

FORM 10-K

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
(Mark one)

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

For the fiscal year ended December 31, 2001

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: 000-32227

America First Real Estate Investment Partners, L.P.
(Exact name of registrant as specified
in its Agreement of Limited Partnership)

Delaware
(State or other jurisdiction of
incorporation or organization)

39-1965590
(I.R.S. Employer
Identification No.)

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

68102
(Zip Code)

(402) 444-1630
(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

None.

Securities Registered Pursuant to Section 12(g) of the Act:

Units of Assigned Limited Partner Interest ("Units")

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of the chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

The aggregate market value of the Company's Units held by non-affiliates of the Company on March 8, 2002, based on the final sales price per Unit as reported in the Wall Street Journal on March 7, 2002 was \$49,820,111.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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PART I

Item 1. Business.

America First Real Estate Investment Partners, L.P. (the "Company") was formed on June 18, 1999 under the Delaware Revised Uniform Limited Partnership Act for the purpose of acquiring, holding, operating, selling and otherwise dealing primarily with multifamily residential properties, including the acquisition of debt and equity securities of entities engaged in similar activities. The Company's business objectives are to: (i) provide increased cash distributions to investors; (ii) provide a potential for an increase in net asset value; and, (iii) provide enhanced liquidity and market value of its Units. The general partner of the Company is America First Capital Source I L.L.C. (the General Partner).

The Company is classified as a partnership for federal income tax purposes, accordingly, no provision for income taxes is made. The distributive share of the Company's income, deductions and credits is included in each Unit holder's income tax return.

The Company began operations on December 31, 2000, when it merged with Capital Source L.P. ("Cap Source I") and Capital Source II L.P.-A, ("Cap Source II", and together with Cap Source I, the "Partnerships"), (the "Merger"). The Company was the surviving partnership from the Merger. The beneficial assignment certificates representing assigned limited partner interests in the Partnerships (the "BACs") were converted, at the election of the BAC holders, into either Units of assigned limited partner interests in the Company (the "Units") or certain Variable Rate Junior Notes issued in two separate series by the Company (the "Notes"). The Company issued a total of 7,351,812 Units and \$4,029,000 principal amount of Notes. The Notes are due January 15, 2008, but are callable by the Company at any time after the date of issuance. The Units are listed on the Nasdaq National Market under the symbol "AFREZ." The Notes are not publicly traded.

For financial accounting purposes, Cap Source I (the "Predecessor") was deemed to be the acquirer of Cap Source II under the purchase method of accounting because its investors were allocated the largest number of Units. Accordingly, the transaction resulted, for financial accounting purposes, in the effective purchase by Cap Source I of all of the BACs of Cap Source II. As the surviving entity for financial accounting purposes, the assets and liabilities of Cap Source I were recorded by the Company at their historical cost and the assets and liabilities of Cap Source II were recorded at their estimated fair values. Together, the combined entities are now known as America First Real Estate Investment Partners, L.P.

In connection with the Merger, and in accordance with the Stipulation of Settlement (the "Settlement") dated April 24, 2000, which was approved by the Delaware Court of Chancery on December 19, 2000, the Company made a distribution of approximately \$0.75 per Unit on or about January 16, 2001, to Unit holders of record as of December 31, 2000. The Company also made a distribution of approximately \$75.01 per Note on or about January 16, 2001, to Note holders of record as of December 31, 2000. This distribution to Note holders constituted a prepayment of principal on the Notes, and reduced the principal amount outstanding on the Notes accordingly. The Company also made a second cash distribution of approximately \$0.66 per Unit (consisting of a special distribution of approximately \$0.51 per Unit and a regular quarterly distribution of \$0.15 per Unit), and approximately \$51.33 per Note, on or about April 30, 2001, to holders of record on or about March 31, 2001. In accordance with the Settlement, the Company also purchased 554,157 Units on the open market in 2001 at an aggregate cost of \$3,522,668. Such amount was included as part of the \$3,500,000 which was accrued and reflected in the Statement of Partners' Capital (Deficit) at December 31, 2000, as part of the Settlement.

The General Partner was a general partner of the Predecessor and is controlled by the same entity, America First Companies L.L.C. ("America First"), that controlled the general partners of the Partnerships. Neither America

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First nor the general partners of the Partnerships were issued any Units or Notes in connection with the Merger. The General Partner owns a 1% general partner interest in the Company.

As a result of the Merger, the Company became the limited partner of ten limited partnerships ("Operating Partnerships") which own apartment complexes (the "Apartment Complexes") located throughout the United States, including three in North Carolina, two each in Florida and Michigan, and one each in Ohio, Virginia and Illinois. The Company owns a 98.99% limited partnership interest in nine of these Operating Partnerships and a 99.99% limited partnership interest in the tenth Operating Partnership. Either CS Properties I, Inc. or CS Properties II, Inc., both of which are owned by the General Partner, serve as the Special Limited Partner for each of the Operating Partnerships. In the case of The Ponds at Georgetown, CS Properties I, Inc. and CS Properties II, Inc. each serve as a Special Limited Partner. The Special Limited Partner has the power, among other things, to remove the general partners of the Operating Partnerships under certain circumstances and to consent to the sale of the Operating Partnerships' assets. CS Properties I, Inc. also serves as the general partner of Misty Springs Apartments, Waterman's Crossing, Fox Hollow Apartments, Highland Park Apartments (effective September 2001) and Bluff Ridge Apartments (effective December 2001). In April 2001, CS Properties II, Inc. also became the general partner of Delta Crossing and Monticello Apartments. Additionally, as a result of the merger, the Company also became the owner of: (a) six mortgage-backed securities guaranteed as to principal and interest by the Government National Mortgage Association ("GNMA"), and collateralized by first mortgage loans on six of the Apartment Complexes, (b) three first mortgage loans on three Apartment Complexes insured as to principal and interest by the Federal Housing Administration ("FHA") ("the FHA Loans"), all of which were paid to the Company in full during the year ending December 31, 2001, and (c) certain GNMA securities backed by pools of single-family mortgages.

The exchange values, which were intended to fairly represent the value of the assets of the Partnerships, used to determine the allocation of Units and Notes among the Partnerships were based on: (a) the principal amount of GNMA Certificates collateralized by first mortgage loans on Apartment Complexes and the FHA Loans as shown in the Partnerships' audited financial statements as of December 31, 1998; (b) the value of the Partnerships' limited partner interests in the Operating Partnerships; and (c) the market value of the Partnerships' remaining net assets as shown in the Partnerships' audited financial statements as of December 31, 1998. The fair market value of the real estate held by the Operating Partnerships, as determined by real estate appraisals dated December 31, 1998, was the value assigned to the real estate for the purpose of determining the exchange values.

The Company has the ability to acquire and its strategy includes the acquisition of additional multifamily residential properties. In addition, the Company has the ability to more actively manage the makeup of its real estate portfolio as compared to the Partnerships. The Company's investment strategy will be funded from: (i) available cash and short-term investments; (ii) borrowing against or sale of the existing properties; (iii) borrowing against or sale of the GNMA Certificates; and (iv) borrowing against the additional properties acquired by the Company subsequent to the Merger. The Company may also use additional sources of financing, both debt and equity, to further its business objectives and investment strategies. The Merger and the change in the Company's investment strategy will materially affect the Company's future operations as compared to those of the Predecessor. Accordingly, the historically reported financial presentation and results are not necessarily indicative of the Company's future operations or financial results.

In keeping with its investment strategy, during the year ended December 31, 2001, the Company accomplished several transactions.

In August, the Company acquired Brentwood Oaks Apartments, a 262 unit multifamily residential property located in Nashville, Tennessee. The Company financed the \$14,120,000 acquisition with cash of

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approximately \$2,800,000 and through the assumption of bonds payable of \$11,320,000 collateralized by the property.

In December, the Company acquired Huntsview Apartments, a 240 unit multifamily residential property located in Greensboro, North Carolina. The Company financed the \$11,100,000 acquisition with cash of approximately \$3,900,000 and through the assumption of a mortgage payable of \$7,200,000 collateralized by the property.

During 2001, the Company borrowed \$20,325,000 against three of its GNMA Certificates through the utilization of repurchase agreements. The proceeds from the repurchase agreement were used for the payment of special distributions and repurchase of outstanding Units related to the Settlement, the acquisition of multifamily residential real estate investments and the acquisition of corporate equity securities.

In addition, the Company received distributions of approximately \$816,000 from four of the Operating Partnerships and made additional investments of approximately \$18,800,000 in three of the Operating Partnerships. The Operating Partnerships utilized the proceeds of the additional investments to pay off their mortgage loans, including accrued interest. Accordingly, the Company received the full amount of principal and accrued interest due on its related FHA Loan investments. In effect, such transactions eliminated the mortgage insurance on the FHA Loan investments.

Effective January 1, 2002, the Company acquired CS Properties I, Inc. and CS Properties II, Inc. Such entities own the general partner interest and the special limited partner interest, representing all of the remaining equity ownership interest, in the following eight Operating Partnerships: Bluff Ridge Associated Limited Partnership, Delta Crossing Limited Partnership, Fox Hollow, Ltd., Interstate Limited Partnership, Cypress Landings II, Ltd., Centrum Monticello Limited Partnership, The Ponds at Georgetown Limited Partnership and Oyster Cove Limited Partnership. As a result of the acquisition, the Company now owns 100% of each Operating Partnership and, accordingly, will present the results of each on a consolidated basis with that of the Company from the date of acquisition.

While the principal and interest on the GNMA Certificates are ultimately guaranteed by the United States government, the amount of cash distributions received by the Company from the Operating Partnerships and the investment in real estate is a function of the net rental revenues generated by the properties owned by the Operating Partnerships and the investment in real estate. Net rental revenues from a multifamily apartment complex depend on the rental and occupancy rates of the property and on the level of operating expenses. Occupancy rate 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 interest rates on single-family mortgage loans. 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 a property.

In each city in which the Company's properties are located, such properties compete with a substantial number of other apartment complexes. Apartment complexes also compete with single-family housing that is either owned or leased by potential tenants. The principal method of competition is to offer competitive rental rates. The Company's properties also compete by emphasizing property location, condition and property amenities.

The Company believes that each of its properties is in compliance in all material respects with federal, state and local regulations regarding hazardous waste and other environmental matters, and the Company is not aware of any environmental contamination at any of such properties that would require any material capital expenditure by the Company for the remediation thereof.

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The Company has no employees. Certain services are provided to the Company by employees of America First which is the controlling member of the general partner of the Company, and the Company reimburses America First for its allocated salaries and benefits. The Company is not charged and does not reimburse for the services performed by managers and officers of America First.

Item 2. Properties.

Properties owned by the Company at December 31, 2001 are described in the following table:

Property Name	Location	Number of Units	Average Square Feet Per Unit	Federal Tax Basis
Bluff Ridge Apartments ⁽¹⁾	Jacksonville, NC	108	873	\$ 2,568,024
Brentwood Oaks Apartments	Nashville, TN	262	852	13,867,304
Crane's Landing ⁽¹⁾	Winter Park, FL	252	751	7,701,612
Delta Crossing ⁽¹⁾	Charlotte, NC	178	880	4,276,220
Fox Hollow Apartments ⁽¹⁾	High Point, NC	184	877	4,121,644
Highland Park Apartments ⁽¹⁾	Columbus, OH	252	891	4,769,630
Huntsview Apartments	Greensboro, NC	240	875	11,004,152
Misty Springs Apartments ⁽¹⁾	Daytona Beach, FL	128	786	2,871,847
Monticello Apartments ⁽¹⁾	Southfield, MI	106	1027	3,531,976
The Ponds at Georgetown ⁽¹⁾	Ann Arbor, MI	134	1002	4,927,710
Waterman's Crossing ⁽¹⁾	Newport News, VA	260	944	6,905,211
Water's Edge Apartments ⁽¹⁾	Lake Villa, IL	108	814	3,729,930
		<u>2,212</u>		<u>\$ 70,275,260</u>

⁽¹⁾ The Company owns an approximate 99% interest in this property via its approximate 99% ownership of the Operating Partnership which owns the property.

The average annual occupancy rate and average effective rental rate per unit for each of the properties for each of the last five years are listed in the following table. Information prior to the dates the properties were acquired by the Company is not available to the Company and, accordingly, is not included in the following table.

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	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
BLUFF RIDGE APARTMENTS					
Average Occupancy Rate	95%	98%	99%	99%	96%
Average Effective Annual Rental Per Unit	\$ 7,152	\$ 6,850	\$ 6,734	\$ 6,644	\$ 6,258
BRENTWOOD OAKS					
Average Occupancy Rate	97% ⁽¹⁾	-	-	-	-
Average Effective Annual Rental Per Unit	\$ 7,800 ⁽²⁾	\$ -	\$ -	\$ -	\$ -
CRANE'S LANDING					
Average Occupancy Rate	97%	95%	96%	96%	96%
Average Effective Annual Rental Per Unit	\$ 8,933	\$ 8,332	\$ 8,090	\$ 7,577	\$ 7,366
DELTA CROSSING					
Average Occupancy Rate	92%	94%	94%	94%	93%
Average Effective Annual Rental Per Unit	\$ 7,480	\$ 7,562	\$ 7,634	\$ 7,457	\$ 7,260
FOX HOLLOW APARTMENTS					
Average Occupancy Rate	91%	98%	96%	95%	96%
Average Effective Annual Rental Per Unit	\$ 7,362	\$ 6,980	\$ 6,781	\$ 6,480	\$ 6,482
HIGHLAND PARK APARTMENTS					
Average Occupancy Rate	90%	95%	94%	95%	93%
Average Effective Annual Rental Per Unit	\$ 7,051	\$ 6,597	\$ 6,852	\$ 6,392	\$ 6,333
HUNTSVIEW APARTMENTS					
Average Occupancy Rate	88% ⁽¹⁾	-	-	-	-
Average Effective Annual Rental Per Unit	\$ 9,031 ⁽²⁾	\$ -	\$ -	\$ -	\$ -
MISTY SPRINGS APARTMENTS					
Average Occupancy Rate	99%	99%	99%	99%	99%
Average Effective Annual Rental Per Unit	\$ 7,319	\$ 7,071	\$ 6,752	\$ 6,509	\$ 6,101
MONTICELLO APARTMENTS					
Average Occupancy Rate	97%	93%	90%	98%	97%
Average Effective Annual Rental Per Unit	\$ 7,128	\$ 9,661	\$ 9,120	\$ 9,627	\$ 8,873
THE PONDS AT GEORGETOWN					
Average Occupancy Rate	96%	99%	99%	99%	97%
Average Effective Annual Rental Per Unit	\$ 11,528	\$ 11,220	\$ 10,732	\$ 10,362	\$ 9,883
WATERMAN'S CROSSING					
Average Occupancy Rate	98%	99%	99%	99%	98%
Average Effective Annual Rental Per Unit	\$ 8,481	\$ 8,167	\$ 7,822	\$ 7,535	\$ 7,207
WATER'S EDGE APARTMENTS					
Average Occupancy Rate	93%	92%	95%	96%	96%
Average Effective Annual Rental Per Unit	\$ 10,402	\$ 9,282	\$ 9,587	\$ 9,274	\$ 8,723

⁽¹⁾ Represents the average occupancy from the date of acquisition (Brentwood Oaks August 2001 and Huntsview Apartments December 2001).

