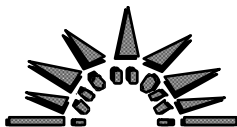


LIBERTY
TAX CREDIT PLUS



QUARTERLY
REPORT

Ended
December 15, 2008



LIBERTY TAX CREDIT PLUS

February 2009

Message to Our BACSholders:

We would like to take this opportunity to present the Quarterly Report for Liberty Tax Credit Plus L.P. (the "Partnership") for the fiscal quarter ended December 15, 2008.

During this quarter the Partnership sold its interests in West Kinney and B&C Housing Limited Partnership to an affiliate of the local general partner, leaving one asset remaining in the Partnership's portfolio. Subsequent to this quarter, and on January 12, 2009 the Partnership sold the property and the related assets and liabilities of State Street to an unaffiliated third party purchaser. With the sale of State Street, the Partnership has disposed of all 31 of its original investments. Detailed information on the Partnership's overall performance is reported in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this report.

Since State Street was sold during 2009 the **2008 Schedule K-1 form will not be final**. The General Partner is currently processing documents to terminate the Partnership. The Partnership's termination is anticipated to occur this year and as such you will receive a **final K-1 Form in March 2010**.

The 2008 Schedule K-1 form will reflect capital gains from the sale of assets that occurred during 2008. Such gain is anticipated to be approximately \$1920 per unit of investment. You may offset these gains with any unused passive losses you may have accumulated that were issued from the Partnership in previous years to eliminate or reduce the tax on the gain. We do urge you to consult your tax advisor with respect to the treatment of the line items on your Schedule K-1 form when preparing your personal income tax return.

The Schedule K-1 Form for 2008 will be mailed mid-late March and simultaneously will be accessible via our website. Please go to www.centerline.com and click on "K-1 Tax Information for Investors", then click on the Partnership in which you are an investor. You will be asked to provide your taxpayer identification number and your six-digit investor number. If you do not know your six-digit investor number, have recently changed your mailing address or have questions concerning your investment, please contact Denise Bernstein of the Partnership's Investor Relations Department at 1-800-600-6422, ext. 6451.

Very truly yours,

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

Consolidated Balance Sheets

| | December 15, 2008 | March 15, 2008 |
|---|----------------------|----------------------|
| | <u>(Unaudited)</u> | <u>(Audited)</u> |
| ASSETS | | |
| Operating assets | | |
| Property and equipment, at cost, net of accumulated depreciation of \$0 and \$29,193,600, respectively | \$ 0 | \$ 16,109,674 |
| Cash and cash equivalents | 4,113,946 | 7,007,120 |
| Cash held in escrow | 0 | 2,325,637 |
| Accounts receivable – tenants | 0 | 116,669 |
| Deferred costs, net of accumulated amortization of \$0 and \$126,560, respectively | 0 | 553,851 |
| Other assets | <u>2,781</u> | <u>595,986</u> |
| Total operating assets | <u>4,116,727</u> | <u>26,708,937</u> |
| Assets from discontinued operations (Note 6) | | |
| Property and equipment held for sale, net of accumulated depreciation of \$20,892,221 and \$18,141,851, respectively | 9,633,255 | 10,588,776 |
| Net assets held for sale | <u>3,881,007</u> | <u>1,837,456</u> |
| Total assets from discontinued operations | <u>13,514,262</u> | <u>12,426,232</u> |
| Total assets | <u>\$ 17,630,989</u> | <u>\$ 39,135,169</u> |

