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 June 30, 2006

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 large accelerated filer, an accelerated filer, or non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ☐ Accelerated filer ☐ Non- accelerated filer ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES☐ NO ☑

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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 and other items discussed under "Risk Factors" in Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and in Item 1A of Part II of this report.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	June 30, 2006	December 31, 2005
Assets		
Cash and cash equivalents	$ 3,957,778	$ 3,298,605
Restricted cash	3,223,691	3,116,340
Interest receivable	192,450	142,816
Tax-exempt mortgage revenue bonds	23,620,865	17,033,964
Other tax-exempt bond	4,800,000	12,000,000
Real estate assets:		
Land	7,280,555	7,280,555
Buildings and improvements	75,269,399	75,215,802
Real estate assets before accumulated depreciation	82,549,954	82,496,357
Accumulated depreciation	(27,084,606)	(25,903,267)
Net real estate assets	55,465,348	56,593,090
Other assets	1,894,514	1,858,374
Assets of discontinued operations	17,405,978	17,530,935
Total Assets	$ 110,560,624	$ 111,574,124
Liabilities and Partners' Capital		
Liabilities		
Accounts payable, accrued expenses and other liabilities	$ 6,889,898	$ 5,917,600
Distribution payable	1,341,535	1,341,534
Debt financing	45,900,000	45,990,000
Liabilities of discontinued operations	18,560,000	18,685,000
Total Liabilities	72,691,433	71,934,134
Commitments and Contingencies		
Partners' Capital		
General Partner	173,510	178,058
Beneficial Unit Certificate ("BUC") holders	88,377,142	88,827,326
Unallocated deficit of variable interest entities	(50,681,461)	(49,365,394)
Total Partners' Capital	37,869,191	39,639,990
Total Liabilities and Partners' Capital	$ 110,560,624	$ 111,574,124

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

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the Three Months Ended,		For the Six Months Ended,	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Income:				
Rental revenues	$ 3,457,715	$ 3,288,858	$ 6,858,152	$ 6,562,393
Mortgage revenue bond investment income	361,318	272,483	626,368	537,908
Other interest income	85,456	28,939	217,264	78,157
Gain on sale of securities	—	—	—	126,750
	3,904,489	3,590,280	7,701,784	7,305,208
Expenses:				
Real estate operating (exclusive of items shown below)	2,197,937	1,937,323	4,322,135	3,829,798
Depreciation and amortization	565,654	682,355	1,178,906	1,343,918
Interest	396,461	597,802	780,942	729,672
General and administrative	311,342	472,749	719,626	855,541
	3,471,394	3,690,229	7,001,609	6,758,929
Income (loss) from continuing operations	$ 433,095	$ (99,949)	$ 700,175	$ 546,279
Income from discontinued operations	211,739	125,127	405,194	282,013
Net income	$ 644,834	$ 25,178	$ 1,105,369	$ 828,292
Net income allocated to:				
General Partner	$ 12,914	$ 8,893	$ 24,214	$ 25,125
BUC holders	1,278,475	880,415	2,397,222	2,487,417
Unallocated deficit of variable interest entities	(646,555)	(864,130)	(1,316,067)	(1,684,250)
	$ 644,834	$ 25,178	$ 1,105,369	$ 828,292
BUC holders' interest in net income per unit (basic and diluted):				
Income from continuing operations	$ 0.13	$ 0.09	$ 0.24	$ 0.25
Income from discontinued operations	—	—	—	—
Net income, basic and diluted, per unit	$ 0.13	$ 0.09	$ 0.24	$ 0.25
Weighted average number of units outstanding, basic and diluted	9,837,928	9,837,928	9,837,928	9,837,928

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

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AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL AND COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2006
(UNAUDITED)

	General Partner	Beneficial Unit Certificate holders # of Units	Beneficial Unit Certificate holders Amount	Unallocated deficit of variable interest entities	Total	Accumulated Other Comprehensive Loss
Partners' Capital						
Balance at January 1, 2006	$ 178,058	9,837,928	$ 88,827,326	$ (49,365,394)	$ 39,639,990	$ (642,703)
Net income	24,214		2,397,222	(1,316,067)	1,105,369	
Unrealized loss on securities	(1,931)		(191,168)	—	(193,099)	(193,099)
Total comprehensive income					$ 912,270	
Distributions paid or accrued	(26,831)		(2,656,238)	—	(2,683,069)	
Balance at June 30, 2006	$ 173,510	9,837,928	$ 88,377,142	$ (50,681,461)	$ 37,869,191	$ (835,802)

