

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from        to

Commission File Number: 000-24843

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction  
of incorporation or organization)

1004 Farnam Street, Suite 400 Omaha, Nebraska  
(Address of principal executive offices)

47-0810385  
(I.R.S. Employer  
Identification No.)

68102  
(Zip Code)

(402) 444-1630

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2 of the Exchange Act).

YES  NO

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AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

INDEX

[PART I — FINANCIAL INFORMATION](#)

[Item 1. Financial Statements](#)

[Consolidated Balance Sheets as of September 30, 2004 and December 31, 2003](#)

1

[Consolidated Statements of Operations and Comprehensive Income \(Loss\) for the three and nine months ended September 30, 2004 and 2003](#)

2

[Consolidated Statement of Partners' Capital for the nine months ended September 30, 2004](#)

3

[Consolidated Statements of Cash Flows for the nine months ended September 30, 2004 and 2003](#)

4

[Notes to Consolidated Financial Statements](#)

5

[Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations](#)

16

[Item 3. Quantitative and Qualitative Disclosures About Market Risk](#)

25

[Item 4. Controls and Procedures](#)

27

[PART II — OTHER INFORMATION](#)

[Item 6. Exhibits](#)

29

[SIGNATURES](#)

30

[Certification of CEO Pursuant to Section 302](#)

[Certification of CFO Pursuant to Section 302](#)

[Certification of CEO Pursuant to Section 906](#)

[Certification of CFO Pursuant to Section 906](#)

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**PART I — FINANCIAL INFORMATION****Item 1. Financial Statements.**

## AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

	Sept. 30, 2004	Dec. 31, 2003
<b>Assets</b>		
Cash and cash equivalents		
Unrestricted	\$ 2,229,906	\$ 3,297,108
Restricted (Note 9)	4,771,531	204,135
Interest receivable (Note 9)	220,526	1,068,900
Investments in tax-exempt mortgage revenue bonds, at estimated fair value (Amortized cost of \$17,700,000 and \$134,496,000, respectively) (Note 9)	16,037,470	139,197,520
Investment in other tax-exempt bond, at estimated fair value (Amortized cost of \$3,900,000 and \$3,900,000, respectively)	3,920,428	3,870,321
Taxable loans, net of allowance for loan loss reserve (Note 9)	—	6,523,673
Investments in real estate, net of accumulated depreciation (Note 9)	90,610,849	—
Other assets	1,423,991	1,392,160
	<u>\$119,214,701</u>	<u>\$155,553,817</u>
<b>Liabilities and Partners' Capital</b>		
<b>Liabilities</b>		
Accounts payable, accrued expenses and other liabilities (Note 9)	\$ 7,845,588	\$ 385,787
Distribution payable	1,341,536	1,341,536
Short-term financing	—	9,000,000
Bond payable	19,043,000	—
Debt financing	62,330,000	67,495,000
	<u>90,560,124</u>	<u>78,222,323</u>
<b>Partners' Capital</b>		
General Partner	15,129	61,320
Beneficial Unit Certificate (BUC) holders	72,697,192	77,270,174
Unallocated deficit of variable interest entities (Note 9)	(44,057,744)	—
	<u>28,654,577</u>	<u>77,331,494</u>
	<u>\$119,214,701</u>	<u>\$155,553,817</u>

The accompanying notes are an integral part of the consolidated financial statements.

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)  
(UNAUDITED)

	For the Three Months Ended Sept. 30, 2004	For the Three Months Ended Sept. 30, 2003	For the Nine Months Ended Sept. 30, 2004	For the Nine Months Ended Sept. 30, 2003
<b>Income</b>				
Rental income (Note 9)	\$ 4,790,684	\$ —	\$ 14,487,435	\$ —
Real estate operating expenses (Note 9)	(3,162,108)	—	(8,739,099)	—
Depreciation expense (Note 9)	(1,015,475)	—	(3,078,493)	—
Income from rental operations	<u>613,101</u>	<u>—</u>	<u>2,669,843</u>	<u>—</u>
<b>Other income</b>				
Mortgage revenue bond investment income	253,852	2,210,037	655,137	6,548,147
Other bond investment income	80,438	80,438	241,313	241,312
Other interest income	10,511	26,031	50,355	85,196
	<u>344,801</u>	<u>2,316,506</u>	<u>946,805</u>	<u>6,874,655</u>
<b>Other expenses</b>				
Interest expense	998,849	(36,394)	1,765,540	1,375,765
Amortization expense	10,784	12,380	176,807	35,774
Hurricane related expenses	803,960	—	803,960	—
General and administrative expenses	508,670	272,058	1,185,707	857,197
	<u>2,322,263</u>	<u>248,044</u>	<u>3,932,014</u>	<u>2,268,736</u>
Income (loss) before cumulative effect of a change in accounting principle	(1,364,361)	2,068,462	(315,366)	4,605,919
Cumulative effect of a change in accounting principle (Note 9)	—	—	(38,023,001)	—
Net income (loss)	(1,364,361)	2,068,462	(38,338,367)	4,605,919
<b>Other comprehensive income (loss)</b>				
Cumulative effect of a change in accounting principle (Note 9)	—	—	(5,855,299)	—
Net unrealized holding gains (losses) on securities arising during the period	291,462	—	(458,644)	—
	<u>291,462</u>	<u>—</u>	<u>(6,313,943)</u>	<u>—</u>
Comprehensive income (loss)	<u>\$ (1,072,899)</u>	<u>\$ 2,068,462</u>	<u>\$ (44,652,310)</u>	<u>\$ 4,605,919</u>
<b>Net income (loss) allocated to:</b>				
General Partner	\$ 9,405	\$ 20,685	\$ 57,194	46,059
BUC holders	930,982	2,047,777	5,662,183	4,559,860
Unallocated deficit of variable interest entities (Note 9)	(2,304,748)	—	(44,057,744)	—
	<u>\$ (1,364,361)</u>	<u>\$ 2,068,462</u>	<u>\$ (38,338,367)</u>	<u>\$ 4,605,919</u>
Net income, basic and diluted, per BUC	<u>\$ 0.09</u>	<u>\$ 0.21</u>	<u>\$ 0.58</u>	<u>\$ 0.46</u>
Weighted average number of BUCs outstanding, basic and diluted	<u>9,837,928</u>	<u>9,837,928</u>	<u>9,837,928</u>	<u>9,837,928</u>

The accompanying notes are an integral part of the consolidated financial statements.

## AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004  
(UNAUDITED)

	General Partner	Beneficial Unit Certificate holders		Unallocated deficit of variable interest entities	Total
		# of BUCs	Amount		
Partners' Capital (excluding accumulated other comprehensive income)					
Balance at December 31, 2003	\$ 14,602	9,837,928	\$72,645,051	\$ —	\$ 72,659,653
Net loss	57,194	—	5,662,183	(44,057,744)	(38,338,367)
Cash distributions paid or accrued	(40,246)	—	(3,984,361)	—	(4,024,607)
Balance at September 30, 2004	<u>31,550</u>	<u>9,837,928</u>	<u>74,322,873</u>	<u>(44,057,744)</u>	<u>30,296,679</u>
Accumulated Other Comprehensive Income					
Balance at December 31, 2003	46,718	—	4,625,123	—	4,671,841
Other comprehensive loss	(63,139)	—	(6,250,804)	—	(6,313,943)
Balance at September 30, 2004	<u>(16,421)</u>	<u>—</u>	<u>(1,625,681)</u>	<u>—</u>	<u>(1,642,102)</u>
Balance at September 30, 2004	<u>\$ 15,129</u>	<u>9,837,928</u>	<u>\$72,697,192</u>	<u>\$ (44,057,744)</u>	<u>\$ 28,654,577</u>

The accompanying notes are an integral part of the consolidated financial statements.

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	For the Nine Months Ended Sept. 30, 2004	For the Nine Months Ended Sept. 30, 2003
Cash flows from operating activities		
Net income (loss)	\$(38,338,367)	\$ 4,605,919
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Cumulative effect of a change in accounting principle	38,023,001	—
Depreciation expense	3,078,493	—
Amortization expense	176,807	35,774
Interest rate cap expense	421,788	445,871
Increase in restricted cash	(2,105,981)	—
Increase in interest receivable	(120,979)	(627,640)
Decrease (increase) in other assets	364,913	(193,846)
Increase in accounts payable and accrued expenses	2,048,640	18
Net cash provided by operating activities	<u>3,548,315</u>	<u>4,266,096</u>
Cash flows from investing activities		
Real estate capital improvements	(240,466)	—
Acquisition of tax-exempt mortgage revenue bonds	(3,376,752)	(8,020,000)
Bond issuance costs paid	(67,344)	(120,994)
Principal payments received on tax-exempt mortgage revenue bonds	—	75,000
Proceeds from sale of tax-exempt mortgage revenue bonds	500,000	—
Increase in taxable loans	(2,225,508)	(95,505)
RITES purchased/sold	5,000	—
Decrease in other assets	—	(43,516)
Net cash used in investing activities	<u>(5,405,070)</u>	<u>(8,161,499)</u>
Cash flows from financing activities		
Distributions paid	(4,024,607)	(4,017,094)
Acquisition of interest rate cap agreement	—	(608,000)
Principal payment on short-term financing	(9,000,000)	—
Proceeds from bond payable	19,100,000	—
Proceeds from debt financing	9,000,000	8,015,000
Principal payments on bond payable	(57,000)	—
Principal payments on debt financing	(14,165,000)	(170,000)
Bond costs paid	(547,531)	—
Debt financing costs paid	(21,487)	(38,994)
Net cash provided by financing activities	<u>284,375</u>	<u>3,180,912</u>
Decrease in cash and cash equivalents	(1,572,380)	(714,491)
Cash and cash equivalents at beginning of period		
Partnership	3,297,108	7,174,898
VIEs	505,178	—
Cash and cash equivalents at end of period	<u>\$ 2,229,906</u>	<u>\$ 6,460,407</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	<u>\$ 1,152,880</u>	<u>\$ 755,663</u>

Supplemental disclosure of non-cash investing activities:

The Company converted the balance of the taxable loan to Clarkson College (\$2,792,311) and the related interest receivable (\$30,937) into other tax-exempt bonds issued on April 1, 2004.

