

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, 2009

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  
(Address of principal executive offices)

Omaha, Nebraska 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(do not check if a smaller reporting company)

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, 2008 and in Item 1A of Part II of this report.

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**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

	<u>June 30,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 20,303,622	\$ 7,196,274
Restricted cash	5,821,370	12,848,614
Interest receivable	878,542	769,201
Tax-exempt mortgage revenue bonds, at fair value	48,490,189	44,492,526
<b>Real estate assets:</b>		
Land	13,403,655	10,774,790
Buildings and improvements	98,732,938	86,903,743
Real estate assets before accumulated depreciation	112,136,593	97,678,533
Accumulated depreciation	(19,553,037)	(17,499,670)
Net real estate assets	92,583,556	80,178,863
Other assets	3,564,516	4,263,937
Assets held for sale	3,024,991	-
Assets of discontinued operations	-	8,113,861
<b>Total Assets</b>	<b><u>\$ 174,666,786</u></b>	<b><u>\$ 157,863,276</u></b>
<b>Liabilities</b>		
Accounts payable, accrued expenses and other liabilities	\$ 3,412,056	\$ 3,380,666
Distribution payable	2,714,924	2,432,327
Debt financing	50,000,000	56,981,577
Mortgages payable	37,330,255	30,908,790
Liabilities of discontinued operations	-	23,264,589
<b>Total Liabilities</b>	<b><u>93,457,235</u></b>	<b><u>116,967,949</u></b>
<b>Commitments and Contingencies (Note 12)</b>		
<b>Partners' Capital</b>		
General partner	301,610	261,785
Beneficial Unit Certificate holders	110,944,866	93,277,480
Unallocated deficit of variable interest entities	(30,104,183)	(52,711,654)
<b>Total Partners' Capital</b>	<b><u>81,142,293</u></b>	<b><u>40,827,611</u></b>
Noncontrolling interest (Note 13)	67,258	67,716
<b>Total Capital</b>	<b><u>81,209,551</u></b>	<b><u>40,895,327</u></b>
<b>Total Liabilities and Capital</b>	<b><u>\$ 174,666,786</u></b>	<b><u>\$ 157,863,276</u></b>

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

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

	For the Three Months Ended,		For the Six Months Ended,	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
<b>Revenues:</b>				
Property revenues	\$ 3,903,272	\$ 3,386,038	\$ 7,654,515	\$ 6,699,433
Mortgage revenue bond investment income	1,054,551	1,056,825	2,002,895	2,265,389
Other income (loss)	17,879	(83,028)	51,894	(54,894)
<b>Total Revenues</b>	<b><u>4,975,702</u></b>	<b><u>4,359,835</u></b>	<b><u>9,709,304</u></b>	<b><u>8,909,928</u></b>
<b>Expenses:</b>				
Real estate operating (exclusive of items shown below)	2,580,266	2,109,825	4,940,909	4,068,987
Depreciation and amortization	1,679,036	1,035,598	3,259,908	2,220,122
Interest	965,329	633,523	2,156,198	1,791,964
General and administrative	324,401	489,399	901,163	920,465
<b>Total Expenses</b>	<b><u>5,549,032</u></b>	<b><u>4,268,345</u></b>	<b><u>11,258,178</u></b>	<b><u>9,001,538</u></b>
Income (loss) from continuing operations	(573,330)	91,490	(1,548,874)	(91,610)
Income from discontinued operations (including gain on bond redemption of \$26,514,809 in 2009)	-	179,946	26,734,754	373,703
<b>Net income (loss)</b>	<b><u>(573,330)</u></b>	<b><u>271,436</u></b>	<b><u>25,185,880</u></b>	<b><u>282,093</u></b>
Less: net loss attributable to noncontrolling interest	2,964	781	6,824	3,526
<b>Net income (loss) - America First Tax Exempt Investors, L. P.</b>	<b><u>\$ (570,366)</u></b>	<b><u>\$ 272,217</u></b>	<b><u>\$ 25,192,704</u></b>	<b><u>\$ 285,619</u></b>
<b>Net income (loss) allocated to:</b>				
General Partner	\$ 13,766	\$ 24,583	\$ 587,856	\$ 31,245
Limited Partners - BUC holders	351,927	1,109,288	1,997,377	1,768,811
Unallocated gain (loss) of variable interest entities	(936,059)	(861,654)	22,607,471	(1,514,437)
Noncontrolling interest	(2,964)	(781)	(6,824)	(3,526)
	<b><u>\$ (573,330)</u></b>	<b><u>\$ 271,436</u></b>	<b><u>\$ 25,185,880</u></b>	<b><u>\$ 282,093</u></b>
<b>Limited partners' interest in net income per unit (basic and diluted):</b>				
Income from continuing operations	\$ 0.02	\$ 0.08	\$ 0.14	\$ 0.13
Income from discontinued operations	-	-	-	-
<b>Net income, basic and diluted, per unit</b>	<b><u>\$ 0.02</u></b>	<b><u>\$ 0.08</u></b>	<b><u>\$ 0.14</u></b>	<b><u>\$ 0.13</u></b>
<b>Weighted average number of units outstanding, basic and diluted</b>				
	<b><u>14,820,620</u></b>	<b><u>13,512,928</u></b>	<b><u>14,170,387</u></b>	<b><u>13,512,928</u></b>

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

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.  
CONDENSED CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL AND COMPREHENSIVE INCOME (LOSS)  
FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008  
(UNAUDITED)

	General Partner	Beneficial Unit Certificate holders		Unallocated deficit of variable interest entities	Noncontrolling Interest	Total	Accumulated Other Comprehensive Income (Loss)
		# of Units	Amount				
Balance at January 1, 2009	\$ 261,785	13,512,928	\$ 93,277,480	\$ (52,711,654)	\$ 67,716	\$40,895,327	\$ (16,857,807)
Sale of Beneficial Unit Certificates		3,500,000	16,153,565			16,153,565	
Noncontrolling interest contribution	-	-	-	-	6,366	6,366	-
Comprehensive income (loss):							
Net income (loss)	587,856	-	1,997,377	22,607,471	(6,824)	25,185,880	-
Unrealized gain on securities	41,157	-	4,074,506	-	-	4,115,663	4,115,663
Total comprehensive income (loss)						29,301,543	
Distributions paid or accrued	(1,196,389)	-	(3,950,861)	-	-	(5,147,250)	-
Reclassification of Tier II income	607,201	-	(607,201)	-	-	-	-
Balance at June 30, 2009	\$ 301,610	17,012,928	\$110,944,866	\$ (30,104,183)	\$ 67,258	\$81,209,551	\$ (12,742,144)

	General Partner	Beneficial Unit Certificate holders		Unallocated deficit of variable interest entities	Noncontrolling Interest	Total	Accumulated Other Comprehensive Income (Loss)
		# of Units	Amount				
Balance at January 1, 2008	\$ 348,913	13,512,928	\$112,880,314	\$(48,954,760)	\$ 48,756	\$64,323,223	\$ (3,581,844)
Comprehensive income (loss):							
Net income (loss)	31,245	-	1,768,811	(1,514,437)	(3,526)	282,093	-
Unrealized loss on securities	(28,164)	-	(2,788,207)	-	-	(2,816,371)	(2,816,371)
Total comprehensive income (loss)						(2,534,278)	
Distributions paid or accrued	(626,509)	-	(3,648,491)	-	-	(4,275,000)	-
Reclassification of Tier II income	608,082	-	(608,082)	-	-	-	-
Balance at June 30, 2008	\$ 333,567	13,512,928	\$107,604,345	\$(50,469,197)	\$ 45,230	\$57,513,945	\$ (6,398,215)

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

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	For the six months ended	
	June 30, 2009	June 30, 2008
<b>Cash flows from operating activities:</b>		
Net income	\$ 25,185,880	\$ 282,093
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	3,259,908	2,515,747
Non-cash loss on derivatives	490,522	38,328
Loss on sale of securities	-	(68,748)
Gain on sale of discontinued operations	(26,514,809)	-
Changes in operating assets and liabilities, net of effect of acquisitions		
(Increase) decrease in interest receivable	(109,341)	41,885
Increase in other assets	(833,864)	(398,615)
Decrease in accounts payable, accrued expenses and other liabilities	(1,481,267)	(1,123,589)
Net cash (used) provided by operating activities	<u>(2,971)</u>	<u>1,287,101</u>
<b>Cash flows from investing activities:</b>		
Proceeds from the sale of tax-exempt mortgage revenue bonds	-	14,933,635
Proceeds from sale of discontinued operations	32,000,000	-
Acquisition of tax-exempt mortgage revenue bonds	-	(12,435,000)
Increase in restricted cash	(1,501,917)	(724,027)
Restricted cash - debt collateral released	8,529,235	-
Capital expenditures	(466,187)	(293,495)
Acquisition of asset held for sale	(2,649,991)	-
Acquisition of partnerships, net of cash acquired	(7,886,852)	-
Principal payments received on tax-exempt mortgage revenue bonds	118,000	45,833
Principal payments received on taxable loans	-	100,000
Net cash provided by investing activities	<u>28,142,288</u>	<u>1,626,946</u>
<b>Cash flows from financing activities:</b>		
Distributions paid	(4,864,653)	(4,275,000)
Derivative settlements	(238,980)	(40,049)
Increase in liabilities related to restricted cash	1,501,917	724,027
Deferred financing costs	(550,912)	-
Proceeds from debt financing	50,000,000	65,091,372
Principal payments on debt financing and mortgage payable	(76,643,772)	(71,395,000)
Acquisition of interest rate cap agreements	(554,000)	-
Sale of Beneficial Unit Certificates	16,153,565	-
Net cash used by financing activities	<u>(15,196,835)</u>	<u>(9,894,650)</u>
Net increase (decrease) in cash and cash equivalents	12,942,482	(6,980,603)
Cash and cash equivalents at beginning of period, including cash and cash equivalents of discontinued operations of \$164,866 and \$145,278 respectively	<u>\$ 7,361,140</u>	<u>\$ 14,821,946</u>
Cash and cash equivalents at end of period, including cash and cash equivalents of discontinued operations of \$0 and \$350,156 respectively	<u>\$ 20,303,622</u>	<u>\$ 7,841,343</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for interest	\$ 2,453,284	\$ 2,755,228
Liabilities assumed in the acquisition of partnerships	\$ 6,506,329	\$ -
Distributions declared but not paid	\$ 2,714,924	\$ 2,432,327

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2009  
(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 properties. Interest on these bonds is excludable from gross income for federal income tax purposes. As a result, most of the income earned by the Partnership is exempt from federal income taxes. Our general partner is America First Capital Associates Limited Partnership Two ("AFCA 2" or "General Partner"). The Partnership will terminate on December 31, 2050 unless terminated earlier under provisions of its Agreement of Limited Partnership.

Recent economic conditions have been unprecedented and challenging, with significantly tighter credit conditions and slower growth. As a result of these conditions, the cost and availability of credit has been, and is expected to continue to be, adversely affected in all markets in which we operate. Concern about the stability of the markets generally, and the strength of counterparties specifically, has led many lenders and institutional investors to reduce, and in some cases, cease to provide, funding to borrowers. If these market and economic conditions continue, they may limit the Partnership's ability to replace or renew maturing liabilities on a timely basis, access the capital markets to meet liquidity and capital expenditure requirements and may result in adverse effects on the Partnership's financial condition and results of operations.

Although the consequences of these conditions and their impact on the Partnership's ability to pursue its plan to grow through investments in additional tax-exempt bonds secured by first mortgages on affordable multifamily housing projects are not fully known, the Partnership does not anticipate that its existing assets will be adversely affected in the long-term. The Partnership believes the current tightening of credit may create opportunities for additional investments consistent with its investment strategy because it may result in fewer parties competing to acquire tax-exempt bonds issued to finance affordable housing. There can be no assurance that the Partnership will be able to finance additional acquisitions of tax-exempt bonds through either additional equity or debt financing. If uncertainties in these markets continue, the markets deteriorate further or the Partnership experiences further deterioration in the values of its investment portfolio, the Partnership may incur impairments to its investment portfolio which could negatively impact its financial statements.

The consolidated financial statements of the "Company" reported in this Form 10-Q include the assets and results of operations of the Partnership, the multifamily apartment properties (the "MF Properties") owned by various limited partnerships in which one of the Partnership's wholly-owned subsidiaries (each a "Holding Company") holds a 99% limited partner interest and six other entities in which the Partnership does not hold an ownership interest but which own multifamily apartment properties financed with tax-exempt bonds held by the Partnership and which are treated as variable interest entities of which the Partnership has been determined to be the primary beneficiary (the "VIEs"). Stand alone financial information of the Partnership reported in this Form 10-Q includes only the assets and results of operation of the Partnership and the MF Properties without the consolidation of the VIEs. In the Company's consolidated financial statements, all transactions and accounts between the Partnership, the MF Properties 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 Beneficial Unit Certificate ("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 condensed 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 condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008. These condensed consolidated financial statements and notes have been prepared consistently with the 2008 Form 10-K with the exception of the reclassification of certain prior-year amounts on the Company's Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Operations, Condensed Consolidated Statements of Partners' Capital and Comprehensive Income (Loss) and Condensed Consolidated Statements of Cash Flows in accordance with the Company's adoption of SFAS No. 160 (see Note 13) on January 1, 2009, which required retrospective application. In the opinion of management, all adjustments (consisting of normal and recurring accruals) necessary to present fairly the financial position as of June 30, 2009, 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.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*, which provides guidance on management's assessment of subsequent events, effective for all interim or annual reporting periods ending after June 15, 2009. In accordance with SFAS No. 165, the Company has evaluated transactions and events for disclosure as a subsequent event through August 7, 2009, the date on which these financial statements were issued. Any transactions or events which the Company has determined require disclosure as a subsequent event have been disclosed in the footnotes.

## 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. For purposes of the Agreement of Limited Partnership, cash distributions, if any, received by the Partnership from the Investment in Multifamily Apartment Properties (See Note 5) will be included in the Partnership's Interest Income and cash distributions received by the Partnership from the sale of such properties will be included in the Partnership Residual Proceeds.

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. On each distribution date, Net Interest Income is distributed 99% to the BUC holders and 1% to AFCA 2 and Net Residual Proceeds are distributed 100% to BUC holders except that Net Interest Income and Net Residual Proceeds representing contingent interest in an amount equal to 0.9% per annum of the principal amount of the mortgage bonds on a cumulative basis (defined as Net Interest Income (Tier 2) and Net Residual Proceeds (Tier 2), respectively) are distributed 75% to the BUC holders and 25% to AFCA 2.

The Agreement of Limited Partnership also allows the General Partner to withhold, from time to time, Interest Income and Residual Proceeds and to place these amounts into a reserve to provide funding for working capital or additional investments. In 2005, the General Partner placed Net Residual Proceeds representing contingent interest of approximately \$10.9 million into the reserve. If and when the General Partner determines that this contingent interest is no longer to be held in reserve and is to be distributed, it is anticipated that it will be distributed as Net Residual Proceeds (Tier 2) as defined in the Agreement of Limited Partnership. As such, these funds will be distributed 75% to the BUC holders and 25% to the General Partner. On June 30, 2009, the General Partner determined that approximately \$2.3 million of the Net Residual Proceeds, representing the entirety of the remaining funds being held in reserve, were no longer to be held in reserve and would be distributed as Net Residual Proceeds (Tier 2) in July 2009. After the July 2009 distribution, no further Tier 2 income will remain in reserve.

The unallocated deficit of the VIEs is primarily comprised of the accumulated historical net losses of the VIEs as of the implementation of *Consolidation of Variable Interest Entities*, ("FIN 46R"). The unallocated deficit of the VIEs and the VIE's net losses subsequent to that date 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.

## 3. Variable Interest Entities

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. Each multifamily property financed with tax-exempt mortgage bonds held by the Partnership is owned by a separate entity. The Partnership does not hold an equity ownership interest in any of these entities; however, the bonds held by the Partnership create a variable interest in the entities. Under FIN 46R, the Partnership must make an evaluation of these entities to determine if they meet the definition of a VIE. If the underlying entity is determined to be a VIE, the Partnership must then determine if it is the primary beneficiary of the VIE pursuant to the terms of each tax-exempt mortgage revenue bond and the criteria within FIN 46R. FIN 46R is a complex standard that requires significant analysis and judgment.