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

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AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the six months ended June 30, 2006	For the six months ended June 30, 2005
Operating activities:		
Net income	$ 1,105,369	$ 828,292
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,313,743	1,664,670
Gain on sale of securities	—	(126,750)
(Increase) decrease in interest receivable	(49,634)	82,983
Decrease in other assets	(58,545)	352,909
Increase (decrease) in accounts payable, accrued expenses and other liabilities	864,948	(1,144,561)
Net cash provided by operating activities	3,175,881	1,657,543
Investing activities:		
Acquisition of tax-exempt revenue bonds	(18,800,000)	—
Proceeds from the sale of other tax-exempt bonds	19,200,000	4,026,750
Increase in restricted cash	(107,351)	(1,119,417)
Capital expenditures	(38,639)	(259,415)
Principal payments received on tax-exempt bonds	20,000	10,000
Net cash provided by investing activities	274,010	2,657,918
Financing activities:		
Distributions paid	(2,683,069)	(2,683,072)
Principal payments on debt financing and note payable	(215,000)	(310,833)
Increase in liabilities related to restricted cash	107,351	1,119,417
Net cash used in financing activities	(2,790,718)	(1,874,488)
Net increase in cash and cash equivalents	659,173	2,440,973
Cash and cash equivalents at beginning of period	3,298,605	2,317,342
Cash and cash equivalents at end of period	$ 3,957,778	$ 4,758,315
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 1,457,341	$ 878,698
Distributions declared but not paid	$ 1,341,535	$ 1,341,536

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006
(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 "AFCA 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, 2005. In the opinion of management, all normal and recurring adjustments necessary to present fairly the financial position as of June 30, 2006, 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 six months ended June 30, 2005, reflects a change in the classification of fluctuations in restricted cash from a financing activity to an investing activity and a change in fluctuations in liabilities related to restricted cash from an operating activity to a financing activity. The reclassification was made in order to conform to the current year presentation.

2. Partnership Income, Expenses and Cash Distributions

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

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 bonds as of date shown:

	June 30, 2006			
Description of Tax-Exempt Mortgage Revenue Bonds	Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Chandler Creek Apartments	$ 11,500,000	$ —	$ (185,150)	$ 11,314,850
Clarkson College	6,156,667	—	(650,652)	5,506,015
Bella Vista	6,800,000	—	—	6,800,000
	$ 24,456,667	$ —	$ (835,802)	$ 23,620,865

	December 31, 2005			
Description of Tax-Exempt Mortgage Revenue Bonds	Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Chandler Creek Apartments	$ 11,500,000	$ —	$ (141,450)	$ 11,358,550
Clarkson College	6,176,667	—	(501,253)	5,675,414
	$ 17,676,667	$ —	$ (642,703)	$ 17,033,964

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 Chandler Creek bonds are in technical default and interest is being paid on these bonds at a rate below the current market rate. In April 2006, the Company terminated a forbearance agreement with the borrower. The termination of the forbearance agreement allows the Company to seek additional remedies including the ultimate foreclosure of the property, if necessary. The Company does not currently intend to exercise its right to foreclose on the property as the property continues to pursue alternatives to ultimately satisfy its obligations to its creditors. The current unrealized losses on the 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 unrealized loss will continue to fluctuate each reporting period based on the market conditions and present value of the expected cash flow.

In April 2006, the Company acquired the Bella Vista bonds for a par value of $6.8 million, which represented 100% of the bond issuance. The bonds earn an annual interest rate of 6.15% with semi-annual interest payments and a stated maturity date of April 1, 2046. The bonds were issued in order to construct a 144 unit multi-family apartment complex in Gainesville, Texas. The apartment complex is currently under construction with an estimated completion date of April 2007. The bonds are secured by a construction performance guarantee during the construction period by a third party guarantor. Therefore, during the construction process, the Company believes it is appropriate to reflect the fair value of the bonds at par value. Upon the completion of construction, the ultimate fair value of the bonds will be subject to traditional bond risks including the general interest rate environment along with the performance of the underlying property that services the principal and interest payments on the bonds. Unlike other bonds in the Company's current portfolio, this bond is further supported through an unaffiliated equity partner in the project. The equity partner will provide additional security for the bonds that other bonds in the portfolio do not have. Also, unlike many of the bonds currently in the Company's bond portfolio, the Company has determined that the underlying entity that supports the bonds will not be required to be consolidated into the Company's consolidated financial statements.

