FORM 10-K

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

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

For the fiscal year ended December 31, 2002
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	39-1965590
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Suite 400, 1004 Farnam Street, Omaha, Nebraska	68102
(Address of principal executive offices)	(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 [X] 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. [X]

Indicate by checkmark whether the registrant is an accelerated filer (as defined in rule 12b-2 of the Securities Exchange Act of 1934).
Yes [ ] No [X]

The aggregate market value of the shares of the registrant’s shares held by non-affiliates based on the final sales price on the last business day of the registrant’s most recently completed second fiscal quarter was $49,278,649.

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 Company is governed by its Agreement of Limited Partnership and its general partner is America First Capital Source I L.L.C. (the General Partner).

At December 31, 2002, the Company owned, directly or indirectly, 14 multifamily apartment complexes containing a total of 2,788 rental units. These properties are located in Florida, North Carolina, Michigan, Tennessee, Ohio, Illinois and Virginia. The Partnership's interest in two of these properties is a 99% limited partnership interest in the partnerships that own these properties.

The Company also holds investments in GNMA certificates backed by pools of first mortgage loans on residential properties and corporate equity securities of other companies engaged in similar activities. The Company invests available cash in these types of securities to increase the return on available cash.

The Company will seek to increase its funds from operations and distributions through the effective management of its existing properties and through the acquisition of additional multifamily apartment properties. The Company's business strategies are to: (i) maintain high occupancy and increase rental rates through effective leasing, reducing turnover rates and providing quality maintenance and services to maximize resident satisfaction; (ii) manage operating expenses and achieve cost reductions through operating efficiencies and economies of scale generally inherent in the management of a portfolio of multiple properties; (iii) emphasize regular programs of repairs, maintenance and property improvements to enhance the competitive advantage and value of its properties in their respective market areas and (iv) continue to expand the number of properties in its portfolio. Each of the Company's properties is subject to on-going maintenance and periodically may undergo capital improvement projects. However, the Company has no major renovation, improvement or development activities planned or occurring for any of the properties. The Company intends to hold and operate each of its apartment complexes as a long-term investment.

The Company focuses its acquisition efforts on established multifamily properties located throughout the United States. In particular, the Company seeks out properties that it believes have the potential for increased revenues through more effective management. In connection with each potential property acquisition, the Company reviews many factors, including the following: (i) the location of the property; (ii) the construction quality, condition and design of the property; (iii) the current and projected cash flow generated by the property and the potential to increase cash flow through more effective management; (iv) the potential for capital appreciation of the property; (v) the potential for rental rate increases; (vi) the economic situation in the community in which the property is located and the potential changes thereto; (vii) the occupancy and rental rates at competing properties; and (viii) the potential for liquidity through financing or refinancing of the property or the ultimate sale of the property. The Company does not have any limitations on the percentage of its assets which may be invested in any one property or on the number of properties that it owns in any particular geographic market.

In keeping with its investment strategy, during the year ended December 31, 2002, the Company accomplished the following real estate transactions:

- In January 2002, the Company acquired the general partner interests in eight limited partnerships owning multifamily apartment properties (the "Operating Partnerships"). The Company had previously owned 99% limited partner interests in the Operating Partnerships. As a result of this acquisition, the Company now owns the entire equity interest in, and controls, these eight Operating Partnerships and presents the results of each on a consolidated basis as a direct investment in real estate. Effective August 1, 2002, the general partner of another Operating Partnership, Water's Edge Ltd., was removed, to be replaced by the Company. The former general partner is contesting its removal and refuses to acknowledge it. The matter is presently in litigation. As a result, the Company has continued to account for Water's Edge as an indirect equity method investment at December 31, 2002, and not as a fully-owned consolidated direct real estate investment, until such matter is resolved.

- In March 2002, the Company acquired The Glades Apartments, a 360 unit apartment property located in Jacksonville, Florida. The $15.2 million acquisition was financed through the assumption of bonds payable of $8.8 million and cash of approximately $6.4 million.

- In September 2002, the Company acquired the Lakes of Northdale Apartments, a 216 unit apartment property located in Tampa, Florida. The $12.4 million acquisition was financed through the assumption of bonds payable of $9.6 million and cash of approximately $2.8 million.

The Company has the authority to finance the acquisition of additional real estate in a variety of manners, including borrowings in the form of taxable or tax-exempt mortgage loans secured by the acquired properties and borrowing against existing unencumbered assets, including the use of repurchase agreements collateralized by its GNMA certificates. In addition, the Company may sell existing properties and reinvest the net proceeds from a sale in additional properties. There have been no property sales during the last two years.

As of December 31, 2002, the Company had net debt obligations under six financing arrangements with an aggregate principal balance of approximately $54.5 million, all of which is secured by mortgages on its properties. In addition, the Company has $21,475,000 of borrowings under repurchase agreements which are collateralized by GNMA certificates secured by first mortgages on multifamily properties. The Company does not have any limitations on the number or amount of mortgages which may be placed on any one property.

In addition, the Company has the authority to raise additional equity capital through the issuance of additional Units. If the Company decides to sell Units, it may do so in a number of different manners, including a rights offering directly to existing Unit holders, an underwritten public offering or in a private placement negotiated with a small number of investors. The Company may also issue Units to the owners of multifamily apartment complexes that it acquires as full or partial payment for these properties.

Competition

In each city in which the Company's properties are located, such properties compete with a substantial number of other multifamily properties. Multifamily properties 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 of the property and property amenities.

Environmental Matters

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.

Segment Information

The Company defines each of its multifamily apartment properties as an individual operating segment. It has also determined that all multifamily 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 net income, revenues, net operating income and total assets for the Company's reportable segment for the years ended December 31, 2002, 2001, and 2000 are included in footnote 15 in the notes to consolidated financial statements filed in response to item 8 herein.

General

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., ("Cap Source II", and together with Cap Source I, the "Partnerships"), (the "Merger"). The Company was the surviving partnership from the Merger.

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. 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.

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.

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"), which 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.

The Company is classified as a partnership for federal income tax purposes and, 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 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.

The Company's annual reports on Form 10-K, quarterly reports on 10-Q, current reports on Form 8-K and press releases are available free of charge at www.am1st.com as soon as reasonably practical after they are filed with the SEC. Follow the links to Real Estate Funds and America First Real Estate Investment Partners, L.P.

Risk Factors

The financial condition and results of operations of the Company are affected by various factors, many of which are beyond the Company's control. These include the following:

The Company's financial results are substantially dependent upon the performance of its multifamily housing.

The performance of the Company's multifamily housing is affected by a number of factors including general and local economic conditions, the relative supply of apartments and other homes in the market area, interest rates on single family mortgages and the effect on home buying, the need for and costs of repairs and maintenance of the properties, government regulations and the cost of complying with them, property tax rates imposed by local taxing authorities, utility rates and property insurance rates. If interest rates on single-family mortgages continue to decline, it could further increase home buying and continue to reduce the number of quality tenants available. As a result, the amount of cash available for distribution to Unit holders could decrease and the market price of the Company's Units could decline.

The Company is subject to the risks normally associated with debt financing.

The Company is subject to the risk that cash flow may not be sufficient to meet required payments of principal and interest. The existing terms of certain of the Company's bonds and mortgages payable require that only a small portion of the principal of its debt will be repaid prior to maturity. Therefore, the Company is likely to need to refinance at least a portion of the outstanding debt as it matures if it intends to continue owning the property. There is a risk that the terms of the refinancing will not be as favorable as the existing debt. The Company's ability to pay distributions to Unit holders is subordinated to the payment of debt service on its debt and other borrowings.

Real estate financed with tax-exempt debt is subject to certain restrictions.

The Company has and may in the future use tax-exempt financing to finance the acquisition of multifamily properties. While this type of financing generally offers lower interest rates than conventional financing, it subjects the financed property to certain restrictive covenants, including a requirement that a percentage of the apartment units in each property be occupied by residents whose income does not exceed a percentage of the median income for the area in which the property is located. It is possible that such covenants may cause the rents charged by these properties to be lowered, or rent increases foregone, in order to attract enough residents meeting the income requirements. In the event the Company does not comply with these restrictions, the interest on the bonds could become subject to federal and state income tax, which would result in either an increase in the interest rate on the bonds or an early redemption of these bonds that would force the Company to obtain alternative financing or sell the property financed by the bond.

Fluctuating interest rates may affect the Company's earnings.

The Company's repurchase agreement obligations all bear interest at short term fixed rates. An increase in market interest rates would cause the interest rates of the obligations to increase when and if they are renewed upon maturity.

The Company's variable rate mortgage and Notes payable bear interest at short term variable rates. The short term rate on the variable rate mortgages payable is an index rate which is reset weekly. Increases in the short term interest rates would increase interest expense on such borrowings.

If interest rates increase, the Company will have to pay more interest on this debt, but would not necessarily be able to increase rental income from its multifamily properties. Therefore, an increase in interest rates may reduce the Company's earnings and this may reduce the amount of funds available for distribution to the Company's Unit holders and the market price of the Units.

The Company's multifamily properties may be illiquid and their value may decrease.

The Company's investments in multifamily properties are relatively illiquid. The ability to sell these assets, and the price received upon sale are affected by a number of factors including the number of potential and interested buyers, the number of competing properties on the market in the area and a number of other market conditions. As a result, the Company could incur a loss if it were to sell one of its multifamily properties.

The Company is subject to other risks.

The Company's GNMA Certificates bear interest at fixed rates. Increases in interest rates may reduce the fair market value of these fixed rate financial instrument investments.

The Company has the authority to issue additional Units at the discretion of the General Partner. The issuance of additional Units could cause dilution of the existing Units and a decrease in the market price of the Units.

Item 2. Properties.

