

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, 2005

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)

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

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

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 a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

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

YES NO

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	September 30, 2005	December 31, 2004
Assets		
Cash and cash equivalents	\$ 3,944,538	\$ 2,317,342
Restricted cash	5,355,115	3,045,027
Interest receivable	97,584	184,938
Tax-exempt mortgage revenue bonds	17,049,895	16,031,985
Other tax-exempt bond	—	3,909,181
Real estate assets:		
Land	11,068,055	11,068,055
Buildings and improvements	95,925,515	95,487,804
Real estate assets before accumulated depreciation	106,993,570	106,555,859
Accumulated depreciation	(32,810,985)	(30,369,861)
Net real estate assets	74,182,585	76,185,998
Other assets	2,653,426	2,751,375
Assets held for sale	13,472,875	13,721,633
Total Assets	<u>\$ 116,756,018</u>	<u>\$ 118,147,479</u>
Liabilities and Partners' Capital		
Liabilities		
Accounts payable, accrued expenses and other liabilities	\$ 9,418,825	\$ 7,623,824
Distribution payable	1,341,536	1,341,536
Note payable	18,760,000	18,980,833
Debt financing	62,110,000	62,275,000
Total Liabilities	<u>91,630,361</u>	<u>90,221,193</u>
Commitments and Contingencies		
Partners' Capital		
General Partner	79,036	75,358
Beneficial Unit Certificate ("BUC") holders	79,023,958	78,659,842
Unallocated deficit of variable interest entities	(53,977,337)	(50,808,914)
Total Partners' Capital	<u>25,125,657</u>	<u>27,926,286</u>
Total Liabilities and Partners' Capital	<u>\$ 116,756,018</u>	<u>\$ 118,147,479</u>

The accompanying notes are an integral part of the financial statement.

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

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

	For the Three Months Ended September 30, 2005	For the Three Months Ended September 30, 2004	For the Nine Months Ended September 30, 2005	For the Nine Months Ended September 30, 2004
Income:				
Rental revenues	\$ 4,231,735	\$ 3,925,439	\$ 12,698,259	\$ 12,408,121
Mortgage revenue bond investment income	263,405	253,852	801,313	655,137
Other bond investment income	3,655	80,438	51,051	241,313
Other interest income	18,114	10,511	48,875	50,355
Gain on sale of securities	—	—	126,750	—
	<u>4,516,909</u>	<u>4,270,240</u>	<u>13,726,248</u>	<u>13,354,926</u>
Expenses:				
Real estate operating (exclusive of items shown below)	2,925,140	2,457,793	7,630,487	7,315,971
Depreciation and amortization	823,316	877,286	2,487,986	2,865,152
Interest	810,855	483,604	1,961,916	972,631
General and administrative	774,808	508,670	1,630,349	1,185,707
Hurricane related	—	803,960	—	803,960
Changes in fair value of derivative contracts	(348,102)	391,538	(295,919)	421,788
	<u>4,986,017</u>	<u>5,522,851</u>	<u>13,414,819</u>	<u>13,565,209</u>
Income (loss) from continuing operations	\$ (469,108)	\$ (1,252,611)	\$ 311,429	\$ (210,283)
Loss from discontinued operations	(158,934)	(111,750)	(111,179)	(105,083)
Income (loss) before cumulative effect of accounting change	(628,042)	(1,364,361)	200,250	(315,366)
Cumulative effect of accounting change	—	—	—	(38,023,001)
Net income (loss)	<u>\$ (628,042)</u>	<u>\$ (1,364,361)</u>	<u>\$ 200,250</u>	<u>\$ (38,338,367)</u>
Other comprehensive income (loss):				
Cumulative effect of accounting change	—	—	—	(5,855,299)
Net unrealized holding gains (losses) on securities arising during the period	170,532	291,462	1,023,729	(458,644)
Other comprehensive income (loss)	<u>170,532</u>	<u>291,462</u>	<u>1,023,729</u>	<u>(6,313,943)</u>
Comprehensive income (loss)	<u>\$ (457,510)</u>	<u>\$ (1,072,899)</u>	<u>\$ 1,223,979</u>	<u>\$ (44,652,310)</u>
Net (loss) income allocated to:				
General Partner	\$ 8,562	\$ 9,405	\$ 33,687	\$ 57,194
BUC holders	847,569	930,982	3,334,986	5,662,183
Unallocated deficit of variable interest entities	(1,484,173)	(2,304,748)	(3,168,423)	(44,057,744)
	<u>\$ (628,042)</u>	<u>\$ (1,364,361)</u>	<u>\$ 200,250</u>	<u>\$ (38,338,367)</u>
BUC holders' interest in net income per unit (basic and diluted):				
Income from continuing operations	\$ 0.09	\$ 0.09	\$ 0.34	\$ 0.37
Loss from discontinued operations	—	—	—	—
Cumulative effect of accounting change	—	—	—	0.21
Net income, basic and diluted, per unit	<u>\$ 0.09</u>	<u>\$ 0.09</u>	<u>\$ 0.34</u>	<u>\$ 0.58</u>
Weighted average number of units 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 financial statement.

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005
(UNAUDITED)

	General Partner	Beneficial Unit Certificate holders		Unallocated deficit of variable interest entities	Total
		# of Units	Amount		
Partners' Capital (excluding accumulated other comprehensive income)					
Balance at January 1, 2005	\$ 33,377	9,837,928	\$ 74,503,691	\$ (44,953,615)	\$ 29,583,453
Net income (loss)	33,687	—	3,334,986	(3,168,423)	200,250
Distributions paid or accrued	(40,246)	—	(3,984,362)	—	(4,024,608)
Balance at September 30, 2005	<u>\$ 26,818</u>	<u>9,837,928</u>	<u>\$ 73,854,315</u>	<u>\$ (48,122,038)</u>	<u>\$ 25,759,095</u>
Accumulated Other Comprehensive Income					
Balance at January 1, 2005	\$ 41,981	—	\$ 4,156,151	\$ (5,855,299)	\$ (1,657,167)
Other comprehensive income	10,237	—	1,013,492	—	1,023,729
Balance at September 30, 2005	<u>52,218</u>	<u>—</u>	<u>5,169,643</u>	<u>(5,855,299)</u>	<u>(633,438)</u>
Balance at September 30, 2005	<u>\$ 79,036</u>	<u>9,837,928</u>	<u>\$ 79,023,958</u>	<u>\$ (53,977,337)</u>	<u>\$ 25,125,657</u>

The accompanying notes are an integral part of the financial statement.

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the nine months ended	
	September 30, 2005	September 30, 2004
Operating activities:		
Net income (loss)	\$ 200,250	\$ (38,338,367)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Cumulative effect of accounting change	—	38,023,001
Depreciation and amortization	2,487,986	2,865,152
Gain on sale of securities	(126,750)	—
Decrease (increase) in interest receivable	87,354	(120,979)
Decrease in other assets	323,894	1,176,849
Decrease in accounts payable, accrued expenses and other liabilities	84,913	(57,341)
Net cash provided by operating activities	<u>3,057,647</u>	<u>3,548,315</u>
Investing activities:		
Acquisition of tax-exempt revenue bonds	—	(3,376,752)
Proceeds from the sale of other tax-exempt bonds	4,026,750	500,000
Increase in restricted cash	(2,310,088)	(2,105,981)
Capital expenditures	(461,760)	(240,466)
Principal payments received on tax-exempt bonds	15,000	—
Increase in cash due to consolidation of VIEs	—	505,178
Rites sold	—	5,000
Increase in taxable loans	—	(2,225,508)
Bond issuance costs paid	—	(67,344)
Net cash provided by (used in) investing activities	<u>1,269,902</u>	<u>(7,005,873)</u>
Financing activities:		
Distributions paid	(4,024,608)	(4,024,607)
Principal payments on debt financing and note payable	(385,833)	(9,000,000)
Proceeds from bonds payable	—	19,100,000
Proceeds from debt financing	—	9,000,000
Principal payments on debt financing	—	(14,222,000)
Bond financing costs paid	—	(547,531)
Increase in liabilities related to restricted cash	1,710,088	2,105,981
Debt financing costs paid	—	(21,487)
Net cash provided by (used in) financing activities	<u>(2,700,353)</u>	<u>2,390,356</u>
Net increase in cash and cash equivalents	1,627,196	(1,067,202)
Cash and cash equivalents at beginning of period	2,317,342	3,297,108
Cash and cash equivalents at end of period	<u>\$ 3,944,538</u>	<u>\$ 2,229,906</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 1,151,310	\$ 1,152,880
Distributions declared but not paid	\$ 1,341,536	\$ 1,341,536

The accompanying notes are an integral part of the financial statements

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AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2005
(UNAUDITED)

1. Basis of Presentation

America First Tax Exempt Investors, L.P. (the "Partnership") was formed on April 2, 1998 under the Delaware Revised Uniform Limited Partnership Act for the 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 will terminate on December 31, 2050 unless terminated earlier under the provisions of its Limited Partnership Agreement. The general partner of the Partnership is America First Capital Associates Limited Partnership Two (the "General Partner" or "AFC A 2").

The consolidated financial statements include the accounts of the Partnership and of the variable interest entities ("VIEs") in which the Partnership has been determined to be the primary beneficiary. In this Form 10-Q, "the Partnership" refers to America First Tax Exempt Investors, L.P. as a stand-alone entity and "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 Partnership does not presently believe that the consolidation of VIEs for reporting under accounting principles generally accepted in the United States of America ("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.

The preparation of financial statements in conformity with 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, 2004. In the opinion of management, all normal and recurring adjustments necessary to present fairly the financial position as of September 30, 2005, 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 Company's Consolidated Statement of Cash Flows for the nine months ended September 30, 2005, reflects a change in the classification of restricted cash from a financing activity to an investing activity and a change in liabilities related to restricted cash from an operating activity to a financing activity. The Company reclassified the change in restricted cash and the changes in liabilities associated with restricted cash for the nine months ended September 30, 2004 in order to conform to the current year presentation. The reclassification increased cash used in investing activities by \$2,105,981 and increased cash provided by financing activities by \$2,105,981.

2. Partnership Income, Expenses and Cash Distributions

The Agreement of Limited Partnership of the Partnership (the "Limited Partnership Agreement") contains provisions for the distribution of Net Interest Income, Net Residual Proceeds and Liquidation Proceeds, for the

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AMERICA FIRST TAX EXEMPT INVESTORS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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allocation of income or loss from operations and for the allocation of income and loss arising from a repayment, sale or liquidation of investments. Income and losses will be allocated to each BUC holder on a periodic basis, as determined by the General Partner, based on the number of BUCs held by each BUC holder as of the last day of the period for which such allocation is to be made. Distributions of Net Interest Income and Net Residual Proceeds will be made to each BUC holder of record on the last day of each distribution period based on the number of BUCs held by each BUC holder as of such date.

Net Interest Income, as defined in the Limited Partnership Agreement, will be distributed 99% to the BUC holders and 1% to AFCA 2. Net Residual Proceeds represent cash received by the Partnership that is not regular interest income on tax exempt bonds less amounts the General Partner retains for reinvestment or for other purposes. Under the Limited Partnership Agreement, Net Residual Proceeds are classified into one of three tiers. Tier 1 and Tier 3 are distributed 100% to the BUC holders and Tier 2 is distributed 75% to the BUC holders and 25% to the General Partner.

