

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

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. All statements other than statements of historical facts contained in this report, including statements regarding our future results of operations and financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. When used, statements which are not historical in nature, including those containing words such as “anticipate,” “estimate,” “should,” “expect,” “believe,” “intend,” and similar expressions, are intended to identify forward-looking statements. We have based forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. This report also contains estimates and other statistical data made by independent parties and by us relating to market size and growth and other industry data. This data involves a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates. We have not independently verified the statistical and other industry data generated by independent parties and contained in this report and, accordingly, we cannot guarantee their accuracy or completeness.

These forward-looking statements are subject to various risks and uncertainties, including those relating to:

- defaults on the mortgage loans securing our tax-exempt mortgage revenue bonds;
- risks associated with investing in multifamily apartments, including changes in business conditions and the general economy;
- changes in short-term interest rates;
- our ability to use borrowings to finance our assets;
- current negative economic and credit market conditions
- changes in government regulations affecting our business; and
- changes in the appropriation amounts received by the Public Housing Authorities from the United States Department of Housing and Development Capital Fund Program which are used by the Public Housing Authorities to make interest and principal payments for the Public Housing Capital Fund Trusts' Certificates.

Other risks, uncertainties and factors could cause our actual results to differ materially from those projected in any forward-looking statements we make. We are not obligated to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In addition, projections, assumptions and estimates of our future performance and the future performance of the industries in which we operate are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described under the headings “Risk Factors” in Item 1A of the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and in Item 1A of Part II of this document.

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements.

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

	September 30, 2012	December 31, 2011
Assets		
Cash and cash equivalents	\$ 55,514,460	\$ 20,176,906
Restricted cash	5,970,155	13,691,088
Interest receivable	9,124,124	6,984,978
Tax-exempt mortgage revenue bonds held in trust, at fair value (Notes 4 & 9)	100,178,554	109,152,787
Tax-exempt mortgage revenue bonds, at fair value (Note 4)	38,623,510	26,542,565
Public housing capital fund trusts, at fair value (Note 5)	66,163,969	—
Real estate assets: (Note 6)		
Land	12,895,622	10,394,910
Buildings and improvements	112,488,768	103,911,079
Real estate assets before accumulated depreciation	125,384,390	114,305,989
Accumulated depreciation	(21,813,339)	(18,264,194)
Net real estate assets	103,571,051	96,041,795
Other assets (Note 7)	8,289,472	10,069,314
Assets of discontinued operations (Note 8)	8,224,333	15,317,112
Total Assets	\$ 395,659,628	\$ 297,976,545
Liabilities		
Accounts payable, accrued expenses and other liabilities	\$ 3,660,766	\$ 3,231,360
Distribution payable	5,705,283	3,911,340
Debt financing (Note 9)	153,184,000	112,673,000
Mortgages payable (Note 10)	39,178,128	35,464,455
Liabilities of discontinued operations (Note 8)	4,870,902	11,107,345
Total Liabilities	206,599,079	166,387,500
Commitments and Contingencies (Note 15)		
Partners' Capital		
General Partner (Note 2)	(367,578)	(354,006)
Beneficial Unit Certificate holders	213,005,840	154,911,228
Unallocated deficit of Consolidated VIEs	(24,525,004)	(23,512,962)
Total Partners' Capital	188,113,258	131,044,260
Noncontrolling interest (Note 6)	947,291	544,785
Total Capital	189,060,549	131,589,045
Total Liabilities and Partners' Capital	\$ 395,659,628	\$ 297,976,545

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 Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Revenues:				
Property revenues	\$ 4,003,744	\$ 3,598,955	\$ 11,441,606	\$ 10,289,790
Investment income	3,110,717	2,465,876	7,770,767	7,094,549
Gain on sale of bonds	—	—	667,821	—
Other income	15,224	359,167	97,996	759,478
Total revenues	7,129,685	6,423,998	19,978,190	18,143,817
Expenses:				
Real estate operating (exclusive of items shown below)	2,572,957	2,088,085	6,811,950	6,102,356
Provision for (recovery of) loss on receivables	(261,825)	14,525	214,525	725,215
Depreciation and amortization	1,469,476	1,311,600	4,168,441	3,509,964
Interest	1,551,543	2,036,470	4,317,329	4,421,608
General and administrative	834,301	725,115	2,533,246	2,044,132
Total expenses	6,166,452	6,175,795	18,045,491	16,803,275
Income from continuing operations	963,233	248,203	1,932,699	1,340,542
Income from discontinued operations (including gain on sale of MF Property of \$1,277,976 in 2012)	1,385,433	29,218	1,613,817	187,302
Net income	2,348,666	277,421	3,546,516	1,527,844
Net income attributable to noncontrolling interest	137,099	145,369	398,469	449,866
Net income - America First Tax Exempt Investors, L.P.	\$ 2,211,567	\$ 132,052	\$ 3,148,047	\$ 1,077,978
Net income (loss) allocated to:				
General Partner	\$ 333,962	\$ 3,750	508,592	75,212
Limited Partners - Unitholders	2,390,779	371,285	3,651,497	1,942,800
Unallocated loss of Consolidated Property VIEs	(513,174)	(242,983)	(1,012,042)	(940,034)
Noncontrolling interest	137,099	145,369	398,469	449,866
	\$ 2,348,666	\$ 277,421	\$ 3,546,516	\$ 1,527,844
Unitholders' interest in net income per unit (basic and diluted):				
Income from continuing operations	\$ 0.03	\$ 0.01	\$ 0.05	\$ 0.05
Income from discontinued operations	0.03	—	0.05	0.01
Net income, basic and diluted, per unit	\$ 0.06	\$ 0.01	\$ 0.10	\$ 0.06
Weighted average number of units outstanding, basic and diluted	42,772,928	30,122,928	35,572,562	30,122,928

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

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

	For Three Months Ended September 30,		For Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	\$ 2,348,666	\$ 277,421	\$ 3,546,516	\$ 1,527,844
Deconsolidation of VIE	—	—	—	(726,243)
Unrealized gain on securities	2,121,836	1,765,185	9,043,887	9,162,810
Comprehensive income	4,470,502	2,042,606	12,590,403	9,964,411
Comprehensive income attributable to noncontrolling interest	137,099	145,369	398,469	449,866
Comprehensive income - America First Tax Exempt Investors, L.P.	<u>\$ 4,333,403</u>	<u>\$ 1,897,237</u>	<u>\$ 12,191,934</u>	<u>\$ 9,514,545</u>

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

AMERICA FIRST TAX EXEMPT INVESTORS, L.P.
CONDENSED CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 and 2011
(UNAUDITED)

	General Partner	# of Units	Beneficial Unit Certificate Holders	Unallocated Deficit of Consolidated VIEs	Non- controlling Interest	Total	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2012	\$ (354,006)	30,122,928	\$154,911,228	\$ (23,512,962)	\$ 544,785	\$131,589,045	\$ 95,894
Sale of Beneficial Unit Certificates	—	12,650,000	59,948,265			59,948,265	
Noncontrolling interest contribution	—		—	—	4,037	4,037	
Distributions paid or accrued	(612,603)	—	(14,458,598)	—	—	(15,071,201)	—
Net income (loss)	508,592	—	3,651,497	(1,012,042)	398,469	3,546,516	—
Unrealized gain on securities	90,439	—	8,953,448	—	—	9,043,887	9,043,887
Balance at September 30, 2012	<u>\$ (367,578)</u>	<u>42,772,928</u>	<u>\$213,005,840</u>	<u>\$ (24,525,004)</u>	<u>\$ 947,291</u>	<u>\$189,060,549</u>	<u>\$ 9,139,781</u>

	General Partner	# of Units	Beneficial Unit Certificate Holders	Unallocated Deficit of Consolidated VIEs	Non- controlling Interest	Total	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2011	\$ (280,629)	30,122,928	\$161,389,189	\$ (32,945,669)	\$ (141,326)	\$128,021,565	\$ (9,692,233)
Deconsolidation of VIEs (Note 3)	(7,262)	—	(718,981)	10,722,246		9,996,003	(726,243)
Distributions paid or accrued	(177,643)		(11,296,098)	—	—	(11,473,741)	
Net income (loss)	75,212	—	1,942,800	(940,034)	449,866	1,527,844	—
Unrealized gain on securities	91,628	—	9,071,182	—	—	9,162,810	9,162,810
Balance at September 30, 2011	<u>\$ (298,694)</u>	<u>30,122,928</u>	<u>\$160,388,092</u>	<u>\$ (23,163,457)</u>	<u>\$ 308,540</u>	<u>\$137,234,481</u>	<u>\$ (1,255,666)</u>

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 Nine Months Ended,	
	September 30, 2012	September 30, 2011
Cash flows from operating activities:		
Net income	\$ 3,546,516	\$ 1,527,844
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	4,618,505	4,171,142
Provision for loss from receivables	214,525	725,215
Non-cash loss on derivatives	1,055,311	1,962,016
Gain on sale of MF Property	(1,277,976)	—
Bond discount and premium amortization and accretion	(315,580)	(366,013)
Gain on sale of bonds	(667,821)	—
Gain on asset sold	—	(21,103)
Gain on early extinguishment of debt	—	(104,988)
Changes in operating assets and liabilities, net of effect of acquisitions		
Increase in interest receivable	(2,834,210)	(2,590,871)
(Increase) decrease in other assets	(842,388)	1,466,137
Increase (decrease) in accounts payable and accrued expenses	(115,371)	302,403
Net cash provided operating activities	<u>3,381,511</u>	<u>7,071,782</u>
Cash flows from investing activities:		
Capital expenditures	(4,750,312)	(7,220,528)
Acquisition of tax-exempt mortgage revenue bonds	(10,165,287)	(20,117,500)
Acquisition of public housing capital fund trust certificates	(65,985,913)	—
Acquisition of partnerships, net of cash acquired	(5,500,000)	(24,779,613)
Proceeds from sale of discontinued operation	8,325,000	—
Proceeds from assets sold	—	36,500
Proceeds from the sale of bonds	16,829,960	—
Decrease (increase) in restricted cash	160,820	(154,371)
Restricted cash - debt collateral released	7,895,236	230,046
Change in restricted cash - Ohio sale	—	2,684,876
Cash released upon foreclosure	—	2,235,335
Proceeds from bond retirement	—	6,119,573
Transfer of cash to unconsolidated VIE upon deconsolidation	—	(5,135)
Principal payments received on taxable bonds	95,000	4,528,137
Principal payments received on tax-exempt mortgage revenue bonds	571,458	370,688
Net cash used by investing activities	<u>(52,524,038)</u>	<u>(36,071,992)</u>
Cash flows from financing activities:		
Distributions paid	(13,277,258)	(11,473,741)
Net proceeds from sale of beneficial unit certificates	59,948,265	—
Proceeds from debt financing	52,764,044	48,233,354
Sale of LP Interests - Ohio Properties	4,037	—
Decrease in liabilities related to restricted cash	(160,820)	154,371
Debt financing costs	(116,542)	(222,307)
Principal payments on debt financing	(8,484,000)	(10,557,444)
Principal payments on mortgages payable	(6,206,798)	—
Net cash provided by financing activities	<u>84,470,928</u>	<u>26,134,233</u>
Net increase (decrease) in cash and cash equivalents	35,328,401	(2,865,977)
Cash and cash equivalents at beginning of period, including cash and cash equivalents of discontinued operations of \$36,507 and \$28,365, respectively		
	20,213,413	13,277,048
Cash and cash equivalents at end of period, including cash and cash equivalents of discontinued operations of \$27,354 and \$57,994, respectively		
	<u>\$ 55,541,814</u>	<u>\$ 10,411,071</u>
Supplemental cash flow information:		
Cash paid during the period for interest	3,086,659	2,607,888
Distributions declared but not paid	5,705,283	3,803,399
Capital expenditures financed through payables	58,304	9,000,099

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2012
(UNAUDITED)

1. Basis of Presentation

General

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 primary purpose of acquiring, holding, selling and otherwise dealing with a portfolio of federally tax-exempt mortgage revenue bonds which have been issued to provide construction and/or permanent financing of multifamily residential 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. The Partnership may also invest in other types of tax-exempt securities that may or may not be secured by real estate and may make taxable mortgage loans secured by multifamily properties which are financed by tax-exempt mortgage revenue bonds held by the Partnership. The Partnership generally does not seek to acquire direct interests in real property as long term or permanent investments. The Partnership may, however, acquire real estate securing its tax-exempt mortgage revenue bonds or taxable mortgage loans through foreclosure in the event of a default. In addition, the Partnership may acquire interests in multifamily apartment properties ("MF Properties") in order to position itself for future investments in tax-exempt mortgage revenue bonds issued to finance these properties. The Partnership expects to sell its interest in these MF Properties in connection with the future syndication of low income housing tax credits under Section 42 of the Internal Revenue Code ("LIHTCs") or to a tax-exempt organization and to acquire tax-exempt mortgage revenue bonds on these properties to provide debt financing to the new owners.

Our general partner is America First Capital Associates Limited Partnership Two ("AFCA 2" or "General Partner"). The general partner of AFCA 2 is The Burlington Capital Group LLC ("Burlington"). The Partnership has issued Beneficial Unit Certificates ("BUCs") representing assigned limited partner interests to investors ("unitholders"). The Partnership will terminate on December 31, 2050, unless terminated earlier under provisions of its Agreement of Limited Partnership.

The condensed consolidated financial statements of the "Company" reported in this Form 10-Q include the assets, liabilities and results of operations of the Partnership, ATAX Capital Fund I LLC, an entity owned and controlled by the Partnership which owns the residual interest in three Public Housing Capital Fund Tender Option Bond Trusts (Note 5), its other Consolidated Subsidiaries and three other consolidated entities in which the Partnership does not hold an ownership interest but which own multifamily apartment properties financed with tax-exempt mortgage revenue bonds held by the Partnership and which are treated as variable interest entities ("VIEs") of which the Partnership has been determined to be the primary beneficiary ("Consolidated VIEs"). The Consolidated Subsidiaries of the Partnership consist of:

- ATAX TEBS I, LLC, a special purpose entity owned and controlled by the Partnership, created to hold tax-exempt mortgage revenue bonds in order to facilitate the Tax Exempt Bond Securitization ("TEBS") Financing with Freddie Mac (Note 9).
- Nine multifamily apartments ("MF Properties") of which three are reported as discontinued operations for all periods presented (Note 8). The MF Properties are owned by five limited partnerships in which a subsidiary of the Partnership holds a 99% limited partner interest and four limited liability companies of which a subsidiary of the Partnership owns a 100% member interest.
- Three apartment properties (the "Ohio Properties") which are subject to a sales agreement continue to be reported by the Partnership as MF Properties for the reasons described in Note 2.

Stand alone financial information of the Partnership reported in this Form 10-Q includes only the assets, liabilities, and results of operations of the Partnership and its Consolidated Subsidiaries (hereafter the "Partnership") without the Consolidated VIEs. In the Company's consolidated financial statements, all transactions and accounts between the Partnership, the Consolidated Subsidiaries and the Consolidated VIEs have been eliminated in consolidation. The Partnership does not believe that the consolidation of VIEs for reporting under accounting principles generally accepted in the United States of America ("GAAP") affects the Partnership's status as a partnership for federal income tax purposes or the status of unitholders as partners of the Partnership, the treatment of the tax-exempt mortgage revenue bonds on the properties owned by Consolidated VIEs as debt, the tax-exempt nature of the interest payments received on bonds secured by the properties owned by Consolidated VIEs or the manner in which the Partnership's income is reported to unitholders on IRS Form K-1.

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, 2011. These condensed consolidated financial statements and notes have been prepared consistently with the 2011 Form 10-K. In the opinion of management, all adjustments (consisting of normal and recurring accruals) necessary to present fairly the financial position as of September 30, 2012, and the results of operations for the interim periods presented have been made. The results of operations for the interim period are not necessarily indicative of the results to be expected for the full year.

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 unitholder on a periodic basis, as determined by the General Partner, based on the number of BUCs held by each unitholder 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 unitholder of record on the last day of each distribution period based on the number of BUCs held by each unitholder as of such date. For purposes of the Agreement of Limited Partnership, cash distributions, if any, received by the Partnership from its indirect interest in MF Properties (Note 6) 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 unitholders and 1% to AFCA 2 and Net Residual Proceeds are distributed 100% to unitholders 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 tax-exempt mortgage revenue bonds on a cumulative basis (defined as Net Interest Income (Tier 2) and Net Residual Proceeds (Tier 2), respectively) are distributed 75% to the unitholders and 25% to AFCA 2.

In June 2010, the Company completed a sales transaction whereby four of the MF Properties, Crescent Village, Post Woods (I and II), and Willow Bend apartments in Ohio (the "Ohio Properties"), were sold to three new ownership entities controlled by an unaffiliated not-for-profit entity. The Company acquired 100% of the \$18.3 million tax-exempt mortgage revenue bonds issued by the Ohio Housing Finance Agency as part of a plan of financing for the acquisition and rehabilitation of the Ohio Properties. The tax-exempt mortgage revenue bonds secured by the Ohio Properties were acquired by the Company at par and consisted of two series. The Series A bond has a par value of \$14.7 million and bears interest at an annual rate of 7.0%. The Series B bond has a par value of \$3.6 million and bears interest at an annual interest rate of 10.0%. Both series of bonds mature in June 2050. The Company had previously acquired a 99% interest in the Ohio Properties as part of its strategy of acquiring existing multifamily apartment properties that it expects will be partially financed with new tax-exempt mortgage bonds at the time the properties become eligible for the issuance of additional LIHTCs. In addition to the new tax-exempt mortgage revenue bonds acquired by the Company, the plan of financing for the acquisition included other subordinated debt issued by the Company. At the time of acquisition, the new owners had not contributed any capital to the transaction and the Company effectively provided 100% of the capital structure to the new owners as part of the sale transaction. Pursuant to accounting guidance for property, plant, and equipment - real estate sales, the sale and restructure does not meet the criteria for derecognition of the properties or full accrual accounting for the gain. The guidance requires sufficient equity at risk as part of a sales transaction to indicate a commitment from the buyer (typically a minimum of 3 to 5% investment by the new owners). Under the sales agreement, the Ohio Properties were sold for a total purchase price of \$16.2 million. Cash received by the selling limited partnerships as part of the sale transaction represents a gain on the sale transaction of approximately \$1.8 million which has been deferred by the Company.

In October 2011, the three limited partnerships that own the Ohio Properties admitted two entities that are affiliates of Boston Capital (the "BC Partners") as new limited partners as part of a syndication of LIHTCs on the Ohio Properties. The BC Partners have agreed to contribute approximately \$6.7 million to the equity of these limited partnerships, subject to the Ohio Properties meeting certain debt service coverage ratios specified in the applicable limited partnership agreements. As of September 30, 2012, the Ohio Properties had not yet achieved these debt service coverage ratios and the BC Partners had not contributed a sufficient amount of additional capital to these limited partnerships to allow the Company to deconsolidate the Ohio Properties. Accordingly, the Company will continue to report each Ohio Property as an MF Property, and no gain from the 2010 sale of such Ohio Property will be recognized by the Company, until the Ohio Property achieves specified debt service coverage ratios and the BC Partners have contributed their additional capital to the limited partnership owning the Ohio Property. The Company expects that each of the Ohio Properties will achieve the debt service coverage ratios so that the BC Partners will fully fund their capital commitments during 2012. As that occurs, each Ohio Property will cease to be reported as an MF Property and the Company will recognize the gain for the 2010 sale of the Ohio Property. After that time, the Company will report the tax-exempt mortgage revenue bonds on such Ohio Property as an asset and will report the related interest income on the bond.

In connection with the BC Partners transaction, the Company entered into guarantee agreements with the BC Partners under which the Company has guaranteed certain obligations of the general partner of these limited partnerships, including an obligation to repurchase the interests of the BC Partners if certain "repurchase events" occur. A repurchase event is defined as any one of a number of events mainly focused on the completion of the property rehabilitation, property rent stabilization, the delivery of LIHTCs, tax credit recapture and foreclosure. Even if a repurchase event should occur after the \$7.8 million of equity has been contributed, 25% of the BC contributed capital would remain as equity in the Ohio Properties and thus BC, a third party, would have sufficient equity in the Ohio Properties for the Company to recognize the sale discussed above.

No amount has been accrued for this contingent liability because the likelihood of a repurchase event is remote (Note 15).

The unallocated deficit of the Consolidated VIEs is primarily comprised of the accumulated historical net losses of the Consolidated VIEs since the applicable consolidation date. The unallocated deficit of the VIEs and the VIEs' net losses subsequent to that date are not allocated to the General Partner and unitholders as such activity is not contemplated by, or addressed in, the Agreement of Limited Partnership.

3. Variable Interest Entities

The Partnership invests in federally tax-exempt mortgage revenue bonds which have been issued to provide construction and/or permanent financing of multifamily residential apartments. The Partnership owns 100% of these bonds and each bond is secured by a first mortgage on the property. The Partnership has also made taxable loans to the property owners in certain cases which are secured by second mortgages on these properties. Although each multifamily property financed with tax-exempt mortgage revenue bonds held by the Partnership is owned by a separate entity in which the Partnership has no equity ownership interest, the debt financing provided by the Partnership creates a variable interest in these ownership entities that may require the Partnership to report the assets, liabilities, and results of operations of these entities on a consolidated basis under GAAP.

The Partnership determined that five of the entities financed by tax-exempt mortgage revenue bonds owned by the Partnership are held by VIEs as of September 30, 2012. These VIEs are Ashley Square, Bent Tree, Cross Creek, Fairmont Oaks, and Lake Forest. The Partnership has determined that the Exchange Accommodation Titleholder ("EAT (Maples on 97th)") is also a VIE based on its Qualified Exchange Accommodation Agreement and Master Lease Agreement with EAT (Maples on 97th). See below for further discussion on which VIEs are consolidated as of the reporting date.

At September 30, 2012 and 2011, the Partnership reported three properties as Consolidated VIEs; Bent Tree, Fairmont Oaks, and Lake Forest and has continued to consolidate these entities. In June 2011, the ownership of Iona Lakes became an unaffiliated not-for-profit entity and Iona Lakes ceased to be reported as a Consolidated VIE. At September 30, 2012, the Partnership reported one additional property as a Consolidated VIE; EAT (Maples on 97th), which reports the property's fixed assets and related depreciation.

The Partnership does not hold an equity interest in these VIEs and, therefore, the assets of the VIEs cannot be used to settle the general commitments of the Partnership and the Partnership is not responsible for the commitments and liabilities of the VIEs. The primary risks to the Partnership associated with these VIEs relate to the entities ability to meet debt service obligations to the Partnership and the valuation of the underlying multifamily apartment property which serves as bond collateral.

The following is a discussion of the significant judgments and assumptions made by the Partnership in determining the primary beneficiary of the VIE and, therefore, whether the Partnership must consolidate the VIE.

Consolidated VIEs

The Partnership determined it is the primary beneficiary of the following properties at September 30, 2012: Bent Tree, EAT (Maples on 97th), Fairmont Oaks, and Lake Forest. The capital structure of Bent Tree, Fairmont Oaks, and Lake Forest consists of senior debt, subordinated debt, and equity capital. The senior debt is in the form of a tax-exempt mortgage revenue bonds and accounts for the majority of each VIE's total capital. As the bondholder, the Partnership is entitled to principal and interest payments and has certain protective rights as established by the bond documents. The equity ownership of the consolidated VIEs is ultimately held by corporations which are owned by four individuals, two of which are related parties. Additionally, each of these properties is managed by an affiliate of the Partnership, America First Properties Management Company, LLC ("Properties Management") which is an affiliate of Burlington.

In August 2012, the Partnership sold the Commons at Churchland property for approximately \$8.1 million resulting in a gain of approximately \$1.3 million. In a separate August 2012 transaction, the Partnership closed on the purchase of the Maples on 97th property ("replacement property"), located in Omaha, Nebraska, for a purchase price of approximately \$5.5 million through the execution of a Qualified Exchange Accommodation Agreement that assigned the right to acquire and own the replacement property to a wholly-owned subsidiary of a Title Company (EAT (Maples on 97th)) for a period not to exceed six months. During this six month holding period, the Partnership will rehabilitate the replacement property. The Partnership lent the EAT (Maples on 97th) the necessary funds to purchase the replacement property; there is no other capital within that entity.