The Partnership has determined that six of the entities financed by tax-exempt bonds owned by the Partnership at June 30, 2009 are held by VIEs and that the Partnership is the primary beneficiary of these VIEs. The Partnership determined that eight of the entities financed by tax-exempt bonds owned by the Partnership at December 31, 2008 were held by VIEs and that the Partnership was the primary beneficiary of these VIEs. As of December 31, 2008, five of these consolidated VIEs are included in the results from continuing operations while three are presented as discontinued operations.

In April 2009, the Company acquired the Cross Creek Apartments tax-exempt mortgage revenue bond for \$5.9 million which represented 100% of the bond issuance. The bond par value is \$8.85 million and the bond earns interest at an annual rate of 6.15%. The interest payments are monthly with a stated maturity date of March 1, 2049. The bond was issued for the construction of the Cross Creek Apartments, a 144 unit multifamily apartment complex located in Beaufort, South Carolina. At the time of acquisition the bonds were in technical default as the property construction was not completed, the property had not reached stabilization and the property was not current on debt service. The Company also purchased a \$4.125 million construction loan for approximately \$920,000 from the property developer. The Company then made a \$1.5 million taxable loan to the property owner to allow for the completion of construction, lease up and stabilization of the property and the payment of bond debt service. America First Property Management Company, LLC ("Properties Management"), an affiliate of AFCA 2, has been retained to manage the property and began marketing and leasing activities for the property in the second quarter of 2009. The Company has determined that the underlying entity that owns the Cross Creek Apartments meets the definition of a VIE and that the Company is the primary beneficiary. Accordingly, its financial statements are consolidated into the Company's consolidated financial statements under FIN 46R.

In February 2009, the three tax-exempt mortgage revenue bonds secured by assets of the VIEs presented as discontinued operations as of December 31, 2008, were redeemed. In order to properly reflect the transaction under FIN 46R, the Company recorded the redemption of the bonds as a sale of the properties as though they were owned by the Company. The transaction was completed for a total purchase price of \$32.0 million resulting in a gain on sale for GAAP reporting of approximately \$26.5 million. The redemption of the bonds did not result in a taxable gain to the Partnership.



On a stand-alone basis, the Partnership received approximately \$30.9 million of net proceeds from the bond redemption. These proceeds represent the repayment of the bond par values plus accrued base interest and approximately \$2.3 million of contingent interest. The contingent interest represents additional earnings to the Partnership beyond the recurring base interest earned on these bonds. The contingent interest also represents additional Cash Available for Distribution to the BUC holders of approximately \$1.7 million, or \$0.13 per unit.

The consolidated financial statements of the Company include the assets, liabilities and results of operation of the Partnership and the VIEs. Financial information of the Partnership, on a stand-alone basis, includes only the assets, liabilities and results of operations of the Partnership and the MF Properties without the impact of the consolidation of the VIEs. In the Company's consolidated financial statements, all transactions and accounts between the Partnership, the MF Properties and the VIEs have been eliminated.

The following tables present the effects of the consolidation of the VIEs on the Company's Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Operations.

Condensed Consolidating Balance Sheets as of June 30, 2009 and December 31, 2008:

	Partnership as of June 30, 2009	VIEs as of June 30, 2009	Consolidation - Elimination as of June 30, 2009	Total as of June 30, 2009
<b>Assets</b>				
Cash and cash equivalents	\$ 20,200,019	\$ 103,603	\$ -	\$ 20,303,622
Restricted cash	2,497,118	3,324,252	-	5,821,370
Interest receivable	4,968,905	-	(4,090,363)	878,542
Tax-exempt mortgage revenue bonds	101,013,346	-	(52,523,157)	48,490,189
Real estate assets:				
Land	6,736,351	6,667,304	-	13,403,655
Buildings and improvements	37,168,702	64,059,572	(2,495,336)	98,732,938
Real estate assets before accumulated depreciation	43,905,053	70,726,876	(2,495,336)	112,136,593
Accumulated depreciation	(2,384,003)	(17,169,034)	-	(19,553,037)
Net real estate assets	41,521,050	53,557,842	(2,495,336)	92,583,556
Other assets	17,324,434	1,313,783	(15,073,701)	3,564,516
Assets held for sale	3,024,991	-	-	3,024,991
Assets of discontinued operations	-	-	-	-
<b>Total Assets</b>	<b>\$ 190,549,863</b>	<b>\$ 58,299,480</b>	<b>\$ (74,182,557)</b>	<b>\$ 174,666,786</b>
<b>Liabilities</b>				
Accounts payable, accrued expenses and other	\$ 1,243,622	\$ 38,414,082	\$ (36,245,648)	\$ 3,412,056
Distribution payable	2,714,924	-	-	2,714,924
Debt financing	50,000,000	-	-	50,000,000
Mortgage payable	37,330,255	57,809,068	(57,809,068)	37,330,255
Liabilities of discontinued operations	-	-	-	-
<b>Total Liabilities</b>	<b>91,288,801</b>	<b>96,223,150</b>	<b>(94,054,716)</b>	<b>93,457,235</b>
<b>Partners' Capital</b>				
General Partner	301,610	-	-	301,610
Beneficial Unit Certificate holders	98,892,194	-	12,052,672	110,944,866
Unallocated deficit of variable interest entities	-	(37,923,670)	7,819,487	(30,104,183)
<b>Total Partners' Capital</b>	<b>99,193,804</b>	<b>(37,923,670)</b>	<b>19,872,159</b>	<b>81,142,293</b>
Noncontrolling interest	67,258	-	-	67,258
<b>Total Capital</b>	<b>99,261,062</b>	<b>(37,923,670)</b>	<b>19,872,159</b>	<b>81,209,551</b>
<b>Total Liabilities and Partners' Capital</b>	<b>\$ 190,549,863</b>	<b>\$ 58,299,480</b>	<b>\$ (74,182,557)</b>	<b>\$ 174,666,786</b>

	Partnership as of December 31, 2008	VIEs as of December 31, 2008	Consolidation - Elimination as of December 31, 2008	Total as of December 31, 2008
<b>Assets</b>				
Cash and cash equivalents	\$ 7,068,297	\$ 127,977	\$ -	\$ 7,196,274
Restricted cash	10,836,084	2,012,530	-	12,848,614
Interest receivable	4,249,760	-	(3,480,559)	769,201
Tax-exempt mortgage revenue bonds	112,991,268	-	(68,498,742)	44,492,526
Real estate assets:				
Land	4,991,590	5,783,200	-	10,774,790
Buildings and improvements	31,877,661	55,026,082	-	86,903,743
Real estate assets before accumulated depreciation	36,869,251	60,809,282	-	97,678,533
Accumulated depreciation	(1,519,845)	(15,979,825)	-	(17,499,670)
Net real estate assets	35,349,406	44,829,457	-	80,178,863
Other assets	16,332,459	1,383,674	(13,452,196)	4,263,937
Assets of discontinued operations	-	8,113,861	-	8,113,861
Total Assets	<u>\$ 186,827,274</u>	<u>\$ 56,467,499</u>	<u>\$ (85,431,497)</u>	<u>\$ 157,863,276</u>
<b>Liabilities and Owners' Equity</b>				
Accounts payable, accrued expenses and other	\$ 1,571,177	\$ 31,565,556	\$ (29,756,067)	\$ 3,380,666
Distribution Payable	2,432,327	-	-	2,432,327
Debt financing	76,565,237	-	(19,583,660)	56,981,577
Mortgage payable	30,908,790	51,670,000	(51,670,000)	30,908,790
Liabilities of discontinued operations	-	42,900,305	(19,635,716)	23,264,589
Total Liabilities	<u>111,477,531</u>	<u>126,135,861</u>	<u>(120,645,443)</u>	<u>116,967,949</u>
<b>Partners' Capital</b>				
General Partner	261,785	-	-	261,785
Beneficial Unit Certificate holders	75,020,242	-	18,257,238	93,277,480
Unallocated deficit of variable interest entities	-	(69,668,362)	16,956,708	(52,711,654)
Total Partners' Capital	<u>75,282,027</u>	<u>(69,668,362)</u>	<u>35,213,946</u>	<u>40,827,611</u>
67,716		-	-	67,716
<b>Noncontrolling interest</b>				
Total Capital	<u>75,349,743</u>	<u>(69,668,362)</u>	<u>35,213,946</u>	<u>40,895,327</u>
Total Liabilities and Partners' Capital	<u>\$ 186,827,274</u>	<u>\$ 56,467,499</u>	<u>\$ (85,431,497)</u>	<u>\$ 157,863,276</u>

Condensed Consolidating Statements of Operations for the three months ended June 30, 2009 and 2008:

	Partnership For the Three Months Ended June 30, 2009	VIEs For the Three Months Ended June 30, 2009	Consolidation- Elimination For the Three Months Ended June 30, 2009	Total For the Three Months Ended June 30, 2009
<b>Revenues:</b>				
Property revenues	\$1,839,243	\$ 2,064,029	\$ -	\$3,903,272
Mortgage revenue bond investment income	2,127,071	-	(1,072,520)	1,054,551
Other income	17,879	-	-	17,879
<b>Total Revenues</b>	<b>3,984,193</b>	<b>2,064,029</b>	<b>(1,072,520)</b>	<b>4,975,702</b>
<b>Expenses:</b>				
Real estate operating (exclusive of items shown below)	1,041,056	1,539,210	-	2,580,266
Loan loss expense	220,000	-	(220,000)	-
Depreciation and amortization	1,070,677	622,094	(13,735)	1,679,036
Interest	965,330	1,638,576	(1,638,577)	965,329
General and administrative	324,401	-	-	324,401
<b>Total Expenses</b>	<b>3,621,464</b>	<b>3,799,880</b>	<b>(1,872,312)</b>	<b>5,549,032</b>
Income (loss) from continuing operations	362,729	(1,735,851)	799,792	(573,330)
Income (loss) from discontinued operations	-	-	-	-
<b>Net income (loss)</b>	<b>362,729</b>	<b>(1,735,851)</b>	<b>799,792</b>	<b>(573,330)</b>
Less: net loss attributable to noncontrolling interest	2,964	-	-	2,964
<b>Net income (loss) - America First Tax Exempt Investors, L. P.</b>	<b>\$ 365,693</b>	<b>\$(1,735,851)</b>	<b>\$ 799,792</b>	<b>\$ (570,366)</b>

	Partnership For the Three Months Ended Jun. 30, 2008	VIEs For the Three Months Ended Jun. 30, 2008	Consolidation- Elimination For the Three Months Ended Jun. 30, 2008	Total For the Three Months Ended Jun. 30, 2008
<b>Revenues:</b>				
Property revenues	\$1,091,763	\$ 2,251,925	\$ 42,350	\$3,386,038
Mortgage revenue bond investment income	2,537,754	-	(1,480,929)	1,056,825
Other loss	(83,028)	-	-	(83,028)
<b>Total Revenues</b>	<b>3,546,489</b>	<b>2,251,925</b>	<b>(1,438,579)</b>	<b>4,359,835</b>
<b>Expenses:</b>				
Real estate operating (exclusive of items shown below)	579,906	1,529,919	-	2,109,825
Depreciation and amortization	468,202	580,266	(12,870)	1,035,598
Interest	875,893	1,477,724	(1,720,094)	633,523
General and administrative	489,399	-	-	489,399
<b>Total Expenses</b>	<b>2,413,400</b>	<b>3,587,909</b>	<b>(1,732,964)</b>	<b>4,268,345</b>
Income (loss) from continuing operations	1,133,089	(1,335,984)	294,385	91,490
Income (loss) from discontinued operations	-	(359,929)	539,875	179,946
<b>Net income (loss)</b>	<b>1,133,089</b>	<b>(1,695,913)</b>	<b>834,260</b>	<b>271,436</b>
Less: net loss attributable to noncontrolling interest	781	-	-	781

Net income (loss) -  
America First Tax  
Exempt Investors, L.  
P.

\$1,133,870 \$(1,695,913) \$ 834,260 \$ 272,217

Condensed Consolidating Statements of Operations for the six months ended June 30, 2009 and 2008:

	Partnership For the Six Months Ended June 30, 2009	VIEs For the Six Months Ended June 30, 2009	Consolidation- Elimination For the Six Months Ended June 30, 2009	Total For the Six Months Ended June 30, 2009
<b>Revenues:</b>				
Property revenues	\$ 3,470,941	\$ 4,183,574	\$ -	\$ 7,654,515
Mortgage revenue bond investment income	6,770,084	-	(4,767,189)	2,002,895
Other income (loss)	(75,601)	-	127,495	51,894
<b>Total Revenues</b>	<b>10,165,424</b>	<b>4,183,574</b>	<b>(4,639,694)</b>	<b>9,709,304</b>
<b>Expenses:</b>				
Real estate operating (exclusive of items shown below)	2,076,713	2,864,196	-	4,940,909
Loan loss expense	294,999	-	(294,999)	-
Depreciation and amortization	2,076,388	1,211,709	(28,189)	3,259,908
Interest	2,237,752	3,149,420	(3,230,974)	2,156,198
General and administrative	901,163	-	-	901,163
<b>Total Expenses</b>	<b>7,587,015</b>	<b>7,225,325</b>	<b>(3,554,162)</b>	<b>11,258,178</b>
Income (loss) from continuing operations	2,578,409	(3,041,751)	(1,085,532)	(1,548,874)
Income (loss) from discontinued operations	-	34,786,445	(8,051,691)	26,734,754
<b>Net income (loss)</b>	<b>2,578,409</b>	<b>31,744,694</b>	<b>(9,137,223)</b>	<b>25,185,880</b>
Less: net loss attributable to noncontrolling interest	6,824	-	-	6,824
<b>Net income (loss) - America First Tax Exempt Investors, L. P.</b>	<b>\$ 2,585,233</b>	<b>\$31,744,694</b>	<b>\$ (9,137,223)</b>	<b>\$25,192,704</b>
	Partnership For the Six Months Ended June 30, 2008	VIEs For the Six Months Ended Jun. 30, 2008	Consolidation- Elimination For the Six Months Ended Jun. 30, 2008	Total For the Six Months Ended Jun. 30, 2008
<b>Revenues:</b>				
Property revenues	\$ 2,184,799	\$ 4,472,284	\$ 42,350	\$ 6,699,433
Mortgage revenue bond investment income	5,173,892	-	(2,908,503)	2,265,389
Other loss	(54,894)	-	-	(54,894)
<b>Total Revenues</b>	<b>7,303,797</b>	<b>4,472,284</b>	<b>(2,866,153)</b>	<b>8,909,928</b>
<b>Expenses:</b>				
Real estate operating (exclusive of items shown below)	1,088,955	2,980,032	-	4,068,987
Depreciation and amortization	1,098,400	1,151,352	(29,630)	2,220,122
Interest	2,399,448	2,945,585	(3,553,069)	1,791,964
General and administrative	920,465	-	-	920,465
<b>Total Expenses</b>	<b>5,507,268</b>	<b>7,076,969</b>	<b>(3,582,699)</b>	<b>9,001,538</b>
Income (loss) from continuing operations	1,796,529	(2,604,685)	716,546	(91,610)
Income (loss) from discontinued operations	-	(586,538)	960,241	373,703
<b>Net income (loss)</b>	<b>1,796,529</b>	<b>(3,191,223)</b>	<b>1,676,787</b>	<b>282,093</b>
Less: net loss attributable to noncontrolling interest	3,526	-	-	3,526

Net income (loss) -  
America First Tax  
Exempt Investors,  
L. P.            \$ 1,800,055   \$ (3,191,223)   \$ 1,676,787   \$ 285,619

#### 4. Investments in Tax-Exempt Bonds

The tax-exempt mortgage revenue bonds owned by the Company have been issued to provide construction and/or permanent financing of multifamily residential properties. The Company had the following investments in tax-exempt mortgage revenue bonds as of the dates shown:

Description of Tax-Exempt Mortgage Revenue Bonds	June 30, 2009			
	Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Clarkson College	\$ 5,978,333	\$ -	\$ (939,862)	\$ 5,038,471
Bella Vista	6,740,000	-	(1,341,125)	5,398,875
Woodland Park	15,715,000	-	(3,511,988)	12,203,012
Gardens of DeCordova	4,853,000	-	(1,196,459)	3,656,541
Gardens of Weatherford	4,686,000	-	(1,155,286)	3,530,714
Runnymede Apartments	10,825,000	-	(1,979,351)	8,845,649
Bridle Ridge Apartments	7,885,000	-	(1,563,201)	6,321,799
Woodlynn Village	4,550,000	-	(1,054,872)	3,495,128
	<u>\$ 61,232,333</u>	<u>\$ -</u>	<u>\$ (12,742,144)</u>	<u>\$ 48,490,189</u>

Description of Tax-Exempt Mortgage Revenue Bonds	December 31, 2008			
	Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Clarkson College	\$ 6,018,333	\$ -	\$ (1,241,441)	\$ 4,776,892
Bella Vista	6,785,000	-	(1,821,433)	4,963,567
Woodland Park	15,715,000	-	(4,507,533)	11,207,467
Gardens of DeCordova	4,870,000	-	(1,493,142)	3,376,858
Gardens of Weatherford	4,702,000	-	(1,566,989)	3,135,011
Runnymede Apartments	10,825,000	-	(2,902,074)	7,922,926
Bridle Ridge Apartments	7,885,000	-	(2,047,419)	5,837,581
Woodlynn Village	4,550,000	-	(1,277,776)	3,272,224
	<u>\$ 61,350,333</u>	<u>\$ -</u>	<u>\$ (16,857,807)</u>	<u>\$ 44,492,526</u>

Valuation - - As all of the Company's investments in tax-exempt mortgage revenue bonds are classified as available-for-sale securities, they are carried on the balance sheet at their estimated fair values. Due to the limited market for the tax-exempt bonds, these estimates of fair value do not necessarily represent what the Company would actually receive in a sale of the bonds. There is no active trading market for the bonds and price quotes for the bonds are not generally available. As of June 30, 2009 and December 31, 2008, all of the Company's tax-exempt mortgage revenue bonds were valued using discounted cash flow and yield to maturity analyses performed by management. Management's valuation encompasses judgment in its application. The key assumption in management's yield to maturity analysis is the range of effective yields on the individual bonds. At June 30, 2009, the range of effective yields on the individual bonds was 7.8% to 8.5%. Additionally, the Company calculated the sensitivity of the key assumption used in calculating the fair values of these bonds. Assuming an immediate 10 percent adverse change in the key assumption, the effective yields on the individual bonds would increase to a range of 8.6% to 9.5% and would result in additional unrealized losses on the bond portfolio of approximately \$4.1 million. This sensitivity analysis is hypothetical and is as of a specific point in time. The results of the sensitivity analysis may not be indicative of actual changes in fair value and should be used with caution. If available, the general partner may also consider price quotes on similar bonds or other information from external sources, such as pricing services. Pricing services, broker quotes and management's analyses provide indicative pricing only.

Unrealized gains or losses on these tax-exempt bonds are recorded in accumulated other comprehensive income (loss) to reflect changes in their estimated fair values resulting from market conditions and fluctuations in the present value of the expected cash flows from the underlying properties. As of June 30, 2009, all of the current bond investments have been in an unrealized loss position for greater than twelve months. 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. Ultimately, the Company views the bond collateral as the most likely source of bond principal repayment. Therefore, as long as the value of the real property securing the bonds exceeds the outstanding bond principal, the Company believes that no other-than-temporary impairment is indicated. The unrealized gain or loss will continue to fluctuate each reporting period based on the market conditions and present value of the expected cash flow.

In general, credit and capital markets have deteriorated over the past 12 to 18 months. The deterioration has negatively impacted the fair value of the bonds over that same time period. Although valuations have improved in the second quarter, if uncertainties in these markets continue, the markets deteriorate further or the Company experiences further deterioration in the values of its investment portfolio, or if the Company's intent and ability to hold certain bonds changes, the Company may recognize impairments to its investment portfolio through earnings which would negatively impact the Company's results of operations.

In July 2009, the Company made taxable loans to the property owners of Woodland Park and The Gardens of Decordova to allow for the continued lease up and stabilization of the properties and the payment of bond debt service. Such taxable loans were approximately \$700,000 and \$290,000, respectively. The construction of Woodland Park was completed in November 2008 and lease up continues. As of June 30, 2009, the property had 81 units leased out of a total available units of 236, or 34% physical occupancy. The construction of The Gardens of Decordova was completed in April 2009 and lease up continues. As of June 30, 2009, the property had 18 units leased out of a total available units of 76, or 24% physical occupancy.

During the first quarter of 2009, the Company made a taxable loan to the owners of The Gardens of Weatherford Apartments of approximately \$141,000 to help fund construction activities and current bond debt service reserves through construction completion and property stabilization. The Gardens of Weatherford Apartments is currently under construction in Weatherford, Texas and will contain 76 units upon completion. The developer and principals have guaranteed completion and stabilization of the project. The general contractor has a guaranteed maximum price contract and payment and performance bonds are in place. Due to numerous zoning, planning and design issues encountered in the building permit application process, construction on this project is significantly behind schedule. At this time infrastructure construction activities have been substantially completed but no construction has begun on the actual apartment buildings. The developer is currently evaluating the project funding and is investigating potential sources of additional or alternative funding should such additional funds be required to complete the project. At this time the estimated final completion date is March 2010 with some units available for rent in December 2009.

In June 2007, the Company acquired bonds with a combined face value of \$5.9 million, the proceeds of which were to be used to finance the construction of a 72 unit multifamily apartment complex in Gardner, Kansas known as Prairiebrook Village. The property owner defaulted on these bonds and the bond trustee filed a petition of foreclosure on the mortgage securing the bonds in May 2008. In October 2008, the Company received approximately \$4.5 million from the trustee representing unused bond proceeds. The bond trustee has received a summary judgment against the owner and developer for the unpaid principal balance. Currently the land which was owned by the project is being held for sale by the bond trustee. Upon the sale of the land the Company intends to pursue its remedies against the project owner and developer on its guarantees. The Company has recorded a receivable of \$1.0 million which is included in Other Assets on the Condensed Consolidated Balance Sheet and holds the related land as an asset held for sale valued at \$375,000.

## **5. Real Estate Assets**

To facilitate its investment strategy of acquiring additional tax-exempt mortgage bonds secured by multifamily apartment properties ("MF Properties"), the Partnership has caused its various Holding Companies to acquire 99% limited partner positions in the nine limited partnerships that own the MF Properties. The general partners of these partnerships are unaffiliated parties and their 1% ownership interest in these limited partnerships is reflected in the Company's consolidated financial statements as non-controlling interests. The Partnership expects to ultimately restructure the property ownership through a sale of the MF Properties and a syndication of the associated low income housing tax credits ("LIHTCs"). The Partnership expects to provide the tax-exempt mortgage revenue bonds to the new property owners as part of the restructuring. Such restructurings will generally be expected to be initiated within 36 months of the initial investment in an MF Property and will often coincide with the expiration of the compliance period relating to LIHTCs previously issued with respect to the MF Property. Current credit markets and general economic issues have had a significant negative impact on these types of transactions. At this time very few LIHTC syndication and tax-exempt bond financing transactions are being completed. Management believes that these types of transactions represent a long-term market opportunity for the Company and provide a significant future bond investment pipeline when the market for LIHTC syndications strengthens. Until such a restructuring occurs the operations of the properties owned by the limited partnerships are consolidated with the Partnership. The Partnership will not acquire LIHTCs in connection with these transactions.

At June 30, 2009, the Partnership held an interest in nine MF Properties containing 964 rental units, of which four are located in Ohio, two are located in Kentucky, one is located in Virginia, one is located in Georgia, and one in North Carolina.

The ninth MF Property, Greens of Pine Glen Limited Partnership ("Greens"), which is located in North Carolina, was acquired in February 2009, for a \$7.0 million purchase price. The Company incurred transaction expenses of approximately \$165,000 which were expensed based on the Company's adoption of SFAS No. 141R on January 1, 2009. As a result, the financial statements of this property have been consolidated with those of the Partnership since that time. The Company has preliminarily allocated \$6.8 million of the purchase price to real estate assets. The purchase price was funded through an assumed mortgage loan of \$6.5 million and cash on hand. The unpaid balance of the note bears a 7% annual interest rate payable monthly. The initial maturity date of the loan is September 2010 at which time the borrower has an option to extend the note for 18 months.

In addition to the MF Properties, the Partnership consolidates the assets, liabilities and results of operation of the VIEs in accordance with FIN 46R. Although the assets of the VIEs are consolidated, the Partnership has no ownership interest in the VIEs other than to the extent they serve as collateral for the tax-exempt mortgage revenue bonds owned by the Partnership. The results of operations of those properties are recorded by the Company in consolidation but any net income or loss from these properties does not accrue to the BUC holders or the general partner, but is instead included in "Unallocated deficit of variable interest entities."



## 6. Discontinued Operations and Assets Held for Sale

In April 2009, the Company acquired the Series A and B Oak Grove Commons Apartments tax-exempt mortgage revenue bonds for \$2.6 million which represented 100% of the bond issuance. The Series A bond par value is \$5.6 million and the Series B bond par value is \$1.4 million. The bonds were issued for the construction of the Oak Grove Commons Apartments, a 168 unit multifamily apartment complex located in Conway, Arkansas. At the time of acquisition the bonds were in technical default as the property had not reached stabilization and was not current on debt service. The Company purchased the bonds with the intent to evaluate the property and determine if the bonds could be restructured and maintained as an investment. The Company determined that it would no longer maintain the bond as an investment and, therefore, foreclosed on the bonds. In June the Company took ownership of the property with the intent to sell the apartment complex to a third party. At this time the property assets are presented as assets held for sale. The Company expects to complete a sale of the property before year end at a price in excess of the \$2.6 million paid to acquire the bonds.

In February 2009, the tax-exempt mortgage revenue bonds secured by Ashley Pointe at Eagle Crest in Evansville, Indiana, Woodbridge Apartment of Bloomington III in Bloomington, Indiana, and Woodbridge Apartments of Louisville II in Louisville, Kentucky were redeemed. The properties financed by these redeemed mortgage revenue bonds were required to be consolidated into the Company's financial statements as VIEs under FIN 46R. During the fourth quarter of 2008, these VIEs met the criteria for discontinued operations under SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets* ("SFAS No. 144"), and they were classified as such in the consolidated financial statements for all periods presented. In order to properly reflect the transaction under FIN 46R, the Company recorded the redemption of the bonds as a sale of the properties as though they were owned by the Company. The transaction was completed for a total purchase price of \$32.0 million resulting in a gain on sale for GAAP reporting to the Company of approximately \$26.5 million. The redemption of the bonds did not result in a taxable gain to the Partnership. The redeemed bonds were collateral on the Company's TOB facility. As of the closing date of the redemption, the Company placed on deposit with Bank of America \$23.6 million as replacement collateral. The restricted cash amount was released on June 18, 2009 when the TOB facility was collapsed and the Company entered into its' new term loan agreement with Bank of America (see Note 7).

As of December 31, 2008, \$19.6 million of the total outstanding debt related to the Company's bond portfolio was allocated to discontinued operations. Interest expense was allocated to discontinued operations based on the historical effective rate of the Company's debt financing applied to the debt financing allocated to discontinued operations. The Company allocated to discontinued operations interest expense of \$0 and \$81,500 for the three and six months ended June 30, 2009, respectively, and \$242,300 and \$607,400 for the three and six months ended June 30, 2008, respectively.

The following presents the components of the assets and liabilities of discontinued operations as of June 30, 2009 and December 31, 2008 and the revenues, expenses and income from discontinued operations, excluding the gain on sale of \$26.5 million, for the three and six months ended June 30, 2009 and 2008.

	June 30, 2009	Dec. 31, 2008
Cash and cash equivalents	\$ -	\$ 164,861
Restricted cash	-	322,560
Land	-	1,497,355
Buildings and improvements	-	23,696,355
Real estate assets before accumulated depreciation	-	25,193,710
Accumulated depreciation	-	(17,927,345)
Net real estate assets	-	7,266,365
Other assets	-	360,075
Total assets from discontinued operations	-	8,113,861
Total liabilities of discontinued operations	-	23,264,589
Net deficits of discontinued operations	\$ -	\$ (15,150,728)

	Three Months Ended June 30,	
	2009	2008
Rental Revenues	\$ -	\$ 1,290,463
Expenses	-	1,110,517
Income from discontinued operations	\$ -	\$ 179,946

	Six Months Ended June 30,	
	2009	2008
Rental Revenues	\$ 849,366	\$ 2,612,408
Expenses	501,926	2,238,705
Income from discontinued operations	\$ 347,440	\$ 373,703

## 7. Debt Financing and Mortgage Payable

In June 2009, the Company entered into a new secured credit facility with Bank of America which refinanced the maturing Tender Option Bond (“TOB”) facility. The new credit facility has a one-year term with a six-month renewal option held by the Company, an annual floating interest rate of daily LIBOR plus 390 basis points and a loan amount of \$50.0 million. The proceeds from the new credit facility plus the cash collateral held by Bank of America for the TOB facility were used to retire the outstanding balance on the TOB facility. The new credit facility is secured by 13 tax-exempt mortgage revenue bonds with a total par value of \$112.1 million plus approximately \$1.5 million in restricted cash. Financial covenants for the new credit facility include the maintenance of a leverage ratio not to exceed 70% and a minimum liquidity of \$5.0 million by the Company. Additionally, the properties which secure the bond portfolio which is collateral for the new credit facility are to maintain, as a group, a minimum debt service coverage of 1.1 to 1 and a loan to value ratio not to exceed 75%. At June 30, 2009, all of the Company’s debt financing was attributable to continuing operations. As of December 31, 2008, the Company had debt financing of \$76.6 million secured by 17 tax-exempt mortgage revenue bonds with a total par value of \$141.3 million plus approximately \$5.0 million in restricted cash. At December 31, 2008, three of the tax-exempt mortgage revenue bonds securing the debt financing were those of the consolidated VIEs presented as discontinued operations. Accordingly, \$19.6 million of the debt financing was classified in liabilities of discontinued operations. The remaining \$57.0 million of debt financing at December 31, 2008, was classified as continuing operations.

As of June 30, 2009, Mortgages Payables related to the MF Properties totaled approximately \$37.3 million. The acquisition of the Greens of Pine Glen in February 2009 was financed with an assumed mortgage loan of \$6.5 million. The unpaid balance of the note bears a 7% annual interest rate payable monthly. The initial maturity date of the loan is September 2010 at which time the borrower has an option to extend the note for 18 months. Approximately \$19.9 million in outstanding mortgage financing related to the MF Properties located in Ohio and Kentucky was due in July 2009. This mortgage loan contains three one-year renewal options held by the borrower. The borrower provided the appropriate notification to the lender of its intent to renew the mortgage for an additional year from the date of original maturity. Subsequent to June 30, 2009, the borrower entered into a Maturity Date Extension Agreement for the mortgage loan which extended the maturity on the mortgage one year to July 2010. In connection with the extension, the Company paid down the mortgage balance related to two of the financed properties, Eagle Ridge and Meadowview. The outstanding principal was reduced by approximately \$7.1 million in July 2009 resulting in a new outstanding mortgage balance of approximately \$12.8 million and the Eagle Ridge and Meadowview properties were released as collateral for the loan.

The Company’s aggregate borrowings as of June 30, 2009 contractually mature over the next five years and thereafter as follows, after allowing for the subsequent mortgage extension and pay down as discussed above:

2009	\$ 7,341,632
2010	62,851,625
2011	4,622,892
2012	6,406,433
2013	6,107,673
Thereafter	-
Total	<u>\$87,330,255</u>

The Company continues to explore refinancing opportunities for its outstanding debt. While the Company expects to be able to renew or refinance its debt as it matures, if the current illiquidity in the financial markets continues or further deteriorates, the counterparties on the Company’s credit facilities may be unable or unwilling to meet their commitments and the Company’s ability to renew or refinance its outstanding debt financing may be negatively affected.

