



**LIBERTY  
TAX CREDIT PLUS**

**ANNUAL REPORT**

**For Fiscal Year Ended  
March 15, 2008**

July 2008

Message to Our BACholders:

We are pleased to present the Annual Report for Liberty Tax Credit Plus L.P. (the Partnership) for the fiscal year ended March 15, 2008.

On March 14, 2008, the Partnership made its fourth distribution to BACsholders in the amount of \$175.13 per BAC. This was a result of the net sale proceeds from the properties sold in 2007. The gain from these sales was allocated on your 2007 Schedule K-1 form.

During the quarter ended March 31, 2008, the Partnership sold its limited partnership interest in three partnerships: Greenleaf Associates, L.P., Magnolia Arms Associates, Ltd. and Quality Hill Historic District-Phase II-A, L.P. to unaffiliated third party purchasers. Please read Note 10 of this report as well as the Management's Discussion and Analysis of Financial Condition and Results of Operations which provide more detailed information on property performance, sales and Partnership operations.

The General Partner continues to actively work with the local general partners to pursue potential purchasers for the remaining four properties. It is anticipated that the remaining properties will be sold by the end of 2008. We will keep you informed of new developments as they occur.

Should you have any questions concerning your investment please contact Christine Lees of the Partnership's Investor Services Department at 1-800-600-6422, ext. 6476.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert L. Levy". The signature is written in a cursive style with a large initial "R" and "L".

Robert L. Levy  
Chief Financial Officer  
Related Credit Properties L.P.

## Consolidated Balance Sheets

	March 15,	
	<u>2008</u>	<u>2007</u>
ASSETS		
Operating Assets		
Property and equipment, at cost, less accumulated depreciation (Notes 2, 4, 7 and 10)	\$ 16,109,674	\$ 29,093,468
Cash and cash equivalents (Notes 2, 3 and 12)	7,007,120	6,046,635
Cash held in escrow (Notes 3 and 5)	2,325,637	2,940,919
Accounts receivable – tenants	116,669	208,079
Deferred costs, less accumulated amortization (Notes 2 and 6)	553,851	727,459
Other assets	<u>595,986</u>	<u>2,176,261</u>
Total operating assets	<u>26,708,937</u>	<u>41,192,821</u>
Assets from discontinued operations (Note 13)		
Property and equipment held for sale, net of accumulated depreciation (Note 4)	10,588,776	5,252,734
Net assets held for sale	<u>1,837,456</u>	<u>1,210,221</u>
Total assets from discontinued operations	<u>12,426,232</u>	<u>6,462,955</u>
Total assets	<u>\$ 39,135,169</u>	<u>\$ 47,655,776</u>
LIABILITIES AND PARTNERS' (DEFICIT) CAPITAL		
Operating Liabilities		
Mortgage notes payable (Notes 3 and 7)	\$ 23,188,688	\$ 38,047,957
Accounts payable	3,988,892	4,890,335
Accrued interest payable	1,312,357	6,616,457
Security deposits payable	114,270	194,026
Due to local general partners and affiliates (Note 8)	15,546,224	16,096,222
Due to general partners and affiliates (Note 8)	<u>2,355,472</u>	<u>2,724,952</u>
Total operating liabilities	<u>46,505,903</u>	<u>68,569,949</u>
Liabilities from discontinued operations (Note 13)		
Mortgage notes payable of assets held for sale (Note 7)	17,314,761	4,507,279
Net liabilities held for sale (including minority interest)	<u>4,959,349</u>	<u>84,174</u>
Total liabilities from discontinued operations	<u>22,274,110</u>	<u>4,591,453</u>
Total liabilities	<u>68,780,013</u>	<u>73,161,402</u>
Minority interests (Note 2)	<u>(579,276)</u>	<u>(548,799)</u>
Commitments and contingencies (Notes 7, 8 and 12)		
Partners' (deficit) capital		
Limited partners (15,987.5 BACs issued and outstanding) (Note 1)	(33,680,498)	(29,223,352)
General partners	<u>4,614,930</u>	<u>4,266,525</u>
Total partners' (deficit) capital	<u>(29,065,568)</u>	<u>(24,956,827)</u>
Total liabilities and partners' (deficit) capital	<u>\$ 39,135,169</u>	<u>\$ 47,655,776</u>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Operations

	Years Ended March 15,		
	2008	2007*	2006*
Operations:			
Revenues			
Rental income	\$ 8,719,617	\$ 8,893,802	\$ 8,811,788
Other (Notes 1 and 12)	<u>981,032</u>	<u>350,189</u>	<u>289,407</u>
Total revenues	<u>9,700,649</u>	<u>9,243,991</u>	<u>9,101,195</u>
Expenses			
General and administrative	2,016,480	1,590,661	1,506,281
General and administrative-related parties (Note 8)	815,057	929,854	1,461,636
Repairs and maintenance	2,526,779	3,331,131	2,936,447
Operating	1,695,036	1,704,576	1,685,027
Taxes	527,153	434,199	418,307
Insurance	500,838	464,016	434,141
Interest	2,040,650	2,385,676	2,428,675
Depreciation and amortization	<u>1,709,039</u>	<u>1,816,756</u>	<u>1,722,262</u>
Total expenses from operations	<u>11,831,032</u>	<u>12,656,869</u>	<u>12,592,776</u>
Loss from operations before minority interest	(2,130,383)	(3,412,878)	(3,491,581)
Minority interest in loss of subsidiaries from operations	<u>2,039</u>	<u>7,466</u>	<u>5,975</u>
Loss from operations	(2,128,344)	(3,405,412)	(3,485,606)
Discontinued Operations:			
Income from discontinued operations (including minority interest and gain on sale of properties) (Note 13)	<u>454,393</u>	<u>9,418,848</u>	<u>7,152,199</u>
Net (loss) income	\$ <u>(1,673,951)</u>	\$ <u>6,013,436</u>	\$ <u>3,666,593</u>
Loss from operations – limited partners	\$ (2,107,060)	\$ (3,371,358)	\$ (3,450,750)
Income from discontinued operations (including minority interest and gain on sale of properties) – limited partners	<u>449,849</u>	<u>9,324,660</u>	<u>7,080,677</u>
Net (loss) income – limited partners	\$ <u>(1,657,211)</u>	\$ <u>5,953,302</u>	\$ <u>3,629,927</u>
Number of BACs outstanding	<u>15,987.5</u>	<u>15,987.50</u>	<u>15,987.50</u>
Loss from operations per BAC	\$ (131.80)	\$ (210.88)	\$ (215.84)
Income from discontinued operations (including minority interest and gain on sale of properties) per BAC	<u>28.14</u>	<u>583.25</u>	<u>442.89</u>
Net (loss) income per BAC	\$ <u>(103.66)</u>	\$ <u>372.37</u>	\$ <u>227.05</u>

\* As reclassified for comparative purposes and restated (Note 2)

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Changes in Partners' (Deficit) Capital

	<u>Total</u>	<u>Limited Partners</u>	<u>General Partner</u>
Partners' deficit – March 16, 2005	\$ (31,724,004)	\$ (30,684,345)	\$ (1,039,659)
Net income, year ended March 15, 2006 – as restated (Note 2)	3,666,593	3,629,927	36,666
Contribution – write-off of related party debt	40,000	0	40,000
Distributions	<u>(5,426,305)</u>	<u>(5,372,042)</u>	<u>(54,263)</u>
Partners' deficit – March 15, 2006	(33,443,716)	(32,426,460)	(1,017,256)
Net income, year ended March 15, 2007	6,013,436	5,953,302	60,134
Contribution – write-off of partnership management fees related to sold properties	5,251,423	0	5,251,423
Distributions	<u>(2,777,970)</u>	<u>(2,750,194)</u>	<u>(27,776)</u>
Partners' deficit – March 15, 2007	(24,956,827)	(29,223,352)	4,266,525
Net loss, year ended March 15, 2008	(1,673,951)	(1,657,211)	(16,740)
Contribution – write-off of partnership management fees related to sold properties	363,027	0	363,027
Contribution – write-off of related party debt	30,400	0	30,400
Distributions	<u>(2,828,217)</u>	<u>(2,799,935)</u>	<u>(28,282)</u>
Partners' (deficit) capital – March 15, 2008	<u>\$ (29,065,568)</u>	<u>\$ (33,680,498)</u>	<u>\$ 4,614,930</u>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

*Increase (Decrease) in Cash and Cash Equivalents*

	Years Ended March 15,		
	<u>2008</u>	<u>2007</u>	<u>2006*</u>
Cash flows from operating activities:			
Net (loss) income	\$ (1,673,951)	\$ 6,013,436	\$ 3,666,593
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
Gain on sale of investments and properties	(4,168,518)	(13,589,123)	(12,812,224)
Loss on impairment of properties	1,049,629	0	2,710,000
Cancellation of indebtedness income	0	0	(68,576)
Accrued interest added to principal of mortgage note payable	233,911	212,646	244,190
Depreciation and amortization	2,372,291	4,099,372	5,649,412
Minority interest in loss (income) of subsidiaries	285,811	1,434,965	(332,292)
(Increase) decrease in assets:			
Cash held in escrow	(39,563)	289,738	(286,678)
Accounts receivable - tenants	35,077	45,304	102,175
Other assets	(203,461)	83,654	254,256
Increase (decrease) in liabilities:			
Accounts payable and other liabilities	(2,608,383)	1,099,785	689,952
Accrued interest payable	770,616	1,143,740	411,365
Security deposits payable	(17,693)	(14,176)	(5,739)
Due to general partners and affiliates	<u>63,545</u>	<u>(47,681)</u>	<u>(274,228)</u>
Total adjustments	<u>(2,226,738)</u>	<u>(5,241,776)</u>	<u>(3,718,387)</u>
Net cash (used in) provided by operating activities	<u>(3,900,689)</u>	<u>771,660</u>	<u>(51,794)</u>
Cash flows from investing activities:			
Net improvements to property and equipment	(396,637)	(499,610)	(1,591,442)
(Increase) decrease in cash held in escrow	(60,955)	15,322	43,516
Proceeds from sale of investments and properties	5,056,150	19,797,480	12,628,433
Costs paid relating to sale of properties	<u>(24,203)</u>	<u>(1,562,676)</u>	<u>(365,764)</u>
Net cash provided by investing activities	<u>4,574,355</u>	<u>17,750,516</u>	<u>10,714,743</u>

See accompanying notes to consolidated financial statements.