Because these bonds are 100% owned by the Company and no active market exists for such bonds, future determinations of the bond's fair value, upon completion, will be primarily dependent on the Company's internal valuation techniques including discounted cash flow models.

4. Debt Financing and Note Payable

The Company's debt financing of $45,900,000 bears interest at a weekly floating bond rate plus remarketing, credit enhancement, liquidity and trustee fees which averaged 3.9% and 3.0% in the aggregate for the six months ended June 30, 2006 and 2005, respectively and 3.9% and 3.3% in the aggregate for the three months ended June 30, 2006 and 2005, respectively. The note payable of $18,560,000 (included in liabilities of discontinued operations) 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 of 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 six months ended June 30, 2006, the Company's administrative fees to the General Partner were $118,020 and $196,394, respectively. For the three and six months ended June 30, 2005, the Company's administrative fees to the General Partner were $97,931 and $198,580, respectively.

An affiliate of the General Partner was retained to provide property management services for Ashley Pointe, Ashley Square, Bent Tree 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 Partner amounted to $197,013 for the three months ended June 30, 2006, and $180,875 for the three months ended June 30, 2005. The management fees paid by the property owners to the affiliate of the General Partner amounted to $362,898 for the six months ended June 30, 2006, and $363,029 for the six months ended June 30, 2005. 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 within interest expense. The change in the fair value of derivative contracts resulted in reduction of interest expense of approximately $123,136 for the six months ended June 30, 2006, and an increase of interest expense of $52,183 for the six months ended June 30, 2005.

Subsequent to June 30, 2006, an interest rate cap with a notional amount of $20,000,000 expired. A new interest rate cap was executed with a notional amount of $10,000,000 and a cap rate of 4.0%. The expiration date of the new interest rate cap is July 1, 2011. The Company paid $159,700 for the interest rate cap and did not qualify for hedge accounting under the terms of the agreement. Therefore, the Company will account for the new interest rate cap in the same manner as the existing interest rate caps. The interest rate cap will be carried at fair value, with changes in fair value included in the current period earnings within interest expense.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006
(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 them 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 June 30, 2006, the Company reported the assets and financial results of eight VIE multifamily apartment properties containing a total of 1,764 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 June 30, 2006 and 2005:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Total revenues				
Partnership	$ 2,002,756	$ 2,108,232	$ 3,929,132	$ 4,357,571
VIEs	3,457,716	3,288,858	6,858,152	6,562,393
Consolidation/eliminations	(1,555,983)	(1,806,810)	(3,085,500)	(3,614,756)
Total revenues	$ 3,904,489	$ 3,590,280	$ 7,701,784	$ 7,305,208
Net income				
Partnership	$ 1,291,389	$ 889,309	$ 2,421,436	$ 2,512,542
VIEs	(1,420,806)	(1,763,669)	(2,862,105)	(3,495,984)
Consolidation/eliminations	774,251	899,538	1,546,038	1,811,734
Net income	$ 644,834	$ 25,178	$ 1,105,369	$ 828,292

8. Discontinued Operations and Assets Held for Sale

During 2005, the Partnership sold a 316-unit multi-family housing project located in West Palm Beach, Florida known as Clear Lake Colony Apartments ("Clear Lake"). Prior to the sale of Clear Lake, the property met the criteria under SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" as a discontinued operation. Therefore, the operations of Clear Lake are classified as a discontinued operation in the consolidated results of operations for the periods ending June 30, 2005.

As of June 30, 2006 the Company continued to designate Northwoods Lake Apartments in Duluth, Georgia as a discontinued operation under SFAS No. 144 and it is classified as such in the consolidated results of operations for the periods ended June 30, 2006 and June 30, 2005. The following table presents a balance sheet for the assets and liabilities of the discontinued operations as of June 30, 2006 and December 31, 2005:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006
(UNAUDITED)

	June 30, 2006	Dec. 31, 2005
Land	$ 3,787,500	$ 3,787,500
Buildings and improvements	21,720,420	21,720,420
Real estate assets before accumulated depreciation	25,507,920	25,507,920
Accumulated depreciation	(8,101,942)	(7,976,985)
Total assets	17,405,978	17,530,935
Total liabilities	18,560,000	18,685,000
Net liabilities	$ 1,154,022	$ 1,154,065