Tier 1 Net Residual Proceeds represent principal payments received on investments. Tier 2 Net Residual Proceeds represent contingent interest released for distribution. Twenty-five percent of such amounts distributed are to be paid to the General Partner with an annual limitation of 0.9% of the principal amount of mortgage investments during the applicable period and the remaining 75% is paid to the BUC holders. Tier 3 Net Residual Proceeds represent contingent interest in excess of Tier 2 Net Residual Proceeds.

The unallocated deficit of the VIEs is primarily comprised of the accumulated historical net losses of the VIEs as of January 1, 2004 and the VIEs' net losses since the implementation of FIN 46R "Accounting for Variable Interest Entities" as of January 1, 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 as such activity is not contemplated by, or addressed in, the Agreement of Limited Partnership.

Cash distributions are currently made on a quarterly basis but may be made on a monthly or semiannual basis at the election of AFCA 2.

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, 2005:

Description of Tax-Exempt Mortgage Revenue Bonds	September 30, 2005			Estimated Fair Value
	Cost	Unrealized Gain	Unrealized Loss	
Chandler Creek Apartments	\$ 11,500,000	\$ —	\$ (161,000)	\$ 11,339,000
Clarkson College	6,188,333	—	(477,438)	5,710,895
	<u>\$ 17,688,333</u>	<u>\$ —</u>	<u>\$ (638,438)</u>	<u>\$ 17,049,895</u>

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The Company had the following investments in tax-exempt mortgage revenue and other tax-exempt bonds as of December 31, 2004:

Description of Tax-Exempt Mortgage Revenue Bonds	December 31, 2004			Estimated Fair Value
	Cost	Unrealized Gain	Unrealized Loss	
Chandler Creek Apartments	\$ 11,500,000	\$ —	\$ (1,171,001)	\$ 10,328,999
Clarkson College	6,198,333	—	(495,347)	5,702,986
	<u>\$ 17,698,333</u>	<u>\$ —</u>	<u>\$ (1,666,348)</u>	<u>\$ 16,031,985</u>

Unrealized gains or losses on these tax-exempt bonds are recorded to reflect quarterly changes in their fair value resulting from market conditions and fluctuations in the present value of the expected cash flows from the underlying properties of the bonds. The current unrealized losses on both bonds are not considered to be other-than-temporary because the Company has the intent and ability to hold these securities until their value recovers or until maturity, if necessary.

The Chandler Creek bonds are in technical default and interest is being paid on these bonds at a rate below the current market rate pursuant to a forbearance agreement entered into in 2004. The Clarkson College bonds have been in an unrealized loss position for less than one year.

4. Debt Financing and Note Payable

The Company's debt financing of \$62,110,000 bears interest at a weekly floating bond rate plus remarketing, credit enhancement, liquidity and trustee fees which averaged 3.41% and 1.91% in the aggregate for the nine months ended September 30, 2005 and 2004, respectively. Effective July 11, 2005, \$16,000,000 of debt was refinanced under a bridge loan in order to facilitate the sale of Clear Lake Colony Apartment as discussed in Note 8. The bridge loan bears interest at a floating rate based on the London Interbank Offering Rate plus 3.0%.

The note payable of \$18,760,000 relates to Northwoods Lake Apartments and matures in June 2034. The interest rate is fixed through June 2014 at 4.99%. Subsequent to June 2014, the rate converts to a variable interest rate.

5. Related Party Transactions

The General Partner is entitled to receive an administrative fee from the Company up to 0.45% of the outstanding principal balance of any tax-exempt mortgage revenue bond or other mortgage investment, unless another third party is required to pay such administrative fee. For the three and nine months ended September 30, 2005, the Company's administrative fees to the General Partner were \$73,130 and \$271,710, respectively. For the three and nine months ended September 30, 2004, the Company's administrative fees to the General Partner were \$76,421 and \$296,001, respectively.

An affiliate of the General Partner was retained to provide property management services for Ashley Pointe, Ashley Square, Bent Tree Apartments, Clear Lake Colony Apartments, Chandler Creek Apartments, Clarkson Student Housing, Fairmont Oaks Apartments, Iona Lakes Apartments, Lake Forest Apartments, and Northwoods Lake Apartments. The management fees paid by the property owners to the affiliate of the General

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AMERICA FIRST TAX EXEMPT INVESTORS, L.P.
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Partner amounted to \$195,219 and \$558,248 for the three and nine months ended September 30, 2005, respectively, and \$173,231 and \$512,492 for the three and nine months ended September 30, 2004, respectively. 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.

6. Interest Rate Cap Agreements

The Company has three interest rate cap agreements with a combined notional amount of \$45,000,000 in order to mitigate its exposure to increases in interest rates on its variable-rate debt financing. The terms of the cap agreements are as follows:

Notional Amount	Effective Date	Expiration Date	Cap Rate (1)	Premium Paid
\$ 20,000,000	July 1, 2002	July 1, 2006	3.0%	\$ 489,000
\$ 10,000,000	November 1, 2002	November 1, 2007	3.0%	\$ 250,000
\$ 15,000,000	February 1, 2003	January 1, 2010	3.5%	\$ 608,000

(1) The cap rate does not reflect remarketing, credit enhancement, liquidity and trustee fees which aggregate to approximately 90 basis points.

These interest rate caps do not qualify for hedge accounting, accordingly, they are carried at fair value, with changes in fair value included in current period earnings. The change in the fair value of derivative contracts resulted in a gain of \$295,919 for the nine months ended September 30, 2005, and a loss of \$421,788 for the nine months ended September 30, 2004. The change in the fair value of derivative contracts resulted in a gain of \$348,102 and a loss of \$391,538 for the three month periods ended September 30, 2005 and 2004, respectively.

7. Segment Reporting

The Company has two reportable segments, the Partnership and the VIEs. In addition to the two reportable segments, the Company also separately reports its consolidating and eliminating entries since it does not allocate certain items to the segments.

The Partnership Segment

The Partnership operates for the 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 VIE segment

As a result of the effect of FIN 46R, management more closely monitors and evaluates the financial reporting associated with and the operations of the VIEs. Management performs such evaluation separately from the operations of the Partnership through interaction with the property management company which manages the VIEs' multifamily apartment properties. Management effectively manages the Partnership and the VIEs as separate and distinct businesses.

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AMERICA FIRST TAX EXEMPT INVESTORS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2005
(UNAUDITED)

The VIEs' primary operating strategy focuses on multifamily apartment properties as long-term investments. The VIEs' operating goal is to generate increasing amounts of net rental income from these properties that will allow it to service debt. In order to achieve this goal, management of these multifamily apartment properties is focused on: (i) maintaining high economic occupancy and increasing rental rates through effective leasing, reduced turnover rates and providing quality maintenance and services to maximize resident satisfaction; (ii) managing operating expenses and achieving cost reductions through operating efficiencies and economies of scale generally inherent in the management of a portfolio of multiple properties; and (iii) emphasizing regular programs of repairs, maintenance and property improvements to enhance the competitive advantage and value of its properties in their respective market areas. As of September 30, 2005, the Company reported the assets and financial results of 10 VIE multifamily apartment properties containing a total of 2,572 rental units. The VIEs' multifamily apartment properties are located in the states of Iowa, Indiana, Florida, Georgia, Kentucky and South Carolina.

The following table details certain key financial information for the Company's reportable segments for the periods ending September 30, 2005 and 2004:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Total revenues				
Partnership	\$ 2,108,154	\$ 2,162,647	\$ 6,465,725	\$ 7,052,090
VIEs	4,231,735	3,925,439	12,698,259	12,408,121
Consolidation/eliminations	(1,822,980)	(1,817,846)	(5,437,736)	(6,105,285)
Total revenues	\$ 4,516,909	\$ 4,270,240	\$ 13,726,248	\$ 13,354,926
Income (loss) before cumulative effect of accounting change				
Partnership	\$ 856,131	\$ 937,122	\$ 3,368,673	\$ 4,251,969
VIEs	(2,049,488)	(2,317,285)	(5,545,472)	(4,646,388)
Consolidation/eliminations	565,315	15,802	2,377,049	79,053
Net income (loss) before cumulative effect of accounting change	\$ (628,042)	\$ (1,364,361)	\$ 200,250	\$ (315,366)
Net income (loss)				
Partnership	\$ 856,131	\$ 937,122	\$ 3,368,673	\$ 4,251,969
VIEs	(2,049,488)	(2,317,285)	(5,545,472)	(4,646,388)
Consolidation/eliminations	565,315	15,802	2,377,049	(108,627)
Net income (loss)	\$ (628,042)	\$ (1,364,361)	\$ 200,250	\$ (38,338,367)

8. Discontinued Operations and Assets Held for Sale

On July 22, 2005, the Partnership entered into a purchase and sale agreement (the "Agreement") to sell a 316-unit multi-family housing project located in West Palm Beach, Florida known as Clear Lake Colony Apartments (the "Project"). The project was sold to Development Resources Group, LLC, a Florida limited liability company. There is no affiliation between Development Resources Group, LLC and the Partnership or of its affiliates or any officer or manager of America First Companies, LLC. The Agreement provided for a sales price of \$33,375,000 for all of the land, buildings, building improvements, certain personal property, current lease agreements and other assets associated with the Project. On November 10, 2005, the sale closed resulting in an estimated taxable gain to the Partnership of approximately \$12.4 million. The Partnership received cash proceeds of approximately \$32.2 million, net of transaction related costs.

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(UNAUDITED)

Because Clear Lake Colony Acquisition Corp, the owner of the Project ("Clear Lake"), defaulted on its bond obligations to the Partnership, the Partnership acquired sole ownership of the Project by way of deed in lieu of foreclosure immediately prior to the Partnership's sale of the Project to the Purchaser. There are no material relationships between the Partnership and the Purchaser or any of its affiliates, other than the Agreement.