⁽²⁾ Average effective annual rental per unit is annualized from the date of acquisition.

Depreciation is taken on each property on a straight-line basis over the estimated useful lives of the properties, generally 27-1/2 years.

In the opinion of the Company's management, each of the properties is adequately covered by insurance. For additional information concerning the properties, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Notes 6 and 7 to the Company's Consolidated Financial

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Statements. A discussion of general competitive conditions to which these properties are subject is included in Item 1 hereof.

Item 3. Legal Proceedings.

There are no material pending legal proceedings to which the Company is a party or to which any of its property is subject.

Item 4. Submission of Matters to a Vote of Security Holders.

No matter was submitted during the fourth quarter of the fiscal year ending December 31, 2001, to a vote of the Company's security holders.

PART II

Item 5. Market for Company's Common Equity and Related Stockholder Matters.

- (a) **Market Information.** The Units began trading on the NASDAQ National Market System on January 22, 2001 under the trading symbol "AFREZ". As such, no market information existed prior to this date. The following table sets forth the high and low sale prices for the Units for each quarterly period from January 22, 2001 to December 31, 2001.

<u>2001</u>	<u>High</u>	<u>Low</u>
1st Quarter	\$ 7.000	\$ 5.000
2nd Quarter	\$ 6.530	\$ 5.760
3rd Quarter	\$ 7.250	\$ 6.000
4th Quarter	\$ 7.390	\$ 6.010

- (b) **Investors.** The approximate number of Unit holders on March 8, 2002 was 7,830.
- (c) **Distributions.** Total regular cash distributions paid or accrued to Unit holders during the fiscal year ended December 31, 2001 equaled \$3,126,955 or \$.60 per Unit.

Total special distributions (in connection with the Settlement) to Unit holders for the fiscal year ended December 31, 2001 were \$9,066,277, or \$1.26 per Unit.

Total regular cash distributions paid or accrued to BAC holders of Cap Source I during the fiscal year ended December 31, 2000 were \$3,407,964, or \$1.01 per BAC.

See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, for information regarding the sources of funds that will be used for cash distributions and for a discussion of factors, if any, which may adversely affect the Company's ability to make cash distributions in 2002 and thereafter.

Item 6. Selected Financial Data.

For financial accounting purposes, Cap Source I is considered the sole predecessor to the Company and, accordingly the historical operating results presented in this report as those of the "Predecessor" are those of Cap Source I. Under generally accepted accounting principles, the Merger was accounted for as a purchase by Cap Source I of 100% of the beneficial assignment certificates (known as "BACs") of Cap Source II. As a result of this treatment, the Company, as the successor to Cap Source I, recorded all of the assets and liabilities of Cap Source I at their historical cost, adjusted for the purchase of the net assets of Cap Source II which have been recorded at their fair value as of the date of the Merger. Set forth below is selected financial data for the Company and its Predecessor from December 31, 1997 through December 31, 2001. The information set forth below should be read in conjunction with the Consolidated Financial Statements and Notes thereto filed in response to Item 8 hereof.

AMERICA FIRST REAL ESTATE INVESTMENT PARTNERS, L.P.

	<u>Company</u> <u>As of or for</u> <u>the Year Ended</u> <u>Dec. 31, 2001</u>	<u>Company</u> <u>As of or for</u> <u>the Year Ended</u> <u>Dec. 31, 2000</u>	<u>Predecessor</u> <u>As of or for</u> <u>the Year Ended</u> <u>Dec. 31, 1999</u>	<u>Predecessor</u> <u>As of or for</u> <u>the Year Ended</u> <u>Dec. 31, 1998</u>	<u>Predecessor</u> <u>As of or for</u> <u>the Year Ended</u> <u>Dec. 31, 1997</u>
Mortgage-backed securities income	\$ 4,917,665	\$ 3,182,513	\$ 3,215,472	\$ 3,262,922	\$ 3,302,727
Interest income on cash and cash equivalents	288,835	497,847	431,111	530,396	554,604
Dividend income	138,043	-	-	-	-
Rental income	788,663	-	-	-	-
Equity in earnings (losses) of Operating Partnerships	1,208,554	170,146	(325,245)	(186,942)	(178,550)
Other income	5,847	-	2,000	6,300	5,334
Real estate operating expenses	(341,920)	-	-	-	-
Depreciation expense	(175,151)	-	-	-	-
Interest expense	(999,264)	-	-	-	-
Operating and administrative expenses	(1,581,356)	(1,512,282)	(629,037)	(1,710,173)	(632,894)
Net income	<u>\$ 4,249,916</u>	<u>\$ 2,338,224</u>	<u>\$ 2,694,301</u>	<u>\$ 1,902,503</u>	<u>\$ 3,051,221</u>
Net income, basic and diluted, per Unit ⁽¹⁾	<u>\$ 0.54</u>	<u>\$ 0.69</u>	<u>\$ 0.79</u>	<u>\$ 0.56</u>	<u>\$ 0.90</u>
Regular cash distributions paid or accrued per Unit ⁽¹⁾	<u>\$ 0.6000</u>	<u>\$ 1.0100</u>	<u>\$ 1.0100</u>	<u>\$ 1.0100</u>	<u>\$ 1.0100</u>
Investment in FHA Loans	<u>\$ -</u>	<u>\$ 18,674,289</u>	<u>\$ 12,340,447</u>	<u>\$ 12,429,485</u>	<u>\$ 12,511,046</u>
Investment in GNMA Certificates	<u>\$ 42,614,238</u>	<u>\$ 43,097,291</u>	<u>\$ 23,105,420</u>	<u>\$ 23,454,411</u>	<u>\$ 23,588,139</u>
Investment in Operating Partnerships	<u>\$ 23,016,520</u>	<u>\$ 3,809,948</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Investment in real estate, net of accumulated depreciation	<u>\$ 25,046,607</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total assets	<u>\$ 100,759,628</u>	<u>\$ 75,614,012</u>	<u>\$ 44,867,473</u>	<u>\$ 45,707,177</u>	<u>\$ 46,965,808</u>
Notes payable	<u>\$ 3,499,008</u>	<u>\$ 4,029,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Bonds and mortgage payable	<u>\$ 18,520,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Borrowings under repurchase agreements	<u>\$ 20,325,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

⁽¹⁾ Per BAC for all years prior to the date of the Merger.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The Company was formed on June 18, 1999 under the Delaware Revised Uniform Limited Partnership Act for the purpose of acquiring, holding, operating, selling and otherwise dealing primarily with multifamily residential properties, including the acquisition of debt and equity securities of entities engaged in similar activities.

The Company began operations on December 31, 2000, when it merged with Cap Source I and Cap Source II with the Company being the surviving entity. The Company's business objectives are to: (i) provide increased cash distributions to investors; (ii) provide a potential for an increase in net asset value; and (iii) provide enhanced liquidity and market value of its units. Management's strategy to meet these objectives includes

acquiring investments in multifamily residential properties and acquiring securities of other entities engaged in similar real estate business.

Results of Operations

The Company's operating results depend primarily on income from its multifamily properties, which is substantially influenced by supply of and demand for apartment units, operating expense levels and property level operations. The multifamily real estate industry is experiencing soft market conditions in most markets nationwide, including those in which certain of the Company's properties operate. These conditions are attributable to a general deterioration of economic conditions, more market competition, and competition from single-family homes.

As a result of the above, the Company's properties are experiencing what management anticipates to be a short term decline in the physical and economic occupancy levels of its properties. At December 31, 2001, the average physical occupancy of the Company's properties was 95%, compared to 96% at December 31, 2000. For the year ended December 31, 2001, the average economic occupancy of the Company's properties was 92%, compared to 94% for the year ended December 31, 2000. The decrease in the average economic occupancy of the properties was primarily noted in the fourth quarter and is primarily attributable to the use of rental concessions to maintain physical occupancy levels.

In addition, property operating expenses such as utilities, insurance and property taxes continue to increase. Utility expenses have increased due to rate increases, property taxes have increased due to rate and assessed value increases in certain jurisdictions where the properties are located and insurance expenses have increased due to rate increases by insurance carriers. These expenses are fixed costs to an extent but are still actively managed.

In response to these conditions, management continues to actively manage each property to maximize the net operating income from each. This includes the employment of innovative on-site marketing techniques with a strong focus on resident retention and the negotiation and management of operating expenses. As a result, management believes the properties will continue to perform at reasonable levels during these conditions and will be well situated for growth when the conditions turn more favorable.

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The following table sets forth certain information regarding the Company's real estate investments as of December 31, 2001:

<u>Property Name</u>	<u>Location</u>	<u>Number of Units</u>	<u>Number of Units Occupied</u>	<u>Percentage of Units Occupied</u>	<u>Economic Occupancy ⁽¹⁾</u>
Bluff Ridge Apartments	Jacksonville, NC	108	106	98%	95%
Brentwood Oaks Apartments	Nashville, TN	262	252	96%	92%
Crane's Landing	Winter Park, FL	252	240	95%	⁽²⁾
Delta Crossing	Charlotte, NC	178	161	90%	80%
Fox Hollow Apartments	High Point, NC	184	152	83%	88%
Highland Park Apartments	Columbus, OH	252	228	90%	82%
Huntsview Apartments	Greensboro, NC	240	209	87%	⁽²⁾
Misty Springs Apartments	Daytona Beach, FL	128	124	97%	97%
Monticello Apartments	Southfield, MI	106	105	99%	97%
The Ponds at Georgetown	Ann Arbor, MI	134	126	94%	92%
Waterman's Crossing	Newport News, VA	260	251	97%	96%
Water's Edge Apartments	Lake Villa, IL	108	100	93%	⁽²⁾
		<u>2,212</u>	<u>2,054</u>	<u>93%</u>	<u>92%</u>

⁽¹⁾ Economic occupancy is presented for the year ended December 31, 2001 and is defined as the net rental income divided by the maximum amount of rental income which could be derived from each property.

⁽²⁾ Information is not available to the Company.

Critical Accounting Policies

The Company considers its critical accounting policies to be the accounting for its investment in Operating Partnerships and the valuation of its investments in real estate assets.

The investment in Operating Partnerships consists of interests in limited partnerships which own multifamily residential properties. The investments in Operating Partnerships are accounted for using the equity method as the Company has significant influence, but not control over the Operating Partnerships. As such, the Company records its proportionate share of the Operating Partnerships' income or losses. The investments in the Operating Partnerships were recorded at the cost to acquire such interests. The Company suspends recognizing losses in the Operating Partnerships when its entire investment becomes consumed by such losses. Losses are then recognized only to the extent of additional contributions, net of distributions received, to the Operating Partnerships by the Company.

Cash distributions received from Operating Partnerships whose entire investment has been reduced to zero through the recognition of proportionate losses are recognized as income when received by the Company. The Company is not the general partner of the Operating Partnerships and does not have a legal obligation to provide additional cash support, nor has it indicated any commitment to provide this support; accordingly, the investment in such Operating Partnerships has not been reduced below zero.

Cash distributions received from Operating Partnerships whose entire investment has not been reduced to zero through the recognition of proportionate losses is recorded as a reduction of the Company's investment in the respective Operating Partnership. Such Operating Partnerships include the former Capital Source II assets, which were recorded at their estimated fair value on the date of the Merger, and Operating Partnerships in which the Company has made additional equity investments.

AMERICA FIRST REAL ESTATE INVESTMENT PARTNERS, L.P.

The GNMA Certificates owned by the Company are guaranteed as to principal and interest by GNMA and are backed by the full faith and credit of the United States government. The Operating Partnerships, however, are not insured or guaranteed. The value of these investments is a function of the value of the real estate owned by the Operating Partnerships and the amount of cash distributions received from the Operating Partnerships is a function of the net rental revenue generated by the properties owned by the Operating Partnerships.

It is the policy of the Company to make a periodic review of the estimated fair value of the properties underlying the Operating Partnerships. The review of recoverability is based upon comparing the net book value of each real estate property to its estimated fair value. The estimated fair value is determined based upon the estimated future cash flows of each property, discounted at an estimated capitalization rate. The calculation of discounted estimated future cash flows includes certain variables such as the assumed inflation rates for rents and expenses, capitalization rates and discount rates. In certain cases, additional factors such as the replacement value of the property or comparable sales of similar properties are also taken into consideration.

Each real estate property is recorded at the lower of the Company's cost or fair value. Management reviews each property for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value of a property may not be recoverable. The review of recoverability is based upon comparing the net book value of each real estate property to its estimated fair value. The estimated fair value is determined based upon the estimated future cash flows of each property, discounted at an estimated capitalization rate. If impairment exists due to the inability to recover the carrying value of a property, an impairment loss is recorded to the extent that the carrying value of the property exceeds its estimated fair value.

The recognition of an impaired investment in an Operating Partnership or property and the potential impairment calculation are subject to a considerable degree of judgment, the results of which when applied under different conditions or assumptions could have a material impact on the financial statements. The estimated future cash flow of each property is subject to a significant amount of uncertainty in the estimation of future rental receipts, future rental expenses, and future capital expenditures. Such estimates are affected by economic factors such as the rental markets and labor markets in which the properties operate and tax and insurance expenses. Different conditions or different assumptions applied to the calculation would likely result in materially different amounts. The Company does periodically compare the results of its estimates with historical results to evaluate the reasonableness and accuracy of its estimates and adjust its estimates accordingly.

The Company did not incur any impairment losses in the years ended December 31, 2001, 2000 or 1999.

Depreciation of real estate is based on the estimated useful life of the property, generally 27-1/2 years, using the straight-line method.

Maintenance and repairs are charged to expense as incurred. Capital improvements and significant betterment projects exceeding \$10,000 per project are capitalized and depreciated using the straight-line method over their estimated useful life.

Misapplication of the Company's capitalization and depreciation policies may have a significant impact on the financial statements. The Company has designed preventive and detective controls for adherence to such policies. However, in the event of a control departure, materially different amounts may be reported.

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The tables below compare the results of operations for each year shown.

