenses	1,742	1,148
Misc. repairs and maintenance	10,598	2,468
Replacements	2,703	1,268
TOTAL OPERATING AND MAINTENANCE	33,532	18,147
 INSURANCE AND TAXES		
Real estate taxes	1,791	3,903
Property and comprehensive insurance	10,591	7,852
State income tax	800	1,600
TOTAL INSURANCE AND TAXES	13,182	13,355
 OTHER EXPENSES		
Interest	202,546	261,132
Depreciation	292,880	292,803
Amortization	6,169	5,323
Bad debt	16,888	2,977
Lease up fees	-	13,250
Asset management fee	(1,750)	1,750
Partnership management fee	(15,000)	15,000
Miscellaneous	262	252
TOTAL OTHER EXPENSES	501,995	592,487
TOTAL EXPENSES	711,505	786,379
NET LOSS	\$ (367,402)	\$ (478,255)

See notes to financial statements.

N.P. CESAR ASSOCIATES, L.P.,
A California Limited Partnership
 CalHFA Project No. CA 2006-813

STATEMENTS OF CHANGES IN PARTNERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>Total</u>	<u>Developer General Partner</u>	<u>Managing General Partner</u>	<u>Services General Partner</u>	<u>Investor Limited Partner</u>
Ownership interest	<u>100.00 %</u>	<u>0.0034 %</u>	<u>0.0033 %</u>	<u>0.0033 %</u>	<u>99.99 %</u>
BALANCE AT DECEMBER 31, 2007	\$ 1,884,722	\$ 900,028	\$ 27	\$ 27	\$ 984,640
Contributions	438,628	-	-	-	438,628
Net Loss	<u>(478,255)</u>	<u>(16)</u>	<u>(16)</u>	<u>(16)</u>	<u>(478,207)</u>
BALANCE AT DECEMBER 31, 2008	1,845,095	900,012	11	11	945,061
Contributions	1,091,556	-	-	-	1,091,556
Net Loss	<u>(367,402)</u>	<u>(13)</u>	<u>(12)</u>	<u>(12)</u>	<u>(367,365)</u>
BALANCE AT DECEMBER 31, 2009	<u>\$ 2,569,249</u>	<u>\$ 899,999</u>	<u>\$ (1)</u>	<u>\$ (1)</u>	<u>\$ 1,669,252</u>

See notes to financial statements.

**N.P. CESAR ASSOCIATES, L.P.,
A California Limited Partnership
CalHFA Project No. CA 2006-813**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Rental receipts	\$ 313,794	\$ 287,479
Bad debts	(16,888)	(2,977)
Interest receipts	3,402	2,448
Other receipts	27,414	8,452
Tenant security deposit received	(998)	(14,462)
Payroll and related costs	(72,971)	(46,331)
Administrative expenses paid	(35,783)	(69,493)
Management fees	(24,833)	(19,875)
Utilities	(32,055)	(24,556)
Operating and maintenance expenses paid	(33,532)	(22,180)
Real estate taxes paid	(1,791)	(3,903)
Income taxes paid	(800)	(800)
Insurance expenses paid	(10,653)	(23,076)
Interest paid	(133,171)	(140,166)
Lease-up fee	-	(13,250)
Tenant security deposit held	872	7,526
	NET CASH USED IN OPERATING ACTIVITIES	(17,993) (75,164)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of depreciable assets	-	(651,166)
Transfers to and from operating reserve	(735)	-
Transfers to and from insurance impound account	(26,433)	-
Transfers to replacement reserve	(23,060)	-
	NET CASH USED IN INVESTING ACTIVITIES	(50,228) (651,166)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	-	762,750
Payment of developer fee	(302,500)	(220,000)
Principal payments on long-term debt	(986,827)	(12,097)
Capital contributions from investment limited partner	1,091,556	438,628
	NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(197,771) 969,281
	NET (DECREASE) INCREASE IN CASH	(265,992) 242,951
	CASH AT BEGINNING OF YEAR	287,672 44,721
	CASH AT END OF YEAR	\$ 21,680 \$ 287,672

See notes to financial statements.