The following table presents the revenues and net income for the discontinued operations for the six months ended June 30, 2006 and 2005:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Rental Revenues	$ 1,013,761	$ 1,613,488	$ 2,018,429	$ 3,217,510
Expenses	802,022	1,488,361	1,613,235	2,935,497
Net Income	$ 211,739	$ 125,127	$ 405,194	$ 282,013

9. Accounting Pronouncements

FASB Interpretation 48 “Accounting for Uncertainty in Income Taxes” (“FIN 48”) was issued in July 2006 and is required to be adopted by the Company beginning January 1, 2007. The Company is currently evaluating the effect, if any, the adoption of FIN 48 will have on its consolidated financial statements.

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.

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, 2005.

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 six months ended June 30, 2006 and 2005 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, 2005.

Three Months Ended June 30, 2006 compared to Three Months Ended June 30, 2005 (Consolidated)

Change in Results of Operations

	For the three Months Ended June 30, 2006	For the three Months Ended June 30, 2005	Dollar Change
Income			
Rental revenues	$ 3,457,715	$ 3,288,858	$ 168,857
Mortgage revenue bond investment income	361,318	272,483	88,835
Other interest income	85,456	28,939	56,517
	3,904,489	3,590,280	314,209
Expenses			
Real estate operating (exclusive of items shown below)	2,197,937	1,937,323	260,614
Depreciation and amortization	565,654	682,355	(116,701)
Interest	396,461	597,802	(201,341)
General and administrative	311,342	472,749	(161,407)
	3,471,394	3,690,229	(218,835)
Income (loss) from continuing operations	433,095	(99,949)	533,044
Income from discontinued operations	211,739	125,127	86,612
Net income	$ 644,834	$ 25,178	$ 619,656

Rental revenues. Rental revenues increased for the three months ended June 30, 2006 compared to the same period of 2005. Rental revenues increased by approximately $32 per unit per month during the second quarter of 2006 compared to the same period of 2005. Increased rental revenues were realized at all properties with the exception of Ashley Square. Revenues at Ashley Square decreased approximately $33,000 in the second quarter of 2006 compared to the same quarter of 2005.

Mortgage revenue bond investment income. Mortgage revenue bond investment income increased during the second quarter of 2006 compared to the second quarter of 2005 due to the acquisition of $6.8 million of Bella Vista Tax-Exempt Mortgage Revenue Bonds. The Bella Vista bonds earn tax-exempt interest at a stated rate of 6.15% with semi-annual interest payments. All interest payments on the mortgage revenue bonds were current during this period.

Other interest income. The increase in other interest income is attributable to temporary investment in liquid securities. The proceeds from the sale of Clear Lake Colonies that occurred in fourth quarter of 2005 created additional cash that was invested in short term liquid securities while the Company explored longer term options for the funds. A portion of those funds were invested in the Bella Vista bonds previously discussed.

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 the second quarter of 2006 compared to the same period of 2005. 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. Approximately $210,000 of the increase in real estate operating expenses can be attributed to increased spending on repairs and maintenance. Certain properties also realized increased salaries and benefits costs.

Depreciation and amortization expense. Depreciation and amortization consist primarily of depreciation associated with the apartment properties of the consolidated VIEs. The large decrease in depreciation expense is primarily attributable to certain assets becoming fully depreciated at two of the Company's properties during the second quarter of 2006.

Interest expense. Interest expense decreased approximately $201,000 in the three month period ended June 30, 2006 compared to June 30, 2005. The decrease is attributable to the change in fair value of interest rate caps and a lower average outstanding debt compared to the previous period of 2005. Variable rate debt accounted for approximately 71% of the Company's total outstanding debt as of June 30, 2006. With the exception of $900,000 as of June 30, 2006, all of the variable rate debt outstanding was protected with interest rate cap agreements. The change in fair value of the interest rate caps resulted in a reduction in interest expense of approximately $271,000 compared to the three months ended June 2005.

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 as interest expense in the consolidated statements of operations. 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.

General and administrative expenses. The decrease in general and administrative expenses that occurred in second quarter of 2006 can be attributed to lower board of directors fees, accounting and legal costs compared to second quarter of 2005.