	For the Year Ended Dec. 31, 2001	For the Year Ended Dec. 31, 2000	For the Year Ended Dec. 31, 1999
Mortgage-backed securities income	\$ 4,917,665	\$ 3,182,513	\$ 3,215,472
Interest income on cash and cash equivalents	288,835	497,847	431,111
Dividend income	138,043	-	-
Rental income	788,663	-	-
Equity in earnings (losses) of Operating Partnerships	1,208,554	170,146	(325,245)
Other income	5,847	-	2,000
	<u>7,347,607</u>	<u>3,850,506</u>	<u>3,323,338</u>
Real estate operating expense	341,920	-	-
Depreciation expense	175,151	-	-
Interest expense	999,264	-	-
Operating and administrative expenses	1,581,356	1,512,282	629,037
	<u>3,097,691</u>	<u>1,512,282</u>	<u>629,037</u>
Net income	\$ <u>4,249,916</u>	\$ <u>2,338,224</u>	\$ <u>2,694,301</u>

	Increase (Decrease) From 2000	Increase (Decrease) From 1999
Mortgage-backed securities income	\$ 1,735,152	\$ (32,959)
Interest income on cash and cash equivalents	(209,012)	66,736
Dividend income	138,043	-
Rental income	788,663	-
Equity in earnings (losses) of Operating Partnerships	1,038,408	495,391
Other income	5,847	(2,000)
	<u>3,497,101</u>	<u>527,168</u>
Real estate operating expenses	341,920	-
Depreciation expense	175,151	-
Interest expense	999,264	-
Operating and administrative expenses	69,074	883,245
	<u>1,585,409</u>	<u>883,245</u>
Net income	\$ <u>1,911,692</u>	\$ <u>(356,077)</u>

In accordance with the purchase method of accounting, the results of operations for the years ended December 31, 2000 and 1999 up until the date of the Merger, December 31, 2000, are that of the Predecessor (Cap Source I) only, and are therefore not comparable with the Company's results of operations for the year ended December 31, 2001.

Year Ended December 31, 2001 Compared to the Year Ended December 31, 2000

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Mortgage-backed securities income increased \$1,735,152 from 2000 to 2001 as a result of the Merger. Slightly offsetting this increase are decreases due to the payoff of three mortgage-backed securities in 2001 and the continued amortization of the principal balances of the mortgage-backed securities.

Interest income on cash and cash equivalents decreased \$209,012 from 2000 to 2001 due to a decrease in the average balance of such investments and the decrease in rates earned thereon. The decrease in the average balance is attributable to the purchase of corporate equity securities, acquisitions of real estate properties and the payment of distributions in accordance with the Settlement.

The Company earned dividend income of \$138,043 on its investment in corporate equity securities which were acquired in 2001. The Predecessor did not own corporate equity securities in 2000 and accordingly did not earn dividend income in 2000.

The Company earned rental income of \$788,663, which is attributable to the 2001 acquisitions of Brentwood Oaks Apartments in August and Huntsview Apartments in December. The Predecessor did not directly own any properties in 2000 and accordingly did not earn rental income in 2000.

Equity in the earnings of Operating Partnerships increased \$1,038,408 from 2000 to 2001. This increase is primarily due to the effects of the Merger. In addition, during 2001, the Company received distributions totaling \$650,687 from Fox Hollow Apartments, Highland Park Apartments, Water's Edge Apartments, and Bluff Ridge Apartments, compared to 2000 when the Predecessor received distributions totaling \$170,146 from The Ponds at Georgetown, Highland Park Apartments and Water's Edge Apartments. Such cash distributions from Operating Partnerships are recorded as income when received because the Company's financial statement balance of these Operating Partnerships has been reduced to zero through the recognition of proportionate losses in excess of the Company's investment. These increases in cash distributions from the Operating Partnerships are due to increases in the net cash flows generated by the underlying properties.

The Company incurred real estate operating expenses of \$341,920 and depreciation expense of \$175,151 in 2001, which are attributable to the 2001 acquisitions of Brentwood Oaks Apartments in August and Huntsview Apartments in December. The Predecessor did not directly own any properties in 2000 and, accordingly, did not incur real estate operating expenses or depreciation expense in 2000.

The Company incurred interest expense of \$999,264 in 2001 on its: (i) bonds and mortgage payable; (ii) Notes payable originated in connection with the Merger; and (iii) repurchase obligations. The Predecessor did not have borrowings and, accordingly, did not recognize interest expense during 2000.

Operating and administrative expenses increased \$69,074 from 2000 to 2001. In 2000, the Company recorded \$850,000 of legal fees incurred in connection with the Settlement. Excluding such expense, operating and administrative fees increased \$919,074, which is attributable to increases of: (i) \$265,000 in salaries and related expenses due to the Merger; (ii) \$429,000 in administrative fees due to the Merger; and (iii) \$225,000 in the Company's other general and administrative expenses due to the Merger.

Year Ended December 31, 2000 Compared to the Year Ended December 31, 1999

Mortgage backed securities income decreased by \$32,959 from 1999 to 2000. Such decrease was attributable to the continued amortization of the principal balances of the mortgage-backed securities.

Interest income on cash and cash equivalents increased \$66,736 from 1999 to 2000 due to an increase in the average interest rate earned on cash investments.

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During 2000, distributions totaling \$170,146 were received from The Ponds at Georgetown, Highland Park Apartments and Water's Edge Apartments compared to \$59,755 received from the Water's Edge Apartments in 1999. No additional contributions were made to any Operating Partnerships during 2000, while additional contributions totaling \$385,000 were made to Waterman's Crossing, Misty Springs Apartments and Fox Hollow Apartments during 1999. Equity in earnings of the Operating Partnerships for 2000 was recorded to the extent of distributions received from the Operating Partnerships, net of additional investments. Likewise, equity in losses of Operating Partnerships for 1999 was recorded to the extent of additional contributions to Operating Partnerships, net of distributions received. Accordingly, equity in earnings of Operating Partnerships increased \$495,391 from 1999 to 2000. These increases in cash distributions from the Operating Partnerships are due to increases in the net cash flows generated by the underlying properties.

Operating and administrative expenses increased \$883,245 from 1999 to 2000. Excluding the effects of the \$850,000 of legal fees incurred in connection with the Settlement, operating and administrative expenses increased \$33,245 from 1999 to 2000. Such increase resulted from: (i) an increase of approximately \$21,000 in salaries and related expenses; (ii) an increase in legal fees of approximately \$20,000; partially offset by (iii) a net decrease of approximately \$8,000 in other operating and administrative expenses.

Funds From Operations

The Company considers Funds From Operations ("FFO") to be a key measure of its performance and should be considered along with, but not as an alternative to, net income and cash flow as a measure of the Company's operating performance and liquidity. FFO was \$5,169,598 for the year ended December 31, 2001.

The White Paper on FFO approved by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT") in October 1999 defines FFO as net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from debt restructuring and sales of properties, plus real estate related depreciation and amortization (excluding amortization of deferred financing cost) and after comparable adjustments for an entity's portion of these items related to unconsolidated entities and joint ventures. The Company computes FFO in accordance with standards established by NAREIT which may not be comparable to FFO reported by other entities that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than the Company. FFO does not represent cash generated from operating activities determined by GAAP and should not be considered as an alternative to GAAP net income as an indication of the Company's financial performance or to GAAP cash flow from operating activities as a measure of the Company's liquidity, nor is it indicative of funds available to fund the Company's cash needs, including its ability to make cash distributions. FFO may include funds that may not be available for management's discretionary use due to functional requirements to conserve funds for capital expenditures and property acquisitions, and other commitments and uncertainties.

Liquidity and Capital Resources

Cash generated by the Operating Partnerships and the two multifamily residential properties is a function of the net cash flow of the underlying property. The amount of cash received by the Company from the real estate is a function of the net rental revenues generated by the properties. Net rental revenues from a multifamily apartment complex 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 areas 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 interest rates on single-family mortgage loans. 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 a property.

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The Company believes that cash provided by its real estate investments and investment income from its GNMA's and other investments, supplemented, if necessary, by cash-on-hand, will be adequate to meet its projected short-term and long-term liquidity requirements.

The Company's strategy includes the acquisition of additional multifamily residential properties as well as debt and equity securities of entities engaged in similar activities. In addition, the Company intends to actively manage the makeup of its real estate portfolio. The Company's investment strategy will be funded from available cash and short-term investments and from: (i) borrowing against or sale of the existing properties; (ii) borrowing against or sale of the GNMA Certificates; and (iii) borrowing against the additional properties acquired by the Company. The Company may also use additional sources of financing, both debt and equity, to further its business objectives and investment strategies.

The Company's primary uses of cash are: (i) the payment of distributions to Unit holders; (ii) debt service; (iii) payment of operating expenses; and (iv) the acquisition of additional real estate investments.

The following table sets forth information regarding cash distributions paid to Unit holders during the years shown:

	Per Unit ⁽¹⁾		
	Year Ended Dec. 31, 2001	Year Ended Dec. 31, 2000	Year Ended Dec. 31, 1999
Regular distributions			
Income	\$ 0.6000	\$ 0.9354	\$ 0.7905
Return of capital	-	0.0746	0.2195
Total regular distributions	0.6000	1.0100	1.0100
Special distributions ⁽²⁾	1.2600	-	-
Total distributions	\$ 1.8600	\$ 1.0100	\$ 1.0100

⁽¹⁾ Per BAC of the Predecessor for years prior to the date of the Merger.

⁽²⁾ In addition, in 2001 the Company also made special distributions to Note holders in conjunction with the Settlement and Merger. The special distributions to Note holders in January 2001 and April 2001 were \$75.01 and \$51.33 per Note, respectively.

Future distributions to Unit holders will depend on the amount of net rental income and interest income earned by the Company and the amount of undistributed cash.

On January 2, 2002, the Company announced an increase in its annual regular distribution to \$.65 per Unit effective with the first quarter distribution payable on April 30, 2002.

New Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standards (FAS) No. 141, "Business Combinations" and FAS No. 142, "Goodwill and Other Intangible Assets" which provide guidance on how entities are to account for business combinations and for the goodwill and other intangible assets that arise from those combinations or are acquired otherwise. These standards are effective for the Company on January 1, 2002.

FAS 142 requires that goodwill no longer be amortized, but instead be tested for impairment at least annually. As of the date of adoption, the Company had unamortized goodwill of approximately \$899,000. Amortization expense related to such goodwill was approximately \$36,000 for the year ended December 31, 2001.

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Management does not believe the impact of adoption of the new pronouncements will have a significant effect on the financial statements.

In October 2001, the FASB issued FAS No. 144, "Accounting for the Impairment of Long-Lived Assets", which provides guidance on the accounting of long-lived assets to be held and used or to be disposed of and the reporting of discontinued operations. The adoption of this standard, which is effective for the Company on January 1, 2002, is not expected to have a significant impact on the financial statements of the Company.

Forward Looking Statements

This report contains forward-looking statements that reflect management's current beliefs and estimates of future economic circumstances, industry conditions, the Company's performance and financial results. All statements, trend analysis and other information concerning possible or assumed future results of operations of the Company and the real estate investments it has made (including, but not limited to, the information contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations"), constitute forward-looking statements. Unit holders and others should understand that these forward looking statements are subject to numerous risks and uncertainties, and a number of factors could affect the future results of the Company and could cause those results to differ materially from those expressed in the forward looking statements contained herein.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The Company's primary market risk exposure is interest rate risk. The Company's exposure to market risk for changes in interest rates relates primarily to its long and short-term borrowings used to fund expansion of the Company's real estate portfolio and its variable rate notes payable issued in connection with the Merger. The Company's interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and lower its overall borrowing costs. To achieve its objectives, the Company borrows primarily at fixed rates and may enter into derivative financial instruments, such as interest rate caps, in order to mitigate its interest rate risk. The Company does not enter into derivative instrument transactions for speculative purposes.

Interest rate risk is highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations and other factors beyond the Company's control. The potential for significant volatility in the interest rate markets was especially displayed during 2001, when the Federal Reserve Board decreased the federal funds rate eleven times.

At December 31, 2001, approximately 65% of the Company's borrowings consisted of fixed-rate financing. The remaining 35% consisted of variable-rate financing. Variations in interest rates affect the Company's cost of borrowing on its variable-rate financing. The interest rates payable by the Company on these obligations increase or decrease with certain index interest rates. If the Company's borrowing costs increase, the amount of cash available for distribution to Unit holders will decrease.

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The following tables provide information at December 31, 2001 regarding the Company's financial instruments sensitive to interest rate risk:

Fixed-Rate Borrowings		
Maturity	Principal Amount	Weighted Average Interest Rate
2002	\$ 20,403,738	4.91%
2003	90,104	5.83%
2004	94,388	5.83%
2005	101,309	5.83%
2006	107,462	5.83%
Thereafter	6,727,999	5.83%
	<u>\$ 27,525,000</u>	

Variable-Rate Borrowings		
Maturity	Principal Amount	Weighted Average Interest Rate
2002	\$ -	-
2003	-	-
2004	-	-
2005	-	-
2006	-	-
Thereafter	14,819,008	3.02%
	<u>\$ 14,819,008</u>	

The aggregate fair value of the Company's borrowings at December 31, 2001 was \$42,344,008.

As the above tables incorporate only those positions or exposures that existed as of December 31, 2001, it does not consider those exposures or positions that could arise after that date. The Company's ultimate economic impact with respect to interest rate fluctuations will depend on the exposures that arise during the period, the Company's risk mitigating strategies at that time and interest rates.

Item 8. Financial Statements and Supplementary Data.

The Financial Statements and supporting schedules of the Company are set forth in Item 14 hereof and are incorporated herein by reference.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

There were no disagreements with the Company's independent accountants on accounting principles and practices or financial disclosure during the fiscal years ended December 31, 2001 and 2000.

PART III

Item 10. Directors and Executive Officers of the Company.

The Company has no directors or officers. Management of the Company consists of the General Partner of the Company, America First Capital Source I, L.L.C., which is controlled by America First.

The following individuals are the officers and managers of the General Partner and the officers and managers of America First, and each serves for a term of one year.