**Consolidated Statements of Cash Flows** (continued)  
*Increase (Decrease) in Cash and Cash Equivalents*

	Years Ended March 15,		
	2008	2007	2006*
Cash flows from financing activities:			
Increase in deferred costs	(2,584)	(47,313)	0
Increase in due to local general partners and affiliates	839,857	711,156	3,262,378
Decrease in due to local general partners and affiliates	(1,252,747)	(970,806)	(56,117)
Decrease in due to selling partners	0	0	(1,412,272)
Repayment of mortgage notes	(421,975)	(14,247,725)	(10,128,276)
Increase (decrease) in capitalization of consolidated subsidiaries attributable to minority interest	1,031,393	(1,583,529)	2,324,747
Distributions	<u>0</u>	<u>0</u>	<u>(5,426,305)</u>
Net cash provided by (used in) financing activities	<u>193,944</u>	<u>(16,138,217)</u>	<u>(11,435,845)</u>
Net increase (decrease) in cash and cash equivalents	867,610	2,383,959	(772,896)
Cash and cash equivalents, beginning of year	<u>6,390,501</u>	<u>4,006,542</u>	<u>4,779,438</u>
Cash and cash equivalents, end of year**	<u>\$ 7,258,111</u>	<u>\$ 6,390,501</u>	<u>\$ 4,006,542</u>
Supplemental disclosure of cash flows information:			
Cash paid during the year for interest	<u>\$ 1,241,301</u>	<u>\$ 3,384,998</u>	<u>\$ 4,309,635</u>
Summarized below are the components of the gain on sale of investments and properties:			
Proceeds from sale of investments and properties – net	\$ (5,031,947)	\$ (18,234,804)	\$ (12,262,669)
Decrease in property and equipment, net of accumulated depreciation	4,659,242	29,328,469	24,067,665
Decrease in cash held in escrow	177,548	5,927,790	4,728,316
(Increase) decrease in prepaid expenses and other assets	1,743,863	(1,423,321)	129,885
Decrease in accounts receivable – tenants	36,647	122,767	288,636
Decrease in deferred costs	8,348	272,823	395,027
Decrease in mortgage notes payable	(1,863,723)	(20,713,932)	(21,979,037)
Decrease in accounts payable and other liabilities	(121,245)	(1,289,848)	(1,070,948)
Decrease in accrued interest payable	(3,613,435)	(3,344,863)	(133,168)
Decrease in security deposits payable	(31,354)	(289,677)	(200,607)
Increase (decrease) in due to general partners and affiliates	(5,828)	(7,500)	25,729
Decrease in due to local general partners and affiliate	(176,035)	(3,937,027)	(7,377,856)
Increase in capitalization of consolidated subsidiaries attributable to minority interest	49,401	0	(2,423,197)
Supplemental disclosures of non-cash investing and financing activities:			
Contribution from write-off of related party debt	\$ 30,400	\$ 0	\$ 40,000
Contribution from write-off of partnership management fees related to sold properties	363,027	5,251,423	0
Increase in other assets – proceeds receivable from sale of partnership limited interest	0	(1,745,000)	0
Distribution payable	2,828,217	2,777,970	0

\* As reclassified for comparative purposes and restated (Note 2)

\*\* Cash and cash equivalents, end of year, for the years ended March 15, 2008, 2007 and 2006, includes cash and cash equivalents from discontinued operations of \$250,991, \$343,866 and \$245,660, respectively.

See accompanying notes to consolidated financial statements.

## **Notes to Consolidated Financial Statements**

### **March 15, 2008**

#### NOTE 1 - General

Liberty Tax Credit Plus L.P., a Delaware limited partnership (the "Partnership"), was organized on June 26, 1987, but had no activity until October 1, 1987 (which date is considered to be inception for financial accounting purposes). The Partnership had no operations until commencement of the public offering on November 20, 1987.

The Partnership's business is to invest as a limited partner in other limited partnerships ("Local Partnerships," "subsidiaries" or "subsidiary partnerships") owning leveraged apartment complexes that are eligible for the low-income housing tax credit (the "Low-Income Housing Tax Credit") enacted in the Tax Reform Act of 1986, and to a lesser extent in Local Partnerships owning properties that are eligible for the historic rehabilitation tax credit. The Partnership had originally invested in thirty-one subsidiary partnerships. During the fiscal year ended March 15, 2008, the Partnership has sold its limited partnership interest in one Local Partnership, the property and the related assets and liabilities of three Local Partnerships and transferred the deed to the property and the related assets and liabilities of one Local Partnership and entered into an agreement to sell its limited partnership interest in one Local Partnership. Through the fiscal year ended March 15, 2008, the Partnership has sold its limited partnership interest in nine Local Partnerships, the properties and the related assets and liabilities of eighteen Local Partnerships transferred the deed to the property and the related assets and liabilities of one Local Partnership and has entered into an agreement to sell its limited partnership interest in one Local Partnership. Subsequently on April 29, 2008, one Local Partnership entered into an agreement to sell its property and related assets and liabilities and the Partnership has entered into agreements to sell its limited partnership interests in two Local Partnerships (see Note 15).

The general partners of the Partnership are Related Credit Properties L.P., a Delaware limited partnership (the "Related General Partner") and Liberty Associates III L.P., a Delaware limited partnership ("Liberty Associates", and together with the Related General Partner, the "General Partners"). The Related General Partner is also the special limited partner of the Partnership. The general partner of the Related General Partner is Credit Properties GP LLC ("Credit Properties"), a Delaware limited liability company. The general partner of Liberty Associates is the Related General Partner. The ultimate partner of the General Partners is Centerline Holding Company ("Centerline").

The terms of the Partnership's Amended and Restated Agreement of Limited Partnership (the "Partnership Agreement") provide, among other things, that net profits or losses and distributions of cash flow are, in general, allocated 99% to the limited partners and Beneficial Assignment Certificates ("BACs") holders and 1% to the General Partners.

#### NOTE 2 - Summary of Significant Accounting Policies

##### a) Basis of Consolidation

The consolidated financial statements for the years ended March 15, 2008, 2007 and 2006 include the accounts of the Partnership and 9, 16 and 23 subsidiary partnerships, respectively, in which the Partnership is a limited partner. Through the rights of the Partnership and/or a General Partner, which General Partner has a contractual obligation to act on behalf of the Partnership, to remove the general partner of the subsidiary partnerships and to approve certain major operating and financial decisions, the Partnership has a controlling financial interest in the subsidiary partnerships. All intercompany accounts and transactions with the subsidiary partnerships have been eliminated in consolidation.

**Notes to Consolidated Financial Statements** (continued)  
**March 15, 2008**

For financial reporting purposes, the Partnership’s fiscal year ends on March 15. All subsidiaries have fiscal years ending December 31. Accounts of subsidiaries have been adjusted for intercompany transactions from January 1 through March 15. The Partnership’s fiscal year ends on March 15 in order to allow adequate time for the subsidiaries’ financial statements to be prepared and consolidated. The books and records of the Partnership are maintained on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Increases (decreases) in the capitalization of consolidated subsidiary partnerships attributable to minority interest arise from cash contributions and cash distributions to the minority interest partners.

The Partnership’s investment in each subsidiary partnership is equal to the respective subsidiary partnership’s partners’ equity less minority interest capital, if any. Losses attributable to minority interests which exceed the minority interests’ investment in subsidiary partnerships have been charged to the Partnership. There were no such losses for the years ended March 15, 2008, 2007 and 2006. In consolidation, all subsidiary partnership losses are included in the Partnership’s capital account except for losses allocated to minority interest capital.

b) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash in banks, and investments in short-term highly liquid instruments purchased with original maturities of three months or less.

c) Property and Equipment

Property and equipment to be held and used are carried at cost, which includes the purchase price, acquisition fees and expenses, construction period interest and any other costs incurred in acquiring the properties. The cost of property and equipment is depreciated over their estimated useful lives using accelerated and straight-line methods. Expenditures for repairs and maintenance are charged to expense as incurred; major renewals and betterments are capitalized. At the time property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are eliminated from the assets and accumulated depreciation accounts and the profit or loss on such disposition is reflected in earnings.

In accordance with Statement of Financial Accounting Standards No. 144, “Accounting for the Impairment of Disposal of Long-Lived Assets”, the results of discontinued operations are reported as a separate component of income before extraordinary items on the consolidated statements of operations. Discontinued operations include the results of operations and any gain or loss recognized for Local Partnerships that have been disposed of or are held for sale. A gain or loss recognized on the disposal is disclosed in the notes to the financial statements. Adjustments to amounts previously reported in operations that are directly related to the disposal of a Local Partnership are reclassified in the current period as discontinued operations for comparability purposes. Assets and liabilities of a Local Partnership that are classified as held for sale are presented separately in the asset and liability sections, respectively, of the consolidated balance sheets.

A loss on impairment of assets is recorded when management estimates amounts recoverable through future operations and sale of the property on an undiscounted basis are below depreciated cost. At that time, property investments themselves are reduced to estimated fair value (generally using discounted cash flows).

**Notes to Consolidated Financial Statements** (continued)  
**March 15, 2008**

During the year ended March 15, 2008, the Partnership recorded approximately \$1,050,000 as a loss on impairment of assets or reduction to estimated fair value. Through March 15, 2008, the Partnership recorded approximately \$3,760,000 as an aggregate loss on impairment of assets or reduction to estimated fair value (see Note 13).

d) Revenue Recognition

Rental income is earned primarily under standard residential operating leases and is typically due the first day of each month, but can vary by property due to the terms of the tenant leases. Rental income is recognized when earned and charged to tenants' accounts receivable if not received by the due date. Rental payments received in advance of the due date are deferred until earned. Rental subsidies are recognized as rental income during the month in which it is earned.

Other revenues are recorded when earned and consist of the following items: Interest income earned on cash and cash equivalent balances and cash held in escrow balances, income from forfeited security deposits, late charges, laundry and vending income and other rental related items.

Other revenues from operations include the following amounts at both the Partnership and Local Partnership level:

	Years Ended March 15,		
	2008	2007*	2006*
Interest	\$ 277,200	\$ 274,267	\$ 190,372
Other	<u>703,832</u>	<u>75,922</u>	<u>99,035</u>
Total other revenue	<u>\$ 981,032</u>	<u>\$ 350,189</u>	<u>\$ 289,407</u>

Other revenues from discontinued operations include the following amounts at both the Partnership and Local Partnership level:

	Years Ended March 15,		
	2008	2007*	2006*
Interest	\$ 43,641	\$ 162,453	\$ 183,553
Other	<u>56,863</u>	<u>131,328</u>	<u>396,186</u>
Total other revenue	<u>\$ 100,504</u>	<u>\$ 293,781</u>	<u>\$ 579,739</u>

\* Reclassified for comparative purposes.

**Notes to Consolidated Financial Statements** (continued)  
**March 15, 2008**

e) Income Taxes

The Partnership is not required to provide for, or pay, any federal income taxes. Net income or loss generated by the Partnership is passed through to the partners and is required to be reported by them. The Partnership may be subject to state and local taxes in jurisdictions in which it operates. For income tax purposes, the Partnership has a fiscal year ending December 31 (Note 9).

f) Loss Contingencies

The Partnership records loss contingencies as a charge to income when information becomes available which indicates that it is probable that an asset has been impaired or a liability has been incurred as of the date of the financial statements and the amount of loss can be reasonably estimated.

g) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly actual results could differ from those estimates.

h) Prior Period Adjustment

Grove Parc Associates, L.P. (“Grove Parc”)

The accompanying financial statement for the year ended March 15, 2006 were restated to correct an overstatement of interest in the computation of annual interest expense at Grove Parc. Grove Parc executed a promissory note on March 16, 2006 to evidence the agreement reached at a prior date and was effective for all purposes as of March 1, 2004. This promissory note bears an interest rate of 5% per annum compounded annually and is secured by the substantially all of Grove Parc’s property. During the year ended December 31, 2006, Grove Parc made a prior period adjustment to restate the interest that was expensed at 7.39% per annum to reflect the 5% per annum interest rate retroactive to the terms of the promissory note executed on March 16, 2006. The effects of the prior period adjustment resulted in the following changes:

Balance Sheet including discontinued:

	<u>March 15,</u>	
	<u>2006</u>	
	<u>As previously</u>	<u>As Restated</u>
	<u>Reported</u>	<u>As Restated</u>
Due to local general partners and affiliates	\$ 20,985,324	\$ 20,415,257
Partners’ deficit	(34,013,783)	(33,443,716)

**Notes to Consolidated Financial Statements** (continued)  
**March 15, 2008**

Statement of Operations including discontinued:

	<u>Year ended March 15,</u> <u>2006</u>	
	<u>As previously</u> <u>Reported</u>	<u>As Restated</u>
Interest	\$ 6,663,230	\$ 6,319,204
Net income	3,322,567	3,666,593
Net income per BAC	205.74	227.04

i) Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which established a framework for measuring the fair value of assets and liabilities as required by numerous other accounting pronouncements, and expands disclosure requirements of the fair values of certain assets and liabilities. This statement is effective for the Partnership's year ending March 31, 2009. The provisions of this statement will not have a material impact on the consolidated financial statements.