## 8. Issuance of Additional Beneficial Unit Certificates

In May 2009, the Partnership issued, through an underwritten public offering, a total of 3,500,000 BUCs at a public offering price of \$5.00 per BUC. Net proceeds realized by the Partnership from the issuance of the additional BUCs were approximately \$16.2 million, after payment of an underwriter's discount and other offering costs of approximately \$1.3 million. The proceeds will be used to acquire additional tax-exempt revenue bonds and other investments meeting the Partnership's investment criteria as described in Notes 1 and 4, and for general working capital needs. The offering was made pursuant to a shelf registration statement filed with the Securities and Exchange Commission.

## 9. Transactions with Related Parties

The general partner of the Partnership, AFCA 2, is entitled to receive an administrative fee from the Partnership equal to 0.45% per annum of the outstanding principal balance of any of its tax-exempt mortgage revenue bonds or other tax-exempt investments for which the owner of the financed property or other third party is not obligated to pay such administrative fee directly to AFCA 2. For the three and six months ended June 30, 2009, the Partnership paid administrative fees to AFCA 2 of approximately \$67,500 and \$138,000, respectively. For the three and six months ended June 30, 2008, the Partnership paid administrative fees to AFCA 2 of approximately \$83,400 and \$175,900, respectively. In addition to the administrative fees paid directly by the Partnership, AFCA 2 receives administrative fees directly from the owners of properties financed by certain of the tax-exempt mortgage revenue bonds held by the Partnership. These administrative fees also equal 0.45% per annum of the outstanding principal balance of these tax-exempt mortgage revenue bonds and totaled approximately \$56,000 and \$117,600 for the three and six months ended June 30, 2009, respectively. For the three and six months ended June 30, 2008, these administrative fees totaled approximately \$77,600 and \$168,000, respectively.

AFCA 2 earned mortgage placement fees in connection with the acquisition of certain tax-exempt mortgage revenue bonds. These mortgage placement fees were paid by the owners of the respective properties and, accordingly, have not been reflected in the accompanying condensed consolidated financial statements because these properties are not considered VIEs. During the three and six months ended June 30, 2009, AFCA 2 earned mortgage placement fees of approximately \$0 and \$91,700, respectively. During the three and six months ended June 30, 2008, AFCA 2 earned mortgage placement fees of approximately \$0 and \$61,250, respectively.

An affiliate of AFCA 2, America First Property Management Company, LLC ("Properties Management"), was retained to provide property management services for Ashley Square, Ashley Pointe at Eagle Crest, Iona Lakes Apartments, Bent Tree Apartments, Lake Forest Apartments, Fairmont Oaks Apartments, Cross Creek Apartments, Eagle Ridge, Crescent Village, Meadowview, Willow Bend, Postwoods I, Postwoods II, Churchland, Glynn Place and The Greens. The management fees paid to Properties Management amounted to approximately \$204,800 and \$429,600 for the three and six months ended June 30, 2009, respectively. The management fees paid to Properties Management during the first three and six months ended June 30, 2008 totaled approximately \$186,000 and \$366,000, respectively. For the VIEs, these management fees are not Partnership expenses but are recorded by each applicable VIE entity and, accordingly, have been reflected in the accompanying consolidated financial statements. Such fees are paid out of the revenues generated by the properties owned by the VIEs prior to the payment of any interest on the tax-exempt mortgage revenue bonds and taxable loans held by the Partnership on these properties. For the MF Properties, these management fees are considered real estate operating expenses. Additionally, Properties Management was retained to provide property management services for Clarkson College and Chandler in 2008 and Clarkson College, Woodland Park, Gardens of Decordova and Oak Grove in 2009. The management fees paid to Properties Management by these entities amounted to approximately \$47,500 and \$68,200 during the three and six months ended June 30, 2009, respectively. The management fees paid to Properties Management by these entities amounted to approximately \$16,000 and \$39,000 during the three and six months ended June 30, 2008, respectively.

The shareholders of the limited-purpose corporations which own four of the apartment properties financed with tax-exempt bonds and taxable loans held by the Company are employees of The Burlington Capital Group LLC, the general partner of AFCA 2 ("Burlington") who are not involved in the operation or management of the Company and who are not executive officers or managers of Burlington.

#### 10. Interest Rate Derivative Agreements

As of June 30, 2009, the Company has three derivative agreements in order to mitigate its exposure to increases in interest rates on its variable-rate debt financing and mortgages payable. The terms of the derivative agreements are as follows:

Date Purchased	Notional Amount	Effective Capped Rate	Maturity Date	Purchase Price	Counterparty
June 18, 2009	\$ 50,000,000	0.75%	December 31, 2010	\$ 554,000	Bank of America
June 29, 2007	\$ 19,920,000	8.30%	July 1, 2009	\$ 17,500	JP Morgan
October 29, 2008	\$ 4,480,000	6.00%	November 1, 2011	\$ 26,512	Bank of America

Prior to June 2009, the Company had four derivative agreements. As part of the refinancing of the TOB facility two of these agreements were cancelled and one new derivative was purchased. The cancelled derivatives were a \$15.0 million interest rate swap and a \$60.0 million interest rate cap. The cancellation of these derivatives resulted in a cash payment by the Company to counterparties of approximately \$62,300. The derivative purchased is a one-month LIBOR interest rate cap with a notional value of \$50.0 million which was purchased for approximately \$554,000. This new interest rate cap effectively caps the interest rate to be paid on the Company's new secured credit facility at 0.75% plus 390 basis points, or 4.65%. In addition, in July 2009, the Company purchased a new interest rate cap related to the mortgage extension discussed in Footnote 7. This derivative is a 0.5% interest rate cap with a notional value of \$12.8 million and a purchase price of \$51,500.

These interest rate derivatives do not qualify for hedge accounting and, 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 these derivative contracts resulted in an increase in interest expense of approximately \$37,100 and \$490,500 for the three and six months ended June 30, 2009, respectively. The change in fair value of these derivative contracts resulted in an approximate \$145,000 decrease in interest expense for the three months ended June 30, 2008 and an increase in interest expense of approximately \$38,000 for the six months ended June 30, 2008.

## 11. Segment Reporting

The Company consists of three reportable segments, Tax-Exempt Bond Investments, MF Properties, and VIEs. In addition to the three reportable segments, the Company also separately reports its consolidation and elimination information because it does not allocate certain items to the segments.

### *Tax-Exempt Bond Investments Segment*

The Tax-Exempt Bond Investments segment consists of the Company's portfolio of federally tax-exempt mortgage revenue bonds which have been issued to provide construction and/or permanent financing of multifamily residential apartments. Such tax-exempt bonds are held as long-term investments. As of June 30, 2009, the Company held nine tax-exempt bonds (secured by eight properties) not associated with VIEs and six tax-exempt bonds associated with VIEs. The multifamily apartment properties financed by these tax-exempt bonds contain a total of 1,137 rental units.

### *MF Properties Segment*

The MF Properties segment consists of indirect equity interests in multifamily apartment properties which are not currently financed by tax-exempt bonds held by the Partnership but which the Partnership eventually intends to finance by such bonds through a restructuring. In connection with any such restructuring, the Partnership will be required to dispose of any equity interest held in such MF Properties. The Partnership's interests in its current MF Properties are not currently classified as Assets Held for Sale because the Partnership is not actively marketing them for sale, there is no definitive purchase agreement in existence and, therefore, no sale is expected in the next twelve months. During the time the Partnership holds an interest in a MF Property, any net rental income generated by the MF Properties in excess of debt service will be available for distribution to the Partnership in accordance with its interest in the MF Property. Any such cash distribution will contribute to the Partnership's Cash Available for Distribution ("CAD"). As of June 30, 2009, the Company held limited partner interests in the owners of nine MF Properties containing a total of 964 rental units.

### *The VIE Segment*

The VIE segment consists of multifamily apartment properties which are financed with tax-exempt bonds held by the Partnership, the assets, liabilities and operating results of which are consolidated with those of the Partnership as a result of FIN 46R. The tax-exempt bonds on these VIE properties are eliminated from the Company's financial statements as a result of such consolidation, however, such bonds are held as long-term investments by the Partnership which continues to be entitled to receive principal and interest payments on such bonds. The Company does not actually own an equity position in the VIEs or their underlying properties. As of June 30, 2009, the Company consolidated six VIE multifamily apartment properties containing a total of 1,288 rental units.

Management closely monitors and evaluates the financial reporting associated with and the operations of the VIEs and the MF Properties and performs such evaluation separately from the other operations of the Partnership through interaction with the affiliated property management company which manages the multifamily apartment properties held by the VIEs and the MF Properties.

Management's goals with respect to the properties constituting each of the Company's reportable segments is to generate increasing amounts of net rental income from these properties that will allow them to (i) make all payments of base interest, and possibly pay contingent interest, on the properties included in the Tax-Exempt Bond Investments segment and the VIE segment, and (ii) distribute net rental income to the Partnership from the MF Properties segment until such properties can be refinanced with additional tax-exempt mortgage bonds meeting the Partnership's investment criteria. In order to achieve these goals, 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.

The following table details certain key financial information for the Company's reportable segments for the three and six month periods ended June 30, 2009 and 2008:

	For the Three Months		For the Six Months Ended	
	Ended		June 30,	
	June 30, 2009	June 30, 2008	2009	June 30, 2008
<b>Total revenue</b>				
Tax-Exempt Bond Financing	\$ 2,145,230	\$ 2,454,726	\$ 6,694,763	\$ 5,118,998
MF Properties	1,838,963	1,091,763	3,470,661	2,184,799
VIEs	2,064,029	2,251,925	4,183,574	4,472,284
Consolidation/eliminations	(1,072,520)	(1,438,579)	(4,639,694)	(2,866,153)
<b>Total revenue</b>	<b>\$ 4,975,702</b>	<b>\$ 4,359,835</b>	<b>\$ 9,709,304</b>	<b>\$ 8,909,928</b>
<b>Interest expense</b>				
Tax-Exempt Bond Financing	\$ 668,623	\$ 666,740	\$ 1,691,243	\$ 1,939,885
MF Properties	296,707	209,153	546,509	459,563
VIEs	1,638,576	1,477,724	3,149,420	2,945,585
Consolidation/eliminations	(1,638,577)	(1,720,094)	(3,230,974)	(3,553,069)
<b>Total interest expense</b>	<b>\$ 965,329</b>	<b>\$ 633,523</b>	<b>\$ 2,156,198</b>	<b>\$ 1,791,964</b>
<b>Depreciation expense</b>				
Tax-Exempt Bond Financing	\$ -	\$ -	\$ -	\$ -
MF Properties	463,730	229,598	864,158	459,196
VIEs	610,843	571,811	1,189,209	1,128,852
Consolidation/eliminations	-	-	-	-
<b>Total depreciation expense</b>	<b>\$ 1,074,573</b>	<b>\$ 801,409</b>	<b>\$ 2,053,367</b>	<b>\$ 1,588,048</b>
<b>Income (loss) from continuing operations</b>				
Tax-Exempt Bond Financing	\$ 659,297	\$ 1,211,252	\$ 3,260,819	\$ 2,149,143
MF Properties	(296,568)	(78,163)	(682,410)	(352,614)
VIEs	(1,735,851)	(1,335,984)	(3,041,751)	(2,604,685)
Consolidation/eliminations	799,792	294,385	(1,085,532)	716,546
<b>Income (loss) from continuing operations</b>	<b>\$ (573,330)</b>	<b>\$ 91,490</b>	<b>\$ (1,548,874)</b>	<b>\$ (91,610)</b>
<b>Net income (loss)</b>				
Tax-Exempt Bond Financing	\$ 659,297	\$ 1,211,252	\$ 3,260,819	\$ 2,149,143
MF Properties	(293,604)	(77,382)	(675,586)	(349,088)
VIEs	(1,735,851)	(1,695,913)	31,744,694	(3,191,223)
Consolidation/eliminations	799,792	834,260	(9,137,223)	1,676,787
<b>Net income</b>	<b>\$ (570,366)</b>	<b>\$ 272,217</b>	<b>\$ 25,192,704</b>	<b>\$ 285,619</b>
			June 30, 2009	December 31, 2008
<b>Total assets</b>				
Tax-Exempt Bond Financing			\$ 135,915,539	\$ 158,156,573
MF Properties			54,634,324	47,571,345
VIEs			58,299,480	56,467,499
Consolidation/eliminations			(74,182,557)	(104,322,141)
<b>Total assets</b>			<b>\$ 174,666,786</b>	<b>\$ 157,873,276</b>
<b>Total partners' capital</b>				
Tax-Exempt Bond Financing			\$ 92,467,992	\$ 77,498,951
MF Properties			6,725,812	6,771,635
VIEs			(37,923,670)	(69,668,362)
Consolidation/eliminations			19,872,159	26,225,387
<b>Total partners' capital</b>			<b>\$ 81,142,293</b>	<b>\$ 40,827,611</b>

## 12. Commitments and Contingencies

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are frequently covered by insurance. If it has been determined that a loss is probable to occur, the estimated amount of the loss is accrued in the consolidated financial statements. While the resolution of these matters cannot be predicted with certainty, management believes the final outcome of such matters will not have a material adverse effect on the Company's consolidated financial statements.

## 13. Recently Issued Accounting Pronouncements

In June 2009, the FASB issued Statement No. 168, *The FASB Accounting Standards Codification<sup>TM</sup> and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162* (SFAS No. 168). The Codification will become the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of SFAS No. 168, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. SFAS No. 168 is not expected to have a material impact on the financial statements.

In June 2009, the FASB issued Statement No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS No. 167). SFAS No. 167 retains the scope of Interpretation 46(R), *Consolidation of Variable Interest Entities*, with the addition of entities previously considered qualifying special-purpose entities, as the concept of these entities was eliminated in FASB Statement No. 166, *Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140*. SFAS No. 167 shall be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. The Company is currently evaluating the impact of SFAS No. 167 on the financial statements.

In June 2009, the FASB issued Statement No. 166, *Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140* (SFAS No. 166). On and after the effective date of SFAS No. 166, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities (as defined under previous accounting standards) should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. SFAS No. 166 must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. SFAS No. 166 is not expected to have a material impact on the financial statements.

In May 2009, the FASB issued Statement No. 165, *Subsequent Events* (SFAS No. 165). SFAS No. 165 establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. SFAS No. 165 was effective for interim or annual financial periods ending after June 15, 2009. The adoption of SFAS No. 165 did not affect the consolidated balance sheet, statement of operations, or cash flows.

On January 1, 2009, the Company adopted SFAS No. 141R, *Business Combinations*, which changes the way the Company accounts for business acquisitions (SFAS No. 141R). SFAS No. 141R requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction and establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed in a business combination. Certain provisions of SFAS No. 141R will, among other things, impact the determination of acquisition date fair value of consideration paid in a business combination, exclude transaction costs from acquisition accounting and change some accounting practices.

On January 1, 2009, the Company adopted SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* (SFAS No. 160). SFAS No. 160 requires that a noncontrolling interest in a subsidiary be reported as equity and the amount of consolidated net income specifically attributable to the noncontrolling interest be identified in the consolidated financial statements. It also calls for consistency in the manner of reporting changes in the parent's ownership interest and requires fair value measurement of any noncontrolling equity investment retained in deconsolidation. The adoption of SFAS No. 160 recharacterized minority interests as noncontrolling interests and reclassified minority interests as a component of equity on the Company's financial statements. Prior year amounts relating to noncontrolling interests have been reclassified to conform to current year presentation as required by SFAS No. 160.

In April 2009, the Financial Accounting Standards Board ("FASB") issued the following FASB Staff Positions ("FSP"):

FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, and FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*.

FSP FAS 157-4 relates to determining fair values when there is no active market or where the price inputs being used represent distressed sales and reaffirms what SFAS No. 157 states is the objective of fair value measurement—to reflect how much an asset would be sold for in an orderly transaction (as opposed to a distressed or forced transaction) at the date of the financial statements under current market conditions. Specifically, it reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive.

FSP FAS 107-1 and APB 28-1 relate to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet of companies at fair value. Prior to issuing this FSP, fair values for these assets and liabilities were only disclosed once a year. The FSP now requires these disclosures on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all financial instruments not measured on the balance sheet at fair value.

FSP FAS 115-2 and FAS 124-2 on other-than-temporary impairments is intended to bring greater consistency to the timing of impairment recognition, and provide greater clarity to investors about the credit and noncredit components of impaired debt securities that are not expected to be sold. The measure of impairment in comprehensive income remains fair value. The FSP also requires increased and timelier disclosures sought by investors regarding expected cash flows, credit losses, and an aging of securities with unrealized losses.