The EAT (Maples on 97th) then executed a Master Lease Agreement and Construction Management Agreement with the Partnership. These two agreements give the Partnership the rights and obligations to manage the replacement property as well as the rehabilitation during the six month hold period. In addition, the Qualified Exchange Accommodation Agreement stipulates that title to the Property is to revert back to a subsidiary of the Partnership no later than the end of the six month holding period. The Partnership has determined that it is the primary beneficiary of the EAT (Maples on 97th). Based on the terms of the Master Lease Agreement, the Partnership has determined that it will report the rental income and related real estate operating expenses for the Maples on 97th property during the six month holding period as an MF Property since it has all the rights and obligations of landlord for the property.

In determining the primary beneficiary of these VIEs, the Partnership considered the activities of the VIE which most significantly impact the VIEs' economic performance, who has the power to control such activities, the risks which the entities were designed to create, the variability associated with those risks and the interests which absorb such variability. The Partnership also considered the related party relationship of the entities involved in the VIEs. It was determined that the Partnership, as part of the related party group, met both of the primary beneficiary criteria and was the most closely associated with the VIEs and; therefore, was determined to be the primary beneficiary.

Non-Consolidated VIEs

The Company does not consolidate two VIE entities, Ashley Square and Cross Creek. In determining the primary beneficiary of these VIEs, the Partnership considered the activities of each VIE which most significantly impact the VIEs' economic performance, who has the power to control such activities, the risks which the entities were designed to create, the variability associated with those risks and the interests which absorb such variability. The significant activities of the VIE that impact the economic performance of the entity include leasing and maintaining apartments, determining if the property is to be sold, decisions relating to debt refinancing, the selection of or replacement of the property manager and the approval of the operating and capital budgets. As discussed below, while the capital structures of these VIEs resulted in the Partnership holding a majority of the variable interests in these VIEs, the Partnership determined it does not have the power to direct the activities of these VIEs that most significantly impact the VIEs' economic performance and, as a result, is not the primary beneficiary of these VIEs.

Ashley Square – Ashley Square Housing Cooperative acquired the ownership of the Ashley Square Apartments in December 2008 from Ashley Square LLC through a warranty deed of transfer and an assumption of debt. This transfer of ownership constituted a reconsideration event as outlined in the consolidation guidance which triggered a re-evaluation of the holders of variable interests to determine the primary beneficiary of the VIE. The capital structure of the VIE consists of senior debt, subordinated loans and equity capital. The senior debt is in the form of tax-exempt mortgage revenue bonds that are 100% owned by the Partnership and account for the majority of the VIE's total capital. As the bondholder, the Partnership is entitled to principal and interest payments and has certain protective rights as established by the bond documents. The VIE is organized as a housing cooperative and the 99% equity owner of this VIE is The Foundation for Affordable Housing ("FAH"), an unaffiliated Nebraska not-for-profit organization. Additionally, this property is managed by Properties Management.

Cross Creek – Cross Creek Apartments Holdings LLC is the owner of the Cross Creek Apartments. On January 1, 2010, Cross Creek Apartment Holdings LLC entered into a new operating agreement and admitted three new members. These new members committed approximately \$2.2 million of capital payable in three installments including \$563,000 on January 1, 2010. The new operating agreement and admission of new owner members constituted a reconsideration event as outlined in the consolidation guidance which triggered a re-evaluation of the holders of variable interests to determine the primary beneficiary of the VIE. The capital structure of the VIE consists of senior debt, subordinated loans, and equity capital at risk. The senior debt is in the form of tax-exempt mortgage revenue bonds that are 100% owned by the Partnership and account for the majority of the VIE’s total capital. As the bondholder, the Partnership is entitled to principal and interest payments and has certain protective rights as established by the bond documents. The three newly admitted members of this VIE are each unaffiliated with the Partnership and have contributed significant equity capital to the VIE. These members collectively control a 99% interest in the VIE. The other 1% member of this VIE is FAH, which is also unaffiliated with the Partnership. Additionally, this property is managed by Properties Management.

The following table presents information regarding the carrying value and classification of the assets held by the Partnership as of September 30, 2012, which constitute a variable interest in Ashley Square and Cross Creek.

	Balance Sheet Classification	Carrying Value	Maximum Exposure to Loss
<i>Ashley Square Apartments</i>			
Tax Exempt Mortgage Revenue Bond	Bond Investment	\$ 5,532,076	\$ 5,272,000
Property Loan	Other Asset	4,852,342	1,256,000
		<u>\$ 10,384,418</u>	<u>\$ 6,528,000</u>
<i>Cross Creek Apartments</i>			
Tax Exempt Mortgage Revenue Bond	Bond Investment	\$ 8,031,125	\$ 5,994,150
Property Loans	Other Asset	3,383,615	3,383,615
		<u>\$ 11,414,740</u>	<u>\$ 9,377,765</u>

The tax-exempt mortgage revenue bonds are classified on the balance sheet as available for sale investments and are carried at fair value while property loans are presented on the balance sheet as Other assets and are carried at the unpaid principal and interest less any loan loss reserves. See Note 4 for additional information regarding the bonds and Note 7 for additional information regarding the property loans. The maximum exposure to loss for the bonds is equal to the unpaid principal balance as of September 30, 2012. The difference between the carrying value and the maximum exposure to loss is a function of the fair value of the bond. The difference between the carrying value and the maximum exposure is the value of loan loss reserves that have been previously recorded against the outstanding loan balances.

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

Condensed Consolidating Balance Sheets as of September 30, 2012 and December 31, 2011:

	Partnership as of September 30, 2012	Consolidated VIEs as of September 30, 2012	Consolidation -Elimination as of September 30, 2012	Total as of September 30, 2012
Assets				
Cash and cash equivalents	\$ 55,484,126	\$ 30,334	\$ —	\$ 55,514,460
Restricted cash	4,693,511	1,276,644	—	5,970,155
Interest receivable	14,460,415	—	(5,336,291)	9,124,124
Tax-exempt mortgage revenue bonds held in trust, at fair value	125,004,792	—	(24,826,238)	100,178,554
Tax-exempt mortgage revenue bonds, at fair value	38,623,510	—	—	38,623,510
Public housing capital fund trusts, at fair value	66,163,969	—	—	66,163,969
Real estate assets:				
Land	8,523,403	4,372,219	—	12,895,622
Buildings and improvements	76,696,662	35,792,106	—	112,488,768
Real estate assets before accumulated depreciation	85,220,065	40,164,325	—	125,384,390
Accumulated depreciation	(8,404,483)	(13,408,856)	—	(21,813,339)
Net real estate assets	76,815,582	26,755,469	—	103,571,051
Other assets	23,349,351	672,562	(15,732,441)	8,289,472
Assets of discontinued operations	8,224,333	—	—	8,224,333
Total Assets	\$ 412,819,589	\$ 28,735,009	\$ (45,894,970)	\$ 395,659,628
Liabilities				
Accounts payable, accrued expenses and other liabilities	\$ 2,875,306	\$ 26,088,519	\$ (25,303,059)	\$ 3,660,766
Distribution payable	5,705,283	—	—	5,705,283
Debt financing	153,184,000	—	—	153,184,000
Mortgages payable	39,178,128	24,221,000	(24,221,000)	39,178,128
Liabilities of discontinued operations	4,870,902	—	—	4,870,902
Total Liabilities	205,813,619	50,309,519	(49,524,059)	206,599,079
Partners' Capital				
General Partner	(367,578)	—	—	(367,578)
Beneficial Unit Certificate holders	206,426,257	—	6,579,583	213,005,840
Unallocated deficit of Consolidated VIEs	—	(21,574,510)	(2,950,494)	(24,525,004)
Total Partners' Capital	206,058,679	(21,574,510)	3,629,089	188,113,258
Noncontrolling interest	947,291	—	—	947,291
Total Capital	207,005,970	(21,574,510)	3,629,089	189,060,549
Total Liabilities and Partners' Capital	\$ 412,819,589	\$ 28,735,009	\$ (45,894,970)	\$ 395,659,628

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	Partnership as of December 31, 2011	Consolidated VIEs as of December 31, 2011	Consolidation -Elimination as of December 31, 2011	Total as of December 31, 2011
Assets				
Cash and cash equivalents	\$ 20,164,188	\$ 12,718	\$ —	\$ 20,176,906
Restricted cash	12,754,035	937,053	—	13,691,088
Interest receivable	11,395,266	—	(4,410,288)	6,984,978
Tax-exempt mortgage revenue bonds held in trust, at fair value	132,920,723	—	(23,767,936)	109,152,787
Tax-exempt mortgage revenue bonds, at fair value	26,542,565	—	—	26,542,565
Real estate assets:				
Land	7,144,866	3,250,044	—	10,394,910
Buildings and improvements	72,303,086	31,607,993	—	103,911,079
Real estate assets before accumulated depreciation	79,447,952	34,858,037	—	114,305,989
Accumulated depreciation	(5,931,860)	(12,332,334)	—	(18,264,194)
Net real estate assets	73,516,092	22,525,703	—	96,041,795
Other assets	20,080,854	839,879	(10,851,419)	10,069,314
Assets of discontinued operations	15,317,112	—	—	15,317,112
Total Assets	\$ 312,690,835	\$ 24,315,353	\$ (39,029,643)	\$ 297,976,545
Liabilities				
Accounts payable, accrued expenses and other liabilities	\$ 2,256,569	\$ 24,780,781	\$ (23,805,990)	\$ 3,231,360
Distribution payable	3,911,340	—	—	3,911,340
Debt financing	112,673,000	—	—	112,673,000
Mortgages payable	35,464,455	24,407,000	(24,407,000)	35,464,455
Liabilities of discontinued operations	11,107,345	—	—	11,107,345
Total Liabilities	165,412,709	49,187,781	(48,212,990)	166,387,500
Partners' Capital				
General Partner	(354,006)	—	—	(354,006)
Beneficial Unit Certificate holders	147,087,347	—	7,823,881	154,911,228
Unallocated deficit of Consolidated VIEs	—	(24,872,428)	1,359,466	(23,512,962)
Total Partners' Capital	146,733,341	(24,872,428)	9,183,347	131,044,260
Noncontrolling interest	544,785	—	—	544,785
Total Capital	147,278,126	(24,872,428)	9,183,347	131,589,045
Total Liabilities and Partners' Capital	\$ 312,690,835	\$ 24,315,353	\$ (39,029,643)	\$ 297,976,545

Condensed Consolidating Statements of Operations for the three months ended September 30, 2012 and 2011:

	Partnership For the Three Months Ended September 30, 2012	Consolidated VIEs For the Three Months Ended September 30, 2012	Consolidation - Elimination For the Three Months Ended September 30, 2012	Total For the Three Months Ended September 30, 2012
Revenues:				
Property revenues	\$ 2,799,857	\$ 1,203,887	\$ —	\$ 4,003,744
Investment income	3,490,431	—	(379,714)	3,110,717
Other income	15,224	—	—	15,224
Total revenues	<u>6,305,512</u>	<u>1,203,887</u>	<u>(379,714)</u>	<u>7,129,685</u>
Expenses:				
Real estate operating (exclusive of items shown below)	1,613,087	959,870	—	2,572,957
Recovery of loss on receivables	(261,825)	—	—	(261,825)
Depreciation and amortization	1,091,999	388,353	(10,876)	1,469,476
Interest	1,551,543	808,841	(808,841)	1,551,543
General and administrative	834,301	—	—	834,301
Total expenses	<u>4,829,105</u>	<u>2,157,064</u>	<u>(819,717)</u>	<u>6,166,452</u>
Income (loss) from operations	1,476,407	(953,177)	440,003	963,233
Income from discontinued operations (including gain on sale of MF Property of \$1,277,976)	1,385,433	—	—	1,385,433
Net income (loss)	2,861,840	(953,177)	440,003	2,348,666
Net income attributable to noncontrolling interest	137,099	—	—	137,099
Net income (loss) - America First Tax Exempt Investors, L. P.	<u>\$ 2,724,741</u>	<u>\$ (953,177)</u>	<u>\$ 440,003</u>	<u>\$ 2,211,567</u>

	Partnership For the Three Months Ended September 30, 2011	Consolidated VIEs For the Three Months Ended September 30, 2011	Consolidation - Elimination For the Three Months Ended September 30, 2011	Total For the Three Months Ended September 30 , 2011
Revenues:				
Property revenues	\$ 2,390,421	\$ 1,208,534	\$ —	\$ 3,598,955
Investment income	2,849,396	—	(383,520)	2,465,876
Other income	359,167	—	—	359,167
Total revenues	<u>5,598,984</u>	<u>1,208,534</u>	<u>(383,520)</u>	<u>6,423,998</u>
Expenses:				
Real estate operating (exclusive of items shown below)	1,358,372	729,713	—	2,088,085
Provision for loss on receivables	14,525	—	—	14,525
Depreciation and amortization	973,316	347,518	(9,234)	1,311,600
Interest	2,036,470	789,331	(789,331)	2,036,470
General and administrative	725,115	—	—	725,115
Total expenses	<u>5,107,798</u>	<u>1,866,562</u>	<u>(798,565)</u>	<u>6,175,795</u>
Income (loss) from operations	491,186	(658,028)	415,045	248,203
Income from discontinued operations	29,218	—	—	29,218
Net income (loss)	520,404	(658,028)	415,045	277,421
Net income attributable to noncontrolling interest	145,369	—	—	145,369
Net income (loss) - America First Tax Exempt Investors, L. P.	<u>\$ 375,035</u>	<u>\$ (658,028)</u>	<u>\$ 415,045</u>	<u>\$ 132,052</u>

Condensed Consolidating Statements of Operations for the nine months ended September 30, 2012 and 2011:

	Partnership For the Nine Months Ended September 30, 2012	Consolidated VIEs For the Nine Months Ended September 30, 2012	Consolidation - Elimination For the Nine Months Ended September 30, 2012	Total For the Nine Months Ended September 30, 2012
Revenues:				
Property revenues	\$ 7,843,065	\$ 3,598,541	\$ —	\$ 11,441,606
Investment income	8,912,856	—	(1,142,089)	7,770,767
Gain on sale of bonds	667,821	—	—	667,821
Other income	97,996	—	—	97,996
Total revenues	17,521,738	3,598,541	(1,142,089)	19,978,190
Expenses:				
Real estate operating (exclusive of items shown below)	4,412,744	2,399,206	—	6,811,950
Provision for loss on receivables	214,525	—	—	214,525
Depreciation and amortization	3,099,153	1,102,000	(32,712)	4,168,441
Interest	4,317,329	2,411,676	(2,411,676)	4,317,329
General and administrative	2,533,246	—	—	2,533,246
Total expenses	14,576,997	5,912,882	(2,444,388)	18,045,491
Income (loss) from continuing operations	2,944,741	(2,314,341)	1,302,299	1,932,699
Income from discontinued operations (including gain on sale of MF Property of \$1,277,976)	1,613,817	—	—	1,613,817
Net income (loss)	4,558,558	(2,314,341)	1,302,299	3,546,516
Net income attributable to noncontrolling interest	398,469	—	—	398,469
Net income (loss) - America First Tax Exempt Investors, L. P.	\$ 4,160,089	\$ (2,314,341)	\$ 1,302,299	\$ 3,148,047

	Partnership For the Nine Months Ended September 30, 2011	Consolidated VIEs For the Nine Months Ended September 30, 2011	Consolidation - Elimination For the Nine Months Ended September 30, 2011	Total For the Nine Months Ended September 30, 2011
Revenues:				
Property revenues	\$ 5,534,453	\$ 4,755,337	\$ —	\$ 10,289,790
Investment income	8,729,857	—	(1,635,308)	7,094,549
Other income	654,490	4,133,477	(4,028,489)	759,478
Total revenues	14,918,800	8,888,814	(5,663,797)	18,143,817
Expenses:				
Real estate operating (exclusive of items shown below)	3,276,179	2,826,177	—	6,102,356
Provision for loss on receivables	725,215	—	—	725,215
Depreciation and amortization	2,171,090	1,366,577	(27,703)	3,509,964
Interest	4,421,608	3,243,737	(3,243,737)	4,421,608
General and administrative	2,044,132	—	—	2,044,132
Total expenses	12,638,224	7,436,491	(3,271,440)	16,803,275
Income (loss) from continuing operations	2,280,576	1,452,323	(2,392,357)	1,340,542
Income from discontinued operations	187,302	—	—	187,302
Net income (loss)	2,467,878	1,452,323	(2,392,357)	1,527,844
Net income attributable to noncontrolling interest	449,866	—	—	449,866
Net income (loss) - America First Tax Exempt Investors, L. P.	\$ 2,018,012	\$ 1,452,323	\$ (2,392,357)	\$ 1,077,978

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 and do not include the tax-exempt mortgage revenue bonds issued with respect to properties owned by Consolidated VIEs or the Ohio Properties presented as MF Properties (Note 2 and Note 6). Tax-exempt mortgage revenue bonds are either held directly by the Company or are held in trusts created in connection with debt financing transactions (Note 9). The Company had the following investments in tax-exempt mortgage revenue bonds as of dates shown:

September 30, 2012				
Description of Tax-Exempt Mortgage Revenue Bonds	Cost adjusted for pay-downs	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Ashley Square ⁽¹⁾	\$ 5,272,000	\$ 260,076	\$ —	\$ 5,532,076
Autumn Pines ⁽²⁾	12,311,758	1,013,109	—	13,324,867
Bella Vista ⁽¹⁾	6,600,000	118,140	—	6,718,140
Bridle Ridge ⁽¹⁾	7,765,000	135,732	—	7,900,732
Brookstone ⁽¹⁾	7,449,870	1,499,825	—	8,949,695
Cross Creek ⁽¹⁾	5,994,150	2,036,975	—	8,031,125
Lost Creek ⁽¹⁾	15,957,472	3,567,600	—	19,525,072
Runnymede ⁽¹⁾	10,645,000	535,444	—	11,180,444
Southpark ⁽¹⁾	11,985,096	2,540,044	—	14,525,140
Woodlynn Village ⁽¹⁾	4,476,000	15,263	—	4,491,263
Tax-exempt mortgage revenue bonds held in trust	<u>\$ 88,456,346</u>	<u>\$ 11,722,208</u>	<u>\$ —</u>	<u>\$ 100,178,554</u>

September 30, 2012				
Description of Tax-Exempt Mortgage Revenue Bonds	Cost adjusted for pay-downs	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Arbors at Hickory Ridge	\$ 10,165,287	568,513	—	\$ 10,733,800
Iona Lakes	15,630,000	858,087	—	16,488,087
Woodland Park	15,662,000	—	(4,260,377)	11,401,623
Tax-exempt mortgage revenue bonds	<u>\$ 41,457,287</u>	<u>\$ 1,426,600</u>	<u>\$ (4,260,377)</u>	<u>\$ 38,623,510</u>

(1) Bonds owned by ATAX TEBS I, LLC, Note 9

(2) Bond held by Deutsche Bank in a secured financing transaction, Note 9

December 31, 2011

Description of Tax-Exempt Mortgage Revenue Bonds	Cost adjusted for pay-downs	Unrealized Gains	Unrealized Loss	Estimated Fair Value
Ashley Square ⁽¹⁾	\$ 5,308,000	\$ —	\$ —	\$ 5,308,000
Autumn Pines ⁽¹⁾	12,280,776	—	(152,094)	12,128,682
Bella Vista ⁽¹⁾	6,650,000	—	(405,184)	6,244,816
Bridle Ridge ⁽¹⁾	7,815,000	—	(469,056)	7,345,944
Brookstone ⁽¹⁾	7,437,947	1,116,538	—	8,554,485
Cross Creek ⁽¹⁾	5,961,478	1,824,167	—	7,785,645
GMF-Madison Tower ⁽²⁾	3,810,000	51,130	—	3,861,130
GMF-Warren/Tulane ⁽²⁾	11,815,000	321,722	—	12,136,722
Lost Creek ⁽¹⁾	16,051,048	1,962,587	—	18,013,635
Runnymede ⁽¹⁾	10,685,000	—	(434,452)	10,250,548
Southpark ⁽¹⁾	11,925,483	1,431,637	—	13,357,120
Woodlynn Village ⁽¹⁾	4,492,000	—	(325,940)	4,166,060
Tax-exempt mortgage revenue bonds held in trust	\$ 104,231,732	\$ 6,707,781	\$ (1,786,726)	\$ 109,152,787

December 31, 2011

Description of Tax-Exempt Mortgage Revenue Bonds	Cost adjusted for pay-downs	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Iona Lakes	\$ 15,720,000	\$ 160,658	\$ —	\$ 15,880,658
Woodland Park	15,662,000	—	(5,000,093)	10,661,907
Tax-exempt mortgage revenue bonds	\$ 31,382,000	\$ 160,658	\$ (5,000,093)	\$ 26,542,565

(1) Bonds owned by ATAX TEBS I, LLC, Note 9

(2) Bond held by Deutsche Bank in a secured financing transaction, Note 9

In June 2012, the Partnership acquired a \$10.0 million par value tax-exempt mortgage revenue bond secured by Arbors at Hickory Ridge Apartments, a 348 unit multifamily apartment complex located in Memphis, Tennessee, which represented 100% of the bond issuance for approximately \$10.2 million. The tax-exempt bond carries an annual interest rate of 7.98% and matures on April 1, 2026. The bonds do not provide for contingent interest.

In May 2012, the outstanding GMF-Madison Tower Apartments and GMF-Warren/Tulane Apartments tax-exempt mortgage revenue bonds held by the Company were sold for an amount greater than the outstanding principal and accrued base interest. The Company received approximately \$4.1 million for the GMF-Madison Tower Apartments tax-exempt mortgage revenue bond and approximately \$12.7 million from the GMF-Warren/Tulane Apartments tax-exempt mortgage revenue bond resulting in an approximate \$668,000 realized gain.

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 mortgage revenue 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 September 30, 2012, 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. The effective yield analysis for each bond considers the current market yield on similar bonds as well as the debt service coverage ratio of each underlying property serving as collateral for the bond. At September 30, 2012, the range of effective yields on the individual bonds was 5.7% to 8.4%. At December 31, 2011, the range of effective yields on the individual bonds was 6.3% to 9.0%. Additionally, the Company calculated the sensitivity of the key assumption used in calculating the fair values of these bonds. Assuming a 10% adverse change in the key assumption, the effective yields on the individual bonds would increase to a range of 6.2% to 9.3% and would result in additional unrealized losses on the bond portfolio of approximately \$10.1 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 mortgage revenue 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 September 30, 2012, the Woodland Park bond investment has been in an unrealized loss position for greater than twelve months. The Company reviewed this mortgage revenue bond for impairment. The Company's ability to recover the tax-exempt mortgage revenue bond's entire amortized cost basis is dependent upon the issuer being able to recover the collateral. Based upon this evaluation, the current unrealized loss on this bond is considered to be temporary. Valuation of the bond in an unrealized loss position has improved during the first nine months of 2012. If the credit and capital markets would deteriorate, the Company experiences deterioration in the values of its investment portfolio, or if the Company's intent and ability to hold certain bonds changes, the Company may incur impairments to its investment portfolio which could negatively impact the Company's financial condition, cash flows, and reported earnings.