In February 2007 the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This statement was issued with the intent to provide an alternative measurement treatment for certain financial assets and liabilities. The alternative measurement would permit fair value to be used for both initial and subsequent measurement, with changes in fair value recognized in earnings as those changes occur. This "Fair Value Option" would be available on a contract by contract basis. This statement is effective for the Partnership's year changes occur. This "Fair Value Option" would be available on a contract by contract basis. This statement is effective for the Partnership's year ending March 31, 2009. The provisions of this statement will not to have a material impact on the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements. This statement was issued with the intent to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements for those entities that have outstanding noncontrolling interest in one or more subsidiaries. The effective date for this provision is for fiscal year ends beginning after December 15, 2008. The Partnership is currently evaluating the impact of the provisions of this statement on the consolidated financial statements.

NOTE 3 - Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments (all of which are held for non-trading purposes) for which it is practicable to estimate that value:

Cash and Cash Equivalents and Cash Held in Escrow

The carrying amount approximates fair value.

**Notes to Consolidated Financial Statements** (continued)  
**March 15, 2008**

Mortgage Notes Payable

The fair value of mortgage notes payable is estimated, where practicable, based on the borrowing rate currently available for similar loans.

The estimated fair values of the Partnership's mortgage notes payable from operations are as follows:

	<u>March 15, 2008</u>		<u>March 15, 2007</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Mortgage notes payable for which it is:				
Practicable to estimate fair value	\$ 5,334,892	\$ 5,334,892	\$ 6,145,494	\$ 6,145,494
Not practicable	\$ 17,853,796	*	\$ 31,902,463	*

The estimated fair values of the Partnership's mortgage notes payable from discontinued operations are as follows:

	<u>March 15, 2008</u>		<u>March 15, 2007</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Mortgage notes payable for which it is:				
Practicable to estimate fair value	\$ 755,633	\$ 755,633	\$ 0	\$ 0
Not practicable	\$ 16,559,128	*	\$ 4,507,279	*

\* Management believes it is not practicable to estimate the fair value of the mortgage notes payable because mortgage programs with similar characteristics are not currently available to the Local Partnerships.

The carrying amount of other financial instruments that require such disclosure approximates fair value.

NOTE 4 - Property and Equipment

The components of property and equipment from operations are as follows:

	<u>March 15,</u>		<u>Estimated Useful Lives (Years)</u>
	<u>2008</u>	<u>2007</u>	
Land	\$ 2,196,401	\$ 2,864,994	-
Buildings and improvements	41,566,523	67,206,427	15 to 40
Other	<u>1,540,350</u>	<u>1,807,554</u>	3 to 20
	45,303,274	71,878,975	
Less: Accumulated depreciation	<u>(29,193,600)</u>	<u>(42,785,507)</u>	
	<u>\$ 16,109,674</u>	<u>\$ 29,093,468</u>	

**Notes to Consolidated Financial Statements** (continued)  
**March 15, 2008**

The initial cost to the Partnership, as shown on Schedule III in Item 15, includes \$6,859,371 of acquisition fees paid to the General Partners, \$809,661 of acquisition expenses and \$2,870,719 of capitalized interest.

In connection with the development or rehabilitation of the Properties, the subsidiary partnerships have incurred developer's fees of \$23,360,275 to the local general partners and affiliates. Such fees have been included in the cost of property and equipment.

Depreciation expense for the years ended March 15, 2008, 2007 and 2006 amounted to \$1,688,557, \$1,649,954 and \$1,682,266, respectively.

During the year ended March 15, 2008, the Partnership's property decreased by approximately \$26,600,000 as a result of sales and reclassification to discontinued operations (see Notes 10 and 13).

The components of property and equipment held for sale from discontinued operations are as follows:

	<u>March 15,</u>		Estimated
	<u>2008</u>	<u>2007</u>	Useful
			Lives
			(Years)
Land	\$ 1,349,183	\$ 841,230	-
Buildings and improvements	27,163,918	14,002,020	15 to 40
Other	<u>217,526</u>	<u>14,487</u>	3 to 20
	28,730,627	14,857,737	
Less: Accumulated depreciation	<u>(18,141,851)</u>	<u>(9,605,003)</u>	
	<u>\$ 10,588,776</u>	<u>\$ 5,252,734</u>	

Depreciation expense for the discontinued property and equipment for the years ended March 15, 2008, 2007 and 2006 amounted to \$646,961, \$1,949,595 and \$3,866,641, respectively.

**NOTE 5 - Cash Held in Escrow**

Cash held in escrow from operations consists of the following:

	<u>March 15,</u>	
	<u>2008</u>	<u>2007</u>
Real estate taxes, insurance, and other	\$ 438,311	\$ 646,280
Reserve for replacements	1,765,967	2,093,186
Other	<u>121,359</u>	<u>201,453</u>
	<u>\$ 2,325,637</u>	<u>\$ 2,940,919</u>

**Notes to Consolidated Financial Statements** (continued)  
**March 15, 2008**

Cash held in escrow included in the discontinued assets consists of the following:

	March 15,	
	<u>2008</u>	<u>2007</u>
Real estate taxes, insurance, and other	\$ 281,081	\$ 30,447
Reserve for replacements	906,882	651,790
Other	<u>72,623</u>	<u>40,097</u>
	<u>\$ 1,260,586</u>	<u>\$ 722,334</u>

NOTE 6 - Deferred Costs

The components of deferred costs and their periods of amortization from operations are as follows:

	March 15,		Period
	<u>2008</u>	<u>2007</u>	(Months)
Deferred costs, primarily financing expenses	\$ 680,411	\$ 1,153,898	**
Less: Accumulated amortization	<u>(126,560)</u>	<u>(426,439)</u>	
	<u>\$ 553,851</u>	<u>\$ 727,459</u>	

\*\* Over the life of the respective mortgages.

Amortization of deferred costs for the years ended March 15, 2008, 2007 and 2006 amounted to \$20,482, \$166,802 and \$39,996, respectively.

During the years ended March 15, 2008 and 2007, there were decreases in deferred costs of \$26,756 and \$1,114,878, and net decreases in accumulated amortization of \$18,408 and \$842,055, respectively, due to write-offs, sales, and reclasses into discontinued operations.

The discontinued assets components of other deferred costs and their periods of amortization are as follows:

	March 15,		Period
	<u>2008</u>	<u>2007</u>	(Months)
Financing expenses	\$ 498,101	\$ 48,786	**
Less: Accumulated amortization	<u>(324,585)</u>	<u>(6,341)</u>	
	<u>\$ 173,516</u>	<u>\$ 42,445</u>	

\*\* Over the life of the respective mortgages.

## Notes to Consolidated Financial Statements (continued) March 15, 2008

Amortization of deferred costs in the discontinued assets for the years ended March 15, 2008, 2007 and 2006 amounted to \$16,291 \$333,021 and \$60,509, respectively.

### NOTE 7 - Mortgage Notes Payable

The mortgage notes from operations are payable in aggregate monthly installments of approximately \$95,000 including principal and interest at rates varying from 1% to 7.5% per annum, through 2036. Each subsidiary partnership's mortgage note payable is collateralized by the land and buildings of the respective subsidiary partnership and the assignment of certain subsidiary partnership's rents and leases and is without further recourse.

Annual principal payment requirements as of March 15, 2008 for each of the next five fiscal years and thereafter are as follows:

<u>Fiscal Year Ending</u>	<u>Amount</u>
2008	\$ 11,385,917
2009	24,593
2010	26,465
2011	28,480
2012	30,649
Thereafter	<u>11,692,584</u>
	<u>\$ 23,188,688</u>

Accrued interest payable at March 15, 2008 and 2007 was approximately \$1,312,000 and \$6,616,000, respectively. Interest accrues on all mortgage loans, which include primary and secondary loans. Certain secondary loans have provisions such that interest is accrued but not payable until a future date. The Partnership anticipates the payment of accrued interest on the secondary loans (which make up the majority of the accrued interest payable amount and which have been accumulating since the Partnership's investment in the respective Local Partnership) will be made from future refinancings or sales proceeds of the respective Local Partnerships.

Grove Parc's first mortgage note, dated December 1, 2000 in the original amount of \$12,000,000, bearing interest at 7.45% per annum and monthly installments of \$80,481, matures on January 1, 2036. The note is collateralized by real estate held for lease and an assignment of rents and leases. The mortgage is insured under Section 207 pursuant to Section 223(f) of the National Housing Act. At December 31, 2007, Grove Parc was not current with its first mortgage as it was one month behind on its scheduled payment. The mortgage was in technical default and on March 11, 2008 the mortgagee assigned the mortgage to HUD pursuant to the applicable FHA insurance (see Note 12).

The mortgage notes from discontinued operations are payable in aggregate monthly installments of approximately \$65,000 including principal and interest at the rates of 1 to 12% per annum, through 2027. Each subsidiary partnership's mortgage note payable is collateralized by the land and buildings of the respective subsidiary partnership and the assignment of certain subsidiary partnership's rents and leases is without further recourse.

**Notes to Consolidated Financial Statements** (continued)  
**March 15, 2008**

Annual principal payment requirements as of March 15, 2008 for each of the next five fiscal years and thereafter for the discontinuing liabilities are as follows:

<u>Fiscal Year Ending</u>	<u>Amount</u>
2008	\$ 9,352,939
2009	317,991
2010	341,622
2011	367,030
2012	394,347
Thereafter	<u>6,540,832</u>
	<u>\$ 17,314,761</u>

Accrued interest payable for the discontinued liabilities at March 15, 2008 and 2007 was approximately \$2,518,000 and \$57,000, respectively. Interest accrues on all mortgage loans, which include primary and secondary loans. Certain secondary loans have provisions such that interest is accrued but not payable until a future date. The Partnership anticipates the payment of accrued interest on the secondary loans (which make up the majority of the accrued interest payable amount and which have been accumulating since the Partnership's investment in the respective Local Partnership) will be made from future refinancings or sales proceeds of the respective Local Partnerships.

During 2005, Quality Hill entered into negotiations with both the Hall Family Foundation of Kansas ("Foundation") and Kansas City Downtown Minority Development Corporation ("DMDC") to extend the maturity dates of the notes payable to December 2006 which were due in full in December 2005. During 2007, the Foundation extended the maturity date of its note to March 31, 2008 under the assumption that Quality Hill is actively seeking a buyer. Quality Hill is in negotiations with DMDC to extend the note. As of December 31, 2007, the combined balance of the Foundation notes of \$2,573,019 and the DMDC notes of \$735,000 is included as a current liability in mortgage notes payable. On February 6, 2008, the property and the related assets and liabilities of Quality Hill were sold (see Note 10).