The FSPs were effective for the Company for interim and annual periods ending after June 15, 2009 and did not have a material impact on the Company's financial statements.

#### 14. Fair Value Measurements

Effective January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* ("SFAS 157") which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The adoption of SFAS 157 did not significantly change the method in which the Company measures fair value, but it requires certain additional disclosures, as set forth below. The provisions of SFAS 157 apply to other accounting pronouncements that require or permit fair value measurements. SFAS 157:

- Defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date; and
- Establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. To increase consistency and comparability in fair value measurements and related disclosures, the fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The three-levels of the hierarchy are defined as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs are unobservable inputs for asset or liabilities.

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value.

**Investments in Tax-exempt Mortgage Revenue Bonds.** The fair values of the Company's investments in tax-exempt mortgage revenue bonds have each been based a discounted cash flow and yield to maturity analyses performed by the general partner. There is no active trading market for the bonds and price quotes for the bonds are not available. If available, the general partner may also consider price quotes on similar bonds or other information from external sources, such as pricing services. The estimates of the fair values of these bonds, whether estimated by the Company or based on external sources, are based largely on unobservable inputs the general partner believes would be used by market participants. Additionally, the calculation methodology used by the external sources and the Company encompasses the use of judgment in their application. Given these facts the fair value measurement of the Company's investment in tax-exempt mortgage revenue bonds is categorized as a Level 3 input.

**Interest rate derivatives.** The effect of the Company's interest rate caps is to set a cap, or upper limit, on the base rate of interest paid on the Company's variable rate debt equal to the notional amount of the derivative agreement. The effect of the Company's interest rate swap is to change a variable rate debt obligation to a fixed rate for that portion of the debt equal to the notional amount of the derivative agreement. The interest rate derivatives are recorded at fair value with changes in fair value included in current period earnings within interest expense. The fair value of the interest rate derivatives is based on a model whose inputs are not observable and therefore are categorized as a Level 3 input.

Assets and liabilities measured at fair value on a recurring basis, in thousands, are summarized below:

Description	Assets/Liabilities at Fair Value	Fair Value Measurements at June 30, 2009		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Tax-exempt Mortgage Revenue Bonds	\$ 48,490,189	\$ -	\$ -	\$ 48,490,189
Interest Rate Derivatives	428,627	-	-	428,627
Total Assets at Fair Value	<u>\$ 48,918,816</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,918,816</u>

For six months ended June 30, 2009 Fair  
Value Measurements Using Significant  
Unobservable Inputs (Level 3)

	Tax-exempt		
	Mortgage Revenue Bonds	Interest Rate Derivatives	Total
Beginning Balance January 1, 2009	\$ 44,492,526	\$ 302,849	\$ 44,795,375
Total gains or losses (realized/unrealized)			
Included in earnings	-	(490,522)	(490,522)
Included in other comprehensive income	4,115,663	-	4,115,663
Purchases, issuances and settlements	(118,000)	616,300	498,300
Ending Balance June 30, 2009	<u>\$ 48,490,189</u>	<u>\$ 428,627</u>	<u>\$ 48,918,816</u>

Total amount of gains  
or losses for the  
period included in  
earnings attributable  
to the change in  
unrealized gains or  
losses relating to  
assets or liabilities  
still held as of June  
30, 2009

\$ - \$ (490,522) \$ (490,522)

Fair Value Measurements at December  
31, 2008

Description	Assets/Liabilities at Fair Value	Fair Value Measurements at December 31, 2008		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Tax-exempt Mortgage Revenue Bonds	\$ 44,492,526	\$ -	\$ -	\$ 44,492,526
Interest Rate Derivatives	302,849	-	-	302,849
Total Assets at Fair Value	<u>\$ 44,795,375</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,795,375</u>

For six months ended June 30, 2008 Fair  
Value Measurements Using Significant  
Unobservable Inputs (Level 3)

	Tax-exempt		
	Mortgage Revenue Bonds	Interest Rate Derivatives	Total
Beginning Balance January 1, 2008	\$ 66,167,116	\$ 12,439	\$ 66,179,555



Total gains or losses (realized/unrealized)			
Included in earnings	(38,328)		(38,328)
Included in other comprehensive income	(2,816,371)		(2,816,371)
Purchases, issuances and settlements	(2,500,793)		(2,500,793)
Ending Balance June 30, 2008	<u>\$ 60,849,952</u>	<u>\$ (25,889)</u>	<u>\$ 60,824,063</u>
Total amount of gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held as of June 30, 2008	<u>\$ -</u>	<u>\$ (38,328)</u>	<u>\$ (38,328)</u>

Losses included in earnings for the period shown above are included in interest expense.

## 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. and its subsidiaries (which own the MF Properties) on a consolidated basis 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"). The Partnership has been determined to be the primary beneficiary of these VIEs although it does not hold an equity position in them and, therefore, must consolidate these entities. The consolidated financial statements of the Company include the accounts of the Partnership and the VIEs. All significant transactions and accounts between the Partnership and the VIEs have been eliminated in consolidation.

### Critical Accounting Policies

The Company's critical accounting policies are the same as those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

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.

### Executive Summary

Challenging economic conditions continued during the second quarter of 2009, with tight credit conditions and slow growth. As a result of these conditions, the cost and availability of credit has been, and may continue to be, adversely affected in all markets in which we operate. Concern about the stability of the markets generally, and the strength of counterparties specifically, has led many lenders and institutional investors to reduce, and in some cases, cease, to provide funding to borrowers. If these market and economic conditions continue, they may limit our ability to replace or renew maturing liabilities on a timely basis, access the capital markets to meet liquidity and capital expenditure requirements and may result in adverse effects on our financial condition and results of operations.

Although the consequences of these conditions and their impact on our ability to pursue our plan to grow through investments in additional tax-exempt bonds secured by first mortgages on affordable multifamily housing projects are not fully known, we do not anticipate that our existing assets will be adversely affected in the long-term. We believe the current tightening of credit may create opportunities for additional investments consistent with the Partnership's investment strategy because it may result in fewer parties competing to acquire tax-exempt bonds issued to finance affordable housing. The Company is currently evaluating a number of attractive potential investments and continues to be presented with investment opportunities on a regular basis. There can be no assurance that we will be able to finance additional acquisitions of tax-exempt bonds through either additional equity or debt financing. If uncertainties in these markets continue, the markets deteriorate further or the Company experiences further deterioration in the values of its investment portfolio, the Company may incur impairments to its investment portfolio which could negatively impact the Company's financial statements.

Additionally, the current negative economic conditions, unemployment, lack of jobs growth, low home mortgage interest rates and tax incentives provided to first time homebuyers have begun to have a negative impact on the properties which collateralize our tax-exempt bond investments, the VIEs and our MF Properties in the form of declining occupancy. Economic occupancy at the MF Properties was 85% during the first half of 2009 as compared to 89% in the first half of 2008. Economic occupancy of the VIEs was 76% in 2009 and 84% in 2008. These issues will have a negative impact on the overall property operations and profitability in the short-term, however, we expect that long-term property operations will not be impacted significantly.

In 2009 Company debt consisting of the entire balance of the TOB facility of approximately \$76.6 million plus approximately \$19.9 million of mortgages payables on MF Properties were to mature in July. In June 2009, the Company entered into a new secured credit facility with Bank of America which refinanced the maturing TOB facility. The new credit facility has a one-year term with a six-month renewal option held by the Company, an annual floating interest rate of daily LIBOR plus 390 basis points and a loan amount of \$50.0 million. The proceeds from the new credit facility plus the cash collateral held by Bank of America for the TOB facility were used to retire the outstanding balance on the TOB facility. The new credit facility is secured by 13 tax-exempt mortgage revenue bonds with a total par value of \$112.1 million plus approximately \$1.5 million in restricted cash. Financial covenants for the new credit facility include the maintenance of a leverage ratio not to exceed 70% and a minimum liquidity of \$5.0 million by the Company. Additionally, the properties which secure the bond portfolio which is collateral for the new credit facility are to maintain, as a group, a minimum debt service coverage of 1.1 to 1 and a loan to value ratio not to exceed 75%. In addition to the TOB facility, the approximately \$19.9 million in outstanding mortgage financing related to the MF Properties located in Ohio and Kentucky was due in July 2009. This mortgage loan contains three one-year renewal options held by the borrower. The borrower provided the appropriate notification to the lender of its intent to renew the mortgage for an additional year from the date of original maturity. Subsequent to June 30, 2009, the borrower entered into a Maturity Date Extension Agreement for the mortgage loan which extended the maturity on the mortgage one year to July 2010. In conjunction with the extension, the Company paid down the mortgage balance related to two of the financed properties, Eagle Ridge and Meadowview. The outstanding principal was reduced by approximately \$7.1 million in July resulting in a new outstanding mortgage balance of approximately \$12.8 million and the Eagle Ridge and Meadowview properties were released as collateral for the loan.

The Partnership has an effective Registration Statement on Form S-3 with the SEC relating to the sale of up to \$100.0 million of its BUCs. Pursuant to this Registration Statement, in May 2009, the Partnership issued, through an underwritten public offering, a total of 3,500,000 BUCs at a public offering price of \$5.00 per BUC. Net proceeds realized by the Partnership from the issuance of the additional BUCs were approximately \$16.2 million, after payment of an underwriter's discount and other offering costs of approximately \$1.3 million. The proceeds will be used to acquire additional tax-exempt revenue bonds and other investments meeting the Partnership's investment criteria and for general working capital needs. To date, the Partnership has issued approximately \$47.1 million of BUCs under this Registration Statement and intends to issue additional BUCs from time to time.

The Company believes that current market conditions have created significant investment opportunities and it will seek to aggressively pursue those opportunities. More specifically, the current credit crisis has severely disrupted the financial markets and, in our view, has also created potential investment opportunities for the Company. Non-traditional participants in the multifamily housing debt sector are either reducing their participation in the market or are being forced to downsize their existing portfolio of investments. The Company believes this is creating opportunities to acquire existing tax-exempt bonds from distressed entities at attractive yields. Additionally, the current credit crisis is providing the potential for investments in quality real estate assets to be acquired from distressed owners and lenders. The Company's ability to restructure existing debt together with the ability to improve the operations of the underlying apartment properties through our affiliated property management company, America First Property Management Company, L.L.C., results in a valuable tax-exempt bond investment which is supported by the valuable collateral and operations of the underlying real property. The Company is currently evaluating a number of attractive potential investments and continues to be presented with investment opportunities on a regular basis. While we believe the Company is well-positioned to aggressively pursue new investment opportunities thereby creating value to shareholders in the form of a strong tax-exempt bond investment, there is no guarantee that we will be able to consummate any such transaction.

The Company's regular annual distributions were paid at a rate of \$0.54 per BUC, or \$0.135 per quarter per BUC, through the first quarter of 2009. Given the changes to the Company's credit facilities, the general partner has completed financial models in order to estimate the impact of the change in credit facilities on CAD. In order to ensure that cash provided by the Company's tax-exempt mortgage revenue bonds and other investments will be adequate to meet its projected liquidity requirements, including the payment of expenses, interest and distributions to BUC holders, beginning with the second quarter 2009 distribution, the general partner changed the Company's regular annual distribution to \$0.50 per BUC, or \$0.125 per quarter per BUC. The general partner believes that distributions at this level are sustainable, however, if actual results vary from current projections and the actual CAD generated is less than the new regular distribution, such distribution amount may need to be reduced.

#### *Discussion of the Partnership Bond Holdings and the Related Apartment Properties as of June 30, 2009*

The Partnership's purpose is to acquire and hold as long-term investments a portfolio of federally tax-exempt mortgage revenue bonds which have been issued to provide construction and/or permanent financing of multifamily residential apartments. At June 30, 2009, the Partnership held 15 tax-exempt mortgage bonds (secured by 14 properties), six of which are secured by properties held by VIEs and, therefore, eliminated in consolidation on the Company's financial statements. The eight properties underlying the nine non-consolidated tax-exempt mortgage bonds contain a total of 1,137 rental units. At June 30, 2008, the Partnership held 19 tax-exempt mortgage bonds (secured by 17 properties), eight of which were secured by properties held by VIEs and, therefore, eliminated in consolidation on the Company's financial statements. At June 30, 2008, the nine properties underlying the eleven non-consolidated tax-exempt mortgage bonds secured by apartment properties contained a total of 1,209 rental units.

To facilitate its investment strategy of acquiring additional tax-exempt mortgage bonds secured by multifamily apartment properties, the Partnership may acquire ownership positions in apartment properties ("MF Properties"). The Partnership expects to ultimately restructure the property ownership through a sale of the MF Properties and a syndication of low income housing tax credits ("LIHTCs"). The Partnership expects to provide the tax-exempt mortgage revenue bonds to the new property owners as part of the restructuring. Such restructurings will generally be expected to be initiated within 36 months of the initial investment in an MF Property and will often coincide with the expiration of the compliance period relating to LIHTCs previously issued with respect to the MF Property. The Partnership will not acquire LIHTCs in connection with these transactions. As of June 30, 2009, the Partnership's wholly-owned subsidiaries held limited partnership interests in nine entities that own MF Properties containing a total of 964 rental units. As of June 30, 2008, a wholly-owned subsidiary of the Partnership held limited partnership interests in six entities that own MF Properties containing a total of 544 rental units.

The VIEs' primary operating strategy focuses on multifamily apartment properties as long-term investments. Each VIE owns one multifamily apartment property that has been financed by a tax-exempt mortgage revenue bond held by the Partnership. As of June 30, 2009, the Company consolidated six VIE multifamily apartment properties containing a total of 1,288 rental units. As of June 30, 2008, the Company consolidated eight VIE multifamily apartment properties containing a total of 1,764 rental units.

The following table outlines certain information regarding the apartment properties on which the Partnership holds tax-exempt mortgage bonds (separately identifying those treated as VIEs) and the MF Properties owned by the Partnership. The narrative discussion that follows provides a brief operating analysis of each property during the first six months of 2009.

Property Name	Location	Number of Units	Number of Units Occupied	Percentage of Occupied Units as of June 30,		Economic Occupancy (1) for the period ended June 30,	
				2009	2008	2009	2008
<b>Non-Consolidated Properties</b>							
Bella Vista Apartments	Gainesville, TX	144	131	91%	95%	90%	91%
Bridle Ridge Apartments	Greer, SC	152	129	85%	77%	81%	64%
Clarkson College	Omaha, NE	142	87	61%	58%	71%	79%
Gardens of DeCordova (4)	Granbury, TX	76	n/a	n/a	n/a	n/a	n/a
Gardens of Weatherford (2)	Weatherford, TX	76	n/a	n/a	n/a	n/a	n/a
Runnymede Apartments	Austin, TX	252	227	90%	70%	97%	75%
Woodland Park (4)	Topeka, KS	236	n/a	n/a	n/a	n/a	n/a
Woodlynn Village	Maplewood, MN	59	58	98%	88%	99%	99%
		<u>1,137</u>	<u>632</u>	<u>84%</u>	<u>75%</u>	<u>89%</u>	<u>79%</u>
<b>VIEs</b>							
Ashley Square	Des Moines, IA	144	141	98%	97%	93%	86%
Bent Tree Apartments	Columbia, SC	232	212	91%	96%	79%	86%
Cross Creek (4)	Beaufort, SC	144	n/a	n/a	n/a	n/a	n/a
Fairmont Oaks Apartments	Gainesville, FL	178	154	87%	96%	81%	90%
Iona Lakes Apartments	Ft. Myers, FL	350	264	75%	80%	63%	66%
Lake Forest Apartments	Daytona Beach, FL	240	202	84%	95%	78%	92%
		<u>1,288</u>	<u>973</u>	<u>85%</u>	<u>93%</u>	<u>76%</u>	<u>84%</u>
<b>MF Properties</b>							
Churchland (3)	Chesapeake, VA	124	119	96%	n/a	88%	n/a
Crescent Village	Cincinnati, OH	90	82	91%	93%	80%	86%
Eagle Ridge	Erlanger, KY	64	57	89%	84%	74%	80%
Glynn Place (3)	Brunswick, GA	128	97	76%	n/a	74%	n/a
Greens of Pine Glen (3)	Durham, NC	168	158	94%	n/a	90%	n/a
Meadowview	Highland Heights, KY	118	107	91%	98%	86%	98%
Postwoods I	Reynoldsburg, OH	92	81	88%	96%	87%	87%
Postwoods II	Reynoldsburg, OH	88	84	95%	100%	91%	93%
Willow Bend	Columbus (Hilliard), OH	92	90	98%	92%	95%	88%
		<u>964</u>	<u>875</u>	<u>91%</u>	<u>95%</u>	<u>85%</u>	<u>89%</u>

(1) Economic occupancy is presented for the six months ended June 30, 2009 and 2008, 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. Actual occupancy is a point in time measure while economic occupancy is a measurement over the period presented, therefore, economic occupancy for a period may exceed the actual occupancy at any point in time.