The accompanying notes are an integral part of the consolidated financial statements.

## [Table of Contents](#)

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004  
(UNAUDITED)

### **1. Basis of Presentation**

America First Tax Exempt Investors, L.P. (the “Partnership”) is a Delaware limited partnership formed for the primary purpose of acquiring, holding, selling and otherwise dealing with a portfolio of federally tax-exempt mortgage revenue bonds which have been issued to provide construction and/or permanent financing of multifamily residential apartments. In this Form 10-Q, the term “the Partnership” refers to America First Tax Exempt Investors, L.P. as a stand-alone entity.

The consolidated financial statements include the accounts of the Partnership and variable interest entities (“VIEs”) in which the Partnership has been determined to be the primary beneficiary. In this Form 10-Q, the term “the Company” refers to the Partnership and the VIEs on a consolidated basis. All significant transactions and accounts between the Partnership and the VIEs have been eliminated in consolidation. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accompanying interim unaudited consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted according to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading. The consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Partnership’s Annual Report on Form 10-K for the year ended December 31, 2003. Certain amounts from prior periods have been reclassified to conform to the current period presentation. In the opinion of management, all normal and recurring adjustments necessary to present fairly the financial position as of September 30, 2004, and the results of operations for all periods presented have been made. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year.

The Partnership does not presently believe that the consolidation of VIEs for reporting under GAAP will impact the Partnership’s tax status, amounts reported to BUC holders on IRS Form K-1, the Partnership’s ability to distribute tax-exempt income to BUC holders, the current level of quarterly distributions or the tax-exempt status of the underlying mortgage revenue bonds.

#### New Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities — an interpretation of ARB 51* (“FIN 46”). A modification to FIN 46 was released in December 2003 (“FIN 46R”). The Partnership is required to apply FIN 46R to variable interests in VIEs created after December 31, 2003. For variable interests in VIEs created before January 1, 2004, the interpretation was to be applied by March 31, 2004. FIN 46, as revised by FIN 46R, clarifies the application of existing accounting pronouncements to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Such entities are considered VIEs.

## Table of Contents

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004  
(UNAUDITED)

FIN 46R is a complex standard that requires significant analysis and judgment. With respect to the multifamily properties which collateralize certain of the Partnership's tax-exempt mortgage revenue bonds, management has determined that all but one of the entities which own the multifamily properties are VIEs of the Partnership. In addition, management has determined that the Partnership is the primary beneficiary of such VIEs pursuant to the terms of each tax-exempt mortgage revenue bond and the criteria within FIN 46R. Therefore, the Partnership is required to consolidate the assets, liabilities and results of each VIE's multifamily property into the Partnership's financial statements. Because each of the VIEs required to be consolidated was created before January 1, 2004, the assets and liabilities of the VIEs have initially been measured at their carrying amounts with the net amount added to the balance sheet being recognized as the cumulative effect of a change in accounting principle.

The Partnership has elected to implement FIN 46R as of January 1, 2004 so as to provide a consistent presentation in all financial statements throughout 2004. As of January 1, 2004, the Company recorded a \$38.0 million loss on the cumulative effect of a change in accounting principle as a result of recording the net deficit allocable to the Partnership's variable interest in the VIEs. As of January 1, 2004, the Company recorded net assets of these VIEs, before related applicable elimination entries, consisting primarily of \$2.5 million in restricted cash, \$0.5 million in unrestricted cash, \$93.5 million in investments in real estate, \$2.6 million in other assets, \$3.7 million in accounts payable and accrued expenses, \$10.7 million in notes and interest payable and the \$122.5 million in bonds payable. See Note 9 for further discussion.

The following updates the Company's accounting policies as a result of the consolidation of VIEs:

### *Cash Equivalents*

Cash equivalents include highly liquid securities and investments in federally tax-exempt securities with original maturities of three months or less when purchased. Restricted cash and cash equivalents, which are legally restricted to use, are comprised of resident security deposits, required maintenance reserves, escrowed funds and collateral for interest rate cap agreements. In addition, the Company must maintain unencumbered cash of \$609,000 per the related collateral agreements.

### *Investments in Real Estate*

The Company's investments in real estate are carried at cost less accumulated depreciation. Depreciation of real estate is based on the estimated useful life of the related asset, generally 27-1/2 years on multifamily residential apartment buildings and five to fifteen years on capital improvements and is calculated using the straight-line method. Maintenance and repairs are charged to expense as incurred, while significant improvements, renovations and replacements are capitalized.

Management reviews each property for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value of a property may not be recoverable. The review of recoverability is based upon comparing the net book value of each real estate property to the sum of its estimated undiscounted future cash flows. If impairment exists due to the inability to recover the carrying value of a property, an impairment loss is recorded to the extent that the carrying value of the property exceeds its estimated fair value. There were no impairment losses incurred and recorded for the nine months ended September 30, 2004.

[Table of Contents](#)

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004  
(UNAUDITED)

*Revenue Recognition on Investments in Real Estate*

The Partnership's VIEs are lessors of multifamily rental units under operating leases with terms of one year or less. Rental revenue is recognized as earned, net of rental concessions, which approximates the straight-line method over the related lease term.

**2. Partnership Income, Expenses and Cash Distributions**

The Agreement of Limited Partnership of the Partnership contains provisions for the distribution of Net Interest Income, Net Residual Proceeds and Liquidation Proceeds (as defined in the Agreement of Limited Partnership) and for the allocation of income and loss from operations and allocation of income and loss arising from a repayment, sale or liquidation.

The unallocated deficit of the VIEs is primarily comprised of the accumulated historical net losses of the VIEs as of January 1, 2004 (FIN 46R implementation date) and the VIEs' net loss for the nine months ended September 30, 2004. The cumulative effect of the change in accounting principle excluding the reversal of the allowance for loan losses related to losses recorded on the Partnership's balance sheet prior to the adoption of FIN 46R, as well as the losses recognized by the VIEs are not allocated to the General Partner and BUC holders.

The Partnership plans to make cash distributions on a quarterly basis; however, distributions may be made on a monthly or semiannual basis if the General Partner so elects.

**3. Investments in Tax-Exempt Bonds**

The Company had the following investments in tax-exempt mortgage revenue and other tax-exempt bonds as of September 30, 2004:

	September 30, 2004			
	Cost	Unrealized Gain	Unrealized Loss	FMV
<b>Tax-exempt mortgage revenue bonds</b>				
Chandler Creek	\$11,500,000	\$ —	\$(1,662,530) <sup>(1)</sup>	\$ 9,837,470
Clarkson College	6,200,000	—	—	6,200,000
	<u>\$17,700,000</u>	<u>\$ —</u>	<u>\$(1,662,530)</u>	<u>\$16,037,470</u>
<b>Other tax-exempt bond</b>				
Museum Towers	\$ 3,900,000	\$ 20,428	\$ —	\$ 3,920,428

<sup>(1)</sup> The tax-exempt mortgage revenue bond for Chandler Creek has been in an unrealized loss position for less than one year.



[Table of Contents](#)

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2004  
 (UNAUDITED)

The Partnership had the following investments in tax-exempt mortgage revenue and other tax-exempt bonds as of December 31, 2003:

	December 31, 2003			
	Cost	Unrealized Gains	Unrealized Losses	FMV
<b>Tax-exempt mortgage revenue bonds</b>				
Ashley Pointe at Eagle Crest	\$ 6,700,000	\$ 236,733	\$ —	\$ 6,936,733
Ashley Square	6,500,000	589,777	—	7,089,777
Bent Tree Apartments	11,130,000	549,121	—	11,679,121
Chandler Creek Apartments	12,000,000	—	(1,153,779)	10,846,221
Clear Lake Colony Apartments	16,000,000	394,696	—	16,394,696
Fairmont Oaks Apartments	7,995,000	—	(63,677)	7,931,323
Iona Lakes Apartments	16,835,000	—	(145,677)	16,689,323
Lake Forest Apartments	10,510,000	—	(29,671)	10,480,329
Northwoods Lake Apartments	25,250,000	2,291,058	—	27,541,058
Woodbridge Apts. of Bloomington III	12,600,000	1,187,200	—	13,787,200
Woodbridge Apts. of Louisville II	8,976,000	845,739	—	9,821,739
	<u>\$134,496,000</u>	<u>\$6,094,324</u>	<u>\$(1,392,804)</u>	<u>\$139,197,520</u>
<b>Other tax-exempt bond</b>				
Museum Towers	\$ 3,900,000	\$ —	\$ (29,679)	\$ 3,870,321

**4. Investments in Real Estate**

The Company's investments in real estate as of September 30, 2004 are comprised of the following:

Property Name	Location	Number of Units	Land	Buildings and Improvements	Carrying Value at Sept. 30, 2004
Ashley Point at Eagle Crest	Evansville, IN	150	\$ 321,489	\$ 5,924,630	\$ 6,246,119
Ashley Square	Des Moines, IA	144	650,000	5,865,440	6,515,440
Bent Tree Apartments	Columbia, SC	232	986,000	11,022,407	12,008,407
Clear Lake Colony Apartments	West Palm Beach, FL	316	3,000,000	13,169,847	16,169,847
Fairmont Oaks Apartments	Gainesville, FL	178	850,400	7,825,725	8,676,125
Iona Lakes Apartments	Ft. Myers, FL	350	1,900,000	15,729,856	17,629,856
Lake Forest Apartments	Daytona Beach, FL	240	1,396,800	10,258,822	11,655,622
Northwoods Lake Apartments	Duluth, GA	492	3,787,500	21,653,946	25,441,446
Woodbridge Apts. of Bloomington III	Bloomington, IN	280	656,346	9,989,637	10,645,983
Woodbridge Apts. of Louisville II	Louisville, KY	190	519,520	7,233,714	7,753,234
					122,742,079
Less accumulated depreciation					(32,131,230)
Balance at end of period					<u>\$ 90,610,849</u>

The Company had no recorded investments in real estate prior to the implementation of FIN 46R on January 1, 2004.