Properties owned by the Company at December 31, 2002 are described in the following table:

Property Name	Location	Number of Units	Average Square Feet Per Unit	Federal Tax Basis	2002 Annual Real Estate Tax Expense
Bluff Ridge Apartments	Jacksonville, NC	108	873	$ 2,623,636	$ 48,931
Brentwood Oaks Apartments	Nashville, TN	262	852	13,585,804	193,860
Crane's Landing (1)	Winter Park, FL	252	751	7,512,711	201,830
Delta Crossing	Charlotte, NC	178	880	4,283,786	106,478
Fox Hollow Apartments	High Point, NC	184	877	3,889,429	94,991
Highland Park Apartments	Columbus, OH	252	891	5,009,568	99,817
Huntsview Apartments	Greensboro, NC	240	875	10,705,109	137,193
Lakes of Northdale	Tampa, FL	216	873	12,302,873	55,298
Misty Springs Apartments	Daytona Beach, FL	128	786	2,790,983	77,979
Monticello Apartments	Southfield, MI	106	1027	3,383,058	138,811
The Glades Apartments	Jacksonville, FL	360	714	15,113,536	177,585
The Ponds at Georgetown	Ann Arbor, MI	134	1002	4,822,133	226,267
Waterman's Crossing	Newport News, VA	260	944	6,959,342	166,930
Water's Edge Apartments (1)	Lake Villa, IL	108	814	3,584,409	148,482
		2,788		$ 96,566,377	$ 1,874,452

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

The average annual physical 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.

	2002	2001	2000	1999	1998
BLUFF RIDGE APARTMENTS					
Average Occupancy Rate	100%	95%	98%	99%	99%
Average Effective Annual Rental Per Unit	$ 7,020	$ 7,152	$ 6,850	$ 6,734	$ 6,644
BRENTWOOD OAKS					
Average Occupancy Rate	97%	97% (1)	-	-	-
Average Effective Annual Rental Per Unit	$ 7,802	$ 7,800 (2)	$ -	$ -	$ -
CRANE'S LANDING					
Average Occupancy Rate	93%	97%	95%	96%	96%
Average Effective Annual Rental Per Unit	$ 8,980	$ 8,933	$ 8,332	$ 8,090	$ 7,577
DELTA CROSSING					
Average Occupancy Rate	91%	92%	94%	94%	94%
Average Effective Annual Rental Per Unit	$ 6,888	$ 7,480	$ 7,562	$ 7,634	$ 7,457
FOX HOLLOW APARTMENTS					
Average Occupancy Rate	90%	91%	98%	96%	95%
Average Effective Annual Rental Per Unit	$ 6,995	$ 7,362	$ 6,980	$ 6,781	$ 6,480
HIGHLAND PARK APARTMENTS					
Average Occupancy Rate	93%	90%	95%	94%	95%
Average Effective Annual Rental Per Unit	$ 6,409	$ 7,051	$ 6,597	$ 6,852	$ 6,392
HUNTSVIEW APARTMENTS					
Average Occupancy Rate	89%	88% (1)	-	-	-
Average Effective Annual Rental Per Unit	$ 7,278	$ 9,031 (2)	$ -	$ -	$ -
LAKES OF NORTHDALE APARTMENTS					
Average Occupancy Rate	89% (1)	-	-	-	-
Average Effective Annual Rental Per Unit	$ 7,847 (2)	$ -	$ -	$ -	$ -
MISTY SPRINGS APARTMENTS					
Average Occupancy Rate	97%	99%	99%	99%	99%
Average Effective Annual Rental Per Unit	$ 7,527	$ 7,319	$ 7,071	$ 6,752	$ 6,509
MONTICELLO APARTMENTS					
Average Occupancy Rate	98%	97%	93%	90%	98%
Average Effective Annual Rental Per Unit	$ 10,387	$ 10,519	$ 9,661	$ 9,120	$ 9,627
THE PONDS AT GEORGETOWN					
Average Occupancy Rate	89%	96%	99%	99%	99%
Average Effective Annual Rental Per Unit	$ 11,922	$ 11,528	$ 11,220	$ 10,732	$ 10,362
THE GLADES APARTMENTS					
Average Occupancy Rate	90% (1)	-	-	-	-
Average Effective Annual Rental Per Unit	$ 7,168 (2)	$ -	$ -	$ -	$ -
WATERMAN'S CROSSING					
Average Occupancy Rate	98%	98%	99%	99%	99%
Average Effective Annual Rental Per Unit	$ 8,775	$ 8,481	$ 8,167	$ 7,822	$ 7,535
WATER'S EDGE APARTMENTS					
Average Occupancy Rate	92%	93%	92%	95%	96%
Average Effective Annual Rental Per Unit	$ 10,473	$ 10,402	$ 9,282	$ 9,587	$ 9,274

(1) Represents the average physical occupancy from the date of acquisition (Brentwood Oaks in August 2001, Huntsview Apartments in December 2001, The Glades Apartments in March 2002 and Lakes of Northdale in September 2002).

(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 or 40 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 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 properties 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, 2002 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 trade on the NASDAQ National Market System under the trading symbol "AFREZ". The following table sets forth the high and low sale prices for the Units for each quarterly period from January 22, 2001 (first day of trading) to December 31, 2002.

2002		High		Low
1st Quarter	$	8.00	$	6.46
2nd Quarter	$	7.72	$	6.78
3rd Quarter	$	7.94	$	6.85
4th Quarter	$	7.35	$	6.15

2001		High		Low
1st Quarter	$	7.00	$	5.00
2nd Quarter	$	6.53	$	5.76
3rd Quarter	$	7.25	$	6.00
4th Quarter	$	7.39	$	6.01

(b) Investors. The approximate number of Unit holders on March 7, 2003 was 7,199.

(c) Distributions.

Total regular cash distributions paid or accrued to Unit holders during the fiscal year ended December 31, 2002 equaled $4,418,255 or $.65 per Unit.

Total regular cash distributions paid or accrued to Unit holders during the fiscal year ended December 31, 2001 were $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.

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 2003 and thereafter.

Item 6. Selected Financial Data.

Set forth below is selected financial data for the Company and its Predecessor (Cap Source I) from December 31, 1998 through December 31, 2002. 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.

	Company As of or for the Year Ended Dec. 31, 2002	Company As of or for the Year Ended Dec. 31, 2001	Company As of or for the Year Ended Dec. 31, 2000	Predecessor As of or for the Year Ended Dec. 31, 1999	Predecessor As of or for the Year Ended Dec. 31, 1998
Rental Income	$ 16,845,579	$ 788,663	$ -	$ -	$ -
Equity in earnings (losses) of Operating Partnerships	(10,877)	1,208,554	170,146	(325,245)	(186,942)
Morgage backed securities income	1,322,483	4,917,665	3,182,513	3,215,472	3,262,922
Interest income on cash and cash equivalents	115,865	288,835	497,847	431,111	530,396
Dividend income	357,581	138,043	-	-	-
Other income	3,289	5,847	-	2,000	6,300
Real estate operating expenses	(8,267,943)	(323,158)	-	-	-
Depreciation expense	(3,249,360)	(175,151)	-	-	-
Interest expense	(2,640,115)	(999,264)	-	-	-
Amortization expense	(227,577)	(18,762)	-	-	-
Operating and administrative expenses	(1,579,911)	(1,581,356)	(1,512,282)	(629,037)	(1,710,173)
Net income	$ 2,669,014	$ 4,249,916	$ 2,338,224	$ 2,694,301	$ 1,902,503
Net income, basic and diluted, per Unit [(1)]	$ 0.39	$ 0.54	$ 0.69	$ 0.79	$ 0.56
Regular cash distributions paid or accrued per Unit [(1)]	$ 0.65	$ 0.60	$ 1.01	$ 1.01	$ 1.01
Investment in GNMA Certificates	$ 15,062,705	$ 42,614,238	$ 43,097,291	$ 23,105,420	$ 23,454,411
Investment in FHA Loans	$ -	$ -	$ 18,674,289	$ 12,340,447	$ 12,429,485
Investment in Operating Partnerships	$ 1,140,707	$ 23,016,520	$ 3,809,948	$ -	$ -
Investment in real estate, net of accumulated depreciation	$ 102,264,969	$ 25,046,607	$ -	$ -	$ -
Total assets	$ 136,719,804	$ 100,759,628	$ 75,614,012	$ 44,867,473	$ 45,707,177
Notes payable	$ 3,499,008	$ 3,499,008	$ 4,029,000	$ -	$ -
Bonds and mortgages payable	$ 54,515,595	$ 18,520,000	$ -	$ -	$ -
Borrowings under repurchase agreements	$ 21,475,000	$ 20,325,000	$ -	$ -	$ -

[(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 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 Capital Source L.P. ("Cap Source I" or the "Predecessor") and Capital Source II L.P.-A ("Cap Source II") with the Company being the surviving entity. As a result of the Merger and subsequent acquisitions, at December 31, 2002, the Company now directly owns 14 multifamily apartment complexes and two 99% limited partnership interests in two Operating Partnerships.

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.

On January 1, 2002, the Company acquired the general partner interests in eight of the ten Operating Partnerships from its General Partner for no consideration. As a result of this acquisition, the Company now owns 100% of the eight Operating Partnerships and presents the results of each Operating Partnership as a wholly owned subsidiary from the date of acquisition. Prior to the acquisition, the Company owned only the limited partnership interests of the eight Operating Partnerships, which ranged from 98.99%-99.99%.

In March 2002, the Company acquired The Glades Apartments, a 360 unit apartment property located in Jacksonville, Florida. The $15.2 million acquisition was financed through the assumption of bonds payable of $8.8 million and cash of approximately $6.4 million.

In September 2002, the Company acquired the Lakes of Northdale Apartments, a 216 unit apartment property located in Tampa, Florida. The $12.4 million acquisition was financed through the assumption of bonds payable of $9.6 million and cash of approximately $2.8 million.

The Company's operating results depend primarily on income from its multifamily properties, which is substantially influenced by: (i) supply of and demand for apartment units; (ii) operating expense levels; and (iii) 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 have experienced a decline in the physical and economic occupancy levels of its properties. At December 31, 2002, the average physical occupancy of the Company's properties was 93%, compared to 95% at December 31, 2001. For the year ended December 31, 2002, the average economic occupancy of the Company's properties was 87%, compared to 92% for the year ended December 31, 2001.