Discontinued Operations. As of June 30, 2006, Northwoods Lake Apartments has been designated as held for sale. Accordingly, the results of operations for the periods presented have been reclassified to discontinued operations and disclosed as a single line item on the statements of operations. During 2005, the Company divested Clear Lake Colony Apartments. As a result, that property is also classified as discontinued operations for the three months ended June 30, 2005. Income from discontinued operations increased during the first six months of 2006 compared to 2005 primarily due to the requirements of generally accepted accounting principles to cease asset depreciation at the time an asset is determined to be held for sale. Because Northwoods met the criteria as an asset held for sale during the end of the first quarter of 2006, there was no depreciation recorded during second quarter of 2006. The amount of depreciation that was not recorded in second quarter of 2006 was approximately $134,000. Offsetting this increase in income from discontinued operations was a decrease related to the loss of Clear Lake's contribution of approximately $49,000 to discontinued operations in 2005 compared to 2006 due to the sale of Clear Lake in fourth quarter of 2005.

Six Months Ended June 30, 2006 compared to Six Months Ended June 30, 2005 (Consolidated)

Change in Results of Operations

	For the six Months Ended June 30, 2006	For the six Months Ended June 30, 2005	Dollar Change
Income			
Rental revenues	$ 6,858,152	$ 6,562,393	$ 295,759
Mortgage revenue bond investment income	626,368	537,908	88,460
Other interest income	217,264	78,157	139,107
Gain on sale of securities	—	126,750	(126,750)
	7,701,784	7,305,208	396,576
Expenses			
Real estate operating (exclusive of items shown below)	4,322,135	3,829,798	492,337
Depreciation and amortization	1,178,906	1,343,918	(165,012)
Interest	780,942	729,672	51,270
General and administrative	719,626	855,541	(135,915)
	7,001,609	6,758,929	242,680
Income from continuing operations	700,175	546,279	153,896
Income from discontinued operations	405,194	282,013	123,181
Net income	$ 1,105,369	$ 828,292	$ 277,077

Rental revenues. Rental revenues increased for the six months ended June 30, 2006 compared to the same period of 2005. Rental revenues increased by approximately $28 per unit per month during the six months of 2006 compared to the same period of 2005. Increased rental revenues were realized at all properties with the exception of Ashley Square. Revenues at Ashley Square decreased approximately $52,000 during the first half of 2006 compared to the first half of 2005.

Mortgage revenue bond investment income. Mortgage revenue bond investment income increased during the first six months of 2006 compared to the first six months of 2005 due to the acquisition of $6.8 million of Bella Vista Tax-Exempt Mortgage Revenue Bonds in the second quarter of 2006. The Bella Vista bonds earn tax-exempt interest at a stated rate of 6.15% with semi-annual interest payments. All interest payments on the mortgage revenue bonds were current during this period.

Other interest income. The increase in other interest income is attributable to temporary investment in liquid securities. The proceeds from the sale of Clear Lake Colonies that occurred in fourth quarter of 2005 created additional cash that was invested in short term liquid securities while the Company explored longer term options for the funds. A portion of those funds were invested in the Bella Vista bonds previously discussed and therefore are reflected in mortgage revenue bond investment income. Offsetting the increase in other interest income was the decrease in income from Museum Towers bonds. During the first quarter of 2005, the Company sold its investment in the Museum Tower tax-exempt bonds.

Gain on sale of securities. 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.

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 the first half of 2006 compared to the same period of 2005. 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. Certain properties also realized increased utility costs and increase salaries and benefits costs.

Depreciation and amortization expense. Depreciation and amortization consist primarily of depreciation associated with the apartment properties of the consolidated VIEs. The large decrease in depreciation expense is primarily attributable to certain assets becoming fully depreciated during the six months ended June 30, 2006.

Interest expense. Interest expense increased approximately $51,000 in the six month period ended June 30, 2006 compared to June 30, 2005. The increase in interest expense is primarily attributable to increasing interest rates on the Company's variable rate debt financing. The increase in interest expense was mitigated due to the Company's interest rate cap agreements. The cap agreements offset the increase in interest expense by approximately $175,000 for the six months ended June 30, 2006 compared to the six months ended June 30, 2005.

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 as interest expense in the consolidated statements of operations. 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.

General and administrative expenses. General and administrative expenses were significantly lower during the first six months of 2006 compared to 2005. The decrease can be attributed to lower board of directors fees, accounting and legal costs compared to the first six months of 2005.