<u>Name</u>	<u>Position Held</u>	<u>Position Held Since</u>
Michael B. Yanney	Chairman of the Board and Manager of America First	1984
	President of the General Partner	1991
Lisa Y. Roskens	Chief Executive Officer, President and Manager of America First	2001/2000/1999
Michael Thesing	Vice President, Secretary and Treasurer of America First	1984
	Vice President, Secretary and Treasurer of the General Partner	1991
Martin A. Massengale	Manager of America First*	1994
Alan Baer	Manager of America First	1994
Gail Walling Yanney	Manager of America First	1996
Mariann Byerwalter	Manager of America First*	1997
George H. Krauss	Manager of America First	2001
Clayton K. Yeutter	Manager of America First*	2001

* Member of the America First Audit Committee

Michael B. Yanney, 68, has served as the Chairman of the Board of America First and its predecessors since 1984. From 1977 until the organization of America First in 1984, Mr. Yanney was principally engaged in the ownership and management of commercial banks. From 1961 to 1977, Mr. Yanney was employed by Omaha National Bank and Omaha National Corporation (now part of U.S. Bank), where he held various positions, including the position of Executive Vice President and Treasurer of the holding company. Mr. Yanney also serves as a member of the boards of directors of Burlington Northern Santa Fe Corporation, Forest Oil Corporation, Level 3 Communications, Inc., Freedom Communications, Inc., Magnum Resources, Inc., America First Mortgage Investments, Inc., RCN Corporation and Rio Grande Medical Technologies, Inc. Mr. Yanney is the husband of Gail Walling Yanney and the father of Lisa Y. Roskens.

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Lisa Y. Roskens, 35, is Chief Executive Officer and President of America First. From 1999 to 2000, Ms. Roskens was managing Director of Twin Compass, LLC. From 1997 to 1999, Ms. Roskens was employed by Inacom Corporation, where she held the position of Director of Business Development and Director of Field Services Development. From 1995 to 1997, Ms. Roskens served as Finance Director for the U.S. Senate campaign of Senator Charles Hagel of Nebraska. From 1992 to 1995, Ms. Roskens was an attorney with the Kutak Rock law firm in Omaha, Nebraska, specializing in commercial litigation. Ms. Roskens is the daughter of Michael B. Yanney and Gail Walling Yanney.

Michael Thesing, 47, has been Vice President, Secretary and Treasurer and Chief Financial Officer of affiliates of America First since July 1984. In addition, Mr. Thesing is President of America First Investment Advisors, L.L.C. From January 1984 until July 1984 he was employed by various companies controlled by Mr. Yanney. He was a certified public accountant with Coopers and Lybrand from 1977 through 1983.

Martin A. Massengale, 68, is President Emeritus of the University of Nebraska, Director of the Center for Grassland Studies and a Foundation Distinguished Professor. Prior to becoming President in 1991, he served as Interim President from 1989, as Chancellor of the University of Nebraska Lincoln from 1981 until 1991 and as Vice Chancellor for Agriculture and Natural Resources from 1976 to 1981. Prior to that time, he was a professor and associate dean of the College of Agriculture at the University of Arizona. Dr. Massengale currently serves on the board of directors of Lincoln Insurance Group, Woodmen Accident & Life Company, and LIG, Inc.

Alan Baer, 79, is presently the CEO of several small entrepreneurial businesses including Alan Baer & Associates, Inc., a management company located in Omaha, Nebraska, Herman Nuts/Pear's Coffee, Lancer Hockey, Inc., Travel Faire, Brandeis Catering, The Reader and several others. Mr. Baer is the former Chairman and Chief Executive Officer of the Brandeis Department Store chain which, before its acquisition, was one of the larger retailers in the Midwest. Mr. Baer has also owned and served on the board of directors of several banks in Nebraska and Illinois.

Gail Walling Yanney, 65, is a retired physician. Dr. Yanney practiced anesthesia and was the Executive Director of the Clarkson Foundation until October of 1995. In addition, she was a director of FirstTier Bank, N.A., Omaha, Nebraska, prior to its merger with First Bank, N.A. Dr. Yanney is the wife of Michael B. Yanney and the mother of Lisa Y. Roskens.

Mariann Byerwalter, 41, is Chairman of JDN Corporate Advisory LLC. She was Vice President of Business Affairs and Chief Financial Officer of Stanford University from 1996 to 2001. Ms. Byerwalter was Executive Vice President of America First Eureka Holdings, Inc. ("AFEH") and EurekaBank from 1988 to January 1996. Ms. Byerwalter was Chief Financial Officer and Chief Operating Officer of AFEH, and Chief Financial Officer of EurekaBank from 1993 to January 1996. She was an officer of BankAmerica Corporation and its venture capital subsidiary from 1984 to 1987. She served as Vice President and Executive Assistant to the President of Bank of America and was a Vice President in the bank's Corporate Planning and Development Department. Ms. Byerwalter currently serves on the board of directors of Schwab Funds, LookSmart, Inc., Redwood Trust, Inc., SRI International, the PMI Group, Inc., the Stanford Hospital and Clinics, and the Lucile Packard Children's Hospital

George H. Krauss, 59, has been a consultant to America First since 1996. Mr. Krauss is also of counsel to Kutak Rock LLP, a national law firm of over 300 lawyers headquartered in Omaha, Nebraska. Mr. Krauss has been associated with Kutak Rock LLP since 1972 and served as its managing partner from 1983 to 1993. Mr. Krauss also serves on the board of directors of Gateway, Inc., America First Mortgage Investments, Inc. and West Corporation.

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Clayton K. Yeutter, 71, is of counsel to Hogan & Hartson, a Washington law firm. From 1978 to 1985 he served as the President and Chief Executive Officer of the Chicago Mercantile Exchange. Mr. Yeutter served as the U.S. Secretary of Agriculture from 1989 to 1991, and has served in cabinet and sub-cabinet posts under four U.S. Presidents. Mr. Yeutter currently serves on the board of directors of Caterpillar, Inc., Crop Solution, Inc., Oppenheimer Funds and Weyerhaeuser Corporation.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the managers and executive officers of the controlling member of the Company's general partner and persons who beneficially own more than 10% of the Company's Units to file reports of their ownership of Units with the Securities and Exchange Commission (the "SEC"). Such managers, executive officers and Unit holders are required by SEC regulation to furnish the Company with copies of all Section 16(a) reports they file. Based solely upon review of the copies of such reports received by the Company and written representations from each such person who did not file an annual report with the SEC (Form 5) that no other reports were required, the Company believes that there was compliance for the fiscal year ended December 31, 2001 with all Section 16(a) filing requirements applicable to such managers, executive officers and beneficial owners of Units.

Item 11. Executive Compensation.

The Company does not have officers and directors. Certain services are provided to the Company by managers and officers of America First. None of the managers or officers of the General Partner or the managers or officers of America First receive compensation from the Company and the General Partner does not receive reimbursement from the Company for any portion of their salaries. Remuneration paid by the Company to the General Partner pursuant to the terms of its limited partnership agreement during the year ended December 31, 2001, is described in Note 11 of the Notes to Consolidated Financial Statements filed in response to Item 8 hereof.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

- (a) No person is known by Company to own beneficially more than 5% of the Units.
- (b) Martin Massengale directly owns 314 Units, representing less than 1% of the Units outstanding. No other managers or officers of the General Partner or managers or officers of America First own any Units.
- (c) There are no arrangements known to the Company, the operation of which may at any subsequent date result in a change of control of the Company.
- (d) The Company does not maintain any equity contribution plans as defined in Item 201(d) in Rule S-K

Item 13. Certain Relationships and Related Transactions.

The members of the general partner are America First and Mr. Yanney. Except as described in Note 11 to Notes to Consolidated Financial Statements filed in response to Item 8 hereof, the Company did not engage in any transaction with its general partner, America First or with any person who is: (i) a member, manager, or executive officer of the general partner or America First; (ii) a nominee for election as manager of the general partner or America First; (iii) an owner of more than 5% of the Units; or (iv) a member of the immediate family of any of the foregoing persons.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) The following documents are filed as part of this report:

1. Financial Statements of the Company. The following financial statements are included in response to Item 8 of this report:

Independent Auditors' Reports.

Consolidated Balance Sheets of the Company and Subsidiaries as of December 31, 2001 and 2000.

Consolidated Statements of Income and Comprehensive Income of the Company and Subsidiaries for the years ended December 31, 2001, 2000 and 1999.

Consolidated Statements of Partners' Capital (Deficit) of the Company and Subsidiaries for the years ended December 31, 2001, 2000 and 1999.

Consolidated Statements of Cash Flows of the Company and Subsidiaries for the years ended December 31, 2001, 2000 and 1999.

Notes to Consolidated Financial Statements of the Company and Subsidiaries.

Schedule III—Real Estate and Accumulated Depreciation for the year ended December 31, 2001.

2. Financial Statement Schedules. The information required to be set forth in the financial statement schedules is included in the Consolidated Financial Statements filed in response to Item 8 hereof.
3. Exhibits. The following exhibits are filed as required by Item 14(c) of this report. Exhibit numbers refer to the paragraph numbers under Item 601 of Regulation S-K:

2(a) Agreement and Plan of Merger among the Company and Cap Source I and Cap Source II (incorporated by reference to Appendix A to the Prospectus included in Registration Statement on Form S-4 (No. 333-52117) filed by the Company on November 8, 1999).

4(a) Certificate of Limited Partnership of the Company (incorporated by reference to Exhibit 3.01 to Registration Statement on Form S-4 (No. 333-52117) filed by Company on July 21, 1999).

4(b) Amended and Restated Agreement of Limited Partnership of the Company (incorporated by reference to Exhibit 3.02 to the Registration Statement on Form S-4 (No. 333-52117) filed by the Company on July 21, 1999).

4(c) Form of Indenture between the Company and U.S. Bank Trust National Association, as trustee, (incorporated by reference to Exhibit 4.02 to the Registration Statement on Form S-4 (No. 333-52117) filed by the Company on May 7, 1998).

4(d) Form of Unit Certificate of the Company (incorporated by reference to Exhibit 4.03 to the Registration Statement on Form S-4 (No. 333-52117) filed by the Company on September 28, 1999).

4(e) Form of Variable Rate Junior Notes are included in Exhibit 4.02 (incorporated by reference to Exhibit 4.04 to the Registration Statement on Form S-4 (No. 333-52117) filed by the Company on May 7, 1998).

10(a) Stipulation of Settlement.

IN THE CASE OF

ALVIN M. PANZER and

SANDRA G. PANZER Plaintiffs,

INSURED MORTGAGE EQUITIES, INC., INSURED MORTGAGE

EQUITIES II LP., AMERICA FIRST CAPITAL

SOURCE I, LLC., AMERICA FIRST

CAPITAL SOURCE II, LLC, AMERICA

FIRST COMPANIES, LLC, AMERICA

FIRST REAL ESTATE INVESTMENT

PARTNERS, L.P., LEHMAN

BROTHERS, INC., CAPITAL SOURCE

L.P., PAUL L. ABBOTT, and CAPITAL

SOURCE II, L.P.,

Defendants.

(incorporated herein by reference to Form 10-Q dated March 31, 2000 filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 by the Company (Commission File No. 333-52117)).

21. Subsidiaries of the Company

24. Power of Attorney

99. Report of Audit Committee

(b) The Company did not file any reports on Form 8-K during the last quarter of the period covered by this report.

INDEPENDENT AUDITORS' REPORT

To the Partners

America First Real Estate Investment Partners, L.P.:

We have audited the accompanying consolidated balance sheets of America First Real Estate Investment Partners, L.P. and subsidiaries as of December 31, 2001 and 2000 and the related consolidated statements of income and comprehensive income, partners' capital (deficit) and cash flows for each of the three years in the period ended December 31, 2001. In connection with our audit of the consolidated financial statements, we also audited the financial statement schedule listed in the Index at Item 14(a) as of December 31, 2001 and for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of America First Real Estate Investment Partners, L.P. and subsidiaries as of December 31, 2001 and 2000 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

Omaha, Nebraska
March 13, 2002

/s/KPMG LLP

AMERICA FIRST REAL ESTATE INVESTMENT PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2000</u>
Assets		
Cash and cash equivalents	\$ 5,617,092	\$ 8,543,561
Investment in FHA Loans, at fair value	-	18,674,291
Investment in GNMA Certificates, at fair value	42,614,238	43,097,291
Investment in corporate equity securities, at fair value	2,498,970	-
Investment in Operating Partnerships	23,016,520	3,809,948
Dividends and interest receivable	353,074	498,562
Investment in real estate, net of accumulated depreciation	25,046,607	-
Other assets	749,820	101,081
Goodwill, net of accumulated amortization of \$35,971 and \$0, respectively	863,307	889,278
	<u>\$ 100,759,628</u>	<u>\$ 75,614,012</u>
Liabilities and Partners' Capital		
Liabilities		
Accounts payable and accrued expenses	\$ 668,734	\$ 5,127,145
Distribution payable	1,029,857	11,261,891
Notes payable	3,499,008	4,029,000
Bonds and mortgage payable	18,520,000	-
Borrowings under repurchase agreements	20,325,000	-
Interest payable	308,334	-
	<u>44,350,933</u>	<u>20,418,036</u>
Partners' Capital (Deficit)		
General Partner	1,936	(491,211)
Unit holders (\$8.30 per Unit in 2001 and \$7.57 per Unit in 2000)	56,406,759	55,687,187
	<u>56,408,695</u>	<u>55,195,976</u>
Liabilities and Partners' Capital (Deficit)	<u>\$ 100,759,628</u>	<u>\$ 75,614,012</u>

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

AMERICA FIRST REAL ESTATE INVESTMENT PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	For the Year Ended Dec. 31, 2001	For the Year Ended Dec. 31, 2000	For the Year Ended Dec. 31, 1999
Income			
Mortgage-backed securities income	\$ 4,917,665	\$ 3,182,513	\$ 3,215,472
Interest income on cash and cash equivalents	288,835	497,847	431,111
Dividend income	138,043	-	-
Rental income	788,663	-	-
Equity in earnings (losses) of Operating Partnerships	1,208,554	170,146	(325,245)
Other income	5,847	-	2,000
	<u>7,347,607</u>	<u>3,850,506</u>	<u>3,323,338</u>
Expenses			
Real estate operating expenses	341,920	-	-
Depreciation expense	175,151	-	-
Interest expense	999,264	-	-
Operating and administrative expenses	1,581,356	1,512,282	629,037
	<u>3,097,691</u>	<u>1,512,282</u>	<u>629,037</u>
Net income	4,249,916	2,338,224	2,694,301
Other comprehensive income (loss)			
Unrealized gains (losses) on securities			
Unrealized holding gains (losses) arising during the year	159,804	4,076	(22,392)
Less: reclassification adjustment for gains included in net income	(5,847)	-	-
Unrealized holding gains due to change in reclassification from held-to-maturity to available-for-sale	-	18,965	-
	<u>153,957</u>	<u>23,041</u>	<u>(22,392)</u>
Net comprehensive income	<u>\$ 4,403,873</u>	<u>\$ 2,361,265</u>	<u>\$ 2,671,909</u>
Net income allocated to:			
General Partner	\$ 533,138	\$ 23,382	\$ 26,943
Unit holders ⁽¹⁾	3,716,778	2,314,842	2,667,358
	<u>\$ 4,249,916</u>	<u>\$ 2,338,224</u>	<u>\$ 2,694,301</u>
Net income, basic and diluted, per Unit ⁽¹⁾	<u>\$ 0.54</u>	<u>\$ 0.69</u>	<u>\$ 0.79</u>
Weighted average number of Units outstanding basic and diluted ⁽¹⁾	<u>6,908,019</u>	<u>3,385,118</u>	<u>3,374,222</u>

⁽¹⁾ To BAC holders, per BAC, or number of BACs for year ended December 31, 1999.