Magnolia Arms Associates, LTD ("Magnolia Arms") has not made its mortgage payments since August 2005 due to operating deficits and was in default on its mortgage. The mortgagee can take possession of the Property and other collateralized assets, collect the rents directly from the tenants and foreclose on the Property. As of December 31, 2007, the mortgage balance of approximately \$5,749,000 has been shown as currently due. On March 5, 2008, the deed to the property and related assets and liabilities was transferred to an unaffiliated third party in lieu of foreclosure (see Note 10).

See Notes 10 and 12 for other subsidiary partnerships' financing activities.

**NOTE 8 - Related Party Transactions**

An affiliate of the General Partners has a 1% interest as a special limited partner in each of the subsidiary partnerships. An affiliate of the General Partners also has a minority interest in certain subsidiary partnerships.

**Notes to Consolidated Financial Statements** (continued)  
**March 15, 2008**

The costs incurred to related parties for the years ended March 15, 2008, 2007 and 2006 were as follows:

Related Party Fees – operations

	Years Ended March 15,		
	2008	2007*	2006*
Partnership management fees (a)	\$ 385,625	\$ 544,199	\$ 835,250
Expense reimbursement (b)	202,398	161,811	404,642
Local administrative fee (d)	5,000	5,000	5,000
Total general and administrative-General Partners	593,023	711,010	1,244,892
Property management fees incurred to affiliates of the Local General Partners (c)	222,034	218,844	216,744
Total general and administrative-related parties	\$ 815,057	\$ 929,854	\$ 1,461,636

Related Party Fees – discontinued operations

	Years Ended March 15,		
	2008	2007*	2006*
Local administrative fee (d)	\$ 22,721	\$ 7,500	\$ 20,771
Total general and administrative-General Partners	22,721	7,500	20,771
Property management fees incurred to affiliates of the Local General Partners (c)	298,179	486,978	586,366
Total general and administrative-related parties	\$ 320,900	\$ 494,478	\$ 607,137

\* Reclassified for comparative purposes.

(a) The General Partners are entitled to receive a Partnership management fee, after payment of all Partnership expenses, which together with the local annual administrative fees will not exceed a maximum of 0.5% per annum of invested assets (as defined in the Partnership’s Amended and Restated Agreement of Limited Partnership (“Partnership Agreement”)) for administering the affairs of the Partnership. The Partnership management fee, subject to the foregoing limitation, will be determined by the General Partners in their sole discretion based upon their review of the Partnership’s investments. During the year ended March 31, 2008 and 2007, management deemed the unpaid partnership management fees that were related to sold properties uncollectible and, as a result, wrote it off in the amount of approximately \$363,000 and \$5,251,000, respectively, resulting in a non-cash General Partner contribution of the same amount. Partnership management fees owed to the General Partners amounting to approximately \$2,172,000 and \$2,574,000 were accrued and unpaid as of March 15, 2008 and 2007, respectively.

(b) The Partnership reimburses the General Partners and their affiliates for actual Partnership operating expenses incurred by the General Partners and their affiliates on the Partnership’s behalf. The amount of

**Notes to Consolidated Financial Statements** (continued)  
**March 15, 2008**

reimbursement from the Partnership is limited by the provisions of the Partnership Agreement. Another affiliate of the General Partners performs asset monitoring for the Partnership. These services include site visits and evaluations of the subsidiary partnerships' performance. Expense reimbursements and asset monitoring fees owed to the Related General Partner amounting to approximately \$84,000 and \$35,000 were accrued and unpaid as of March 15, 2008 and 2007, respectively.

The General Partners have allowed for the accrual without payment of the amounts set forth in (a) and (b) but are under no obligation to continue to do so.

(c) Property management fees incurred by subsidiary partnerships in operations amounted to \$765,615, \$1,153,623 and \$1,370,964 for the years ended March 15, 2008, 2007 and 2006, respectively. Of these fees \$520,213, \$705,822 and \$803,110 were incurred to affiliates of the general partners of the Local Partnership (the "Local General Partners"), which includes \$298,179, \$486,978 and \$586,366 of fees relating to discontinued operations.

(d) Liberty Associates III L.P., the special limited partner of the subsidiary partnerships, is entitled to receive a local administrative fee of up to \$2,500 per year from each subsidiary partnership.

(e) Liberty Associates III L.P. received cash distributions of approximately \$4,000 \$8,000 and \$10,000 during the years ended March 15, 2008, 2007 and 2006, respectively.

(f) Due to local general partners and affiliates at March 15, 2008 and 2007 consists of the following:

	March 15,	
	<u>2008</u>	<u>2007</u>
Operating advances	\$ 21,408	\$ 80,454
Development fee payable	0	16,058
Residual loan payable	52,500	52,500
Interest	2,677,452	1,954,517
Long-term notes payable (g)	12,689,670	12,689,670
Management and other fees	<u>105,194</u>	<u>1,312,023</u>
	<u>\$ 15,546,224</u>	<u>\$ 16,096,222</u>

Due to local general partners and affiliates at March 15, 2008 and 2007, included in the discontinued liabilities, consists of the following:

	March 15,	
	<u>2008</u>	<u>2007</u>
Operating advances	\$ 6,419	\$ 57,314
Management and other fees	<u>77,012</u>	<u>65,044</u>
	<u>\$ 83,431</u>	<u>\$ 122,358</u>

**Notes to Consolidated Financial Statements** (continued)  
**March 15, 2008**

(g) Long-term notes payable consist of the following:

	March 15,	
	2008	2007
<u>Grove Parc Associates L.P.</u>		
The promissory note bears an interest rate of 5% per annum compounded annually and is secured by the substantially all property of the Partnership. The entire loan balance is due, including principal and interest, and payable in full on April 1, 2010, or is immediately due and payable upon refinancing or sale of the project. Interest expense for the years ended March 15, 2008 and 2007 amounted to approximately \$718,000 and \$684,000 respectively.	\$ 12,550,000	\$ 12,550,000
<u>B &amp; C Housing</u>		
This promissory note bears interest on the unpaid principal balance at the prime rate plus 2% per annum payable along with principal as and when permitted by the partnership agreement and payable only from surplus cash. Interest expense for the years ended March 15, 2008 and 2007 was approximately \$14,000 for both years.	139,670	139,670
	\$ 12,689,670	\$ 12,689,670

**Notes to Consolidated Financial Statements** (continued)  
**March 15, 2008**

NOTE 9 – Taxable Net Income

A reconciliation of the financial statement net income (loss) to the taxable net income (loss) for the Partnership and its consolidated subsidiaries is as follows:

	Years Ended March 15,		
	2008	2007	2006*
Financial statement			
Net (loss) income	\$ (1,673,951)	\$ 6,013,436	\$ 3,666,593
Difference between depreciation and amortization expense recorded for financial reporting purposes and the accelerated cost recovery system utilized for income tax purposes	(144,695)	(883,527)	(544,756)
Difference resulting from parent company having a different fiscal year for income tax and financial reporting purposes	(126,215)	(68,333)	255,425
Difference between gain on sale of properties for financial reporting purposes and gain on sale for income tax purposes	732,594	(5,580,853)	(6,202,175)
Loss on impairment of fixed assets deducted for financial reporting purposes but not for tax purposes	1,049,629	0	2,710,000
Loss allocated to minority interest for income tax purposes	0	0	303,880
Difference resulting from forgiveness of related party debt considered a General Partner contribution for financial reporting purposes and income for tax purposes	363,027	5,251,423	0
Differences resulting principally from rental income recognized for income tax purposes and deferred for financial reporting purposes and interest and other operating expenses deducted for financial reporting purposes not deducted for income tax purposes	1,531,233	1,294,287	711,848
Prior period adjustments	<u>0</u>	<u>0</u>	<u>(344,026)</u>
Net income as shown on the income tax return for the calendar year ended	<u>\$ 1,731,622</u>	<u>\$ 6,026,433</u>	<u>\$ 556,789</u>

\* As restated (Note 2)

NOTE 10 – Sale of Properties

The Partnership is currently in the process of disposing of its investments. As of March 15, 2008, the Partnership has disposed of twenty-seven of its thirty-one original investments and has entered into an agreement to sell its limited partnership interest in one Local Partnership. Subsequently, on April 29, 2008, one Local Partnership has entered into an agreement to sell its property and related assets and liabilities and the Partnership has entered into agreements to sell its limited partnership interests in two Local Partnerships (see Item 8, Note 15).

## **Notes to Consolidated Financial Statements** (continued) **March 15, 2008**

On March 5, 2008, Magnolia Arms Associates, Ltd. (“Magnolia”) transferred the deed to the property and the related assets and liabilities to an unaffiliated third party in lieu of foreclosure. The transfer of assets of approximately \$2,229,000 and liabilities of \$7,169,000 will result in a gain of approximately \$4,916,000, which will be recognized during the quarter ended June 30, 2008. As of the transfer date, Magnolia had property and equipment, at cost, of approximately \$8,696,000, accumulated depreciation of approximately \$6,696,000 and mortgage debt of approximately \$5,749,000.

On February 6, 2008, the property and the related assets and liabilities of Quality Hill Historic District – Phase II – A, L.P. (“Quality Hill”) were sold to an unaffiliated third party purchaser for a sales price of \$3,275,000. The Partnership received \$375,000 as a distribution from this sale after the repayment of other liabilities, closing cost and distribution to minority interest of approximately \$2,900,000. The sale will result in a gain of approximately \$2,048,000, which will be recognized during the quarter ended June 30, 2008.

On January 29, 2008, the property and the related assets and liabilities of Greenleaf Associates, L.P. (“Greenleaf”) were sold to an unaffiliated third party purchaser for a sales price of \$5,084,177. The Partnership received \$169,291 as a distribution from this sale after the repayment of other liabilities, closing cost and distribution to minority interest of approximately \$4,915,000. The sale will result in a gain of approximately \$1,733,000, which will be recognized during the quarter ended June 30, 2008.

On December 28, 2007, the Partnership sold its limited partnership interest in Sartain School Venture, L.P. (“Sartain”) to the Local General Partner for a sales price of \$14,600. The Partnership received no proceeds from this sale. The sale resulted in a gain of approximately \$3,474,000, resulting from the write-off of the deficit basis in property at the date of sale. The sale also resulted in a non-cash contribution to the Local Partnership from the General Partner of approximately \$30,000 as a result of write-off of fees owed by the Local Partnership to an affiliate of the General Partner.

On May 11, 2007, the property and the related assets and liabilities of Charles Drew Court Associates, L.P. (“Charles Drew”) were sold to an unaffiliated third party purchaser for a sales price of \$3,435,000. The Partnership received \$3,144,463 as a distribution from this sale after the repayment of other liabilities, closing costs and distributions to minority interest of approximately \$290,537. The sale resulted in a loss of approximately \$24,000, resulting from the write-off of the basis in the property at the date of the sale, which was recorded during the quarter ended June 15, 2007. An adjustment of approximately \$853,000 in gain was recorded during the quarter ended March 15, 2008, resulting in an overall gain of approximately \$830,000.