## Table of Contents

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004  
(UNAUDITED)

### **5. Bonds Payable**

In June 2004, the terms of \$25,250,000 of tax-exempt mortgage revenue bonds, for which the Partnership held an investment in and thus were previously eliminated in the VIE consolidation, were restructured to reduce the base interest rate from 7.5% to 5.0% and create two separate issue series, Series A for \$19,100,000 and Series B for \$6,150,000. The Series B bonds are subordinate to the Series A bonds. The Partnership subsequently sold \$19,100,000 (Series A) of its investment in the tax-exempt mortgage revenue bonds and used a portion of the proceeds to repay \$14,000,000 in debt financing. The \$19,043,000 in bond payable included in the consolidated balance sheet as of September 30, 2004 is an obligation of a consolidated VIE which owns the property securing the bonds. The Partnership's investment in the Series B bonds for \$6,150,000 and the VIEs' related bonds payable eliminate in consolidation. The bonds mature in June 2034.

### **6. Debt Financing**

The Company's debt financing bears interest at a weekly floating bond rate plus remarketing, credit enhancement, liquidity and trustee fees, which averaged 1.91% in the aggregate for the nine months ended September 30, 2004 and 2003.

### **7. Related Party Transactions**

The General Partner is entitled to receive an administrative fee from the Partnership up to 0.45% of the outstanding principal balance of any tax-exempt mortgage revenue bond or other mortgage investment, unless the owner of the property financed by such tax-exempt mortgage revenue bond or other mortgage investment or another third party is required to pay such administrative fee. For the three and nine month periods ended September 30, 2004, the Partnership's administrative fees to the General Partner were \$25,538 and \$62,582, respectively. For the three and nine month periods ended September 30, 2003, the Partnership's administrative fees to the General Partner were \$4,387 and \$13,162, respectively. The Partnership may become obligated to pay additional administrative fees to the General Partner in the event the Partnership acquires additional tax-exempt mortgage revenue bonds or other mortgage investments and is not able to negotiate the payment of these fees by the property owners or in the event the Partnership acquires title to any of the properties securing its existing tax-exempt mortgage revenue bonds by reason of foreclosure. Additionally, the General Partner received administrative fees of \$77,882 and \$233,419 for the three and nine month periods ended September 30, 2004, respectively, and \$78,206 and \$225,666 for the three and nine month periods ended September 30, 2003, respectively, from the owners of properties financed by the tax-exempt mortgage revenue bonds held by the Partnership. These administrative fees are payable by the property owners prior to the payment of any contingent interest on the tax-exempt mortgage revenue bonds secured by the respective properties.

The General Partner remains entitled to receive approximately \$359,000 in administrative fees from the Partnership for the year ended December 31, 1989. The payment of these fees, which has been deferred by the General Partner, is contingent upon, and will be paid only out of future profits realized by the Partnership from the disposition of any Partnership assets. These deferred fees will be recorded as an expense by the Partnership when it is probable that these fees will be paid.

An affiliate of the General Partner was retained to provide property management services for Ashley Pointe at Eagle Crest, Ashley Square, Bent Tree Apartments, Clear Lake Colony Apartments, Chandler Creek Apartments (beginning in February 2004), Fairmont Oaks Apartments, Iona Lakes Apartments, Lake Forest Apartments, and Northwoods Lake Apartments. The management fees paid by the property owners to the

## [Table of Contents](#)

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004  
(UNAUDITED)

affiliate of the General Partner amounted to \$173,201 and \$512,492 for the three and nine month periods ended September 30, 2004, respectively, and \$152,588 and \$465,961 for the three and nine month periods ended September 30, 2003. These property management fees are paid by the respective properties prior to the payment of any interest on the tax-exempt mortgage revenue bonds and taxable loans held by the Partnership on these properties.

### **8. Interest Rate Cap Agreements**

The Partnership has entered into three derivative agreements in order to mitigate its exposure to interest rates on its variable-rate debt financing.

On July 1, 2002, the Partnership purchased an interest rate cap from Bear Stearns Financial Products, Inc. The interest rate cap was purchased at a \$489,000 premium, has a cap on the floating rate index of 3.0%, has a notional amount of \$20,000,000 and expires on July 1, 2006. It caps the floating rate index (the BMA Municipal Index) at 3.0%, so the maximum interest rate to be paid on \$20,000,000 of debt financing is 3.0% plus remarketing, credit enhancement, liquidity and trustee fees which aggregate to approximately 90 basis points. As of September 30, 2004, the fair value of this interest rate cap is \$25,992.

On November 1, 2002, the Partnership purchased a convertible interest rate cap from Bank of America. The convertible interest rate cap was purchased at a \$250,000 premium, has a cap on the floating rate index of 3.0%, has a notional amount of \$10,000,000 and expires on November 1, 2007. It caps the floating rate index at 3.0%, so the maximum interest rate to be paid on \$10,000,000 of debt financing is 3.0% plus remarketing, credit enhancement, liquidity and trustee fees which aggregate to approximately 90 basis points. If the floating rate index declines to a level where Bank of America elects to exercise its option, the convertible cap would be converted to a fixed rate swap and the Partnership's interest expense would be converted to a fixed rate of 2.6% plus remarketing, credit enhancement, liquidity and trustee fees which aggregate to approximately 90 basis points for the remaining term of the agreement. As of September 30, 2004, the fair value of this interest rate cap is \$6,078.

On February 1, 2003, the Partnership purchased a convertible interest rate cap from Bank of America. The convertible interest rate cap was purchased at a \$608,000 premium, has a cap on the floating rate index of 3.50%, has a notional amount of \$15,000,000 and expires on January 1, 2010. It caps the floating rate index at 3.50%, so the maximum interest rate to be paid on \$15,000,000 of debt financing is 3.50% plus remarketing, credit enhancement, liquidity and trustee fees which aggregate to approximately 90 basis points. If the floating rate index declines to a level where Bank of America elects to exercise its option, the convertible cap would be converted to a fixed rate swap and the Partnership's interest expense would be converted to a fixed rate of 2.95% plus remarketing, credit enhancement, liquidity and trustee fees which aggregate to approximately 90 basis points for the remaining term of the agreement. As of September 30, 2004, the fair value of this interest rate cap is \$79,154.

These interest rate caps do not qualify for hedge accounting, accordingly, they are carried at fair value, with changes in fair value included within interest expense. Interest rate cap expense, which is the result of marking the interest rate cap agreements to fair value, was \$391,538 and \$421,788 for the three and nine month periods ended September 30, 2004, respectively, and (\$338,117) and \$445,871 for the three and nine month periods ended September 30, 2003, respectively, and is included as a component of interest expense in the accompanying financial statements.

[Table of Contents](#)

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2004  
 (UNAUDITED)

**9. Consolidation of VIEs**

With respect to the multifamily properties which collateralize certain of the Partnership's tax-exempt mortgage revenue bonds, management has determined that all but one of the entities (Chandler Creek) which own the multifamily properties are VIEs as defined by FIN 46R. In addition, management has determined that the Partnership is the primary beneficiary of such VIEs pursuant to the terms of each tax-exempt mortgage revenue bond and the criteria included in FIN 46R. Therefore, as required by FIN 46R, the Partnership must consolidate the assets, liabilities and results of each applicable entity that owns multifamily property into its financial statements. Effective January 1, 2004, the carrying amounts of the properties collateralizing the Partnership's tax-exempt mortgage revenue bonds are shown on the Consolidated Balance Sheets as Investments in real estate and are detailed in Note 4.

The following table provides information regarding the occupancy of the properties included in the VIE consolidation as of September 30, 2004.

Property Name	Location	Number of Units	Number of Units Occupied	Percentage of Units Occupied
Ashley Point at Eagle Crest	Evansville, IN	150	142	95%
Ashley Square	Des Moines, IA	144	142	99%
Bent Tree Apartments	Columbia, SC	232	201	87%
Clear Lake Colony Apartments	West Palm Beach, FL	316	292	92%
Fairmont Oaks Apartments	Gainesville, FL	178	170	96%
Iona Lakes Apartments	Ft. Myers, FL	350	302	86%
Lake Forest Apartments	Daytona Beach, FL	240	228	95%
Northwoods Lake Apartments	Duluth, GA	492	448	91%
Woodbridge Apts. of Bloomington III	Bloomington, IN	280	232	83%
Woodbridge Apts. of Louisville II	Louisville, KY	190	176	93%
		<u>2,572</u>	<u>2,333</u>	<u>91%</u>

The Partnership's maximum exposure to loss from these VIEs is represented by the tax-exempt mortgage revenue bonds owned by the Partnership and taxable loans made by the Partnership to the properties. The following tables provide information regarding the tax-exempt mortgage revenue bonds and the taxable loans which have been eliminated in the consolidation of the VIEs.

**Tax-Exempt Mortgage Revenue Bonds**

Property Name	Maturity Date	Base Interest Rate	Principal Outstanding at Sept. 30, 2004	Fair Market Value at Sept. 30, 2004
Ashley Pointe at Eagle Crest	12/1/2027	7.0%	\$ 6,700,000	\$ 6,512,001
Ashley Square	12/1/2025	7.5%	6,500,000	6,674,790
Bent Tree Apartments	12/15/2030	7.1%	11,130,000	11,130,000
Clear Lake Colony Apartments	6/15/2030	6.9%	16,000,000	15,438,320
Fairmont Oaks Apartments	4/1/2033	6.2%	7,970,000	7,955,832
Iona Lakes Apartments	4/1/2030	6.9%	16,780,000	16,784,719
Lake Forest Apartments	12/1/2011	6.9%	10,480,000	10,628,796
Northwoods Lake Apartments <sup>(1)</sup>	6/1/2034	5.0%	6,150,000	4,549,991
Woodbridge Apts. of Bloomington III	12/1/2027	7.5%	12,600,000	12,725,903
Woodbridge Apts. of Louisville II	12/1/2027	7.5%	8,976,000	9,027,118
			<u>\$103,286,000</u>	<u>\$101,427,470</u>

<sup>(1)</sup> The Partnership sold \$19.1 million of its investment in tax-exempt mortgage revenue bonds on Northwoods Lake Apartments in June 2004.