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

AMERICA FIRST REAL ESTATE INVESTMENT PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

		Unit Holders		
	General Partner	# of Units	Amount ⁽¹⁾	Total
Partners' Capital (excluding accumulated other comprehensive income)				
Balance at December 31, 1998	\$ (172,483)	-	\$ 44,490,061	\$ 44,317,578
Net income	26,943	-	2,667,358	2,694,301
Cash distributions paid or accrued	(34,424)	-	(3,407,964)	(3,442,388)
Balance at December 31, 1999	(179,964)	-	43,749,455	43,569,491
Net income	23,382	-	2,314,842	2,338,224
Cash distributions paid or accrued	(34,424)	-	(3,407,964)	(3,442,388)
Effects of Merger:				
Issuance of Units of the Company in exchange for BACs of the Predecessor	-	4,386,143	-	-
Issuance of notes payable of the Company or cash payment payable to BAC holders in exchange for BACs of the Predecessor	-	-	(3,232,586)	(3,232,586)
Issuance of Units of the Company in exchange for BACs of Cap Source II	(300,601)	2,965,069	29,821,693	29,521,092
Cash distributions accrued pursuant to the Settlement	-	-	(10,097,423)	(10,097,423)
Liability for purchase of Units pursuant to Settlement	-	-	(3,500,000)	(3,500,000)
Balance at December 31, 2000	(491,607)	7,351,212	55,648,017	55,156,410
Net income	533,138	-	3,716,778	4,249,916
Purchase of Units	-	(554,157)	(22,668)	(22,668)
Cash distributions paid or accrued	(41,531)	-	(3,126,955)	(3,168,486)
Balance at December 31, 2001	-	6,797,055	56,215,172	56,215,172
Accumulated Other Comprehensive Income				
Balance at December 31, 1998	389	-	38,528	38,917
Other comprehensive income, net	(224)	-	(22,168)	(22,392)
Balance at December 31, 1999	165	-	16,360	16,525
Other comprehensive income, net	231	-	22,810	23,041
Balance at December 31, 2000	396	-	39,170	39,566
Other comprehensive income, net	1,540	-	152,417	153,957
Balance at December 31, 2001	1,936	-	191,587	193,523
Balance at December 31, 2001	\$ 1,936	6,797,055	\$ 56,406,759	\$ 56,408,695

⁽¹⁾ To BAC holders for years prior to the Merger.

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

AMERICA FIRST REAL ESTATE INVESTMENT PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended Dec. 31, 2001	For the Year Ended Dec. 31, 2000	For the Year Ended Dec. 31, 1999
Cash flows from operating activities			
Net income	\$ 4,249,916	\$ 2,338,224	\$ 2,694,301
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in (earnings) losses of Operating Partnerships	(1,208,554)	(170,146)	325,245
Depreciation expense	175,151	-	-
Amortization of goodwill	35,971	-	-
Other amortization	20,547	(1,738)	(2,216)
Gain on the sale of corporate equity securities	(5,847)	-	-
(Increase) decrease in dividends and interest receivable	145,488	(1,610)	1,916
(Increase) decrease in other assets	(264,679)	(55,916)	207,037
(Decrease) increase in accounts payable and accrued expenses	(875,443)	789,943	(69,225)
Increase in interest payable	308,334	-	-
Net cash provided by operating activities	<u>2,580,884</u>	<u>2,898,757</u>	<u>3,157,058</u>
Cash flows from investing activities			
FHA Loan and GNMA principal payments received	19,161,862	395,003	417,853
Proceeds from sale of corporate equity securities	150,711	-	-
Net cash from Merger	-	299,349	-
Distributions received from Operating Partnerships	815,655	170,146	59,755
Investments in Operating Partnerships	(18,813,673)	-	(385,000)
Acquisition of real estate	(6,682,195)	-	-
Real estate capital improvements	(19,563)	-	-
Purchase of corporate equity securities	(2,475,430)	-	-
Deferred transaction costs paid	(10,000)	(436,303)	(452,975)
Net cash provided by (used in) investing activities	<u>(7,872,633)</u>	<u>428,195</u>	<u>(360,367)</u>
Cash flows from financing activities			
Borrowings under repurchase agreements	20,325,000	-	-
Distributions paid	(13,386,751)	(3,442,388)	(3,442,388)
Purchase of Units	(3,522,668)	-	-
Cash paid in lieu of fractional Units or Notes	(117,486)	-	-
Debt financing costs paid	(402,823)	-	-
Principal payments on Notes payable	(509,024)	-	-
Purchase of Notes payable	(20,968)	-	-
Net cash provided by (used in) financing activities	<u>2,365,280</u>	<u>(3,442,388)</u>	<u>(3,442,388)</u>
Net decrease in cash and cash equivalents	(2,926,469)	(115,436)	(645,697)
Cash and cash equivalents at beginning of year	8,543,561	8,658,997	9,304,694
Cash and cash equivalents at end of year	<u>\$ 5,617,092</u>	<u>\$ 8,543,561</u>	<u>\$ 8,658,997</u>
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	<u>\$ 690,930</u>	<u>\$ -</u>	<u>\$ -</u>

AMERICA FIRST REAL ESTATE INVESTMENT PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS, (continued)

Supplemental disclosure of non-cash investing and financing activities:

In 2001, the Company assumed bonds and mortgages payable of \$18,520,000 in exchange for the acquisition of investments in real estate.

The following represents the fair value of the assets and liabilities acquired by the Company in conjunction with the Merger and the issuance of Units on December 31, 2000:

Investment in FHA Loans	\$ 6,431,046
Investment in GNMA Certificates	20,264,893
Investment in Operating Partnerships	3,809,948
Interest receivable	192,209
Other assests	40,274
Accounts payable	298,856
Distributions payable	303,871
Goodwill recorded by the Company as a result of the Merger	889,278

The following represents the non-cash financing activities relating to the Merger and Settlement on December 31, 2000.

Accounts payable to BAC holders in exchange for fractional BACs of the Predecessor	\$ 77,586
Accounts payable to BAC holders in exchange for fractional BACs of Cap Source II	39,900
Accounts payable for the liability to purchase Units pursuant to the Settlement	3,500,000
Distributions payable pursuant to the Settlement	10,097,423
Issuance of Notes payable of the Company in exchange for BACs of the Predecessor	3,155,000
Issuance of Notes payable of the Company in exchange for BACs of Cap Source II	874,000
Issuance of 7,351,212 Units of the Company in exchange for BACs of the Predecessor and Cap Source II	29,521,092

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

AMERICA FIRST REAL ESTATE INVESTMENT PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2001

1. Organization

America First Real Estate Investment Partners, L.P. (the "Company") was formed on June 18, 1999, under the Delaware Revised Uniform Limited Partnership Act for the purpose of acquiring, holding, operating, selling and otherwise dealing primarily with multifamily residential properties, including the acquisition of debt and equity securities of entities engaged in similar activities. The General Partner of the Company is America First Capital Source I L.L.C. The Company commenced operations concurrent with the December 31, 2000 Merger described below. The Company will terminate December 31, 2039, unless sooner dissolved pursuant to the provisions of the Limited Partnership Agreement.

The Company began operations on December 31, 2000, when it merged with Capital Source L.P. ("Cap Source I") and Capital Source II L.P.-A, ("Cap Source II", and together with Cap Source I, the "Partnerships"), (the "Merger"). The Company was the surviving partnership from the Merger. The beneficial assignment certificates representing assigned limited partner interests in the Partnerships (the "BACs") were converted, at the election of the BAC holders, into either Units of assigned limited partner interests in the Company (the "Units") or certain Variable Rate Junior Notes issued in two separate series by the Company (the "Notes"). The Company issued a total of 7,351,812 Units and \$4,029,000 principal amount of Notes. The Notes are due January 15, 2008, but are callable by the Company at any time after the date of issuance. The Units are listed on the Nasdaq National Market under the symbol "AFREZ." The Notes are not publicly traded.

For financial accounting purposes, Cap Source I (the "Predecessor") was deemed to be the acquirer of Cap Source II under the purchase method of accounting because its investors were allocated the largest number of Units. Accordingly, the transaction resulted, for financial accounting purposes, in the effective purchase by Cap Source I of all of the BACs of Cap Source II. As the surviving entity for financial accounting purposes, the assets and liabilities of Cap Source I were recorded by the Company at their historical cost and the assets and liabilities of Cap Source II were recorded at their estimated fair values. Together, the combined entities are now known as America First Real Estate Investment Partners, L.P.

In connection with the Merger, and in accordance with the Stipulation of Settlement (the "Settlement") dated April 24, 2000, which was approved by the Delaware Court of Chancery on December 19, 2000, the Company made a distribution of approximately \$0.75 per Unit on or about January 16, 2001, to holders of record as of December 31, 2000. The Company also made a distribution of approximately \$75.01 per Note on or about January 16, 2001, to Note holders of record as of December 31, 2000. This distribution to Note holders constituted a prepayment of principal on the Notes, and reduced the principal amount outstanding on the Notes accordingly. The Company also made a second cash distribution of approximately \$0.66 per Unit, and approximately \$51.33 per Note, on or about April 30, 2001, to holders of record on or about March 31, 2001. In accordance with the Settlement, the Company purchased 554,157 Units on the open market during 2001 at an aggregate cost of \$3,522,668. Such amount was included as part of the \$3,500,000 which was accrued and reflected in the Statement of Partners' Capital (Deficit) at December 31, 2000, as part of the Settlement.

The General Partner was a general partner of the Predecessor and is controlled by the same entity, America First Companies L.L.C. ("America First"), that controlled the general partners of the Partnerships. Neither America First nor the general partners of the Partnerships were issued any Units or Notes in connection with the Merger. The General Partner owns a 1% general partner interest in the Company.

As a result of the Merger, the Company became the limited partner of ten limited partnerships ("Operating Partnerships") which own apartment complexes (the "Apartment Complexes") located throughout the United States, including three in North Carolina, two each in Florida and Michigan, and one each in Ohio, Virginia and

AMERICA FIRST REAL ESTATE INVESTMENT PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2001

Illinois. The Company owns a 98.99% limited partnership interest in nine of these Operating Partnerships and a 99.99% limited partnership interest in the tenth Operating Partnership. Either CS Properties I, Inc. or CS Properties II, Inc., both of which are owned by the General Partner, serve as the Special Limited Partner for each of the Operating Partnerships. In the case of The Ponds at Georgetown, CS Properties I, Inc. and CS Properties II, Inc. each serve as a Special Limited Partner. The Special Limited Partner has the power, among other things, to remove the general partners of the Operating Partnerships under certain circumstances and to consent to the sale of the Operating Partnerships' assets. CS Properties I, Inc. also serves as the general partner of Misty Springs Apartments, Waterman's Crossing, Fox Hollow Apartments, Highland Park Apartments (effective September 2001) Bluff Ridge Apartments (effective December 2001) and, along with CS Properties II, Inc., as a co-general partner of The Ponds at Georgetown. In April 2001, CS Properties II, Inc. also became the general partner of Delta Crossing and Monticello Apartments. See also Note 15 to Notes to Consolidated Financial Statements "Subsequent Event".

As a result of the Merger, the Company also became the owner of: (a) six mortgage-backed securities guaranteed as to principal and interest by the Government National Mortgage Association ("GNMA"); and collateralized by first mortgage loans on six of the Apartment Complexes; (b) three first mortgage loans on three Apartment Complexes insured as to principal and interest by the Federal Home Loan Mortgage Administration, which were paid to the Company in full during the year 2001; and (c) certain GNMA securities backed by pools of single-family mortgages.

The exchange values, which were intended to fairly represent the value of the assets of the Partnerships, used to determine the allocation of Units and Notes among the Partnerships were based on (a) the principal amount of GNMA Certificates collateralized by first mortgage loans on Apartment Complexes and the FHA Loans as shown in the Partnerships' audited financial statements as of December 31, 1998, (b) the value of the Partnerships' limited partner interests in the Operating Partnerships, and (c) the market value of the Partnerships' remaining net assets as shown in the Partnerships' audited financial statements as of December 31, 1998. The fair market value of the real estate held by the Operating Partnerships, as determined by real estate appraisals dated December 31, 1998, was the value assigned to the real estate for the purpose of determining the exchange values.

2. Summary of Significant Accounting Policies

A) *Financial Statement Presentation*

The consolidated financial statements include the accounts of the Company and its subsidiaries, and, prior to the Merger, the accounts of the Predecessor. All significant intercompany transactions and accounts have been eliminated in consolidation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

AMERICA FIRST REAL ESTATE INVESTMENT PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2001

B) *Investment in Mortgage-Backed Securities and Corporate Equity Securities*

The Company accounts for its investments in securities in accordance with Statement of Financial Accounting Standard No. 115 "Accounting for Certain Investment in Debt and Equity Securities," (FAS 115), and has classified its investments in securities as available-for-sale.

Securities are carried at fair market value, with unrealized gains and losses reported in partners' capital as a component of other comprehensive income. Fair value is determined by reference to published market prices.

Security transactions are recorded on the trade date and realized gains or losses on security sales are based upon the specific identification method.

Interest income is recorded as earned and dividend income is recorded on the ex-date.

In connection with the Merger on December 31, 2000, the Company reclassified its investments previously held by the Predecessor and classified as held-to-maturity to available-for-sale as the Company may not hold them to maturity. As a result of the change in classification, other comprehensive income increased by \$18,965 for the year ended December 31, 2000.

C) *Investment in Operating Partnerships*

The investment in Operating Partnerships consists of interests in limited partnerships which own multifamily residential properties. The investments in Operating Partnerships are accounted for using the equity method as the Company has significant influence, but not control over the Operating Partnerships. As such, the Company records its proportionate share of the Operating Partnerships' income or losses. The investments in the Operating Partnerships were recorded at the cost to acquire such interests. The Company suspends recognizing losses in the Operating Partnerships when its entire investment becomes consumed by such losses. Losses are then recognized only to the extent of additional contributions, net of distributions received, to the Operating Partnerships by the Company.

Cash distributions received from Operating Partnerships whose entire investment has been reduced to zero through the recognition of proportionate losses are recognized as income when received by the Company.