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.

The following table sets forth certain information regarding the Company's real estate investments as of December 31, 2002:

Property Name	Location	Number of Units	Number of Units Occupied	Percentage of Units Occupied	Economic Occupancy [1]
Bluff Ridge Apartments	Jacksonville, NC	108	107	99%	98%
Brentwood Oaks Apartments	Nashville, TN	262	255	97%	89%
Crane's Landing	Winter Park, FL	252	229	91%	91%
Delta Crossing	Charlotte, NC	178	165	93%	71%
Fox Hollow Apartments	High Point, NC	184	161	88%	81%
Highland Park Apartments	Columbus, OH	252	227	90%	83%
Huntsview Apartments	Greensboro, NC	240	220	92%	83%
Lakes of Northdale Apartments	Tampa, FL	216	194	90%	80%
Misty Springs Apartments	Daytona Beach, FL	128	125	98%	95%
Monticello Apartments	Southfield, MI	106	102	96%	93%
The Glades Apartments	Jacksonville, FL	360	333	93%	83%
The Ponds at Georgetown	Ann Arbor, MI	134	119	89%	84%
Waterman's Crossing	Newport News, VA	260	255	98%	96%
Water's Edge Apartments	Lake Villa, IL	108	94	87%	[2]
		2,788	2,586	93%	87%

[1] Economic occupancy is presented for the year ended December 31, 2002 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 defines its critical accounting policies as those which entail judgment and estimation in their application and considers its critical accounting policies to be the: (i) accounting for and valuation of its investment in real estate assets; and (ii) accounting for and valuation of its investment in Operating Partnerships.

Investment in Real Estate

The Company's investment in real estate is carried at cost less accumulated depreciation. Depreciation of real estate is based on the estimated useful life of the property (27-1/2 or 40 years on multifamily residential apartments) using the straight-line method. Maintenance and repairs are charged to expense as incurred. Capital improvements and certain 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.

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, calculated as the undiscounted future cash flows. 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 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 calculation of 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. Different conditions or different assumptions applied to the calculation would likely result in materially different results. The Company does periodically compare the results of its estimates with historical results to evaluate the reasonableness and accuracy of its estimates and adjusts its estimates accordingly.

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. The Company is not the general partner of the Operating Partnerships and has determined it 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.

It is the policy of the Company to make a periodic review of the estimated fair value of the properties underlying the Operating Partnerships using the same methodology described above.

Results of Operations

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

	For the Year Ended Dec. 31, 2002	For the Year Ended Dec. 31, 2001	For the Year Ended Dec. 31, 2000
Rental income	$ 16,845,579	$ 788,663	$ -
Equity in earnings (losses) of Operating Partnerships	(10,877)	1,208,554	170,146
Mortgage-backed securities income	1,322,483	4,917,665	3,182,513
Interest income on cash and cash equivalents	115,865	288,835	497,847
Dividend income	357,581	138,043	-
Other income	3,289	5,847	-
	18,633,920	7,347,607	3,850,506
Real estate operating expenses	8,267,943	323,158	-
Depreciation expense	3,249,360	175,151	-
Interest expense	2,640,115	999,264	-
Amortization expense	227,577	18,762	
Operating and administrative expenses	1,579,911	1,581,356	1,512,282
	15,964,906	3,097,691	1,512,282
Net income	$ 2,669,014	$ 4,249,916	$ 2,338,224

	Increase (Decrease) From 2001	Increase (Decrease) From 2000
Rental income	$ 16,056,916	$ 788,663
Equity in earnings (losses) of Operating Partnerships	(1,219,431)	1,038,408
Mortgage-backed securities income	(3,595,182)	1,735,152
Interest income on cash and cash equivalents	(172,970)	(209,012)
Dividend income	219,538	138,043
Other income	(2,558)	5,847
	11,286,313	3,497,101
Real estate operating expenses	7,944,785	323,158
Depreciation expense	3,074,209	175,151
Interest expense	1,640,851	999,264
Amortization expense	208,815	18,762
Operating and administrative expenses	(1,445)	69,074
	12,867,215	1,585,409
Net income	$ (1,580,902)	$ 1,911,692

Year Ended December 31, 2002 Compared to the Year Ended December 31, 2001

The results of operations for the years ended December 31, 2002 and 2001 are not fully comparable to each other due to: (i) the 2001 acquisitions of Huntsview Apartments and Brentwood Oaks Apartments in September and December, respectively; (ii) the consolidation of eight of the Operating Partnerships which became effective on January 1, 2002; and (iii) the 2002 acquisitions of The Glades Apartments and Lakes of Northdale Apartments in March and September, respectively. As a result, there are significant changes in the Company's reported financial results, most notably in rental income, equity in earnings (losses), real estate operating expenses, depreciation and interest expense. These factors and others having an effect on the financial results are further described below.

Rental income increased $16,056,916 from 2001 to 2002. This increase is primarily attributable to the acquisitions and transactions described above. In 2001, the Company directly owned one real estate property for three months, and one real estate property for less than one month. In 2002, the Company directly owned ten real estate properties for the entire year, and two real estate properties were acquired during the year.

Equity in the earnings of Operating Partnerships decreased $1,219,431 from 2001 to 2002. This decrease is primarily due to the January 1, 2002 consolidation of eight of the ten Operating Partnerships.

Mortgage-backed securities income decreased $3,595,182 from 2001 to 2002, primarily as a result of the consolidation of eight of the ten Operating Partnerships and the related elimination entries for those Operating Partnerships which collateralize certain GNMA Certificates owned by the Company. Another factor affecting this decrease is 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 $172,970 or 60% from 2001 to 2002 due to a decrease in the average balance of such investments and the decrease in rates earned thereon. The average rate earned on such investments was 4.18% during 2001 and decreased to 1.69% in 2002. The decrease in the average balance is attributable to the purchase of corporate equity securities and acquisitions of real estate properties.

Dividend income from the Company's investment in corporate equity securities increased $219,538 from 2001 compared to 2002 due to additional acquisitions during the last quarter of 2001 that earned dividends the entire year of 2002 and acquisitions of additional investments in corporate equity securities of $2,346,399 during the fiscal year 2002.

The Company incurred real estate operating expenses of $8,267,943 during 2002 compared to $323,158 in 2001. This increase is attributable to: (i) the 2001 acquisitions of Brentwood Oaks Apartments in August and Huntsview Apartments in December; (ii) the January 1, 2002 acquisition of the general partner interests in eight of the Operating Partnerships which allowed the properties to consolidate their operations with the Company; and (iii) the 2002 acquisitions of The Glades Apartments in March and Lakes of Northdale in September. The Company directly owned only two properties at December 31, 2001 compared to twelve at December 31, 2002.

During 2002, the Company recorded depreciation expense of $3,249,360 compared to $175,151 in 2001. This increase is also attributable to: (i) the 2001 acquisitions of Brentwood Oaks Apartments in August and Huntsview Apartments in December; (ii) the January 1, 2002 acquisition of the general partner interests in eight of the Operating Partnerships; and (iii) the 2002 acquisitions of The Glades Apartments in March and Lakes of Northdale in September. The Company directly owned only two properties at December 31, 2001 compared to twelve at December 31, 2002.

The Company recorded $227,577 in amortization expense in 2002 compared to $18,762 in 2001. This increase is attributable to: (i) the consolidation of eight of the ten Operating Partnerships; (ii) the 2002 acquisitions of The Glades Apartments and Lakes of Northdale Apartments; and (iii) the write off of $104,602 of net unamortized debt financing costs in connection with the Waterman's Crossing debt refinancing.

The Company incurred interest expense of $2,640,115 in 2002 on its: (i) bonds and mortgage payable; (ii) Notes payable originated in connection with the Merger; and (iii) repurchase obligations. This increased from $999,264 in 2001 and is primarily attributable to the consolidation of the Operating Partnerships and the 2002 acquisitions of The Glades Apartments and Lakes of Northdale Apartments. This increase was partially offset with declining interest rates on the Company's Notes payable and repurchase agreements.

Operating and administrative expenses decreased $1,445 from 2001 to 2002. This is attributable to decreases of approximately $83,000 in salaries and $57,000 in servicing fees. These decreases were partially offset by an increase in asset management fees of approximately $172,000 due to the 2001 and 2002 real estate acquisitions.

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

In accordance with the purchase method of accounting, the results of operations for the year ended December 31, 2000 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 years ended December 31, 2001 and 2002.

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.

Funds From Operations

The Company considers Funds From Operations ("FFO") to be a key measure of its operating performance and liquidity. Although it is not a substitute for net income and cash flow from operating activities determined in accordance with GAAP, the Company believes FFO is useful because it disregards the non-cash expense items that reduce net income under GAAP and disregards certain sources and uses of cash that do not reflect ongoing operations but which affect GAAP cash flow from operating activities.

The Company computes FFO in accordance with standards established by the National Association of Real Estate Investment Trusts ("NAREIT"), which 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 NAREIT standards may not be comparable to the methodologies used by other companies to calculate FFO.

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. The following table sets forth a reconciliation of the Company's net income as determined by GAAP with its FFO for each of the last three years.

	For the Year Ended Dec. 31, 2002	For the Year Ended Dec. 31, 2001	For the Year Ended Dec. 31, 2000
Net income	$ 2,669,014	$ 4,249,916	$ 2,338,224
Depreciation expense	3,249,360	175,151	-
Share of Operating Partnership depreciation expense	250,404	744,531	954,171
Funds From Operations	$ 6,168,778	$ 5,169,598	$ 3,292,395

FFO increased $999,180 or 19.33% for the year ended December 31, 2002, compared to 2001 and $1,877,203 or 57.02% for the year ended December 31, 2001 compared to 2000.