As a result of the foregoing, as of September 30, 2005, the Project met the criteria under SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" as a discontinued operation and is classified as such in the consolidated results of operations and as an asset held for sale in the consolidated balance sheets. Under SFAS No. 144, an asset is generally considered to qualify as held for sale when: i) management, having the authority to approve the action, commits to a plan to sell the asset, ii) the asset is available for immediate sale in its present condition, iii) an active program to locate a buyer and other actions required to complete the plan to sell the asset have been initiated at a price that is reasonable in relation to its current fair value and iv) the sale of the asset is probable, and transfer of the asset is expected to qualify for recognition as a completed sale, within one year. There are no significant liabilities associated with assets held for sale. The following table presents a balance sheet for the assets held for sale on the balance sheet as of September 30, 2005 and December 31, 2004:

	Sept. 30, 2005	Dec. 31, 2004
Land	\$ 3,000,000	\$ 3,000,000
Buildings and improvements	13,169,847	13,169,847
Real estate assets before accumulated depreciation	16,169,847	16,169,847
Accumulated depreciation	(2,696,972)	(2,448,214)
Net assets held for sale	<u>\$ 13,472,875</u>	<u>\$ 13,721,633</u>

The following table presents the revenues and net income for the discontinued operations for the three and nine months ending September 30, 2005 and 2004:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Rental Revenues	\$ 685,680	\$ 629,146	\$ 1,999,059	\$ 1,843,215
Expenses	844,614	740,896	2,110,238	1,948,298
Net Income (Loss)	<u>\$ (158,934)</u>	<u>\$ (111,750)</u>	<u>\$ (111,179)</u>	<u>\$ (105,083)</u>

In conjunction with the Clear Lake transaction, the Board of Managers approved a special distribution to the BUC holders. As described in Note 2, all distributions to the partners are governed by the Limited Partnership Agreement. In accordance with the Limited Partnership Agreement, this special distribution is considered a distribution of Net Residual Proceeds. All of the Clear Lake sale proceeds are classified as Tier 2 Net Residual Proceeds. The Board approved a special distribution of \$3.5 million from the Net Residual Proceeds from the Clear Lake Colony sale. As this is a Tier 2 distribution, approximately \$2.6 million or 75% of the total distribution will be paid to the BUC holders of record as of November 30, 2005 and approximately \$0.9 million will be paid to the General Partner.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2005
(UNAUDITED)

In addition to the one-time distribution to BUC holders and the General Partner, a portion of the proceeds will also be used to pay a \$359,000 deferred administrative fees to the General Partner. The General Partner has deferred payment of these administrative fees without interest since 1989. Due to the gain realized on this transaction, the General Partner now has elected to receive these previously earned fees. As previously disclosed in our annual reports on Form 10-K, this amount was to be accrued when it was probable that payment would occur. The Partnership accrued \$359,000 of administrative expense in the quarter ended September 30, 2005 as the payment was probable as of September 30, 2005.

The Partnership used \$16,000,000 of the proceeds for the repayment of debt. The remaining proceeds from the sale of approximately \$12.4 million will be reinvested in accordance with the Partnership's investment strategy.

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

In this Management’s Discussion and Analysis, the “Partnership” refers to America First Tax Exempt Investors, L.P. as a stand-alone entity and the “Company” refers to the consolidated financial information of the Partnership and certain entities that own multifamily apartment projects financed with mortgage revenue bonds held by the Partnership that are treated as “variable interest entities” (“VIEs”) because the Partnership has been determined to be the primary beneficiary.

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. Beneficial Unit Certificate (“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, 2004.

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 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 twelve multifamily housing properties. One of the multifamily housing properties is Clear Lake Colony Apartments. On November 10, 2005, the Clear Lake property was sold to a third party. As a result of

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the probable sale of the property as of September 30, 2005, we reported Clear Lake Colony Apartments as discontinued operations in the consolidated financial statements of the Company. A description of the multifamily housing properties, excluding Clear Lake Colony Apartments, collateralizing the tax-exempt mortgage revenue bonds owned by the Partnership as of September 30, 2005 is as follows:

Property Name (3)	Location	Number of Units	Physical occupancy as of Sept. 30,		Economic Occupancy for the nine months ended Sept. 30, (1)	
			2005	2004	2005	2004
Multifamily Housing — Consolidated Properties						
Ashley Pointe at Eagle Crest	Evansville, IN	150	89%	95%	88%	82%
Ashley Square	Des Moines, IA	144	94%	99%	89%	91%
Bent Tree Apartments	Columbia, SC	232	88%	87%	73%	79%
Fairmont Oaks Apartments	Gainesville, FL	178	97%	96%	84%	84%
Iona Lakes Apartments	Ft. Myers, FL	350	97%	86%	90%	82%
Lake Forest Apartments	Daytona Beach, FL	240	99%	95%	94%	81%
Northwoods Lake Apartments	Duluth, GA	492	90%	91%	70%	69%
Woodbridge Apts. of Bloomington III	Bloomington, IN	280	95%	83%	84%	86%
Woodbridge Apts. of Louisville II	Louisville, KY	190	95%	93%	89%	90%
		2,256	94%	91%	83%	81%
Multifamily Housing — Nonconsolidated Properties						
Chandler Creek Apartments	Round Rock, TX	216	95%	91%	64%	58%
Student Housing						
Clarkson College	Omaha, NE	142	75%	N/A(2)	54%	N/A(2)

- (1) Economic occupancy is presented for the nine months ended September 30, 2005 and 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.
- (2) Information not available due to the timing of acquisition.
- (3) Does not include Clear Lake Colony Apartments. Clear Lake is classified as a discontinued operation as of September 30, 2005.

Executive Summary

The following significant items or events affected our financial position, results of operations, and liquidity during the third quarter and the nine months ended September 30, 2005:

Third Quarter 2005

- On a consolidated basis, the Company's loss from continuing operations decreased by approximately \$784,000 over last year.
- Cash Available for Distributions was \$1,067,391 for the three months ended September 30, 2005 compared to \$1,338,858 for the three months ended September 30, 2004. Although Cash Available for Distributions was below the quarterly distribution, the Partnership maintained its quarterly distribution rate at \$0.135 per BUC.
- Interest expense increased by approximately \$327,000 compared to last year.

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Nine months Ended September 30, 2005

- On a consolidated basis, the Company's income from continuing operations increased by approximately \$522,000 compared to the nine months ended September 30, 2004.
- Cash Available for Distribution equaled \$3,644,519 for the nine months ended September 30, 2005 compared to \$4,859,680 for the nine months ended September 30, 2004.
- Interest expense increased by approximately \$989,000 for the nine months ended September 30, 2005 compared to the same period of 2004.

Results of Operations

Consolidated Results of Operations

The consolidated financial statements include the accounts of the Partnership and VIEs. 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 following discussion of the Company's results of operations for the three and nine months ended September 30, 2005 and 2004 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, 2004.

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*Three Months Ended September 30, 2005 compared to Three Months Ended September 30, 2004 (Consolidated)*Change in Results of Operations

	For the Three Months Ended Sep. 30, 2005	For the Three Months Ended Sep. 30, 2004	Dollar Change
Revenues			
Rental revenues	\$ 4,231,735	\$ 3,925,439	\$ 306,296
Mortgage revenue bond investment income	263,405	253,852	9,553
Other bond investment income	3,655	80,438	(76,783)
Other interest income	18,114	10,511	7,603
	<u>4,516,909</u>	<u>4,270,240</u>	<u>246,669</u>
Expenses			
Real estate operating (exclusive of items below)	2,925,140	2,457,793	467,347
Depreciation and amortization	823,316	877,286	(53,970)
Interest expense	810,855	483,604	327,251
General and administrative	774,808	508,670	266,138
Hurricane related		803,960	(803,960)
Changes in fair value of derivative contracts	(348,102)	391,538	(739,640)
	<u>4,986,017</u>	<u>5,522,851</u>	<u>(536,834)</u>
Loss from continuing operations	<u>\$ (469,108)</u>	<u>\$ (1,252,611)</u>	<u>\$ 783,503</u>

Rental revenues. Rental revenues increased for the three months ended September 30, 2005 compared to the same period of 2004. Rental revenues increased by approximately \$40 per unit per month during the third quarter of 2005 compared to the same period of 2004. Increased rental revenues at Iona Lakes, Lake Forest and Ashley Pointe were primarily responsible for the overall increase in rental revenues. Offsetting these increases, were lower rental revenues experienced at Bent Tree and Woodbridge Properties of Bloomington.

Mortgage revenue bond investment income. Mortgage revenue bond investment income during the third quarter of 2005 compared to the third quarter of 2004 remained relatively flat as there were no changes in the portfolio of mortgage revenue bonds. All interest payments on the mortgage revenue bonds were current during this period.

Other bond investment income. During the first quarter of 2005, the Company sold its investment in Museum Tower tax-exempt bonds. The reduction in interest income during the third quarter of 2005 compared to the third quarter of 2004 is attributable to the sale of the Museum Tower bonds. The Company has not purchased any similar bonds subsequent to the sale of the Museum Tower bonds.

Real estate operating expenses. 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. Real estate expenses increased in

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the third quarter of 2005 compared to the same period of 2004. The increase in real estate operating expenses is reflective of the effort by the management of the properties to increase spending on repairs and maintenance in order to make the properties more attractive to current and potential tenants. In addition to increased market ready expenses, the properties also realized increased utility costs.

Depreciation and amortization expense. Depreciation and amortization consist primarily of depreciation of personal property associated with the apartment properties of the consolidated VIEs. Depreciation and amortization expense decreased during the three months ended September 30, 2005 compared to the same period in 2004.

Interest expense. Interest expense increased approximately \$327,000 in the three month period ended September 30, 2005 compared to September 30, 2004. The increase in interest expense is primarily attributable to increasing interest rates on the Company's variable rate debt financing. Variable rate debt accounted for approximately 77% of our total outstanding debt as of September 30, 2005. For the three months ended September 30, 2005, the weighted average interest rate on our variable rate borrowings increased to 4.3% compared to 2.0% for the same period of 2004.

General and administrative expenses. General and administrative expenses were higher during the third quarter of 2005 compared to the same period in 2004 primarily as a result of the accrual of \$359,000 of deferred administrative fees. These fees were previously deferred by the General Partner, however, in conjunction with the sale of Clear Lake Colony Apartments, the payment of such fees became probable as of September 30, 2005. The sale ultimately closed on November 10, 2005 and is more fully described in the discussion of Liquidity and Capital Resources in this Form 10-Q. Not considering the accrual of these deferred administrative fees, general and administrative expenses incurred during the quarter declined by approximately \$92,000 compared to the third quarter of 2004. To a large degree, this decline was attributable to higher expenses in 2004 consisting of accounting fees associated with an internal controls project and higher administrative fees paid to the General Partner from the acquisition of additional investments.

Changes in fair value of derivative contracts. The Company manages its interest rate risk on its debt financing by entering into interest rate cap agreements that cap the amount of interest expense it pays on its floating rate debt financing. The Company's interest rate cap agreements do not qualify for hedge accounting, therefore, any changes in the fair value of the caps are recognized in current period earnings. The fair value adjustments are classified separately in the consolidated statement of operations as changes in fair value of derivative contracts. The fair value adjustment through earnings can cause a significant fluctuation in reported net income although it has no impact on the Company's cash flows. The changes in fair value of derivative contracts resulted in a gain of approximately \$348,000 during the three months ended September 30, 2005 compared to a loss of approximately \$392,000 during the three months ended September 30, 2004.