[Table of Contents](#)

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2004  
 (UNAUDITED)

**Taxable Loans**

	September 30, 2004			
	Interest Rate	Original Amount	Allowance	Carrying Value
Northwoods Lake Apartments	6.50%	\$6,698,751	\$(1,960,000)	\$4,738,751
Fairmont Oaks Apartments	6.50%	1,218,119	—	1,218,119
		<u>\$7,916,870</u>	<u>\$(1,960,000)</u>	<u>\$5,956,870</u>

The following consolidating schedule presents information about the Partnership, the VIEs and the effects of their consolidation as of September 30, 2004 and for the three and nine months ended September 30, 2004:

As of September 30, 2004:

	Partnership	VIEs	Eliminations	Consolidated
<b>Assets</b>				
Cash and cash equivalents				
Unrestricted	\$ 1,865,491	\$ 364,415	\$ —	\$ 2,229,906
Restricted	203,000	4,568,531	—	4,771,531
Interest receivable	1,698,780	—	(1,478,254) <sup>(3)(4)</sup>	220,526
Investments in tax-exempt mortgage revenue bonds	117,464,940	—	(101,427,470) <sup>(1)</sup>	16,037,470
Investments in other tax-exempt bonds	3,920,428	—	—	3,920,428
Taxable loans, net	5,956,870	—	(5,956,870) <sup>(2)</sup>	—
Investments in real estate, net	—	90,610,849	—	90,610,849
Other assets	2,477,101	2,240,580	(3,293,690) <sup>(2)</sup>	1,423,991
<b>Total assets</b>	<u>\$133,586,610</u>	<u>\$ 97,784,375</u>	<u>\$(112,156,284)</u>	<u>\$119,214,701</u>
<b>Liabilities and Partners' Capital</b>				
<b>Liabilities</b>				
Accounts payable, accrued expenses and other liabilities	\$ 528,692	\$ 8,381,960	\$ (1,065,064)	\$ 7,845,588
Distribution payable	1,341,536	—	—	1,341,536
Interest payable on notes payable by VIEs to Partnership	—	86,863	(86,863) <sup>(4)</sup>	—
Interest payable on bonds payable	—	1,391,391	(1,391,391) <sup>(3)</sup>	—
Notes payable by VIEs to Partnership	—	8,076,870	(8,076,870) <sup>(2)</sup>	—
Bonds payable	—	122,329,000	(103,286,000) <sup>(1)</sup>	19,043,000
Debt financing	62,330,000	—	—	62,330,000
<b>Total liabilities</b>	<u>64,200,228</u>	<u>140,266,084</u>	<u>(113,906,188)</u>	<u>90,560,124</u>
<b>Partners' Capital</b>				
General Partner	(18,130)	—	33,259 <sup>(1)(2)</sup>	15,129
Beneficial Unit Certificate (BUC) holders	69,404,512	—	3,292,680 <sup>(1)(2)</sup>	72,697,192
Unallocated deficit of variable interest entities	—	(42,481,709)	(1,576,035)	(44,057,744)
<b>Total partners' capital</b>	<u>69,386,382</u>	<u>(42,481,709)</u>	<u>1,749,904</u>	<u>28,654,577</u>
<b>Total liabilities and partners' capital</b>	<u>\$133,586,610</u>	<u>\$ 97,784,375</u>	<u>\$(112,156,284)</u>	<u>\$119,214,701</u>

<sup>(1)</sup> Elimination of investment in tax-exempt mortgage revenue bonds and related bonds payable and related debt financing costs.

<sup>(2)</sup> Elimination of taxable loans between the Partnership and the VIEs with related loan loss provision and related notes payable.

<sup>(3)</sup> Elimination of interest receivable related to tax-exempt mortgage revenue bonds and related bonds payable along with offsetting interest payable.

<sup>(4)</sup> Elimination of interest receivable related to taxable loans.

[Table of Contents](#)

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2004  
 (UNAUDITED)

For the three months ended September 30, 2004:

	Partnership	VIEs	Eliminations	Consolidated
<b>Income</b>				
Rental income	\$ —	\$ 4,790,684	\$ —	\$ 4,790,684
Real estate operating expenses	—	(3,182,975)	20,867 <sup>(2)</sup>	(3,162,108)
Depreciation expense	—	(1,015,475)	—	(1,015,475)
Income from rental operations	—	592,234	20,867	613,101
<b>Other income</b>				
Mortgage revenue bond investment income	2,056,033	—	(1,802,181) <sup>(1)</sup>	253,852
Other bond investment income	80,438	—	—	80,438
Other interest income	26,176	5,202	(20,867) <sup>(2)</sup>	10,511
	<u>2,162,647</u>	<u>5,202</u>	<u>(1,823,048)</u>	<u>344,801</u>
<b>Other expenses</b>				
Interest expense	706,657	2,094,373	(1,802,181) <sup>(1)</sup>	998,849
Amortization expense	10,198	16,388	(15,802) <sup>(3)</sup>	10,784
Hurricane related expenses	—	803,960	—	803,960
General and administrative expenses	508,670	—	—	508,670
	<u>1,225,525</u>	<u>2,914,721</u>	<u>(1,817,983)</u>	<u>2,322,263</u>
Net income (loss)	937,122	(2,317,285)	15,802	(1,364,361)
<b>Other comprehensive income (loss)</b>				
Net unrealized holding gains (losses) on securities arising during the period	467,715	—	(176,253)	291,462
	<u>467,715</u>	<u>—</u>	<u>(176,253)</u>	<u>291,462</u>
Comprehensive income (loss)	<u>\$1,404,837</u>	<u>\$(2,317,285)</u>	<u>\$ (160,451)</u>	<u>\$(1,072,899)</u>

<sup>(1)</sup> Elimination of interest income related to investment in tax-exempt mortgage revenue bonds and interest expense related to bonds payable.

<sup>(2)</sup> Elimination of interest income related to taxable loans.

<sup>(3)</sup> Elimination of current year amortization related to deferred financing costs.

[Table of Contents](#)

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004  
(UNAUDITED)

For the nine months ended September 30, 2004:

	Partnership	VIEs	Eliminations	Consolidated
<b>Income</b>				
Rental income	\$ —	\$ 14,487,435	\$ —	\$ 14,487,435
Real estate operating expenses	—	(8,800,704)	61,605 <sup>(2)</sup>	(8,739,099)
Depreciation expense	—	(3,078,493)	—	(3,078,493)
Income from rental operations	—	2,608,238	61,605	2,669,843
<b>Other income</b>				
Mortgage revenue bond investment income	6,710,951	—	(6,055,814) <sup>(1)</sup>	655,137
Other bond investment income	241,313	—	—	241,313
Other interest income	99,826	12,134	(61,605) <sup>(2)</sup>	50,355
	<u>7,052,090</u>	<u>12,134</u>	<u>(6,117,419)</u>	<u>946,805</u>
<b>Other expenses</b>				
Interest expense	1,428,491	6,392,863	(6,055,814) <sup>(1)</sup>	1,765,540
Amortization expense	185,923	69,937	(79,053) <sup>(3)</sup>	176,807
Hurricane related expenses	—	803,960	—	803,960
General and administrative expenses	1,185,707	—	—	1,185,707
	<u>2,800,121</u>	<u>7,266,760</u>	<u>(6,134,867)</u>	<u>3,932,014</u>
Income (loss) before cumulative effect of a change in accounting principle	4,251,969	(4,646,388)	79,053	(315,366)
Cumulative effect of a change in accounting principle	—	(37,835,321)	(187,680) <sup>(3)(4)</sup>	(38,023,001)
Net income (loss)	4,251,969	(42,481,709)	(108,627)	(38,338,367)
<b>Other comprehensive income (loss)</b>				
Cumulative effect of a change in accounting principle	—	—	(5,855,299) <sup>(5)</sup>	(5,855,299)
Net unrealized holding gains (losses) on securities arising during the period	(8,172,473)	—	7,713,829	(458,644)
	<u>(8,172,473)</u>	<u>—</u>	<u>1,858,530</u>	<u>(6,313,943)</u>
Comprehensive income (loss)	<u>\$ (3,920,504)</u>	<u>\$ (42,481,709)</u>	<u>\$ 1,749,903</u>	<u>\$ (44,652,310)</u>

<sup>(1)</sup> Elimination of interest income related to investment in tax-exempt mortgage revenue bonds and interest expense related to bonds payable.

<sup>(2)</sup> Elimination of interest income related to taxable loans.

<sup>(3)</sup> Elimination of current year amortization related to deferred financing costs.

<sup>(4)</sup> Elimination of loan loss reserve on taxable notes and deferred financing costs associated with the bonds eliminated in consolidation.

<sup>(5)</sup> Elimination of fair market value of all bonds as of January 1, 2004 that were eliminated in consolidation.

The Partnership agreement has no provision that provides for the results of operations of the VIEs to be allocated to the BUC holders. Consequently, net income allocated to the BUC holders does not include losses incurred by the VIEs, but does include the reversal of the allowance for loan losses related to loans recorded on the Partnership's balance sheet prior to the adoption of FIN 46R.

[Table of Contents](#)

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004  
(UNAUDITED)

The Partnership does not presently believe that the consolidation of VIEs for reporting under GAAP will impact the Partnership's tax status of the mortgage revenue bonds, amounts reported to BUC holders on IRS Form K-1, the Partnership's ability to distribute tax-exempt income to BUC holders, the current level of quarterly distributions or the tax-exempt status of the underlying mortgage revenue bonds.

**10. Segment Reporting**

The Company defines each of the Partnership's investments in bonds as an individual operating segment. The Company has determined that all of the Partnership's investments in bonds have similar economic characteristics and other criteria, which permit the investments in bonds to be aggregated into one reportable segment.

The Partnership's chief operating decision-makers assess and measure operating results based on its investments in bonds by calculating interest income earned less interest expense incurred on the financing securitizations. Although the VIEs are consolidated with the Partnership for financial statement reporting purposes, and all but one of the Partnership's investments in bonds are eliminated in consolidation, the Partnership's chief operating decision-makers continue to assess and measure operating results based on the Partnership's investments in bonds.