On December 29, 2006, the property and the related assets and liabilities of United-Pennsylvanian, L.P. (“United Penn”) were sold to an unaffiliated third party purchaser for a sales price of \$500,000 plus the assumption of the mortgage debt. The Partnership received \$217,227 as a distribution from this sale after the repayment of mortgages, other liabilities, closing costs and distributions to minority interest of approximately \$283,000. The sale resulted in a gain of approximately \$2,225,000, resulting from the write-off of the deficit basis in the property at the date of the sale, which was recorded during the quarter ended March 15, 2007. Adjustments to the gain of approximately \$21,000 and \$(33,000) were recorded during the quarters ended September 15, 2007 and March 15, 2008, respectively, resulting in an overall gain of approximately \$2,191,000.

On October 1, 2006, the Partnership sold its limited partnership interest in Shiloh Grove Limited Partnership (“Shiloh Grove”) to the Local General Partner for a sales price of \$149,990. The Partnership received proceeds of \$49,990 on October 3, 2006 and additional payments of proceeds totaling \$50,000

## **Notes to Consolidated Financial Statements** (continued) **March 15, 2008**

through March 15, 2008. The remaining \$50,000 is to be paid in guaranteed payments payable on certain dates through April 1, 2008 and is included in other assets at March 15, 2008. The sale resulted in a gain of approximately \$2,859,000 as a result of the write-off of the deficit basis in the property of approximately \$2,709,000 at the time of the sale, and the \$149,990 cash and guaranteed payments receivable from the sale.

On August 31, 2006, the Partnership sold its limited partnership interest in Alameda Towers Associates, L.P. ("Alameda Towers") to the Local General Partner for a sales price of \$2,092,490. The Partnership received proceeds of \$92,490 on September 5, 2006 and additional payments of proceeds totaling \$2,000,000 through March 15, 2008. The sale resulted in a loss of approximately \$7,000, resulting from the write-off of the basis in the property of approximately \$2,099,000 and the \$2,092,490 cash and guaranteed payments receivable from the sale, which was recorded during the quarter ended December 15, 2006. Adjustments to the loss of approximately \$(26,000) and \$(74,000) were recorded during the quarter ended March 15, 2007 and March 31, 2008, respectively, resulting in an overall loss of approximately \$107,000.

On June 5, 2006, the property and the related assets and liabilities of Willoughby/Wycoff Housing Associates, L.P. ("Willoughby") were sold to an unaffiliated third party purchaser for a sales price of \$4,800,000. There were no distributions from this sale after the repayment of mortgages, other liabilities and closing costs of approximately \$4,800,000. The sale resulted in a gain of approximately \$2,785,000, resulting from the write-off of the deficit basis in the property at the date of the sale, which was recorded during the quarter ended September 15, 2006. The gain was adjusted by approximately \$756,000 in loss, which was recorded during the quarter ended March 15, 2007, resulting in an overall gain of approximately \$2,029,000.

On May 1, 2006, the property and the related assets and liabilities of Grand Concourse Housing Associates, L.P. ("Grand Concourse") were sold to an unaffiliated third party purchaser for a sales price of \$4,937,500. The Partnership received \$797,203 as a distribution from this sale after the repayment of mortgages, other liabilities, closing costs and distributions to minority interest of approximately \$4,140,000. The sale resulted in a gain of approximately \$2,104,000, resulting from the write-off of the deficit basis in the property at the date of the sale, which was recorded during the quarter ended September 15, 2006. Adjustments to the gain of approximately \$383,000 and \$(5,000) were recorded during the quarters ended March 15, 2007 and March 15, 2008, respectively, resulting in an overall gain of approximately \$2,482,000.

On May 1, 2006, the property and the related assets and liabilities of Concourse Artists Housing Associates, L.P. ("Concourse Artists") were sold to an unaffiliated third party purchaser for a sales price of \$1,797,500. The Partnership received \$278,553 as a distribution from this sale after the repayment of mortgages, other liabilities, closing costs and distributions to minority interest of approximately \$1,519,000. The sale resulted in a gain of approximately \$672,000, resulting from the write-off of the deficit basis in the property at the date of the sale which was recorded during the quarter ended September 15, 2006. An adjustment to the gain of approximately \$28,000 was recorded during the quarters ended March 15, 2007, resulting in an overall gain of approximately \$676,000.

On May 1, 2006, the property and the related assets and liabilities of Robin Housing Associates, L.P. ("Robin Housing") were sold to an unaffiliated third party purchaser for a sales price of \$7,265,000. The Partnership received \$1,743,907 as a distribution from this sale after the repayment of mortgages, other liabilities, closing costs and distributions to minority interest of approximately \$5,521,000. The sale resulted in a gain of approximately \$3,115,000, resulting from the write-off of the deficit basis in the

## **Notes to Consolidated Financial Statements (continued)**

### **March 15, 2008**

property at the date of the sale which was recorded during the quarter ended September 15, 2006. Adjustments to the gain of approximately \$219,000 and \$(24,000) were recorded during the quarters ended March 15, 2007 and March 15, 2008, respectively, resulting in an overall gain of approximately \$3,334,000.

On September 15, 2005, the Partnership sold its limited partnership interest in Bayridge Associates, L.P. ("Bayridge") to the Local General Partner for a sales price of \$1,125,000. The Partnership received proceeds of \$1,113,587 from this sale after payment of closing costs of approximately \$11,000. The sale resulted in a gain of approximately \$5,821,000, resulting from the write-off of the deficit basis in the property of approximately \$4,707,000 at the date of the sale and the \$1,113,587 cash received from the sale.

On July 27, 2005, the property and the related assets and liabilities of Penn Alto Associates, L.P. ("Penn Alto") were sold to an unaffiliated third party purchaser for a sales price of \$1,625,000. The proceeds were used for repayment of mortgages, other liabilities and closing costs of approximately \$1,625,000. During the quarter ended September 15, 2005, in accordance with Statement of Financial Accounting Standards No. 144 ("SFAS No. 144") "Accounting for the Impairment of Disposal of Long-Lived Assets", the Partnership deemed the building impaired and wrote it down to its fair value, which resulted in a loss on impairment of \$850,000. The sale resulted in a gain of approximately \$127,000 resulting from the write-off of the basis in the property at the date of the sale. An adjustment to the gain of approximately (\$190,000) was recorded during the quarter ended March 15, 2006, resulting in an overall loss of approximately \$63,000. The sale resulted in the liquidation of Penn Alto.

On June 8, 2005, the Partnership sold its limited partnership interest in Fox Glenn Investors, L.P. ("Fox Glenn") to the Local General Partner for a sales price of \$1,400,000. The Partnership received proceeds of \$200,000 and a note receivable for \$1,200,000, which was paid in full on February 9, 2006, from this sale. The sale resulted in a gain of approximately \$3,098,000, resulting from the write-off of the deficit basis in the property at the date of the sale of approximately \$1,698,000 and the \$1,400,000 cash received from the sale.

On June 2, 2005, the Partnership sold its limited partnership interest in Lancaster Towers Associates, LTD ("Lancaster") to an affiliate of the Local General Partner for a sales price of \$449,750. The Partnership received proceeds of \$445,500 from this sale after the payment of closing costs of approximately \$4,000 from the sales price. During the quarter ended June 15, 2005, in accordance with SFAS No. 144, the Partnership deemed the building impaired and wrote it down to its fair value which resulted in a loss on impairment of \$1,860,000. The sale resulted in a loss of approximately \$309,000, resulting from the write-off of the deficit basis in the property at the date of the sale.

On March 29, 2005, the property and the related assets and liabilities of Regent Street Associates, L.P. ("Regent Street") were sold to an unaffiliated third party purchaser for the assumption of the outstanding debt plus an incentive payment of \$100,000. The Partnership received \$100,000 from this transaction. The sale originally resulted in a gain of approximately \$1,436,000, resulting from the write-off of the deficit basis in the property of approximately \$1,336,000 and the \$100,000 cash received from the sale. An adjustment to the gain of approximately \$206,000 was recognized during the quarter ended March 15, 2006, resulting in an overall gain of \$1,230,000. The sale also resulted in a non-cash contribution to the Local Partnership from the Local General Partner of approximately \$150,000 resulting from the write-off of payables owed to the Local General Partner and a non-cash contribution from the special limited partner of approximately \$40,000 resulting from the write-off of payables owed to the special limited partner. The sale resulted in the liquidation of Regent Street.

**Notes to Consolidated Financial Statements** (continued)  
**March 15, 2008**

On February 17, 2005, the Partnership's limited partnership interest in Redwood Villa Associates ("Redwood") was sold to the Local General Partner for a sales price of \$60,000. The Partnership received proceeds of \$59,400 from this sale. The sale resulted in a gain of approximately \$1,749,000, resulting from the write-off of the deficit basis in the property of approximately \$1,690,000 and the \$59,400 cash received from the sale.

On January 5, 2005, the property and the related assets and liabilities of Lund Hill Associates, L.P. ("Lund Hill") were sold to an unaffiliated thirty party purchaser for a sales price of \$6,500,000. The Partnership received approximately \$3,225,485 as a distribution from this sale after the repayment of mortgages, other liabilities, closing costs and distributions to minority interest of approximately \$3,276,000. The sale resulted in a gain of approximately \$1,345,000 resulting from the write-off of the deficit basis in the property. The sale resulted in the liquidation of Lund Hill.

**NOTE 11 – Asset Held for Sale**

On April 26, 2007, the Partnership entered into an agreement to sell its limited partnership interest in West Kinney Associates, L.P. ("West Kinney") to an affiliate of the Local General Partner for a sales price of \$600,000 and the assumption of the outstanding mortgages and related accrued interest which amounted to approximately \$4,475,000 on September 30, 2007. The sales documents have been executed and the initial deposit funds are being held in escrow. No assurance can be given that the sale will actually occur. West Kinney has been classified as an asset held for sale as of the quarter ended June 15, 2007. As of March 15, 2008, West Kinney had property and equipment, at cost, of approximately \$7,187,000, accumulated depreciation of approximately \$4,465,000 and mortgage debt of approximately \$3,016,000.

**NOTE 12 – Commitments and Contingencies**

a) Lease Commitment

None

b) Uninsured Cash and Cash Equivalents

The Partnership maintains its cash and cash equivalents in various banks. Accounts at each bank are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. As of March 15, 2008, uninsured cash and cash equivalents approximated \$7,250,000.

c) Cash Distributions

Cash distributions from the Local Partnerships to the Partnership are restricted by the provisions of the respective Local Partnership agreements and/or HUD. Such cash distributions are typically made from surplus cash flow.

d) Tax Credits

A portion of the Tax Credits could be subject to recapture in future years if (i) a Local Partnership ceases to meet qualification requirements, (ii) there is a decrease in the qualified basis of the Local Partnership property or (iii) there is a reduction in the Local Partnership interest in the property at any time during

**Notes to Consolidated Financial Statements** (continued)  
**March 15, 2008**

the 15-year period (the “Compliance Period”) that began with the first tax year of the period of the Partnership’s entitlement to claim Tax Credits (for each Property, ten years from the date of investment or, if later, the date the Property is placed in service is referred to herein as the “Tax Credit Period”). As of December 31, 2003, the Tax Credit Period for each Local Partnership had expired. The Compliance Periods continue through December 31, 2008 with respect to the Properties depending upon when the Tax Credit Periods commenced.

e) Other

Greenleaf Associates, L.P. (“Greenleaf”)

A former tenant brought suit against Greenleaf’s on-site manager for damages of \$100,000. An amended complaint does not specify an amount of damages. The former tenant claims violation of the 14<sup>th</sup> Amendment, false arrest, obstruction of justice and civil conspiracy. On March 26, 2008, Greenleaf’s motion to dismiss the case was granted by the court. Greenleaf was sold on January 29, 2008 (see Note 13).