Liquidity and Capital Resources

The Company's net cash generated by operating activities increased to $5,084,228 for the year ended December 31, 2002 compared to $2,349,998 for the year ended December 31, 2001, principally due to the acquisition of the general partner interests in eight of the Operating Partnerships on January 1, 2002 and the acquisition of two properties in 2002. Net cash used in investing activities increased to $10,569,743 for the year ended December 31, 2002 compared to $7,872,633 for the year ended December 31, 2001 due to: (i) the acquisition of the Glades Apartments and the Lakes of Northdale Apartments during 2002; and (ii) the sale of three investments in FHA and GNMA loans in 2001. The Company's net cash provided by financing activities increased to $6,700,827 for the year ended December 31, 2002 compared to $2,365,280 for the year ended December 31, 2001, due to: (i) an increase in proceeds from borrowings under repurchase agreements; (ii) an increase in borrowings under bonds and mortgages payable; and (iii) the payment of special distributions in 2001.

The Company's primary source of cash is cash generated by its real estate investments. Cash generated by the 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.

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

At December 31, 2002, the Company's bonds and mortgages payable have an aggregate principal balance outstanding of approximately $54.5 million. These debt obligations consist of three bonds payable having an aggregate principal balance of approximately $29.7 million. These bonds require monthly interest payments and bear interest at a short-term variable rate. The variable interest rate paid on the bonds payable averaged approximately 2.4% for the year ended December 31, 2002. These debt obligations also include three mortgages payable having an aggregate principal balance of approximately $24.8 million. These mortgages require monthly payments of principal and interest and have a weighted average fixed interest rate of 5.95% at December 31, 2002. Each debt obligation is secured by a first mortgage or deed of trust on one of the Company's multifamily properties. Principal and interest payments are made solely from the net cash flow or net sales proceeds of the respective property.

Distributions to Unit holders are determined by and may increase or decrease at the determination of the General Partner. The General Partner determines the amount of distributions based upon the historical and projected financial results of the Company. Future distributions to Unit holders will substantially depend upon the amount of net cash generated by the Company's multifamily properties, its investments in corporate equity securities, and its undistributed cash.

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

	Per Unit (1)		
	Year Ended Dec. 31, 2002	Year Ended Dec. 31, 2001	Year Ended Dec. 31, 2000
Regular distributions			
Income	$ 0.6500	$ 0.6000	$ 0.9354
Return of capital	-	-	0.0746
Total regular distributions	0.6500	0.6000	1.0100
Special distributions (2)	0.0000	1.2600	-
Total distributions	$ 0.6500	$ 1.8600	$ 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.

The Company's strategy includes the acquisition of additional multifamily properties as well as debt and equity securities of entities engaged in similar activities. The acquisition of multifamily properties and other investments will be funded from: (i) borrowing against or net proceeds from the sale of the existing properties; (ii) borrowing against or sale of the GNMA Certificates; (iii) borrowing against the additional properties acquired by the Company; and (iv) available cash. The Company may also use additional sources of financing, both debt and equity, to further its business objectives and investment strategies.

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

New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standard (FAS) No. 143, "Accounting for Asset Retirement Obligations". FAS No. 143 requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the assets. The Company must also record a corresponding asset that is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The Company is required to adopt SFAS No. 143 on January 1, 2003. The adoption of SFAS No. 143 is not expected to have a material effect on the Company's financial statements.

In April 2002, the FASB issued FAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections". FAS No. 145 amends existing guidance on reporting gains and losses on the extinguishment of debt to prohibit the classification of the gain or loss as extraordinary, as the use of such extinguishments have become part of the risk management strategy of many companies. SFAS No. 145 also amends FAS No. 13 to require sale-leaseback accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. The provisions of the Statement related to the rescission of Statement No. 4 are applied in fiscal years beginning after May 15, 2002. The provisions of the Statement related to Statement No. 13 were effective for transactions occurring after May 15, 2002, with early application encouraged. The adoption of FAS No. 145 is not expected to have a material effect on the Company's financial statements.

In June 2002, the FASB issued FAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities”. FAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue 94-3, “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity”. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of FAS No. 146 is not expected to have a material effect on the Company's financial statements.

In November 2002, the FASB issued Interpretation No. 45, “Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others”, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002, and are not expected to have a material effect on the Company's financial statements. The disclosure requirements are effective for financial statements of interim and annual periods ending after December 31, 2002.

In January 2003, the FASB issued Interpretation No. 46, “Consolidation of Variable Interest Entities, an interpretation of ARB No. 51”. This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. For public enterprises, such as the Company, with a variable interest in a variable interest entity created before February 1, 2003, the Interpretation is applied to the enterprise no later than the end of the first interim or annual reporting period beginning after June 15, 2003. The application of this Interpretation is not expected to have a material effect on the Company’s financial statements. The Interpretation requires certain disclosures in financial statements issued after January 31, 2003 if it is reasonably possible that the Company will consolidate or disclose information about variable interest entities when the Interpretation becomes effective. The Company’s maximum exposure with the application of this Interpretation is equal its balance in its investment in Operating Partnerships.

Inflation

Substantially all leases at the Company’s properties are for a term of one year of less, which may enable it to seek increased rents upon renewal of existing leases or commencement of new leases in times of rising prices. The short-term nature of these leases generally serves to lessen the impact of cost increases arising from inflation.

Forward Looking Statements

This report contains forward-looking statements that reflect management's current beliefs and estimates of future economic circumstances, industry conditions, and 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 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. 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.

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.

At December 31, 2002, approximately 58% of the Company's borrowings consisted of fixed-rate financing. The remaining 42% 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. Had the average index rates increased or decreased by 100 basis points during the year ended December 31, 2002, interest expense on the Company’s variable-rate debt financing would have increased or decreased by approximately $159,000, respectively.

The following tables provide information at December 31, 2002 regarding the Company’s financial instruments sensitive to interest rate risk:

Fixed-Rate Borrowings

Maturity	Principal Amount	Weighted Average Interest Rate
2003	$ 21,778,637	5.34%
2004	321,213	5.95%
2005	342,381	5.95%
2006	363,653	5.95%
2007	392,943	5.95%
Thereafter	23,086,768	5.95%
	$ 46,285,595	

Variable-Rate Borrowings

Maturity	Principal Amount	Weighted Average Interest Rate
2003	$ -	-
2004	-	-
2005	-	-
2006	-	-
2007	-	-
Thereafter	33,204,008	2.43%
	$ 33,204,008	

The aggregate fair value of the Company’s borrowings at December 31, 2002 was $80,743,024.

As the above tables incorporate only those positions or exposures that existed as of December 31, 2002, 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 15 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, 2002 and 2001.

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. America First also controls America First Capital Associates Two, which is the general partner of America First Tax Exempt Investors, L.P., a publicly traded limited partnership.

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

Name	Position Held	Position Held Since
Michael B. Yanney	Chairman of the Board and Manager of America First	1984
Lisa Y. Roskens	Chief Executive Officer, President and Manager of America First	2001/2000/1999
Mark A. Hiatt	Chief Financial Officer of America First	2002
Dr. Martin A. Massengale	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
William S. Carter, M.D.	Manager of America First	2003

* Member of the America First Audit Committee

Michael B. Yanney, 69, 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 America First Apartment Investors, Inc., Burlington Northern Santa Fe Corporation, Forest Oil Corporation, Level 3 Communications, Inc., Netrake Corporation, Magnum Resources, Inc., RCN Corporation and Inlight Solutions, Inc. Mr. Yanney is the husband of Gail Walling Yanney and the father of Lisa Y. Roskens.

Lisa Y. Roskens, 36, 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. Ms. Roskens is the Chief Executive Officer, the President and serves on the Board of Directors of America First Apartment Investors, Inc.

Mark A. Hiatt, 43, is Chief Financial Officer of America First and America First Apartment Investors, Inc. From 1992 to 2001, he was the Chief Operating Officer for America First Properties Management Company, L.L.C., an America First. subsidiary engaged in the management of multifamily and commercial real estate. Mr. Hiatt was an Asset Manager for America First from 1989 to 1992 and a fund accountant from 1987 to 1989. From 1984 to 1987 he was Director of Finance for J.L. Brandeis & Sons, an Omaha-based department store chain. From 1982 to 1984 he was a senior accountant with Arthur Andersen & Co. Mr. Hiatt is a Certified Public Accountant.

Dr. Martin A. Massengale, 69, 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 Woodmen Accident & Life Company.

Gail Walling Yanney, 66, 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 FirsTier 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, 42, 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. She was also on the Stanford Board of Trustees from 1992 to 1996 and was re-appointed to such in 2002. Ms. Byerwalter currently serves on the board of directors of Schwab Funds, Redwood Trust, Inc., SRI International, the PMI Group, Inc., the Stanford Hospital and Clinics, and the Lucile Packard Children’s Hospital

George H. Krauss, 60, 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., MFA Mortgage Investments, Inc., West Corporation and America First Apartment Investors, Inc.

Clayton K. Yeutter, 72, 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 Crop Solutions, Inc., Oppenheimer Funds, Danielson Holding Corp. and Weyerhauser Corporation.

William S. Carter, M.D., 76, is retired from medical practice. He is a graduate of Butler University and the Nebraska University College of Medicine. He served his residency at the University of Missouri and was appointed a diplomat of the American Board of Otorhinolaryngology. He was in private practice in Omaha, Nebraska, until 1993. He is currently on the board of directors of Murphy Drug Co. and is a director of the Happy Hollow Club in Omaha and the Thunderbird Club in Rancho Mirage, California.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the managers and executive officers of America First 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, 2002 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. However, none of the 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, 2002, 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 350 Units, representing less than 1% of the Units outstanding. Dr. William Carter directly owns 5,000 Units, representing less than 1% of the Units outstanding. Mark Hiatt owns 6,953 Units, representing 1% of the Units outstanding. America First Apartment Investors, Inc., an affiliate of the Company, owns 238,428 shares representing 3.5% 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 the 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.