The financial information contained in the Partnership's financial statements is utilized by the Partnership's decision-makers in order to assess and measure the operating results based on the investments in bonds. Such financial information is disclosed in the "Partnership" column presented in Note 9.

The Company does not derive any of its consolidated revenues from foreign countries and does not have any major customers that individually account for 10% or more of the Company's consolidated revenues.



**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

**Forward-Looking Statements**

This report (including, but not limited to, the information contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations") contains forward-looking statements that reflect management's current beliefs and estimates of future economic circumstances, industry conditions, the Company's performance and financial results. All statements, trend analysis and other information concerning possible or assumed future results of operations of the Company and the investments it has made constitute forward-looking statements. BUC holders and others should understand that these forward-looking statements are subject to numerous risks and uncertainties and a number of factors could affect the future results of the Company and could cause those results to differ materially from those expressed in the forward-looking statements contained herein. These factors include general economic and business conditions such as the availability and credit worthiness of prospective tenants, lease rents, operating expenses, the terms and availability of financing for properties financed by the tax-exempt mortgage revenue bonds owned by the Partnership, adverse changes in the real estate markets from governmental or legislative forces, lack of availability and credit worthiness of counterparties to finance future acquisitions and interest rate fluctuations.

**Critical Accounting Policies**

The Company's critical accounting policies are the same as those described in the Partnership's Annual Report on Form 10-K for the year ended December 31, 2003 with the addition of the following:

*Variable interest entities ("VIEs")*

When the Partnership invests in a tax-exempt mortgage revenue bond which is collateralized by the underlying multifamily property, the Partnership will evaluate the entity which issued the tax-exempt mortgage revenue bond to determine if it is a VIE as defined by FIN 46R. FIN 46R is a complex standard that requires significant analysis and judgment. If it is determined that the entity is a VIE, the Partnership will then evaluate if it is the primary beneficiary of such VIE. If the Partnership determines itself to be the primary beneficiary of the VIE, then the assets, liabilities and financial results of the related multifamily property will be consolidated in the Partnership's financial statements. As a result of such consolidation, the tax-exempt or taxable debt financing provided by the Partnership to such consolidated VIE will be eliminated as part of the consolidation process. However, the Partnership will continue to receive interest and principal payments on such debt and these payments will retain their characterization as tax-exempt or taxable, as the case may be.

**General**

The Partnership was formed for the primary purpose of acquiring, holding, selling and otherwise dealing with a portfolio of federally tax-exempt mortgage revenue bonds which have been issued to provide construction and/or permanent financing of multifamily residential apartments. The Partnership's business objectives are to: (i) preserve and protect its capital; (ii) provide regular cash distributions to BUC holders; and (iii) provide a potential for an enhanced federally tax-exempt yield as a result of a participation interest in the net cash flow and net capital appreciation of the underlying real estate properties financed by the tax-exempt mortgage revenue bonds.

The Partnership is pursuing a business strategy of acquiring additional tax-exempt mortgage revenue bonds on a leveraged basis in order to: (i) increase the amount of tax-exempt interest available for distribution to its BUC holders; (ii) reduce risk through asset diversification and interest rate hedging; and (iii) achieve economies of scale. The Partnership seeks to achieve its investment growth strategy by investing in additional tax-exempt

## [Table of Contents](#)

### AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

mortgage revenue bonds and related investments, taking advantage of attractive financing structures available in the tax-exempt securities market and entering into interest rate risk management instruments.

The Partnership's primary assets are its tax-exempt mortgage revenue bonds, which provide permanent financing for eleven multifamily housing properties. A description of the multifamily housing properties collateralizing the tax-exempt mortgage revenue bonds owned by the Partnership as of September 30, 2004 and for the nine months ended September 30, 2004 is as follows:

Property Name	Location	Number of Units	Number of Units Occupied	Percentage of Units Occupied	Economic Occupancy <sup>(1)</sup>
Ashley Point at Eagle Crest	Evansville, IN	150	142	95%	82%
Ashley Square	Des Moines, IA	144	142	99%	91%
Bent Tree Apartments	Columbia, SC	232	201	87%	79%
Chandler Creek Apartments	Round Rock, TX	216	197	91%	58%
Clear Lake Colony Apartments	West Palm Beach, FL	316	292	92%	86%
Fairmont Oaks Apartments	Gainesville, FL	178	170	96%	84%
Iona Lakes Apartments	Ft. Myers, FL	350	302	86%	82%
Lake Forest Apartments	Daytona Beach, FL	240	228	95%	81%
Northwoods Lake Apartments	Duluth, GA	492	448	91%	69%
Woodbridge Apts. of Bloomington III	Bloomington, IN	280	232	83%	87%
Woodbridge Apts. of Louisville II	Louisville, KY	190	176	93%	90%
		<u>2,788</u>	<u>2,530</u>	<u>91%</u>	<u>79%</u>

(1) Economic occupancy is presented for the nine months ended September 30, 2004, and is defined as the net rental income received divided by the maximum amount of rental income to be derived from each property. This statistic is reflective of rental concessions, delinquent rents and non-revenue units such as model units and employee units.

When comparing the consolidated financial statements for 2004 with those of 2003, the consolidation of VIEs under FIN 46R changes the presentation of financial information in the financial statements but does not change the Partnership's primary purpose, business objectives or the primary assets the Partnership holds to meet its purpose and objectives. Going forward, the Company's consolidated financial statements will present consolidated financial information of the underlying properties rather than the interest income generated from the tax-exempt mortgage revenue bonds and taxable loans made by the Partnership to finance these properties.

#### Executive Summary

The multifamily housing industry is experiencing soft market conditions which are attributable to three factors: (i) economic conditions in certain markets; (ii) over-building of apartment properties; and (iii) record levels of single family home purchases largely due to record low mortgage interest rates. These factors have reduced the availability and increased the competition for credit-worthy tenants, which in turn reduces effective rents in the form of concessions and increases operating costs such as leasing incentives. As of September 30, 2004, all of the Partnership's tax-exempt mortgage revenue bonds were paying their full amount of base interest; however, a prolonged weakened economy and the resulting decline in net rental revenues from the Partnership's collateral of multifamily properties may negatively impact future interest income. At certain properties the decline in net rental income may last for an extended period. As a result, the Partnership has the ability and may restructure the terms of the related tax-exempt mortgage revenue bond to reduce the base interest rate.

Furthermore, the collection of contingent interest payable from the excess cash flow of the underlying properties may decrease significantly in times of economic slowdown. The Partnership remains aware of this potential and continues to monitor the performance of the multifamily properties collateralizing its tax-exempt mortgage revenue bonds. Offsetting these weak conditions are the positive economic benefits the Partnership is experiencing from the record low interest rates it is paying on its variable-rate debt.

## [Table of Contents](#)

### AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

In June 2004, the terms of \$25,250,000 of tax-exempt mortgage revenue bonds, for which the Partnership holds an investment in and were eliminated in the VIE consolidation, were restructured to reduce the base interest rate from 7.5% to 5.0% and create two separate issue series, Series A for \$19,100,000 and Series B for \$6,150,000. The Partnership subsequently sold \$19,100,000 (Series A) of its investment in the tax-exempt mortgage revenue bonds and used a portion of the proceeds to repay \$14,000,000 in debt financing. The Series B bonds are subordinate to the Series A bonds. The \$19,043,000 in bonds payable included in the consolidated balance sheet as of September 30, 2004 is an obligation of a consolidated VIE which owns the property securing the bonds. The Partnership's investment in the Series B bonds for \$6,150,000 and the VIEs related bonds payable eliminate in consolidation. The bonds mature in June 2034.

In April 2004, the Partnership converted \$2,823,248 of the taxable loan to Clarkson College into tax-exempt mortgage revenue bonds issued on April 1, 2004. The Partnership funded an additional \$3,376,752 during the period ended September 30, 2004 for the project which was completed. The Partnership holds the full \$6,200,000 of the bonds issued for the project.

The following is a summary of significant items or events that have had or could have an effect on the Company's financial position, results of operations, and liquidity:

- The VIEs for which the Partnership is the primary beneficiary have been consolidated into the Partnership's financial results effective January 1, 2004.
- Physical occupancy at the Partnership's properties decreased from 92% as of December 31, 2003 to 91% as of September 30, 2004 while average economic occupancy decreased from 83% for the year ended December 31, 2003 to 79% for the nine months ended September 30, 2004.
- Approximately \$804,000 of expenses were incurred related to hurricane damages sustained by certain properties located in Florida and Georgia.

### **Results of Operations**

#### Consolidated Results of Operations

The following discussion of the Company's results of operations for the three and nine month periods ended September 30, 2004 and 2003 should be read in conjunction with the consolidated financial statements and notes thereto included in Item 1 of this report as well as the Partnership's Annual Report on Form 10-K for the year ended December 31, 2003.

[Table of Contents](#)

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

*Three Months Ended September 30, 2004 compared to Three Months Ended September 30, 2003 (Consolidated)*

## Change in Results of Operations

	For the Three Months Ended Sept. 30, 2004	For the Three Months Ended Sept. 30, 2003	Dollar Change	Percentage Change
Income				
Rental income	\$ 4,790,684	\$ —	\$ 4,790,684	100%
Real estate operating expenses	(3,162,108)	—	(3,162,108)	100%
Depreciation expense	(1,015,475)	—	(1,015,475)	100%
Income from rental operations	<u>613,101</u>	<u>—</u>	<u>613,101</u>	<u>100%</u>
Other income				
Mortgage revenue bond investment income	253,852	2,210,037	(1,956,185)	-89%
Other bond investment income	80,438	80,438	—	—
Other interest income	10,511	26,031	(15,520)	-60%
	<u>344,801</u>	<u>2,316,506</u>	<u>(1,971,705)</u>	<u>-85%</u>
Other expenses				
Interest expense	998,849	(36,394)	1,035,243	2845%
Amortization expense	10,784	12,380	(1,596)	-13%
Hurricane related expenses	803,960	—	803,960	100%
General and administrative expenses	508,670	272,058	236,612	87%
	<u>2,322,263</u>	<u>248,044</u>	<u>2,074,219</u>	<u>836%</u>
Net income (loss)	<u>\$ (1,364,361)</u>	<u>\$ 2,068,462</u>	<u>\$ (3,432,823)</u>	<u>-166%</u>

*Rental income.* Rental income in the current period is the result of consolidating the VIEs. No rental income was recorded in 2003 since the Partnership did not report the VIEs' financial results on a consolidated basis in 2003. The rental income recognized is reflective of current physical occupancy of 91% and economic occupancy of 79% for the three months ended September 30, 2004.