State Street 86 Associates, L.P. (“State Street”)

The Camden Redevelopment Agency has designated the Cramer Hill Waterfront Redevelopment Agency as a possible future redevelopment project. This area includes Centennial Village, a 200-unit apartment project that State Street owns and operates. There have been various lawsuits involving this redevelopment at this time. Subsequently on April 29, 2008, State Street entered into a purchase and sale agreement to sell its property and related assets and liabilities (see Note 15).

Grove Parc Associates, L.P. (“Grove Parc”)

Grove Parc has experienced significant cash flow difficulties. Grove Parc withdrew \$431,716 from the replacement reserve of which \$303,081 was used to pay operating expenses incurred by the Property. Grove Parc has taken measures to improve the operations. If these measures are not successful and the reserves are further depleted and the Local General Partner does not fund the operating deficits, Grove Parc may face foreclosure action which could result in the loss of tax benefits. The mortgage was in technical default and on March 11, 2008 the mortgagee assigned the mortgage to HUD pursuant to the applicable FHA insurance. Grove Parc is in the process of selling the property with HUD approval. Subsequently on April 11, 2008, the Partnership entered into an agreement to sell its limited partnership interest in Grove Parc (see Note 15). As of June 10, 2008, the transaction is still in the process of obtaining HUD approval for a transfer of physical assets.

The Partnership is subject to the risks incident to potential losses arising from the management and ownership of improved real estate. The Partnership can also be affected by poor economic conditions generally; however, no more than 33% of the properties are located in any single state. There are also substantial risks associated with owning properties receiving government assistance, for example the possibility that Congress may not appropriate funds to enable HUD to make rental assistance payments. HUD also restricts annual cash distributions to partners based on operating results and a percentage of the owners’ equity contribution. As of March 15, 2008, there are three Local Partnerships subsidized by HUD. The Partnership cannot sell or substantially liquidate its investments in subsidiary partnerships during the period that the subsidy agreements are in existence, without HUD’s approval. Furthermore, there may not be market demand for apartments at full market rents when the rental assistance contracts expire.

**Notes to Consolidated Financial Statements** (continued)  
**March 15, 2008**

NOTE 13 – Discontinued Operations

The following table summarizes the financial position of the Local Partnerships that are classified as discontinued operations because the respective Local Partnerships were classified as assets held for sale. As of March 15, 2008, Magnolia, Greenleaf, Quality Hill and West Kinney were classified as discontinued operations on the consolidated balance sheets. As of March 15, 2007, Alameda Towers, Concourse Artists, Charles Drew, Grand Concourse, Greenleaf, Robin Housing, Shiloh Grove, United Penn and Willoughby were classified as discontinued operations on the consolidated balance sheets.

Consolidated Balance Sheets of Discontinued Operations:

	March 15, 2008	March 15, 2007
Assets		
Property and equipment, net of accumulated depreciation of \$18,141,851 and \$9,605,003, respectively	\$ 10,588,776	\$ 5,252,734
Cash and cash equivalents	250,991	343,866
Cash held in escrow	1,260,586	722,334
Deferred costs, net of accumulated amortization of \$324,585 and \$6,341, respectively	173,516	42,445
Due from general partners and affiliates	0	8,772
Other assets	152,363	92,804
Total assets	<u>\$ 12,426,232</u>	<u>\$ 6,462,955</u>
Liabilities		
Mortgage notes payable	\$ 17,314,761	\$ 4,507,279
Accounts payable and other liabilities	3,684,320	192,298
Due to local general partners and affiliates	83,431	122,358
Due to general partners and affiliates	24,998	0
Minority interest	1,166,600	(230,482)
Total liabilities	<u>\$ 22,274,110</u>	<u>\$ 4,591,453</u>

The following table summarizes the results of operations of the Local Partnerships that are classified as discontinued operations. For the year ended March 15, 2008, Charles Drew, Greenleaf, Magnolia, Sartain and Quality Hill, which were sold during current year, and West Kinney, which was classified as an asset held for sale, were all classified as discontinued operations in the consolidated financial statements. For the year ended March 15, 2007, Alameda, Concourse Artists, Grand Concourse, Robin Housing, Shiloh Grove, United Penn and Willoughby, which were sold during the year, and Charles Drew, Greenleaf, Quality Hill, Magnolia, Sartain and West Kinney, in order to present comparable results to the year ended March 31, 2008, were all classified as discontinued operations in the consolidated financial statements. For the year ended March 15, 2006, Bayridge, Fox Glenn, Lancaster, Lund Hill, Penn Alto, Redwood and Regent Street, which were sold during the year, and Magnolia, Sartain, Charles Drew, Greenleaf, Quality Hill, West Kinney, Alameda, Concourse Artists, Grand Concourse, Robin Housing, Shiloh Grove, United Penn and Willoughby, in order to present comparable results to the year ended March 15, 2008, were all classified as discontinued operations in the consolidated financial statements.

**Notes to Consolidated Financial Statements** (continued)  
**March 15, 2008**

Consolidated Statements of Discontinued Operations:

	Years Ended March 15,		
	<u>2008</u>	<u>2007*</u>	<u>2006*</u>
Revenues			
Rental income	\$ 3,576,564	\$ 9,850,681	\$ 15,654,043
Other (Note 2)	100,504	293,781	579,739
Gain on sale of investments and properties (Note 10)	<u>4,168,518</u>	<u>13,589,123</u>	<u>12,812,223</u>
Total revenue	<u>7,845,586</u>	<u>23,733,585</u>	<u>29,046,005</u>
Expenses			
General and administrative	1,350,866	2,310,531	3,444,109
General and administrative-related parties (Note 8)	320,900	494,478	607,137
Repairs and maintenance	1,181,737	2,484,733	3,561,548
Operating	644,823	1,422,486	2,359,952
Taxes	263,798	526,324	764,402
Insurance	338,584	792,467	955,297
Interest	1,289,754	2,558,671	3,890,529
Depreciation and amortization	663,252	2,282,616	3,927,150
Loss on impairment of fixed assets	<u>1,049,629</u>	<u>0</u>	<u>2,710,000</u>
Total expenses	<u>7,103,343</u>	<u>12,872,306</u>	<u>22,220,124</u>
Income before minority interest	742,243	10,861,279	6,825,881
Minority interest in (income) loss of subsidiaries from discontinued operations	<u>(287,850)</u>	<u>(1,442,431)</u>	<u>326,318</u>
Net income from discontinued operations (including gain on sale of properties)	<u>\$ 454,393</u>	<u>\$ 9,418,848</u>	<u>\$ 7,152,199</u>
Income – limited partners from discontinued operations (including gain on sale of properties)	<u>\$ 449,849</u>	<u>\$ 9,324,660</u>	<u>\$ 7,080,677</u>
Number of BACs outstanding	<u>15,987.5</u>	<u>15,987.5</u>	<u>15,987.5</u>
Income discontinued operations (including gain on sale of properties) per BAC	<u>\$ 28.14</u>	<u>\$ 583.25</u>	<u>\$ 442.89</u>

\* Reclassified for comparative purposes.

**Notes to Consolidated Financial Statements** (continued)  
**March 15, 2008**

	Years Ended March 15,		
	<u>2008</u>	<u>2007*</u>	<u>2006*</u>
Cash flows from discontinued operations			
Net cash (used in) provided by operating activities	\$ (2,615,327)	\$ 685,600	\$ 11,914,608
Net cash provided by investing activities	\$ 6,325,942	\$ 17,774,456	\$ 10,732,724
Net cash used in financing activities	\$ (1,550,817)	\$ (12,321,257)	\$ (16,744,213)

\* Reclassified for comparative purposes.

NOTE 14 – Selected Quarterly Financial Data (Unaudited)

The following table summarizes the Partnership's quarterly results of operations for the years ended March 15, 2008 and 2007. The fluctuations between the quarters are primarily due to the sales of Local Partnerships (see Note 10).

**Notes to Consolidated Financial Statements** (continued)  
**March 15, 2008**

OPERATIONS	Quarter Ended			
	June 15, 2007	September 15, 2007	December 15, 2007	March 15, 2008
Revenues	\$ 2,352,288	\$ 2,203,592	\$ 2,234,287	\$ 2,910,482
Operating expenses	<u>(3,099,023)</u>	<u>(2,452,881)</u>	<u>(3,157,739)</u>	<u>(3,121,389)</u>
Loss from operations before minority interest	(746,735)	(249,289)	(923,452)	(210,907)
Minority interest in loss of subsidiaries from operations	<u>550</u>	<u>551</u>	<u>1,469</u>	<u>(531)</u>
Loss from operations	(746,185)	(248,738)	(921,983)	(211,438)
(Loss) income from discontinued operations (including gain on sale of properties and minority interest)	<u>(890,248)</u>	<u>(322,541)</u>	<u>(353,126)</u>	<u>2,020,308</u>
Net (loss) income	\$ <u>(1,636,433)</u>	\$ <u>(571,279)</u>	\$ <u>(1,275,109)</u>	\$ <u>1,808,870</u>
Net (loss) income— limited partnership	\$ <u>(1,620,069)</u>	\$ <u>(565,566)</u>	\$ <u>(1,262,358)</u>	\$ <u>1,790,782</u>
Net loss per weighted average BAC from operations	\$ (46.21)	\$ (15.41)	\$ (57.09)	\$ (13.09)
Net (loss) income per weighted average BAC from discontinued operations	<u>(55.12)</u>	<u>(19.97)</u>	<u>(21.87)</u>	<u>125.10</u>
Net (loss) income per weighted average BAC	\$ <u>(101.33)</u>	\$ <u>(35.38)</u>	\$ <u>(78.96)</u>	\$ <u>112.01</u>

OPERATIONS	Quarter Ended			
	June 15, 2006*	September 15, 2006*	December 15, 2006*	March 15, 2007*
Revenues	\$ 2,237,127	\$ 2,363,722	\$ 2,310,611	\$ 2,332,531
Operating expenses	<u>(3,288,392)</u>	<u>(2,932,977)</u>	<u>(3,255,594)</u>	<u>(3,179,906)</u>
Loss from operations before minority interest	(1,051,265)	(569,255)	(944,983)	(847,375)
Minority interest in loss of subsidiaries from operations	<u>1,022</u>	<u>844</u>	<u>2,715</u>	<u>2,885</u>
Loss from operations	(1,050,243)	(568,411)	(942,268)	(844,490)
(Loss) income from discontinued operations (including gain on sale of properties and minority interest)	<u>(1,035,141)</u>	<u>6,602,156</u>	<u>2,352,919</u>	<u>1,498,914</u>
Net (loss) income	\$ <u>(2,085,384)</u>	\$ <u>6,033,745</u>	\$ <u>1,410,651</u>	\$ <u>654,424</u>
Net (loss) income – limited partnership	\$ <u>(2,064,530)</u>	\$ <u>5,973,408</u>	\$ <u>1,396,544</u>	\$ <u>647,880</u>
Net loss per weighted average BAC from operations	\$ (65.03)	\$ (35.20)	\$ (58.35)	\$ (52.30)
Net (loss) income per weighted average BAC from discontinued operations	<u>(64.10)</u>	<u>408.83</u>	<u>145.70</u>	<u>92.82</u>
Net (loss) income per weighted average BAC	\$ <u>(129.13)</u>	\$ <u>373.63</u>	\$ <u>87.35</u>	\$ <u>40.52</u>

\* As reclassified for comparative purposes and restated (Note 2)

## **Notes to Consolidated Financial Statements** (continued) **March 15, 2008**

### NOTE 15 – Subsequent Event

On April 29, 2008, State Street 86 Associates, L.P. (“State Street”) entered into a purchase and sale agreement to sell the property and the related assets and liabilities to an unaffiliated third party purchaser for a sales price of \$1,500,000 plus the assumption of the mortgage debt. The sales documents have been executed and the initial deposit funds are being held in escrow. The closing is expected to occur in the fourth quarter of 2008. No assurance can be given that the sale will actually occur. As of December 31, 2007, State Street had property and equipment, at cost, of approximately \$13,923,000, accumulated depreciation of approximately \$10,219,000 and mortgage debt of approximately \$5,335,000.