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*Nine Months Ended September 30, 2005 compared to Nine months Ended September 30, 2004 (Consolidated)*Change in Results of Operations

	For the Nine Months Ended Sep. 30, 2005	For the Nine Months Ended Sep. 30, 2004	Dollar Change
Revenues			
Rental revenues	\$ 12,698,259	\$ 12,408,121	\$ 290,138
Mortgage revenue bond investment income	801,313	655,137	146,176
Other bond investment income	51,051	241,313	(190,262)
Other interest income	48,875	50,355	(1,480)
Gain on sale of securities	126,750	—	126,750
	<u>13,726,248</u>	<u>13,354,926</u>	<u>371,322</u>
Expenses			
Real estate operating (exclusive of items below)	7,630,487	7,315,971	314,516
Depreciation and amortization	2,487,986	2,865,152	(377,166)
Interest expense	1,961,916	972,631	989,285
General and administrative	1,630,349	1,185,707	444,642
Hurricane related		803,960	(803,960)
Changes in fair value of derivative contracts	(295,919)	421,788	(717,707)
	<u>13,414,819</u>	<u>13,565,209</u>	<u>(150,390)</u>
Income (loss) from continuing operations	<u>\$ 311,429</u>	<u>\$ (210,283)</u>	<u>\$ 521,712</u>

Rental revenues. The increase in rental revenues for the nine month period of 2005 compared to the same period of 2004 occurred during the third quarter of 2005. The increase is attributable to increased occupancy as physical occupancy increased to 94% compared to 90% as of September 30, 2004. The increase in physical occupancy resulted in a net increase in rental revenues of approximately \$120 per unit for the nine months ended September 30, 2005 compared to the same period of 2004. The majority of the increase occurred in the third quarter of 2005. The largest increases in per unit rents were realized at Ashley Pointe, Iona Lakes and Lake Forest where the three properties combined to increase rental revenues by approximately \$433,000 or \$191 per unit for the nine month period ended September 30, 2005 compare to September 30, 2004. Offsetting the increases realized at these properties were decreases at Bent Tree, and Woodbridge Apartments of Bloomington. The two properties decreased rental revenues by approximately \$154,000 or approximately \$68 per unit.

Mortgage revenue bond investment income. The increase in mortgage revenue bond investment income from 2004 to 2005 is primarily due to the acquisition of the Clarkson College tax-exempt mortgage bonds in April of 2004. The interest income associated with Clarkson College contributed approximately \$165,000 of additional income for the first nine months of 2005 compared with the same period of 2004. The increase related to Clarkson College was partially offset by a slight decrease in income related to the Chandler Creek tax-exempt mortgage bonds in 2005.

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Other bond investment income. The reduction in interest income during the first nine months of 2005 compared to the first nine months of 2004 is attributable to the Museum Tower bonds that were sold during the first quarter of 2005.

Gain on sale of securities. As discussed previously, the Company sold its entire interest in the Museum Tower bonds during the first quarter of 2005. The carrying cost of the investment was \$3,900,000 and the net proceeds from the sale were \$4,026,750 resulting in a gain on the sale of securities of \$126,750. Approximately \$600,000 of the cash proceeds is being held as collateral for debt financings and is classified as restricted cash on the consolidated balance sheet of the Company. The remaining cash proceeds were unrestricted.

Real estate operating expenses. Real estate operating expense increased during the nine months ended September 30, 2005 compared to September 30, 2004. This increase is related to an increased focus by management of the properties during the third quarter of 2005 to increase spending on repairs and maintenance in order to make the properties more attractive to current and potential tenants. In addition to increased market ready expenses, the properties also realized increased utility costs.

Depreciation and amortization expense. Depreciation and amortization consist primarily of depreciation of personal property associated with the apartment properties of the consolidated VIEs. During second quarter 2004, the Company refinanced Northwoods Lake bonds. The remaining deferred financing costs associated with these bonds were expensed upon the refinancing of the bonds and are reflected as depreciation and amortization expense in the nine month period ended September 30, 2004.

Interest expense. Interest expense related to Northwoods Lake was approximately \$915,000 higher for the nine months ended September 30, 2005 compared to the same period for 2004. Prior to June 2004, the Company owned all of the outstanding debt of Northwoods Lake. Therefore, all interest related to Northwoods Lake was eliminated in consolidation prior to June 2004. In June 2004, approximately \$19.1 million of the debt was sold to an outside party, while approximately \$6.2 million continues to be owned by the Company. Accordingly, the interest associated with the \$19.1 million is no longer eliminated in consolidation. Additionally, interest expense increased as the weighted average rate of the Company's variable rate debt increased approximately 1.5% for the nine months ended September 30, 2005 compared to the comparable period for 2004.

General and administrative expenses. General and administrative expenses increased during the first nine months of 2005 compared to the same period in 2004 due primarily to the accrual of \$359,000 deferred administrative fees during third quarter of 2005. Also impacting the nine months ended September 30, 2005 were increased salaries, wages and benefits and legal fees related to the ongoing defense of shareholder litigation.

Change in fair value of derivative contracts. The Company manages its interest rate risk on its debt financing by entering into interest rate cap agreements that cap the amount of interest expense it pays on its floating rate debt financing. The Company's interest rate cap agreements do not qualify for hedge accounting, therefore, any changes in the fair value of the caps are recognized in current period earnings. The fair value adjustments are classified separately in the consolidated statement of operations as changes in fair value of derivative contracts. The mark to market adjustment through earnings can cause a significant fluctuation in reported net income although it has no impact on the Company's cash flows. The changes in fair value of derivative contracts resulted in income of approximately \$296,000 and a loss of approximately \$422,000 for the nine months ended September 30, 2005 and 2004.

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Partnership Only Results of Operations

The following discussion of the Partnership's results of operations for the three and nine months ended September 30, 2005 and 2004 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 is used by management to analyze its operations and is reflective of the segment data discussed in Note 7. Items previously discussed in connection with the Company's results of operations are not repeated.

Three Months Ended September 30, 2005 compared to Three Months Ended September 30, 2004 (Partnership Only)Changes in Results of Operations

	For the Three Months Ended Sep. 30, 2005	For the Three Months Ended Sep. 30, 2004	Dollar Change
Revenues			
Mortgage revenue bond investment income	\$ 2,063,749	\$ 2,056,033	\$ 7,716
Other bond investment income	3,655	80,438	(76,783)
Other interest income	40,750	26,176	14,574
	<u>2,108,154</u>	<u>2,162,647</u>	<u>(54,493)</u>
Expenses			
Interest expense	819,285	315,119	504,166
Amortization expense	6,032	10,198	(4,166)
General and administrative	774,808	508,670	266,138
Changes in fair value of derivative contracts	(348,102)	391,538	(739,640)
	<u>1,252,023</u>	<u>1,225,525</u>	<u>26,498</u>
Income from continuing operations	<u>\$ 856,131</u>	<u>\$ 937,122</u>	<u>\$ (80,991)</u>

Mortgage revenue bond investment income. Mortgage revenue bond investment income remained relatively flat for the three months ended September 30, 2005 compared to the three months ended September 30, 2004 as the portfolio of investments were unchanged during the respective periods.

Interest expense. Interest expense increased by approximately \$504,000 during the three months ended September 30, 2005 compared to the same period of 2004. The increase in interest expense is attributable to increasing variable interest rates. Approximately \$240,000 of the increase is attributable to a bridge loan that was entered into during third quarter of 2005. The bridge loan was required in order to facilitate the sale of Clear Lake Colony Apartments. Prior to July of 2005, the Partnership's \$16,000,000 investment in the Clear Lake bonds was used as collateral for the Partnership's variable debt financing. The Partnership entered into a bridge loan in order to refinance the existing debt and remove the collateral restriction on the bonds. In order to obtain the bridge loan, the Partnership paid origination fees of \$160,000. Approximately \$120,000 of the fees was amortized to interest expense during the third quarter of 2005. In addition to the origination fees, the bridge loan carries interest at variable rate indexed to the London Interbank Offering Rate plus 300 basis points. The higher rate associated with the bridge loan increased interest expense by approximately \$120,000 compared to the three months ended September 30, 2004. For purposes of the consolidated financial statements of the

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Company, the bridge loan interest and the amortization of the origination fee were classified as part of discontinued operations. Also impacting interest expense was the higher variable rates on the Partnership's debt financing.

Nine Months Ended September 30, 2005 compared to Nine months Ended September 30, 2004 (Partnership Only)

Changes in Results of Operations

	For the Nine Months Ended Sep. 30, 2005	For the Nine Months Ended Sep. 30, 2004	Dollar Change
Revenues			
Mortgage revenue bond investment income	\$ 6,172,215	\$ 6,710,951	\$(538,736)
Other bond investment income	51,051	241,313	(190,262)
Other interest income	115,709	99,826	15,883
Gain on sale of securities	126,750	—	126,750
	<u>6,465,725</u>	<u>7,052,090</u>	<u>\$(586,365)</u>
Expenses			
Interest expense	1,744,187	1,006,703	737,484
Amortization expense	18,435	185,923	(167,488)
General and administrative	1,630,349	1,185,707	444,642
Changes in fair value of derivative contracts	(295,919)	421,788	(717,707)
	<u>3,097,052</u>	<u>2,800,121</u>	<u>296,931</u>
Income from continuing operations	<u>\$ 3,368,673</u>	<u>\$ 4,251,969</u>	<u>\$(883,296)</u>

Mortgage revenue bond investment income. Mortgage revenue bond investment income decreased approximately \$661,000 due to the elimination of interest earned on \$19.1 million of the Northwoods Lake Apartments tax-exempt mortgage revenue bonds sold in the second quarter of 2004. This decrease was partially offset by approximately \$165,000 of additional interest earned on the Clarkson College tax-exempt bonds that were held for the entire nine month period of 2005 compared to approximately five months in the nine month period of 2004.

Interest expense. Interest expense on the Partnership's debt financing increased due to higher interest rates on the variable-rate debt held by the Partnership and due to the impact of the bridge loan entered into at the end of June 2005. The weighted average interest rate was approximately 3.4% for the nine months ended September 30, 2005 compared to approximately 1.9% for the nine months ended September 30, 2004.

Cash Available for Distribution ("CAD")

To calculate CAD, amortization expense related to debt financing costs and bond issuance costs, change in fair value of derivative contracts, provision for loan losses, realized losses on investments and net income (loss) from VIEs and the cumulative effect of accounting change are added back to the Company's net income as computed in accordance with GAAP. 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.

The Company uses CAD as a supplemental measurement of its economic performance and, ultimately, its ability to pay cash distributions to BUC holders. The Company believes CAD is a useful measurement as it

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eliminates such non-cash items as amortization expense and the change in fair value of derivatives and interest rate cap amortization. It also eliminates the loss of the consolidated VIEs. A primary component of the VIEs losses is depreciation expense, which is a non-cash expense. 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 September 30, 2005	For the three months ended September 30, 2004	For the nine months ended September 30, 2005	For the nine months ended September 30, 2004
Net income (loss)	\$ (628,042)	\$ (1,364,361)	\$ 200,250	\$ (38,338,367)
Net loss from VIEs	2,049,488	2,317,285	5,545,472	4,646,388
Eliminations due to VIE consolidation	(565,315)	(15,802)	(2,377,049)	(79,053)
Cumulative effect of change in accounting principle	—	—	—	38,023,001
Income before impact of VIE consolidation	856,131	937,122	3,368,673	4,251,969
Change in fair value of derivatives and interest rate cap amortization	(153,772)	391,538	(101,589)	421,788
Accrued expense related to past administrative fees	359,000	—	359,000	—
Amortization expense (Partnership only)	6,032	10,198	18,435	185,923
CAD	\$ 1,067,391	\$ 1,338,858	\$ 3,644,519	\$ 4,859,680

The amount of distributions to the BUC holders was \$4,024,608 for the each of the nine months ended September 30, 2005 and 2004. The amount of distributions to the BUC holders was \$1,341,536 for each of the three months ended September 30, 2005 and 2004. Although distributions exceeded CAD for the first nine months of 2005, the Partnership has elected to maintain the current level of distributions it pays to BUC holders. While the Partnership has sufficient cash reserves to support distributions in excess of CAD in the short-term, continued distributions in excess of CAD are not sustainable.