Item 14. Controls and Procedures

(a) The Principal Executive Officer and Principal Financial Officer of America First have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 240.13a-14(c) and 15d-14(c)) as of the date within ninety days before the filing date of this annual report (the "Evaluation Date"). Based on that evaluation, the Principal Executive Officer and the Principal Financial Officer of America First have concluded that the Company's current disclosure controls and procedures are effective, providing them with material information relating to the Company as required to be disclosed in the reports the Company files or submits under the Exchange Act on a timely basis.

(b) There were no significant changes in the Company's internal controls or in other factors that could significantly affect those controls subsequent to the Evaluation Date.

PART IV

Item 15. 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' Report.

Consolidated Balance Sheets of the Company and Subsidiaries as of December 31, 2002 and 2001.

Consolidated Statements of Income and Comprehensive Income of the Company and Subsidiaries for the years ended December 31, 2002, 2001 and 2000.

Consolidated Statements of Partners' Capital (Deficit) of the Company and Subsidiaries for the years ended December 31, 2002, 2001 and 2000.

Consolidated Statements of Cash Flows of the Company and Subsidiaries for the years ended December 31, 2002, 2001 and 2000.

Notes to Consolidated Financial Statements of the Company and Subsidiaries.

Schedule III—Real Estate and Accumulated Depreciation for the year ended December 31, 2002.

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, 2002 and 2001 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, 2002. In connection with our audit of the consolidated financial statements, we also audited the financial statement schedule listed in the Index at Item 15(a). 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, 2002 and 2001 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule when considered in relation to the consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

Omaha, Nebraska
March 7, 2003 /s/KPMG LLP

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

	Dec. 31, 2002	Dec. 31,2001
Assets		
Cash and cash equivalents	$ 6,601,518	$ 5,386,206
Restricted cash and cash equivalents	2,638,849	230,886
Investment in GNMA Certificates, at fair value	15,062,705	42,614,238
Investment in corporate equity securities, at fair value	4,533,816	2,498,970
Investment in Operating Partnerships	1,140,707	23,016,520
Dividends and interest receivable	158,749	353,074
Investment in real estate, net of accumulated depreciation	102,264,969	25,046,607
Other assets	4,318,491	1,613,127
	$ 136,719,804	$ 100,759,628
Liabilities and Partners' Capital		
Liabilities		
Accounts payable and accrued expenses	$ 1,535,349	$ 668,734
Distribution payable	1,115,678	1,029,857
Notes payable	3,499,008	3,499,008
Bonds and mortgages payable	54,515,595	18,520,000
Borrowings under repurchase agreements	21,475,000	20,325,000
Interest payable	260,292	308,334
	82,400,922	44,350,933
Partners' Capital		
General Partner	-	1,936
Unit holders ($7.99 per Unit in 2002 and $8.30 per Unit in 2001)	54,318,882	56,406,759
	54,318,882	56,408,695
Liabilities and Partners' Capital	$ 136,719,804	$ 100,759,628

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, 2002	For the Year Ended Dec. 31, 2001	For the Year Ended Dec. 31, 2000
Income			
Rental income	$ 16,845,579	$ 788,663	$ -
Equity in earnings (losses) of Operating Partnerships	(10,877)	1,208,554	170,146
Mortgage-backed securities income	1,322,483	4,917,665	3,182,513
Interest income on cash and cash equivalents	115,865	288,835	497,847
Dividend income	357,581	138,043	-
Other income	3,289	5,847	-
	18,633,920	7,347,607	3,850,506
Expenses			
Real estate operating expenses	8,267,943	323,158	-
Depreciation expense	3,249,360	175,151	-
Interest expense	2,640,115	999,264	-
Amortization expense	227,577	18,762	-
Operating and administrative expenses	1,579,911	1,581,356	1,512,282
	15,964,906	3,097,691	1,512,282
Net income	2,669,014	4,249,916	2,338,224
Other comprehensive income (loss)			
Unrealized gains (losses) on securities			
Unrealized holding gains (losses) arising during the year	(295,945)	159,804	4,076
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
	(295,945)	153,957	23,041
Net comprehensive income	$ 2,373,069	$ 4,403,873	$ 2,361,265
Net income allocated to:			
General Partner	$ 44,627	$ 533,138	$ 23,382
Unit holders	2,624,387	3,716,778	2,314,842
	$ 2,669,014	$ 4,249,916	$ 2,338,224
Net income, basic and diluted, per Unit	$ 0.39	$ 0.54	$ 0.69
Weighted average number of Units outstanding basic and diluted	6,797,055	6,908,019	3,385,118

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, 2002, 2001, AND 2000

	General Partner	Unit Holders # of Units	Unit Holders Amount [1]	Total
Partners' Capital (excluding accumulated other comprehensive income)				
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
Net income	44,627	-	2,624,387	2,669,014
Cash distributions paid or accrued	(44,627)	-	(4,418,255)	(4,462,882)
Balance at December 31, 2002	-	6,797,055	54,421,304	54,421,304
Accumulated Other Comprehensive Income				
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
Other comprehensive income, net	(1,936)	-	(294,009)	(295,945)
Balance at December 31, 2002	-	-	(102,422)	(102,422)
Balance at December 31, 2002	$ -	6,797,055	$ 54,318,882	$ 54,318,882

[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, 2002	For the Year Ended Dec. 31, 2001	For the Year Ended Dec. 31, 2000
Cash flows from operating activities			
Net income	$ 2,669,014	$ 4,249,916	$ 2,338,224
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in (earnings) losses of Operating Partnerships	10,877	(1,208,554)	(170,146)
Depreciation expense	3,249,360	175,151	-
Amortization expense	227,577	35,971	-
Other amortization	(1,279)	20,547	(1,738)
Gain on the sale of corporate equity securities	-	(5,847)	-
Deposit to restricted cash and cash equivalents	(1,053,847)	(230,886)	-
(Increase) decrease in dividends and interest receivable	(8,475)	145,488	(1,610)
(Increase) decrease in other assets	125,143	(264,679)	(55,916)
(Decrease) increase in accounts payable and accrued expenses	(127,610)	(875,443)	789,943
(Decrease) increase in interest payable	(6,532)	308,334	-
Net cash provided by operating activities	5,084,228	2,349,998	2,898,757
Cash flows from investing activities			
FHA Loan and GNMA principal payments received	237,084	19,161,862	395,003
Proceeds from sale of corporate equity securities	-	150,711	-
Net cash from Merger	-	-	299,349
Distributions received from Operating Partnerships	180,473	815,655	170,146
Cash acquired in Operating Partnerships general partners acquisition	1,120,224	-	-
Acquisitions of investment in real estate, net of assumed bonds payable	(9,092,583)	(6,701,758)	-
Real estate capital improvements	(668,542)	-	-
Purchase of corporate equity securities	(2,346,399)	(2,475,430)	-
Investments in Operating Partnerships	-	(18,813,673)	-
Merger costs paid	-	(10,000)	(436,303)
Net cash provided by (used in) investing activities	(10,569,743)	(7,872,633)	428,195
Cash flows from financing activities			
Proceeds from issuance of repurchase agreements	34,475,000	20,325,000	-
Principal payments on repurchase agreements	(33,325,000)	-	-
Distributions paid	(4,377,061)	(13,386,751)	(3,442,388)
Principal payments on bonds and mortgages payable	(242,647)	-	-
Proceeds from issuance of bonds and mortgages payable	11,575,000	-	-
Debt financing costs paid	(1,404,465)	(402,823)	-
Purchase of Units	-	(3,522,668)	-
Cash paid in lieu of fractional Units or Notes	-	(117,486)	-
Principal payments on Notes payable	-	(509,024)	-
Purchase of Notes payable	-	(20,968)	-
Net cash provided by (used in) financing activities	6,700,827	2,365,280	(3,442,388)
Net increase (decrease) in cash and cash equivalents	1,215,312	(3,157,355)	(115,436)
Cash and cash equivalents at beginning of year	5,386,206	8,543,561	8,658,997
Cash and cash equivalents at end of year	$ 6,601,518	$ 5,386,206	$ 8,543,561
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	$ 2,646,647	$ 690,930	$ -

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

On January 1, 2002, the Company acquired the general partner interests in eight of the Operating Partnerships. As a part of this transaction the Company recorded the following, including consolidation eliminations.

Restricted cash and cash equivalents	1,354,116
GNMA Certificates	(27,331,336)
Investment in Operating Partnerships	(21,684,463)
Investment in real estate	52,231,597
Interest and dividends receivable	(202,800)
Other assets	1,653,619
Accounts payable and accrued expenses	994,225
Bonds and mortgages payable	6,188,242
Interest payable	(41,510)

On March 26, 2002, the Company assumed bonds payable of $8,865,000 in connection with the acquisition of investment in real estate (The Glades Apartments).

On September 19, 2002, the Company assumed bonds payable of $9,610,000 in connection with the acquisition of investment in real estate (The Lakes of Northdale Apartments).

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

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 its 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"), which 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 located throughout the United States, including three in North Carolina, two each in Florida and Michigan, and one each in Ohio, Virginia and Illinois.

As a result of the Merger, the Company also acquired: (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.

On January 1, 2002, the Company acquired the general partner interests in eight of the ten Operating Partnerships from its General Partner for no consideration. As a result of this acquisition, the Company now owns 100% of the eight Operating Partnerships, and presents the results of the eight Operating Partnerships on a consolidated basis as a wholly owned investment in real estate subsidiary from the date of acquisition. Prior to the acquisition, the Company owned only the limited partnership interests of the eight Operating Partnerships, which ranged from 98.99%-99.99%.

The acquisition of the general partner interests of each of the eight Operating Partnerships was accounted for as a step acquisition in accordance with purchase accounting, and each was recorded at its estimated fair market value. The estimated fair value was calculated by discounting the estimated future cash flows of each real estate property using current capitalization and market discount rates, and multiplying the general partner ownership percentage (ranging from .01% to 1%) by the estimated fair value of the net assets in each of the eight Operating Partnerships. The aggregate estimated fair value of the general partner interests acquired on January 1, 2002 was approximately $316,000, which is allocated 100% as a reduction of the Company’s investment in real estate and is depreciated on a straight line basis over 27.5 years.