The Partnership previously identified the Woodland Park tax-exempt mortgage revenue bond for which certain actions may be necessary to protect the Partnership's position as a secured bondholder and lender. The Company evaluated the Woodland Park bond holding for an other-than-temporary decline in value as of December 31, 2011 (see Form 10-K, Footnote 5 for discussion of our impairment testing method which remains the same). Based on this evaluation, the Company has concluded that no other-than-temporary impairment of the Woodland Park bond existed at December 31, 2011. However, the evaluation determined that the interest receivable accrued on the Woodland Park bond was impaired and an approximate \$953,000 allowance for loss on receivables was recorded during fiscal year 2011. The Partnership received one interest payment in 2012 but has recorded an additional allowance of approximately \$215,000 against the remaining interest receivable in the first nine months of 2012. The Partnership continues to monitor these investments for changes in circumstances that might warrant an impairment charge. As of December 31, 2011, the property had 215 units leased out of total available units of 236, or 91% physical occupancy. As of September 30, 2012, occupancy had decreased to 202 units leased, or 86% physical occupancy which we believe is a temporary decline. America First Properties Management Company, LLC, an affiliate of AFCA 2, provides management for this property. Measures have been implemented that we believe will increase the physical occupancy of this property to at or above 90% as of January 1, 2013, which will increase the property's net operating income and ensure that net operating income is in line with what had been projected for 2013 in the most recent evaluation for other than temporary impairment. Based on this evaluation, the current unrealized loss on this bond is considered to be temporary.

5. Public Housing Capital Fund Trust Certificates

In July 2012, the Company purchased 100% of the residual participation receipts ("LIFERS") in tender option bond trusts ("PHC TOB Trusts") which acquired approximately \$65.3 million of Public Housing Capital Fund Certificates ("PHC Certificates") issued by three trusts ("PHC Trusts") sponsored by Deutsche Bank ("DB"). The assets held by the PHC Trusts consist of custodial receipts evidencing loans made to a number of local public housing authorities. Principal and interest on these loans are payable by the respective public housing authorities out of annual appropriations to be made to the public housing authorities by the United States Department of Housing and Urban Development ("HUD") under HUD's Capital Fund Program established under Quality Housing and Work Responsibility Act of 1998 (the "Capital Fund Program"). The PHC Trusts have a first lien on these annual Capital Fund Program payments to secure the public housing authorities' respective obligations to pay principal and interest on their loans. The loans payable by the public housing authorities are not debts, nor guaranteed by the United States of America or HUD. Interest payable on the public housing authority debt held by the PHC Trusts is exempt from federal income taxes. The PHC Certificates issued by each of the PHC Trusts have been rated investment grade by Standard & Poor's.

The Company purchased the LIFERS issued by the PHC TOB Trusts for approximately \$16.0 million and pledged the LIFERS to the trustee to secure certain reimbursement obligations of the Company as the holder of LIFERS. The PHC TOB Trusts also issued senior floating-rate participation interest ("SPEARS") of approximately \$49.0 million to unaffiliated investors. The SPEARS represent senior interests in the PHC TOB Trusts and have been credit enhanced by DB. The LIFERS entitle the Company to all principal and interest payments received by the PHC TOB Trusts on the \$65.3 million of PHC Certificates held by it after preferred return payments due to the holders of the SPEARS and trust costs. The SPEARS bear interest at a variable rate based on SIFMA.

The Company determined that the three PHC TOB trusts are variable interest entities and that the Company was the primary beneficiary of each of the three PHC TOB trusts. As a result, the Company reports the PHC TOB Trusts on a consolidated basis and the SPEARS as debt financing. In determining the primary beneficiary of these specific VIEs, the Company considered who has the power to control the activities of the VIEs which most significantly impact their financial performance, the risks that the entity was designed to create, and how each risk affects the VIE. The indenture for the PHC TOB trusts stipulates that the Company has the sole right to cause the PHC TOB trusts to sell the PHC Certificates. If they were sold, the extent to which the VIEs will be exposed to gains or losses associated with variability in the PHC Certificates' fair value arising from changes in municipal bond market rates therefore would result from decisions made by the Company.

The Company had the following investments in the PHC Certificates on September 30, 2012:

Description of Public Housing Capital Fund Trust Certificates	Cost adjusted for amortization of premium and discounts	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Public Housing Capital Fund Trust Certificate I	\$ 28,154,088	\$ 400,908	\$ —	\$ 28,554,996
Public Housing Capital Fund Trust Certificate II	17,431,891	—	(27,313)	17,404,578
Public Housing Capital Fund Trust Certificate III	20,385,784	—	(181,389)	20,204,395
	<u>\$ 65,971,763</u>	<u>\$ 400,908</u>	<u>\$ (208,702)</u>	<u>\$ 66,163,969</u>

Valuation - As all of the Company's investments in PHC Certificates 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 PHC Certificates, these estimates of fair value do not necessarily represent what the Company would actually receive in a sale of the certificates. The estimates of the fair values of these PHC certificates is based on a yield to maturity analysis which begins with the current market yield rate for a "AAA" rated tax-free municipal bond for a term consistent with the weighted-average life of each of the Public Housing Capital Fund trusts adjusted largely for unobservable inputs the General Partner believes would be used by market participants. Management's valuation encompasses judgment in its application and pricing as determined by pricing services, when available, is compared to Management's estimates. The PHC Certificates are AA and BBB rated. At September 30, 2012, the range of effective yields on the individual bonds was 4.5% to 5.8%. Additionally, the Company calculated the sensitivity of the key assumption used in calculating the fair values of these bonds. Assuming a 10% adverse change in the key assumption, the effective yields on the individual bonds would increase to a range of 4.9% to 6.4% and would result in additional unrealized losses on the bond portfolio of approximately \$2.9 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 other information from external sources, such as pricing services. Pricing services and management's analysis provide indicative pricing only.

The following table sets forth certain information relating to the PHC Certificates held in the PHC TOB Trusts:

	Weighted Average Lives (Years)	Investment Rating	Weighted Average Interest Rate over Life	Principal Outstanding September 30, 2012
Public Housing Capital Fund Trust Certificate I	12.75	AA-	5.330%	\$ 26,406,558
Public Housing Capital Fund Trust Certificate II	12.3	AA-	4.240%	17,959,713
Public Housing Capital Fund Trust Certificate III	13.3	BBB	5.410%	20,898,432
Total Public Housing Capital Fund Trust Certificates				<u>\$ 65,264,703</u>

The Company executed an investment placement agreement with AFCA 2 in connection with this transaction. AFCA 2 received a fee of approximately \$653,000 from the Company in connection with this agreement which was paid in July 2012. This fee is consistent with the mortgage placement fees that AFCA 2 has earned previously in connection with the acquisition of tax-exempt mortgage revenue bonds by the Company.

6. Real Estate Assets

MF Properties

To facilitate its investment strategy of acquiring additional tax-exempt mortgage revenue bonds secured by MF Properties, the Company has acquired through its various subsidiaries 99% limited partner positions in five limited partnerships and 100% member positions in four limited liability companies that own the MF Properties. Three of the five limited partnerships are reported as discontinued operations in all periods presented. The financial statements of these properties are consolidated with those of the Company. 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 noncontrolling interests. The Company expects each of these MF Properties to eventually be sold either to a not-for-profit entity or in connection with a syndication of LIHTCs. The Company expects to purchase tax-exempt mortgage revenue bonds issued by the new property owners as part of the restructuring.

Recent Transactions

In October 2012, the limited partnership that owns the Greens of Pine Glen Property admitted two entities that are affiliates of Boston Capital ("BC Partners") as new limited partners as part of a syndication of LIHTCs on the Greens of Pine Glen Property. Prior to the execution of the admittance of the new limited partners, the Company had entered into an agreement to sell the Greens of Pine Glen Property for approximately \$7.3 million to the third party not-for-profit which is the general partner of the limited partnership that now owns the Greens of Pine Glen property. That sale was conditional on securing the tax-exempt bond and LIHTCs from the North Carolina Housing Finance Agency. These new limited partners are obligated to invest approximately \$3.2 million of capital into the property, the majority of which is expected to be received prior to October 1, 2013. In September 2012, a purchase and sale agreement was executed for the Eagle Ridge property and the sale is expected to occur before the end of 2012. In August 2012, the Partnership sold the Commons at Churchland property for approximately \$8.1 million resulting in a gain of approximately \$1.3 million. These transactions resulted in the properties being reported as a discontinued operation for all periods reported (Note 8).

The Partnership purchased land adjacent to DeCordova property for approximately \$153,000 in 2011, and completed the construction of 34 additional units in the third quarter of 2012. The units are leased as market rate units.

In February 2012, the Company secured a \$2.0 million construction loan for the expansion of the DeCordova property. The construction loan is with an unrelated third party and carries a fixed annual interest rate of 5.0%, maturing on February 1, 2017. On September 30, 2012 the balance of this loan was approximately \$2.0 million.

As of September 30, 2012, the Company has a \$6.5 million construction loan secured by the DeCordova and Weatherford properties. This construction loan was used to fund the completion of Weatherford. The construction loan is with an unrelated third party and carries a fixed annual interest rate of 5.9%, maturing on July 28, 2015. This agreement requires \$500,000 to be held by the Company as restricted cash.

Acquisitions

In August 2012, the Company closed on the purchase of the Maples on 97th property, a 258 unit facility located in Omaha, Nebraska, for a purchase price of approximately \$5.5 million through the execution of a Qualified Exchange Accommodation Agreement that assigned the right to acquire and own the Maples on 97th property to a wholly-owned subsidiary of a Title Company, (EAT (Maples on 97th)), for a period not to exceed six months. During this six month hold period, the Company will rehabilitate the property. The Company lent the EAT (Maples on 97th) the necessary funds to purchase the replacement property; there is no other capital within that entity. The EAT (Maples on 97th) then executed a Master Lease Agreement and Construction Management Agreement with the Company. These two agreements give the Company the rights and obligations to manage the replacement property as well as the rehabilitation during the six month hold period.

This acquisition is disclosed pursuant to the accounting guidance on business combinations. A condensed balance sheet at the date of acquisition is included below.

	Maples on 97th 8/29/2012 (Date of Acquisition)
Other current assets	\$ 44,534
In-place lease assets	428,865
Real estate assets	5,071,135
Total Assets	<u>\$ 5,544,534</u>
Accounts payable, accrued expenses and other	\$ 69,120
Stockholders' equity	5,475,414
Total liabilities and stockholders' equity	<u>\$ 5,544,534</u>

In June 2011, the Company purchased 810 Schutte Road LLC ("Eagle Village"), a 511 bed student housing facility located in Evansville, Indiana for a total purchase price of approximately \$8.9 million. In March 2011, the Company also purchased The Arboretum on Farnam Drive ("Arboretum"), 145 unit independent senior living facility located in Omaha, Nebraska for approximately \$20.0 million. That purchase price allocation for Eagle Village and Arboretum did not change from what was disclosed in the December 31, 2011 Form 10-K.

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The table below shows the pro forma condensed consolidated results of operations of the Company as if the Eagle Village, Arboretum, and Maples on 97th had been acquired at the beginning of the periods presented:

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011	For Nine Months Ended September 30, 2012	For Nine Months Ended September 30, 2011	For the Year Ended December 31, 2011
Revenues	\$ 7,431,046	\$ 6,873,761	\$ 21,329,105	\$ 20,729,028	\$ 30,667,528
Net income (loss)	2,238,259	159,798	3,250,833	1,272,093	(2,075,272)
Net income (loss) allocated to unitholders	2,417,204	398,754	3,753,255	2,135,887	(938,865)
Unitholders' interest in net income (loss) per unit (basic and diluted)	\$ 0.06	\$ 0.01	\$ 0.10	\$ 0.07	\$ (0.03)

The Company had the following investments in MF Properties as of September 30, 2012 and December 31, 2011:

MF Properties					
Property Name	Location	Number of Units	Land	Buildings and Improvements	Carrying Value at September 30, 2012
Arboretum	Omaha, NE	145	\$ 1,720,740	\$ 18,967,844	\$ 20,688,584
Eagle Village	Evansville, IN	511	564,726	12,277,210	12,841,936
Meadowview	Highland Heights, KY	118	688,539	5,191,022	5,879,561
Glynn Place	Brunswick, GA	128	743,996	4,720,807	5,464,803
Residences of DeCordova	Granbury, TX	110	680,852	8,245,055	8,925,907
Residences of Weatherford	Weatherford, TX	76	533,000	7,064,152	7,597,152
					61,397,943
Less accumulated depreciation (depreciation expense of approximately \$1.7 million in 2012)					(4,749,866)
Balance at September 30, 2012					\$ 56,648,077
MF Properties Subject to Sales Agreement					
Property Name	Location	Number of Units	Land	Buildings and Improvements	Carrying Value at September 30, 2012
Crescent Village	Cincinnati, OH	90	\$ 353,117	\$ 6,266,723	\$ 6,619,840
Willow Bend	Hilliard, OH	92	580,130	5,029,764	5,609,894
Postwoods	Reynoldsburg, OH	180	1,148,504	10,443,884	11,592,388
					23,822,122
Less accumulated depreciation (depreciation expense of approximately \$696,000 in 2012)					(3,654,617)
Balance at September 30, 2012					\$ 20,167,505

MF Properties

Property Name	Location	Number of Units	Land	Buildings and Improvements	Carrying Value at December 31, 2011
Arboretum	Omaha, NE	145	\$ 1,720,740	\$ 18,730,388	\$ 20,451,128
Eagle Ridge	Erlanger, KY	64	290,763	2,485,433	2,776,196
Eagle Village	Evansville, IN	511	564,726	12,230,322	12,795,048
Meadowview	Highland Heights, KY	118	688,539	5,082,090	5,770,629
Glynn Place	Brunswick, GA	128	743,996	4,677,793	5,421,789
Greens of Pine Glen	Durham, NC	168	1,744,761	5,256,692	7,001,453
Residences of DeCordova	Granbury, TX	76	679,495	4,960,461	5,639,956
Residences of Weatherford	Weatherford, TX	76	533,000	5,105,278	5,638,278
					65,494,477
Less accumulated depreciation (depreciation expense of approximately \$2.3 million in 2011)					(4,527,400)
Balance at December 31, 2011					\$ 60,967,077
MF Properties Subject to Sales Agreement					
Property Name	Location	Number of Units	Land	Buildings and Improvements	Carrying Value at December 31, 2011
Crescent Village	Cincinnati, OH	90	\$ 353,117	\$ 6,238,827	\$ 6,591,944
Willow Bend	Hilliard, OH	92	580,130	5,008,793	5,588,923
Postwoods	Reynoldsburg, OH	180	1,148,504	10,401,752	11,550,256
					23,731,123
Less accumulated depreciation (depreciation expense of approximately \$829,000 in 2011)					(2,958,263)
Balance at December 31, 2011					\$ 20,772,860

In June 2010, the Company completed a sales transaction whereby four of the Ohio MF Properties were sold to three new ownership entities controlled by an unaffiliated not-for-profit entity. As the buyer has no equity capital in this transaction and the property operations are the current support for the debt service, the Company, in substance, remains the owner for accounting purposes. As such, the Company will continue to consolidate the Ohio Properties as if the sale was not completed. The properties will continue to be presented as MF Properties and no gain will be recognized until such time as the transaction meets the criteria for derecognition of the properties and gain recognition can be accounted for as a sale (Note 2).

Consolidated VIE Properties

In addition to the MF Properties, the Company consolidates the assets, liabilities and results of operations of the Consolidated VIEs in accordance with the accounting guidance on consolidations. Although the assets of these VIEs are consolidated, the Company 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 unitholders or the general partner, but is instead included in "Unallocated deficit of Consolidated VIEs."

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The Company consolidated the following properties owned by Consolidated VIEs in continuing operations as of September 30, 2012 and December 31, 2011:

Consolidated VIEs					
Property Name	Location	Number of Units	Land	Buildings and Improvements	Carrying Value at September 30, 2012
Bent Tree Apartments	Columbia, SC	232	\$ 986,000	\$ 11,843,206	\$ 12,829,206
Fairmont Oaks Apartments	Gainesville, FL	178	850,400	8,680,274	9,530,674
Lake Forest Apartments	Daytona Beach, FL	240	1,396,800	11,336,509	12,733,309
EAT (Maples on 97th)	Omaha, NE	258	905,000	4,166,136	5,071,136
					40,164,325
Less accumulated depreciation (depreciation expense of approximately \$1.1 million in 2012)					(13,408,856)
					<u>\$ 26,755,469</u>

Consolidated VIEs					
Property Name	Location	Number of Units	Land	Buildings and Improvements	Carrying Value at December 31, 2011
Bent Tree Apartments	Columbia, SC	232	\$ 986,000	\$ 11,758,519	\$ 12,744,519
Fairmont Oaks Apartments	Gainesville, FL	178	850,400	8,615,014	9,465,414
Lake Forest Apartments	Daytona Beach, FL	240	1,396,800	11,251,304	12,648,104
					34,858,037
Less accumulated depreciation (depreciation expense of approximately \$1.7 million in 2011)					(12,332,334)
Balance at December 31, 2011					<u>\$ 22,525,703</u>

7. Other Assets

The Company had the following Other assets as of dates shown:

	September 30, 2012	December 31, 2011
Property loans receivable	\$ 20,578,663	\$ 19,808,803
Less: Loan loss reserves	(18,397,512)	(16,782,918)
Deferred financing costs - net	3,670,897	3,810,438
Fair value of derivative contracts	267,959	1,323,270
Taxable bonds at fair market value	724,145	774,946
Other assets	1,445,320	1,134,775
Total Other assets	<u>\$ 8,289,472</u>	<u>\$ 10,069,314</u>

In addition to the tax-exempt mortgage revenue bonds held by the Company, taxable property loans have been made to the owners of the properties which secure the bonds and are reported as Property loans receivable in Other assets, net of loan loss reserves. The Company periodically, or as changes in circumstances or operations dictate, evaluates such taxable loans for impairment. The value of the underlying property assets is ultimately the most relevant measure of value to support the taxable loan values. The Company utilizes a discounted cash flow model in estimating a property fair value. Discounted cash flow models containing varying assumptions are considered. The various models may assume multiple revenue and expense scenarios, various capitalization rates and multiple discount rates. Other information, such as independent appraisals, may be considered in estimating a property fair value. If the estimated fair value of the property after deducting the amortized cost basis of any senior tax-exempt mortgage revenue bond exceeds the principal balance of the property loan then no potential loss is indicated and no allowance for property loans is needed. In estimating the property valuation, the most significant assumptions utilized in the discounted cash flow model remained the same as discussed in the Form 10-K and include revenue and expense projections and capitalization rates.

During the first nine months of 2012, the Partnership advanced additional funds to Ashley Square, Cross Creek, and Iona Lakes of approximately \$66,000, \$150,000 and \$285,000, respectively. In addition, Cross Creek paid approximately \$330,000 which was applied against the loan receivable. During the first nine months of 2012, the Partnership recorded loan loss reserves equal to the accrued interest on the Ashley Square, Cross Creek, Iona Lakes and Woodland Park property loans.

In conjunction with the purchase of the Arbors of Hickory Ridge tax-exempt mortgage revenue bond, an affiliate of the Global Ministries Foundation, a not-for-profit entity unrelated to the Company acquired the multi-family property securing the bond. At closing, the Company also secured a \$600,000 promissory note receivable as a fee for identifying this property acquisition and performing the related due diligence. This promissory loan is payable by the property at either the date the \$10 million tax-exempt mortgage revenue bond is restructured, upon the full repayment of the tax-exempt mortgage revenue bond, or June 14, 2022. As it is not reasonably assured when the tax-exempt mortgage revenue bond or related interest will be restructured or repaid in full, an allowance has been recorded against the loan receivable and accrued interest. Interest on the loan accrues at 12% but is not due until maturity.

The following is a summary of the taxable loans, accrued interest and allowance on the amounts due at September 30, 2012 and December 31, 2011, respectively:

	September 30, 2012			
	Outstanding Balance	Accrued Interest	Loan Loss Reserves	Net Taxable Loans
Ashley Square	\$ 4,852,342	\$ 1,586,042	\$ (5,182,384)	\$ 1,256,000
Cross Creek	6,588,087	1,518,338	(4,722,810)	3,383,615
Iona Lakes	7,624,118	2,687,370	(6,688,992)	3,622,496
Arbors at Hickory Ridge	600,000	21,296	(621,296)	—
Woodland Park	914,116	267,914	(1,182,030)	—
	<u>\$ 20,578,663</u>	<u>\$ 6,080,960</u>	<u>\$ (18,397,512)</u>	<u>\$ 8,262,111</u>

	December 31, 2011			
	Outstanding Balance	Accrued Interest	Loan Loss Reserves	Net Taxable Loans
Ashley Square	\$ 4,786,342	\$ 1,331,186	\$ (4,927,528)	\$ 1,190,000
Cross Creek	6,769,227	1,360,270	(4,564,742)	3,564,755
Iona Lakes	7,339,118	2,207,301	(6,208,923)	3,337,496
Woodland Park	914,116	167,609	(1,081,725)	—
	<u>\$ 19,808,803</u>	<u>\$ 5,066,366</u>	<u>\$ (16,782,918)</u>	<u>\$ 8,092,251</u>

The following is a detail of loan loss reserves for the nine months and year ended September 30, 2012 and December 31, 2011:

	September 30, 2012	December 31, 2011
Balance, beginning of year	\$ 16,782,918	\$ 9,899,719
Provision for loan loss	—	4,242,571
Allowance related to note - Arbors of Hickory Ridge	600,000	—
Deconsolidation of VIEs	—	1,861,051
Accrued interest not recognized	1,014,594	779,577
Balance, end of year	<u>\$ 18,397,512</u>	<u>\$ 16,782,918</u>

Accrued interest not recognized represents interest accrued that the Partnership has determined they are not reasonably assured of collecting. During first nine months of 2012 and the year ended 2011, the Partnership recorded an allowance for accrued interest not recognized on Ashley Square, Cross Creek, Iona Lakes, and Woodland Park taxable loans.

8. Discontinued Operations

In October 2012, the limited partnership that owns the Greens of Pine Glen property admitted two entities that are affiliates of Boston Capital (“BC Partners”) as new limited partners as part of a syndication of LIHTCs on the Greens of Pine Glen property. Prior to the execution of the admittance of the new limited partners, the Company had entered into an agreement to sell the Greens of Pine Glen Property for approximately \$7.3 million to the third party not-for-profit which is the general partner of the limited partnership that now owns the Greens of Pine Glen property. That sale was conditional on securing the tax-exempt bond and low-income housing tax credits from the North Carolina Housing Finance Agency. At closing, the BC Partners invested \$961,000 of equity into this limited partnership and is obligated to invest another \$2.2 million at contractual scheduled milestones tied to construction, the property reaching a specified debt service coverage ratio, the designation from the state of the tax credits, with the final payment being received no earlier than October 1, 2013. The Company purchased 100% of the tax-exempt mortgage revenue bonds issued as part of the agreement to finance the acquisition and rehabilitation of the Greens at Pine Glen property. The Series A bonds have a \$8,515,000 par value and bear interest at 6.5%. The Series B bond has a \$950,000 par value and bears interest at 12%. Both series of bonds mature in October 1, 2047. The Company also obtained an \$850,000 taxable loan secured by the Greens of Pine Glen property at closing. The construction is estimated to be 75% completed by June 30, 2013 and fully completed by October 31, 2013, and each of these milestones requires capital contributions by the limited partners. As there will be sufficient equity invested to recognize a real estate sale for accounting purposes at 75% completion of construction and the Company no longer has responsibility for the general operations of the property, this MF Property has met the criteria for discontinued operations presentation and has been reported as such in the condensed consolidated financial statements for all periods presented. The net fixed assets and total assets of the Greens of Pine Glen property were approximately \$5.7 million and \$5.9 million at September 30, 2012, and \$6.0 million and \$6.2 million at December 31, 2011.

In September 2012, a purchase and sale agreement was executed for the Eagle Ridge property. This property sale is expected to be completed before the end of 2012 and results in the property being reported as a discontinued operation for all periods reported. The net fixed assets and total assets of the Eagle Ridge property were approximately \$2.2 million and \$2.3 million at September 30, 2012, and \$2.3 million and \$2.3 million at December 31, 2011. The projected proceeds from the sale of the property are greater than the \$2.3 million total assets.

In March 2012, a brokerage contract was executed to list the Churchland property for sale and was subsequently sold in August, 2012. The Partnership sold the Commons at Churchland property for approximately \$8.1 million resulting in a gain of approximately \$1.3 million. The Churchland property reported \$6.8 million of total discontinued operation assets at December 31, 2011.