On April 11, 2008, the Partnership entered into an assignment and assumption agreement to sell its limited partnership interest in Grove Parc Associates, L.P. (“Grove Parc”) to an affiliate of the Local General Partner for a sales price of \$10,000. The sales documents have been executed and the initial deposit funds are being held in escrow. The sale requires HUD approval. At this time, the Partnership cannot determine when or if HUD will grant its approval. As of December 31, 2007, Grove Parc had property and equipment, at cost, of approximately \$21,965,000, accumulated depreciation of approximately \$12,986,000 and mortgage debt of approximately \$11,363,000.

On April 10, 2008, the Partnership entered into an assignment and assumption agreement to sell its limited partnership interest in B & C Housing Associates, L.P. (“B & C Housing”) to an affiliate of the Local General Partner for a sales price of \$75,000. The sales documents have been executed and the initial deposit funds are being held in escrow. The sale requires HUD approval. At this time, the Partnership cannot determine when or if HUD will grant its approval. As of December 31, 2007, B & C Housing had property and equipment, at cost, of approximately \$9,272,000, accumulated depreciation of approximately \$5,921,000 and mortgage debt of approximately \$6,491,000.

## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

*(Summarized from Form 10-K as filed with the Securities and Exchange Commission)*

### Liquidity and Capital Resources

The Partnership’s capital was originally invested in thirty-one Local Partnerships. During the fiscal year ended March 15, 2008, the Partnership sold its limited partnership interest in one Local Partnership, the property and the related assets and liabilities of three Local Partnerships and transferred the deed to the property and the related assets and liabilities of one Local Partnership and entered into an agreement to sell its limited partnership interest in one Local Partnership. Through the fiscal year ended March 15, 2008, the Partnership has sold its limited partnership interest in nine Local Partnerships, the properties and the related assets and liabilities of eighteen Local Partnerships and transferred the deed to the property and the related assets and liabilities of one Local Partnership and has entered into an agreement to sell its limited partnership interest in one Local Partnership. Subsequently on April 11, 2008, one Local Partnership entered into an agreement to sell its property and related assets and liabilities and the Partnership has entered into agreements to sell its limited partnership interests in two Local Partnerships (see Item 8, Note 15).

## **Management's Discussion and Analysis of Financial (continued) Condition and Results of Operations**

*(Summarized from Form 10-K as filed with the Securities and Exchange Commission)*

### Short-Term

The Partnership's primary source of funds included: (i) working capital reserves; (ii) interest earned on the working capital reserves; (iii) cash distributions from operations of the Local Partnerships; and (iv) sales proceeds and distributions. Such funds are available to meet the obligations of the Partnership. The Partnership does not anticipate providing cash distributions to BACs holders in circumstances other than refinancing or sales. During the years ended March 15, 2008, 2007 and 2006, such distributions amounted to approximately \$3,611,000, \$5,353,000 and \$3,131,000, respectively, which included distributions from sales amounting to approximately \$3,551,000, \$5,279,000 and \$3,030,000, respectively. In addition, certain fees and expense reimbursements owed to the General Partners amounting to approximately \$2,255,000, \$2,609,000 and \$7,808,000 were accrued and unpaid as of March 15, 2008, 2007 and 2006, respectively. During the year ended March 15, 2008 and 2007, management deemed the unpaid partnership management fees that were related to sold properties uncollectible and, as a result, wrote it off in the amount of approximately \$363,000 and \$5,251,000, respectively, resulting in a non-cash General Partner contribution of the same amount. In particular, partnership management fees owed to the General Partners amounting to approximately \$2,172,000, \$2,574,000 and \$7,697,000 were accrued and unpaid as of March 15, 2008, 2007 and 2006, respectively. Furthermore, expense reimbursements and asset monitoring fees owed to the General Partners amounting to approximately \$84,000, \$35,000 and \$111,000 were accrued and unpaid as of March 15, 2008, 2007 and 2006, respectively. Without the General Partners' continued accrual without payment of the partnership management fees, the Partnership will not be in the position to meet its obligations. The General Partners have allowed for the accrual without payment of the partnership management fees but are under no obligation to continue to do so.

During the year ended March 15, 2008, cash and cash equivalents of the Partnership and its consolidated Local Partnerships increased approximately \$868,000. This increase is attributable to proceeds from sale of investments of approximately (\$5,056,000) and a decrease in capitalization of consolidated subsidiaries attributable to minority interest of approximately (\$1,031,000), which exceeded net cash used in operating activities of approximately (\$3,901,000), an increase in cash held in escrow relating to investing activities of approximately (\$61,000), improvements to property and equipment of approximately (\$397,000), costs paid relating to sale of properties of approximately (\$24,000), an increase in deferred costs of approximately (\$3,000), a net decrease in due to local general partners and affiliates relating to financing activities of approximately (\$413,000) and repayments of mortgage notes of approximately (\$422,000). Included in the adjustments to reconcile net loss to net cash used in operating activities are depreciation and amortization of approximately (\$2,372,000), loss on impairment of properties of approximately (\$1,050,000) and gain on sale of investments and properties of approximately (\$4,169,000).

Total expenses for the years ended March 15, 2008, 2007 and 2006, excluding depreciation and amortization, interest and general and administrative-related parties, totaled \$7,266,286, \$7,524,583 and \$6,980,203, respectively.

Accounts payable as of March 15, 2008 and 2007 were \$3,988,892 and \$4,890,335, respectively. Accounts payable are short term liabilities which are expected to be paid from operating cash flows, working capital balances at the Local Partnership level, Local General Partner advances and in certain circumstances advances from the Partnership. Because the provisions of the secondary loans defer the payment of accrued interest of the respective Local Partnerships, the Partnership believes it (and the applicable Local Partnerships) has sufficient liquidity and ability to generate cash and to meet existing and known or reasonably likely future cash requirements over both the short and long term.

## Management's Discussion and Analysis of Financial (continued) Condition and Results of Operations

*(Summarized from Form 10-K as filed with the Securities and Exchange Commission)*

Accrued interest payable as of March 15, 2008 and 2007 was \$1,312,357 and \$6,616,457, respectively. Accrued interest payable represents the accrued interest on all mortgage loans, which include primary and secondary loans. Certain secondary loans have provisions such that interest is accrued but not payable until a future date. The Partnership anticipates the payment of accrued interest on the secondary loans (which make up the majority of the accrued interest payable amount and which have been accumulating since the Partnership's investment in the respective Local Partnership) will be made from future refinancings or sales proceeds of the respective Local Partnerships. In addition, each Local Partnership's mortgage notes are collateralized by the land and buildings of the respective Local Partnership, and are without further recourse to the Partnership.

A working capital reserve of approximately \$6,916,000 remained unused at March 15, 2008. During the year ended March 15, 2008, distributions from sales proceeds were made to the Limited Partners of approximately \$2,800,000 and to the General Partners of approximately \$28,000.

The Partnership is not expected to have access to additional sources of financing.

### Long-Term

For a discussion of contingencies affecting certain Local Partnerships, see Results of Operations of Certain Local Partnerships below. Since the maximum loss the Partnership would be liable for is its net investment in the respective Local Partnerships, the resolution of the existing contingencies is not anticipated to impact future results of operations, liquidity or financial condition in a material way. However, the Partnership's loss of its investment in a Local Partnership may result in recapture of Tax Credits if the investment is lost before expiration of the Compliance Period.

Except as described above, management is not aware of any trends or events, commitments or uncertainties which have not otherwise been disclosed that will or are likely to impact liquidity in a material way. Management believes the only impact would be from laws that have not yet been adopted.

### Sale of Underlying Properties/Local Partnership Interests

For a discussion of the sale of Properties in which the Partnership owns indirect interests, see Note 10 in Item 8.

### Discontinued Operations

For a discussion of discontinued operations, see Note 13 in Item 8.

### Tabular Disclosure of Contractual Obligations

The following table summarizes the Partnership's commitments from continuing operations as of March 15, 2008, to make future payments under its debt agreements and other contractual obligations.

	<u>Total</u>	<u>Less than 1 Year</u>	<u>1 – 3 Years</u>	<u>3 -5 Years</u>	<u>More than 5 Years</u>
Mortgage notes payable (a)	\$ 23,188,688	\$ 11,385,917	\$ 51,058	\$ 59,129	\$ 11,692,584
Notes payable to local general partners (b)	<u>12,689,670</u>	<u>139,670</u>	<u>12,550,000</u>	<u>0</u>	<u>0</u>
Total	<u>\$ 35,878,358</u>	<u>\$ 11,525,587</u>	<u>\$ 12,601,058</u>	<u>\$ 59,129</u>	<u>\$ 11,692,584</u>

(a) The mortgage notes are payable in aggregate monthly installments of approximately \$95,000 including principal

## Management's Discussion and Analysis of Financial (continued) Condition and Results of Operations

(Summarized from Form 10-K as filed with the Securities and Exchange Commission)

and interest at rates varying from 1% to 7.5% per annum, through 2036. Each subsidiary partnership's mortgage note payable is collateralized by the land and buildings of the respective subsidiary partnership and the assignment of certain subsidiary partnerships' rents and leases is without further recourse.

(b) See Note 8(g) in Item 8.

The following table summarizes the Partnership's commitments from discontinued operations as of March 15, 2008, to make future payments under its debt agreements and other contractual obligations.

	<u>Total</u>	<u>Less than 1 Year</u>	<u>1 - 3 Years</u>	<u>3 -5 Years</u>	<u>More than 5 Years</u>
Mortgage notes payable (a)	<u>\$ 17,314,761</u>	<u>\$ 9,352,939</u>	<u>\$ 659,613</u>	<u>\$ 761,377</u>	<u>\$ 6,540,832</u>

(a) The mortgage notes are payable in aggregate monthly installments of approximately \$65,000 including principal and interest at the rates of 1% to 12% per annum, through 2027. Each subsidiary partnership's mortgage note payable is collateralized by the land and buildings of the respective subsidiary partnership and the assignment of certain subsidiary partnership's rents and leases is without further recourse.

### Off-Balance Sheet Arrangements

The Partnership has no off-balance sheet arrangements.