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets (continued)

| | December 15, 2008 <u>(Unaudited)</u> | March 15, 2008 <u>(Audited)</u> |
|---|--|---------------------------------------|
| LIABILITIES AND PARTNERS' (DEFICIT) CAPITAL | | |
| Operating liabilities | | |
| Mortgage notes payable | \$ 0 | \$ 23,188,688 |
| Accounts payable | 24,368 | 3,988,892 |
| Accrued interest payable | 0 | 1,312,357 |
| Security deposits payable | 0 | 114,270 |
| Due to local general partners and affiliates | 0 | 15,546,224 |
| Due to general partners and affiliates | <u>165,972</u> | <u>2,355,472</u> |
| Total operating liabilities | <u>190,340</u> | <u>46,505,903</u> |
| Liabilities from discontinued operations (Note 6) | | |
| Mortgage notes payable of assets held for sale | 14,648,341 | 17,314,761 |
| Net liabilities held for sale (including minority interest) | <u>3,379,482</u> | <u>4,959,349</u> |
| Total liabilities from discontinued operations | <u>18,027,823</u> | <u>22,274,110</u> |
| Total liabilities | <u>18,218,163</u> | <u>68,780,013</u> |
| Minority interests | <u>0</u> | <u>(579,276)</u> |
| Commitments and contingencies (Note 7) | | |
| Partners' (deficit) capital | | |
| Limited partners (15,987.5 BACs issued and outstanding) | (7,570,296) | (33,680,498) |
| General partners | <u>6,983,122</u> | <u>4,614,930</u> |
| Total partners' (deficit) capital | <u>(587,174)</u> | <u>(29,065,568)</u> |
| Total liabilities and partners' (deficit) capital | <u>\$ 17,630,989</u> | <u>\$ 39,135,169</u> |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

(Unaudited)

| | Three Months Ended December 15, | | Nine Months Ended December 15, | |
|--|------------------------------------|-----------------------|-----------------------------------|-----------------------|
| | 2008 | 2007* | 2008 | 2007* |
| Operations: | | | | |
| Revenues | | | | |
| Other | \$ <u>22,889</u> | \$ <u>77,097</u> | \$ <u>79,265</u> | \$ <u>204,674</u> |
| Total revenues | <u>22,889</u> | <u>77,097</u> | <u>79,265</u> | <u>204,674</u> |
| Expenses | | | | |
| General and administrative | 30,274 | 115,103 | 172,388 | 233,732 |
| General and administrative – related parties (Note 2) | <u>46,791</u> | <u>147,941</u> | <u>180,698</u> | <u>471,917</u> |
| Total expenses from operations | <u>77,065</u> | <u>263,044</u> | <u>353,086</u> | <u>705,649</u> |
| Loss from operations | (54,176) | (185,947) | (273,821) | (500,975) |
| Discontinued Operations: | | | | |
| Income (loss) from discontinued operations (including minority interest and gain on sale of properties) (Note 6) | <u>18,343,377</u> | <u>(1,089,162)</u> | <u>26,647,762</u> | <u>(2,981,846)</u> |
| Net income (loss) | <u>\$18,289,201</u> | <u>\$ (1,275,109)</u> | <u>\$26,373,941</u> | <u>\$ (3,482,821)</u> |
| Loss from operations – limited partners | \$ (53,634) | \$ (184,088) | \$ (271,083) | \$ (495,965) |
| Income (loss) from discontinued operations (including minority interest and gain on sale of properties) – limited partners | <u>18,159,943</u> | <u>(1,078,270)</u> | <u>26,381,285</u> | <u>(2,952,028)</u> |
| Net income (loss) – limited partners | <u>\$18,106,309</u> | <u>\$ (1,262,358)</u> | <u>\$26,110,202</u> | <u>\$ (3,447,993)</u> |
| Number of BACs outstanding | <u>15,987.5</u> | <u>15,987.5</u> | <u>15,987.5</u> | <u>15,987.5</u> |
| Loss from operations per BAC | \$ (3.35) | \$ (11.51) | \$ (16.96) | \$ (31.02) |
| Income (loss) from discontinued operations per BAC | <u>1,135.88</u> | <u>(67.45)</u> | <u>1,650.12</u> | <u>(184.65)</u> |
| Net income (loss) per BAC | <u>\$ 1,132.53</u> | <u>\$ (78.96)</u> | <u>\$ 1,633.16</u> | <u>\$ (215.67)</u> |