The following represents the components of the assets and liabilities of the discontinued operations:

	September 30, 2012	December 31, 2011
Cash and cash equivalents	\$ 27,354	\$ 36,507
Restricted cash	200,555	214,278
Land	895,260	2,066,406
Buildings and improvements	8,941,987	15,271,589
Real estate assets before accumulated depreciation	9,837,247	17,337,995
Accumulated depreciation	(1,927,600)	(2,576,000)
Net real estate assets	7,909,647	14,761,995
Other assets	86,777	304,332
Total assets from discontinued operations	8,224,333	15,317,112
Accounts payable and accrued expenses	242,902	327,916
Mortgage payable	4,628,000	10,779,429
Total liabilities from discontinued operations	4,870,902	11,107,345
Net equity of discontinued operations	\$ 3,353,431	\$ 4,209,767

The December 31, 2011, balances for Other assets and Assets of discontinued operations have been corrected from the amounts reported in our March 31, 2012, Form 10-Q balance sheet to reflect the elimination of an intercompany balance between ATAX and the Churchland property in the Assets from discontinued operations line instead of Other assets. The correction resulted in an increase in Other assets and a decrease in Assets from discontinued operations of \$529,000 as of December 31, 2011. This correction had no effect on total assets, net income, or cash flows for the year ended December 31, 2011.

The following presents the revenues, expenses and income from discontinued operations:

	For Three Months Ended September 30,		For Nine Months Ended September 30,	
	2012	2011	2012	2011
Rental revenues	\$ 1,946,048	\$ 720,416	\$ 3,451,195	\$ 2,163,858
Expenses	560,615	691,198	1,837,378	1,976,556
Income from discontinued operations	\$ 1,385,433	\$ 29,218	\$ 1,613,817	\$ 187,302

9. Debt Financing

The Company currently has outstanding debt financing of \$153.2 million under separate credit facilities.

Tender Option Bond Financings

In July 2011, the Company executed a Master Trust Agreement with DB which allows the Company to execute multiple Tender Option Bond ("TOB") structures upon the approval and agreement of terms by DB. Under each TOB structure issued through the Master Trust Agreement, the TOB trustee issues senior floating-rate participation interests ("SPEARS"), and LIFERS. These SPEARS and LIFERS represent beneficial interests in the securitized asset held by the TOB trustee. The Company will purchase the LIFERS from each of these TOB Trusts which will grant them certain rights to the securitized assets. The Master Trust Agreement with DB has covenants that the Company is required to maintain compliance, the most restrictive of which at September 30, 2012 is that cash available to distribute for the trailing twelve months must be at least two times trailing twelve month interest expense. The Company was in compliance with all of these covenants as of September 30, 2012. If the Company were to be out of compliance with any of these covenants, it would trigger a termination event of the financing facilities.

In July 2012, the Company purchased the PHC Certificate LIFERS issued by the PHC TOB Trusts for approximately \$16.0 million and pledged the LIFERS to the trustee to secure certain reimbursement obligations of the Company as the holder of LIFERS. The Company is consolidating the PHC TOB Trust as it has determined it is the primary beneficiary of these variable interest entities. The PHC TOB Trusts issued SPEARS of approximately \$49.0 million to unaffiliated investors. The SPEARS represent senior interests in the PHC TOB Trusts and have been credit enhanced by DB. The LIFERS entitle the Company to all principal and interest payments received by the PHC TOB Trusts on the \$65.3 million of PHC Certificates held by it after payments due to the holders of the SPEARS and trust costs. The amount owed to the SPEARS owners is approximately \$49.0 million at September 30, 2012.

In July 2011, the Company closed a \$10.0 million financing utilizing the TOB structure with the DB securitizing the Company's \$13.4 million Autumn Pines Apartments tax-exempt mortgage revenue bond. In December 2011, the Company closed a separate TOB financing structure in the amount of \$7.8 million with DB securitizing the Company's \$15.6 million GMF-Warren/Tulane Apartments and GMF-Madison Apartments tax-exempt mortgage revenue and taxable mortgage revenue bonds. In May 2012, the Company retired the \$7.8 million TOB financing structure when the GMF-Warren/Tulane and GMF-Madison Tower tax-exempt mortgage revenue bonds were sold. At September 30, 2012, the Company owed \$9.9 million on a single TOB facility and at December 31, 2011, the Company owed \$17.7 million on both TOB facilities. Under these TOB structures, the Company transferred the bonds to a custodian and trustee that provide these services on behalf of DB. The TOB trustee then issued SPEARS, and LIFERS. The SPEARS and LIFERS represent beneficial interests in the securitized asset held by the TOB trustee. The SPEARS were credit-enhanced by DB and sold through a placement agent to unaffiliated investors. The gross proceeds from the sale of the SPEARS were remitted to the Company. The LIFERS were retained by the Company and are pledged to DB to secure certain reimbursement obligations.

The PHC TOB Trusts and the TOB trust essentially provide the Company with a secured variable rate debt facility at an interest rate that reflects the prevailing short-term tax-exempt rates paid by the PHC TOB Trusts and TOB trust on the SPEARS. Payments made to the holders of the SPEARS and the amount of trust fees essentially represent the Company's effective cost of borrowing on the net proceeds it received from the sale of the SPEARS and are expected to vary over time. The total fixed PHC TOB Trusts and TOB trust fees are 1.62% and 1.77% per annum respectively, and as of September 30, 2012 the rate paid on the PHC TOB Trusts and TOB trusts on the SPEARS was .53% and .33% per annum respectively, resulting in a total cost of borrowing of 2.15% and 2.10%, respectively. The Company is accounting for these transactions as secured financing arrangements.

Tax Exempt Bond Securitization Financing ("TEBS")

As of September 1, 2010, the Partnership and its Consolidated Subsidiary ATAX TEBS I, LLC, entered into a number of agreements relating to a new long-term debt financing facility provided through the securitization of thirteen tax-exempt mortgage revenue bonds owned by the ATAX TEBS I, LLC (the "Sponsor") pursuant to the TEBS Financing. The TEBS Financing essentially provides the Partnership with a long-term variable-rate debt facility at interest rates reflecting prevailing short-term tax-exempt rates.

Effective September 1, 2010, the Partnership transferred the following bonds to ATAX TEBS I, LLC, a special purpose entity controlled by the Partnership pursuant to the TEBS Financing. The par value of the bonds included in this financing facility as of September 30, 2012 and December 31, 2011 are as follows:

Description of Tax-Exempt Mortgage Revenue Bonds	Outstanding Bond Par Amounts		Financial Statement Presentation
	September 30, 2012	December 31, 2011	
Ashley Square	\$ 5,272,000	\$ 5,308,000	Tax-exempt mortgage revenue bond
Bella Vista	6,600,000	6,650,000	Tax-exempt mortgage revenue bond
Bent Tree	7,632,000	7,686,000	Consolidated VIE
Bridle Ridge	7,765,000	7,815,000	Tax-exempt mortgage revenue bond
Brookstone	9,435,680	9,490,809	Tax-exempt mortgage revenue bond
Cross Creek	8,585,363	8,634,693	Tax-exempt mortgage revenue bond
Fairmont Oaks	7,460,000	7,520,000	Consolidated VIE
Lake Forest	9,129,000	9,201,000	Consolidated VIE
Runnymede	10,645,000	10,685,000	Tax-exempt mortgage revenue bond
Southpark	14,000,000	14,000,000	Tax-exempt mortgage revenue bond
Woodlynn Village	4,476,000	4,492,000	Tax-exempt mortgage revenue bond
Ohio Series A Bond ⁽¹⁾	14,603,000	14,666,000	Consolidated MF Property
Villages at Lost Creek	18,315,000	18,500,000	Tax-exempt mortgage revenue bond
Total	\$ 123,918,043	\$ 124,648,502	

(1) Collateralized by Crescent Village, Postwoods and Willow Bend (Note 2)

The securitization of these assets occurred through two classes of certificates. The Class A TEBS Certificates were issued in an initial principal amount of \$95.8 million and were sold through a placement agent to unaffiliated investors. The Class B TEBS Certificates were issued in an initial principal amount of \$20.3 million and were retained by the Sponsor. The holders of the Class A TEBS Certificates are entitled to receive regular payments of interest from Freddie Mac at a variable rate which resets periodically based on the weekly Securities Industry and Financial Markets Association ("SIFMA") floating index rate plus certain credit, facility, remarketing and servicing fees (the "Facility Fees"). The total Facility Fees are 1.9%, and as of September 30, 2012, the SIFMA rate was equal to 0.23% resulting in a total cost of borrowing of 2.13% on the outstanding balance on the TEBS Financing facility of \$94.3 million. The TEBS Financing and the associated TEBS Trust are presented as secured financings within the consolidated financial statements.

The term of the TEBS Financing coincides with the terms of the assets securing the TEBS Certificates, except that the Partnership may terminate the TEBS Financing at its option on either September 15, 2017 or September 15, 2020. Should the Partnership not elect to terminate the TEBS Financing on these dates, the full term of the TEBS Financing runs through the final principal payment date associated with the securitized bonds, or July 15, 2050.

The Company's \$10 million outstanding TOB trust facility at September 30, 2012 matures in December 2012. The Company is looking at extending or refinancing the facilities and expects to execute on one of those alternatives before the facilities come due.

The Company's debt financing as of September 30, 2012, contractually matures over the next five years and thereafter as follows:

2012	\$	10,201,000
2013		50,004,000
2014		1,083,000
2015		1,139,000
2016		1,192,000
Thereafter		89,565,000
Total	\$	<u>153,184,000</u>

10. Mortgages Payable

The Company reports the mortgage loans secured by certain MF Properties on its consolidated financial statements as Mortgages payable. As of September 30, 2012, outstanding mortgage loans totaled approximately \$39.2 million. As of December 31, 2011, outstanding mortgage loans totaled approximately \$40.1 million.

The Company's mortgages payable as of September 30, 2012, contractually mature over the next five years and thereafter as follows:

2012	\$	12,999
2013		30,678,745
2014		—
2015		6,486,354
2016		—
Thereafter		2,000,030
Total	\$	<u>39,178,128</u>

11. 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, taxable loans collateralized by real property, and 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 nine months ended September 30, 2012, the Partnership paid administrative fees to AFCA 2 of approximately \$264,800 and \$652,500, respectively. For the three and nine months ended September 30, 2011, the Partnership paid administrative fees to AFCA 2 of approximately \$205,000 and \$591,000, 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 \$33,300 and \$99,900 for the three and nine months ended September 30, 2012, respectively. For the three and nine months ended September 30, 2011, these fees totaled approximately \$33,000 and \$126,000, respectively.

The Company executed an investment placement agreement with AFCA 2 in connection with the Company's acquisition of the PHC Certificates. AFCA 2 received a fee of \$653,000 in July 2012 from the Company in connection with this agreement which was recorded into the cost basis of the PHC Certificates and is being amortized against interest income on an effective yield basis. The Company executed a separate investment placement agreement with AFCA 2 in connection with the Company's acquisition of the Arbors at Hickory Ridge tax-exempt mortgage revenue bond. In connection with that agreement, AFCA 2 received an origination fee of \$100,000 which has been recorded into the cost basis of the tax-exempt mortgage revenue bond and is being amortized against interest income on an effective yield basis. Both of these fees are consistent with the mortgage placement fees that AFCA 2 has earned previously in connection with the acquisition of tax-exempt mortgage revenue bonds by the Company. During the three and nine months ended September 30, 2011, AFCA 2 earned mortgage placement fees of approximately \$0 and \$407,000 respectively.

An affiliate of AFCA 2, America First Properties Management Company, LLC (“Properties Management”), provides property management services for Arboretum, Ashley Square Apartments, Iona Lakes Apartments, Bent Tree Apartments, Lake Forest Apartments, Fairmont Oaks Apartments, Cross Creek, Woodland Park, Residences at DeCordova, Residences at Weatherford, Eagle Ridge, Eagle Village, Crescent Village, Maples on 97th, Meadowview, Willow Bend, Postwoods, Churchland, Glynn Place and Greens of Pine Glen, earning management fees of approximately \$287,900 and \$878,900 for the three and nine months ended September 30, 2012. Properties Management provided property management services for Arboretum, Ashley Square Apartments, Iona Lakes Apartments, Bent Tree Apartments, Lake Forest Apartments, Fairmont Oaks Apartments, Cross Creek, Clarkson College, Woodland Park, Residences at DeCordova, Eagle Ridge, Eagle Village, Crescent Village, Meadowview, Willow Bend, Postwoods, Churchland, Glynn Place and Greens of Pine Glen, earning management fees of approximately \$282,000 and \$825,000 for the three and nine months ended September 30, 2011, respectively. These property management fees are not Partnership expenses, but are paid in each case by the owner of the multifamily apartment property. However, for properties owned by entities treated as Consolidated VIEs and for MF Properties, the property management fees are reflected as real estate operating expenses on the Company’s consolidated financial statements. The property management fees are paid out of the revenues generated by all properties financed by tax-exempt mortgage revenue bonds and taxable mortgages prior to the payment of debt service on the Partnership’s tax-exempt revenue bonds and taxable loans. At September 30, 2012, the Company had a receivable of \$125,000 from America First Properties Management Company, LLC recorded as an Other asset.

Two of the owners of the limited-purpose corporations which own three of the Consolidated VIEs held by the Company are employees of Burlington who are not involved in the operation or management of the Company and who are not executive officers or managers of Burlington.

12. Issuances of Additional Beneficial Unit Certificates

In May 2012, the Partnership issued an additional 12,650,000 BUCs through an underwritten public offering at a public offering price of \$5.06 per BUC pursuant to an existing Registration Statement on Form S-3. Net proceeds realized by the Partnership from this issuance of these BUCs were approximately \$60 million after payment of an underwriter's discount and other offering costs of approximately \$4.0 million.

13. Interest Rate Derivative Agreements

As of September 30, 2012, the Company has three derivative agreements in order to mitigate its exposure to increases in interest rates on its variable-rate debt financing. The terms of the derivative agreements are as follows:

Date Purchased	Notional Amount	Effective Capped Rate	Maturity Date	Purchase Price	Counterparty
September 2, 2010	\$ 31,936,667	3.00%	September 1, 2017	\$ 921,000	Bank of New York Mellon
September 2, 2010	\$ 31,936,667	3.00%	September 1, 2017	\$ 845,600	Barclays Bank PLC
September 2, 2010	\$ 31,936,667	3.00%	September 1, 2017	\$ 928,000	Royal Bank of Canada

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 \$275,000 and \$1.1 million for the three and nine months ended September 30, 2012, respectively. The change in the fair value of these derivative contracts resulted in an increase in interest expense of approximately \$1,073,000 and \$1,962,000 for the three and nine months ended September 30, 2011, respectively.

14. Segment Reporting

The Company consists of four reportable segments, Tax-Exempt Bond Investments, MF Properties, Public Housing Capital Fund Trusts, and Consolidated VIEs. In addition to the four 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 September 30, 2012, the Company held sixteen tax-exempt mortgage revenue bonds not associated with Consolidated VIEs and three tax-exempt mortgage revenue bonds associated with Consolidated VIEs which are bonds that are eliminated in consolidation on the Company's financial statements. Additionally, two of the sixteen tax-exempt mortgage revenue bonds are secured by the three Ohio Properties subject to a sales agreement (Note 2). These bonds are eliminated in consolidation and presented as MF Properties within the Company's financial statements. The multifamily apartment properties financed by the nineteen tax-exempt mortgage revenue bonds contain a total of 3,712 rental units.

MF Properties Segment

The MF Properties segment consists of indirect equity interests in thirteen multifamily apartment properties which are not currently financed by tax-exempt mortgage revenue 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. Other than the Churchland, Eagle Ridge and Greens of Pine Glen 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 that, under current guidance, can be recognized as a sale of real estate assets and, therefore, no sale is expected in the next twelve months. The Ohio Properties are subject to a sales agreement and will continue to be reported as MF Properties until they meet the criteria for recognition of their sale as discussed in Note 2. During the time the Partnership holds an interest in an 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 September 30, 2012, the Company held an interest in ten MF Properties containing a total of 1,702 rental units (including the Churchland, Eagle Ridge and Greens of Pine Glen properties reported as a discontinued operation) and three MF Properties subject to a sales agreement containing a total of 362 rental units. Due to the Master Lease Agreement between the EAT (Maples on 97th) and the Company, the operating results of the Maples on 97th property are included in the MF Properties Segment.

Other Tax-Exempt Investments

The Partnership Agreement authorizes the Company to make investments in tax-exempt investments other than tax-exempt mortgage revenue bonds provided that these other tax-exempt investments are rated in one of the four highest rating categories by a national securities rating agency and do not constitute more than 25% of the Company's assets at the time of acquisition. The only other tax-exempt assets currently in investments are the Public Housing Capital Fund Trust Certificates. This segment consists of the assets, liabilities, and related income and expenses of the the PHC Trusts consolidated through the Partnership's ownership of the LIFERS held in the three PHC Trusts, which hold custodial receipts evidencing loans made to a number of local public housing authorities. Principal and interest on these loans are payable by the respective public housing authorities out of annual appropriations to be made to the public housing authorities by the HUD under HUD's Capital Fund Program established under the Capital Fund Program. This investment has been reported as part of the Partnership balance sheet and results of operations since acquired in July 2012.

The Consolidated VIE Segment

The Consolidated VIE segment consists of multifamily apartment properties which are financed with tax-exempt mortgage revenue bonds held by the Partnership, the assets, liabilities and operating results of which are consolidated with those of the Partnership as a result of consolidation guidance. The tax-exempt mortgage revenue bonds on these Consolidated 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 Consolidated VIEs or their underlying properties. As of September 30, 2012, the Company consolidated four VIEs containing a total 908 units (Note 3). The Consolidated VIE segment includes the EAT (Maples on 97th) assets and equity. As of September 30, 2011, and December 31, 2011, the Company consolidated three VIEs containing a total of 650 rental units.

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 Consolidated 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 revenue 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. In that regard, management closely monitors and evaluates the operational and financial results of all properties financed by the Partnership's Tax-Exempt Bond Investments and the MF Properties.

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The following table details certain key financial information for the Company's reportable segments for the three and nine months ended September 30, 2012 and September 30, 2011 and as of December 31, 2011:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Total revenues				
Tax-Exempt Bond Investments	\$ 2,696,267	\$ 3,208,563	\$ 8,869,285	\$ 9,384,347
MF Properties	2,799,858	2,390,421	7,843,066	5,534,453
Public Housing Capital Fund Trust Certificates	809,387	—	809,387	—
Consolidated VIEs	1,203,887	1,208,534	3,598,541	8,888,814
Consolidation/eliminations	(379,714)	(383,520)	(1,142,089)	(5,663,797)
Total revenues	<u>\$ 7,129,685</u>	<u>\$ 6,423,998</u>	<u>\$ 19,978,190</u>	<u>\$ 18,143,817</u>
Interest expense				
Tax-Exempt Bond Investments	\$ 888,426	\$ 1,794,514	\$ 3,019,963	\$ 4,319,727
MF Properties	379,017	241,956	1,013,266	101,881
Public Housing Capital Fund Trust Certificates	284,100	—	284,100	—
Consolidated VIEs	808,841	789,331	2,411,676	3,243,737
Consolidation/eliminations	(808,841)	(789,331)	(2,411,676)	(3,243,737)
Total interest expense	<u>\$ 1,551,543</u>	<u>\$ 2,036,470</u>	<u>\$ 4,317,329</u>	<u>\$ 4,421,608</u>
Depreciation expense				
Tax-Exempt Bond Investments	\$ —	\$ —	\$ —	\$ —
MF Properties	839,722	686,786	2,472,623	1,572,190
Public Housing Capital Fund Trust Certificates	—	—	—	—
Consolidated VIEs	379,881	340,289	1,076,522	1,338,188
Consolidation/eliminations	—	—	—	—
Total depreciation expense	<u>\$ 1,219,603</u>	<u>\$ 1,027,075</u>	<u>\$ 3,549,145</u>	<u>\$ 2,910,378</u>
Income (loss) from continuing operations				
Tax-Exempt Bond Investments	\$ 1,097,703	\$ 527,901	\$ 2,680,910	\$ 1,896,807
MF Properties	(139,720)	(36,715)	(254,593)	383,769
Public Housing Capital Fund Trust Certificates	518,424	—	518,424	—
Consolidated VIEs	(953,177)	(658,028)	(2,314,341)	1,452,323
Consolidation/eliminations	440,003	415,045	1,302,299	(2,392,357)
Income (loss) from continuing operations	<u>\$ 963,233</u>	<u>\$ 248,203</u>	<u>\$ 1,932,699</u>	<u>\$ 1,340,542</u>
Net income (loss)				
Tax-Exempt Bond Investments	\$ 1,097,703	\$ 527,901	\$ 2,680,910	\$ 1,896,807
MF Properties	1,108,614	(152,866)	960,755	121,205
Public Housing Capital Fund Trust Certificates	518,424	—	518,424	—
Consolidated VIEs	(953,177)	(658,028)	(2,314,341)	1,452,323
Consolidation/eliminations	440,003	415,045	1,302,299	(2,392,357)
Net income (loss) - America First Tax Exempt Investors, L. P.	<u>\$ 2,211,567</u>	<u>\$ 132,052</u>	<u>\$ 3,148,047</u>	<u>\$ 1,077,978</u>

	September 30, 2012	December 31, 2011
Total assets		
Tax-Exempt Bond Investments	\$ 365,037,173	\$ 321,433,014
MF Properties	82,606,357	81,421,531
Public Housing Capital Fund Trust Certificates	66,163,969	—
Consolidated VIEs	28,735,009	24,315,353
Consolidation/eliminations	(146,882,880)	(129,193,353)
Total assets	\$ 395,659,628	\$ 297,976,545
Total partners' capital		
Tax-Exempt Bond Investments	\$ 228,212,692	\$ 179,285,257
MF Properties	6,865,323	2,279,639
Public Housing Capital Fund Trust Certificates	17,603,980	—
Consolidated VIEs	(21,574,510)	(24,872,428)
Consolidation/eliminations	(42,994,227)	(25,648,208)
Total partners' capital	\$ 188,113,258	\$ 131,044,260

15. Commitments and Contingencies

The Company, from time to time, may be 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 effect on the Company's consolidated financial statements.

Certain of the MF Properties own apartment properties that generated LIHTCs for the previous partners in these partnerships. In connection with the acquisition of partnership interests in these partnerships by subsidiaries of the Company, the Company has agreed to reimburse the prior partners for any liabilities they incur due to recapture of these tax credits to the extent the recapture liability is due to the operation of the properties in a manner inconsistent with the laws and regulations relating to such tax credits after the date of acquisition. No amount has been accrued for this contingent liability because management believes that the likelihood of any payments being required there under is remote.

In October 2012, the limited partnership that owns the Greens of Pine Glen Property admitted two entities that are affiliates of Boston Capital ("BC Partners") as new limited partners as part of a syndication of LIHTCs on the Greens of Pine Glen Property. At closing, the BC Partners invested \$961,000 of equity into this limited partnership and is obligated to invest another \$2.2 million at contractual scheduled milestones tied to construction, the property reaching a specified debt service coverage ratio, the designation from the state of the tax credits, but the final payment will be received no earlier than October 1, 2013. In connection with this BC Partners transaction, the Company entered into guarantee agreements with the BC Partners under which the Company has guaranteed certain obligations of the general partner of the Greens of Pine Glen limited partnership, including an obligation to repurchase the interests of the BC Partners if certain "repurchase events" occur. A repurchase event is defined as any one of a number of events mainly focused on the completion of the property rehabilitation, property rent stabilization, the delivery of LIHTCs, tax credit recapture and foreclosure. No amount has been accrued for this contingent liability because the likelihood of a repurchase event is remote.