Cash distributions received from Operating Partnerships whose entire investment has not been reduced to zero through the recognition of proportionate losses are recorded as a reduction of the Company's investment in the respective Operating Partnership. Such Operating Partnerships include the former Capital Source II assets which were recorded at their estimated fair value on the date of the Merger and Operating Partnerships in which the Company has made additional equity investments.

The Company is not the general partner of the Operating Partnerships and does not have a legal obligation to provide additional cash support, nor has it indicated any commitment to provide this support; accordingly, the investment in the Operating Partnerships is not reduced below zero.

The Operating Partnerships are not insured or guaranteed. The fair value of these investments is a function of the value of the real estate underlying the Operating Partnerships.

AMERICA FIRST REAL ESTATE INVESTMENT PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2001

As a result of the Merger, the investments in Operating Partnerships acquired from Cap Source II were recorded by the Company at their aggregate estimated fair value of \$3,809,048 as of the Merger date.

D) *Investment in Real Estate*

Each real estate property is recorded at the lower of the Company's cost or fair value. Management reviews each property for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value of a property may not be recoverable. The review of recoverability is based upon comparing the net book value of each real estate property to its estimated fair value. The estimated fair value is determined based upon the estimated future cash flows of each property, discounted at an estimated capitalization rate. If impairment exists due to the inability to recover the carrying value of a property, an impairment loss is recorded to the extent that the carrying value of the property exceeds its estimated fair value. There were no impairment losses recorded in the year ended December 31, 2001.

Depreciation of real estate is based on the estimated useful life of the property, generally 27-1/2 years, using the straight-line method.

Maintenance and repairs are charged to expense as incurred. Capital improvements and significant betterment projects exceeding \$10,000 per project are capitalized and depreciated using the straight-line method over their estimated useful life.

E) *Income Taxes*

No provision has been made for income taxes since Unit holders of the Company and BAC holders of the Predecessor are required to report their share of the Company's or Predecessor's income for federal and state income tax purposes. The book basis of the Company's assets and liabilities exceeded the tax basis by \$17,511,053 and \$1,745,470 at December 31, 2001 and 2000, respectively.

F) *Cash Equivalents*

Cash equivalents include short-term debt securities with an original maturity of three months or less when purchased.

G) *Net Income per Unit or BAC*

Net income per Unit or BAC is based on the weighted average number of Units or BACs outstanding during each year presented. The Company has no dilutive Units or BACs and, therefore, basic net income per Unit or BAC is the same as diluted net income per Unit or BAC.

H) *Goodwill*

Goodwill is amortized on a straight-line basis over 25 years and is periodically assessed for impairment based upon the Company's undiscounted cash flows generated from operations over the life of the enterprise level goodwill. There was no impairment of goodwill at December 31, 2001.

AMERICA FIRST REAL ESTATE INVESTMENT PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2001

I) *Revenue Recognition on Investment in Real Estate*

The Company leases multifamily rental units under operating leases with terms of one year or less. Rental revenue is recognized as earned, net of any vacancy losses and rental concessions offered.

J) *Debt Financing Costs*

Debt financing costs are capitalized and amortized over the stated life of the term of the debt. Debt financing costs are included in "other assets" on the Company's consolidated balance sheet.

3. Partnership Income, Expenses and Cash Distributions

The Partnership Agreement of the Company contains provisions for the distribution of Net Operating Income, Net Sale Proceeds and Liquidation Proceeds (as defined in the Limited Partnership Agreement) and for the allocation of income and expenses for tax purposes among the General Partner and Unit holders. Income and losses will be allocated to each Unit holder on a periodic basis based on the number of Units held by each Unit holder as of the last day of the period for which such allocation is to be made. Net Operating Income, as defined in the Limited Partnership Agreement, in each distribution period will be distributed 99% to the Unit holders and 1% to the General Partner. If either the General Partner or the Unit holders have a deficit capital balance as of the last day of any fiscal year, then all items of Income shall first be allocated prorata to the General Partner or the Unit holders in the manner necessary to eliminate such deficit capital balances. Distributions of Net Operating Income and Net Sale Proceeds will be made to each Unit holder of record on the last day of each distribution period based on the number of Units held by each Unit holder as of such date.

Net Sale Proceeds, as defined in the Limited Partnership Agreement, will be distributed 99% to the Unit holders and 1% to the General Partner.

Liquidation Proceeds, as defined in the Limited Partnership Agreement, remaining after repayment of any debts or obligations of the Company (including loans from the General Partner or its affiliates) and after the establishment of any reserve the General Partner deems necessary, will be distributed to the General Partner and Unit holders to the extent of positive balances in their capital accounts. Any remaining Liquidation Proceeds will be distributed in the same manner as the Net Sale Proceeds.

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

With regard to the Predecessor, profits and losses from continuing operations and cash available for distribution were generally allocated 99% to the BAC holders and 1% to the General Partners. Cash distributions of the Predecessor included in the financial statements represent the actual cash distributions made during each year and the change in cash distributions accrued at the end of each year.

4. Investment in Mortgage-Backed Securities

The mortgage-backed securities held by the Company represent Government National Mortgage Association (GNMA) Certificates and Federal Housing Administration (FHA) Loans. The GNMA Certificates are backed by first mortgage loans on multifamily housing properties and pools of single-family properties. The GNMA Certificates are debt securities issued by a private mortgage lender and are guaranteed by GNMA as to the full

AMERICA FIRST REAL ESTATE INVESTMENT PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2001

and timely payment of principal and interest on the underlying loans. The FHA loans are guaranteed as to the timely payment of principal and interest on the underlying loans.

At December 31, 2001, the total amortized cost, gross unrealized holding gains, and aggregate fair value of mortgage-backed securities were \$42,589,119, \$25,119 and \$42,614,238, respectively.

At December 31, 2000, the total amortized cost, gross unrealized holding gains, and aggregate fair value of mortgage-backed securities were \$61,732,016, \$39,566 and \$61,771,582, respectively.

Certain GMNA Certificates and FHA loans classified as available-for-sale on the December 31, 2000 balance sheet of the Company were classified as held-to-maturity on the December 31, 1999 balance sheet of the Predecessor. Based on the differing investment objectives of the Company, it was determined that it would be more appropriate to classify such securities as available-for-sale rather than held-to-maturity. Accordingly, on the date of the Merger, such securities were transferred from the held-to-maturity classification to the available-for-sale classification. The total amortized cost, gross unrealized holding gains and the aggregate fair value of the securities transferred were \$34,524,613, \$18,965 and \$34,543,578.

Descriptions of the Company's mortgage-backed securities held at December 31, 2001 are as follows:

Property Name	Location	Number of Units	Interest Rate	Maturity Date	Carrying Amount	Income Earned in 2001
Crane's Landing ^{(1), (3)}	Winter Park, FL	252	8.75%	12/15/30	\$ 9,987,856	\$ 876,737
Misty Springs Apartments ⁽³⁾	Daytona Beach, FL	128	8.75%	06/15/29	4,155,698	364,972
Monticello Apartments ⁽¹⁾	Southfield, MI	106	8.75%	11/15/29	5,189,053	455,659
The Ponds at Georgetown ^{(1), (3)}	Ann Arbor, MI	134	7.50%	12/15/29	7,290,264	550,777
Waterman's Crossing	Newport News, VA	260	10.00%	09/15/28	10,677,539	1,071,127
Water's Edge Apartments	Lake Villa, IL	108	8.75%	12/15/28	4,921,905	432,344
Pools of single-family mortgages			7.58% ⁽²⁾	2008 to 2009	240,511	19,804
Pools of single-family mortgages			7.58% ⁽²⁾	2007 to 2008	151,412	14,714
						3,786,134
Income from FHA Loans redeemed during year						1,131,531
Balance at December 31, 2001					\$ 42,614,238	\$ 4,917,665

⁽¹⁾ The GNMA Certificate (or approximately 70% of the GNMA Certificate on the case of The Ponds at Georgetown) was acquired by the Company in conjunction with the Merger.

⁽²⁾ The average rate for the year ended December 31, 2001.

⁽³⁾ GNMA Certificate collateralizes a repurchase agreement as described in Note 10 to the Consolidated Financial Statements.

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A reconciliation of the carrying value of the Company's mortgage-backed securities is as follows:

	Dec. 31, 2001	Dec. 31, 2000	Dec. 31, 1999
Balance at beginning of year	\$ 61,771,582	\$ 35,445,867	\$ 35,883,896
Additions			
GNMA Certificates and FHA Loans acquired in conjunction with the Merger, at fair value	-	26,695,939	-
Change in unrealized holding gains (losses) on available-for-sale securities	2,734	4,076	(22,392)
Amortization of discount on mortgage-backed securities	1,784	1,738	2,216
Unrealized holding gains due to change in classification of GNMA Certificates and FHA Loans from held-to-maturity to available-for-sale	-	18,965	-
Deduction			
FHA Loan and GNMA principal payments received	(19,161,862)	(395,003)	(417,853)
Balance at end of year	<u>\$ 42,614,238</u>	<u>\$ 61,771,582</u>	<u>\$ 35,445,867</u>

5. Investment in Corporate Equity Securities

At December 31, 2001, the total cost, gross unrealized holding gains and fair value of the Company's investment in corporate equity securities was \$2,330,566, \$168,404 and \$2,498,970, respectively. The Company did not own any corporate equity securities at December 31, 2000.

6. Investment in Operating Partnerships

The Company's investment in Operating Partnerships consists of interests in limited partnerships which own multifamily properties financed by certain GNMA Certificates and FHA Loans owned or formerly owned by the Company. The limited partnership agreements provide for the payment of certain amounts out of a portion of the net cash flow or net sale or refinancing proceeds of the properties, subject to various priority payments.

Descriptions of the Operating Partnerships held at December 31, 2001, are as follows:

Property Name	Location	Partnership Name	Carrying Value	2001 Equity Earnings in of Operating Partnerships
Bluff Ridge Apartments	Jacksonville, NC	Bluff Ridge Associates Limited Partnership	\$ 3,430,472	\$ 126,279
Crane's Landing	Winter Park, FL	Crane's Landing Partners, Ltd.	1,332,057	6,878
Delta Crossing	Charlotte, NC	Delta Crossing Limited Partnership	7,720,765	372,345
Fox Hollow Apartments	High Point, NC	Fox Hollow, LTD.	-	350,268
Highland Park Apartments	Columbus, OH	Interstate Limited Partnership	8,858,140	224,244
Misty Springs Apartments	Daytona Beach, FL	Cypress Landings II, LTD.	-	-
Monticello Apartments	Southfield, MI	Centrum Monticello Limited Partnership	1,404,339	3,868
The Ponds at Georgetown	Ann Arbor, MI	Ponds at Georgetown Limited Partnership	270,747	76,732
Water's Edge Apartments	Lake Villa, IL	Water's Edge Limited Partnership	-	47,940
Balance at December 31, 2001			<u>\$ 23,016,520</u>	<u>\$ 1,208,554</u>

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A reconciliation of the balance of the Company's investment in Operating Partnerships is as follows:

	For the Year Ended Dec. 31, 2001	For the Year Ended Dec. 31, 2000	For the Year Ended Dec. 31, 1999
Balance at the beginning of the year	\$ 3,809,948	\$ -	\$ -
Investment in Operating Partnerships	18,813,673	-	385,000
Operating Partnerships acquired in conjunction with the Merger, at fair value	-	3,809,948	-
Equity in earnings (losses) of Operating Partnerships	1,208,554	170,146	(325,245)
Distributions received from Operating Partnerships	<u>(815,655)</u>	<u>(170,146)</u>	<u>(59,755)</u>
Balance at the end of the year	<u>\$ 23,016,520</u>	<u>\$ 3,809,948</u>	<u>\$ -</u>

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Combined financial statements of the Operating Partnerships are presented below. This information represents the combined balance sheets and the combined results of operations and cash flows for such Operating Partnerships for the year ended December 31, 2001 of the Operating Partnerships in which the Company owned limited partnership interests as of December 31, 2001 and 2000. The combined results of operations and cash flows for the years ended December 31, 2000 and 1999 only include the combined information of the Operating Partnerships in which the Predecessor owned limited partnership interests.

America First Real Estate Investment Partners, L.P. and Subsidiaries
Operating Partnerships Combined Balance Sheets

	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2000</u>
Assets		
Investment in real estate:		
Land	\$ 5,907,828	\$ 5,907,828
Buildings	62,699,976	62,699,976
Personal property	3,372,303	3,364,463
	<u>71,980,107</u>	<u>71,972,267</u>
Less accumulated depreciation	<u>(24,190,871)</u>	<u>(22,518,284)</u>
Net investment in real estate	47,789,236	49,453,983
Cash and cash equivalents	1,776,726	1,298,208
Escrow deposits and property reserves	1,414,724	1,330,714
Interest and other receivables	124,106	46,106
Deferred mortgage issuance cost, net of accumulated amortization	3,108,813	3,212,362
Other assets	600,894	770,641
	<u>\$ 54,814,499</u>	<u>\$ 56,112,014</u>
Liabilities and Partners' Capital (Deficit)		
Liabilities		
Accounts payable and accrued expenses	\$ 1,078,340	\$ 1,506,801
Mortgage loans payable	48,365,293	67,424,737
Interest payable	273,114	364,940
Due to general partners and their affiliates	4,369,529	4,618,135
	<u>54,086,276</u>	<u>73,914,613</u>
Partners' Capital (Deficit)		
General Partners	728,223	(17,802,599)
Limited Partners	-	-
	<u>728,223</u>	<u>(17,802,599)</u>
Liabilities and Partners' Capital (Deficit)	<u>\$ 54,814,499</u>	<u>\$ 56,112,014</u>

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America First Real Estate Investment Partners, L.P. and Subsidiaries
Operating Partnerships Combined Income Statements

	For the Year Ended Dec. 31, 2001	For the Year Ended Dec. 31, 2000	For the Year Ended Dec. 31, 1999
Income			
Rental income	\$ 13,678,365	\$ 8,177,730	\$ 8,075,019
Interest income on cash and cash equivalents	62,498	31,562	26,338
Other income	982,889	277,051	255,456
	<u>14,723,752</u>	<u>8,486,343</u>	<u>8,356,813</u>
Expenses			
Real estate operating expenses	7,032,747	3,771,711	3,618,813
Depreciation expense	1,670,557	954,171	954,464
Interest expense	5,468,932	3,952,450	3,976,989
Amortization	128,517	75,517	75,186
	<u>14,300,753</u>	<u>8,753,849</u>	<u>8,625,452</u>
Net income (loss)	\$ <u>422,999</u>	\$ <u>(267,506)</u>	\$ <u>(268,639)</u>
Net income (loss) allocated to:			
General Partners	\$ 422,999	\$ (437,652)	\$ 56,606
Limited Partners	<u>-</u>	<u>170,146</u>	<u>(325,245)</u>
	\$ <u>422,999</u>	\$ <u>(267,506)</u>	\$ <u>(268,639)</u>