N.P. CESAR ASSOCIATES, L.P.,
A California Limited Partnership
 CalHFA Project No. CA 2006-813

STATEMENTS OF CASH FLOWS - Continued
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

CASH AND CASH EQUIVALENTS ARE COMPRISED OF:

	2009	2008
Cash on hand	\$ 200	\$ 200
Checking account	21,480	287,472
	\$ 21,680	\$ 287,672

**RECONCILIATION OF NET LOSS TO NET CASH
 USED IN OPERATING ACTIVITIES**

NET LOSS	\$ (367,402)	\$ (478,255)
<i>Adjustments to reconcile net loss to net cash used in operating activities:</i>		
Depreciation and amortization	299,049	298,126
<i>Decrease (increase) in:</i>		
Accounts receivable	1,184	(8,968)
Tenant security deposits	(998)	(14,462)
Prepaid expenses	(62)	(13,374)
<i>Increase in:</i>		
Accounts payable - trade	(2,584)	(2,696)
Prepaid rents	(677)	(777)
Tenant security deposits	872	7,526
Due to related parties	(16,750)	16,750
Accrued interest payable	69,375	120,966
	349,409	403,091
NET CASH USED IN OPERATING ACTIVITIES	\$ (17,993)	\$ (75,164)

SUPPLEMENTAL DISCLOSURES

Noncash investing and financing transactions for the years ended December 31 2009 and 2008:

Construction payables	\$ 3,679	\$ -
Fixed assets	(3,679)	-
Issuance of notes payable	-	7,093,302
Payoff of note payable	-	(6,833,040)
Funding of impound and reserve accounts	-	(260,262)
	\$ -	\$ -

See notes to financial statements.

**N.P. CESAR ASSOCIATES L.P.,
A CALIFORNIA LIMITED PARTNERSHIP**
CalHFA Project No. CA 2006-813

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization:

NP Cesar Associates L.P., a California Limited Partnership (the Partnership), organized under the laws of the State of California, was created on February 8, 2006 for the purpose of developing, constructing, and operating a rental housing project for low-income households. Cesar Chavez Plaza (the Project) consists of 52 units, plus a manager's unit, in Davis, California. The Project was placed in service during November 2007. The Partnership's maximum term will be until December 31, 2065.

The limited partner is NEF Assignment Corporation, an Illinois nonprofit public benefit corporation, and the general partners are Neighborhood Partners, LLC, New Hope Community Development Corporation, and Davis Community Meals, Inc.

Property management services are provided by the John Stewart Company, located in Sacramento, California.

Method of Accounting:

The accrual method of accounting is used and reflects revenue when earned, which may be prior to receipt; and expenses as incurred, which may be prior to payment. Rental income reflects the gross potential rent that may be earned. Vacancies are shown separately as a reduction in rental income and the contract rent applicable to the units occupied by employees of the development is shown as expense.

Cash and Cash Equivalents:

For purposes of reporting cash flows, cash and cash equivalents include unrestricted cash on hand and cash in bank.

Accounts Receivable:

It is the policy of the Partnership to expense uncollectibles only after exhausting all efforts to collect the amounts due. No allowance for doubtful accounts is used and management believes all amounts will be collected in full.

Concentration of Credit Risk:

The Partnership deposits its cash in financial institutions. At times, deposits may exceed federally insured limits. The Partnership has not experienced any losses in such accounts.

Fixed Assets:

Property and equipment are stated at cost of acquisition or construction. The cost of maintenance and repairs is charged to expense as incurred. Depreciation is computed based on the straight-line method over the estimated useful lives of the assets, which range from 5 to 40 years.

Other Assets:

Other assets consist of deferred financing costs and tax credit application fees. Tax credit application fees are amortized over ten years. The Partnership amortizes its deferred financing costs over the loan.