Discontinued Operations. As of June 30, 2006, Northwoods Lake Apartments has been designated as held for sale. Accordingly, the results of operations for the periods presented have been reclassified to discontinued operations and disclosed as a single line item on the Statements of Operations. During 2005, the Company divested Clear Lake Colony Apartments. As a result, that property is also classified as discontinued operations for the six months ended June 30, 2005. Income from discontinued operations increased during the first six months of 2006 compared to 2005 primarily due to the requirements of generally accepted accounting principles to cease asset depreciation at the time an asset is determined to be held for sale. Because Northwoods met the criteria as an asset held for sale during the end of the first quarter of 2006, there was no depreciation recorded during second quarter of 2006. The amount of depreciation that was not recorded in second quarter of 2006 was approximately $134,000.

Partnership Only Results of Operations

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 Northwoods Lake Apartments. As of June 30, 2006, Northwoods Lake is reflected as a discontinued operation in the consolidated financial statements of the Company. Bella Vista Apartments is also a current tax-exempt mortgage bond of the Partnership that was acquired in April 2006. Because Bella Vista is currently under construction, no operational information regarding the property currently exists. The construction of the property is currently on a schedule to be completed on time within budget. A description of the multifamily housing properties, excluding Northwoods Lake and Bella Vista Apartments, collateralizing the tax-exempt mortgage revenue bonds owned by the Partnership as of June 30, 2006 is as follows:

Property Name	Location	Number of Units	Physical occupancy as of June 30, 2006	Physical occupancy as of June 30, 2005	Economic Occupancy for the six months ended June 30, (1) 2006	Economic Occupancy for the six months ended June 30, (1) 2005
Multifamily Housing — Consolidated Properties						
Ashley Pointe at Eagle Crest	Evansville, IN	150	97%	97%	88%	90%
Ashley Square	Des Moines, IA	144	90%	94%	84%	88%
Bent Tree Apartments	Columbia, SC	232	91%	80%	82%	73%
Fairmont Oaks Apartments	Gainsville, FL	178	95%	97%	89%	82%
Iona Lakes Apartments	Ft. Myers, FL	350	96%	95%	94%	89%
Lake Forest Apartments	Daytona Beach, FL	240	98%	97%	95%	93%
Woodbridge Apts. of Bloomington III	Bloomington, IN	280	84%	73%	93%	86%
Woodbridge Apts. of Louisville II	Louisville, KY	190	95%	93%	91%	88%
		1,764	93%	90%	87%	82%
Multifamily Housing — Nonconsolidated Properties						
Chandler Creek Apartments	Round Rock, TX	216	93%	92%	66%	62%
Student Housing						
Clarkson College	Omaha, NE	142	56%	43%	65%	45%

(1) Economic occupancy is presented for the six months ended June 30, 2006 and 2005, 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.

The following discussion of the Partnership's results of operations for the three and six months ended June 30, 2006 and 2005 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 to the Financial Statements. Items previously discussed in connection with the Company's results of operations are not repeated.

Three Months Ended June 30, 2006 compared to Three Months Ended June 30, 2005 (Partnership Only)

Changes in Results of Operations

	For the three Months Ended June 30, 2006	For the three Months Ended June 30, 2005	Dollar Change
Income			
Mortgage revenue bond investment income	$ 1,893,548	$ 2,057,017	$ (163,469)
Other interest income	109,208	51,215	57,993
	2,002,756	2,108,232	(105,476)
Expenses			
Interest expense	393,992	740,140	(346,148)
Amortization expense	6,033	6,034	(1)
General and administrative	311,342	472,749	(161,407)
	711,367	1,218,923	(507,556)
Income from continuing operations	$ 1,291,389	$ 889,309	$ 402,080

Mortgage revenue bond investment income. Mortgage revenue bond investment income decreased for the three months ended June 30, 2006 compared to the three months ended June 30, 2005 due to the Clear Lake sale during the fourth quarter of 2005. Due to the sale of the property, the tax-exempt bonds held by the Partnership on this property were paid in full. Offsetting this reduction in mortgage revenue bond investment income was approximately $96,000 in income related to interest earned on the newly acquired Bella Vista bonds. The Bella Vista bonds were acquired in April 2006 for a principal investment of $6.8 million. The stated rate of the tax-exempt bonds is 6.15% per annum.

Interest expense. Interest expense decreased by approximately $346,000 during the three months ended June 30, 2006 compared to the same period of 2005. The decrease in interest expense is attributable to lower debt outstanding during the first half of 2006 compared to the same period of 2005 and increased market values on the Company's interest rate cap agreements. The reduction in debt of approximately $16 million was achieved through the sale of the Clear Lake Colony Apartments during fourth quarter 2005. The interest rate cap agreements are recorded at fair value at the end of each period with the change in fair value reflected in current period earnings. Partially offsetting the reduction in interest expense was the increase in interest expense due to increasing interest rates on the Partnership's variable rate debt.