AMERICA FIRST REAL ESTATE INVESTMENT PARTNERS, L.P. AND SUBSIDIARIES
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America First Real Estate Investment Partners, L.P. and Subsidiaries
Operating Partnerships Combined Statements of Cash Flows

	For the Year Ended Dec. 31, 2001	For the Year Ended Dec. 31, 2000	For the Year Ended Dec. 31, 1999
Cash flows from operating activities			
Net income (loss)	\$ 422,999	\$ (267,506)	\$ (268,639)
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	1,799,074	1,029,688	1,029,650
Decrease (increase) in interest and other receivables	(78,000)	4,336	26,853
Decrease (increase) in escrow deposits and property reserves	(84,010)	75,728	97,054
Decrease (increase) in other assets	143,779	6,697	(69,317)
Increase (decrease) in accounts payable and accrued expenses	(428,461)	78,822	(191,004)
Decrease in interest payable	(91,826)	(1,780)	(2,289)
Decrease in due to general partners and their affiliates	(248,606)	(20,488)	(22,144)
Net cash provided by operating activities	<u>1,434,949</u>	<u>905,497</u>	<u>600,164</u>
Cash flows from investing activities			
Acquisition of real estate	-	(214,413)	-
Acquisition of personal property	(7,840)	-	(9,133)
Net cash used in investing activities	<u>(7,840)</u>	<u>(214,413)</u>	<u>(9,133)</u>
Cash flows from financing activities			
Principal payments on mortgage loan payable	(19,059,444)	(298,902)	(214,037)
Contributions received	18,813,673	15,000	60,000
Distributions paid	(815,655)	(170,105)	(60,359)
Other, net	112,835	42,360	(178,792)
Net cash used in financing activities	<u>(948,591)</u>	<u>(411,647)</u>	<u>(393,188)</u>
Net increase in cash and cash equivalents	478,518	279,437	197,843
Cash and cash equivalents at beginning of year	<u>1,298,208</u>	<u>556,730</u>	<u>358,887</u>
Cash and cash equivalents at end of year	<u>\$ 1,776,726</u>	<u>\$ 836,167</u>	<u>\$ 556,730</u>

AMERICA FIRST REAL ESTATE INVESTMENT PARTNERS, L.P. AND SUBSIDIARIES
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7. Investment in Real Estate

During 2001 the Company acquired two multifamily residential properties: Brentwood Oaks Apartments was acquired in August and Huntsview Apartments was acquired in December.

The Company's investment in real estate is comprised of the following:

Property	Location	Number of Units	Land	Building and Improvements	Carrying Value at Dec. 31, 2001	Accumulated Depreciation
Brentwood Oaks Apartments ⁽¹⁾	Nashville, TN	262	\$ 2,000,000	\$ 12,161,956	\$ 14,014,630	\$ 147,326
Huntsview Apartments ⁽¹⁾	Greensboro, NC	240	1,844,500	9,215,302	11,031,977	27,825
			<u>\$ 3,844,500</u>	<u>\$ 21,377,258</u>	<u>\$ 25,046,607</u>	<u>\$ 175,151</u>

A reconciliation of the Company's investment in real estate is as follows:

	2001
Balance at beginning of year	-
Acquisition of real estate	\$ 25,202,195
Real estate capital improvements	19,563
Depreciation expense	<u>(175,151)</u>
Balance at end of year	<u>\$ 25,046,607</u>

⁽¹⁾ Property is encumbered as described in Note 9 to the Consolidated Financial Statements.

8. Notes Payable

Notes payable of the Company consist of Variable Rate Junior Notes Callable on or after December 31, 2000, due January 15, 2008, (the "Notes") issued to BAC holders of Cap Source I and Cap Source II who elected to receive such notes in exchange for their BACs of the respective Partnership in connection with the Merger. When issued, the Notes had an aggregate principal balance of \$4,029,000 consisting of \$3,155,000 of Notes issued to former BAC holders of Cap Source I and \$874,000 of Notes issued to former BAC holders of Cap Source II. During the year ended December 31, 2001, the Company made principal payments of \$529,992. At December 31, 2001, the principal balance on the notes payable was \$3,499,008.

The Notes bear interest at the rate equal to 120% of the annual applicable federal rate for debt instruments with a term of not over three years as determined by the Internal Revenue Code and applicable regulations thereunder. At December 31, 2001, such rate was 2.97%. The annual interest rate on the Notes is calculated by averaging such interest rates for each month. Such rate averaged 4.97% for the year ended December 31, 2001. The Notes provide for annual installments of accrued interest payable on the 15th of each January, beginning January 15, 2001. The unpaid principal balance and accrued but unpaid interest is due January 15, 2008.

The Company may, at its option, redeem all or any portion of the Notes at any time at a price equal to 100% of the outstanding principal balance of the Notes together with accrued interest to the date fixed for redemption.

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The Company is required to use 80% of the net proceeds, as defined in the indenture of trust related to such Notes, from sales or refinancings of assets of the Company that were owned by Cap Source I or Cap Source II prior to the transaction ("Designated Assets") to prepay the Notes. The Company is required to deposit such proceeds into a segregated trust account established under the indenture, and when the funds in the account equal or exceed \$5 million, the proceeds will be used to redeem the Notes as provided in the indenture. Eighty percent of the net proceeds from sales or refinancings of Cap Source I Designated Assets will be used to prepay the Notes held by former Cap Source I investors. Eighty percent of the net proceeds from sales or refinancings of Cap Source II Designated Assets will be used to prepay the Notes held by former Cap Source II investors.

The indenture related to the Notes prohibits the Company from incurring any indebtedness if the new indebtedness would cause the Company's aggregate principal amount of indebtedness then outstanding to exceed 70% of the greater of (i) the value which is placed by an independent appraiser on all the assets of the Company as of the date of the indebtedness transaction, and (ii) the value placed by an independent appraiser on all assets of the Company as of the date of the indebtedness transaction.

9. Bonds and Mortgage Payable

In 2001, the Company assumed bonds and mortgage payable in connection with its real estate acquisitions.

Bonds and mortgage payable at December 31, 2001 consisted of the following:

Collateral	Effective Interest Rate	Final Maturity Date	Payment Schedule	Annual Payments	Carrying Amount
Bonds Payable:					
Brentwood Oaks Apartments	3.15% ⁽¹⁾	06/01/2007	monthly payments of interest due on the 12th of each month	interest only	\$ 11,320,000
Mortgage Payable:					
Huntsview Apartments	5.83%	01/01/2012	monthly payments of principal and interest due on the 1st of each month	principal and interest totaling \$514,683	<u>7,200,000</u> <u>\$ 18,520,000</u>

⁽¹⁾ Bonds payable bear interest at a weekly reset, highly rated bond composite variable rate capped at 9.27%. Such rate averaged 3.15% for the year ended December 31, 2001.

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10. Borrowings Under Repurchase Agreements

Borrowings under repurchase agreements at December 31, 2001 consisted of the following:

Collateral	Interest Rate	Maturity Date	Payment Schedule	Carrying Amount
Crane's Landing GNMA Certificate	5.41%	01/18/2002	interest payments due quarterly, principal due at maturity	\$ 9,500,000
The Ponds at Georgetown GNMA Certificate	3.94%	06/26/2002	interest payments due quarterly, principal due at maturity	6,975,000
Misty Springs Apartments GNMA Certificate	3.69%	06/06/2002	interest payments due monthly, principal due at maturity	<u>3,850,000</u>
				<u>\$ 20,325,000</u>

11. Transactions with Related Parties

Substantially all of the Company's general and administrative expenses and certain costs capitalized by the Company are paid by the General Partner or an affiliate and reimbursed by the Company. The amount of such expenses and costs reimbursed to the General Partner or an affiliate are shown below. Such reimbursed expenses included in this footnote are presented on a cash basis and do not reflect accruals made at year end which are reflected in the accompanying consolidated financial statements.

	2001
Reimbursable salaries and benefits	\$ 640,259
Costs capitalized by the Partnership	417,389
Investor services and custodial fees	108,807
Professional fees and expenses	84,444
Report preparation and distribution	68,978
Other expenses	51,500
Insurance	48,420
Registration fees	16,618
Consulting and travel expense	12,410
Telephone	6,051
	<u>\$ 1,454,876</u>

The Company pays the General Partner an administrative fee in connection with the ongoing administration of the business of the Company in an amount equal to 0.50%, per annum, of the sum of: (i) the fair market value on the Merger date of the original assets that are still owned by the Company; plus (ii) the purchase price paid by the Company for new assets that are then held by the Company. The first \$100,000 of the administrative fee is payable each year, with the balance payable only during years that funds from operations ("FFO"), calculated before administrative fees, exceeds 7% of the Unit holders' average capital for that year. FFO represents net income (or loss) (computed in accordance with GAAP), excluding gains (or losses) from debt restructuring and sales of properties, plus real estate-related depreciation and amortization (excluding amortization of deferred financing costs and depreciation of non-real estate assets) and after adjustments for unconsolidated partnerships

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and joint ventures. Such administrative fees are paid on a monthly basis. Such fees were \$428,605 in 2001. No such fees were incurred in 2000 as the Company did not begin operations until December 31, 2000.

The Company pays the General Partner an acquisition fee in connection with the identification, evaluation and acquisition of new assets and the financing thereof in an amount equal to 1.25% of the aggregate purchase price paid by the Company for such new assets. The acquisition fee with respect to an acquisition of a new asset is payable at the time of the closing of the acquisition and is capitalized. Such fees were \$309,196 in 2001. No such fees were payable to the General Partner in 2000 as the Company did not begin operations until December 31, 2000.

Included in accounts payable and accrued expenses for reimbursed costs and expenses and administrative fees are amounts due to the General Partner of \$265,973 at December 31, 2001.

An affiliate of the Company's General Partner was retained to provide property management services for all but two of the properties owned by the Company. The property management fee paid with respect to any property may not exceed 5% of the gross revenues of such property (in the case of residential property) or 6% of the gross revenues of such property (in the case of industrial or commercial property); provided, however, that the property management fee shall not exceed an amount that would be charged by unaffiliated parties rendering similar services in the same geographic location and for comparable property. Property management fees paid to an affiliate of the General Partner totaled \$357,642 in 2001.

The general partners of the Predecessor, certain of their affiliates and the Operating Partnerships' general partners received or may have received fees, compensation, income, distributions and payments from the Predecessor in connection with the offering and the investment, management and sale of the Predecessor's assets (other than disclosed elsewhere) as follows:

The Predecessors' general partners were entitled to receive an asset management and partnership administration fee equal to 0.5% of invested assets per annum, payable only during such years that an 8% return was paid to investors on a noncumulative basis. For the years ended December 31, 2000 and 1999, distributions to investors represented less than the 8% return; accordingly, no fees were paid or accrued during these years.

Substantially all of the Predecessors' general and administrative expenses and certain costs capitalized by the Predecessor were paid by a general partner or an affiliate and reimbursed by the Predecessor. The amount of such expenses and costs reimbursed to the general partner was \$1,513,795 and \$657,861 for the years ended December 31, 2000 and 1999, respectively. Such reimbursements included in this footnote are presented on a cash basis and do not reflect accruals made at year end which are reflected in the accompanying consolidated financial statements.

An affiliate of the Predecessor's general partners was retained to provide property management services for Waterman's Crossing, Misty Springs Apartments, Fox Hollow Apartments and The Ponds at Georgetown. The fees for services provided were \$204,447 and \$210,137 for 2000 and 1999, respectively, and represented the lower of costs incurred in providing management of the property or customary fees for such services determined on a competitive basis.

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12. Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Cash and cash equivalents, dividends and interest receivable, other assets, accounts payable and accrued expenses, distributions payable, Notes payable, borrowings under repurchase agreements and interest payable: Fair value approximates the carrying value of such assets and liabilities.

Investment in mortgage-backed securities and corporate equity securities: Fair values are determined by reference to market sources. Bonds and mortgages payable: Fair value is based upon the estimated future cash flows using the quoted rate of similar obligations. Refer to the table below for carrying amounts and estimated fair values of such financial instruments.

	At December 31, 2001		At December 31, 2000	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Investment in FHA Loans	\$ -	\$ -	\$ 18,674,291	\$ 18,674,291
Investment in GNMA Certificates	\$ 42,614,238	\$ 42,614,238	\$ 43,097,291	\$ 43,097,291
Investment in corporate equity securities	\$ 2,498,970	\$ 2,498,970	\$ -	\$ -
Bonds and mortgage payable	\$ 18,520,000	\$ 18,520,000	\$ -	\$ -

13. New Accounting Pronouncement

The Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) effective January 1, 2001. This statement provides new accounting and reporting standards for the use of derivative instruments. It requires the recognition of all derivative instruments as assets or liabilities in the Company's consolidated balance sheet and measurement of these instruments at fair value. The accounting treatment is dependent upon whether or not a derivative instrument is designated as a hedge and, if so, the type of hedge. The change in fair value of freestanding derivative instruments is recognized in earnings in the absence of a specific hedge designation. The Company may use derivative financial instruments such as interest rate swaps and caps to manage its exposure to interest rate risk and purchased a cap on the variable rate of its bonds payable as described in Note 9. The adoption of this statement on January 1, 2001, did not have a material impact on the Company's financial statements and there was no transitional adjustment upon adoption.

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14. Summary of Unaudited Quarterly Results of Operations

From January 1, 2001 to December 31, 2001	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total income	\$ 1,476,423 ⁽¹⁾	\$ 1,524,010 ⁽¹⁾	\$ 1,770,356 ⁽¹⁾	\$ 2,576,818 ^{(1), (2)}
Total expenses	<u>(517,540)</u>	<u>(553,981)</u>	<u>(748,501)</u>	<u>(1,277,669) ⁽²⁾</u>
Net income	<u>\$ 958,883</u>	<u>\$ 970,029</u>	<u>\$ 1,021,855</u>	<u>\$ 1,299,149</u>
Net income, basic and diluted, per Unit	<u>\$ 0.13</u>	<u>\$ 0.14</u>	<u>\$ 0.15</u>	<u>\$ 0.12</u>

⁽¹⁾ The Company recorded equity in earnings (losses) of Operating Partnerships of (\$29,817), \$98,129, \$308,660 and \$831,582 during the first, second, third and fourth quarters, respectively.

⁽²⁾ The Company earned rental income of \$623,285 and incurred real estate operating and related expenses of \$411,592 on its investment in real estate.