(2) This property is still under construction as of June 30, 2009, and therefore has no occupancy data.

(3) Previous period occupancy numbers are not available, as this is a new investment.

(4) Construction on these properties has been completed and the properties are in a lease up and stabilization period. As of June 30, 2009, Cross Creek has leased 6 of a total of 144 units, Gardens of Decordova has leased 18 of a total of 76 units and Woodland Park has leased 81 of a total of 236 units.

### *Non-Consolidated Properties*

Bella Vista – Bella Vista Apartments is located in Gainesville, Texas. In the first half of 2009, Bella Vista's operations resulted in Net Operating Income (calculated as property revenue less salaries, advertising, administration, utilities, repair and maintenance, insurance, taxes, and management fee expenses) of \$281,000 as compared to \$270,000 in 2008. The increase was a result of a decrease in salary expense and property insurance expense.

Bridle Ridge Apartments — Bridle Ridge Apartments is located in Greer, South Carolina. In the first half of 2009, Bridle Ridge Apartments' operations resulted in Net Operating Income of \$334,000 as compared to \$225,000 in 2008. This increase is a direct result of increased occupancy which led to increased revenues.

Clarkson College – Clarkson College is a 142 bed student housing facility located in Omaha, Nebraska. In the first half of 2009, Net Operating Income was \$205,000 as compared to \$226,000 in 2008. The decrease is attributable to a decline in revenue resulting from decreased economic occupancy.

Gardens of DeCordova – The Gardens of DeCordova Apartments is located in Granbury, Texas and began leasing its 76 units in November 2008. As of June 30, 2009, 76 units have been completed and are available for rent and 18 units are currently occupied. The developer and principals have guaranteed completion and stabilization of the project. During the first half of 2009, the property owners made additional capital contributions and in July 2009 the Company made a taxable loan of approximately \$290,000 to the project to fund debt service on the bonds through property stabilization. Additionally, Properties Management was engaged to replace the prior property manager and is currently managing the property.

Gardens of Weatherford – The Gardens of Weatherford Apartments is currently under construction in Weatherford, Texas and will contain 76 units upon completion. The developer and principals have guaranteed completion and stabilization of the project. The general contractor has a guaranteed maximum price contract and payment and performance bonds are in place. During the first half of 2009 the Company made a taxable loan to the owners of the property of approximately \$141,000 to help fund the construction activities and current bond debt service reserves through construction completion and property stabilization. Additionally, Properties Management was engaged to replace the prior property manager and is currently managing the property and monitoring the construction progress. Due to numerous zoning, planning and design issues encountered in the building permit application process, construction on this project is significantly behind schedule. At this time infrastructure construction activities have been substantially completed but no construction has begun on the actual apartment buildings. The developer is currently evaluating the project funding and is investigating potential sources of additional or alternative funding should such additional funds be required to complete the project. At this time the estimated final completion date is March 2010 with some units available for rent in December 2009.

Runnymede Apartments – Runnymede Apartments is located in Austin, Texas. In the first half of 2009, Runnymede Apartment's operations resulted in Net Operating Income of \$464,000 as compared to \$179,000 in 2008. This increase is a direct result of increased occupancy which led to increased revenues.

Woodland Park – Woodland Park Apartments began leasing its 236 units in Topeka, Kansas in November 2008. As of June 30, 2009, 236 units have been completed and are available for rent and 81 units are currently occupied. The developer has guaranteed completion and stabilization of the project.

Woodlynn Village – Woodlynn Village is located in Maplewood, Minnesota. In the first half of 2009, Net Operating Income was \$147,000 as compared to \$166,000 in 2008. This decrease was the result of increased real estate taxes and property insurance expense.

### *VIEs*

Ashley Square – Ashley Square Apartments is located in Des Moines, Iowa. In the first half of 2009, Net Operating Income was \$187,000 as compared to \$141,000 in 2008. This increase was the result of slightly higher property revenue from improved occupancy and lower repairs and maintenance expense.

Bent Tree – Bent Tree Apartments is located in Columbia, South Carolina. In the first half of 2009, Net Operating Income was \$268,000 as compared to \$379,000 in 2008. This decrease was the result of lower property revenue based on decreased occupancy.

Cross Creek – Cross Creek Apartments is located in Beaufort, South Carolina. The Cross Creek bonds were acquired in April 2009. At that time the project was not completed and was vacant. The Company then made a \$1.5 million taxable loan to the property owner to allow for the completion of construction, lease up and stabilization of the property and the payment of bond debt service. Cross Creek Apartments began leasing its 144 units in June 2009. As of June 30, 2009, 68 units have been completed and are available for rent and 6 units are currently occupied.

Fairmont Oaks – Fairmont Oaks Apartments is located in Gainesville, Florida. In the first half of 2009, Net Operating Income was \$339,000 as compared to \$408,000 in 2008. This decrease was a direct result of lower property revenue from decreased occupancy.

Iona Lakes – Iona Lakes Apartments is located in Fort Myers, Florida. In the first half of 2009, Net Operating Income was \$463,000 as compared to \$492,000 in 2008. This decrease was related to a decrease in property revenues from decreased occupancy and an increase in salaries expense.

Lake Forest – Lake Forest Apartments is located in Daytona Beach, Florida. In the first half of 2009, Net Operating Income was \$391,000 as compared to \$568,000 in 2008. This decrease was a direct result of lower property revenues due to decreased occupancy along with an increase in salary and utility expenses.

*MF Properties*

Commons at Churchland – Commons at Churchland is located in Chesapeake, Virginia. Commons at Churchland was acquired in August 2008. During the first half of 2009 the property recognized approximately \$265,000 in Net Operating Income on revenue of \$494,000.

Crescent Village – Crescent Village Townhomes is located in Cincinnati, Ohio. In the first half of 2009, Crescent Village's operations resulted in Net Operating Income of \$151,000 as compared to \$200,000 in 2008. This decrease was the result of lower property revenue from decreased occupancy.

Eagle Ridge – Eagle Ridge Townhomes is located in Erlanger, Kentucky. In the first half of 2009, Eagle Ridge's operations resulted in Net Operating Income of \$57,000 as compared to \$99,000 in 2008. This decrease was the result of lower property revenue from decreased occupancy and an increase in salary expense.

Glynn Place – Glynn Place Apartments is located in Brunswick, Georgia. Glynn Place Apartments was acquired in October 2008. During the first half of 2009 the property recognized approximately \$153,000 in Net Operating Income on Revenue of \$400,000.

Greens of Pine Glen – Greens of Pine Glen Apartments is located in Durham, North Carolina and contains 168 units. A wholly-owned subsidiary of the Partnership acquired a 99% limited partner in the partnership that owns this property in February 2009. As a result, the financial statements of this property have been consolidated with those of the Partnership since that time. During this period the property recognized approximately \$42,000 of net operating income on revenue of \$463,000.

Meadowview – Meadowview Apartments is located in Highland Heights, Kentucky. In the first half of 2009, Meadowview's operations resulted in Net Operating Income of \$206,000 as compared to \$283,000 in 2008. This decrease was a result of lower property revenue due to a decrease in occupancy.

Postwoods I – Postwoods Townhomes is located in Reynoldsburg, Ohio. In the first half of 2009, Postwoods I's operations resulted in Net Operating Income of \$178,000 as compared to \$207,000 in 2008. This decrease was a result of lower property revenue due to a decrease in occupancy along with an increase in salary expense.

Postwoods II – Postwoods Townhomes is located in Reynoldsburg, Ohio. In the first half of 2009, Postwoods II's operations resulted in Net Operating Income of \$171,000 as compared to \$208,000 in 2008. This decrease was a result of lower property revenue due to a decrease in occupancy and an increase in salary and utility expenses.

Willow Bend – Willow Bend Townhomes is located in Columbus (Hilliard), Ohio. In the first half of 2009, Willow Bend's operations resulted in Net Operating Income of \$183,000 as compared to \$247,000 in 2008. This decrease was a result of increased real estate taxes, salaries expense, and utilities expense offset by increased revenues resulting from increased occupancy.

## Results of Operations

### Consolidated Results of Operations

The following discussion of the Company's results of operations for the three months and six months ended June 30, 2009 and 2008 should be read in conjunction with the consolidated financial statements and notes thereto included in Item 1 of this report as well as the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

#### Three Months Ended June 30, 2009 compared to Three Months Ended June 30, 2008 (Consolidated)

##### Change in Results of Operations

	For the Three Months Ended	For the Three Months Ended	Dollar Change
	<u>June 30, 2009</u>	<u>June 30, 2008</u>	
Revenues:			
Property revenues	\$ 3,903,272	\$ 3,386,038	\$ 517,234
Mortgage revenue bond investment income	1,054,551	1,056,825	(2,274)
Other income (loss)	17,879	(83,028)	100,907
Total Revenues	<u>4,975,702</u>	<u>4,359,835</u>	<u>615,867</u>
Expenses:			
Real estate operating (exclusive of items shown below)	2,580,266	2,109,825	470,441
Depreciation and amortization	1,679,036	1,035,598	643,438
Interest	965,329	633,523	331,806
General and administrative	324,401	489,399	(164,998)
Total Expenses	<u>5,549,032</u>	<u>4,268,345</u>	<u>1,280,687</u>
Income from continuing operations	(573,330)	91,490	(664,820)
Income from discontinued operations	-	179,946	(179,946)
Net income	<u>(573,330)</u>	<u>271,436</u>	<u>(844,766)</u>
Less: net loss attributable to noncontrolling interest	2,964	781	2,183
Net income - America First Tax Exempt Investors, L. P.	<u>\$ (570,366)</u>	<u>\$ 272,217</u>	<u>\$ (842,583)</u>

*Property revenues.* Property revenues increased as a result of revenue generated by the MF Properties acquired in the second half of 2008 and the first quarter of 2009. These new properties added approximately \$761,000 in revenue in the second quarter of 2009. This increase was offset by a decrease in revenue at the existing VIE and MF Properties of approximately \$244,000 due to lower occupancy levels. The MF Properties averaged \$620 per unit in monthly rent in 2009 as compared with \$669 per unit in 2008. Economic occupancy at the MF Properties was 85% during the second quarter of 2009 as compared to 92% in the second quarter of 2008. The VIEs averaged \$576 per unit in monthly rent in 2009 as compared to \$669 per unit in 2008. Economic occupancy of the VIEs was 74% in 2009 and 89% in 2008.

*Mortgage revenue bond investment income.* Mortgage revenue bond investment income during the second quarter of 2009 was flat compared to the second quarter of 2008 due to several items which offset each other. The disposition of the Chandler Creek bond during the second quarter of 2008 and foreclosure of the Prairiebrook Village bond during the first half of 2008 decreased interest income by approximately \$105,000. This decrease was offset by the Oak Grove bond investment acquired at the beginning of the second quarter of 2009, which generated approximately \$107,000 interest income in the quarter.

*Other income (loss).* The increase in other income is attributable to higher levels of temporary investments in liquid securities representing amounts presented as cash and cash equivalents and restricted cash. Temporary investment levels were higher in 2009 due mainly to the cash received on the bond redemptions completed in February 2009. Additionally, in 2008 there was a loss of approximately \$72,000 realized on the sale of the Chandler bond.

*Real estate operating expenses.* Real estate operating expenses associated with the MF Properties and the consolidated VIEs 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 as rental revenues. Real estate operating expenses increased as a direct result of the expenses incurred by the newly acquired MF Properties, which were approximately \$420,000 in the second quarter of 2009.

*Depreciation and amortization expense.* Depreciation and amortization consists primarily of depreciation associated with the apartment properties of the consolidated VIEs and the MF Properties and amortization associated with in-place lease intangible assets recorded as part of the purchase accounting for the acquisition of MF Properties and deferred finance cost amortization related to the TOB credit facility that was entered into in the second quarter of 2008. Approximately \$255,500 of the increase is attributable to deferred financing cost amortization, and net increase of approximately \$111,900 of in-place lease amortization. Depreciation expense increased approximately \$229,000 due to the acquisition of new MF Properties and by approximately \$46,600 due to depreciation of capital assets placed in service at the existing properties.

*Interest expense.* Interest expense increased approximately \$332,000 during the second quarter 2009 compared to the second quarter 2008. The increase was due to a number of offsetting factors. The Company's quarterly borrowing cost decreased from 4.5% per annum in 2008 to 2.3% per annum in 2009 resulting in an approximate decrease of \$466,000 compared to second quarter 2008. Offsetting the interest rate decrease was interest expense attributable to marking interest rate derivatives to fair value. The fair value adjustment increased interest expense by approximately \$247,000 for 2009 as compared to the second quarter 2008. Three new MF Properties were added to the portfolio which increased interest expense by approximately \$204,000 due to the mortgage loans secured by these properties. The remaining increase in interest expense is due to the allocation of interest expense to discontinued operations in 2008.

*General and administrative expenses.* General and administrative expenses decreased due to a reduction in professional fees, salaries, and administrative fees.

Six Months Ended June 30, 2009 compared to Six Months Ended June 30, 2008 (Consolidated)

Change in Results of Operations

	For the Six Months Ended June 30, 2009	For the Six Months Ended June 30, 2008	Dollar Change
<b>Revenues:</b>			
Property revenues	\$ 7,654,515	\$ 6,699,433	\$ 955,082
Mortgage revenue bond investment income	2,002,895	2,265,389	(262,494)
Other income (loss)	51,894	(54,894)	106,788
<b>Total Revenues</b>	<b>9,709,304</b>	<b>8,909,928</b>	<b>799,376</b>
<b>Expenses:</b>			
Real estate operating (exclusive of items shown below)	4,940,909	4,068,987	871,922
Depreciation and amortization	3,259,908	2,220,122	1,039,786
Interest	2,156,198	1,791,964	364,234
General and administrative	901,163	920,465	(19,302)
<b>Total Expenses</b>	<b>11,258,178</b>	<b>9,001,538</b>	<b>2,256,640</b>
Income from continuing operations	(1,548,874)	(91,610)	(1,457,264)
Income from discontinued operations (including gain on bond redemption of \$26,514,809 in 2009)	26,734,754	373,703	26,361,051
<b>Net income</b>	<b>25,185,880</b>	<b>282,093</b>	<b>24,903,787</b>
Less: net loss attributable to noncontrolling interest	6,824	3,526	3,298
<b>Net income - America First Tax Exempt Investors, L. P.</b>	<b>\$ 25,192,704</b>	<b>\$ 285,619</b>	<b>\$ 24,907,085</b>

*Property revenues.* Property revenues increased as a result of revenue generated by the MF Properties acquired in the second half of 2008 and the first quarter of 2009. These new properties added approximately \$1.4 million in net revenue in the first half of 2009. This increase was offset by a decrease in revenue at the existing VIE and MF Properties of approximately \$445,000 due to lower occupancy levels. The MF Properties averaged \$586 per unit in monthly rent in 2009 as compared with \$651 per unit in 2008. Economic occupancy at the MF Properties was 85% during the first half of 2009 as compared to 89% in the first half of 2008. The VIEs averaged \$585 per unit in monthly rent in 2009 as compared to \$641 per unit in 2008. Economic occupancy of the VIEs was 76% in 2009 and 85% in 2008.