**N.P. CESAR ASSOCIATES L.P.,
A CALIFORNIA LIMITED PARTNERSHIP
CalHFA Project No. CA 2006-813**

**NOTES TO FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2009**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Prepaid Rent:

Prepaid rent is defined as income received prior to the performance for which the income is earned and is recorded as a liability.

Revenue Recognition:

Rental revenue attributable to residential leases is recorded when due from residents, generally upon the first day of the month. Leases are for periods of up to one year, with rental payments due monthly. Other revenue includes fees for late payments, cleaning, damages, laundry facilities and other charges and is recorded when earned.

Income Taxes:

The Partnership is a limited partnership and, accordingly, no provision is made for federal or state income taxes which are the responsibility of the individual partners. The Partnership is, however, subject to the state minimum franchise tax.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Impairment of Long-Lived Assets:

The Partnership measures impairment in accordance with FASB Statement No. 144, "*Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of*," which requires impairment losses to be recorded on specific long-lived assets used in operations where indicators of impairment are present and the undiscounted cash flows (net realizable value) estimated to be generated by those assets are less than the assets' carrying amount. The Partnership reviews its investment in long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including the low-income housing tax credits and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount exceeds fair market value as determined from an appraisal, discounted cash-flow analysis, or other valuation technique. There were no impairment losses recognized during the years ended December 31, 2009 and 2008.

**N.P. CESAR ASSOCIATES L.P.,
A CALIFORNIA LIMITED PARTNERSHIP
CalHFA Project No. CA 2006-813**

**NOTES TO FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2009**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value Measurements: As of January 1, 2009, the Partnership adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. SFAS No. 157 introduces a framework for measuring fair value and expands required disclosure about fair value measurements of certain assets and liabilities. SFAS No.157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value, whereby level 1 uses quoted prices and active markets for identical assets or liabilities when determining fair market value; level 2 uses non active quoted prices for similar assets and liabilities that can be corroborated with market data; and level 3 uses unobservable information with little or no market data. The Partnership uses the active market approach (level 1) to measure fair value for its financial assets and liabilities.

NOTE B - RESTRICTED FUNDS

Security Deposits:

Tenant security deposits are held in a separate bank account in the name of the Project and are restricted in use to payment of tenant damages, payment of delinquent rents, or refunds to tenants upon their leaving the Project.

Insurance and Tax Impound Accounts:

As required by the Regulatory Agreement with CalHFA, the Partnership is required to make monthly impound deposits to cover insurance premiums and property taxes. These restricted funds are held by CalHFA and expenditures are subject to supervision and approval by the Agency. At December 31, 2009 and 2008, the Partnership had \$50,762 and \$24,329, respectively in insurance and impound accounts.

Reserve for Replacements:

The Partnership is required to establish a reserve for replacements in accordance with the CalHFA Regulatory Agreement. Reserve for replacements are held in a separate bank account in the name of the Project and are restricted in use to replace fixed assets. At December 31, 2009 and 2008, the Partnership had \$189,528 and \$166,468, respectively, in a reserve for replacements.

Reserve for Operations:

The Partnership is required to establish an operating reserve in accordance with the CalHFA Regulatory Agreement, NEF and the LPA. At December 31, 2009 and 2008, the partnership had \$70,200 and \$69,465, respectively, in a reserve for operations

**N.P. CESAR ASSOCIATES L.P.,
A CALIFORNIA LIMITED PARTNERSHIP
CalHFA Project No. CA 2006-813**

**NOTES TO FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2009**

NOTE C - LONG-TERM DEBT

Notes payable consisted of the following outstanding obligations:

	<u>2009</u>	<u>2008</u>
Note payable to CalHFA (perm loan), dated in April 18, 2008, total amount of credit granted, \$765,000. The note bears a rate of interest at 3% per annum, with the final payment due in May 2033. As separately stated, accrued interest on this obligation was \$1,829 and \$1,882 at December 31, 2009 and 2008, respectively.	\$731,667	\$752,903
Note payable to CalHFA (bridge loan), dated April 18, 2008, total amount of credit granted, \$3,000,000. The note bears a rate of interest at 3% per annum, with the final payment due in May 2011. As separately stated, accrued interest on this obligation was \$40,688 and \$63,750 at December 31, 2009 and 2008, respectively.	2,034,409	3,000,000
Note payable to Department of Housing and Community Development, dated April 17, 2008, total amount of credit granted, \$3,382,682. The note bears a rate of interest at 3% per annum. The Partnership will make annual principal payments of .42% per annum on the unpaid principal amount until the 29 th anniversary. Commencing on the 30 th anniversary, the Partnership will make annual payments in an amount equal to the lesser of the full amount of interest accrued or the amount determined by the lender. As separately stated, accrued interest on this obligation was \$152,372 and \$71,882 at December 31, 2009 and 2008, respectively.	3,382,682	3,382,682
Note payable to the Redevelopment Agency of the City of Davis, dated October 26, 2005, total amount of credit granted, \$400,000. The note bears simple interest at 3% per annum. The Partnership will make annual principal and interest payments of 11% of residual cash flow (as defined in the note) until the note is due and payable in full in October 26, 2061. The note is secured by a deed of trust. As separately stated, accrued interest on this obligation was \$40,500 and \$28,500 at December 31, 2009 and 2008, respectively.	400,000	400,000

**N.P. CESAR ASSOCIATES L.P.,
A CALIFORNIA LIMITED PARTNERSHIP
CalHFA Project No. CA 2006-813**

**NOTES TO FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2009**

NOTE C - LONG-TERM DEBT-Continued

	<u>2009</u>	<u>2008</u>
Note payable to River City Bank of Sacramento, dated June 30, 2006, non-interest bearing, no payments required, the entire note will be forgiven if the Partnership complies with the terms of the agreement and the note is secured by a deed of trust on the Partnership's real property.	<u>477,000</u>	<u>477,000</u>
Total long-term debt	7,025,758	8,012,585
Less: current portion	<u>1,021,591</u>	<u>1,000,529</u>
Long-term portion	<u>\$ 6,004,167</u>	<u>\$ 7,012,056</u>

NOTE D - TRANSACTION WITH AFFILIATES AND RELATED PARTIES

a. General Partners:

The Partnership has a contractual, creditor and agency relationship with Neighborhood Partners, LLC the Project developer (see Note A) and New Hope Community Development Corporation, and Davis Community Meals, Inc. The Partnership owed \$477,500 and \$780,000 in development fees at December 31, 2009 and 2008, remaining on a development fee agreement totaling \$1,200,000.

b. NEF Assignment Corporation:

As part of the first amended and restated limited partnership agreement dated as of February 8, 2006 Article III, Section 3.2, contains the provision for required capital contributions by the "Investor Limited Partner", NEF Assignment Corporation.

The total capital contribution to be made by NEF Assignment Corporation is \$4,978,146. As of December 31, 2009, a total of \$2,702,114 of capital contributions had been received in performance of the funding requirements. Total capital contributions were also adjusted downward by \$154,850, due to a reduction in tax credits delivered to the Investor Limited Partner, leaving remaining expected capital contributions of \$2,121,182.

NOTE E - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Partnership's principal asset is the construction of Cesar Chavez Plaza, a multi-family apartment building. The Partnership's operations are concentrated in the low-income housing real estate market. In addition, the Partnership operates in a heavily regulated environment. The operations of the Partnership are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to TCAC (see Note A). Such administrative directives, rules and regulations are subject to change by an Act of the United States Congress or an administrative change mandated by the TCAC. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

**N.P. CESAR ASSOCIATES L.P.,
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**NOTES TO FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2009**

NOTE F - LOW-INCOME HOUSING TAX CREDITS

The Partnership was awarded an aggregate of \$451,188 of federal low-income housing tax credits ("Tax Credits") annually for 10 years. Generally, the Tax credits become available for use by its partners on a pro-rated basis over the applicable periods, which began in 2007. In order to qualify for such Tax credits, the project must comply with various federal compliance and state agency regulatory requirements. These requirements include, but are not limited to, renting to low-income tenants at rental rates which do not exceed specified percentages of area median gross income for the first 15 years of operation of the Project. Because the Tax Credits are subject to complying with certain requirements, there can be no assurance that the aggregate amount of Tax Credits will be realized and failure to meet all such requirements may result in generating a lesser amount of Tax Credits than the expected amount.