For 2005, an accrued expense of \$359,000 related to deferred administrative fees was added back to CAD as these fees were accrued but not paid in third quarter of 2005. The deferred administrative fees were accrued during the third quarter since the payment of the fees became probable as a result of the sale agreement for Clear Lake Colony Apartments. The fees will be paid during the fourth quarter of 2005 from the proceeds of the Clear Lake sale.

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.

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AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

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 at the rate 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 will be adequate to meet its projected long-term liquidity requirements, including the payment of expenses, interest and distributions to BUC holders. Recently, income from investments has not been sufficient to fund such expenditures without utilizing cash reserves to supplement the deficit.

The VIEs' primary source of cash is net rental revenues generated by their 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.

On a consolidated basis, cash provided by operating activities for the nine months ended September 30, 2005 decreased \$490,668 compared to the same period a year earlier mainly due to changes in working capital. Cash from investing activities increased \$8,275,775 for the nine months ended September 30, 2005 compared to the same period in 2004 primarily due to the sale of tax-exempt securities that generated proceeds of \$4,026,750 combined with no cash used to acquire tax-exempt revenue bonds and taxable loans compared with \$3,376,752 and \$2,225,508, respectively used in the same period of 2004. Cash used in financing activities increased \$5,090,709 for the nine months ended September 30, 2005 compared to the same period in 2004 primarily due to proceeds from bonds payable in 2004 that did not exist in 2005.

As described in Note 2 to the consolidated financial statements, the Board of Managers approved a special distribution of \$3.5 million from the Net Residual Proceeds of the Clear Lake Colony sale. As this is a Tier 2 distribution, approximately \$2.6 million or 75% of the total distribution will be paid to the BUC holders of record as of November 30, 2005 and approximately \$0.9 million will be paid to the General Partner.

In addition to the one-time distribution to BUC holders and the General Partner, a portion of the proceeds will also be used to pay a \$359,000 deferred administrative fees to the General Partner. The General Partner has deferred payment of these administrative fees without interest since 1989. Due to the gain realized on this transaction, the General Partner now has elected to receive these previously earned fees. As previously disclosed in our annual reports on Form 10-K, this amount was to be accrued when it was probable that payment would occur. The Partnership accrued \$359,000 of administrative expense in the quarter ended September 30, 2005 as the payment was probable as of September 30, 2005.

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AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

The Partnership also used \$16,000,000 of the proceeds for the repayment of debt. The remaining proceeds from the sale of approximately \$12.4 million will be reinvested in accordance with the Partnership's investment strategy.

The Partnership continually explores opportunities to increase value to BUC holders through increased short-term and long-term returns. In order to finance the acquisition of such opportunities, the Partnership may, from time to time, issue additional equity securities.

The Partnership may also continue to explore opportunities such as the Clear Lake Colony Apartments transaction in order to maximize BUC holder value.

Contractual Obligations

There were no significant changes to the Company's contractual obligations during the nine months ended September 30, 2005 from the information presented in the Company's annual report on Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes in market risk from the information provided under "Quantitative and Qualitative Disclosures about Market Risk" in Item 7A of the Company's 2004 annual report on Form 10-K.

Item 4. Controls and Procedures.

(a) *Evaluation of disclosure controls and procedures.* The Partnership's Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the effectiveness of the Partnership's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Partnership's current disclosure controls and procedures are effective, providing them with material information relating to the Partnership as required to be disclosed in the reports the Partnership files or submits under the Exchange Act on a timely basis.

(b) *Changes in internal controls over financial reporting.* There were no changes in the Partnership's internal control over financial reporting during the Partnership's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Partnership's internal control over financial reporting.

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).
- 10.1 Purchase and Sale Agreement, dated July 22, 2005 and amended November 10, 2005, between the Partnership and Development Resource Group, LLC, relating to the sale of Clear Lake Colony Apartments.
- 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 14, 2005

/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

AGREEMENT OF PURCHASE AND SALE

between

AMERICA FIRST TAX EXEMPT INVESTORS, LP,
a Delaware limited partnership,
as Seller

and

DEVELOPMENT RESOURCES GROUP, LLC,
a Florida limited liability company,
as Purchaser

dated as of July 22, 2005

AGREEMENT OF PURCHASE AND SALE

THIS AGREEMENT OF PURCHASE AND SALE (this "Agreement") is made as of this 22 day of July, 2005 by and between **AMERICA FIRST TAX EXEMPT INVESTORS, LP**, a Delaware limited partnership ("Seller"), and **DEVELOPMENT RESOURCES GROUP, LLC**, a Florida limited liability company ("Purchaser").

PRELIMINARY STATEMENTS:

Seller is the current holder of that certain Mortgage, Security Agreement, Assignment of Rents and Leases by and between Clear Lake Colony Acquisition Corporation ("Owner") and SunTrust Bank, as recorded on June 6, 2000 in Official Records Book 11820, Page 1666, Public Records of Palm Beach County, Florida (the "Mortgage"). The Owner is in default under the Mortgage, and Seller intends to foreclose under the Mortgage or accept a deed in lieu thereof and become the owner of the fee-simple interest in and to the land described therein, which is more particularly described in Exhibit A attached to this Agreement and generally known as "Clear Lake Colony," together with all buildings, structures, fixtures, facilities, installations and other improvements located thereon, all leasehold interests affecting the same and all rights of any kind appurtenant thereto (collectively, the "Premises"). Seller also intends to similarly obtain ownership of the personal property described on Exhibit C, attached hereto and made a part hereof (the "Personal Property"). Owner, as lessor, has entered into various lease agreements (collectively, the "Leases") with the persons and parties listed as "tenant" (collectively, the "Lessees"), as lessees, in the detailed rent roll (the "Rent Roll") attached hereto as Exhibit D and made a part hereof. Seller desires to sell to Purchaser, and Purchaser desires to purchase from Seller, the fee-simple interest in and to the Premises, and the title to the Personal Property and to the Leases, upon the terms and conditions set forth in this Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1. Purchase and Sale. Seller hereby agrees to sell to Purchaser, and Purchaser hereby agrees to purchase from Seller, for the Purchase Price (as defined herein) and subject to and upon the terms and conditions hereinafter set forth, Seller's fee-simple interest in the Premises, subject to the encumbrances set forth in Exhibit B attached hereto (collectively, the "Permitted Exceptions"), and Seller's right, title and interest in the Leases and the Personal Property.

Section 2. Earnest Money and Purchase Price.

(a) Upon execution hereof, Purchaser shall deliver to Shutts & Bowen LLP, as agent for First American Title Insurance Company (the "Escrow Agent" or "Title Company"), whose notice address is 300 S. Orange Avenue, Suite 1000, Orlando, FL 32801, the sum of \$800,000 (together with interest thereon, the "Earnest Money"), to be held in an interest-bearing escrow account with interest accruing to Purchaser. Notwithstanding anything in this Agreement to the contrary, the Earnest Money shall be nonrefundable and paid to Seller at any Closing or termination of this Agreement, except as set forth in Sections 5, 6(b) or 13 (b) of this Agreement.

(b) The purchase price for the Premises (the "Purchase Price") shall be \$33,500,000⁽¹⁾, which is payable in cash or by bank wire transfer in immediately available funds at Closing (as such term is defined in Section 7(a)).

Section 3. Representations and Warranties.

(a) Except as specifically set forth in Section 3(b), Purchaser hereby acknowledges that Seller is conveying the Premises in its present "AS IS" condition and has not made, does not make and will not make any warranties or representations, whether express or implied, with respect to the Premises or the value or marketability thereof or any of the appurtenances, facilities or equipment thereof. Further, Purchaser acknowledges that Seller has not made, does not make and will not make any warranties, whether express or implied, of habitability, merchantability or fitness for a particular purpose unless specifically set forth herein. Purchaser further acknowledges that by its consummating the transactions contemplated by this Agreement, it will have made such legal, technical, engineering, factual, financial and other inquiries and investigations as it deems necessary, desirable or appropriate with respect to the Leases, Lessees, the Premises and the value thereof and the appurtenances, facilities and equipment thereof and that it will be relying solely thereon except for the representations and warranties of Seller set forth in Section 3(b) hereof.

(b) Seller hereby covenants, represents and warrants to Purchaser that:

(i) Seller is a limited partnership duly formed, validly existing and in good standing under the laws of the State of Delaware and will have as of the Closing Date all requisite power and authority to sell and convey the Premises, to enter into and perform this Agreement and to carry out the transactions contemplated hereby and thereby.

(ii) Seller is the holder of the Mortgage and all other outstanding debt encumbering the Premises, which debt is currently in default. Seller has secured the agreement of Owner to deliver to Seller on or before the Closing Date a deed in lieu of foreclosure to the Premises. Seller has full capacity, right, power and authority to execute, deliver and perform this Agreement and all documents to be executed by Seller pursuant hereto. The individuals signing this Agreement and all other documents executed or to be executed pursuant hereto on behalf of Seller are and shall be duly authorized to sign the same on Seller's behalf and to bind Seller hereto. This Agreement and all documents to be executed pursuant hereto by Seller are and shall be binding upon and enforceable against Seller in accordance with their respective terms.

(iii) The execution, delivery and performance by Seller of this Agreement will not violate, or constitute a default under, any provision of Seller's Partnership Agreement or any other organizational agreement by which Seller or any of its property is bound.

(1) The purchase price was verbally amended by the parties at closing to \$33,375,000. The amendment was made to compensate the purchaser for damages related to Hurricane Wilma. The adjustment was reflected in the final closing statement. However, this Agreement was not formally amended.

(iv) Seller has no knowledge and has not been notified of any condemnation proceedings or any annexation proceedings having been instituted or threatened against the Premises.

(v) Seller has full power and authority to enter into this Agreement, and upon receipt of a deed in lieu of foreclosure as described in "(ii)" above, to convey the Premises, to assign the Leases to Purchaser, to sell the Personal Property to Purchaser and to carry out the transactions contemplated hereby. Neither the entering into of this Agreement nor the consummation of the transactions described herein has or will constitute a violation or breach of any of the terms of any contract or other instrument to which Seller is a party or by which any of Seller's assets or property may be affected or constitute a violation or breach of the terms of any law or of any governmental or judicial order applicable to Seller or the Premises.

(vi) As of the date specified on the rent roll attached hereto as Exhibit D ("Rent Roll"), all information set forth in the Rent Roll is true, correct and complete in all material respects and, as of the Closing Date, all information set forth in the Rent Roll to be attached to the bill of sale and assignment and assumption agreement to be executed at Closing shall be true, correct and complete in all material respects as of the date of such updated Rent Roll. As of the date hereof no rental payments under any Lease have been paid to Owner more than one month in advance of the date such payments are due under the terms of each Lease. There are no leasing commissions or other compensation due and payable to any person, firm or entity with respect to or on account of any Lease. All such residential leases referenced in the Rent Roll are, as of the date of the Rent Roll, the only leases or occupancy agreements entered into by Owner] and/or the owner currently affecting the Premises, and, except as otherwise provided to the contrary in the Rent Roll, all such leases are in full force and effect and any tenant allowances required to be paid by Owner under the provisions of the leases have been paid in full. At the Closing, all leases referenced in the Rent Roll to be attached to the bill of sale and assignment and assumption agreement to be executed at Closing shall be the only leases or occupancy agreements entered into by Seller then currently affecting the Premises and, except as otherwise provided in such Rent Roll, all such leases shall be in full force and effect as of the Closing Date.