*Mortgage revenue bond investment income.* The decrease in mortgage revenue bond investment income is the result of a number of items which offset each other. A decrease of approximately \$400,000 during the first half of 2009 compared to the first half of 2008 is related to the disposition of the Chandler Creek and Deerfield bonds and the foreclosure of the Prairiebrook Village bonds. This decrease was offset by the Oak Grove bond investment acquired at the beginning of the second quarter of 2009, which generated approximately \$107,000 interest income in the period. An additional offsetting increase is related to owning the Bridle Ridge and Woodlynn Village bonds for the entire first half of 2009, but only a portion of the first half of 2008.

*Other income (loss).* The increase in other income is attributable to higher levels of temporary investments in liquid securities representing amounts presented as cash and cash equivalents and restricted cash. Temporary investment levels were higher in 2009 due mainly to the cash received on the bond redemptions completed in February 2009. Additionally, in 2008 there was a loss of approximately \$72,000 realized on the sale of the Chandler bond offset by a small gain realized from the sale of the Deerfield bond in March 2008.



*Real estate operating expenses.* Real estate operating expenses associated with the MF Properties and the consolidated VIEs 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 as rental revenues. Real estate operating expenses increased as a direct result of the expenses incurred by the newly acquired MF Properties.

*Depreciation and amortization expense.* Depreciation and amortization consists primarily of depreciation associated with the apartment properties of the consolidated VIEs and the MF Properties and amortization associated with in-place lease intangible assets recorded as part of the purchase accounting for the acquisition of MF Properties and deferred finance cost amortization related to the TOB credit facility that was entered into in the second quarter of 2008. Approximately \$505,000 of the increase is attributable to deferred financing cost amortization and a net increase of approximately \$70,000 of in-place lease amortization. Depreciation expense increased approximately \$465,000 due to the acquisition of new MF Properties and additional capital assets placed in service at existing properties.

*Interest expense.* Interest expense increased approximately \$364,000 during the first half of 2009 compared to the first half 2008. The increase was due to a number of offsetting factors. The Company's quarterly borrowing cost decreased from 5.3 % per annum in 2008 to 2.3% per annum in 2009 resulting in an approximate decrease of \$1.2 million compared to the first six months of 2008. Offsetting the interest rate decrease was interest expense attributable to marking interest rate derivatives to fair value. The fair value adjustment increased interest expense by approximately \$589,000 for 2009 as compared to the first half of 2008. Three new MF Properties were added to the portfolio which increased interest expense by approximately \$351,000 due to mortgage loans secured by these properties. The remaining increase in interest expense is due to the allocation of interest expense to discontinued operations in 2008.

*General and administrative expenses.* General and administrative expenses decreased due to a reduction in professional fees, salaries, and administrative fees.

#### Partnership Only Results of Operations

The following discussion of the Partnership's results of operations for the three and six months ended June 30, 2009 and 2008 reflects the operations of the Partnership without the consolidation of the VIEs, which is required under FIN 46R. This information is used by management to analyze the Partnership's operations and is reflective of the segment data discussed in Note 10 to the consolidated financial statements.

#### Three Months Ended June 30, 2009 compared to Three Months Ended June 30, 2008 (Partnership Only)

##### Changes in Results of Operations

	For the Three Months Ended June 30, 2009	For the Three Months Ended June 30, 2008	Dollar Change
<b>Revenues:</b>			
Mortgage revenue bond investment income	\$ 2,127,071	\$ 2,537,754	\$ (410,683)
Property revenues	1,839,243	1,091,763	747,480
Other income (loss)	17,879	(83,028)	100,907
Total Revenues	<u>3,984,193</u>	<u>3,546,489</u>	<u>437,704</u>
<b>Expenses:</b>			
Real estate operating (exclusive of items shown below)	1,041,056	579,906	461,150
Loan loss expense	220,000	-	220,000
Interest expense	965,330	875,893	89,437
Depreciation and amortization expense	1,070,677	468,202	602,475
General and administrative	324,401	489,399	(164,998)
Total Expenses	<u>3,621,464</u>	<u>2,413,400</u>	<u>1,208,064</u>
Net income	<u>362,729</u>	<u>1,133,089</u>	<u>(770,360)</u>
Less: net loss attributable to noncontrolling interest	2,964	781	2,183
Net Income - America First Tax Exempt Investors, L.P.	<u>\$ 365,693</u>	<u>\$ 1,133,870</u>	<u>\$ (768,177)</u>

*Mortgage revenue bond investment income.* The decrease in mortgage revenue bond investment income during the first half of 2009 compared to the first half of 2008 is related to the disposition of the Chandler Creek bond during the second quarter of 2008, the foreclosure of the Prairiebrook Village bond during the first half of 2008, and the redemption of three bonds in the first quarter of 2009. The disposition and redemption of the bonds accounted for approximately \$642,000 of the total decrease. This was offset by the Oak Grove and Cross Creek bond investments acquired at the beginning of the second quarter of 2009, which generated approximately \$244,000 in interest income.

*Property revenues.* Property revenues increased as a direct result of revenue generated by the newly acquired MF Properties, two of which were acquired in the second half of 2008 and one of which was acquired in first quarter 2009. These acquired properties added \$761,000 of rental income. Property revenues generated by the other MF Properties were consistent in each period. The MF Properties averaged \$620 per unit in monthly rent in 2009 as compared with \$669 per unit in 2008. Economic occupancy at the MF Properties during the second quarter of 2009 was 85% compared to 92% in 2008.

*Other income (loss).* The increase in other interest income is attributable to higher levels of temporary investments in liquid securities representing amounts presented as cash and cash equivalents and restricted cash. Temporary investment levels were higher in 2009 due mainly to the cash received on the bond redemptions completed in February 2009. Additionally, in 2008 there was a loss of approximately \$72,000 realized on the sale of the Chandler bond.

*Real estate operating expenses.* Real estate operating expenses associated with the MF Properties 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 as rental revenues. Real estate operating expenses increased as a direct result of the expenses incurred by the newly acquired MF Properties, which were approximately \$420,000 in the second quarter of 2009.

*Loan loss reserve expense.* The Partnership periodically, or as changes in circumstances or operations dictate, evaluates its investments for impairment. The value of the underlying property assets is ultimately the largest measure of value to support the investment carrying values. Due to current economic pressures, declining property occupancy and declines in net operating income at the property level, the Partnership determined it was appropriate to evaluate its investments for impairment as of June 30, 2009. Investments tested for impairment include all fixed assets, bond investments and taxable loans made to various properties. Such evaluation is based on cash flow and discounted cash flow models. The Partnership concluded that there was no impairment of fixed assets or bond investments. This evaluation did determine that a portion of the Partnership taxable property loans were potentially impaired and that additional loan loss reserves should be recorded. As a result, \$220,000 of additional loan loss reserves related to the taxable loans between various properties and the Partnership was recorded. The Partnership has net outstanding taxable loans to various properties recorded on its balance sheet of approximately \$17.6 million.

*Interest expense.* Interest expense increased approximately \$89,000 during the second quarter 2009 compared to the second quarter 2008. The Partnership's borrowing cost decreased from 4.5% per annum in 2008 to 2.3% per annum in 2009 resulting in an approximate decrease of \$157,000 compared to second quarter 2008. Offsetting the interest rate decrease was interest expense attributable to marking interest rate derivatives to fair value. The fair value adjustment increased interest expense by approximately \$246,000 for 2009 as compared to the second quarter 2008.

*Depreciation and amortization expense.* Depreciation and amortization consists primarily of depreciation associated with the apartment properties of the MF Properties and amortization associated with in-place lease intangible assets recorded as part of the purchase accounting for the acquisition of MF Properties and deferred finance cost amortization related to the TOB credit facility that was entered into in the second quarter of 2008. The increase is attributable to approximately \$186,000 of additional amortization for the TOB facility and increased depreciation and amortization expense of approximately \$406,000 due to the acquisition of new MF Properties.

*General and administrative expenses.* General and administrative expenses decreased due to a reduction in professional fees, salaries, and administrative fees.

## Changes in Results of Operations

	For the Six Months Ended June 30, 2009	For the Six Months Ended June 30, 2008	Dollar Change
<b>Revenues:</b>			
Mortgage revenue bond investment income	\$ 6,770,084	\$ 5,173,892	\$ 1,596,192
Property revenues	3,470,941	2,184,799	1,286,142
Other loss	(75,601)	(54,894)	(20,707)
Total Revenues	<u>10,165,424</u>	<u>7,303,797</u>	<u>2,861,627</u>
<b>Expenses:</b>			
Real estate operating (exclusive of items shown below)	2,076,713	1,088,955	987,758
Loan loss expense	294,999	-	294,999
Interest expense	2,237,752	2,399,448	(161,696)
Depreciation and amortization expense	2,076,388	1,098,400	977,988
General and administrative	901,163	920,465	(19,302)
Total Expenses	<u>7,587,015</u>	<u>5,507,268</u>	<u>2,079,747</u>
Net income	<u>2,578,409</u>	<u>1,796,529</u>	<u>781,880</u>
Less: net loss attributable to noncontrolling interest	<u>6,824</u>	<u>3,526</u>	<u>3,298</u>
Net Income - America First Tax Exempt Investors, L.P.	<u>\$ 2,585,233</u>	<u>\$ 1,800,055</u>	<u>\$ 785,178</u>

*Mortgage revenue bond investment income.* The increase in mortgage revenue bond investment income during the first half of 2009 compared to the first half of 2008 is due to a number of items which offset each other. First, the Partnership realized approximately \$2.3 million of contingent interest related to the redemption of three bonds in the first quarter of 2009. Second, increased income from the Oak Grove and Cross Creek bond investments acquired at the beginning of the second quarter of 2009, which generated approximately \$244,000 interest income. These increases were offset by a decline in interest income due to the disposition of the Chandler Creek and Deerfield bonds in 2008, the foreclosure of the Prairiebrook Village bond during the first half of 2008, and the redemption of three bonds in the first quarter of 2009. The disposition and redemption of these bonds accounted for a decrease of approximately \$944,000 in regular interest income.

*Property revenues.* Property revenues increased as a direct result of revenue generated by the newly acquired MF Properties, two of which were acquired in the second half of 2008 and one of which was acquired in first quarter 2009. These properties added \$1.4 million of rental income. Property revenues generated by the other MF Properties were down slightly in 2009 compared to the same period of 2008. The MF Properties averaged \$586 per unit in monthly rent in 2009 as compared with \$651 per unit in 2008. Economic occupancy at the MF Properties was 85% during the first half of 2009 as compared to 89% in the first half of 2008.

*Other loss.* In 2009, the other loss represents the write-off of unamortized deferred finance costs related to the three bonds redeemed during the first quarter of 2009. The 2008 loss was the net loss recorded for the Chandler Creek and Deerfield bond sales. In both years these losses were offset by an increase in other interest income attributable to temporary investments in liquid securities representing amounts presented as cash and cash equivalents and restricted cash. Temporary investment levels were higher in 2009 due mainly to the cash received on the bond redemptions completed in February 2009.

*Real estate operating expenses.* Real estate operating expenses associated with the MF Properties 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 as rental revenues. Real estate operating expenses increased by approximately \$897,000 as a direct result of the expenses incurred by the two MF Properties acquired in 2008 and the one acquired in 2009. Additionally, real estate operating expenses related to the six existing MF Properties increased approximately \$90,000 compared to 2008 mainly due to increase in salary expense.

*Loan loss reserve expense.* The Partnership periodically, or as changes in circumstances or operations dictate, evaluates its investments for impairment. The value of the underlying property assets is ultimately the largest measure of value to support the investment carrying values. Due to current economic pressures, declining property occupancy and declines in net operating income at the property level, the Partnership determined it was appropriate to evaluate its investments for impairment as of June 30, 2009. Investments tested for impairment include all fixed assets, bond investments and taxable loans made to various properties. Such evaluation is based on cash flow and discounted cash flow models. The Partnership concluded that there was no impairment of fixed assets or bond investments. This evaluation did determine that a portion of the Partnership taxable property loans were potentially impaired and that additional loan loss reserves should be recorded. As a result, \$220,000 of additional loan loss reserves related to the taxable loans between various properties and the Partnership was recorded. The Partnership has net outstanding taxable loans to various properties recorded on its' balance sheet of approximately \$17.6 million.

*Interest expense.* Interest expense decreased approximately \$162,000 during the first half of 2009 compared to the first half 2008. The decrease was due to a number of offsetting factors. The Partnership's quarterly borrowing cost decreased from 5.3 % per annum in 2008 to 2.3% per annum in 2009 resulting in an approximate decrease of \$1.2 million compared to the first six months of 2008. Offsetting the interest rate decrease was interest expense attributable to marking interest rate derivatives to fair value. The fair value adjustment increased interest expense by approximately \$589,000 for 2009 as compared to the first half of 2008. Three new MF Properties were added to the portfolio which increased interest expense by approximately \$351,000. The remaining increase in interest expense is due to the change in interest expense allocated to discontinued operations.

*Depreciation and amortization expense.* Depreciation and amortization consists primarily of depreciation associated with the apartment properties of the MF Properties and amortization associated with in-place lease intangible assets recorded as part of the purchase accounting for the acquisition of MF Properties and deferred finance cost amortization related to the TOB credit facility that was entered into in the first half of 2008. Approximately \$437,000 of the increase is attributable to deferred financing cost amortization and a net increase of approximately \$135,000 of in-place lease amortization. Depreciation expense increased approximately \$405,000 due mainly to the acquisition of new MF Properties.

*General and administrative expenses.* General and administrative expenses decreased due to a reduction in professional fees, salaries, and administrative fees.

## **Liquidity and Capital Resources**

### *Partnership Liquidity*

Tax-exempt interest earned on the mortgage revenue bonds, including those financing properties held by VIEs, represents the Partnership's principal source of cash flow. The Partnership may also receive cash distributions from equity interests held in MF Properties. Tax-exempt interest is primarily comprised of base interest payments received on the Partnership's tax-exempt mortgage revenue bonds. Certain of the tax-exempt mortgage revenue bonds may also generate payments of contingent interest to the Partnership from time to time when the underlying apartment properties generate excess cash flow. Because base interest on each of the Partnership's mortgage revenue bonds is fixed, the Partnership's cash receipts tend to be fairly constant period to period unless the Partnership acquires or disposes of its investments in tax-exempt bonds. Changes in the economic performance of the properties financed by tax-exempt bonds with a contingent interest provision will affect the amount of contingent interest, if any, paid to the Partnership. Similarly, the economic performance of MF Properties will affect the amount of cash distributions, if any, received by the Partnership from its ownership of these properties. The economic performance of a multifamily apartment property depends 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 primary uses of cash by apartment properties are the payment of operating expenses and debt service. Other sources of cash include debt financing and the sale of additional BUCs.

The Company intends to issue BUCs from time to time to raise additional equity capital as needed to fund investment opportunities. In this regard, the Company has an effective Registration Statement on Form S-3 with the SEC relating to the sale of up to \$100.0 million of its BUCs. Pursuant to this Registration Statement, in May 2009, the Company issued, through an underwritten public offering, a total of 3,500,000 BUCs at a public offering price of \$5.00 per BUC. Net proceeds realized by the Company from the issuance of the additional BUCs were approximately \$16.2 million, after payment of an underwriter's discount and other offering costs of approximately \$1.3 million. The proceeds will be used to acquire additional tax-exempt revenue bonds and other investments meeting the Partnership's investment criteria and for general working capital needs. To date, the Company has issued approximately \$47.1 million of BUCs under this Registration Statement and intends to issue additional BUCs from time to time. In addition, in October 2008, the Company filed a Registration Statement on Form S-3 with the SEC relating to a Rights Offering. Pursuant to this Registration Statement, the Company may issue Rights Certificates to existing BUC holders. The Company has not yet determined when, or if, such a Rights Offering will be conducted. Raising additional equity capital for deployment into new investment opportunities is part of the Company's overall growth strategy.