*Real estate operating expenses.* Real estate operating expenses in the current period are the result of consolidating the VIEs. Real estate operating expenses are comprised principally of real estate taxes, property insurance, utilities, property management fees, repairs and maintenance, and salaries and related employee expenses of on-site employees. A portion of real estate operating expenses are fixed in nature, thus a decrease in physical and economic occupancy would result in a reduction in operating margins. Conversely, as physical and economic occupancy increase, the fixed nature of these expenses will increase operating margins as these real estate operating expenses would not increase at the same rate. The real estate operating expenses remained fairly consistent from quarter to quarter in 2004.

*Depreciation expense.* Depreciation expense in the current period is the result of consolidating the financial results of VIEs. This expense remained fairly consistent from quarter to quarter in 2004 and is expected to remain constant for the remainder of the year because no significant capital expenditures are planned for the real estate properties owned by the consolidated VIEs.

*Mortgage revenue bond investment income.* The decrease in mortgage revenue bond investment income from 2003 to 2004 is due primarily to the elimination of the interest income payments received by the Partnership from the VIEs as a result of consolidation. This income relates directly to the tax-exempt mortgage revenue bond expense of the underlying properties which are owned by the VIEs. Additionally, there is a decrease resulting from the sale of \$19.1 million of the Northwoods Lake bonds in June of 2004. These decreases were offset by an increase in tax-exempt interest income due to the acquisition of the Chandler Creek tax-exempt mortgage revenue bonds in December of 2003 and the Clarkson College bonds in April of 2004.

[Table of Contents](#)

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

*Interest expense.* Interest expense on the Partnership's debt financing increased by approximately \$730,000 due to the larger mark-to-market adjustment of interest rate caps as required by FAS No. 133 for the current quarter as compared to the prior quarter coupled with an increase in the variable short-term tax-exempt interest rates over the prior quarter. There was also an increase due to the sale of the \$19.1 million of Northwoods Lake bonds that are not eliminated since they are owned by a third party. These increases were offset by a decrease due to the payoff of the debt financing for Northwoods Lake Apartments in June of 2004. The Company's effective interest rate on its debt financing, excluding the effect of marking the interest rate cap agreements to market, was 2.02% for the three months ended September 30, 2004 compared to 1.79% for the three months ended September 30, 2003.

*Hurricane related expenses.* These expenses relate to the hurricane damages sustained by certain properties located in areas of Florida and Georgia that were affected by the various hurricanes that hit during the quarter. No such expenses were incurred in the third quarter of 2003.

*General and administrative expenses.* General and administrative expenses increased due primarily to an increase in accounting fees, salaries and related expenses, additional costs related to the Company's Sarbanes-Oxley project pertaining to the Company's internal controls and higher administrative fees paid to the General Partner resulting from the acquisition of additional tax-exempt investments by the Partnership in accordance with its investment strategy.

*Nine Months Ended September 30, 2004 compared to Nine Months Ended September 30, 2003 (Consolidated)*

Change in Results of Operations

	For the Nine Months Ended Sept. 30, 2004	For the Nine Months Ended Sept. 30, 2003	Dollar Change	Percentage Change
<b>Income</b>				
Rental income	\$ 14,487,435	\$ —	\$ 14,487,435	100%
Real estate operating expenses	(8,739,099)	—	(8,739,099)	100%
Depreciation expense	(3,078,493)	—	(3,078,493)	100%
Income from rental operations	<u>2,669,843</u>	<u>—</u>	<u>2,669,843</u>	<u>100%</u>
<b>Other income</b>				
Mortgage revenue bond investment income	655,137	6,548,147	(5,893,010)	-90%
Other bond investment income	241,313	241,312	1	—
Other interest income	50,355	85,196	(34,841)	-41%
	<u>946,805</u>	<u>6,874,655</u>	<u>(5,927,850)</u>	<u>-86%</u>
<b>Other expenses</b>				
Interest expense	1,765,540	1,375,765	389,775	28%
Amortization expense	176,807	35,774	141,033	394%
Hurricane related expense	803,960	—	803,960	100%
General and administrative expenses	1,185,707	857,197	328,510	38%
	<u>3,932,014</u>	<u>2,268,736</u>	<u>1,663,278</u>	<u>73%</u>
Income (loss) before cumulative effect of a change in accounting principle	(315,366)	4,605,919	(4,921,285)	-107%
Cumulative effect of a change in accounting principle	(38,023,001)	—	(38,023,001)	-100%
Net income (loss)	<u>\$ (38,338,367)</u>	<u>\$ 4,605,919</u>	<u>\$ (42,944,286)</u>	<u>-932%</u>

## [Table of Contents](#)

### AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

*Rental income.* Rental income in the current period is the result of consolidating the VIEs. No rental income was recorded in 2003 since the Partnership did not report the VIEs' financial results on a consolidated basis in 2003. The rental income recognized is reflective of current physical occupancy of 91% and economic occupancy of 81% for the nine months ended September 30, 2004.

*Real estate operating expenses.* Real estate operating expenses in the current period are the result of consolidating the VIEs. Real estate operating expenses are comprised principally of real estate taxes, property insurance, utilities, property management fees, repairs and maintenance, and salaries and related employee expenses of on-site employees. A portion of real estate operating expenses are fixed in nature, thus a decrease in physical and economic occupancy would result in a reduction in operating margins. Conversely, as physical and economic occupancy increase, the fixed nature of these expenses will increase operating margins as these real estate operating expenses would not increase at the same rate.

*Depreciation expense.* Depreciation expense in the current period is the result of consolidating the financial results of VIEs. This expense remained fairly consistent from quarter to quarter in 2004 and is expected to remain constant for the remainder of the year because no significant capital expenditures are planned for the real estate properties owned by the consolidated VIEs.

*Mortgage revenue bond investment income.* The decrease in mortgage revenue bond investment income from 2003 to 2004 is due primarily to the elimination of the interest income payments received by the Partnership from the VIEs as a result of consolidation. The income relates directly to the tax-exempt mortgage revenue bond expense of the underlying properties which are owned by the VIEs. Additionally, there is a decrease resulting from the sale of \$19.1 million of the Northwoods Lake bonds in June of 2004. These decreases are offset by an increase in tax-exempt interest income due to the acquisition of Chandler Creek tax-exempt mortgage revenue bonds in December 2003 and the Clarkson College bonds in April of 2004.

*Interest expense.* Interest expense on the Partnership's debt financing increased primarily due to the interest expense associated with the \$19.1 million of Northwoods Lake bonds that are not eliminated since they are owned by a third party. Additional increases are due to (i) the securitization transaction to acquire the Fairmont Oaks Apartments tax-exempt mortgage revenue bond in April 2003; and (ii) an additional \$9,000,000 of debt financing on Northwoods Lake Apartments. The Company's effective interest rate on its debt financing, excluding the effect of marking the interest rate cap agreements to market, was 1.91% for the nine months ended September 30, 2004 and September 30, 2003.

*Amortization expense.* Amortization expense increased primarily due to the bond and debt financing costs expensed for the nine months ended September 30, 2004 on the restructure of the Northwood Lakes bonds.

*Hurricane related expenses.* These expenses relate to the hurricane damages sustained by certain properties located in the areas of Florida and Georgia that were affected by the various hurricanes that hit during the period. No such expenses were incurred in 2003.

*General and administrative expenses.* General and administrative expenses increased due primarily to an increase in accounting fees, salaries and related expenses, additional costs related to the Company's Sarbanes-Oxley project pertaining to the Company's internal controls and higher administrative fees paid to the General Partner resulting from the acquisition of additional tax-exempt investments by the Partnership in accordance with its investment strategy.

[Table of Contents](#)

## AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

## Partnership Only Results of Operations

The following discussion of the Partnership's results of operations for the three and nine month periods ended September 30, 2004 and 2003 is presented as it reflects the operations of the Partnership prior to the consolidation of the VIEs, which was required with the implementation of FIN 46R effective January 1, 2004. This information reflects the information used by management to analyze its operations and is reflective of the segment data discussed in Note 10. As discussed in Note 10, this information is reconciled to the Consolidated Statements of Operations and Comprehensive Income (Loss) in Note 9.

*Three Months Ended September 30, 2004 compared to Three Months Ended September 30, 2003 (Partnership Only)*

## Changes in Results of Operations

	For the Three Months Ended Sept. 30, 2004	For the Three Months Ended Sept. 30, 2003	Dollar Change	Percentage Change
Income				
Mortgage revenue bond investment income	\$ 2,056,033	\$ 2,210,037	\$ (154,004)	-7%
Other bond investment income	80,438	80,438	—	0%
Other interest income	26,176	26,031	145	1%
	<u>2,162,647</u>	<u>2,316,506</u>	<u>(153,859)</u>	<u>-7%</u>
Expenses				
Interest expense	706,657	(36,394)	743,051	-2042%
Amortization expense	10,198	12,380	(2,182)	-18%
General and administrative expenses	508,670	272,058	236,612	87%
	<u>1,225,525</u>	<u>248,044</u>	<u>977,481</u>	<u>394%</u>
Net income	<u>\$ 937,122</u>	<u>\$ 2,068,462</u>	<u>\$(1,131,340)</u>	<u>-55%</u>

*Mortgage revenue bond investment income.* Mortgage revenue bond investment income decreased due to: (i) a decrease in interest earned on \$19.1 million of the Northwoods Lake Apartments tax-exempt mortgage revenue bonds sold in June 2004, which was partially offset by (ii) interest earned from the acquisition of Chandler Creek tax-exempt mortgage revenue bonds in December 2003; and (iii) interest earned on the acquisition of the Clarkson College tax-exempt bonds issued in April 2004. The Partnership earned all of its base interest due in the third quarter of 2004 on its entire tax-exempt mortgage revenue bonds held as of September 30, 2004.