(vii) There are no actions or proceedings pending against Seller or, to the best of Seller's knowledge, threatened against or involving the Premises or Seller. Seller is not now insolvent nor will Seller become insolvent as a result of the actions contemplated by this Agreement.

(viii) Seller has not received written notice from Lessees or any governmental agency or authority of any violations of environmental, health, safety or similar municipal laws, ordinances, orders, regulations or requirements affecting the Premises.

(ix) As a part of the agreement for conveyance of the Premises in lieu of foreclosure, the Owner has agreed to convey its interest in the Personal Property to Seller. Subject to such conveyance and to normal additions and replacements in Seller's ordinary course of business, Seller, is, or will be, on the Closing Date, the owner of all the Personal Property, and Seller will have full authority to convey by bill of sale or cause conveyance of the same free and clear of all liens and encumbrances, except the Permitted Exceptions. The inventory of personal property listed on Exhibit C, fairly and accurately identifies all personal property owned by Seller which is located on the Premises and which is used in connection with the operation and maintenance of the Premises (other than computer software of Seller and Seller's marks or logos).

(x) To Seller's knowledge, no portion of the Premises has ever been used as a landfill or as a dump to receive significant regulated garbage, refuse, or waste, and there are and have been no Hazardous Substances located upon, stored, handled, or disposed in or on the Premises in amounts or quantities which would constitute a violation of the Applicable Environmental Laws. As used in this Agreement, the term "Hazardous Substances" means any materials, waste, contaminates, pollutants, or other substances which are toxic, dangerous, radioactive, disease causing, carcinogenic, infectious, caustic, or contain petroleum products or by-products, asbestos, or heavy metals which are defined as toxic, dangerous to health or otherwise hazardous by reference to the following sources as amended from time to time: (i) the Resource Conservation and Recovery Act of 1976, 42 USC §1801, et. seq.; (ii) the Comprehensive, Environmental Response Compensation and Liability Act of 1980, 42 USC §9601 et. seq.; (iii) applicable laws of the jurisdiction where the Premises is located, or (iv) any federal, state or local statutes, regulations, ordinances, or rules issued or promulgated under or pursuant to any of those laws by any government department or, agency (items (i) through (iv) being referred to herein as the "Applicable Environmental Laws").

(xi) All agreements with respect to the operation, use and maintenance of the Premises are listed on Exhibit E (the "Service Contracts"). No later than the Due Diligence Deadline, Purchaser shall notify Seller of which Service Contracts it will assume at Closing. Seller shall terminate any of the Service Contracts that Purchaser elects not to assume on or before Closing.

(xii) The commercial leases set forth on Exhibit F ("Commercial Leases") are in full force and effect and shall be assumed by Purchaser at Closing.

(c) Purchaser hereby covenants, represents and warrants to Seller that:

(i) Purchaser is a limited liability company duly formed, validly existing and in good standing under the laws of the State of Florida and has all requisite power and authority to acquire the Premises, to enter into and perform this Agreement and to carry out the transactions contemplated hereby and thereby.

(ii) Purchaser has full capacity, right, power and authority to execute, deliver and perform this Agreement and all documents to be executed by Purchaser pursuant hereto. The individuals signing this Agreement and all other documents executed or to be executed pursuant hereto on behalf of Purchaser are and shall be duly authorized to sign the same on Purchaser's behalf and to bind Purchaser hereto. This Agreement and all documents to be executed pursuant hereto by Purchaser are and shall be binding upon and enforceable against Purchaser in accordance with their respective terms.

(iii) The execution, delivery and performance by Purchaser of this Agreement will not violate, or constitute a default under, any provision of Purchaser's Articles of Association, Operating Agreement or any other organizational agreement by which Purchaser or any of its property is bound.

(d) The failure of any of the above-stated representations and warranties of Seller and Purchaser to be true and correct in all material respects as of the date hereof or at any time through and including the date of Closing shall be a default hereunder entitling the non-defaulting party to all remedies set forth in Section 13 hereof.

Section 4. Items Delivered by Seller. Within five business days of the full execution and delivery of this Agreement, Seller shall deliver to Purchaser, or make available to Purchaser and its agents at Seller's offices or the Premises, the following items (collectively, the "Reports"):

- (a) copies of the Leases (to be reviewed by Purchaser at the Premises or Seller's corporate offices only, for copying at Purchaser's expense if desired);
- (b) a copy of its most recent "as-built" or ALTA survey of the Premises in its possession;
- (c) copies of any soil, environmental, structural, mechanical or other similar professional surveys of the Premises in the possession of Seller or located at the Premises;
- (d) copies of any financial statements pertaining to the operation of the Premises, including income and expense reports for the last three years and each month of the current year;
- (e) copies of current tax bills, utility contracts and utility bills pertaining to the operation of the Premises, records detailing the title, status and salary of all full- and part-time employees of Seller primarily engaged at the Premises, together with records detailing any capital improvements made to the Premises in the last three years;
- (f) copies of all Commercial Leases and Service Contracts, and a listing of whether each is terminable on 30 days' notice;
- (g) copies of any title insurance commitment or title insurance policy with respect to the Premises in the possession of Seller or located at the Premises;

(h) copies of any correspondence from any governmental entity with respect to the zoning of the Premises or the modification of any access point to the Premises in the possession of Seller or located at the Premises; and

(i) copies of all Permitted Exceptions, which have been provided by Seller to Purchaser prior to the execution of this Agreement.

In the event that Purchaser shall require updates or reliance letters with respect to the Reports, Purchaser may, at its own cost and expense, obtain such items. Seller and Purchaser agree that Seller shall not be responsible for ordering updated Reports or reliance letters with respect to the Reports but shall provide any necessary authorizations and otherwise cooperate with Purchaser at no expense to Seller. Purchaser's receipt of updated Reports or reliance letters prior to Closing shall not be deemed to be a condition precedent to Closing.

Section 5. Title Report. Upon the execution hereof by Purchaser and Seller, Purchaser shall order a title commitment (the "Title Commitment") with respect to the Premises from the Title Company, together with all title exception documents referenced therein, and, at Purchaser's option and sole cost and expense, a survey (the "Survey") of the Premises, for delivery to Purchaser's counsel and Seller's counsel. To the extent the Title Commitment or the Survey discloses matters not included in Exhibit B, Purchaser shall have until the end of the Due Diligence Deadline within which to object in writing to the substantive matters reflected therein. All such items not objected to by Purchaser shall thereafter be deemed included in the definition of "Permitted Exceptions." Seller shall, within five business days following the receipt by Seller of such objection by Purchaser, inform Purchaser whether or not Seller shall undertake to remove or cure the matter or matters objected to by Purchaser. If Seller undertakes to remove or cure such matters, Seller shall proceed with all diligence to do so, and the parties shall proceed toward Closing, with the Closing Date being extended for such a reasonable time as may be necessary to remove or cure those matters to which Purchaser has objected, but in no event shall any extension be more than 30 days without the written consent of both parties. If Seller is unwilling or unable to remove or cure some or all of those matters to which Purchaser has objected, then within five business days of receiving notice that Seller is either unwilling or unable to so remove or cure: (a) Purchaser may waive its objection to those matters not removed or cured (whereby such matters shall be deemed to be included within the definition of Permitted Exceptions) and proceed to Closing; or (b) if such matter has a material and adverse affect on the Premises or Purchaser's intended use thereof, Purchaser may terminate this Agreement, and the Earnest Money shall promptly be returned to Purchaser, and any Reports, information and documents supplied by Seller to Purchaser shall promptly be returned to Seller, and Seller and Purchaser shall be relieved and discharged of any further liability or obligation under this Agreement except for those obligations which specifically survive the Closing or termination of this Agreement as set forth in this Agreement. Purchaser's failure to timely elect option (a) or (b) above shall be deemed Purchaser's election of option (a) above. Notwithstanding anything herein to the contrary, the failure of Seller to remove all title matters related to any bond / tax exempt financing, including but not limited to, any affordable housing restrictions on the Premises shall be a default hereunder, entitling Purchaser to all remedies set forth in Section 13 herein.

Section 6. Inspection and Environmental Review; Due Diligence and Extension Deadlines.

(a) From and after the date of this Agreement until Closing, upon reasonable notice and subject to Lessees' rights under the Leases, Purchaser and its agents shall be permitted to inspect the Premises, at Purchaser's sole cost and expense, in any reasonable manner desired by Purchaser at times and locations reasonably approved by Seller; provided, however, that neither Purchaser nor its agents shall be allowed access to any residential living space contained within the Premises without 48 hours' prior written notice to Seller specifying the units to be inspected and the times of such inspections, each of which must be reasonably acceptable to Seller. Purchaser hereby agrees to indemnify Seller against any loss, injury, damage or third-party claim for loss, injury or damage arising from such inspections.

(b) In the event that (i) Purchaser obtains both a Phase I environmental site assessment and a Phase II environmental site assessment from a licensed environmental engineer which disclose that a recognized Hazardous Substance affects the Premises in violation of Applicable Environmental Laws (each, a "Condition"), (ii) Purchaser provides Seller with a copy of both assessments prior to the Due Diligence Deadline, (iii) correcting or abating the Condition would cost in excess of \$50,000 (the "Cost Cap", which Purchaser hereby expressly agrees to expend to correct any Condition) and (iv) Seller is unwilling to expend the requisite sums in excess of the Cost Cap to correct or abate the Condition, which election Seller must make within five days of receipt of written notice of the Condition, then in such event, Purchaser may terminate this Agreement by written notice to Seller within five (5) days of Seller's election not to cure, and receive a refund of the Earnest Money.

(c) Purchaser shall have until 5:00 p.m. CST on the 30th day after the date of full execution and delivery of this Agreement (the "Due Diligence Deadline") to make an additional deposit of \$200,000 (the "Additional Deposit") with the Title Company and, if Purchaser deposits the Additional Deposit prior to the Due Diligence Deadline, this Agreement shall remain in full force and effect and Purchaser and Seller shall close the Transaction pursuant to the terms and conditions hereof. Upon paying such Additional Deposit into escrow, the term "Earnest Money" as used in this Agreement shall thereafter be deemed to include the Additional Deposit and, notwithstanding anything in this Agreement to the contrary, the Earnest Money shall be nonrefundable to Purchaser and shall be paid to Seller at any Closing or termination of this Agreement, except as set forth in Section 13(b) of this Agreement.

(d) Purchaser, at its option, shall have until 5:00 p.m. CST on the 60th day after the date of the full execution and delivery of this Agreement (the "Extension Deadline") to make an additional deposit of \$500,000 (the "Second Additional Deposit") with the Title Company, and if Purchaser deposits the Second Additional Deposit prior to the Extension Deadline, this Agreement shall remain in full force and effect and Purchaser and Seller shall close the Transaction pursuant to the terms and conditions hereof. Upon paying such Second Additional Deposit into escrow, the term "Earnest Money" as used in this Agreement shall thereafter be deemed to include the Second

Additional Deposit and the Additional Deposit, and notwithstanding anything in this Agreement to the contrary, the Earnest Money shall be nonrefundable to Purchaser and shall be paid to Seller at any Closing or termination of this Agreement, except as set forth in Section 13 (b) of this Agreement.