### Critical Accounting Policies and Estimates

In preparing the consolidated financial statements, management has made estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Set forth below is a summary of the accounting policies that management believes are critical to the preparation of the consolidated financial statements. The summary should be read in conjunction with the more complete discussion of the Partnership's accounting policies included in Note 2 in Item 8.

### Property and Equipment

Property and equipment to be held and used are carried at cost which includes the purchase price, acquisition fees and expenses, and any other costs incurred in acquiring the Properties. The cost of property and equipment is depreciated over their estimated useful lives using accelerated and straight-line methods. Expenditures for repairs and maintenance are charged to expense as incurred; major renewals and betterments are capitalized. At the time property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are eliminated from the assets and accumulated depreciation accounts and the profit or loss on such disposition is reflected in earnings.

In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment of Disposal of Long-Lived Assets", the results of discontinued operations are reported as a separate component of income before extraordinary items on the Consolidated Statements of Operations. Discontinued operations include the results of operations and any gain or loss recognized for Local Partnerships that have been disposed of or are held for sale. A gain or loss recognized on the disposal is disclosed in the Notes in Item 8. Adjustments to amounts previously reported in operations that are directly related to the disposal of a Local Partnership are reclassified in the current period as discontinued operations for comparability purposes. Assets and liabilities of a Local Partnership that are classified as held for sale

## Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

(Summarized from Form 10-K as filed with the Securities and Exchange Commission)

are presented separately in the asset and liability sections, respectively, of the consolidated balance sheets.

A loss on impairment of assets is recorded when management estimates amounts recoverable through future operations and sale of the Property on an undiscounted basis are below depreciated cost. At that time Property investments themselves are reduced to estimated fair value (generally using discounted cash flows).

During the year ended March 15, 2008, the Partnership recorded approximately \$1,050,000 as a loss on impairment of assets or reduction to estimated fair value. Through March 15, 2008, the Partnership recorded approximately \$3,760,000 as an aggregate loss on impairment of assets or reduction to estimated fair value.

### Revenue Recognition

Rental income is earned primarily under standard residential operating leases and is typically due the first day of each month, but can vary by Property due to the terms of the tenant leases. Rental income is recognized when earned and charged to tenants' accounts receivable if not received by the due date. Rental payments received in advance of the due date are deferred until earned. Rental subsidies are recognized as rental income during the month in which it is earned.

Other revenues are recorded when earned and consist of the following items: Interest income earned on cash and cash equivalent balances and cash held in escrow balances, income from forfeited security deposits, late charges, laundry and vending income and other rental related items.

Other revenues from operations include the following amounts at both the Partnership and Local Partnership level:

	Years Ended March 15,		
	<u>2008</u>	<u>2007*</u>	<u>2006*</u>
Interest	\$ 277,200	\$ 274,267	\$ 190,372
Other	<u>703,832</u>	<u>75,922</u>	<u>99,035</u>
Total other revenue	<u>\$ 981,032</u>	<u>\$ 350,189</u>	<u>\$ 289,407</u>

Other revenues from discontinued operations include the following amounts at both the Partnership and Local Partnership level:

	Years Ended March 15,		
	<u>2008</u>	<u>2007*</u>	<u>2006*</u>
Interest	\$ 43,641	\$ 162,453	\$ 183,553
Other	<u>56,863</u>	<u>131,328</u>	<u>396,186</u>
Total other revenue	<u>\$ 100,504</u>	<u>\$ 293,781</u>	<u>\$ 579,739</u>

\* Reclassified for comparative purposes.

## **Management's Discussion and Analysis of Financial (continued) Condition and Results of Operations**

*(Summarized from Form 10-K as filed with the Securities and Exchange Commission)*

### Income Taxes

The Partnership is not required to provide for, or pay, any federal income taxes. Net income or loss generated by the Partnership is passed through to the partners and is required to be reported by them. The Partnership may be subject to state and local taxes in jurisdictions in which it operates. For income tax purposes, the Partnership has a fiscal year ending December 31.

### Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which established a framework for measuring the fair value of assets and liabilities as required by numerous other accounting pronouncements, and expands disclosure requirements of the fair values of certain assets and liabilities. This statement is effective for the Partnership's year ending March 31, 2009. The provisions of this statement will not have a material impact on the consolidated financial statements.

In February 2007 the FASB issued SFAS No. 159, the Fair Value Option for Financial Assets and Financial Liabilities. This statement was issued with the intent to provide an alternative measurement treatment for certain financial assets and liabilities. The alternative measurement would permit fair value to be used for both initial and subsequent measurement, with changes in fair value recognized in earnings as those changes occur. This "Fair Value Option" would be available on a contract by contract basis. This statement is effective for the Partnership's year ending March 31, 2009. The provisions of this statement will not have a material impact on the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements. This statement was issued with the intent to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements for those entities that have outstanding noncontrolling interest in one or more subsidiaries. The effective date for this provision is for fiscal year ends beginning after December 15, 2008. The Partnership is currently evaluating the impact of the provisions of this statement on the consolidated financial statements.

### Results of Operations

The following is a summary of the results of operations of the Partnership for the years ended March 15, 2008, 2007 and 2006 (the 2007, 2006 and 2005 Fiscal Years, respectively).

The net (loss) income for the 2007, 2006 and 2005 Fiscal Years totaled \$(1,673,951), \$6,013,436 (as restated) and \$3,666,593, respectively.

The Partnership's revenues continue to consist primarily of the results of the Partnership's investment in consolidated Local Partnerships, excluding the results of its discontinued operations which are not reflected in the following discussion (see Note 13 in Item 8).

### 2008 vs. 2007

Rental income decreased approximately 2% for the 2007 Fiscal Year as compared to the 2006 Fiscal Year, primarily due to increases in vacancies at two Local Partnerships partially offset by a rental rate increase and decrease in vacancy at one Local Partnership.

## **Management's Discussion and Analysis of Financial (continued) Condition and Results of Operations**

*(Summarized from Form 10-K as filed with the Securities and Exchange Commission)*

Other income increased approximately \$631,000 for the 2007 Fiscal Year as compared to the 2006 Fiscal Year, primarily due to a grant revenue received from the Department of Commerce and Economic Opportunity and an insurance reimbursement at one Local Partnership and an increase in interest income at the Partnership level resulting from the increase in proceeds from sale activities.

Total expenses, excluding general and administrative, general and administrative-related parties, repairs and maintenance, taxes and financial, remained fairly consistent with a decrease of approximately 2% for the 2007 Fiscal Year as compared to the 2006 Fiscal Year.

General and administrative expense increased approximately \$426,000 for the 2007 Fiscal Year as compared to the 2006 Fiscal Year, primarily due to withholding taxes expensed from the sale of one Local Partnership at the Partnership level and an increase in office salaries, legal expense, auditing expense and health insurance expense at one Local Partnership.

General and administrative – related parties expenses decreased approximately \$115,000 for the 2007 Fiscal Year as compared to the 2006 Fiscal Year, primarily due to a decrease in partnership management fees resulting from the sale of properties, partially offset by an increase in expense reimbursement charges at the Partnership level.

Repairs and maintenance expense decreased approximately \$804,000 for the 2007 Fiscal Year as compared to the 2006 Fiscal Year, primarily due to a decrease in security contract, supplies and payroll costs at one Local Partnership and a decrease in maintenance contracts, payroll costs, security costs and supplies at a second Local Partnership.

Taxes expense increased approximately \$93,000 for the 2007 Fiscal Year as compared to 2006 Fiscal Year, primarily due to an increase in real estate taxes as well as an adjustment for an underaccrual of 2006 taxes in the current year at one Local Partnership.

Interest expense decreased approximately \$345,000 for the 2007 Fiscal Year as compared to the 2006 Fiscal Year, primarily due to mortgage refinancing at one Local Partnership (see Note 7 in Item 8).

### 2007 vs. 2006

Rental income increased approximately 1% for the 2006 Fiscal Year as compared to the 2005 Fiscal Year, primarily due to rental rate increases at the Local Partnerships.

Other income increased approximately \$61,000 for the 2006 Fiscal Year as compared to the 2005 Fiscal Year, primarily due to an increase in interest income at the Partnership level resulting from the increase in proceeds from the sale of properties.

Total expenses, excluding general and administrative – related parties and repairs, remained fairly consistent with an increase of approximately 2% for the 2006 Fiscal Year as compared to the 2005 Fiscal Year.

General and administrative – related parties expense decreased approximately \$532,000 for the 2006 Fiscal Year as compared to the 2005 Fiscal Year, primarily due to a decrease in partnership management fees and expense reimbursement charges at the Partnership level resulting from the sale of properties.

**Management's Discussion and Analysis of Financial** (continued)  
**Condition and Results of Operations**

*(Summarized from Form 10-K as filed with the Securities and Exchange Commission)*

Repairs and maintenance expense increased approximately \$395,000 for the 2006 Fiscal Year as compared to the 2005 Fiscal Year, primarily due to an increase in apartment repairs including painting, plastering and door replacements, boiler repairs and an increase in security costs at one Local Partnership, an increase in equipment and supplies expenses, maintenance contracts and payroll costs at a second Local Partnership and an increase in equipment repairs at a third Local Partnership.

Other

The Local Partnerships are impacted by inflation in several ways. Inflation allows for increases in rental rates generally to reflect the impact of higher operating and replacement costs. Furthermore, inflation generally does not impact the fixed long-term financing under which real property investments were purchased. Inflation also affects the Local Partnerships adversely by increasing operating costs, such as fuel, utilities, and labor.

For a discussion of mortgage notes payable, see Note 7 in Item 8.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Partners of  
Liberty Tax Credit Plus L.P. and Subsidiaries  
(A Delaware Limited Partnership)

We have audited the consolidated balance sheets of Liberty Tax Credit Plus L.P. (A Delaware Limited Partnership) and Subsidiaries as of March 15, 2008 and 2007, and the related consolidated statements of operations, changes in partners' (deficit) capital, and cash flows for the years ended March 15, 2008, 2007 and 2006 (the 2007, 2006 and 2005 Fiscal Years, respectively). These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements for 9 (Fiscal Year 2007), 10 (Fiscal Year 2006) and 11 (Fiscal Year 2005) subsidiary partnerships whose income (losses) aggregated \$(1,205,209) (2007 Fiscal Year), \$7,559,219 (2006 Fiscal Year) and \$(1,341,700) (2005 Fiscal Year) and whose assets constituted 46% and 39% of the Partnership's assets at March 15, 2008 and 2007, presented in the accompanying consolidated financial statements. The financial statements for these subsidiary partnerships were audited by other auditors whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for these subsidiary partnerships, is based solely upon the reports of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits 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, based upon our audits, and the reports of the other auditors referred to above, the accompanying consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Liberty Tax Credit Plus L.P. and Subsidiaries at March 15, 2008 and 2007 and the results of their operations and their cash flows for the years ended March 15, 2008, 2007 and 2006, in conformity with U.S. generally accepted accounting principles.

/s/ TRIEN ROSENBERG ROSENBERG  
WEINBERG CIULLO & FAZZARI LLP

New York, New York  
June 10, 2008

**LIBERTY TAX CREDIT PLUS L.P.**

625 Madison Avenue

New York, NY 10022

PRSRT STD

U.S. Postage

PAID

Boston, MA

Permit No. 57842