In October 2011, the three limited partnerships that own the Ohio Properties admitted two entities that are affiliates of BC Partners as new limited partners as part of a syndication of LIHTCs on the Ohio Properties. The BC Partners have agreed to contribute approximately \$6.7 million to the equity of these limited partnerships, subject to the Ohio Properties meeting certain debt service coverage ratios specified in the applicable limited partnership agreements. As of December 31, 2011, the Ohio Properties had not yet achieved these debt service coverage ratios and the BC Partners had not contributed a sufficient amount of additional capital to these limited partnerships to allow the Company to deconsolidate the Ohio Properties. Accordingly, the Company continues to report each Ohio Property as an MF Property, and no gain from the 2010 sale of such Ohio Property will be recognized by the Company, until the Ohio Property achieves specified debt service coverage ratios and the BC Partners have contributed their additional capital to the limited partnership owning the Ohio Property. The Company expects that each of the Ohio Properties will achieve the debt service coverage ratios so that the BC Partners will fully fund their capital commitments during 2012. As that occurs, each Ohio Property will cease to be reported as an MF Property and the Company will recognize the gain for the 2010 sale of the Ohio Property. After that time, the Company will report the tax-exempt mortgage revenue bonds on such Ohio Property as an asset and will report the related interest income on the bond.

In connection with the 2011 BC Partners transaction, the Company entered into guarantee agreements with the BC Partners under which the Company has guaranteed certain obligations of the general partner of these limited partnerships, including an obligation to repurchase the interests of the BC Partners if certain “repurchase events” occur. A repurchase event is defined as any one of a number of events mainly focused on the completion of the property rehabilitation, property rent stabilization, the delivery of LIHTCs, tax credit recapture and foreclosure. Even if a repurchase event should occur, 25% of the BC equity would remain in the Ohio Properties and thus BC, a third party, would have sufficient equity in the Ohio Properties for the Company to recognize the sale discussed above. No amount has been accrued for this contingent liability because the likelihood of a repurchase event is remote.

As the holder of residual interests issued in connection with its TEBS and TOB bond financing arrangements, the Partnership is required to guarantee certain losses that can be incurred by the trusts created in connection with these financings. These guarantees may result from a downgrade in the investment rating of tax-exempt mortgage revenue bonds held by the trust or of the senior securities issued by the trust, a ratings downgrade of the liquidity provider for the trust, increases in short term interest rates beyond pre-set maximums, an inability to re-market the senior securities or an inability to obtain liquidity for the trust. In each of these cases, the trust will be collapsed. If the proceeds from the sale of the trust collateral are not sufficient to pay the principal amount of the senior securities with accrued interest and the other expenses of the trusts, the Partnership will be required to fund any such shortfall pursuant to its guarantee.

The Company is working with DB and its advisers to execute a new tender option bond trust (“MBS TOB Trust”) which will own state issued municipal housing bonds whose security is either whole mortgage loans or agency backed mortgage backed securities (“MBS”) with a par value of approximately \$20.8 million. The interest payable on the MBS is exempt from federal income taxation and is rated investment grade by at least one rating agency. The average stated coupon on the MBS is approximately 4.2% with an estimated effective yield over the average life of approximately 4.1%. The current terms of the MBS TOB Trust Agreement would require the Company to purchase the LIFERs issued by the MBS TOB Trust for approximately \$4.3 million and pledge them to the trustee to secure certain reimbursement obligations of the Company as the holder of LIFERs. The MBS TOB Trust would also issue SPEARS of approximately \$16.5 million to unaffiliated investors. The SPEARS represent senior interests in the MBS TOB Trust and have a DB liquidity facility. Ownership of the LIFERs would entitle to Company to all principal and interest payments received by the MBS TOB Trust on the \$20.8 million of par value MBS held by it after payment of principal and interest due to the holders of the SPEARS and trust costs. The SPEARS bear interest at a variable rate based on SIFMA.

The Company expects this transaction to close on November 15, 2012 but if the MBS TOB Trust were not to be executed, the Company would own the MBS outright. The Company will assess the appropriate accounting treatment for the LIFERs ownership in the MBS TOB Trust and the manner in which they will be reflected in the consolidated balance sheet for the year ending December 31, 2012 after the transaction has been executed.

16. Recently Issued Accounting Pronouncements

In December 2011, the FASB issued ASU 2011-11, which contains new disclosure requirements regarding the nature of an entity's rights of offset and related arrangements associated with its financial instruments and derivative instruments. The new disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2013, and the interim periods therein; retrospective application is required.

In December 2011, the FASB issued ASU 2011-10, which addresses whether the guidance on real estate sales applies to derecognition events involving subsidiaries that are in-substance real estate. The ASU's amendments are effective prospectively

for fiscal years and interim periods within those years beginning on or after June 15, 2012. Early adoption is permitted. The Company is still in the process of assessing the expected impact of ASU 2011-10 when adopted.

17. Fair Value Measurements

Current accounting guidance on fair value measurements establishes a framework for measuring fair value and provides for expanded disclosures about fair value measurements. The guidance:

- 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 on a discounted cash flow and yield to maturity analysis. 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 its application. To validate changes in the fair value of the Company's investments in tax-exempt mortgage revenue bonds between reporting periods, management looks at the key inputs such as changes in the current market yields on similar bonds as well as changes in the operating performance of the underlying property serving as collateral for each bond. We validate that the changes in the estimated fair value of the tax-exempt mortgage revenue bonds move with the changes in these monitored factors. 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.

Investment in Public Housing Capital Fund Trust Certificates. The fair value of the Company's investment in Public Housing Capital Fund Trust Certificates has been based on a yield to maturity analysis performed by the General Partner. There is no active trading market for the trusts' certificates owned by the Company but the General Partner will look at estimated values as determined by pricing services when available. The estimates of the fair values of these trusts' certificates begin with the current market yield rate for a "AAA" rated tax-free municipal bond for a term consistent with the weighted-average life of each of the Public Housing Capital Fund trusts adjusted largely for unobservable inputs the General Partner believes would be used by market participants. Additionally, the calculation methodology used by external pricing services and the Company encompasses the use of judgment in its application. We validate that the changes in the estimated fair value of Public Housing Capital Fund Trust Certificates move with the changes in the market yield rates of investment grade rated tax-exempt municipal bonds with similar length of terms. Given these facts the fair value measurement of the Company's investment in Public Housing Capital Fund Trust Certificates 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 are summarized below:

Description	Assets/Liabilities at Fair Value	Fair Value Measurements at September 30, 2012		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Tax-exempt Mortgage Revenue Bonds	\$ 138,802,064	\$ —	\$ —	\$ 138,802,064
Public Housing Capital Fund Trust Certificates	66,163,969	—	—	66,163,969
Interest Rate Derivatives	267,959	—	—	267,959
Total Assets at Fair Value	\$ 205,233,992	\$ —	\$ —	\$ 205,233,992

For Three Months Ended September 30, 2012

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Tax-exempt Mortgage Revenue Bonds	Public Housing Capital Fund Trust Certificates	Interest Rate Derivatives	Total
Beginning Balance July 1, 2012	\$ 136,846,619	\$ —	\$ 542,773	\$ 137,389,392
Total gains (losses) (realized/unrealized)				
Included in earnings	—	—	(274,814)	(274,814)
Included in other comprehensive income	1,917,241	192,206	—	2,109,447
Purchases	472	65,985,913	—	65,986,385
Settlements	37,732	(14,150)	—	23,582
Ending Balance September 30, 2012	\$ 138,802,064	\$ 66,163,969	\$ 267,959	\$ 205,233,992
Total amount of 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 September 30, 2012	\$ —	\$ —	\$ (274,814)	\$ (274,814)

For Nine Months Ended September 30, 2012

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Tax-exempt Mortgage Revenue Bonds	Public Housing Capital Fund Trust Certificates	Interest Rate Derivatives	Total
Beginning Balance January 1, 2012	\$ 135,695,352	\$ —	\$ 1,323,270	\$ 137,018,622
Total gains (losses) (realized/unrealized)				
Included in earnings	—	—	(1,055,311)	(1,055,311)
Included in other comprehensive income	8,806,812	192,206	—	8,999,018
Purchases	10,165,287	65,985,913	—	76,151,200
Sale of tax-exempt revenue bonds	(15,625,000)	—	—	(15,625,000)
Settlements	(240,387)	(14,150)	—	(254,537)
Ending Balance September 30, 2012	\$ 138,802,064	\$ 66,163,969	\$ 267,959	\$ 205,233,992
Total amount of 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 September 30, 2012	\$ —	\$ —	\$ (1,055,311)	\$ (1,055,311)

Description	Assets/Liabilities at Fair Value	Fair Value Measurements at December 31, 2011		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Tax-exempt Mortgage Revenue Bonds	\$ 135,695,352	\$ —	\$ —	\$ 135,695,352
Interest Rate Derivatives	1,323,270	—	—	1,323,270
Total Assets at Fair Value	\$ 137,018,622	\$ —	\$ —	\$ 137,018,622

Description	For Three Months Ended September 30, 2011 Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Tax-exempt Mortgage Revenue Bonds	Interest Rate Derivatives	Total
Beginning Balance July 1, 2011	\$ 137,305,808	\$ 2,518,237	\$ 139,824,045
VIE deconsolidation	—	—	—
Total gains (losses) (realized/unrealized)			
Included in earnings	—	(1,073,462)	(1,073,462)
Included in other comprehensive income	1,729,709	—	1,729,709
Settlements	55,095	—	55,095
Ending Balance September 30, 2011	\$ 139,090,612	\$ 1,444,775	\$ 140,535,387
Total amount of 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 September 30, 2011	\$ —	\$ (1,073,462)	\$ (1,073,462)

Description	For Nine Months Ended September 30, 2011 Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Tax-exempt Mortgage Revenue Bonds	Interest Rate Derivatives	Total
Beginning Balance January 1, 2011	\$ 100,566,643	\$ 3,406,791	\$ 103,973,434
VIE deconsolidation	15,083,757	—	15,083,757
Total gains (losses) (realized/unrealized)			
Included in earnings	—	(1,962,016)	(1,962,016)
Included in other comprehensive income	8,369,181	—	8,369,181
Purchases	20,117,500	—	20,117,500
Bond retirement	(5,047,208)	—	(5,047,208)
Settlements	739	—	739
Ending Balance September 30, 2011	\$ 139,090,612	\$ 1,444,775	\$ 140,535,387
Total amount of 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 September 30, 2011	\$ —	\$ (1,962,016)	\$ (1,962,016)

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

The Company calculates a fair market value of each financial instrument using a discounted cash flow model based on the debt amortization schedules at the effective rate of interest for each period represented. This estimate of fair value is based on Level 3 inputs. Below represents the fair market value of the debt held on the balance sheet for September 30, 2012 and December 31, 2011, respectively.

	September 30, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities:				
Debt financing	\$ 153,184,000	\$ 153,759,135	\$ 112,673,000	\$ 115,106,332
Mortgages payable	\$ 39,178,128	\$ 40,077,900	\$ 46,243,883	\$ 46,932,670

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 Consolidated Subsidiaries which consist of:

- ATAX TEBS I, LLC, a special purpose entity owned and controlled by the Partnership, created to hold tax-exempt mortgage revenue bonds to facilitate the Tax Exempt Bond Securitization (“TEBS”) Financing with Freddie Mac - (see Note 9).
- Nine multifamily apartments ("MF Properties") of which three are reported as discontinued operations for all periods presented (Note 8). The MF Properties are owned by five limited partnerships in which a subsidiary of the Partnership holds a 99% limited partner interest and four limited liability companies of which a subsidiary of the Partnership owns a 100% member interest .
- Three apartment properties (the "Ohio Properties") which are subject to a sales agreement but continue to be reported by the Partnership as MF Properties for the reasons described in Note 2.

The “Company” refers to the condensed consolidated financial statements reported in this Form 10-Q which include the assets, liabilities and results of operations of the Partnership, ATAX Capital Fund I LLC, an entity owned and controlled by the Partnership which owns the residual interest in three Public Housing Capital Fund Tender Option Bond Trusts, its other Consolidated Subsidiaries and three other consolidated entities in which the Partnership does not hold an ownership interest but which own multifamily apartment properties financed with tax-exempt mortgage revenue bonds held by the Partnership and which are treated as variable interest entities ("VIEs") of which the Partnership has been determined to be the primary beneficiary (“Consolidated 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, 2011. 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. As a result of the Public Housing Capital Fund Trust Certificates transaction during the third quarter of 2012, the following is the critical accounting policy for that new tax-exempt class of investment.

Investment in Public Housing Capital Fund Trust Certificates ("PHC Certificates") Valuation - As all of the Company’s investments in PHC Certificates 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 PHC Certificates, these estimates of fair value do not necessarily represent what the Company would actually receive for the sale of the certificates. The estimates of the fair values of these PHC certificates are based on a yield to maturity analysis which begins with the current market yield rate for a “AAA” rated tax-free municipal bond for a term consistent with the weighted-average life of each of the Public Housing Capital Fund trusts adjusted largely for unobservable inputs the General Partner believes would be used by market participants. Management’s valuation encompasses judgment in its application and pricing as determined by pricing services, when available, is compared to Management’s estimates. The PHC Certificates are AA and BBB rated by S&P. At September 30, 2012, the range of effective yields on the individual bonds was 4.5% to 5.8%. Additionally, the Company calculated the sensitivity of the key assumption used in calculating the fair values of these bonds. Assuming a 10% adverse change in the key assumption, the effective yields on the individual bonds would increase to a range of 4.9% to 6.4% and would result in additional unrealized losses on the bond portfolio of approximately \$2.9 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.

Review of securities for other-than-temporary impairment - The Company periodically reviews each class of PHC Certificates for impairment. The Company evaluates whether a decline in the fair value of a security below its amortized cost is other-than-temporary based on a number of factors including:

- The duration and severity of the decline in fair value,
- The Company's intent to hold and the likelihood of the Company being required to sell the security before its value recovers,
- Downgrade in the security's rating by S&P,
- Volatility of the fair value of the security,
- A decrease in the ratio of annual appropriations received by the Public Housing Authority from the United States Department of Housing and Development ("HUD") Capital Fund Program compared to the required principal and interest payments due on the loans payable by the Public Housing Authority to the three PHC Trusts sponsored by Deutsche Bank ("DB").

While the Company evaluates all available information, it focuses specifically on whether it has the intent to sell the securities prior to the time that their value recovers or until maturity, whether it is likely that the Company will be required to sell the securities before a recovery in value and whether the Company expects to recover the securities' entire amortized cost basis. The ability to recover the securities' entire amortized cost basis is based on the likelihood of the underlying Public Housing Authorities being able to make required principal and interest payments on their underlying loans which are the PHC Certificates' investment. Annual appropriations for the HUD Capital Fund Program must be determined by Congress each year, and there is no assurance that Congress will continue to make such appropriations at current levels or at all. As such, the Company will annually review the level of appropriations received by each Public Housing Authority and compare that to the required principal and interest payments when assessing these securities for other-than-temporary impairment.

Executive Summary

For the three months ended September 30, 2012, the Company generated Net income of approximately \$2.2 million as compared to Net income of approximately \$132,000 during the same period of 2011. For the nine months ended September 30, 2012 and 2011, the Company generated Net income of approximately \$3.1 million and \$1.1 million, respectively. The Company realized approximately \$668,000 gain on sale of bonds, \$1.3 million gain on sale of an MF Property, approximately \$1.2 million increased property revenue, and approximately \$676,000 of increased investment income during the first nine months of 2012 as compared to the first nine months of 2011. These changes were offset by approximately \$661,000 less interest income earned on notes receivable and approximately \$489,000 greater general and administrative expenses for the same periods. In addition, the Company reported an approximate \$658,000 increase in depreciation and amortization expense and an approximate \$710,000 increase in real estate expenses related to newly acquired properties, the Maples on 97th (acquired in August, 2012), the Arboretum property (acquired in March, 2011), and the Eagle Village property (acquired in June 2011). Overall economic occupancy (which is adjusted to reflect rental concessions, delinquent rents and non-revenue units such as model units and employee units) of the apartment properties that the Partnership has financed with tax-exempt mortgage revenue bonds was approximately 85% for first nine months of 2012 and approximately 84% for the first nine months of 2011. Overall economic occupancy of the MF Properties was approximately 80% for first nine months of 2012 compared to approximately 78% during the first nine months of 2011. The Company generated Cash Available for Distribution ("CAD") of approximately \$3.7 million and \$2.7 million for the three months ended September 30, 2012 and 2011 and \$8.8 million and \$7.7 million, respectively, for the nine months ended September 30, 2012 and 2011. See further discussion of CAD in the Liquidity and Capital Resources section in the Management's Discussion and Analysis.

Recent Investment and Financing Activity

In July 2012, the Company purchased 100% of the residual participation receipts ("LIFERS") in tender option bond trusts ("PHC TOB Trusts") which acquired approximately \$65.3 million of PHC Certificates issued by three trusts ("PHC Trusts") sponsored by DB. The Company purchased the LIFERS issued by the PHC TOB Trusts for approximately \$16 million and pledged the LIFERS to the trustee to secure certain reimbursement obligations of the Company as the holder of LIFERS. The PHC TOB Trusts also issued senior floating-rate participation interest ("SPEARS") of approximately \$49.0 million to unaffiliated investors. The SPEARS represent senior interests in the PHC TOB Trusts and have been credit enhanced by DB. The LIFERS entitle the Company to all principal and interest payments received by the PHC TOB Trusts on the \$65.3 million of PHC Certificates held by it after payments due to the holders of the SPEARS and trust costs. The SPEARS bear interest at a variable rate based on SIFMA. As of September 30, 2012 the rate paid on the PHC TOB Trusts on the SPEARS was 0.53%, resulting in a total cost of borrowing of 2.15%. The Company is reporting the PHC TOB Trusts in its consolidated financial statements as it has determined it is the primary beneficiary of these variable interest entities. As a result, the Company also reports the SPEARS as outstanding debt since this transaction is accounted for as a secured financing arrangement.

The assets held by the PHC Trusts consist of custodial receipts evidencing loans made to a number of local public housing authorities. Principal and interest on these loans are payable by the respective public housing authorities out of annual appropriations to be made to the public housing authorities by the United States Department of Housing and Urban Development (“HUD”) under HUD’s Capital Fund Program established under Quality Housing and Work Responsibility Act of 1998 (the “Capital Fund Program”). The PHC Trusts have a first lien on these annual Capital Fund Program payments to secure the public housing authorities’ respective obligations to pay principal and interest on their loans. Interest payable on the public housing authority debt held by the PHC Trusts is exempt from federal income taxes. The PHC Certificates issued by each of the PHC Trusts have been rated investment grade by Standard & Poor’s.

In June 2012, the Partnership acquired a \$10.0 million par tax-exempt mortgage revenue bond secured by Arbors at Hickory Ridge Apartments, a 348 unit multifamily apartment complex located in Memphis, Tennessee, which represented 100% of the bond issuance for approximately \$10.2 million. The tax-exempt bond carries an annual interest rate of 7.98% and matures on April 1, 2026. The bond does not provide for contingent interest.

The Partnership purchased land adjacent to DeCordova property for approximately \$153,000 in 2011 and completed the construction of 34 additional units in the third quarter of 2012. The units are leased as market rate units.

In February 2012, the Partnership obtained a \$2.0 million construction loan secured by the DeCordova property to be used to expand the DeCordova campus by constructing a new apartment building adjacent to the existing DeCordova property. This construction loan is with an unrelated third party and carries a fixed annual interest rate of 5.0%, maturing on February 1, 2017.

In September 2012, a purchase and sale agreement was executed for the Eagle Ridge property. This resulted in the property being reported as a discontinued operation for all periods reported. In October 2012, the Company acquired 100% of the \$9.5 million tax-exempt mortgage revenue bonds issued by the North Carolina Housing Finance Agency as part of a plan of financing for the acquisition and rehabilitation of the Greens at Pine Glen property. The tax-exempt mortgage revenue bonds secured by the property were acquired by the Company at par and consist of two series that mature in October 2047. The Series A bond has a par value of \$8.5 million and bears interest at an annual rate of 6.5%. The Series B bond has a par value of \$950,000 and bears interest at an annual rate of 12.0%. New limited partners were admitted to the partnership that owns the Greens of Pine Glen property and they have committed to invest approximately \$3.2 million of capital into the property. Prior to the execution of the admittance of the new limited partners, the Company had entered into an agreement to sell the Greens of Pine Glen Property for approximately \$7.3 million to the third party not-for-profit which is the general partner of the limited partnership that now owns the Greens of Pine Glen property. That sale was conditional on securing the tax-exempt bond and low-income housing tax credits from the North Carolina Housing Finance Agency. Once sufficient equity has been invested into the property by the new limited partners, which is expected to occur in the next twelve months, the Company will record the sale of the Greens of Pine Glen property. This resulted in the Greens of Pine Glen property being reported as a discontinued operation for all periods reported.

In August 2012, the Partnership sold the Commons at Churchland property for approximately \$8.1 million resulting in a gain of approximately \$1.3 million. In a separate August 2012 transaction, the Partnership closed on the purchase of the Maples on 97th property (“replacement property”), located in Omaha, Nebraska, for a purchase price of approximately \$5.5 million through the execution of a Qualified Exchange Accommodation Agreement that assigned the right to acquire and own the replacement property to a wholly-owned subsidiary of a Title Company, Exchange Accommodation Titleholder (“EAT (Maples on 97th)”), for a period not to exceed six months. During this six month holding period the Partnership will rehabilitate the replacement property. The Partnership lent the EAT (Maples on 97th) the necessary funds to purchase the replacement property; there is no other capital within that entity.

The EAT (Maples on 97th) then executed a Master Lease Agreement and Construction Management Agreement with the Partnership. These two agreements give the Partnership the rights and obligations to manage the replacement property as well as the rehabilitation during the six month hold period. In addition, the Qualified Exchange Accommodation Agreement stipulates that title to the Property is to revert back to a subsidiary of the Partnership no later than the end of the six month holding period. The Partnership has determined that it is the primary beneficiary of the EAT (Maples on 97th). Based on the terms of the Master Lease Agreement, the Partnership will record the rental income and related real estate operating expenses for the Maples on 97th property during the six month holding period.

Discussion of the Partnership Bond Holdings as of September 30, 2012

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 September 30, 2012, the Partnership held 19 tax-exempt mortgage revenue bonds secured by 19 properties of which 13 bonds are owned by ATAX TEBS I, LLC and one is held in trust facilities with Deutsche Bank (see Note 9). The 19 properties securing the bonds contain a total of 3,712 rental units. Three of the entities that own the apartment properties financed by three of the Partnership's tax exempt mortgage revenue bonds were deemed to be Consolidated VIEs of the Partnership at September 30, 2012 and, as a result, these bonds are eliminated in consolidation on the Company's financial statements. Additionally, two bonds secured by the Ohio Properties subject to a sales agreement will continue to be eliminated in consolidation on the Company's financial statements until these properties meet the criteria for recognition of their sale as discussed in Note 2.

At September 30, 2011, the Partnership held 21 tax-exempt mortgage revenue bonds secured by 21 properties of which 13 bonds are owned by ATAX TEBS I, LLC. The 21 properties securing the bonds contain a total of 4,059 rental units. Three of the entities that own the apartment properties financed by three of the Partnership's tax exempt mortgage revenue bonds were deemed to be Consolidated VIEs of the Partnership at September 30, 2011 and, as a result, these bonds are eliminated in consolidation on the Company's financial statements. Additionally, two bonds secured by the Ohio Properties subject to a sales agreement were eliminated in consolidation on the Company's financial statements. The tax-exempt bond investments segment reported revenue of approximately \$2.7 million and approximately \$8.9 million, interest expense of approximately \$888,000 and approximately \$3.0 million, and income from continuing operations of approximately \$1.1 million and approximately \$2.7 million for the quarter and period ending September 30, 2012. The tax-exempt bond investments segment reported revenue of approximately \$3.2 million and approximately \$9.4 million, interest expense of approximately \$1.8 million and approximately \$4.3 million, and income from continuing operations of approximately \$528,000 and approximately \$1.9 million for the quarter and period ending September 30, 2011. The increase in income from continuing operations quarter over quarter resulted from less interest expense as a result of the change in the fair value of the interest rate derivatives being a reduction in interest expense for the third quarter of 2012 compared to an increase interest expense for the third quarter of 2011. This interest expense reduction was offset by a decrease in investment income as a result of less outstanding tax-exempt mortgage revenue bonds between the two quarter.