NOTE G - COMMITMENTS AND CONTINGENCIES

a. Development Agreement:

The Partnership has entered into a development agreement with the General Partner (see Note A and C) dated August 16, 2006. The contract encumbers the Partnership to pay the General Partner \$1,200,000, payable on a percentage basis upon completion of certain benchmarks in accordance with the agreement. As of December 31, 2009 and 2008, \$477,500 and \$780,000, respectively, was owed under this agreement. The Partnership may defer payment of the developer fee based on insufficient cash flow as outlined in the agreement.

b. Property Management Agreement:

The Partnership entered into an agreement with the John Stewart Company to provide property management services for a fee of \$2,074 per month. The term of the agreement is one year and renews annually by mutual consent of the parties.

c. ASSET MANAGEMENT FEE

Pursuant to the Partnership Agreement, the Partnership shall pay to the Limited Partner a fee equal to \$1,750 annually, to be increased annually by 3% on a non-cumulative basis. The Asset Management Fee shall be payable only from Excess Cash and will not accrue unless Excess Cash is available. As of December 31, 2009 and 2008 the Partnership accrued an Asset Management Fee payable in the amount of \$0 and \$1,750, respectively. Additionally the Partnership reversed the fees recorded in 2008 as such fees were only payable from excess cash flow, of which there was none.

d. PARTNERSHIP MANAGEMENT FEE

Pursuant to the Partnership Management Agreement, the Partnership shall pay to the General Partner, in arrears, a management services fee equal to \$15,000 to be increased annually by 3%. The Fee shall be payable only out of Excess Cash and will not accrue unless Excess Cash is available. As of December 31, 2009 and 2008 the Partnership accrued a Partnership Management Fee payable in the amount of \$0 and \$15,000, respectively. Additionally the Partnership reversed the fees recorded in 2008 as such fees were only payable from excess cash flow, of which there was none.

**N.P. CESAR ASSOCIATES L.P.,
A CALIFORNIA LIMITED PARTNERSHIP
CalHFA Project No. CA 2006-813**

**NOTES TO FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2009**

NOTE G - COMMITMENTS AND CONTINGENCIES-Continued

c. Incentive Partnership Fee:

Pursuant to the Partnership Agreement, the Partnership is obligated to pay to the general partner an incentive partnership management fee equal to (95%) of the Excess Cash remaining after all required uses as set forth in Section 5.1(a)(u)-(ix) for the calendar year. The Incentive Fee will not accrue and will not accumulate interest to the extent that there is not sufficient Excess Cash to pay such fee. As of December 31, 2009 and 2008, no fee had been earned under this agreement.

NOTE H - INCOME TAXES - RECONCILIATION OF BOOK INCOME TO TAX INCOME

	<u>2009</u>	<u>2008</u>
Net loss per books	\$ (367,402)	\$ (478,255)
Add:		
Interest Expense	-	50,025
Less:		
Rental income	(677)	(777)
Additional depreciation claimed for tax purposes	(22,065)	(52,749)
Additional amortization claimed for tax purposes	<u>(7,813)</u>	<u>(7,813)</u>
Net loss for income tax purposes	\$ <u>(397,957)</u>	\$ <u>(489,569)</u>

SUPPLEMENTAL INFORMATION

**N.P. CESAR ASSOCIATES L.P.,
A CALIFORNIA LIMITED PARTNERSHIP**
CalHFA Project No. CA 2006-813

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2009

DISTRIBUTION OF CASH FLOW

Total income	\$ 344,103
Less: operating expenses	(209,510)
Less: replacement reserve	(51,545)
Less: principal and interest payments on CalHFA loan	<u>(64,342)</u>
Net cash flow	\$ <u>18,706</u>

During 2009, there were no distributions of cash flow.