Six Months Ended June 30, 2006 compared to Six Months Ended June 30, 2005 (Partnership Only)

Changes in Results of Operations

	For the six Months Ended June 30, 2006	For the six Months Ended June 30, 2005	Dollar Change
Income			
Mortgage revenue bond investment income	$ 3,664,742	$ 4,108,466	$ (443,724)
Other interest income	264,390	122,355	142,035
Gain on sale of securities	—	126,750	(126,750)
	3,929,132	4,357,571	(428,439)
Expenses			
Interest expense	776,005	977,085	(201,080)
Amortization expense	12,066	12,403	(337)
General and administrative	719,626	855,541	(135,915)
	1,507,697	1,845,029	(337,332)
Income from continuing operations	$ 2,421,435	$ 2,512,542	$ (91,107)

Mortgage revenue bond investment income. Mortgage revenue bond investment income decreased for the six months ended June 30, 2006 compared to the six months ended June 30, 2005 due to the Clear Lake sale during the fourth quarter of 2005. Partially offsetting this reduction in mortgage revenue bond investment income was approximately $96,000 in income related to interest earned on the newly acquired Bella Vista bonds.

Interest expense. Interest expense decreased by approximately $201,000 during the six months ended June 30, 2006 compared to the same period of 2005. The decrease in interest expense is attributable to lower debt outstanding during the first half of 2006 compared to the same period of 2005. Higher interest rates on the Company's variable rate debt partially offset the reduction of interest expense achieved through lower debt levels.

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 certain of 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 or other investments.

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 distributions to BUC holders. Currently, income from investments is not sufficient to fund all disbursements including the payment of expenses, interest and distributions to BUC holders without utilizing cash reserves to supplement the deficit. The Partnership is currently taking action to address this deficit. See discussion below and in the Partnership's Annual Report on Form 10-K for the year ended December 31, 2005 regarding "Historical and Current Business Strategy".

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 six months ended June 30, 2006 increased $1,518,338 compared to the same period a year earlier mainly due to changes in working capital and higher net income. Cash from investing activities decreased $2,383,908 for the six months ended June 30, 2006 compared to the same period in 2005 primarily due to the sale of tax-exempt securities that generated net proceeds of $4.0 million in 2005 compared to 2006. Cash used in financing activities increased $916,230 for the six months ended June 30, 2006 compared to the same period in 2005 primarily due to the lower increase in liabilities associated with restricted cash.

Historical and Current Business Strategy

As discussed in greater detail in the Partnership's Annual Report on Form 10-K for the year ended December 31, 2005, the General Partner believes it is appropriate to reposition the Partnership's investment portfolio. The objective of this repositioning is to improve the quality and performance of the bond portfolio. Additionally, the General Partner believes it is possible to redeploy funds into investments that would not need to be consolidated under FIN46R. If successful in this redeployment the Partnership will own a higher quality investment portfolio of tax-exempt mortgage revenue bonds that will be more clearly presented in the Partnership's financial statements. Such financial statements would present financial information more in line with the stated objectives of the Partnership. The General Partner believes this would be a significant event for the Partnership and would substantially increase the understandability and transparency of the Partnership's financial reports.

In order to achieve the objective of repositioning the Partnership's investment portfolio the following may occur:

1. In order to capitalize on current multifamily property valuations the Partnership may call certain of its bond investments thereby requiring a sale or refinancing to occur. This will allow the Partnership to realize additional returns up to the amount of accrued contingent interest on its bond investment. It may also allow the Partnership to realize payment of taxable loans outstanding which are currently considered under-performing or non-performing assets,

2. The proceeds received from these transactions would be redeployed into other tax exempt multifamily oriented investments. Through this redeployment Cash Available for Distribution (“CAD”) is expected to increase by investing in assets that will generate higher income. The Partnership will likely expand its bond investments beyond traditional “80/20” bonds, which require at least twenty percent of the units of these properties to be leased to tenants with incomes that are at or below eighty percent of the median income, and

3. The Partnership may be able to use a higher quality investment portfolio as leverage in acquiring additional investments.