Discussion of the MF Property Holdings as of September 30, 2012

To facilitate its investment strategy of acquiring additional tax-exempt mortgage revenue bonds secured by multifamily apartment properties, the Partnership may acquire ownership positions in MF Properties in order to ultimately restructure the property ownership through a sale of the MF Properties. The Partnership expects each of these MF Properties to eventually be sold to a not-for-profit entity or in connection with a syndication of Low Income Housing Tax Credits ("LIHTCs"). The Partnership expects to acquire tax-exempt mortgage revenue bonds issued to provide debt financing for these properties at the time the property ownership is restructured. 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 Partnership's 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.

At September 30, 2012 the Partnership's wholly-owned subsidiaries held interests in five entities that own MF Properties containing a total of 860 rental units. In addition, the three Ohio Properties contain 362 rental units which continue to be reported as an MF Properties as they are subject to a sales agreement (see Note 2). There are 356 rental units included in the total 860 rental units which are being held as discontinued operations and are not reported on the economic occupancy table. As of September 30, 2012 the Partnership's subsidiaries also own 100% of four MF Properties: Arboretum, Residences at DeCordova, Eagle Village and Residences at Weatherford containing a total of 842 rental units. The MF Properties segment reported revenue of approximately \$2.8 million and approximately \$7.8 million and a loss from continuing operations of approximately \$140,000 and approximately \$255,000 for the quarter and period ended September 30, 2012.

At September 30, 2011 the Partnership's wholly-owned subsidiaries held interests in five entities that own MF Properties containing a total of 602 rental units. In addition, the three Ohio Properties contain 362 rental units which continue to be reported as an MF Property as they are subject to a sales agreement (see Note 2). There are 356 rental units included in the total 602 rental units which are being held as discontinued operations and are not reported on the economic occupancy table. As of September 30, 2011 the Partnership's subsidiaries also own 100% of four MF Properties: Arboretum, Residences at DeCordova, Eagle Village and Residences at Weatherford containing a total of 808 rental units. The MF Properties segment reported revenue of approximately \$2.4 million and approximately \$5.5 million and a loss from continuing operations of approximately \$37,000 for the quarter ended September 30, 2011 and income of approximately \$384,000 for the period ended September 30, 2011. The change quarter over quarter and year over year in both metrics can be attributed to the acquisition of MF properties.

America First Properties Management Company ("Properties Management"), an affiliate of AFCA 2, provides property management services for Ashley Square, Iona Lakes Apartments, Bent Tree Apartments, Lake Forest Apartments, Fairmont Oaks Apartments, Cross Creek, Woodland Park and each of the MF Properties. Management believes that this relationship provides greater insight and understanding of the underlying property operations and their ability to meet debt service requirements to the Partnership.

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The following table outlines certain information regarding the apartment properties on which the Partnership holds tax-exempt mortgage revenue bonds (separately identifying those owned by entities treated as Consolidated VIEs) and the MF Properties. The narrative discussion that follows provides a brief operating analysis of each property during the first nine months of 2012 and 2011.

Property Name	Location	Number of Units	Number of Units Occupied	Percentage of Occupied Units as of September 30,		Economic Occupancy ⁽¹⁾ for the period ended September 30,	
				2012	2011	2012	2011
Non-Consolidated Properties							
Arbors of Hickory Ridge ⁽³⁾	Memphis, TN	348	320	92%	n/a	83%	n/a
Ashley Square Apartments	Des Moines, IA	144	138	96%	98%	95%	95%
Autumn Pines	Humble, TX	250	233	93%	94%	90%	91%
Bella Vista Apartments	Gainesville, TX	144	137	95%	98%	89%	90%
Bridle Ridge Apartments	Greer, SC	152	149	98%	94%	93%	87%
Brookstone Apartments	Waukegan, IL	168	164	98%	99%	91%	90%
Cross Creek Apartments	Beaufort, SC	144	128	89%	79%	80%	85%
Iona Lakes Apartments	Ft. Myers, FL	350	311	89%	85%	69%	70%
Runnymede Apartments	Austin, TX	252	241	96%	95%	92%	88%
South Park Ranch Apartments	Austin, TX	192	190	99%	95%	95%	93%
Villages at Lost Creek	San Antonio, TX	261	257	98%	96%	89%	87%
Woodland Park	Topeka, KS	236	202	86%	92%	83%	83%
Woodlynn Village	Maplewood, MN	59	57	97%	97%	98%	96%
		<u>2,700</u>	<u>2,527</u>	<u>94%</u>	<u>94%</u>	<u>86%</u>	<u>88%</u>
Consolidated VIEs							
Bent Tree Apartments	Columbia, SC	232	210	91%	92%	81%	81%
Fairmont Oaks Apartments	Gainesville, FL	178	155	87%	91%	79%	78%
Lake Forest Apartments	Daytona Beach, FL	240	224	93%	92%	77%	76%
		<u>650</u>	<u>589</u>	<u>91%</u>	<u>92%</u>	<u>79%</u>	<u>79%</u>
MF Properties							
Arboretum	Omaha, NE	145	115	79%	75%	70%	71%
Crescent Village ⁽⁴⁾	Cincinnati, OH	90	88	98%	90%	93%	80%
Eagle Village ⁽³⁾	Evansville, IN	511	393	77%	76%	73%	n/a
Glynn Place	Brunswick, GA	128	99	77%	77%	68%	69%
Maples on 97th ⁽³⁾	Omaha, NE	258	231	90%	n/a	91%	n/a
Meadowview	Highland Heights, KY	118	115	97%	95%	89%	88%
Postwoods ⁽⁴⁾	Reynoldsburg, OH	180	175	97%	97%	96%	88%
Residences at DeCordova	Granbury, TX	110	81	74%	100%	81%	85%
Residences at Weatherford ⁽²⁾	Weatherford, TX	76	n/a	n/a	n/a	n/a	n/a
Willow Bend ⁽⁴⁾	Columbus (Hilliard), OH	92	87	95%	87%	88%	82%
		<u>1,708</u>	<u>1,384</u>	<u>87%</u>	<u>87%</u>	<u>80%</u>	<u>78%</u>

(1) Economic occupancy is presented for the first nine months of 2012 and 2011, 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 finished construction during the first quarter of 2012; is in the lease-up stage, and occupancy data is not provided until property has reached stabilization.

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

(4) The Partnership holds \$18.3 million of tax-exempt mortgage revenue bonds secured by these properties and does not hold an ownership interest in these properties. The Company will continue to report these properties as MF Properties, and eliminate the tax-exempt mortgage revenue bonds in consolidation, until the properties meet the criteria for sale recognition discussed in Note 2.

Non-Consolidated Properties

Arbors of Hickory Ridge - Arbors of Hickory Ridge Apartments is located in Memphis, Tennessee and is a 348 unit facility. The Partnership purchased this bond in June 2012. Since its date of acquisition, Arbors of Hickory Ridge's operations resulted in Net Operating Income (calculated as property revenue less salaries, advertising, administration, utilities, repair and maintenance, insurance, taxes, and management fee expense) of \$244,000 on net revenue of approximately \$554,000. Debt service on the Partnership's bonds on this property was current as of September 30, 2012.

Ashley Square – Ashley Square Apartments is located in Des Moines, Iowa. In the first nine months of 2012, Net Operating Income was \$476,000 as compared to \$478,000 in 2011. This decrease was the result of a slight increase in salary and advertising expenses. Debt service on the Partnership's bonds on this property was current as of September 30, 2012.

Autumn Pines – Autumn Pines is located in Humble, Texas. In the first nine months of 2012, Autumn Pines' operations resulted in Net Operating Income of \$950,000 as compared to \$888,000 in 2011. This increase was a result of a decrease in tax consultant fees and administrative expenses offset by a decrease in economic occupancy. Debt service on the Partnership's bonds on this property was current as of September 30, 2012.

Bella Vista – Bella Vista Apartments is located in Gainesville, Texas. In the first nine months of 2012, Bella Vista's operations resulted in Net Operating Income of \$488,000 as compared to \$434,000 in 2011. This increase was a result of an increase in rental income with a decrease in utility and repair and maintenance expenses. Debt service on the Partnership's bonds on this property was current as of September 30, 2012.

Bridle Ridge Apartments – Bridle Ridge Apartments is located in Greer, South Carolina. In the first nine months of 2012, Bridle Ridge Apartments' operations resulted in Net Operating Income of \$530,000 as compared to \$536,000 in 2011. This decrease was a result of an increase in bad debt expense offset by an increase in economic occupancy. Debt service on the Partnership's bonds on this property was current as of September 30, 2012.

Brookstone – Brookstone Apartments is located in Waukegan, Illinois. In the first nine months of 2012, Brookstone's operations resulted in Net Operating Income of \$656,000 as compared to \$671,000 in 2011. This decrease was a result of an increase in salary and utility expenses. Debt service on the Partnership's bonds on this property was current as of September 30, 2012.

Cross Creek – Cross Creek Apartments is located in Beaufort, South Carolina. In the first nine months of 2012, Cross Creek's operations resulted in Net Operating Income of \$358,000 as compared to \$322,000 in 2011. This increase was a result of a decrease in repair and maintenance expenses and real estate taxes. Debt service on the Partnership's bonds on this property was current as of September 30, 2012.

Iona Lakes – Iona Lakes Apartments is located in Fort Myers, Florida. In the first nine months of 2012, Net Operating Income was \$820,000 as compared to \$897,000 in 2011. This decrease was the result of a slight decrease in economic occupancy and an increase in salary, utility and repair and maintenance expenses. Debt service on the Partnership's bonds on this property was current as of September 30, 2012.

Runnymede Apartments – Runnymede Apartments is located in Austin, Texas. In the first nine months of 2012, Runnymede Apartment's operations resulted in Net Operating Income of approximately \$834,000 as compared to approximately \$727,000 in 2011. This increase was the result of an increase in economic occupancy along with a decrease in utility and repair and maintenance expenses. Debt service on the Partnership's bonds on this property was current as of September 30, 2012.

South Park Ranch Apartments – South Park Ranch Apartments is located in Austin, Texas. In the first nine months of 2012, Net Operating Income was \$919,000 as compared to \$880,000 in 2011. This increase was the result of an increase in economic occupancy. Debt service on the Partnership's bonds on this property was current as of September 30, 2012.

Villages at Lost Creek – Villages at Lost Creek is located in San Antonio, Texas. In the first nine months of 2012, Net Operating Income was \$1.22 million as compared to \$1.15 million in 2011. This increase was the result of an increase in economic occupancy along with decreases in utility and administrative expenses. Debt service on the Partnership's bond on this property was current as of September 30, 2012.

Woodland Park – Woodland Park is located in Topeka, Kansas and was completed in November 2008, but remains in its initial lease-up phase and has not yet reached stabilization which is defined in the bond documents as the generation of a 1.15:1 debt service coverage ratio for six straight months. Additionally, there were insufficient funds on deposit with the bond trustee to make the debt service payment of approximately \$452,000 on the bonds which was due on May 3, 2010, and the property owner did not provide additional capital to fund the shortfall. As a result, a payment default on the bonds has occurred. In order to protect its investment, the Partnership issued a formal notice of default through the bond trustee and has started the foreclosure process. The foreclosure process has been extended and the Partnership cannot estimate when it will be completed. The Partnership continues to enforce its rights as the first lien position. The Partnership believes it will be successful in removing and replacing the general and limited partners of the property owner through foreclosure. This action would allow a new property owner to re-syndicate the LIHTCs associated with this property. If these LIHTCs can be successfully re-syndicated, it will provide additional capital to the project which can be used to support debt service payments on the tax-exempt mortgage revenue bonds until property operations improve to the point that sufficient cash is generated to pay any past due amounts on the bonds as well as ongoing debt service. If the re-syndication of LIHTCs is not successful, the Partnership may pursue other options including making additional taxable loans to the property or completing the foreclosure process and taking direct ownership of the property. The Partnership is taking all available cash flows from the property in accordance with the property's obligation under the bond indenture which has been less than the required interest payments due to the Partnership.

As of September 30, 2012, occupancy had decreased to 202 units, or 86% physical occupancy, with an additional four leases pending. Based on the level of leasing activity resulting from the change in the mix of affordable and market rate tenants, the Partnership continues to believe that Woodland is capable of reaching stabilization. In the first nine months of 2012, Net Operating Income was approximately \$494,000 on net revenue of approximately \$1.2 million. The Company periodically tests for impairment of all fixed assets, bond investments, and taxable loans made to various properties and other amounts due to the Company. Such evaluation is based on cash flow and discounted cash flow models. The December 31, 2011, evaluation determined that a portion of the interest receivable on the Woodland Park bond was impaired and that an allowance for loss and associated provision for loss of approximately \$953,000 was recorded against the accrued bond interest in 2011. The Partnership received one interest payment in 2012 but has recorded an additional allowance of approximately \$215,000 against the remaining interest receivable in the first nine months of 2012.

Woodlynn Village – Woodlynn Village is located in Maplewood, Minnesota. In the first nine months of 2012, Net Operating Income was \$295,000 as compared to \$292,000 in 2011. This increase was the result of an increase in economic occupancy along with a decrease in salaries expenses. Debt service on the Partnership's bonds on this property was current as of September 30, 2012.

Consolidated VIEs

Bent Tree – Bent Tree Apartments is located in Columbia, South Carolina. In the first nine months of 2012, Net Operating Income was \$459,000 as compared to \$429,000 in 2011. This increase was the result of a decrease in repair and maintenance and utility expenses. Debt service on the Partnership's bonds on this property was current of September 30, 2012.

Fairmont Oaks – Fairmont Oaks Apartments is located in Gainesville, Florida. In the first nine months of 2012, Net Operating Income was \$486,000 as compared to \$503,000 in 2011. This decrease was the result of an increase in salary expense and property insurance. Debt service on the Partnership's bonds on this property was current as of September 30, 2012.

Lake Forest – Lake Forest Apartments is located in Daytona Beach, Florida. In the first nine months of 2012, Net Operating Income was \$520,000 as compared to \$586,000 in 2011. This decrease was the result of an increase in administrative and repair and maintenance expenses offset by a slight increase in economic occupancy. Debt service on the Partnership's bonds on this property was current as of September 30, 2012.

MF Properties

Arboretum – Arboretum is located in Omaha, Nebraska and is a 145 unit independent senior living facility. This property was purchased on March 31, 2011. In the first nine months of 2012, Arboretum's operations resulted in Net Operating Income of \$810,000 on net revenue of approximately \$1.8 million.

Eagle Village – Eagle Village is located in Evansville, Indiana and is a 511 bed student housing facility. This property was purchased on June 29, 2011. In the first nine months of 2012, Eagle Village's operations resulted in Net Operating Income of \$659,000 on net revenue of approximately \$1.4 million.

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Glynn Place – Glynn Place Apartments is located in Brunswick, Georgia. In the first nine months of 2012, Net Operating Income was \$182,000 as compared to \$209,000 in 2011. This decrease was the result of an increase in salary and repair and maintenance expenses.

Meadowview – Meadowview Apartments is located in Highland Heights, Kentucky. In the first nine months of 2012, Net Operating Income was \$398,000 as compared to \$393,000 in 2011. This increase was a result of an increase in economic occupancy offset by an increase to salary and repair and maintenance expenses.

Residences at DeCordova – This property is a senior (55+) affordable housing project located in Granbury, Texas in the Dallas-Fort Worth area. In the first nine months of 2012, Net Operating Income was \$248,000 as compared to \$276,000 in 2011. This decrease is a result of an increase in real estate taxes.

Residences at Weatherford – This property contains 76 units upon completion. This property is a senior (55+) affordable housing project located in Weatherford, Texas in the Dallas-Fort Worth area. The property had been completed and has begun to lease up. As of September 30, 2012, the property had 44 units leased, or 58% occupancy. The Partnership is operating the property as a market rate property and will continue to evaluate its options in order to recoup its investment.

The following three properties are subject to a sales agreement; however, due to insufficient contributed capital by the new owners, the sale does not qualify for recognition of the gain or deconsolidation of the properties until such time that the contributed capital is sufficient. As a result, the Company continues to consolidate these Ohio Properties as if they were owned. See Note 2 for further information.

Crescent Village – Crescent Village Townhomes is located in Cincinnati, Ohio. In the first nine months of 2012, Net Operating Income was \$303,000 as compared to \$246,000 in 2011. This increase was the result of an increase in economic occupancy along with a decrease in utility expenses. Debt service on the Partnership's bonds on this property was current as of September 30, 2012.

Postwoods – Postwoods Townhomes is located in Reynoldsburg, Ohio. In the first nine months of 2012, Net Operating Income was \$556,000 as compared to \$543,000 in 2011. This increase was a result of an increase in economic occupancy along with a decrease in utility expenses offset by an increase in real estate taxes. Debt service on the Partnership's bonds on this property was current as of September 30, 2012.

Willow Bend – Willow Bend Townhomes is located in Columbus (Hilliard), Ohio. In the first nine months of 2012, Net Operating Income was \$269,000 as compared to \$272,000 in 2011. This decrease was a result of an increase in real estate taxes and salary expense offset by an increase in economic occupancy. Debt service on the Partnership's bonds on this property was current as of September 30, 2012.

Discontinued Operations

Commons at Churchland – Commons at Churchland is located in Chesapeake, Virginia. On March 1, 2012, the Company executed a brokerage contract to list this property for sale and met the criteria to classify it as held for sale. In August, 2012, the Partnership sold the Commons at Churchland property for approximately \$8.1 million resulting in a gain of approximately \$1.3 million.

Eagle Ridge – Eagle Ridge Townhomes is located in Erlanger, Kentucky. On September 21, 2012, the Company executed a purchase and sale agreement which met the criteria to classify it as held for sale. In the first nine months of 2012, Net Operating Income was \$191,000 as compared to \$172,000 in 2011. This increase was the result of a decrease in repair and maintenance expenses and advertising expenses. The economic occupancy rate for September 2012 was 86% as compared to 84% in September 2011.

Greens of Pine Glen – Greens of Pine Glen Apartments is located in Durham, North Carolina. Based on the expectation that Greens of Pine Glen will be sold within the next twelve months, it has met the criteria to classify it as held for sale. In the first nine months of 2012, Net Operating Income was \$490,000 as compared to \$452,000 in 2011. This increase is a result of a slight increase in economic occupancy along with a decrease in utility and repair and maintenance expenses. The economic occupancy rate for September 2012 was 89% as compared to 88% in September 2011.

Discussion of the PHC Trusts Holdings as of September 30, 2012

The Public Housing Capital Fund Trust Certificates segment reported revenue of approximately \$809,000, interest expense of approximately \$284,000, and income from continuing operations of \$518,400 for the quarter and year ending September 30, 2012. The following table sets forth certain information relating to the PHC Certificates held in the PHC TOB Trusts:

	Weighted Average Lives (Years)	Investment Rating	Weighted Average Interest Rate over Life	Principal Outstanding September 30, 2012
Public Housing Capital Fund Trust Certificate I	12.75	AA-	5.330%	\$ 26,406,558
Public Housing Capital Fund Trust Certificate II	12.3	AA-	4.240%	17,959,713
Public Housing Capital Fund Trust Certificate III	13.3	BBB	5.410%	20,898,432
Total Public Housing Capital Fund Trust Certificates				<u>\$ 65,264,703</u>

Results of Operations

Consolidated Results of Operations

The following discussion of the Company's results of operations for the three and nine months ended September 30, 2012 and September 30, 2011 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, 2011.

Three Months Ended September 30, 2012 compared to Three Months Ended September 30, 2011 (Consolidated)
Change in Results of Operations

	For Three Months Ended September 30, 2012	For Three Months Ended September 30, 2011	Dollar Change
Revenues:			
Property revenues	\$ 4,003,744	\$ 3,598,955	\$ 404,789
Investment income	3,110,717	2,465,876	644,841
Other income	15,224	359,167	(343,943)
Total revenues	<u>7,129,685</u>	<u>6,423,998</u>	<u>705,687</u>
Expenses:			
Real estate operating (exclusive of items shown below)	2,572,957	2,088,085	484,872
Provision for (recovery of) loss on receivables	(261,825)	14,525	(276,350)
Depreciation and amortization	1,469,476	1,311,600	157,876
Interest	1,551,543	2,036,470	(484,927)
General and administrative	834,301	725,115	109,186
Total expenses	<u>6,166,452</u>	<u>6,175,795</u>	<u>(9,343)</u>
Income from continuing operations	963,233	248,203	715,030
Income from discontinued operations (including gain on sale of MF Property of \$1,277,976 in 2012)	1,385,433	29,218	1,356,215
Net income	<u>2,348,666</u>	<u>277,421</u>	<u>2,071,245</u>
Net income attributable to noncontrolling interest	137,099	145,369	(8,270)
Net income - America First Tax Exempt Investors, L. P.	<u>\$ 2,211,567</u>	<u>\$ 132,052</u>	<u>\$ 2,079,515</u>

Property revenues. Property revenues increased approximately \$281,000 from DeCordova and Weatherford which begin leasing in 2012, and Maples on 97th which was acquired in August 2012. Although economic occupancy remains flat, the remaining increase is attributable to a slight increase in net rental revenue and other rental revenue related to the existing entities. The MF Properties averaged monthly rent of approximately \$496 per unit in the third quarter of 2012 as compared with \$564 per unit in the third quarter of 2011. Economic occupancy at the MF Properties was 78% for both quarters reported. The Consolidated VIEs averaged \$586 per unit in monthly rent in 2012 as compared to \$593 per unit in 2011. Economic occupancy of the Consolidated VIEs was 79% in the third quarter of 2012 as compared to 80% in the third quarter of 2011.

Investment income. Investment income includes interest earned on both tax-exempt mortgage revenue bonds and the Public Housing Capital Fund Trust Certificates. This income increased during the third quarter of 2012 as compared to the third quarter of 2011 by approximately \$1.0 million due to the addition of the Public Housing Capital Fund Trust Certificates and the Arbors at Hickory Ridge Apartments tax-exempt mortgage revenue bond. This increase was offset by decreases of approximately \$337,000 from the sale of Briarwood, GMF-Madison Tower and GMF-Warren/Tulane tax-exempt mortgage revenue bonds in a prior quarters.

Other income. Other income is comprised mainly of interest income on property loans held by the Company. The decrease in other income is attributable to reduced levels of uneliminated property loans outstanding during the third quarter of 2012 as compared to the third quarter of 2011 and the payment of a \$150,000 prepayment penalty received from the Foundation for Affordable Housing in third quarter 2011 which was not repeated in 2012.

Real estate operating expenses. Real estate operating expenses associated with the MF Properties and the Consolidated VIEs is 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. The types of real estate operation expenses are consistent for both the consolidated Company and Partnership Only formats. The increase in real estate operating expenses was partly due to approximately \$150,000 of acquisition expenses related to Maples on 97th which was acquired in August 2012. In addition, Weatherford reported approximately \$80,000 of expenses as an MF Property for the third quarter of 2012 as it began lease-up in late March 2012. The remaining increase was related to the existing VIEs and MF Properties normal operating increases in salaries, utilities, insurance and repair and maintenance expenses.

Provision for loss on receivables. During the second quarter of 2011, an impairment of the interest receivable on the Woodland Park bond occurred and approximately \$700,000 allowance for loss was recorded at that time. During the third quarter of 2012, Woodland Park remitted a portion of the 2012 interest that was due on their bond; all remaining accrued interest for 2012 has been reserved against. As a result, the quarterly provision for loss reported a slight reversal in the provision.

Depreciation and amortization expense. Depreciation results primarily from the apartment properties of the Consolidated VIEs and the MF Properties. Amortization consists of 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 closing of the TEBS and TOB Credit Facilities. Approximately \$212,000 of the increase in depreciation and amortization expense from the third quarter of 2011 to the third quarter of 2012 is related to Maples on 97th acquired at the end of August 2012 and the additional depreciation recorded once the Residences at Weatherford's construction was completed and placed in service in second quarter 2012. Offsetting this increase is an approximate \$94,000 decrease in amortization expense related to in-place lease amortization. The remaining increase is related to the additional depreciation expense reported on newly capitalized assets of existing MF Properties and Consolidated VIEs.