*Interest expense.* Interest expense on the Partnership's debt financing increased due to (i) the mark-to-market adjustment of interest rate caps as required by FAS No. 133; (ii) the interest expense associated with the securitization transaction to acquire the Fairmont Oaks Apartments tax-exempt mortgage revenue bond in April 2003; (iii) an additional \$9,000,000 of debt financing on Northwoods Lake Apartments; and (iv) interest rate cap expense related to the convertible cap agreement purchased in February 2003. These increases were offset by a decline in the variable short-term tax-exempt interest rates. The Partnership's effective interest rate on its debt financing, excluding the effect of marking the interest rate cap agreements to market, was 2.02% for the three months ended September 30, 2004 compared to 1.79% for the three months ended September 30, 2003.

*General and administrative expenses.* General and administrative expenses increased due primarily to increases in salaries and related expenses, additional costs related to the Sarbanes-Oxley project pertaining to the Company's internal controls and higher administrative fees paid to the General Partner resulting from the acquisition of additional tax-exempt investments by the Partnership in accordance with its investment strategy.

[Table of Contents](#)

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

Nine Months Ended September 30, 2004 compared to Nine Months Ended September 30, 2003 (Partnership Only)

## Changes in Results of Operations

	For the Nine Months Ended Sept. 30, 2004	For the Nine Months Ended Sept. 30, 2003	Dollar Change	Percentage Change
<b>Income</b>				
Mortgage revenue bond investment income	\$ 6,710,951	\$ 6,548,147	\$ 162,804	2%
Other bond investment income	241,313	241,312	1	0%
Other interest income	99,826	85,196	14,630	17%
	<u>7,052,090</u>	<u>6,874,655</u>	<u>177,435</u>	<u>3%</u>
<b>Expenses</b>				
Interest expense	1,428,491	1,375,765	52,726	4%
Amortization expense	185,923	35,774	150,149	420%
General and administrative expenses	1,185,707	857,197	328,510	38%
	<u>2,800,121</u>	<u>2,268,736</u>	<u>531,385</u>	<u>23%</u>
Net income	\$ <u>4,251,969</u>	\$ <u>4,605,919</u>	\$ <u>(353,950)</u>	<u>-8%</u>

*Mortgage revenue bond investment income.* Mortgage revenue bond investment income increased due to: (i) interest earned on the Chandler Creek Apartments bond which was acquired in December 2003; (ii) an increase in interest earned on Fairmont Oaks Apartments tax-exempt mortgage revenue bonds acquired in April 2003; and (iii) interest earned on the acquisition of the Clarkson College tax-exempt bonds issued in April 2004, offset by (iv) a decrease in interest earned on \$19.1 million of the Northwoods Lake Apartments tax-exempt mortgage revenue bonds sold in June 2004; and (v) a decrease in past-due base interest earned. The Partnership earned all of its base interest due in the first nine months of 2004 on its entire tax-exempt mortgage revenue bonds held as of September 30, 2004.

*Other interest income.* Other interest income represents income earned on the Partnership's taxable loans and cash and cash equivalents. The increase is primarily due to interest earned on the taxable loan for Clarkson College prior to being converted to tax-exempt bonds in April 2004, offset by a decrease in interest income on cash and cash equivalents due to a decrease in the average cash balance and lower interest rates earned on its cash and cash equivalents.

*Interest expense.* Interest expense on the Partnership's debt financing increased due to (i) the mark-to-market adjustment of interest rate caps as required by FAS No. 133; (ii) the interest expense associated with the securitization transaction to acquire the Fairmont Oaks Apartments tax-exempt mortgage revenue bond in April 2003; (iii) an additional \$9,000,000 of debt financing on Northwoods Lake Apartments; and (iv) interest rate cap expense related to the convertible cap agreement purchased in February 2003. These increases were offset by a decline in the variable short-term tax-exempt interest rates. The Partnership's effective interest rate on its debt financing, excluding the effect of marking the interest rate cap agreements to market, was 1.91% for the nine months ended September 30, 2004 and September 30, 2003.

*Amortization expense.* Amortization expense increased primarily due to the bond and debt financing costs expensed on the restructure of the Northwood Lakes bonds.

*General and administrative expenses.* General and administrative expenses increased due primarily to an increase in salaries and related expenses, additional costs related to the Sarbanes-Oxley project pertaining to the Company's internal controls and higher administrative fees paid to the General Partner resulting from the acquisition of additional tax-exempt investments by the Partnership in accordance with its investment strategy.



## [Table of Contents](#)

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

### Cash Available for Distribution (“CAD”)

To calculate CAD, amortization expense related to debt financing costs and bond issuance costs, interest rate cap expense, provision for loan losses, realized losses on investments and net income (loss) from VIEs are added back to the Company’s net income as computed in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The Company uses CAD as a supplemental measurement of the Partnership’s performance and, ultimately, its ability to pay distributions.

There is no generally accepted methodology for computing CAD, and the Company’s computation of CAD may not be comparable to CAD reported by other companies.

Although the Company considers CAD to be a useful measure of its operating performance, CAD should not be considered as an alternative to net income (loss) or net cash flows from operating activities which are calculated in accordance with GAAP.

The following sets forth a reconciliation of the Company’s net income (loss) as determined in accordance with GAAP and its CAD for the periods set forth.

	For the Three Months Ended Sept. 30, 2004	For the Three Months Ended Sept. 30, 2003	For the Nine Months Ended Sept. 30, 2004	For the Nine Months Ended Sept. 30, 2003
Net income (loss)	\$ (1,364,361)	\$ 2,068,462	\$(38,338,367)	\$ 4,605,919
Net loss from VIEs before elimination entries	2,317,285	—	4,646,388	—
Elimination of amortization due to VIE consolidation	(15,802)	—	(79,053)	—
Cumulative effect of change in accounting principle	—	—	38,023,001	—
Net income before impact of VIE consolidation	937,122	2,068,462	4,251,969	4,605,919
Interest rate cap expense	391,538	(338,117)	421,788	445,871
Amortization expense (Partnership Only)	10,198	12,380	185,923	35,774
CAD	<u>\$ 1,338,858</u>	<u>\$ 1,742,725</u>	<u>\$ 4,859,680</u>	<u>\$ 5,087,564</u>

### Liquidity and Capital Resources

Tax-exempt interest earned on the mortgage revenue bonds represents the Partnership’s principal source of cash flow. Tax-exempt interest is primarily comprised of base interest on the mortgage revenue bonds. The Partnership will also receive from time to time contingent interest on the mortgage revenue bonds. Contingent interest is only paid when the underlying properties generate excess cash flow, therefore, cash in-flows are fairly fixed in nature and increase when the underlying properties have strong economic performances and when the Partnership acquires additional tax-exempt mortgage revenue bonds.

The Partnership’s principal uses of cash are the payment of distributions to BUC holders, interest on debt financing and general and administrative expenses. The Partnership also uses cash to acquire additional investments. Distributions to BUC holders may increase or decrease at the determination of the General Partner. The Partnership is currently paying distributions of \$0.54 per BUC per year. The General Partner determines the amount of the distributions based upon the projected future cash flows of the Partnership. Future distributions to BUC holders will depend upon the amount of base and contingent interest received on the tax-exempt mortgage revenue bonds and other investments, the effective interest rate on the Partnership’s variable-rate debt financing, and the amount of the Partnership’s undistributed cash.

The Partnership believes that cash provided by net interest income from its tax-exempt mortgage revenue bonds and other investments, supplemented, if necessary, by withdrawals from its reserve, will be adequate to meet its projected short-term and long-term liquidity requirements, including the payment of expenses, interest and distributions to BUC holders.

[Table of Contents](#)

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

The VIEs' primary source of cash is net rental revenues generated by its real estate investments. Net rental revenues from a multifamily apartment property depend on the rental and occupancy rates of the property and on the level of operating expenses. Occupancy rates and rents are directly affected by the supply of, and demand for, apartments in the market area in which a property is located. This, in turn, is affected by several factors such as local or national economic conditions, the amount of new apartment construction and the affordability of single-family homes. In addition, factors such as government regulation (such as zoning laws), inflation, real estate and other taxes, labor problems and natural disasters can affect the economic operations of an apartment property.

The VIEs' primary uses of cash are: (i) the payment of operating expenses; and (ii) the payment of debt service on the VIEs' bonds and mortgage notes payable.

Cash provided by operating activities for the nine months ended September 30, 2004 decreased \$717,781 compared to the same period a year earlier mainly due to timing differences in the payment of accounts payable and accrued expenses, settlement of interest receivable and other assets, and the increase in restricted cash. Cash used in investing activities decreased \$2,756,429 for the nine months ended September 30, 2004 compared to the same period in 2003 primarily due to a decrease in the acquisition of tax-exempt mortgage revenue bonds which was offset by an increase in taxable loans. Cash provided by financing activities decreased \$2,896,537 for the nine months ended September 30, 2004 compared to the same period in 2003 primarily due to the payment of the short-term financing that was in place and the large principal payment made on debt financing which was offset by proceeds from a bond payable and the fact that the Company did not acquire an interest rate cap agreement as it did in February of 2003.

The following table sets forth information relating to cash distributions paid per BUC holder for the periods shown:

	<b>For the Three Months Ended Sept. 30, 2004</b>	<b>For the Three Months Ended Sept. 30, 2003</b>	<b>For the Nine Months Ended Sept. 30, 2004</b>	<b>For the Nine Months Ended Sept. 30, 2003</b>
Cash Distributions	\$ <u>0.1350</u>	\$ <u>0.1350</u>	\$ <u>0.4050</u>	\$ <u>0.4050</u>

**Contractual Obligations**

There were no significant changes to the Company's contractual obligations during the three months ended September 30, 2004.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

The Company's primary market risk exposures are interest rate risk and credit risk. The Company's exposure to market risks relates primarily to its investments in tax-exempt mortgage revenue bonds and its debt financing.