We believe that current market conditions have created significant investment opportunities and we will seek to aggressively pursue those opportunities. More specifically, the current credit crisis has severely disrupted the financial markets and, in our view, has also created potential investment opportunities for the Company. Non-traditional participants in the multifamily housing debt sector are either reducing their participation in the market or are being forced to downsize their existing portfolio of investments. Additionally, the current credit crisis is also providing the potential for investments in quality real estate assets to be acquired from distressed owners and lenders. Our ability to restructure existing debt together with the ability to improve the operations of the underlying apartment properties through our affiliated property management company, America First Property Management Company, L.L.C., results in a valuable tax-exempt bond investment which is supported by the valuable collateral and operations of the underlying real property. We believe this is creating opportunities to acquire existing tax-exempt bonds from distressed entities at attractive yields. We believe that we are well-positioned to acquire assets on the secondary market while maintaining the ability and willingness to also participate in primary market transactions. The Company is currently evaluating a number of attractive potential investments and continues to be presented with investment opportunities on a regular basis, however, there is no guarantee that we will be able to consummate any such transaction.

The Partnership's principal uses of cash are the payment of distributions to BUC holders, interest and principal 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. Distributions to BUC holders depend upon the amount of base and contingent interest received on the Company's tax-exempt mortgage revenue bonds and cash received from other investments, the amount of borrowings and the effective interest rate of these borrowings, and the amount of the Partnership's undistributed cash. The Company's regular annual distributions have recently equaled \$0.54 per BUC, or \$0.135 per quarter per BUC. Beginning with the second quarter 2009 distribution, the general partner has changed the Company's regular annual distribution to \$0.50 per BUC, or \$0.125 per quarter per BUC. The general partner believes that distributions at this level are sustainable, however, if actual results vary from current projections and the actual CAD generated is less than the new regular distribution, such distribution amount may need to be reduced.

#### *VIE Liquidity*

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 which are held by the Partnership.

#### *Consolidated Liquidity*

On a consolidated basis, cash provided by operating activities for the six months ended June 30, 2009 decreased approximately \$1.3 million compared to the same period a year earlier mainly due to changes in working capital components. Cash from investing activities increased approximately \$26.5 million for the six months ended June 30, 2009 compared to the same period in 2008 primarily due to cash inflows from the early redemption of the Ashley Pointe, Woodbridge – Louisville and Woodbridge – Bloomington bonds. Proceeds from the early redemption were \$32.0 million as compared to bond sale proceeds in 2008 of \$14.9 million. Additionally, changes in restricted cash increased investing cash flows year over year by approximately \$7.8 million due mainly to the release of restricted cash that was collateral on the Company's TOB credit facility. Finally, in 2008, bond acquisitions totaling approximately \$12.4 million were made while cash outflows for the acquisition of new investments in 2009 totaled approximately \$10.6 million resulting in a positive cash flow change of approximately \$1.8 million. Cash from financing activities decreased approximately \$5.3 million for the six months ended June 30, 2009 compared to the same period in 2008. This decrease was the net result of a \$16.2 million increase in cash from the sale of additional BUCs offset by a decrease in net amounts borrowed of approximately \$20.4 million, additional distributions paid of approximately \$589,000 and cash paid for a new interest rate derivative of \$554,000.

Historically, the Company's primary leverage vehicle was the Merrill Lynch P-Float program. The P-Float program was replaced in June of 2008 by a TOB facility with Bank of America. The TOB facility was refinanced in June 2009. The new credit facility has a one-year term with a six-month renewal option held by the Company, an annual floating interest rate of daily LIBOR plus 390 basis points and a loan amount of \$50.0 million. The proceeds from the new credit facility plus the cash collateral held by Bank of America for the TOB facility were used to retire the outstanding balance on the TOB facility. The new credit facility is secured by 13 tax-exempt mortgage revenue bonds with a total par value of \$112.1 million plus approximately \$1.5 million in restricted cash. Additionally, approximately \$19.9 million in outstanding mortgage financing related to the MF Properties located in Ohio and Kentucky was due in July 2009. Subsequent to June 30, 2009, the borrower entered into a Maturity Date Extension Agreement for the mortgage loan which extended the maturity on the mortgage one year to July 2010. In connection with the extension, the Company paid down the mortgage balance related to two of the financed properties, Eagle Ridge and Meadowview. The outstanding principal was reduced by approximately \$7.1 million resulting in a new outstanding mortgage balance of approximately \$12.8 million and the Eagle Ridge and Meadowview properties were released as collateral for the loan. While the Company expects to be able to renew or refinance current debt maturities, if the current illiquidity in the financial markets continues or further deteriorates the counterparties on the Company's credit facilities may be unable or unwilling to meet their commitments and the Company's ability to renew or refinance our outstanding debt financing may be negatively affected.

The general partner has completed financial models in order to estimate the impact of the change in credit facilities on CAD. The actual impact on CAD may vary from current projections. The new distribution rate was determined based upon the current projections. The general partner will evaluate the new distribution rate against actual CAD generated by the Company and may increase or decrease the distribution based on such actual results.

## Cash Available for Distribution

Management utilizes a calculation of Cash Available for Distribution (“CAD”) as a means to determine the Partnership’s ability to make distributions to BUC holders. The general partner believes that CAD provides relevant information about the Partnership’s operations and is necessary along with net income for understanding the Partnership’s operating results. To calculate CAD, amortization expense related to debt financing costs and bond reissuance costs, Tier 2 income due to the general partner as defined in the Agreement of Limited Partnership, interest rate derivative expense or income, provision for loan loss reserves, impairments on bonds and losses related to VIEs including depreciation expense are added back to the Company’s net income (loss) as computed in accordance with accounting principles generally accepted in the United States of America (“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. 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 tables show the calculation of CAD for the three and six months ended June 30, 2009 and 2008:

	For the Three Months Ended June 30, 2009	For the Three Months Ended June 30, 2008	For the Six Months Ended June 30, 2009	For the Six Months Ended June 30, 2008
Net income - America First Tax Exempt Investors, L.P.	\$ (570,366)	\$ 272,217	\$ 25,192,704	\$ 285,619
Net income related to VIEs and eliminations due to consolidation	936,059	861,654	(22,607,471)	1,514,437
Net income before impact of VIE consolidation	365,693	1,133,871	2,585,233	1,800,056
Change in fair value of derivatives and interest rate cap amortization	37,156	(144,863)	490,522	38,328
Loss on taxable loans	220,000	-	294,999	-
Loss on bond sale	(0)	(0)	127,495	-
Tier 2 Income distributable to the General Partner <sup>(1)</sup>	(10,531)	(13,796)	(585,421)	(13,796)
Depreciation and amortization expense (Partnership only)	1,070,677	468,201	2,076,388	1,098,399
<b>CAD</b>	<b>1,682,995</b>	<b>1,443,413</b>	<b>4,989,216</b>	<b>2,922,987</b>
Net income, basic and diluted, per BUC	0.02	0.08	0.14	0.13
Total CAD per BUC	\$ 0.11	\$ 0.11	\$ 0.35	\$ 0.22
Weighted average number of units outstanding, basic and diluted	14,820,620	13,512,928	14,170,387	13,512,928

(1) As described in Note 2 to the consolidated financial statements, Net Interest Income representing contingent interest and Net Residual Proceeds representing contingent (Tier 2 income) will be distributed 75% to the BUC holders and 25% to the General Partner. This adjustment represents the 25% of Tier 2 income due to the General Partner. For 2009, the Tier 2 income distributable to the General Partner was generated by the early redemption of the Woodbridge – Louisville and Woodbridge - Bloomington bond investments and from Fairmont Oaks and Lake Forest Apartments.

## Contractual Obligations

There were no significant changes to the Company’s contractual obligations as of June 30, 2009 from the December 31, 2008 information presented in the Company’s Annual Report on Form 10-K, except as follows. As discussed in the Annual report on Form 10-K, the Company’s TOB facility was to mature in July 2009. The TOB facility was refinanced in June 2009. In addition to the TOB facility maturity, approximately \$19.9 million in outstanding mortgage financing related to the MF Properties located in Ohio and Kentucky is due in July 2009. Subsequent to June 30, 2009, the borrower entered into a Maturity Date Extension Agreement for the mortgage loan which extended the maturity on the mortgage one year to July 2010. In connection with the extension, the Company paid down the mortgage balance related to two of the financed properties, Eagle Ridge and Meadowview. The outstanding principal was reduced by approximately \$7.1 million resulting in a new outstanding mortgage balance of approximately \$12.8 million. The Eagle Ridge and Meadowview properties were released from collateral for the loan.

The Partnership has the following contractual obligations as of June 30, 2009 after allowing for the subsequent mortgage extension and pay down as discussed above:

	Payments due by period			
	Total	Less than 1 year	1-2 years	More than 2 years
Debt financing	\$ 50,000,000	\$ 136,667	\$ 49,863,333	\$ -
Mortgages payable	\$ 37,330,255	\$ 7,204,965	\$ 17,611,185	\$ 12,514,105
Effective interest rate(s) (1)	-	2.42%	4.52%	4.68%
Interest (2)	\$ 2,059,688	\$ 174,461	\$ 1,532,974	\$ 352,253

(1) Interest rates shown are the average effective rate as of June 30, 2009 and include the impact of our interest rate derivatives.

(2) Interest shown is estimated based upon current effective interest rates through maturity.

#### Recently Issued Accounting Pronouncements

In June 2009, the FASB issued Statement No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162* (SFAS No. 168). The Codification will become the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of SFAS No. 168, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. SFAS No. 168 is not expected to have a material impact on the financial statements.

In June 2009, the FASB issued Statement No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS No. 167). SFAS No. 167 retains the scope of Interpretation 46(R), *Consolidation of Variable Interest Entities*, with the addition of entities previously considered qualifying special-purpose entities, as the concept of these entities was eliminated in FASB Statement No. 166, *Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140*. SFAS No. 167 shall be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. The Company is currently evaluating the impact of SFAS No. 167 on the financial statements.

In June 2009, the FASB issued Statement No. 166, *Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140* (SFAS No. 166). On and after the effective date of SFAS No. 166, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities (as defined under previous accounting standards) should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. SFAS No. 166 must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. SFAS No. 166 is not expected to have a material impact on the financial statements.

In May 2009, the FASB issued Statement No. 165, *Subsequent Events* (SFAS No. 165). SFAS No. 165 establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. SFAS No. 165 was effective for interim or annual financial periods ending after June 15, 2009. The adoption of SFAS No. 165 did not affect the consolidated balance sheet, statement of operations, or cash flows.

On January 1, 2009, the Company adopted SFAS No. 141R, *Business Combinations*, which changes the way the Company accounts for business acquisitions (SFAS No. 141R). SFAS No. 141R requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction and establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed in a business combination. Certain provisions of SFAS No. 141R will, among other things, impact the determination of acquisition date fair value of consideration paid in a business combination, exclude transaction costs from acquisition accounting and change some accounting practices.

On January 1, 2009, the Company adopted SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* (SFAS No. 160). SFAS No. 160 requires that a noncontrolling interest in a subsidiary be reported as equity and the amount of consolidated net income specifically attributable to the noncontrolling interest be identified in the consolidated financial statements. It also calls for consistency in the manner of reporting changes in the parent's ownership interest and requires fair value measurement of any noncontrolling equity investment retained in deconsolidation. The adoption of SFAS No. 160 recharacterized minority interests as noncontrolling interests and reclassified minority interests as a component of equity on the Company's financial statements. Prior year amounts relating to noncontrolling interests have been reclassified to conform to current year presentation as required by SFAS No. 160.

In April 2009, the Financial Accounting Standards Board ("FASB") issued the following FASB Staff Positions ("FSP"):

FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, and FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*.

FSP FAS 157-4 relates to determining fair values when there is no active market or where the price inputs being used represent distressed sales and reaffirms what SFAS No. 157 states is the objective of fair value measurement—to reflect how much an asset would be sold for in an orderly transaction (as opposed to a distressed or forced transaction) at the date of the financial statements under current market conditions. Specifically, it reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive.

FSP FAS 107-1 and APB 28-1 relate to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet of companies at fair value. Prior to issuing this FSP, fair values for these assets and liabilities were only disclosed once a year. The FSP now requires these disclosures on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value.

FSP FAS 115-2 and FAS 124-2 on other-than-temporary impairments is intended to bring greater consistency to the timing of impairment recognition, and provide greater clarity to investors about the credit and noncredit components of impaired debt securities that are not expected to be sold. The measure of impairment in comprehensive income remains fair value. The FSP also requires increased and timelier disclosures sought by investors regarding expected cash flows, credit losses, and an aging of securities with unrealized losses.

The FSPs are effective for the Company for interim and annual periods ending after June 15, 2009. The FSPs are not expected to have a material impact on the Company's financial statements.

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

The Partnership's primary market risk exposures are interest rate risk and credit risk. The Partnership's exposure to market risks relates primarily to its investments in tax-exempt mortgage revenue bonds and its debt financing. 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 2008 Annual Report on Form 10-K except as discussed below.

#### *Interest Rate Risk*

Historically, the interest rate on the Partnership's floating rate debt facility has fluctuated based on the SIFMA Index Rate, which resets weekly. Accordingly, the Partnership's cost of borrowing fluctuated with the SIFMA Index Rate. In June 2009, the Partnership entered into a new credit facility with a one-year term, a six-month renewal option held by the Partnership, an annual floating interest rate of daily LIBOR plus 390 basis points and a loan amount of \$50.0 million. As a result, the Partnership's cost of borrowing now fluctuates with the daily LIBOR. The weighted average effective interest rate for 2008 on debt indexed to the SIFMA rate was approximately 4.4%, including all fees. The weighted average effective interest rate for first half of 2009 on the debt indexed to the SIFMA rate was approximately 2.5%, including all fees. The effective interest rate for the new credit facility as of June 30, 2009 was 4.17%. This rate is calculated as daily LIBOR, 0.27% as of June 30, 2009, plus 390 basis points. In order to hedge the cost of borrowing against a significant unfavorable fluctuation in the daily LIBOR, the Partnership entered into an interest rate derivative. The derivative purchased is a one-month LIBOR interest rate cap with a notional value of \$50.0 million which was purchased for approximately \$554,000. This new interest rate cap effectively caps the interest rate to be paid on the Company's new secured credit facility at 0.75% plus 390 basis points, or 4.65%.

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

*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.

*Changes in internal control over financial reporting.* The Partnership's Chief Executive Officer and Chief Financial Officer have determined that 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 Item 1A "Risk Factors" of the Company's 2008 Annual Report on Form 10-K and the following:

*The Partnership recently changed its distribution policy and may do so again in the future.*

Cash distributions made by the Partnership to shareholders may increase or decrease at the determination of AFCA 2 based on its assessment of the amount of cash available to the Partnership for this purpose. Beginning with the distribution for the second quarter 2009, the Partnership's annual distribution was reduced from \$0.54 per share to \$0.50 per share due to AFCA 2's determination that higher borrowing costs and other factors would reduce the cash available to the Partnership to make distributions. Although AFCA 2 believes that distributions at this new level are sustainable, if the Partnership's actual results of operations vary from current projections and the actual cash generated is less than the new regular distribution, the Partnership may need to reduce the distribution rate further. Any change in our distribution policy could have a material adverse effect on the market price of shares.

*Any future issuances of additional shares could cause their market value to decline.*

The issuance of shares in any future offerings may have a dilutive impact on our existing shareholders. In January 2007, the Partnership filed a Registration Statement on Form S-3 with the SEC relating to the sale of up to \$100.0 million of its shares. The Partnership intends to issue shares from time to time under this Registration Statement to raise additional equity capital as needed to fund investment opportunities. This Registration Statement remains active with the SEC and is available for the Partnership to conduct further public offerings. The issuance of additional shares could cause dilution of the existing shares and a decrease in the market price of the shares. In addition, if additional shares are issued but we are unable to invest the additional equity capital in assets that generate tax-exempt income at levels at least equivalent to our existing assets, the amount of cash available for distribution may decline.

### 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(a) Loan and Security Agreement, dated June 18, 2009, among Registrant, Deutsche Bank and Bank of America (incorporated herein by reference to Exhibit 10.1 to Form 8-K (No. 000-24843) filed by the Company on June 18, 2009).

10(b) Promissory Note, dated June 18, 2009, between Registrant and Bank of America (incorporated herein by reference to Exhibit 10.2 to Form 8-K (No. 000-24843) filed by the Company on June 18, 2009).

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 7, 2009

/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.



## 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13 a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) 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
  - (d) 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 7, 2009

/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.

## 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13 a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) 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
  - (d) 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 7, 2009

/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.

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, 2009 (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 7, 2009

/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.*

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, 2009 (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 7, 2009

/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.*