The following presents the unaudited consolidated pro forma results of operations of the Company for the year ended December 31, 2001 as if the Company had acquired the general partner interests on January 1, 2001.

		For the Year Ended Dec. 31, 2001
Income		
Rental income	$	11,847,190
Equity in earnings of Operating Partnerships		54,817
Mortgage-backed securities income		1,343,599
Interest income on cash and cash equivalents		339,681
Dividend income		138,043
Other income		5,847
		13,729,177
Expenses		
Real estate operating expenses		5,176,931
Depreciation expense		1,460,944
Interest expense		1,790,694
Amortization expense		118,595
General and administrative expenses		1,581,356
		10,128,520
Net income	$	3,600,657
Net income, basic and diluted, per Unit	$	0.52
Weighted average number of Units outstanding during the period		6,908,019

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.

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-dividend 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 has determined it 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.

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*

The Company's investment in real estate is carried at cost less accumulated depreciation. Depreciation of real estate is based on the estimated useful life of the property (27-1/2 or 40 years on multifamily residential apartments) using the straight-line method. Maintenance and repairs are charged to expense as incurred. Capital improvements and certain betterment projects exceeding $10,000 per project are capitalized and depreciated using the straight-line method over their estimated useful life.

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, calculated as the undiscounted future cash flows. 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 years ended December 31, 2002, 2001 and 2000.

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 $17,408,940 and $17,511,053 at December 31, 2002 and 2001, respectively.

F) *Cash Equivalents*

Cash equivalents include short-term debt securities with an original maturity of three months or less when purchased. Restricted cash and cash equivalents consist of resident security deposits, required maintenance reserves and escrowed funds.

G) *Net Income per Unit or BAC*

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

H) *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 rental concessions, which approximates the straight-line method over the related lease term.

I) *Debt Financing Costs*

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

J) *Reclassifications*

Certain amounts from the prior year have been reclassified to conform with the current year presentation.

3. Partnership Income, Expenses and Cash Distributions

The Limited 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.

4. Investment in Mortgage-Backed Securities

The mortgage-backed securities held by the Company represent Government National Mortgage Association ("GNMA") Certificates. 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 GNMA Certificates are backed by first mortgage loans on multifamily housing properties and pools of single-family properties, and are issued by a private mortgage lender.

At December 31, 2002, the total amortized cost, gross unrealized holding gains, and aggregate fair value of mortgage-backed securities were $15,040,711, $21,994 and $15,062,705, respectively.

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.

Certain GMNA Certificates and formerly owned 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 owned at December 31, 2002 are as follows:

Property Name	Location	Number of Units	Interest Rate	Maturity Date	Carrying Amount	Income Earned in 2002
Crane's Landing (1), (3)	Winter Park, FL	252	8.75%	12/15/30	$ 9,912,693	$ 870,365
Misty Springs Apartments (4)	Daytona Beach, FL	128	8.75%	06/15/29	4,119,510	361,932
Monticello Apartments (1), (3), (4)	Southfield, MI	106	8.75%	11/15/29	5,145,671	452,014
The Ponds at Georgetown (1), (3), (4)	Ann Arbor, MI	134	7.50%	12/15/29	7,176,955	545,221
Waterman's Crossing (4)	Newport News, VA	260	10.00%	09/15/28	-	886,803
Water's Edge Apartments	Lake Villa, IL	108	8.75%	12/15/28	4,876,889	428,562
Pools of single-family mortgages			7.58% (2)	2008 to 2009	162,573	15,129
Pools of single-family mortgages			7.58% (2)	2007 to 2008	110,550	8,427
Subtotal					$ 31,504,841	$ 3,568,453
Consolidation eliminations					(16,442,136)	(2,245,970)
Balance at December 31, 2002					$ 15,062,705	$ 1,322,483

(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, 2002.

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

(4) The market value of the GNMA certificate and the related property debt are eliminated in the presentation of the consolidated balance sheet. The mortgage-backed security income and the related interest expense are eliminated in the presentation of the consolidated income statement.

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

	For the Year Ended Dec. 31, 2002	For the Year Ended Dec. 31, 2001	For the Year Ended Dec. 31, 2000
Balance at beginning of year	$ 42,614,238	$ 61,771,582	$ 35,445,867
Additions			
Change in unrealized holding gains (losses) on available-for-sale securities	(15,608)	2,734	4,076
Amortization of discount on mortgage-backed securities	1,279	1,784	1,738
GNMA Certificates and FHA Loans acquired in conjunction with the Merger, at fair value	-	-	26,695,939
Unrealized holding gains due to change in classification of GNMA Certificates and FHA Loans from held-to-maturity to available-for-sale	-	-	18,965
Payoff of GNMA certificate collateralized by Waterman's Crossing	10,889,200	-	-
Deductions			
Consolidation eliminations	(27,331,336)	-	-
FHA Loan and GNMA principal payments received	(11,095,068)	(19,161,862)	(395,003)
Balance at end of year	$ 15,062,705	$ 42,614,238	$ 61,771,582

5. Investment in Corporate Equity Securities

The Company’s investment in corporate equity securities consists of investments in equity securities of entities primarily engaged in the multifamily residential property business. At December 31, 2002, the total cost, gross unrealized holding losses and fair value of the Company’s investment in corporate equity securities was $4,676,965, ($143,149) and $4,533,816, respectively. 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.

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 owned by the Company.

As described in note 1 to the consolidated financial statements, the Company acquired the general partner interests of eight of the Operating Partnerships on January 1, 2002. As a result, the multifamily properties in the eight operating partnership’s are now consolidated in the consolidated financial statements of the Company.

Effective August 1, 2002, the general partner of Water’s Edge Limited Partnership was removed, to be replaced by the Company. The general partner is contesting the matter and refuses to acknowledge the removal. The matter is presently in litigation. As a result, the Company has continued to account for Water’s Edge as an equity method investment at December 31, 2002, and not as a fully-owned consolidated real estate investment, until such matter is resolved.

At December 31, 2002, the Company continues to own limited partnership interests in two Operating Partnerships, Crane’s Landing Partners, Ltd., and Water’s Edge Limited Partnership, which continue to be accounted for using the equity method, as follows:

Property Name	Location	Partnership Name	Carrying Value	2002 Equity in Earnings of Operating Partnerships
Crane's Landing	Winter Park, FL	Crane's Landing Partners, Ltd.	$ 1,140,707	$ (10,877)
Water's Edge Apartments	Lake Villa, IL	Water's Edge Limited Partnership	-	-
Balance at December 31, 2002			$ 1,140,707	$ (10,877)

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

	For the Year Ended Dec. 31, 2002	For the Year Ended Dec. 31, 2001	For the Year Ended Dec. 31, 2000
Balance at the beginning of the year	$ 23,016,520	$ 3,809,948	$ -
Investment in Operating Partnerships		18,813,673	-
Operating Partnerships acquired in conjunction with the Merger, at fair value	-	-	3,809,948
Investment in Operating Partnerships reclassified to investment in real estate due to acquisition of general partners' interest	(21,684,463)	-	-
Equity in earnings (losses) of Operating Partnerships	(10,877)	1,208,554	170,146
Distributions received from Operating Partnerships	(180,473)	(815,655)	(170,146)
Balance at the end of the year	$ 1,140,707	$ 23,016,520	$ 3,809,948

Summarized condensed financial information of the Operating Partnerships is presented below. This information represents the summarized condensed financial information for such Operating Partnerships for the years ended December 31, 2002 and 2001 of the Operating Partnerships in which the Company owned limited partnership interests as of December 31, 2002 and 2001. The summarized condensed financial information for the year ended December 31, 2000 only includes the information of the Operating Partnerships in which the Predecessor owned limited partnership interests. At December 31, 2002 and for the year then ended, the information includes only Crane's Landing Partners, Ltd. and Water's Edge Limited Partnership. At December 31, 2001 and for the year then ended, the information includes all ten of the Operating Partnerships.

	Dec. 31, 2002	Dec. 31, 2001
Net investment in real estate	$ 11,415,098	$ 47,789,236
Other assets	1,587,201	7,025,263
Total assets	$ 13,002,299	$ 54,814,499
Total liabilities	$ 15,438,442	$ 54,086,276
Total equity (deficit)	$ (2,436,143)	$ 728,223

	For the Year Ended Dec. 31, 2002	For the Year Ended Dec. 31, 2001	For the Year Ended Dec. 31, 2000
Total income	$ 3,240,971	$ 14,723,752	$ 8,486,343
Total expenses	$ 3,304,470	$ 14,300,753	$ 8,753,849
Net income (loss)	$ (63,499)	$ 422,999	$ (267,506)

7. Investment in Real Estate

At December 31, 2002, the Company directly owns 12 multifamily residential properties. Eight of the properties were 100% acquired on January 1, 2002 and the remaining four properties were direct acquisitions as further described below.

On January 1, 2002, the Company acquired the general partner interests in eight of the ten Operating Partnerships from its General Partner for no consideration. As a result of this acquisition, the Company now owns 100% of the eight Operating Partnerships, and presents the results of the eight Operating Partnerships on a consolidated basis as a wholly owned investment in real estate. Prior to the acquisition, the Company owned only the limited partnership interests of the eight Operating Partnerships, which ranged from 98.99%-99.99%.

The acquisition of the general partner interests of each of the eight Operating Partnerships was accounted for as a step acquisition in accordance with purchase accounting, and each was recorded at its estimated fair market value. The estimated fair value was calculated by discounting the estimated future cash flows of each real estate property using current capitalization and market discount rates, and multiplying the general partner ownership percentage (ranging from .01% to 1%) by the estimated fair value of the net assets in each of the eight Operating Partnerships. The aggregate estimated fair value of the general partner interests acquired on January 1, 2002 was approximately $316,000, which is allocated 100% as a reduction of the Company's investment in real estate and is depreciated on a straight line basis over 27.5 years.

During 2002, the Company acquired two multifamily residential properties: The Glades Apartments was acquired in March and Lakes of Northdale was acquired in September.