*Interest Rate Risk*

Interest rates are highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations and other factors beyond the Company's control. The nature of the Partnership's investment in the tax-exempt mortgage revenue bonds and the debt financing used to finance these investments exposes the Partnership to financial risk due to fluctuations in market interest rates.

## [Table of Contents](#)

### AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

The tax-exempt mortgage revenue bonds bear base interest at fixed rates and may additionally pay contingent interest which fluctuates based upon the cash flows of the underlying property.

As of September 30, 2004, the Company had total debt financing outstanding of \$62,330,000. The weighted average interest rate of the variable-rate financing was 1.91% in the aggregate, including fees, for the nine months ended September 30, 2004.

The stated maturity dates of the Company's debt financing are as follows:

<b>Stated Maturity</b>	<b>Amount</b>
2004	\$ —
2005	—
2006	—
2007	7,970,000
2008	—
2009 and thereafter	<u>54,360,000</u>
	<u>\$62,330,000</u>

The Company is managing its interest rate risk on its debt financing by entering into interest rate cap agreements that cap the amount of interest expense it could pay on its floating rate debt financing as follows:

<b>Date Purchased</b>	<b>Principal of Debt Financing</b>	<b>Effective Capped Rate</b>	<b>Maturity Date</b>	<b>Purchase Price</b>	<b>Counterparty</b>
July 1, 2002	\$ 20,000,000	3.90%	July 1, 2006	\$489,000	Bear Stearns Financial Products Inc.
November 1, 2002	\$ 10,000,000	3.90% <sup>(1)</sup>	November 1, 2007	\$250,000	Bank of America
February 1, 2003	\$ 15,000,000	4.40% <sup>(2)</sup>	January 1, 2010	\$608,000	Bank of America

<sup>(1)</sup> The counterparty has the right to convert the cap into a fixed rate swap with an effective fixed interest rate to the Partnership of 3.50%.

<sup>(2)</sup> The counterparty has the right to convert the cap into a fixed rate swap with an effective fixed interest rate to the Partnership of 3.85%.

#### *Credit Risk*

The Partnership's primary credit risk is the risk of default on its portfolio of tax-exempt mortgage revenue bonds and taxable loans collateralized by the multifamily properties. The tax-exempt mortgage revenue bonds are not direct obligations of the governmental authorities that issued the bonds and are not guaranteed by such authorities or any insurer or other party. In addition, the tax-exempt mortgage revenue bonds and the associated taxable loans are non-recourse obligations of the property owner. As a result, the sole source of principal and interest payments (including both base and contingent interest) on the tax-exempt mortgage revenue bonds and the taxable loans is the net rental revenues generated by these properties or the net proceeds from the sale of these properties.

If a property is unable to sustain net rental revenues at a level necessary to pay current debt service obligations on the Partnership's tax-exempt mortgage revenue bond or taxable loan on such property, a default may occur. A property's ability to generate net rental income is subject to a wide variety of factors, including rental and occupancy rates of the property and the level of operating expenses. Occupancy rates and rents are directly affected by the supply of, and demand for, apartments in the market area in which a property is located. This, in turn, is affected by several factors such as local or national economic conditions, the amount of new apartment

## Table of Contents

### AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

construction and the affordability of single-family homes. In addition, factors such as government regulation (such as zoning laws), inflation, real estate and other taxes, labor problems and natural disasters can affect the economic operations of an apartment property.

Defaults on its tax-exempt mortgage revenue bonds and taxable loans may reduce the amount of future cash available for distribution to BUC holders. In addition, if a property's net rental income declines, it may affect the market value of the property. If the market value of a property deteriorates, the amount of net proceeds from the ultimate sale or refinancing of the property may be insufficient to repay the entire principal balance of the tax-exempt mortgage revenue bond or taxable loan secured by the property.

In the event of a default on a tax-exempt mortgage revenue bond or taxable loan, the Partnership will have the right to foreclose on the mortgage or deed of trust securing the property. If the Partnership takes ownership of the property securing a defaulted tax-exempt mortgage revenue bond, it will be entitled to all net rental revenues generated by the property. However, such amounts will no longer represent tax-exempt interest to the Partnership.

The Partnership's primary method of managing the credit risks associated with its tax-exempt mortgage revenue bonds and taxable loans is to perform a complete due diligence and underwriting process of the properties securing these mortgage bonds and loans and to carefully monitor the performance of such property on a continuous basis.

The Company is also exposed to credit risk with respect to its debt financing. All of the Partnership's debt financing has been obtained using securitizations issued through the Merrill Lynch P-Float program. In this program, the senior interests sold are credit enhanced by Merrill Lynch or its affiliate. The inability of Merrill Lynch or its affiliate to perform under the program or impairment of the credit enhancement may terminate the transaction and cause the Partnership to lose the net interest income earned as a result. The Company recognizes the concentration of financing with this institution and periodically monitors its ability to continue to perform. In addition, the Company's interest rate cap agreements are with two other counterparties. The \$20 million rate cap agreement is with Bear Stearns and the \$10 million and \$15 million rate cap agreements are with Bank of America.

As the above information incorporates only those material positions or exposures that existed as of September 30, 2004, it does not consider those exposures or positions that could arise after that date. The ultimate economic impact of these market risks on the Company will depend on the exposures that arise during the period, the Company's risk mitigating strategies at that time and the overall business and economic environment.

#### *Cash Concentrations of Credit Risk*

The Company's cash and cash equivalents are deposited primarily into trust accounts at multiple financial institutions and are not covered by the Federal Deposit Insurance Corporation.

#### **Item 4. Controls and Procedures.**

(a) *Evaluation of disclosure controls and procedures.* The Principal Executive Officer and Principal Financial Officer of America First have concluded, based on their evaluation as of the end of the period covered by this report, that the Company's disclosure controls and procedures are effective for gathering, analyzing and disclosing the information the Company is required to disclose in the Company's reports under the Securities Exchange Act of 1934.

[Table of Contents](#)

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

(b) *Changes in internal controls.* There were no significant changes in the Company's internal controls over financial reporting or in other factors that could significantly affect those controls made during the quarter covered by this report, that have, or are reasonably likely to materially affect the Company's internal control over financial reporting except as follows:

In response to a material weakness in internal controls over financial reporting identified with respect to the consolidation of variable interest entities and previously disclosed in the Partnership's amended March 31, 2004 Quarterly Report on Form 10-Q/A, the Company has modified its disclosure controls and procedures to place additional emphasis on the review of the consolidation of variable interest entities.

**PART II — OTHER INFORMATION**

**Item 6. Exhibits.**

The following exhibits are filed as required by Item 6 of this report. Exhibit numbers refer to the paragraph numbers under Item 601 of Regulation S-K:

3. Articles of Incorporation and Bylaws of America First Fiduciary Corporation Number Five (incorporated herein by reference to Registration Statement on Form S-11 (No. 2-99997) filed by America First Tax Exempt Mortgage Fund Limited Partnership on August 30, 1985).

4(a) Form of Certificate of Beneficial Unit Certificate (incorporated herein by reference to Exhibit 4.1 to Registration Statement on Form S-4 (No. 333-50513) filed by the Company on April 17, 1998).

4(b) Agreement of Limited Partnership of the Partnership (incorporated herein by reference to the Amended Annual Report on Form 10-K (No. 000-24843) filed by the Company on June 28, 1999).

4(c) Amended Agreement of Merger, dated June 12, 1998, between the Partnership and America First Tax Exempt Mortgage Fund Limited Partnership (incorporated herein by reference to Exhibit 4.3 to Amendment No. 3 to Registration Statement on Form S-4 (No. 333-50513) filed by the Company on September 14, 1998).

31.1 Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of CEO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

By America First Capital  
Associates Limited  
Partnership Two, General  
Partner of the Partnership

By America First Companies L.L.C.,  
General Partner of  
America First Capital  
Associates Limited  
Partnership Two

Date: November 12, 2004

/s/ Lisa Y. Roskens

\_\_\_\_\_  
Lisa Y. Roskens  
Chief Executive Officer

## Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Lisa Y. Roskens, certify that:

1. I have reviewed this quarterly report on Form 10-Q of America First Tax Exempt Investors, L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods represented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2004

/s/ Lisa Y. Roskens

Lisa Y. Roskens  
Chief Executive Officer  
America First Companies L.L.C., acting in its capacity as general partner of the  
General Partner of America First Tax Exempt Investors, L.P



## Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Michael J. Draper, certify that:

1. I have reviewed this quarterly report on Form 10-Q of America First Tax Exempt Investors, L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods represented in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2004

/s/ Michael J. Draper

Michael J. Draper  
Chief Financial Officer  
America First Companies L.L.C., acting in its capacity as general partner of the General Partner of  
America First Tax Exempt Investors, L.P

Certification of CEO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, Lisa Y. Roskens, Chief Executive Officer of the general partner of the General Partner of America First Tax Exempt Investors, L.P. (the "Company"), certify pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- (1) The Quarterly Report on Form 10-Q of the Company for the three and nine months ended September 30, 2004 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 12, 2004

/s/ Lisa Y. Roskens

Lisa Y. Roskens  
Chief Executive Officer

*A signed original of this written statement required by Section 906 has been provided to America First Tax Exempt Investors, L.P. and will be retained by America First Tax Exempt Investors, L.P. and furnished to the Securities and Exchange Commission or its staff upon request.*

Certification of CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, Michael J. Draper, Chief Financial Officer of the general partner of the General Partner of America First Tax Exempt Investors, L.P. (the "Company"), certify pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- (1) The Quarterly Report on Form 10-Q of the Company for the three and nine months ended September 30, 2004 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 12, 2004

/s/ Michael J. Draper

Michael J. Draper  
Chief Financial Officer

*A signed original of this written statement required by Section 906 has been provided to America First Tax Exempt Investors, L.P. and will be retained by America First Tax Exempt Investors, L.P. and furnished to the Securities and Exchange Commission or its staff upon request.*