By triggering a terminal event for many of the Partnership’s investments:

1. The Partnership may be able to monetize its upside potential inherent in the current bond structures and increase the total assets of the Partnership,

2. Through the redeployment of proceeds received the Partnership may increase CAD through an expanded asset base and through the elimination of current under-performing or non-performing assets,

3. The Partnership’s accounting and financial reporting may be simplified by eliminating the VIEs currently consolidated by the Partnership under FIN46R, and

4. By perpetuating the Partnership’s historically high dividend payout ratio, investor distributions may increase along with increases in CAD.

The General Partner is currently evaluating a number of transactions that may be utilized to execute this strategy. During the second quarter the Partnership acquired an investment in tax-exempt mortgage revenue bonds issued by the Texas Department of Housing and Community Affairs for Bella Vista Apartments. Bella Vista Apartments is a multifamily housing project in Gainesville, Texas. The principal amount of the bonds is $6.8 million. The bonds carry an interest rate of 6.15% and mature in 2046. At this time the Partnership has not committed to any other specific transactions in regard to the repositioning of its current investment portfolio.

The Partnership is also exploring the possibility of raising additional equity for the Partnership. Equity raises may allow the Partnership to realize greater economies of scale and further enhance the generation of CAD.

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 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 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 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 as determined in accordance with GAAP and its CAD for the periods set forth.

	For the three months ended June 30, 2006	For the three months ended June 30, 2005	For the six months ended June 30, 2006	For the six months ended June 30, 2005
Net income	$ 644,834	$ 25,178	$ 1,105,369	$ 828,292
Net loss from VIEs	1,420,806	1,763,669	2,862,105	3,495,984
Eliminations due to VIE consolidation	(774,251)	(899,539)	(1,546,038)	(1,811,734)
Income before impact of VIE consolidation	1,291,389	889,308	2,421,436	2,512,542
Change in fair value of derivatives and interest rate cap amortization	(58,140)	212,768	(123,136)	52,183
Amortization expense (Partnership only)	6,033	6,034	12,066	12,403
CAD	$ 1,239,282	$ 1,108,110	$ 2,310,366	$ 2,577,128
Weighted average number of units outstanding, basic and diluted	9,837,928	9,837,928	9,837,928	9,837,928
CAD per unit	$ 0.13	$ 0.11	$ 0.23	$ 0.26

The amount of distributions to the BUC holders was approximately $2,683,000 or $0.23 per unit for the six months ended June 30, 2006 and 2005. Although distributions exceeded CAD for the first six months of 2006, 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 over the long-term.

Contractual Obligations

There were no significant changes to the Company's contractual obligations as of June 30, 2006 from the December 31, 2005 information presented in the Company's annual report on Form 10-K.

Accounting Pronouncements

FASB Interpretation 48 "Accounting for Uncertainty in Income Taxes" ("FIN48") was issued July 2006 and is required to be adopted by the Company beginning January 1, 2007. The Company is currently evaluating the effect, if any, the adoption will have on its consolidated financial statements.

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 2005 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 1A. Risk Factors.

The risk factors affecting the Company are described in 1A “Risk Factors” of the Company’s 2005 Annual Report on Form 10-K. There have been no changes to the risk factors affecting the Company from those discussed therein.

Item 6. Exhibits.

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

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

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

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

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

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

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

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

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

SIGNATURES

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

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.

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

By Burlington Capital Group LLC,
General Partner of
America First Capital
Associates Limited
Partnership Two

Date: August 9, 2006	/s/ Lisa Y. Roskens
	Lisa Y. Roskens Chief Executive Officer Burlington Capital Group LLC, acting in its capacity as general partner of the General Partner of America First Tax Exempt Investors, L.P.

EXHIBIT 31.1

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: August 9, 2006

/s/ Lisa Y. Roskens
Lisa Y. Roskens
Chief Executive Officer
Burlington Capital Group LLC, acting in its capacity as general partner of the General Partner of America First Tax Exempt Investors, L.P.

EXHIBIT 31.2

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: August 9, 2006

/s/ Michael J. Draper

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

Exhibit 32.1

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 June 30, 2006 (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: August 9, 2006

/s/ Lisa Y. Roskens
Lisa Y. Roskens
Chief Executive Officer
Burlington Capital Group LLC, 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.

Exhibit 32.2

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 June 30, 2006 (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: August 9, 2006

/s/ Michael J. Draper
Michael J. Draper
Chief Financial Officer
Burlington Capital Group LLC, 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.