CASH ON HAND AND IN BANK

Unrestricted Accounts	
Checking account	\$ <u>21,680</u>
Restricted Accounts	
Tenant security deposits	\$ 25,051
Tax and insurance impounds (CalHFA)	50,762
Reserve for replacements	189,528
Reserve for operations	<u>70,200</u>
	<u>\$335,541</u>

TENANT SECURITY DEPOSITS

Tenant security deposits are maintained in separate accounts and interest earned on these deposits is credited to a liability account to be refunded or applied for the benefit of tenants. There was no interest earned during 2009.

The balance of the bank account at December 31, 2009 was the same as the liability account, as follows:

Tenant security deposits	\$ 25,051
Tenant security deposits held at bank	<u>25,051</u>
Difference	\$ <u>-</u>

**N.P. CESAR ASSOCIATES L.P.,
A CALIFORNIA LIMITED PARTNERSHIP
CalHFA Project No. CA 2006-813**

SUPPLEMENTARY INFORMATION REQUIRED BY CalHFA

DECEMBER 31, 2009

ACCOUNTS RECEIVABLE

Tenant accounts receivable at December 31, 2009
were as follows:

Delinquent 30 days	\$ 8,851
Delinquent 31 - 60 days	-
Delinquent 60 - 90 days	-
90+	<u>-</u>
	\$ <u>8,851</u>

INSURANCE IMPOUND ACCOUNTS

Balance, beginning of year	\$ 15,011
Monthly deposits	<u>10,596</u>
Balance, end of year	\$ <u>25,607</u>

PROPERTY TAX IMPOUND ACCOUNT

Balance, beginning of year	\$ 9,318
Monthly deposits	19,633
Disbursements	<u>(3,796)</u>
Balance, end of year	\$ <u>25,155</u>

RESERVE FOR REPLACEMENTS

In accordance with the provisions of the regulatory agreement, restricted cash is held by CalHFA to be used for replacements of property with the approval of CalHFA, as follows:

Balance, beginning of year	\$ 166,468
Monthly deposits	20,235
Interest	<u>2,825</u>
Balance, end of year	\$ <u>189,528</u>

OPERATING RESERVE

Balance, beginning of year	\$ 69,465
Interest	<u>735</u>
Balance, end of year	\$ <u>70,200</u>

**N.P. CESAR ASSOCIATES L.P.,
A CALIFORNIA LIMITED PARTNERSHIP
CalHFA Project No. CA 2006-813**

SUPPLEMENTARY INFORMATION REQUIRED BY CalHFA

DECEMBER 31, 2009

ACCOUNTS PAYABLE & ACCRUED EXPENSES

Accounts payable and accrued expenses consist of amounts payable to suppliers, which are being paid on a current basis, accrued salaries and benefits, construction payables and management fees.

GROSS POTENTIAL RENTS

Gross potential rents include:

Tenant	\$ 336,964
Vacancy	(23,677)
Total gross potential rents	\$ <u>313,287</u>

FIXED ASSETS

Following are the details of fixed assets:

	<u>Land</u>	Land Improvements	Buildings and Improvements	Furniture and Equipment	<u>Total</u>
Balance, beginning of year	\$ 900,000	\$ 704,568	\$ 8,715,334	\$ 163,024	\$ 10,482,925
Additions 2009	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance, end of year	\$ <u>900,000</u>	\$ <u>704,567</u>	\$ <u>8,715,334</u>	\$ <u>163,024</u>	\$ <u>10,482,925</u>

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**The Partners
N.P. Cesar Associates L.P.,
A California Limited Partnership
CalHFA Project No. CA 2006-813**

We have audited the financial statements of N.P. Cesar Associates L.P., a California Limited Partnership as of and for the year ended December 31, 2009, and have issued our report thereon dated February 8, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance

Compliance with laws, regulations, contracts and grants applicable to the Partnership is the responsibility of the Partnership's management. As part of obtaining reasonable assurance about whether N.P. Cesar Associates L.P., a California Limited Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

The management of the Partnership is responsible for establishing and maintaining effective internal control. In planning and performing our audit, we considered N.P. Cesar Associates L.P., a California Limited Partnership's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the partners, management, others within the company, and the CalHFA and should not be used by anyone other than these specified parties.