Section 7. Closing.

(a) The closing (“Closing”) of the transaction (the “Transaction”) contemplated by this Agreement shall take place in escrow using the Title Company as escrow agent or at such physical location as may be mutually agreed upon by Purchaser and Seller. The date of Closing (the “Closing Date”) shall be the later of the 30th day after the (i) the Due Diligence Deadline or (ii) the Extension Deadline if Purchaser timely pays the Second Additional Deposit.

(b) At Closing, following satisfaction of all requirements and conditions specified in Section 8 hereof, (i) Purchaser shall release such of the documents received from Seller which are required to be recorded to Title Company, and Purchaser shall concurrently instruct Title Company to record such documents as are necessary to consummate the Transaction and simultaneously transfer the Purchase Price to such account as Seller may designate and (ii) Seller shall release such of the documents received from Purchaser required to be recorded to Title Company. Title Company shall not be authorized to record any deed or other documents until it shall have in its possession the Purchase Price and is prepared to deliver same to Seller in immediately available funds. Title Company will not be authorized to deliver the Purchase Price until it is prepared to record such documents necessary to consummate the Transaction and deliver the title policy referred to in Section 8(a)(i)(L) hereof.

Section 8. Conditions to Closing.

(a) Purchaser shall not be obligated to close the Transaction until all of the following conditions have been satisfied:

(i) Purchaser shall have received each of the following items:

- (A) A special warranty deed, duly executed and acknowledged by Seller, conveying the Premises to Purchaser, subject to the Permitted Exceptions;
- (B) The Bill of Sale and Assignment and Assumption Agreement in the form attached as Exhibit G;
- (C) An affidavit in form acceptable to the Title Company sufficient to remove any exception for mechanics’ and materialmen’s liens and parties in possession (except tenants under unrecorded, residential leases) and appropriate lien waivers, if necessary;
- (D) A then-current residential rent roll and a certification of Seller in respect thereof;

(E) Each of the residential tenant leases (including any amendments) in effect at the Premises as of the day of Closing and all files for existing residential tenants in its possession or control (to be delivered at the Premises);

(F) An affidavit certifying that the Seller is not a foreign entity under the Foreign Investment in Real Property Act;

(G) A notice letter to all residents of the Premises in the form attached as Exhibit H, provided Purchaser furnishes sufficient information to complete such form, not less than three business days prior to Closing (the "Notice Letter");

(H) An authorization transferring the Premises telephone numbers to Purchaser (the "Telephone Transfer");

(I) The Service Contracts (to be delivered at the Premises);

(J) Copies of the plans for the improvements on the Premises and all owner's manuals relating to the Premises, including an assignment of any and all construction and other warranties associated with the Premises;

(K) All keys to all locks on the Premises and originals or copies of the books and records and of all original documents that are reasonably necessary for the continued operation of the Premises;

(L) An owner's policy of title insurance (the "Title Policy") from Title Company subject only to the Permitted Exceptions, in an amount not less than the Purchase Price or an irrevocable written commitment from Title Company dated as of the date and time of the Closing for the issuance of such a policy showing that all requirements for issuance have been satisfied;

(M) Such evidence or documents as may be reasonably required by Purchaser or Title Company evidencing the status and capacity of Seller and the authority of the person or persons who are executing the various documents on behalf of Seller in connection with the Transaction; and

(N) Possession of the Premises subject to the rights of parties in possession pursuant to or as permitted by the Leases and the Permitted Exceptions.

(ii) Seller shall have delivered to Purchaser such further documents as reasonably may be required in order to fully and legally close this transaction and transfer the Premises to Purchaser.

(b) Seller shall not be obligated to close the Transaction until all of the following conditions have been satisfied:

- (i) The Purchase Price shall have been placed in escrow with Title Company for release to Seller upon Seller's satisfaction of the requirements of Section 8(a); and
- (ii) The Bill of Sale and Assignment and Assumption Agreement;
- (iii) The Notice Letter;
- (iv) Purchaser shall have delivered to Seller such further documents as reasonably may be required in order to fully and legally close the Transaction.

(c) Failure of Seller to deliver the items in Section 8(a) to the Purchaser and/or Title Company, as applicable, and failure of Purchaser to deliver the items listed in Section 8(b) to the Seller and/or Title Company, as applicable, shall be considered a default hereunder, and the non-defaulting party shall be entitled to the remedies set forth in Section 13 hereof.

Section 9. Transaction Costs.

(a) The costs of Closing the Transaction shall be paid on or prior to the Closing Date by and among the parties as follows:

- (i) Seller shall pay for the Title Commitment and the premium for the basic Title Policy and Purchaser shall pay any extra premiums or costs for extended coverage and any other endorsements requested by Purchaser;
- (ii) Seller shall pay the cost of any documentary stamps to file the Deed and any lien releases;
- (iii) Seller shall pay the cost of recording the Deed; and
- (iv) Purchaser shall pay all other costs incurred to close the Transaction.

(b) All standby fees, taxes, including, without limitation, real estate taxes and personal property taxes (with full discount, to the extent permitted by law), collected rents, the Service Contracts, payments due under the Commercial Leases, and all other income, costs, and charges of every kind which in any manner relate to the operation of the Premises (but not including insurance premiums) shall be prorated as of 12:01 a.m. on the day of Closing, as if Purchaser owned the Premises during the entire day upon which Closing occurs. Those incomes and expenses for which actual bills are available at Closing, shall be prorated at Closing based on such actual bills. Those items for which actual bills were not available at Closing, shall be prorated based upon good faith estimates of the previous month's or year's bill(s), as applicable. To the extent that information necessary for any proration or adjustment required hereunder is not available

at Closing, or that information received in that regard is inaccurate, all such matters will be re-prorated upon the receipt of correct information; provided, however, all final prorations shall be made within sixty (60) days after Closing and payment made within ten (10) days of request therefore, except post-closing adjustments for real estate and personal ad valorem taxes which shall be made within ten (10) days after written demand therefor is made by either party hereto to the other party with a copy of the actual tax bill(s) attached. Notwithstanding anything to the contrary contained in this Agreement, the provisions of this Section shall survive Closing. The following items shall be reimbursed, paid, credited, adjusted or prorated by or between Seller and Purchaser as set forth below:

(i) Service Contracts and utility charges shall be determined to the day preceding the Closing Date and paid by Seller and appropriate prorations of Service Contracts shall be made. Purchaser shall take all steps necessary to effectuate the transfer of all utilities to its name as of Closing, where necessary, post deposits with the utility companies, and provide Seller with written evidence of the transfer at or prior to Closing. Seller shall be entitled to recover any and all deposits held by any utility company as of the Closing Date. In the event Seller received a lump sum payment for any Service Contract affecting the Premises, including a laundry, telephone, or cable contract, Purchaser shall receive a credit at Closing for the pro rata portion of such lump sum payment representing the period of the contract, and any right to renew such contract by the servicer, including and following the Closing Date.

(ii) All prepaid rents on residential leases shall be paid to Purchaser at Closing. Purchaser will collect all residential rents after Closing and will apply such rents to all amounts outstanding under the leases from and after Closing. During a period of six (6) months following Closing, in the event Purchaser collects amounts due and owing from residential tenants attributable to periods prior to Closing, Purchaser will forward such amounts to Seller. The obligations in this subsection shall survive the Closing.

(iii) All fees on transferable licenses and permits shall be paid by Purchaser at Closing.

(iv) A credit against the Purchase Price for refundable security deposits, pet deposits and interest, if any, accrued to the Closing Date for any current and pending residential tenants together with any non-refundable fees collected from any current and pending residential tenants, which fees are designated for the purpose of actually offsetting any expenses incurred by the landlord as a result of such tenant's occupancy, to the extent such fees have not been applied against any such expenses prior to Closing, in accordance with applicable law.

Section 10. Real Estate Commission. Neither Purchaser nor Seller has used a broker to negotiate the Transaction except for Apartment Realty Advisors, whose fee or commission shall be paid by Seller pursuant to a separate agreement. Purchaser and Seller hereby indemnify,

defend and hold the other harmless from and against any and all claims, losses, costs and expenses, including reasonable counsel fees, resulting from any claims that may be made through that party against the other by any other broker claiming a commission.

Section 11. Operation of Premises. Prior to Closing, Seller covenants and agrees to cause Owner to operate, repair, and maintain the Premises in the same manner and consistent with the same practice as prior to the Effective Date, including keeping and performing all obligations to be performed by landlord under all tenant leases and Commercial Leases. Seller shall ensure that Owner shall not enter into any new contracts following the expiration of the Due Diligence Period which are not cancelable by Landlord upon thirty (30) days notice and will enter into new leases only in the ordinary course of business, using current credit screening standards and prudent underwriting practices.

Section 12. Condemnation and Casualty. In case any material portion of the Premises shall have been condemned or shall be in the process of condemnation on the Closing Date or shall then have been damaged by reason of public or quasi-public improvements, or in case a portion of the Premises shall be damaged or destroyed by fire or other casualty which will cost more than \$100,000 to restore, Purchaser shall have the right (a) to terminate this Agreement by written notice to Seller within 30 business days after notice of any such event or (b) to proceed to Closing according to the terms hereof without any reduction of the Purchase Price but with all insurance proceeds or condemnation awards payable to Purchaser.

Section 13. Earnest Money/Remedies.

(a) Seller and Purchaser each acknowledge and agree that the Earnest Money shall be security for Purchaser's performance under this Agreement.

(b) In the event of a default by Seller under this Agreement, at Purchaser's option: (i) Purchaser may terminate this Agreement and the Earnest Money hereunder shall be returned to Purchaser, and Seller will not have any further liability to Purchaser, or (ii) Purchaser may have the right of specific performance of this Agreement; or (iii) in the event that Seller is unable to convey title to the Premises and Personal Property to Purchaser as of the Closing Date, then Purchaser shall have the right to terminate this Agreement, receive the return of the Earnest Money and receive from Seller a reimbursement of its out-of-pocket expenses incurred, in an amount not to exceed \$100,000.00.

(c) In the event of a default by Purchaser under this Agreement, Seller may terminate this Agreement and retain the Earnest Money as liquidated damages, it being acknowledged by Purchaser and Seller that the actual damages suffered by Seller in such an event would be difficult or impossible to measure and that the Earnest Money represents a good-faith estimate thereof.