Interest expense. The decrease in interest expense during the third quarter of 2012 as compared to the third quarter of 2011 was due to a couple of offsetting factors. A decrease of \$799,000 was the result of the changes in the mark to market adjustment to the Company's derivative assets. 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. An increase of approximately \$323,000 resulted from higher average outstanding debt principal between the two quarters. The Company's borrowing cost remained the same at approximately 2.7% per annum in the third quarter of 2012 and third quarter 2011.

General and administrative expenses. The increase in general and administrative expenses is due to approximately \$73,000 increased administrative fees due to the acquisition of the Public Housing Capital Fund Trusts bonds. The remaining increase is comprised of increased professional fees and travel expenses during the third quarter of 2012 as compared to third quarter 2011.

Nine Months Ended September 30, 2012 compared to Nine Months Ended September 30, 2011 (Consolidated)
Change in Results of Operations

	For Nine Months Ended September 30, 2012	For Nine Months Ended September 30, 2011	Dollar Change
Revenues:			
Property revenues	\$ 11,441,606	\$ 10,289,790	\$ 1,151,816
Investment income	7,770,767	7,094,549	676,218
Gain on sale of bonds	667,821	—	667,821
Other income	97,996	759,478	(661,482)
Total revenues	<u>19,978,190</u>	<u>18,143,817</u>	<u>1,834,373</u>
Expenses:			
Real estate operating (exclusive of items shown below)	6,811,950	6,102,356	709,594
Provision for loss on receivables	214,525	725,215	(510,690)
Depreciation and amortization	4,168,441	3,509,964	658,477
Interest	4,317,329	4,421,608	(104,279)
General and administrative	2,533,246	2,044,132	489,114
Total expenses	<u>18,045,491</u>	<u>16,803,275</u>	<u>1,242,216</u>
Income from continuing operations	1,932,699	1,340,542	592,157
Income from discontinued operations (including gain on sale of MF Property of \$1,277,976 in 2012)	1,613,817	187,302	1,426,515
Net income	<u>3,546,516</u>	<u>1,527,844</u>	<u>2,018,672</u>
Net income attributable to noncontrolling interest	398,469	449,866	(51,397)
Net income - America First Tax Exempt Investors, L. P.	<u>\$ 3,148,047</u>	<u>\$ 1,077,978</u>	<u>\$ 2,070,069</u>

Property revenues. Property revenues increased approximately \$1.9 million from the addition of Eagle Village and Arboretum which was acquired after the first quarter 2011, DeCordova and Weatherford which began leasing in 2012, and Maples on 97th which was acquired in third quarter 2012. Offsetting these increases was an approximate \$1.1 million reduction in revenue due to the deconsolidation of Iona Lakes (which occurred in June 2011). The remaining increase is attributable to the increase in economic occupancy. The MF Properties averaged approximately \$505 per unit in monthly rent in 2012 (including Arboretum) as compared with \$713 per unit in 2011. Economic occupancy at the MF Properties was 80% during the first nine months of 2012 as compared to 78% for the first nine months of 2011. The Consolidated VIEs averaged \$586 per unit in monthly rent in 2012 as compared to \$585 per unit in 2011. Economic occupancy of the Consolidated VIEs was 79% for the first nine months of 2012 and 2011.

Investment income. Investment income increased during the first nine months of 2012 as compared to the first nine months of 2011 due to offsetting factors. The increases are due to the additional tax-exempt interest payments of approximately \$1.1 million from the acquisitions of GMF-Madison Tower and GMF-Warren/Tulane tax-exempt mortgage revenue bonds in second quarter 2011, the Arbors at Hickory Ridge Apartments tax-exempt mortgage revenue bond and the Public Housing Capital Fund Trust Certificates in 2012 and approximately \$450,000 due to the deconsolidation of Iona Lakes in the second quarter 2011. Offsetting these increases was an approximate \$635,000 decrease attributable to the redemptions of Briarwood Manor Apartments and Clarkson College tax-exempt mortgage revenue bonds and approximately \$230,000 due to the foreclosure of Weatherford in 2011.

Gain on sale of bonds. The gain on the sale of bonds is the result of the sale of the GMF-Madison Tower and GMF-Warren/Tulane tax-exempt mortgage revenue bonds in May 2012. There was no gain realized on the sale of bonds in 2011.

Other income. Other income is comprised of interest income on property loans held by the Company, the forgiveness of third party debt related to the DeCordova foreclosure and a penalty on early payment of a taxable loan both reported in 2011. The decrease in other income is attributable to reduced levels of uneliminated property loans outstanding during the first nine months of 2012 as compared to the first nine months of 2011. In addition, the forgiveness of debt and the payment of a \$150,000 prepayment penalty received from the Foundation for Affordable Housing in third quarter 2011 was not repeated in 2012.

Real estate operating expenses. The overall increase in real estate operating expenses was due to approximately \$571,000 of expenses related to the Arboretum and Eagle Village properties which were not included in the first nine months of 2011. In addition, Weatherford reported approximately \$221,000 of expenses as an MF Property for the first nine months of 2012 as it began lease-up in late March 2012 and Maples on 97th Apartments reported approximately \$185,000 of acquisition and operating expenses as it was acquired in third quarter 2012. The remaining increase was related to the existing VIEs and MF Properties normal operating increases in salaries, utilities, insurance and repair and maintenance expenses. These increases in expenses were offset by approximately \$678,000 reduction in operating expenses due to the deconsolidation of Iona Lakes in 2011.

Provision for loss on receivables. During the second quarter of 2011, an impairment of the interest receivable on the Woodland Park bond occurred and approximately \$700,000 allowance for loss was recorded at that time. One interest payment has been received in 2012 from the Woodland Park bond and the remaining accrued interest of approximately \$215,000 has been reserved against for the nine months ended September 30, 2012.

Depreciation and amortization expense. Depreciation results primarily from the apartment properties of the Consolidated VIEs and the MF Properties. Amortization consists of 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 closing of the TEBS Credit Facility. The increase in depreciation and amortization expense from the first nine months of 2011 to the first nine months of 2012 is related to approximately \$845,000 from the Arboretum property (acquired on March 31, 2011), the Eagle Village property acquired at the end of June 2011, the additional depreciation recorded once the Weatherford's construction was completed and placed in service in second quarter 2012 and the acquisition of Maples on 97th acquired in third quarter 2012. Offsetting this increase is the approximate \$317,000 decrease in depreciation and amortization expense due to the deconsolidation of Iona Lakes in second quarter 2011. The remaining increase is related to the additional depreciation expense reported on newly capitalized assets of existing MF Properties and Consolidated VIEs.

Interest expense. The decrease in interest expense during the first nine months of 2012 as compared to the first nine months of 2011 was due to a three factors. The decrease of approximately \$907,000 was the result of a decrease in the mark to market adjustment of the Company's derivative assets. 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. Offsetting this decrease was the Company's borrowing cost which increased to approximately 2.7% per annum in the first nine months of 2012 from approximately 2.6% in the first nine months of 2011 resulting in an approximate increase of \$93,000 when comparing first nine months of 2012 to first nine months of 2011. In an addition, an increase of approximately \$783,000 resulted from higher average principal of outstanding debt principal between the two years.

General and administrative expenses. The increase in general and administrative expenses is mainly due to incentive compensation recorded during the second quarter of 2012 which did not occur in 2011.

Partnership Only Results of Operations

The following discussion of the Partnership's results of operations for the three and nine months ended September 30, 2012 and September 30, 2011 reflects the operations of the Partnership without the consolidation of any VIEs during either period under the GAAP consolidation rules then in effect. This information is used by management to analyze the Partnership's operations and is reflective of the consolidated operations of the Tax-Exempt Bond Investments segment and the MF Properties segment as presented Note 14 to the condensed consolidated financial statements.

Three Months Ended September 30, 2012 compared to Three Months Ended September 30, 2011 (Partnership Only)
Changes in Results of Operations

	For Three Months Ended September 30, 2012	For Three Months Ended September 30, 2011	Dollar Change
Revenues:			
Property revenues	\$ 2,799,857	\$ 2,390,421	\$ 409,436
Investment income	3,490,431	2,849,397	641,034
Other income	15,224	359,166	(343,942)
Total revenues	<u>6,305,512</u>	<u>5,598,984</u>	<u>706,528</u>
Expenses:			
Real estate operating (exclusive of items shown below)	1,613,087	1,358,372	254,715
Provision for (recovery of) loss on receivables	(261,825)	14,525	(276,350)
Depreciation and amortization	1,091,999	973,316	118,683
Interest	1,551,543	2,036,470	(484,927)
General and administrative	834,301	725,115	109,186
Total expenses	<u>4,829,105</u>	<u>5,107,798</u>	<u>(278,693)</u>
Income from continuing operations	1,476,407	491,186	985,221
Income from discontinued operations (including gain on sale of MF Property of \$1,277,976 in 2012)	1,385,433	29,218	1,356,215
Net income	<u>2,861,840</u>	<u>520,404</u>	<u>2,341,436</u>
Net income attributable to noncontrolling interest	137,099	145,369	(8,270)
Net income - America First Tax Exempt Investors, L. P.	<u>\$ 2,724,741</u>	<u>\$ 375,035</u>	<u>\$ 2,349,706</u>

Property revenues. Property revenues increased approximately \$281,000 from DeCordova and Weatherford which began leasing in 2012, and Maples on 97th which was acquired in August 2012. Although economic occupancy remains flat, the remaining increase is attributable to a slight increase in net rental revenue and other rental revenue related to the existing entities. The MF Properties averaged monthly rent of approximately \$496 per unit in the third quarter of 2012 as compared with \$564 per unit in the third quarter of 2011. Economic occupancy at the MF Properties was 78% for both quarters reported.

Investment income. Investment income increased during the third quarter of 2012 as compared to the third quarter of 2011 by approximately \$1.0 million due to the acquisition of the Public Housing Capital Fund Trust Certificates and the Arbors at Hickory Ridge Apartments tax-exempt mortgage revenue bond. This increase was offset by decreases of approximately \$337,000 from the sale of Briarwood, GMF-Madison Tower and GMF-Warren/Tulane tax-exempt mortgage revenue bonds in prior quarters of 2012.

Other income. Other income is comprised mainly of interest income on property loans held by the Company. The decrease in other income is attributable to reduced levels of uneliminated property loans outstanding during the third quarter of 2012 as compared to the third quarter of 2011 and the payment of a \$150,000 prepayment penalty received from the Foundation for Affordable Housing in third quarter 2011 which was not repeated in 2012.

Real estate operating expenses. The increase in real estate operating expenses was partly due to approximately \$80,000 of Weatherford operating expenses for the third quarter of 2012 as it began lease-up in late March 2012. The remaining increase was related to the existing MF Properties normal operating increases in salaries, utilities, insurance and repair and maintenance expenses.

Provision for loss on receivables. During the second quarter of 2011, an impairment of the interest receivable on the Woodland Park bond occurred and approximately \$700,000 allowance for loss was recorded at that time. During the third quarter of 2012, Woodland Park remitted a portion of the 2012 interest that was due on their bond; all remaining accrued interest for 2012 has been reserved against. As a result, the quarterly provision for loss reported a slight reversal in the provision.

Depreciation and amortization expense. The increase in depreciation and amortization expense from the third quarter of 2011 to the third quarter of 2012 is related to approximately \$183,000 from Maples on 97th in place lease amortization and the additional depreciation recorded once the Residences at Weatherford's construction was completed and placed in service in second quarter 2012. Offsetting this increase is the approximate \$94,000 decrease in amortization expense related to in-place lease amortization. The remaining increase is related to the additional depreciation expense reported on newly capitalized assets of existing MF Properties.

Interest expense. The decrease in interest expense during the third quarter of 2012 as compared to the third quarter of 2011 was due to a number of offsetting factors. A decrease of \$799,000 was the result of the mark to market adjustment to the Company's derivative assets. 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. An increase of approximately \$323,000 resulted from higher average outstanding debt principal between the two quarters. The Company's borrowing cost remained the same at approximately 2.7% per annum in the third quarter of 2012 and third quarter 2011.

General and administrative expenses. The increase in general and administrative expenses is due to approximately \$73,000 increased administrative fees due to the acquisition of the Public Housing Capital Fund Trusts bonds. The remaining increase is comprised of increased professional fees and travel expenses during the third quarter of 2012 as compared to third quarter 2011.

Nine Months Ended September 30, 2012 compared to Nine Months Ended September 30, 2011 (Partnership Only)
Changes in Results of Operations

	For Nine Months Ended September 30, 2012	For Nine Months Ended September 30, 2011	Dollar Change
Revenues:			
Property revenues	\$ 7,843,065	\$ 5,534,453	\$ 2,308,612
Investment income	8,912,856	8,729,857	182,999
Gain on sale of bonds	667,821	—	667,821
Other income	97,996	654,490	(556,494)
Total revenues	<u>17,521,738</u>	<u>14,918,800</u>	<u>2,602,938</u>
Expenses:			
Real estate operating (exclusive of items shown below)	4,412,744	3,276,179	1,136,565
Provision for loss on receivables	214,525	725,215	(510,690)
Depreciation and amortization	3,099,153	2,171,090	928,063
Interest	4,317,329	4,421,608	(104,279)
General and administrative	2,533,246	2,044,132	489,114
Total expenses	<u>14,576,997</u>	<u>12,638,224</u>	<u>1,938,773</u>
Income from continuing operations	2,944,741	2,280,576	664,165
Income from discontinued operations (including gain on sale of MF Property of \$1,277,976 in 2012)	1,613,817	187,302	1,426,515
Net income	4,558,558	2,467,878	2,090,680
Net income attributable to noncontrolling interest	398,469	449,866	(51,397)
Net income - America First Tax Exempt Investors, L. P.	<u>\$ 4,160,089</u>	<u>\$ 2,018,012</u>	<u>\$ 2,142,077</u>

Property revenues. Property revenues increased approximately \$1.9 million from the addition of Eagle Village and Arboretum which was acquired after the first quarter 2011, DeCordova and Weatherford which began leasing in 2012, and Maples on 97th which was acquired in third quarter 2012. The MF Properties averaged approximately \$505 per unit in monthly rent in 2012 (including Arboretum) as compared with \$713 per unit in 2011. Economic occupancy at the MF Properties was 80% during the first nine months of 2012 as compared to 78% for the first nine months of 2011.

Investment income. Investment income increased during the first nine months of 2012 as compared to the first nine months of 2011 due to offsetting factors. The increases are due to the additional tax-exempt interest payments of approximately \$1.1 million as the acquisitions of GMF-Madison Tower and GMF-Warren/Tulane tax-exempt mortgage revenue bonds in June 2011 and the Arbors at Hickory Ridge Apartments tax-exempt mortgage revenue bond and the Public Housing Capital Fund Trust Certificates acquired in 2012. Offsetting these increases was an approximate \$635,000 decrease attributable to the redemptions of Briarwood Manor Apartments and Clarkson College tax-exempt mortgage revenue bonds and approximately \$230,000 due to the foreclosure of Weatherford in 2011.

Gain on sale of bonds. The gain on the sale of bonds is the result of the sale of the GMF-Madison Tower and GMF-Warren/Tulane tax-exempt mortgage revenue bonds in May, 2012. There was no gain realized on the sale of bonds in 2011.

Other income. Other income is comprised of interest income on property loans held by the Company, the forgiveness of third party debt related to the DeCordova foreclosure and a penalty on early payment of a taxable loan both reported in 2011. The decrease in other income is attributable to reduced levels of uneliminated property loans outstanding during the first nine months of 2012 as compared to the first nine months of 2011. In addition, the forgiveness of debt and the payment of a \$150,000 prepayment penalty received from the Foundation for Affordable Housing in third quarter 2011 was not repeated in 2012.

Real estate operating expenses. The overall increase in real estate operating expenses was due to approximately \$571,000 of expenses related to the Arboretum and Eagle Village properties which were not included in the first nine months of 2011. In addition, Weatherford reported approximately \$221,000 of expenses as an MF Property for the first nine months of 2012 as it began lease-up in late March 2012 and Maples on 97th Apartments reported approximately \$185,000 of acquisition and operating expenses as it was acquired in third quarter 2012. The remaining increase was related to the existing MF Properties normal operating increases in salaries, utilities, insurance and repair and maintenance expenses.

Provision for loss on receivables. During the second quarter of 2011, an impairment of the interest receivable on the Woodland Park bond occurred and approximately \$700,000 allowance for loss was recorded at that time. One interest payment has been received in 2012 from the Woodland Park bond and the remaining accrued interest of approximately \$215,000 has been reserved against for the nine months ended September 30, 2012.

Depreciation and amortization expense. The increase in depreciation and amortization expense from the first nine months of 2011 to the first nine months of 2012 is related to approximately \$816,000 from the Arboretum property (acquired on March 31, 2011), the Eagle Village property acquired at the end of June 2011, the additional depreciation recorded once the Weatherford's construction was completed and placed in service in second quarter 2012 and the in place lease amortization for Maples on 97th acquired in third quarter 2012. The remaining increase is related to the additional depreciation expense reported on newly capitalized assets of existing MF Properties.

Interest expense. The decrease in interest expense during the first nine months of 2012 as compared to the first nine months of 2011 was due to a three factors. The decrease of approximately \$907,000 was the result of a decrease in the mark to market adjustment of the Company's derivative assets. 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. Offsetting this decrease was the Company's borrowing cost which increased to approximately 2.7% per annum in the first nine months of 2012 from approximately 2.6% in the first nine months of 2011 resulting in an approximate increase of \$93,000 when comparing first nine months of 2012 to first nine months of 2011. In an addition, an increase of approximately \$783,000 resulted from higher average principal of outstanding debt principal between the two years.

General and administrative expenses. The increase in general and administrative expenses is mainly due to incentive compensation recorded during the second quarter of 2012 which did not occur in 2011.

Liquidity and Capital Resources

Tax-exempt interest earned on the tax-exempt mortgage revenue bonds, including those financing properties held by Consolidated VIEs and the Ohio Properties, and tax-exempt investment income earned on the PHC Certificates represents the Partnership's principal source of cash flow. The Partnership may also receive interest payments on its taxable mortgage loans, earnings on temporary investments and 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 mortgage revenue bonds. Changes in the economic performance of the properties financed by tax-exempt mortgage revenue 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 available to the Partnership include debt financing, mortgages, and the sale of additional Beneficial Unit Certificates ("BUCs"). The Company currently has outstanding debt financing of \$153.2 million under separate credit facilities.

In July 2012, the Company purchased 100% of the LIFERS in PHC TOB Trusts which acquired approximately \$65.3 million of PHC Certificates issued by three trusts sponsored by DB. The Company purchased the LIFERS issued by the PHC TOB Trusts for approximately \$16.0 million and pledged the LIFERS to the trustee to secure certain reimbursement obligations of the Company as the holder of LIFERS. The PHC TOB Trusts also issued SPEARS of approximately \$49.0 million to unaffiliated investors. The SPEARS represent senior interests in the PHC TOB Trusts and have been credit enhanced by DB. The LIFERS entitle the Company to all principal and interest payments received by the PHC TOB Trusts on the \$65.3 million of PHC Certificates held by it after payments due to the holders of the SPEARS and trust costs. The SPEARS bear interest at a variable rate based on SIFMA. As of September 30, 2012 the rate paid on the PHC TOB Trusts on the SPEARS was 0.53%, resulting in a total cost of borrowing of 2.15%. The Company is reporting the PHC TOB Trusts in its consolidated financial statements as it has determined it is the primary beneficiary of these variable interest entities. As a result, the Company also reports the SPEARS as outstanding debt since this transaction is accounted for as a secured financing arrangement.

In July 2011, the Company closed a \$10.0 million financing utilizing a Tender Option Bond ("TOB") structure with DB securitizing the Company's \$13.4 million Autumn Pines Apartments tax-exempt mortgage revenue bond. Under the TOB structure, the Company transferred the bond to a custodian and trustee that provide these services on behalf of DB. The TOB trustee then issued SPEARS and LIFERS. The SPEARS and LIFERS represent beneficial interests in the securitized asset held by the TOB trustee. The SPEARS were credit-enhanced by DB and sold through a placement agent to unaffiliated investors. The gross proceeds from the sale of the SPEARS were remitted to the Company. The LIFERS were retained by the Company and are pledged to DB to secure certain reimbursement obligations.

The PHC TOB Trusts and the TOB trust essentially provide the Company with a secured variable rate debt facility at an interest rate that reflects the prevailing short-term tax-exempt rates paid by the PHC TOB Trusts and TOB trust on the SPEARS. Payments made to the holders of the SPEARS and the amount of trust fees essentially represent the Company's effective cost of borrowing on the net proceeds it received from the sale of the SPEARS and are expected to vary over time. The total fixed PHC TOB Trusts and TOB trust fees are 1.62% and 1.77% per annum respectively, and as of September 30, 2012 the rate paid on the PHC TOB Trusts and TOB trusts on the SPEARS was .53% and .33% per annum respectively, resulting in a total cost of borrowing of 2.15% and 2.10%, respectively. At September 30, 2012, the Company is accounting for these transactions as secured financing arrangements and the outstanding amounts are approximately \$49.0 million and \$9.9 million, respectively (see Note 9.)

The Company's other TOB financing was structured as a securitization of the Company's \$15.6 million GMF-Warren/Tulane Apartments and GMF-Madison apartments tax-exempt mortgage revenue and taxable mortgage revenue bonds. This TOB financing arrangement was paid off in May 2012 when the related bonds were sold. The Company realized approximately \$668,000 gain when the bonds were sold.

As of September 1, 2010 and in connection with the TEBS Financing, the Partnership and its Consolidated Subsidiary ATAX TEBS I, LLC, entered into a number of agreements relating to a new long-term debt financing facility provided through the securitization of 13 tax-exempt mortgage revenue bonds owned by the ATAX TEBS I, LLC (the "Sponsor"). The TEBS Financing essentially provides the Partnership with a long-term variable-rate debt facility at interest rates reflecting prevailing short-term tax-exempt rates.

Effective September 1, 2010, the Partnership transferred bonds to ATAX TEBS I, LLC, a special purpose entity controlled by the Partnership pursuant to the TEBS Financing (see Note 9). The par value of the bonds included in this financing facility as of September 30, 2012 and December 31, 2011 is \$123.9 million and \$124.6 million. The total Facility Fees are 1.9%, and, as of September 30, 2012, the SIFMA rate was equal to 0.23% resulting in a total cost of borrowing of 2.13% on the outstanding balance on the TEBS Financing facility of \$94.3 million.

In addition to the debt facilities, the Company has six outstanding mortgage loans collateralized by five MF Properties. The total outstanding mortgage loan principal is approximately \$39.2 million. These mortgages carry current interest rates ranging from 2.8% to 5.9% with maturity dates ranging from May 2013 to February 2017.

The Partnership is authorized to issue additional BUCs to raise additional equity capital to fund investment opportunities. In April 2010, a Registration Statement on Form S-3 was declared effective by SEC under which the Partnership may offer up to \$200.0 million of additional BUCs from time to time. In May 2012, the Partnership issued an additional 12,650,000 BUC's through an underwritten public offering at a public offering price of \$5.06 per BUC pursuant to this new Registration Statement. Net proceeds realized by the Partnership from this issuance of these BUCs were approximately \$60.0 million after payment of an underwriter's discount and other offering costs of approximately \$4.0 million.