Rancho Cordova, California
February 8, 2010

**N.P. CESAR ASSOCIATES L.P.,
A CALIFORNIA LIMITED PARTNERSHIP
CalHFA Project No. CA 2006-813**

SUPPLEMENTARY INFORMATION REQUIRED BY CalHFA

DECEMBER 31, 2009

SCHEDULE OF AUDIT FINDINGS, COMMENTS AND RECOMMENDATIONS

FINDINGS, COMMENTS AND RECOMMENDATIONS:

None.

**N.P. CESAR ASSOCIATES L.P.,
A CALIFORNIA LIMITED PARTNERSHIP
CalHFA Project No. CA 2006-813**

SUPPLEMENTARY INFORMATION REQUIRED BY CalHFA

DECEMBER 31, 2009

PARTNERS' CERTIFICATION

As Principal of Neighborhood Partners, LLC the authorized representative for N.P. Cesar Associates L.P., a California Limited Partnership, I hereby certify that I have examined the accompanying financial statements and supplemental data of Cesar Associates L.P., a California Limited Partnership, as of and for the year ended December 31, 2009, and to the best of our knowledge and belief, these financial statements and data are complete and accurate.

Luke Watkins, Principal
Neighborhood Partners, LLC its authorized
representative for Cesar Associates L.P.,
a California Limited Partnership

Date

Partnership Employer
Identification Number:
68-0181576

February 25, 2010

KPMG LLP
c/o Year End Reporting Department
120 S. Riverside Plaza, 15th Floor.
Chicago, Illinois 60606-3908

Ladies and Gentlemen:

We have audited the financial statements of N.P. Cesar Associates L.P., a California Limited Partnership (the Partnership) as of and for the year ended December 31, 2009, and have issued our report thereon dated February 8, 2010. We have been asked to furnish you with the following information because you will express an opinion on the financial statements of NEF Assignment Corporation as of and for the year ended December 31, 2009 and because certain information in the financial statements of the Partnership will be used in the financial statements of NEF Assignment Corporation. We have not performed any procedures directed solely toward identifying matters that might affect your report or your audit of the financial statements of NEF Assignment Corporation.

We are familiar with Rule 1-01 of the American Institute of Certified Public Accountants (AICPA) Code of Professional conduct and the related Interpretations of the AICPA Executive Committee on Professional Ethics relating to qualifications of accountants. As far as the Partnership is concerned, our Firm has been, for the period covered by the financial statements under report and thereafter to date, in fact independent as contemplated by such requirements.

We are familiar with the provisions of section 42 of the Internal Revenue Code.

We are in compliance with the AICPA requirements for peer review. Attached is a copy of our latest peer review report.

We are aware that (a) NEF Assignment Corporation equity in the Partnership as of and for the year ended December 31, 2009, based on the financial statements of the Partnership which we have been engaged to audit, will be included in the financial statements of NEF Assignment Corporation for the year ended December 31, 2009, and (b) our report on our audit of the financial statements of the Partnership will be referred to by you as a basis, in part, for your report on your audit of the financial statements of NEF Assignment Corporation.

Very truly yours,

WILLIAMS & OLDS
Certified Public Accountants

James B. Williams, CPA

February 25, 2010

Luke Watkins
Principal
Neighborhood Partners, LLC
2745 Portage Bay East
Davis, CA 95616

Dear Luke:

Please find enclosed one bound copy and one stapled copy of the financial statements for N.P. Cesar Associates L.P. for the year ended December 31, 2009 and our audit report thereon.

Please be sure to call if you have any questions.

Sincerely,

WILLIAMS & OLDS
Certified Public Accountants

James B. Williams, CPA

JBW:km
enclosures