Section 14. Notices. All notices, demands or other communications of any type (herein collectively referred to as "Notices") given by Seller to Purchaser or by Purchaser to Seller, whether required by this Agreement or in any way related to the Transaction, shall be void and of no effect unless given in accordance with the provisions of this Section. All Notices shall be in

writing and delivered to the person to whom the Notice is directed, either in person, or by United States mail as a registered or certified item, return receipt requested, or by overnight courier, or by telephone facsimile (telecopier) transmission, and shall be effective upon receipt. Notices shall be provided to the parties and addresses (or facsimile numbers, as applicable) specified below:

If to Purchaser: Development Resources Group, LLC
115 East Marks Street
Orlando, FL 32803
Attention: Michael Halpin
Telephone: (407)709-4560
Facsimile: (407) 841-7050

with a copy to: Shutts & Bowen LLP
300 S. Orange Avenue
Suite 1000
Orlando, FL 32801
Attention: Jennifer S. Tobin, Esq.
Telephone: (407) 835-6960
Facsimile: (407)849-7244

If to Seller: America First Tax Exempt Investors, LP
1004 Farnam Street
Omaha, NE 68102
Attention: Chad L. Daffer
Telephone: (402) 930-3085
Facsimile: (402) 930-3047

with a copy to: Kutak Rock LLP
The Omaha Building
1650 Farnam Street
Omaha, NE 68102
Attention: Rich Rosenblatt
Telephone: (402) 346-6000
Facsimile: (402)346-1148

Facsimile transmissions shall be effective upon receipt thereof so long as receipt of the transmission is confirmed by telephone call and an original copy of the correspondence is posted by mail or sent by overnight courier as provided above.

Section 15. Indemnity.

(a) Seller hereby agrees to indemnify and hold harmless Purchaser, its partners and their officers, directors, shareholders and partners from and against any and all liabilities, losses, damages, costs, expenses (including, without limitation, reasonable attorneys' fees and expenses), causes of action, suits, claims, demands or judgments of any nature arising from or connected with the ownership of the Premises to the Closing

Date, except as the same may be caused by any negligence or willful misconduct of Purchaser or may arise pursuant to any inspection of the Premises by Purchaser or its agents pursuant to this Agreement.

(b) Purchaser hereby agrees to indemnify and hold harmless Seller, its partners and their officers, directors, shareholders and partners from and against any and all liabilities, losses, damages, costs, expenses (including, without limitation, reasonable attorneys' fees and expenses), causes of action, suits, claims, demands or judgments of any nature arising from or connected with the ownership of the Premises after the Closing Date except as the same may be caused by any negligence or willful misconduct of Seller.

(c) The indemnities contained in this Section shall survive the Closing of the Transaction.

Section 16. Assignment. The rights and obligations of Purchaser arising under this Agreement may not be assigned without the prior written consent of Seller.

Notwithstanding anything herein to the contrary, the rights and obligations of Purchaser under this Agreement may be assigned, without the prior written consent of Seller, to (a) an entity owned or controlled by Purchaser and formed for the sole purpose of entering into the Transaction, (b) a qualified intermediary retained by Purchaser in connection with an exchange pursuant to Section 1031 of the Internal Revenue Code of 1986, as amended, or (c) an affiliate or subsidiary of Purchaser. In any assignment which may be made by Purchaser of its rights and obligations under this Agreement, Purchaser shall remain primarily liable under this Agreement.

Section 17. Miscellaneous.

(a) This Agreement shall be construed and interpreted in accordance with the laws of Florida. Where required for proper interpretation, words in the singular shall include the plural, the masculine gender shall include the neuter and the feminine, and vice versa. Periods of time shall be measured in calendar days unless otherwise stated. If any performance is required on a Saturday, a Sunday or any holiday, such performance will be due on the next succeeding day which is not a Saturday, a Sunday or a holiday.

(b) This Agreement may not be modified or amended except by an agreement in writing signed by Seller and Purchaser, and upon any delivery of this Agreement into escrow upon execution, Title Company shall be deemed to have been so instructed. The parties may waive any of the conditions contained herein or any of the obligations of the other party hereunder, but any such waiver shall be effective only if in writing and signed by the party waiving such conditions or obligations, and upon any delivery of this Agreement into escrow upon execution, Title Company shall be deemed to have been so instructed.

(c) Except as otherwise set forth in this Agreement, this Agreement shall be binding upon and inure to the benefit of all successors and permitted assigns of the parties hereto.

(d) This Agreement shall not create any third-party beneficiary rights.

(e) Each party executing this Agreement warrants and represents that it is fully authorized to do so.

(f) The descriptive headings of the sections contained in this Agreement are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

(g) This Agreement, including the Exhibits hereto, constitutes the entire agreement among the parties pertaining to the subject matter hereof and supersedes all prior and contemporaneous agreements and understandings of the parties in connection therewith.

(h) This Agreement may be executed in any number of counterparts, each of which, when executed and delivered, shall be an original, but all counterparts shall together constitute one and the same instrument.

(i) In the event of any litigation between Seller and Purchaser with respect to the Premises or this Agreement, the prevailing party shall be entitled to collect its reasonable attorneys' fees and expenses from the losing party.

(j) This Agreement shall not be recorded by either party in any office or place of public record, and if Purchaser shall record this Agreement or cause same to be recorded, Seller may, at its option, elect to treat such act as a breach of this Agreement.

Section 18. Condominium Conversion. Seller acknowledges and agrees that Purchaser will begin the process of converting the Premises from a rental apartment property to the condominium form of ownership during the term of this Contract. Seller agrees to cooperate with Purchaser in said conversion process, by, among other things, causing Owner to execute appropriate forms for filing with the State of Florida Division of Business and Professional Regulations. At Closing, Seller agrees to execute, or cause Owner to execute, an Amendment to the conversion filing to change the "developer" of the condominium to be the Purchaser. Purchaser acknowledges that neither the Declaration of Condominium nor any other document evidencing, referencing or discussing the conversion of the Premises to the condominium form of ownership will be recorded prior to Closing. The Purchaser agrees that if the Contract is terminated for any reason it shall immediately withdraw the conversion filing. Finally the Purchaser agrees that all costs of the foregoing condominium conversion shall be born by Purchaser, and that Seller shall incur no cost or liability with said conversion process; however, Seller agrees to use commercially reasonable efforts to maintain its existing tenants during the term of this Contract. The terms of this Section shall survive the Closing or earlier termination hereof.

Section 19. Escrow Agent. Escrow Agent shall hold the Earnest Money in an interest bearing account with the interest accruing to the benefit of the party ultimately receiving the Earnest Money. In the event the Escrow Agent is in doubt as to its duties and liabilities under the provisions of this Contract, the Escrow Agent may, in its sole discretion, continue to hold the deposit until the parties mutually agree in writing to the disbursement thereof, or until a judgment under a court of competent jurisdiction shall determine the rights of the parties thereto,

or it may deposit all of the Earnest Money with the Clerk of the Circuit Court of Palm County, Florida, and upon notifying all parties concerning such action, all liability on the part of the Escrow Agent shall fully cease and terminate, except to the extent of accounting for any monies delivered out of escrow. In the event of any suit between the Purchaser and the Seller wherein the Escrow Agent is named a party by virtue of acting as Escrow Agent hereunder, or in the event of any suit wherein Escrow Agent interpleads the subject matter of this escrow, Escrow Agent shall be entitled to recover reasonable attorneys' fees and costs incurred, said fees and costs to be charged and assessed as "costs" and paid from the monies held by Escrow Agent or held by the Clerk of the Circuit Court, as the case may be. All parties agree that the Escrow Agent shall not be liable to any party or person whomsoever for misdelivery to the Purchaser or the Seller of the monies subject to this escrow unless such misdelivery shall be due to willful breach of this Contract or gross negligence on the part of the Escrow Agent, nor shall the Escrow Agent be liable for the failure of any banking institution with which the deposit is deposited. Seller acknowledges that Escrow Agent is the attorney for Purchaser and agrees that in the event of a dispute between the parties regarding this Contract, Escrow Agent shall be entitled to represent Purchaser without claim of conflict of interest due to the service by Purchaser's counsel as Escrow Agent hereunder.

IN WITNESS WHEREOF, Seller and Purchaser have caused this Agreement to be executed by their duly authorized representatives as of the date first above written.

AMERICA FIRST TAX EXEMPT
INVESTORS, LP, a Delaware limited
partnership

By America First Capital Associates Limited
Partnership Two, its general partner

By AMERICA FIRST COMPANIES, L.L.C., its general partner

By /s/ Michael Draper
Michael Draper, Vice President

By _____
Name _____
Title _____

DEVELOPMENT RESOURCES GROUP,
LLC, a Florida limited liability company

By /s/ Michael Halpin
Name Michael Halpin
Title Manager

FIRST AMENDMENT TO AGREEMENT OF PURCHASE AND SALE

THIS FIRST AMENDMENT TO AGREEMENT OF PURCHASE AND SALE(this "Amendment") is made and entered into this 19th day of October, 2005 by and between **DEVELOPMENT RESOURCES GROUP, LLC**, a Florida limited liability company ("Purchaser") and **AMERICA FIRST TAX EXEMPT INVESTORS, LP**, a Delaware limited partnership ("Seller").

PRELIMINARY STATEMENTS

Purchaser and Seller entered into that certain Agreement of Purchase and Sale dated July 22, 2005 (the "Agreement") pertaining to the "Premises" as defined in the Agreement. Capitalized terms used in this Amendment but not defined in this Amendment shall have the meanings assigned to them in the Agreement. Purchaser and Seller desire to amend the Agreement as set forth in this Amendment.

NOW, THEREFORE, in consideration of the mutual promises, covenants and conditions set forth below, and other valuable consideration, the receipt and sufficiency of which are hereby expressly acknowledged, Purchaser and Seller acknowledge and agree that the Agreement is hereby amended and modified as set forth below.

Section 1. Closing. The second sentence of Section 7(a) of the Agreement is hereby deleted and replaced in its entirety with the following:

"The date of Closing (the "Closing Date") shall be November 10, 2005."

Section 2. Additional Earnest Money. In consideration of Seller's agreement to extend the Closing Date as set forth above, Purchaser has, as of the date hereof, made an additional deposit of \$350,000 (the "Additional Deposit") with the Title Company. The term "Earnest Money" as used in the Agreement shall hereafter be deemed to include such Additional Deposit.

Section 3. Reaffirmation. Except as specifically amended by this Amendment, Purchaser and Seller hereby reaffirm all of their respective duties and obligations set forth in the Agreement. Specifically, Purchaser hereby affirms and agrees that (a) the Earnest Money in the amount of \$1,850,000 is now on deposit with the Title Company in immediately available funds and (b) notwithstanding anything in the Agreement to the contrary, the Earnest Money shall be nonrefundable to Purchaser and shall be paid to Seller at any Closing or termination of the Agreement, except as set forth in Section 13(b) of the Agreement.

Section 4. Estoppel. Purchaser and Seller hereby acknowledge, affirm, represent and warrant to each other that no event of default or breach has occurred under the terms of the Agreement as of the date hereof.

Section 5. Counterparts. This Amendment may be executed in counterparts, each of which when taken together shall constitute one entire agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the day and year first above written.

PURCHASER:

DEVELOPMENT RESOURCES GROUP,
LLC, a Florida limited liability company

By /s/ Michael Nazpin
Name MICHAEL NAZPIN
Title MGR.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the day and year first above written.

SELLER:

AMERICA FIRST TAX EXEMPT
INVESTORS, LP, a Delaware limited
partnership

By America First Capital Associates Limited
Partnership Two, its general partner

By AMERICA FIRST COMPANIES, L.L.C.,
its general partner

By /s/ Michael Draper
Michael Draper, Vice President

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 14, 2005

/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 14, 2005

/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 months ended September 30, 2005 (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 14, 2005

/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

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 months ended September 30, 2005 (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 14, 2005

/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

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.