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 at December 31, 2002 is comprised of the following:

Property	Location	Number of Units	Land	Building and Improvements	Carrying Value at Dec. 31, 2002	Accumulated Depreciation
Bluff Ridge Apartments	Jacksonville, NC	108	$ 203,050	$ 3,262,664	$ 3,340,710	$ 125,004
Brentwood Oaks Apartments (1)	Nashville, TN	262	2,000,000	12,176,697	13,585,345	591,352
Delta Crossing	Charlotte, NC	178	1,540,554	5,771,344	6,988,082	323,816
Fox Hollow Apartments (1)	High Point, NC	184	285,622	5,468,955	5,540,152	214,425
Highland Park Apartments	Columbus, OH	252	208,403	8,530,996	8,414,949	324,450
Huntsview Apartments (1)	Greensboro, NC	240	1,844,500	9,225,495	10,706,758	363,237
Lakes of Northdale (1)	Tampa, FL	216	1,220,285	11,184,692	12,302,874	102,103
Misty Springs Apartments (1)	Daytona Beach, FL	128	741,587	3,322,872	3,926,519	137,940
Monticello Apartments (1)	Southfield, MI	106	976,743	5,182,057	5,908,462	250,338
The Glades Apartments (1)	Jacksonville, FL	360	2,234,360	13,240,534	15,113,441	361,453
The Ponds at Georgetown (1)	Ann Arbor, MI	134	571,500	6,154,575	6,480,444	245,631
Waterman's Crossing (1)	Newport News, VA	260	1,122,322	9,219,673	9,957,233	384,762
			$ 12,948,926	$ 92,740,554	$ 102,264,969	$ 3,424,511

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

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

	2002	2001
Balance - beginning of year	$ 25,046,607	$ -
Acquisitions	27,567,583	25,202,195
General partner acquisition of Operating Partnerships	52,231,597	
Improvements	668,542	19,563
Depreciation	(3,249,360)	(175,151)
Balance - end of year	$ 102,264,969	$ 25,046,607

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. At December 31, 2002, 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, 2002, such rate was 2.00%. The annual interest rate on the Notes is calculated by averaging such interest rates for each month. Such rate averaged 2.77% and 4.97% for the years ended December 31, 2002 and 2001, respectively. 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.

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. At December 31, 2002, $421,433, representing 80% of the net proceeds of the refinancing of the Waterman's Crossing mortgage payable, is classified as restricted cash on the accompanying consolidated balance sheet, and was used to redeem a portion of the Notes on January 15, 2003.

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 Mortgages Payable

Bonds and mortgage payables at December 31, 2002 consisted of the following:

Collateral	Effective Interest Rate	Final Maturity Date	Payment Schedule	Carrying Amount
Bonds Payable:				
Brentwood Oaks Apartments	2.30% (1)	07/15/2031	monthly payments of interest due on the 12th of each month	$ 11,320,000
Lakes of Northdale Apartments	2.50% (2)	05/15/2012	monthly payments of interest due each month	9,610,000
The Glades Apartments	2.38% (3)	10/01/2032	monthly payments of interest due each month	8,775,000
				29,705,000
Mortgages Payable:				
Fox Hollow Apartments	6.91%	03/01/2011	monthly payments of principal and interest due on the 1st of each month	6,126,955
Huntsview Apartments	5.83%	01/01/2012	monthly payments of principal and interest due on the 1st of each month	7,121,262
Waterman's Crossing	5.52%	11/01/2012	monthly payments of principal and interest due on the 1st of each month	11,562,378
				24,810,595
				$ 54,515,595

(1) Bonds payable bear interest at a weekly reset, highly rated bond composite variable rate capped at 9.27%. Such rate averaged 2.30% for the year ended December 31, 2002.

(2) Bonds payable bear interest at a weekly reset, highly rated bond composite variable rate capped at 7.5%. The bonds payable were refinanced on September 29, 2002 and the rate above is based on the average rate from September 29, 2002 to December 31, 2002.

(3) Bonds payable bear interest at a weekly reset, highly rated bond composite variable rate capped at 7.3%. The bonds payable were assumed on September 19, 2002 and the rate above is based on the average rate from September 19, 2002 to December 31, 2002.

(4) On October 1, 2002, the Company refinanced its Waterman's Crossing mortgage payable and recorded amortization expense on the transaction of $104,602, representing the net unamortized debt financing costs related to the former mortgage payable.

The mortgages payable secured by Misty Springs Apartments, Monticello Apartments and the Ponds at Georgetown Apartments are eliminated in the consolidation of the Company’s financial statements as the Company owns the GNMA Certificates for each respective mortgage payable.

10. Borrowings Under Repurchase Agreements

Borrowings under repurchase agreements at December 31, 2002 consisted of the following:

Collateral	Interest Rate	Maturity Date	Payment Schedule	Carrying Amount
Crane's Landing GNMA Certificate	2.28%	01/21/2003	interest payments due quarterly, principal due at maturity	$ 9,500,000
Monticello GNMA Certificate	2.83%	03/12/2003	interest payments due quarterly, principal due at maturity	5,000,000
The Ponds at Georgetown GNMA Certificate	2.28%	06/26/2003	interest payments due quarterly, principal due at maturity	6,975,000
				$ 21,475,000

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.

	2002	2001
Reimbursable salaries and benefits	$ 760,628	$ 640,259
Costs capitalized by the Company	274,690	417,389
Investor services and custodial fees	51,192	108,807
Professional fees and expenses	109,151	84,444
Report preparation and distribution	65,709	68,978
Other expenses	87,873	51,500
Insurance	58,422	48,420
Registration fees	22,004	16,618
Consulting and travel expense	10,441	12,410
Telephone	5,338	6,051
	$ 1,445,448	$ 1,454,876

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 and joint ventures. Such administrative fees are paid on a monthly basis. Such fees were $600,162 and

$428,605 in 2002 and 2001, respectively. 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 $338,733 and $309,196 in 2002 and 2001, respectively. 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 $189,330 and $265,973 at December 31, 2002 and 2001, respectively.

An affiliate of the Company's General Partner was retained to provide property management services for the properties directly 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 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 $679,170 and $357,642 for the years ended December 31, 2002 and 2001, respectively.

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 year ended December 31, 2000, distributions to investors represented less than the 8% return; accordingly, no fees were paid or accrued during this year.

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 for the year ended December 31, 2000.

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 for 2000, and represented the lower of costs incurred in providing management of the property or customary fees for such services determined on a competitive basis.

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, 2002		At December 31, 2001	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Investment in GNMA Certificates	$ 15,062,705	$ 15,062,705	$ 42,614,238	$ 42,614,238
Investment in corporate equity securities	$ 4,533,816	$ 4,533,816	$ 2,498,970	$ 2,498,970
Bonds and mortgages payable	$ 54,515,595	$ 55,769,016	$ 18,520,000	$ 18,520,000

13. 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 were effective for the Company on January 1, 2002 and did not have a significant impact on the financial statements for the year ended December 31, 2002. Upon adoption of FAS No. 142 on January 1, 2002, the Company discontinued amortizing its goodwill, and instead will test it for impairment on an annual basis. Goodwill amortization expense was $35,971 for the year ended December 31, 2001.

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, did not have a significant impact on the financial statements of the Company.

14. Summary of Unaudited Quarterly Results of Operations

From January 1, 2002 to December 31, 2002	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total income	$ 4,088,468 [1]	$ 4,537,634 [1]	$ 4,707,850 [1]	$ 5,299,968 [1]
Total expenses	(3,290,567)	(4,001,784)	(4,236,606)	(4,435,949)
Net income	$ 797,901	$ 535,850	$ 471,244	$ 864,019
Net income, basic and diluted, per Unit	$ 0.12	$ 0.08	$ 0.07	$ 0.12

[1] The Company recorded equity in earnings (losses) of Operating Partnerships of $22,912, ($49,747), ($15,932) and $31,890 during the first, second, third and fourth quarters, respectively.

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	(517,540)	(553,981)	(748,501)	(1,277,669) [2]
Net income	$ 958,883	$ 970,029	$ 1,021,855	$ 1,299,149
Net income, basic and diluted, per Unit	$ 0.13	$ 0.14	$ 0.15	$ 0.12

[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.

15. Segment Reporting

The Company defines each of its multifamily apartment properties as an individual operating segment. 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 accounting policies of the segments are the same as those described in Note 2 to the Consolidated Financial Statements.

The revenues, net operating income and total assets for the Company's reportable segment as of or for the years ended December 31, 2002, 2001 and 2000 are summarized as follows:

	2002	2001	2000
Multifamily real estate segment revenues	$ 16,834,702	$ 1,997,217	$ 170,146
Reconciling items:			
Mortgage backed securities income	1,322,483	4,917,665	3,182,513
Interest and dividend income	473,446	426,878	497,847
Other income	3,289	5,847	-
Consolidated revenues	$ 18,633,920	$ 7,347,607	$ 3,850,506
Consolidated net income	$ 2,669,014	$ 4,249,916	$ 2,338,224
Reconciling items:			
Operating and administrative expenses	1,579,911	1,581,356	1,512,282
Interest expense on Notes and repurchase agreements	822,545		
Interest and dividend income	(473,446)	(426,878)	(497,847)
Mortgage backed securities income	(1,322,483)	(4,917,665)	(3,182,513)
Other income	(3,289)	(5,847)	-
Net income from multifamily real estate segment	$ 3,272,252	$ 480,882	$ 170,146
Reconciling items:			
Depreciation	3,249,360	175,151	-
Amortization expense	227,577	18,763	-
Interest expense	1,817,570	129,893	-
Net operating income from multifamily real estate segment	$ 8,566,759	$ 804,689	$ 170,146
Multifamily real estate segment assets	$ 110,272,058	$ 49,217,195	$ 3,809,948
Reconciling items:			
Cash and cash equivalents	5,738,944	4,969,665	8,543,561
Investment in corporate equity securities	4,533,816	2,498,970	-
Investment in GNMA Certificates	15,062,705	42,614,238	43,097,291
Other assets	1,112,281	1,459,560	1,488,921
Investment in FHA Loans	-	-	18,674,291
Consolidated assets	$ 136,719,804	$ 100,759,628	$ 75,614,012