Market Price per Unit

High sale	7.000	6.530	7.250	7.390
Low sale	5.000	5.760	6.000	6.010

The Units are quoted on the NASDAQ National Market System under the symbol AFREZ. The high and low quarterly sale prices of the Units were compiled from on-line sources based on information provided by NASDAQ.

From January 1, 2000 to December 31, 2000	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total income	\$ 928,474 ⁽¹⁾	\$ 969,855 ⁽¹⁾	\$ 1,030,220 ⁽¹⁾	\$ 921,957
Total expenses	<u>(151,150)</u>	<u>(258,710) ⁽²⁾</u>	<u>(204,497) ⁽²⁾</u>	<u>(897,925) ^{(2), (3)}</u>
Net income	<u>\$ 777,324</u>	<u>\$ 711,145</u>	<u>\$ 825,723</u>	<u>\$ 24,032</u>
Net income, basic and diluted, per BAC	<u>\$ 0.23</u>	<u>\$ 0.21</u>	<u>\$ 0.24</u>	<u>\$ 0.01</u>

⁽¹⁾ The Predecessor recorded equity in earnings of Operating Partnerships of \$15,488, \$49,500 and \$105,158 during the first, second and third quarters, respectively.

⁽²⁾ The Predecessor incurred legal fees of approximately \$131,000, \$68,000 and \$169,000 during the second third and fourth quarters of 2000, respectively, in conjunction with litigation related to the Settlement Agreement.

⁽³⁾ The Predecessor recorded, as a reduction of expenses, approximately \$257,000 in legal expenses reimbursable by the Partnership's insurance company. Also included is \$850,000 of legal expenses incurred by the Company.

15. Subsequent Event

Effective January 1, 2002, the Company acquired the general partner interest and the special limited partner interest, representing all of the remaining equity ownership interest, in the following eight Operating Partnerships: Bluff Ridge Associated Limited Partnership, Delta Crossing Limited Partnership, Fox Hollow,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Ltd, Interstate Limited Partnership, Cypress Landings II, Ltd, Centrum Monticello Limited Partnership, the Ponds at Georgetown Limited Partnership and Oyster Cove Limited Partnership. As a result, the Company now owns 100% of each Operating Partnership and, accordingly, will present the results of each on a consolidated basis with that of the Company from the date of acquisition.

16. Segment Reporting

The Company reports on its segments in accordance with FAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," which establishes standards for the way that public business enterprises report information about operating segments in financial statements, as well as related disclosures about products and services, geographic areas and major customers.

The accounting policies of the segments are the same as those described in Note 2 to the Consolidated Financial Statements.

The Company defines each of its multifamily apartment properties as an individual operating segment, including the properties owned by the Operating Partnerships. It has also determined that all properties have similar economic characteristics and also meet the other criteria which permit the multifamily properties to be aggregated into one reportable segment, that being the acquiring, holding, operating and selling of multifamily apartment properties. The Company's chief operating decision-makers assess and measure segment operating results based on a performance measure referred to as net operating income at the individual operating segment. Net operating income for each multifamily apartment property represents its net rental revenues less its real estate operating expenses.

The revenues, net operating income and total assets for the Company's reportable segment as of or for the years ended December 31, 2001, 2000 and 1999 are summarized as follows:

AMERICA FIRST REAL ESTATE INVESTMENT PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2001

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Multifamily real estate segment revenues	\$ 1,997,217	\$ 170,146	\$ (325,245)
Reconciling items:			
Mortgage backed securities income	4,917,665	3,182,513	3,215,472
Dividend and interest income	426,878	497,847	431,111
Other income	5,847	-	2,000
Consolidated revenues	<u>\$ 7,347,607</u>	<u>\$ 3,850,506</u>	<u>\$ 3,323,338</u>
Consolidated net income	\$ 4,249,916	\$ 2,338,224	\$ 2,694,301
Reconciling items:			
General and administrative expenses	1,581,356	1,512,282	629,037
Dividend and interest income	(426,878)	(497,847)	(431,111)
Mortgage backed securities income	(4,917,665)	(3,182,513)	(3,215,472)
Other income	(5,847)	-	(2,000)
Net income (loss) from multifamily real estate segment	<u>\$ 480,882</u>	<u>\$ 170,146</u>	<u>\$ (325,245)</u>
Reconciling items:			
Depreciation	175,151	-	-
Amortization of debt financing costs	18,763	-	-
Interest expense	129,893	-	-
Net operating income (loss) from multifamily real estate segment	<u>\$ 804,689</u>	<u>\$ 170,146</u>	<u>\$ (325,245)</u>
Multifamily real estate segment assets	\$ 49,217,195	\$ 3,809,948	\$ -
Reconciling items:			
Cash and cash equivalents	4,969,665	8,543,561	8,658,997
Investment in corporate equity securities	2,498,970	-	-
Investment in GNMA Certificates	42,614,238	43,097,291	23,105,420
Investment in FHA Loans	-	18,674,291	12,340,447
Other assets	1,459,560	1,488,921	762,609
Consolidated assets	<u>\$ 100,759,628</u>	<u>\$ 75,614,012</u>	<u>\$ 44,867,473</u>

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

AMERICA FIRST REAL ESTATE INVESTMENT PARTNERS, L.P

Schedule III

America First Real Estate Investment Partners, L.P.

Real Estate and Accumulated Depreciation

December 31, 2001

Description				Initial Cost to Partnership		Costs Capitalized Subsequent to Acquisition
Property Name	Location	Number of Units	Encumbrances	Land	Building and Improvements	Building and Improvements
Brentwood Oaks Apartments	Nashville, TN	262	(a)	\$ 2,000,000	\$ 12,142,393	\$ 19,563
Huntsview Apartments	Greensboro, NC	240	(a)	<u>1,844,500</u>	<u>9,215,302</u>	<u>-</u>
				<u>\$ 3,844,500</u>	<u>\$ 21,357,695</u>	<u>\$ 19,563</u>

(a) The property is encumbered as described in Note 9 to the accompanying Consolidated Financial Statements.

Gross Amount at December 31, 2001							
Property Name	Land	Building and Improvements	Total ^{(b), (c)}	Accumulated Depreciation ^(d)	Date of Construction	Date Acquired	Life Over Which Depreciation is Computed
Brentwood Oaks Apartments	\$ 2,000,000	\$ 12,161,956	\$ 14,161,956	\$ 147,326	1996	2001	27.5 years
Huntsview Apartments	<u>1,844,500</u>	<u>9,215,302</u>	<u>11,059,802</u>	<u>27,825</u>	1987	2001	27.5 years
	<u>\$ 3,844,500</u>	<u>\$ 21,377,258</u>	<u>\$ 25,221,758</u>	<u>\$ 175,151</u>			

(b) Reconciliation of Real Estate

2001	
Balance - beginning of year	\$ -
Acquisitions	25,202,195
Improvements	<u>19,563</u>
Balance - end of year	<u>\$ 25,221,758</u>

^(c) As of December 31, 2001, the aggregate cost of the Company's investment in real estate for federal income tax purposes amounted to \$25,221,758.

^(d) Reconciliation of Accumulated Depreciation

2001	
Balance - beginning of year	\$ -
Depreciation expense	<u>175,151</u>
Balance - end of year	<u>\$ 175,151</u>

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

By America First Real Estate
Investment Partners, L.P.

By America First Capital
Source I, L.L.C., General
Partner of the Company

By /s/ Michael Thesing
Michael Thesing,
Vice President, Secretary
and Treasurer

Date: March 22, 2002

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

Date: March 22, 2002	By /s/ Michael B. Yanney* Michael B. Yanney, Chairman of the Board and Manager of America First President of the General Partner
Date: March 22, 2002	By /s/ Lisa Y. Roskens* Lisa Y. Roskens, President, Chief Executive Officer and Manager of America First
Date: March 22, 2002	By /s/ Michael Thesing Michael Thesing, Vice President, Secretary and Treasurer of the America First Vice President, Secretary and Treasurer of the General Partner
Date: March 22, 2002	By /s/ Martin A. Massengale* Martin A. Massengale, Manager of America First
Date: March 22, 2002	By /s/ Alan Baer* Alan Baer, Manager of America First
Date: March 22, 2002	By /s/ Gail Walling Yanney* Gail Walling Yanney, Manager of America First
Date: March 22, 2002	By /s/ Mariann Byerwalter* Mariann Byerwalter, Manager of America First
Date: March 22, 2002	By /s/ George H. Krauss* George H. Krauss, Manager of America First
Date: March 22, 2002	By /s/ Clayton K. Yeutter* Clayton K. Yeutter, Manager of America First

*By Michael Thesing Attorney in Fact
/s/ Michael Thesing

EXHIBIT 21

SUBSIDIARIES OF THE COMPANY

America First Real Estate Partners REIT, Inc.
Brentwood Oaks Apartments, L.P.
Brentwood Oaks Operating Company
Huntsview Apartments Limited Partnership
Capital Source G.P., L.L.C.

EXHIBIT 24
POWER OF ATTORNEY

POWER OF ATTORNEY

The undersigned hereby appoints Michael Thesing as his agent and attorney-in-fact for the purpose of executing and filing all reports on Form 10-K relating to the year ending December 31, 2001, and any amendments thereto, required to be filed with the Securities and Exchange Commission by the following persons:

America First Tax Exempt Investors, L.P.

America First Apartment Investors, L.P.

America First Real Estate Investment Partners, L.P.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the 1st day of February 2002.

/s/ Michael B. Yanney

Michael B. Yanney

POWER OF ATTORNEY

The undersigned hereby appoints Michael Thesing as her agent and attorney-in-fact for the purpose of executing and filing all reports on Form 10-K relating to the year ending December 31, 2001, and any amendments thereto, required to be filed with the Securities and Exchange Commission by the following persons:

America First Tax Exempt Investors, L.P.

America First Apartment Investors, L.P.

America First Real Estate Investment Partners, L.P.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the 1st day of February 2002.

/s/ Lisa Y. Roskens

Lisa Y. Roskens

POWER OF ATTORNEY

The undersigned hereby appoints Michael Thesing as his agent and attorney-in-fact for the purpose of executing and filing all reports on Form 10-K relating to the year ending December 31, 2001, and any amendments thereto, required to be filed with the Securities and Exchange Commission by the following persons:

America First Tax Exempt Investors, L.P.

America First Apartment Investors, L.P.

America First Real Estate Investment Partners, L.P.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the 1st day of February 2002.

/s/ Martin A. Massengale

Martin A. Massengale

POWER OF ATTORNEY

The undersigned hereby appoints Michael Thesing as his agent and attorney-in-fact for the purpose of executing and filing all reports on Form 10-K relating to the year ending December 31, 2001, and any amendments thereto, required to be filed with the Securities and Exchange Commission by the following persons:

America First Tax Exempt Investors, L.P.

America First Apartment Investors, L.P.

America First Real Estate Investment Partners, L.P.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the 1st day of February 2002.

/s/ Alan Baer

Alan Baer

POWER OF ATTORNEY

The undersigned hereby appoints Michael Thesing as her agent and attorney-in-fact for the purpose of executing and filing all reports on Form 10-K relating to the year ending December 31, 2001, and any amendments thereto, required to be filed with the Securities and Exchange Commission by the following persons:

America First Tax Exempt Investors, L.P.

America First Apartment Investors, L.P.

America First Real Estate Investment Partners, L.P.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the 1st day of February 2002.

/s/ Gail Walling Yanney
Gail Walling Yanney

POWER OF ATTORNEY

The undersigned hereby appoints Michael Thesing as her agent and attorney-in-fact for the purpose of executing and filing all reports on Form 10-K relating to the year ending December 31, 2001, and any amendments thereto, required to be filed with the Securities and Exchange Commission by the following persons:

America First Tax Exempt Investors, L.P.

America First Apartment Investors, L.P.

America First Real Estate Investment Partners, L.P.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the 1st day of February 2002.

/s/ Mariann Byerwalter

Mariann Byerwalter

POWER OF ATTORNEY

The undersigned hereby appoints Michael Thesing as his agent and attorney-in-fact for the purpose of executing and filing all reports on Form 10-K relating to the year ending December 31, 2001, and any amendments thereto, required to be filed with the Securities and Exchange Commission by the following persons:

America First Tax Exempt Investors, L.P.

America First Apartment Investors, L.P.

America First Real Estate Investment Partners, L.P.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the 1st day of February 2002.

/s/ George H. Krauss

George H. Krauss

POWER OF ATTORNEY

The undersigned hereby appoints Michael Thesing as his agent and attorney-in-fact for the purpose of executing and filing all reports on Form 10-K relating to the year ending December 31, 2001, and any amendments thereto, required to be filed with the Securities and Exchange Commission by the following persons:

America First Tax Exempt Investors, L.P.

America First Apartment Investors, L.P.

America First Real Estate Investment Partners, L.P.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the 1st day of February 2002.

/s/ Clayton K. Yeutter

Clayton K. Yeutter

EXHIBIT 99

REPORT OF AUDIT COMMITTEE

The Audit Committee of America First Companies L.L.C. ("America First"), which is the controlling member of the general partner of America First Real Estate Investment Partners, L.P. (the "Company"), is currently comprised of Martin A. Massengale, Clayton K. Yeutter and Mariann Byerwalter, each of whom is an independent manager of America First. The Audit Committee operates under a written charter.

The Company's management, which consists of the Company's general partner and America First, is responsible for the preparation of the Company's financial statements and for maintaining an adequate system of internal controls and processes for that purpose. KPMG LLP ("KPMG") acts as the Company's independent auditors and they are responsible for conducting an independent audit of the Company's annual financial statements in accordance with generally accepted auditing standards and issuing a report on the results of their audit. The Audit Committee is responsible for providing independent, objective oversight of both of these processes.

The Audit Committee has reviewed and discussed the audited financial statements for the year ended December 31, 2001 with management of the Company and with representatives of KPMG. As a result of these discussions, the Audit Committee believes that America First maintains an effective system of accounting controls that allow it to prepare financial statements that fairly present the Company's financial position and results of its operations. Discussions with KPMG also included the matters required by Statement on Auditing Standard No. 61 (Communications with Audit Committees).

In addition, the Audit Committee reviewed the independence of KPMG. We received written disclosures and a letter from KPMG regarding its independence as required by Independent Standards Board Standards No. 1 and discussed this information with KPMG.

Based on the foregoing, the Audit Committee has recommended to the full Board of Managers that the audited financial statements of the Company for the year ended December 31, 2001 be included in the Company's annual report on Form 10-K to be filed with the Securities and Exchange Commission.

Martin A. Massengale
Clayton K. Yeutter
Mariann Byerwalter