The Partnership's principal uses of cash are the payment of distributions to unitholders, interest and principal on debt financing, and general and administrative expenses. The Partnership also uses cash to acquire additional investments. Distributions to unitholders may increase or decrease at the determination of the General Partner. The per unit cash available for distribution primarily depends on the amount of interest and other cash received by the Partnership from its portfolio of tax-exempt mortgage revenue bonds and other investments, the amount of the Partnership's outstanding debt and the effective interest rates paid by the Partnership on this debt, the level of operating and other cash expenses incurred by the Partnership and the number of units outstanding. During the first nine months of 2012, the Partnership generated cash available for distribution of \$0.25 per unit. See "Cash Available for Distribution," on a following page. As a result, the Partnership was required to supplement its cash available for distribution during the third quarter of 2012 with unrestricted cash and expects to continue to do so until the Partnership is able to complete its current investment and financing plans. The General Partner believes that upon completion of its current investment and financing plans, the Partnership will be able meet its liquidity requirements, including the payment of expenses, interest on its debt financing, and cash distributions to unitholders at the current level of \$0.50 per unit per year without the use of unrestricted cash. 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.

The Partnership's operating policy is to use securitizations or other forms of leverage to maintain a level of debt financing between 40% and 60% of the total par value of the Partnership's tax-exempt mortgage revenue bond portfolio. At September 30, 2012, the Partnership had outstanding debt financing of approximately \$153.2 million secured by 14 tax-exempt mortgage revenue bonds and the Public Housing Capital Fund Trust Certificates (see Note 5). For the Public Housing Capital Fund Trust Certificates, the Company's operating policy is to maintain a level of debt financing between 60% and 80% of the par value given the investment grade rating of those Certificates. The total par value of the Partnership's tax-exempt mortgage revenue bonds is \$163.9 million and Public Housing Capital Fund Trust Certificates is \$65.3 million. When the par value of the two tax exempt mortgage revenue bonds secured by the Ohio properties which are not reported as tax-exempt mortgage revenue bonds in the Partnership balance sheet plus approximately \$77,000 in restricted cash are included, the total amount leveraged is approximately \$247.5 million. The \$153.2 million of debt financing divided by the total amount leveraged results in a leverage ratio of approximately 62% at September 30, 2012. Additionally, the MF Properties are encumbered by mortgage loans with an aggregate principal balance of approximately \$39.2 million. The total debt financing plus mortgage loans of approximately \$192.4 million as of September 30, 2012 results in a leverage ratio to Total Assets of approximately 49%.

The Consolidated VIEs' and MF Properties' primary sources of cash are 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 Consolidated VIEs' and MF Properties' primary uses of cash are the payment of operating expenses and the payment of debt service.

On a consolidated basis, cash provided by operating activities decreased by approximately \$3.7 million for the first nine months of 2012 as compared to first nine months of 2011 due to changes in working capital components. Cash used for investing activities increased approximately \$16.6 million for first nine months of 2012 as compared to first nine months of 2011. In the first nine months of 2012 the Company used approximately \$81.7 million for the purchase of the Public Housing Capital Fund Trust Certificates, the purchase of Arbors at Hickory Ridge tax-exempt revenue bond, and the purchase of the Maples on 97th property. The Company received cash from the sale of the GMF-Madison Tower and GMF-Warren/Tulane tax-exempt mortgage revenue bonds and the sale of the Churchland property of approximately \$25.2 million. The Company also received approximately \$7.9 million from the release of restricted cash that had originally been restricted in connection with the TEBS financing arrangement. In the first nine months of 2011, approximately \$32.0 million of cash was used for investing activities to acquire the Arboretum Apartments, Eagle Village Apartments and the Briarwood Manor, GMF-Madison, and GMF-Warren/Tulane tax-exempt mortgage revenue bonds offset by the release of restricted cash upon foreclosure of the DeCordova and Weatherford properties, the retirement of the Clarkson College bond and the repayment of a taxable loan by the Foundation for Affordable Housing. The Company had approximately \$57.9 million additional cash available from financing activities for the first nine months of 2012 as compared to the first nine months of 2011. Financing cash flows in the first nine months of 2012 included approximately \$60.0 million of cash from the equity raise in second quarter 2012 and approximately \$52.8 million from the PCH TOB Trust borrowing, offset by the use of cash to payoff the GMF Warren/Tulane TOB facility and the mortgage on the Churchland property sold. In the first half of 2011, the Company had borrowings of \$48.2 million and repaid \$10.6 million of short-term borrowings. Cash distributions increased year over year due to the additional shares outstanding resulting from the May 2012 equity raise.

The Company is working with DB and its advisers to execute a new tender option bond trust (“MBS TOB Trust”) which will own state issued municipal housing bonds whose security is either whole mortgage loans or agency backed mortgage backed securities (“MBS”) with a par value of approximately \$20.8 million. The interest payable on the MBS is exempt from federal income taxation and is rated investment grade by at least one rating agency. The average stated coupon on the MBS is approximately 4.2% with an estimated effective yield over the average life of approximately 4.1%. The current terms of the MBS TOB Trust Agreement would require the Company to purchase the LIFERs issued by the MBS TOB Trust for approximately \$4.3 million and pledge them to the trustee to secure certain reimbursement obligations of the Company as the holder of LIFERs. The MBS TOB Trust would also issue SPEARS of approximately \$16.5 million to unaffiliated investors. The SPEARS represent senior interests in the MBS TOB Trust and have a DB liquidity facility. Ownership of the LIFERs would entitle to Company to all principal and interest payments received by the MBS TOB Trust on the \$20.8 million of par value MBS held by it after payment of principal and interest due to the holders of the SPEARS and trust costs. The SPEARS bear interest at a variable rate based on SIFMA. The Company expects this transaction to close on November 15, 2012 but if the MBS TOB Trust were not to be executed, the Company would own the MBS outright.

Market Opportunities and Challenges

The disruptions in domestic and international financial markets, and the resulting restrictions on the availability of debt financing, that have prevailed since 2008, have, in our view, continued to create opportunities for the Partnership to acquire tax-exempt mortgage revenue bonds for affordable housing projects as other potential lenders have either reduced their participation in the market or are being forced to liquidate some or all of their existing portfolio investments in order to meet their liquidity needs. We believe that this is creating opportunities to acquire existing tax-exempt bonds from distressed holders at attractive yields. The Partnership continues to evaluate potential investments in bonds which are available on the secondary market. We believe many of these bonds will meet our investment criteria and we believe that we have a unique ability to analyze and close on these opportunities while maintaining our ability and willingness to also participate in primary market transactions. In addition, we are also evaluating opportunities in the current market to acquire new classes of tax-exempt investments that may improve the overall return, liquidity, and credit profile of the Partnership’s investment portfolio. These tax-exempt investments, like the PHC Certificates, must be rated in one of the four highest rating categories by at least one nationally recognized securities rating agency, but will not necessarily be secured by multifamily real estate. The decision of the Partnership to acquire any alternative class of tax-exempt investments will depend on a number of factors, including our ability to finance these assets.

Current credit conditions also create opportunities to acquire quality MF Properties from distressed owners and lenders. Our ability to restructure existing debt together with the ability to improve the operations of the apartment properties through our affiliated property management company can position these MF Properties for an eventual financing with tax-exempt mortgage revenue bonds meeting our investment criteria and that will be supported by a valuable and well-run apartment property. We believe we can selectively acquire MF Properties, restructure debt and improve operations in order to create value to our unitholders in the form of a strong tax-exempt mortgage revenue bond investment.

On the other hand, continued economic weakness in some markets may limit our ability to access additional debt financing that the Partnership uses to partially finance its investment portfolio or otherwise meet its liquidity requirements. In addition, the economic conditions including a slow job growth and low home mortgage interest rates have had a negative effect on some of the apartment properties which collateralize our tax-exempt mortgage revenue bond investments and our MF Properties in the form of lower occupancy. While some properties have been negatively affected, overall economic occupancy (which is adjusted to reflect rental concessions, delinquent rents and non-revenue units such as model units and employee units) of the apartment properties that the Partnership has financed with tax-exempt mortgage revenue bonds was approximately 85% for first nine months of 2012 and approximately 84% for the first nine months of 2011. Overall economic occupancy of the MF Properties was approximately 80% for first nine months of 2012 compared to approximately 78% during the first nine months of 2011.

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 unitholders. The general partner believes that CAD provides relevant information about its operations and is necessary along with net income for understanding its 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 losses, 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.

During June 2010, the Company completed a sales transaction whereby four of the MF Properties, the Ohio Properties, were sold to three new ownership entities controlled by an unaffiliated not-for-profit entity (see Note 2). The properties will continue to be presented as MF Properties and no gain will be recognized until such time as the transaction can be accounted for as a sale. As the deferred gain on the transaction represents cash paid to the Company and no on-going legal obligations related to the Ohio Properties or potential obligation to repay any amounts exists, the deferred gain is CAD and is shown as an adjustment in the CAD Calculation following. This gain meets the definition of Net Residual Proceeds representing contingent interest (Tier 2 income) and was therefore distributed 75% to the unitholders and 25% to the General Partner.

Distributions

The Partnership continued distributions during the quarter at an annual rate of \$0.50 per BUC. Since realized CAD per unit was less than \$0.50 per unit, the Partnership has used unrestricted cash to supplement the deficit. The General Partner believes that upon completion of its current investment and financing plans, the Partnership will be able to generate sufficient CAD to maintain cash distributions to unitholders at the current level of \$0.50 per unit per year without the use of other available cash. However, there is no assurance that the Partnership will be able to generate CAD at levels in excess of the current annual distribution rate. In that case, the annual distribution rate per unit may need to be reduced.

The following tables show the calculation of CAD for the three and nine months ended September 30, 2012 and September 30, 2011:

	For Three Months Ended September 30, 2012	For Three Months Ended September 30, 2011	For Nine Months Ended September 30, 2012	For Nine Months Ended September 30, 2011
Net income (loss) - America First Tax Exempt Investors L.P.	\$ 2,211,567	\$ 132,052	\$ 3,148,047	\$ 1,077,978
Net loss related to VIEs and eliminations due to consolidation	513,174	242,984	1,012,042	940,034
Net income before impact of VIE consolidation	\$ 2,724,741	\$ 375,036	\$ 4,160,089	\$ 2,018,012
Change in fair value of derivatives and interest rate derivative amortization	274,814	1,073,462	1,055,311	1,962,016
Depreciation and amortization expense (Partnership only)	649,939	749,288	2,376,823	1,568,315
Provision for loss on receivables	(261,825)	14,525	214,525	725,215
Tier II income	(314,181)	—	(481,136)	(77,039)
Depreciation and amortization related to discontinued operations	297,162	224,991	450,066	661,178
Bond purchase discount accretion (net of cash received)	(58,574)	(70,505)	4,546	(216,475)
Ohio deferred interest	345,567	347,514	1,037,959	1,042,542
CAD	<u>\$ 3,657,643</u>	<u>\$ 2,714,311</u>	<u>\$ 8,818,183</u>	<u>\$ 7,683,764</u>
Weighted average number of units outstanding,				
basic and diluted	42,772,928	30,122,928	35,572,562	30,122,928
Net income, basic and diluted, per unit	<u>\$ 0.06</u>	<u>\$ 0.01</u>	<u>\$ 0.10</u>	<u>\$ 0.06</u>
Total CAD per unit	<u>\$ 0.09</u>	<u>\$ 0.09</u>	<u>\$ 0.25</u>	<u>\$ 0.26</u>
Distributions per unit	<u>\$ 0.1250</u>	<u>\$ 0.1250</u>	<u>\$ 0.375</u>	<u>\$ 0.375</u>

Contractual Obligations

As discussed in the Annual report on Form 10-K, the amounts maturing in 2012 consist of scheduled principal payments on the TOB financing facilities, the TEBS credit facility with Freddie Mac, and payments on the MF Property mortgages.

The Company has the following contractual obligations as of September 30, 2012:

	Total	Payments due by period		
		Less than 1 year	1-2 years	More than 2 years
Debt financing	\$ 153,184,000	\$ 59,920,000	\$ 2,188,000	\$ 91,076,000
Mortgages payable	\$ 39,178,128	\$ 13,191,734	\$ 23,986,354	\$ 2,000,040
Effective interest rate(s) ⁽¹⁾		3.18%	2.49%	2.16%
Interest ⁽²⁾	\$ 15,533,257	\$ 5,566,435	\$ 5,542,428	\$ 4,424,394

(1) Interest rates shown are the average effective rates as of September 30, 2012 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 December 2011, the FASB issued ASU 2011-11, which contains new disclosure requirements regarding the nature of an entity's rights of offset and related arrangements associated with its financial instruments and derivative instruments. The new disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2013 and the interim periods therein; retrospective application is required.

In December 2011, the FASB issued ASU 2011-10, which addresses whether the guidance on real estate sales applies to derecognition events involving subsidiaries that are in-substance real estate. For public entities, the ASU's amendments are effective prospectively for fiscal years and interim periods within those years beginning on or after June 15, 2012. Early adoption is permitted. The Company is still in the process of assessing the expected impact of ASU 2011-10 when adopted.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes in market risk, except as discussed below, from the information provided under "Quantitative and Qualitative Disclosures about Market Risk" in Item 7A of the Company's 2011 Annual Report on Form 10-K.

In order to mitigate its exposure to interest rate fluctuations on the variable rate TEBS Financing, the Partnership entered into interest rate cap agreements with Barclays Bank PLC, Bank of New York Mellon and Royal Bank of Canada, each in an initial notional amount of approximately \$31.9 million which effectively limits the interest payable by the Company on the TEBS Financing to a fixed rate of 3.0% per annum on the combined notional amounts of the interest rate cap agreements through August 2017. The interest rate cap plus the Facility Fees result in a maximum potential cost of borrowing on the TEBS Financing of 4.9% per annum.

The following table outlines the interest rate caps the Company has in place as of September 30, 2012:

Date Purchased	Notional Amount	Effective Capped Rate	Maturity Date	Purchase Price	Counterparty
September 2, 2010	31,936,667	3%	September 1, 2017	921,000	Bank of New York Mellon
September 2, 2010	31,936,667	3%	September 1, 2017	845,600	Barclays Bank PLC
September 2, 2010	31,936,667	3%	September 1, 2017	928,000	Royal Bank of Canada

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 \$275,000 and \$1.1 million for the three and nine months ended September 30, 2012, respectively. The change in the fair value of these derivative contracts resulted in an increase in interest expense of approximately \$1,073,000 and \$1,962,000 for the three and nine months ended September 30, 2011, respectively.

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.

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.

In addition to the risk factors relating to residual interests in TOB Trusts described in the Company's 2011 Annual Report on Form 10-K, the Company has identified the following additional risk factors relating to its investment in TOB residual certificates backed by Public Housing Capital Fund Trust Certificates that were acquired in July 2012:

Delay, Reduction, or Elimination of Appropriations from U.S. Department of Housing and Urban Development can result in payment defaults on the Company's investments in PHC Trusts

The Company has acquired LIFERS in three PHC TOB Trusts, which, in turn, hold PHC Certificates that have been issued by three PHC Trusts which hold custodial receipts evidencing loans made to a number of public housing authorities. Principal and interest on these loans are payable by the respective public housing authorities out of annual appropriations to be made to the public housing authorities by the United States Department of Housing and Urban Development ("HUD") under HUD's Capital Fund Program. The sole source of payment of principal and interest on the PHC Certificates are these annual Capital Fund Program appropriations. Annual appropriations for the Capital Fund Program must be determined by Congress each year, and there is no assurance that Congress will continue to make such appropriations at current levels or at all. If Congress fails to continue to make annual appropriations for the Capital Fund Program at or near current levels, or there is a delay in the approval of appropriations, the public housing authorities may not have funds from which to pay principal and interest on the loans underlying the PHC Certificates held by the PHC TOB Trusts. Because the LIFERS represent a subordinated interest in the PHC TOB Trusts, any decrease in payments received by the PHC TOB Trusts from the PHC Certificates it holds will be first reduce payments on the LIFERS held by the Company so that the PHC TOB trusts can continue to make payments due to the holders of the senior SPEARS. As a result, any decrease in funds available to the public housing authorities may result in the reduction or elimination of payments on the LIFERS.

Reduction in Rating of PHC Certificates below investment grade would result in the liquidation of the investment in that Trust

The Company's investment in LIFERS issued by PHC TOB Trusts holding PHC Certificates is made pursuant to the provision of its Agreement of Limited Partnership that allows investment in tax-exempt securities that are not mortgage bonds backed by multifamily housing projects provided that these alternative tax-exempt securities are rated investment grade in one of the four highest rating categories by at least one nationally recognized securities rating agency. In the event the investment rating of any of the PHC Certificates held by a PHC TOB Trust was reduced to less than investment grade, the underlying PHC TOB Trust has no obligation to divest the downgraded PHC Certificates. Accordingly, the Company would be required to liquidate its LIFERS in that PHC TOB Trust or liquidate the TOB Trust entirely. The PHC TOB Trusts have no obligation to purchase the LIFERS and there is no established trading market for the LIFERS. Likewise, if the Company liquidates the TOB Trust, any downgrade in the investment rating of the PHC Certificates will likely decrease the value of the PHC Certificates. As a result, there can be no assurance that the Company will be able to divest its position in these LIFERS or terminate the PHC TOB Trust without incurring a material loss.

Item 6. Exhibits.

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

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

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

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

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

10.1 Investment Placement Agreement, dated June 29, 2012, between the Company and America First Capital Associates Limited Partnership Two.

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.

101 The following materials from the Partnership's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 are furnished herewith, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets as of September 30, 2012 and December 31, 2011, (ii) the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2012 and 2011, (iii) the Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2012 and 2011, (iv) the Condensed Consolidated Statements of Partners' Capital for the nine months ended September 30, 2012 and 2011, (v) the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2012 and 2011, and (vi) Notes to Condensed Consolidated Financial Statements.

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.

Date: November 8, 2012 By: /s/ Mark Hiatt
Mark Hiatt
Chief Executive Officer

Date: November 8, 2012 By: /s/ Timothy Francis
Timothy Francis
Chief Financial Officer

INVESTMENT PLACEMENT AGREEMENT

THIS INVESTMENT PLACEMENT AGREEMENT (this "Agreement") is made and entered into as of the 29th day of June, 2012, by and between America First Tax Exempt Investors, L.P., a Delaware limited partnership (the "Fund"), and America First Capital Associates Limited Partnership Two, a Nebraska limited partnership serving as the sole general partner of the Fund (the "General Partner").

WITNESSETH:

WHEREAS, the Fund has been formed for the primary purpose of acquiring federally tax-exempt mortgage revenue bonds issued by state and local housing authorities to provide construction and/or permanent financing for multifamily housing projects that provide affordable housing in their market areas ("Multifamily Bonds"); and

WHEREAS, the Fund may also invest in certain other types of tax-exempt securities that may or may not be secured by real estate ("Alternative Investments") and the General Partner believes it is in the best interests of the Fund and its limited partners for the General Partner to seek Alternative Investments which may improve the Fund's investment return and cash available for distribution and the Fund desires to encourage the General Partner to identify, evaluate and develop Alternative Investments for the benefit of the Fund and its limited partners; and

WHEREAS, the General Partner is currently allowed to receive a mortgage placement fee of up to 1.0% of the amount invested by the Fund in Multifamily Bonds that is typically paid out of the bond proceeds provided by the Fund to the underlying borrowers; and

WHEREAS, the General Partner has currently identified a category of Alternative Investments identified in Exhibit A hereto and has devoted, and will continue to devote, time and resources to the identification, evaluation, development and negotiation of these Alternative Investments on behalf of the Fund which is at least as great as the time and resources typically devoted by the General Partner to the acquisition of Multifamily Bonds; and

WHEREAS, Alternative Investments, including the two Alternative Investments listed on Exhibit A which are currently under consideration for acquisition by the Fund, are generally not expected to be structured so as to allow the General Partner to receive a placement fee payable out of proceeds provided by the Fund to an underlying borrower in the same manner as the mortgage placement fees are payable to the General Partner with respect to Multifamily Bond investments made by the Fund; and

WHEREAS, the Fund desires to encourage the General Partner to identify, evaluate and develop Alternative Investments on behalf of the Fund by directly paying a placement fee to the General Partner in connection with the investments made by the Fund in such Alternative Investments on terms similar to the mortgage placement fees payable to the General Partner out of bond proceeds provided by the Fund in connection with its investment in Multifamily Bonds; and

WHEREAS, the General Partner has determined that the payment of such a placement fee in connection with the work performed to allow the Fund to make the Alternative Investments is fair and reasonable, in the best interest of the Fund and its limited partners and is consistent with the terms and conditions of the Fund's Agreement of Limited Partnership, dated October 1, 1998 (the "Limited Partnership Agreement"), including Section 5.03 thereof.

NOW, THEREFORE, in consideration of the mutual promises and covenants made herein, the Fund and the General Partner agree as follows:

1. Alternative Investment Placement Services. In order to increase investment returns and cash available for distribution to the Fund's limited partnership, the General Partner, acting on behalf of the Fund, agrees to identify, evaluate and negotiate the terms of Alternative Investments meeting the investment criteria of the Fund as set forth in the Limited Partnership Agreement, including, but not limited to, the Alternative Investments described in Exhibit A hereto. Exhibit A may be amended from time to time in connection with the acquisition of additional Alternative Investments by the Fund.

2. Placement Fee. As compensation to the General Partner for the identification, evaluation, development and negotiation of Alternative Investments, the Fund will pay a placement fee to the General Partner at the time the Fund acquires an Alternative Investment at a market rate, but in no event to exceed 1.0% of the total principal amount of such Alternative Investment (excluding any accrued interest thereto).

3. Termination. This Agreement may be terminated, without penalty, by either party upon delivery of 60 day's prior written notice to the other party. The Fund may terminate this Agreement pursuant to this Section 3 by a vote of the holders of a majority of the issued and outstanding Beneficial Unit Certificates representing assigned limited partner interests in the Fund pursuant to Section 5.03(c) of the Limited Partnership Agreement.

4. Amendment. This Agreement may be amended at any time by action of the Fund and the General Partner, provided that any such amendment must be in writing and signed by the Fund and the General Partner.

5. Applicable Law. This Agreement and the rights of the parties hereunder shall be construed and interpreted under the laws of the State of Nebraska.

6. Entire Agreement. This Agreement sets forth all, and is intended by all parties to be an integration of all, promises, agreements and understanding among the parties hereto with respect to the subject matter hereof and no other promises, agreements or understanding, whether written or oral, expressed or implied, with respect thereto shall have any force or effect whatsoever.

IN WITNESS WHEREOF, each of the Fund and the General Partner has caused this Agreement to be duly executed on its behalf as of the date first above written.

America First TAX EXEMPT INVESTORS, L.P.

By: /s/ Mark A. Hiatt
Mark A. Hiatt, President

America First Capital Associates Limited Partnership Two

By: The Burlington Capital Group L.L.C., its general partner

By: /s/ Lisa Roskens
Lisa Roskens, President and Chief Executive Officer

EXHIBIT A

Alternative Investments

Description of Alternative Investment	Principal Amount	Placement Fee
Investment Grade Rated Public Housing Capital Fund Trusts' Certificates	Up to \$75 million	1% of Par Value

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

I, Mark A. Hiatt, 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 the report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods represented in this report;
4. The Company'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 13a-15(f) and 15d-15(f)) for the Company 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 Company, 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 Company'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 Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing 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 Company'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 Company's internal control over financial reporting.

Date: November 8, 2012

By /s/ Mark A. Hiatt
Mark A. Hiatt
Chief Executive Officer

America First Tax Exempt Investors, L.P.

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

I, Timothy Francis, 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 the report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods represented in this report;
4. The Company'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 13a-15(f) and 15d-15(f)) for the Company 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 Company, 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 Company'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 Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing 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 Company'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 Company's internal control over financial reporting.

Date: November 8, 2012

By /s/ Timothy Francis
Timothy Francis
Chief Financial Officer

The 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, Mark A. Hiatt, Chief Executive Officer of America First Tax Exempt Investors, L.P., 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 Partnership for the year ended September 30, 2012 (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 Partnership.

Date: November 8, 2012

/s/ Mark A. Hiatt
Mark A. Hiatt
Chief Executive Officer

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

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

I, Timothy Francis, Chief Financial Officer of the general partner of the General Partner of America First Tax Exempt Investors, L.P., 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 Partnership for the year ended September 30, 2012 (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 Partnership.

Date: November 8, 2012

/s/ Timothy Francis

Timothy Francis

Chief Financial Officer

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