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, 2002

Description				Initial Cost to Company		Costs Capitalized Subsequent to Acquisition
Property	Location	Number of Units	Encumbrances	Land	Building and Improvements	Building and Improvements
Bluff Ridge Apartments	Jacksonville, NC	108		$ 203,050	$ 3,262,664	$ -
Brentwood Oaks Apartments	Nashville, TN	262	(1)	2,000,000	12,161,497	15,200
Delta Crossing	Charlotte, NC	178		1,540,554	5,761,098	10,246
Fox Hollow Apartments	High Point, NC	184	(1)	285,622	5,468,955	-
Highland Park Apartments	Columbus, OH	252		208,403	8,308,136	222,860
Huntsview Apartments	Greensboro, NC	240	(1)	1,844,500	9,216,950	8,545
Lakes of Northdale	Tampa, FL	216	(1)	1,220,285	11,164,877	19,815
Misty Springs Apartments	Daytona Beach, FL	128	(1)	741,587	3,322,872	-
Monticello Apartments	Southfield, MI	106	(1)	976,743	5,182,057	-
The Glades Apartments	Jacksonville, FL	360	(1)	2,234,360	12,899,193	341,341
The Ponds at Georgetown	Ann Arbor, MI	134	(1)	571,500	6,100,607	53,968
Waterman's Crossing	Newport News, VA	260	(1)	1,122,322	9,174,333	45,340
				$ 12,948,926	$ 92,023,239	$ 717,315

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

Property	Land	Building and Improvements	Total (b), (c)	Accumulated Depreciation (d)	Net	Date of Construction	Date Acquired	Depreciation Life
Bluff Ridge Apartments	$ 203,050	$ 3,262,664	$ 3,465,714	$ 125,004	$ 3,340,710	1988	1988 [1]	40 years
Brentwood Oaks	2,000,000	12,176,697	14,176,697	591,352	13,585,345	1986	2001	27.5 years
Delta Crossing	1,540,554	5,771,344	7,311,898	323,816	6,988,082	1989	1989 [1]	40 years
Fox Hollow Apartments	285,622	5,468,955	5,754,577	214,425	5,540,152	1989	1989 [1]	40 years
Highland Park Apartments	208,403	8,530,996	8,739,399	324,450	8,414,949	1987	1987 [1]	40 years
Huntsview Apartments	1,844,500	9,225,495	11,069,995	363,237	10,706,758	1987	2001	27.5 years
Lakes of Northdale	1,220,285	11,184,692	12,404,977	102,103	12,302,874	1985	2002	27.5 years
Misty Springs Apartments	741,587	3,322,872	4,064,459	137,940	3,926,519	1989	1989 [1]	40 years
Monticello Apartments	976,743	5,182,057	6,158,800	250,338	5,908,462	1988	1988 [1]	40 years
The Glades Apartments	2,234,360	13,240,534	15,474,894	361,453	15,113,441	1985	2002	27.5 years
The Ponds at Georgetown	571,500	6,154,575	6,726,075	245,631	6,480,444	1988	1988 [1]	40 years
Waterman's Crossing	1,122,322	9,219,673	10,341,995	384,762	9,957,233	1989	1989 [1]	40 years
	$ 12,948,926	$ 92,740,554	$ 105,689,480	$ 3,424,511	$ 102,264,969			

[1] The 1% general partner interest of each of these Operating Partnerships was acquired by the Company on January 1, 2002.

(b) Reconciliation of Real Estate

	2002	2001
Balance - beginning of year	$ 25,046,607	$ -
Acquisition due to acquisition of general partner interest in investment in Operating Partnerships	$ 52,231,597	-
Acquisitions	27,567,583	25,202,195
Improvements	668,542	19,563
Depreciation	(3,249,360)	(175,151)
Balance - end of year	$ 102,264,969	$ 25,046,607

(c) As of December 31, 2002, the aggregate cost of the Company's investment in real estate for federal income tax purposes amounted to $96,566,377.

(d) Reconciliation of Accumulated Depreciation

	2002	2001
Balance - beginning of year	$ 175,151	$ -
Depreciation Expense	3,249,360	175,151
Balance - end of year	$ 3,424,511	$ 175,151

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/ Lisa Y. Roskens
Lisa Y. Roskens
Chief Executive Officer

Date: March 25, 2003

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 25, 2003	By /s/ Michael B. Yanney* Michael B. Yanney, Chairman of the Board and Manager of America First
Date: March 25, 2003	By /s/ Lisa Y. Roskens Lisa Y. Roskens, President, Chief Executive Officer and Manager of America First
Date: March 25, 2003	By /s/ Mark A. Hiatt Mark A. Hiatt, Chief Financial Officer of America First
Date: March 25, 2003	By /s/ Martin A. Massengale* Martin A. Massengale, Manager of America First
Date: March 25, 2003	By /s/ Gail Walling Yanney* Gail Walling Yanney, Manager of America First
Date: March 25, 2003	By /s/ Mariann Byerwalter* Mariann Byerwalter, Manager of America First
Date: March 25, 2003	By /s/ George H. Krauss* George H. Krauss, Manager of America First
Date: March 25, 2003	By /s/ Clayton K. Yeutter* Clayton K. Yeutter, Manager of America First
Date: March 25, 2003	By William S. Carter, Manager of America First

*By Mark A. Hiatt Attorney in Fact
/s/ Mark A. Hiatt

CERTIFICATION

I, Lisa Y. Roskens, certify that:

1. I have reviewed this annual report on Form 10-K of America First Real Estate Investment Partners, L.P.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; and

3. Based on my knowledge, the financial statements, and other financial information included in the report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods represented in this report.

4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Company and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the Company's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data and have identified for the Company's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls; and

6. The Company's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 21, 2003

By /s/ Lisa Y. Roskens
Lisa Y. Roskens
Chief Executive Officer
America First Companies, LLC, acting in its capacity as controlling member of the General Partner of America First Real Estate Investment Partners, L.P.

CERTIFICATION

I, Mark A. Hiatt, certify that:

1. I have reviewed this annual report on Form 10-K of America First Real Estate Investment Partners, L.P.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; and

3. Based on my knowledge, the financial statements, and other financial information included in the report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods represented in this report.

4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Company and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the Company's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data and have identified for the Company's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls; and

6. The Company's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 21, 2003

By /s/ Mark A. Hiatt
Mark A. Hiatt
Chief Financial Officer
America First Companies, LLC, acting in its capacity as controlling member of the General Partner of America First Real Estate Investment Partners, L.P.

EXHIBIT 21

SUBSIDIARIES OF THE COMPANY

America First Real Estate Partners REIT, Inc.
Bluff Ridge Associates Limited Partnership
Brentwood Oaks Apartments, L.P.
Brentwood Oaks Operating Company
Centrum Monticello Limited Partnership
CS Properties I, Inc.
CS Properties II, Inc.
Cypress Landings II, Ltd.
Delta Crossing Limited Partnership
Huntsview Apartments Limited Partnership
Capital Source G.P., L.L.C.
Fox Hollow, Ltd.
Interstate Limited Partnership
Lakes of Northdale, Ltd.
Northdale GP Corp.
Oyster Cove Limited Partnership
Ponds at Georgetown Limited Partnership
The Glades Apartments Operating Company
The Glades Apartments Limited Partnership

EXHIBIT 24

POWER OF ATTORNEY

POWER OF ATTORNEY

The undersigned hereby appoints Mark Hiatt 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, 2002, and any amendments thereto, required to be filed with the Securities and Exchange Commission by the following persons:

America First Apartment Investors, Inc.
America First Apartment Investors, L.P.
America First Real Estate Investment Partners, L.P.
America First Tax Exempt Investors, L.P.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the 14th day of February 2003.

/s/ Michael B. Yanney
Michael B. Yanney

POWER OF ATTORNEY

The undersigned hereby appoints Mark Hiatt 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, 2002, and any amendments thereto, required to be filed with the Securities and Exchange Commission by the following persons:

America First Apartment Investors, L.P.
America First Real Estate Investment Partners, L.P.
America First Tax Exempt Investors, L.P.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the 5th day of February 2003.

/s/ Martin A. Massengale
Martin A. Massengale

POWER OF ATTORNEY

The undersigned hereby appoints Mark Hiatt 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, 2002, and any amendments thereto, required to be filed with the Securities and Exchange Commission by the following persons:

America First Apartment Investors, L.P.
America First Real Estate Investment Partners, L.P.
America First Tax Exempt Investors, L.P.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the 13th day of February 2003.

/s/ Gail Walling Yanney
Gail Walling Yanney

POWER OF ATTORNEY

The undersigned hereby appoints Mark Hiatt 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, 2002, and any amendments thereto, required to be filed with the Securities and Exchange Commission by the following persons:

America First Apartment Investors, L.P.
America First Real Estate Investment Partners, L.P.
America First Tax Exempt Investors, L.P.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the 3rd day of February 2003.

/s/ Mariann Byerwalter
Mariann Byerwalter

POWER OF ATTORNEY

The undersigned hereby appoints Mark Hiatt 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, 2002, and any amendments thereto, required to be filed with the Securities and Exchange Commission by the following persons:

America First Apartment Investors, Inc.
America First Apartment Investors, L.P.
America First Real Estate Investment Partners, L.P.
America First Tax Exempt Investors, L.P.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the 11th day of February 2003.

/s/ George H. Krauss
George H. Krauss

POWER OF ATTORNEY

The undersigned hereby appoints Mark Hiatt 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, 2002, and any amendments thereto, required to be filed with the Securities and Exchange Commission by the following persons:

America First Apartment Investors, L.P.
America First Real Estate Investment Partners, L.P.
America First Tax Exempt Investors, L.P.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the 3rd day of February 2003.

/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, 2002 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 that the audited financial statements of the Company for the year ended December 31, 2002 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