* Reclassified for comparative purposes

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Partners' (Deficit) Equity
(Unaudited)

| | <u>Total</u> | <u>Limited Partners</u> | <u>General Partner</u> |
|--|---------------------|-------------------------|------------------------|
| Partners' (deficit) capital – March 16, 2008 | \$ (29,065,568) | \$ (33,680,498) | \$ 4,614,930 |
| Net income | 26,373,941 | 26,110,202 | 263,739 |
| Contribution – write-off of partnership management fees related to sold properties | 2,069,453 | 0 | 2,069,453 |
| Contribution – write-off of related party debt | <u>35,000</u> | <u>0</u> | <u>35,000</u> |
| Partners' (deficit) capital – December 15, 2008 | <u>\$ (587,174)</u> | <u>\$ (7,570,296)</u> | <u>\$ 6,983,122</u> |

See accompanying notes to consolidated financial statements.

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

| | Nine Months Ended December 15, | |
|--|-----------------------------------|------------------|
| | <u>2008</u> | <u>2007</u> |
| Net income (loss) | \$ 26,373,941 | \$ (3,482,821) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Gain on sale of properties | (26,680,542) | (84,827) |
| Depreciation and amortization | 524,314 | 1,865,027 |
| Minority interest in (income) loss of subsidiaries | (1,019,913) | 302,332 |
| Increase in accounts receivable – tenants | (7,864) | (16,056) |
| Decrease in other assets | 186,586 | 202,699 |
| Increase in accounts payable | 398,632 | 209,878 |
| Increase in accrued interest payable | 360,777 | 846,786 |
| Decrease in security deposits payable | (2,641) | (10,449) |
| (Decrease) increase in due to general partners and affiliates | (66,297) | 205,786 |
| Increase in cash held in escrow | <u>(1,819)</u> | <u>(167,686)</u> |
| Net cash provided by (used in) operating activities | <u>65,174</u> | <u>(129,331)</u> |
| Cash flows from investing activities: | | |
| (Increase) decrease in cash held in escrow | (447,694) | 286,817 |
| Proceeds from sale of investments | 8,369,177 | 3,435,000 |
| Costs paid relating to sale of properties | (286,454) | (438,161) |
| Improvements to property and equipment | <u>0</u> | <u>(59,318)</u> |
| Net cash provided by investing activities | <u>7,635,029</u> | <u>3,224,338</u> |

See accompanying notes to consolidated financial statements.

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

| Nine Months Ended December 15, | |
|-----------------------------------|-------------|
| <u>2008</u> | <u>2007</u> |

Cash flows from financing activities:

| | | |
|---|---------------------|---------------------|
| Repayments of mortgage notes | (7,590,636) | (288,183) |
| Increase in due to local general partners and affiliates | 9,765 | 534,067 |
| Decrease in due to local general partners and affiliates | (47,592) | (41,445) |
| Increase in deferred costs | 0 | (3,834) |
| Decrease in capitalization of consolidated subsidiaries attributable to minority interest | 0 | (212,161) |
| Distribution | <u>(2,828,217)</u> | <u>(2,777,970)</u> |
| Net cash used in financing activities | <u>(10,456,680)</u> | <u>(2,789,526)</u> |
| Net (decrease) increase in cash and cash equivalents | (2,756,477) | 305,481 |
| Cash and cash equivalents at beginning of period | <u>7,258,111</u> | <u>6,390,501</u> |
| Cash and cash equivalents at end of period* | <u>\$ 4,501,634</u> | <u>\$ 6,695,982</u> |

See accompanying notes to consolidated financial statements.

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

| Nine Months Ended | |
|-------------------|-------------|
| December 15, | |
| <u>2008</u> | <u>2007</u> |

Summarized below are the components of the gain on sale of properties:

| | | |
|---|----------------|----------------|
| Proceeds from sale of investments – net | \$ (8,082,723) | \$ (2,996,839) |
| Decrease in property and equipment, net of accumulated depreciation | 16,559,595 | 2,605,211 |
| Decrease in mortgage notes payable | (18,264,472) | 0 |
| Decrease in due to general partners and affiliates | (39,998) | 0 |
| Decrease in due to local general partner and affiliates | (15,105,829) | 0 |
| Decrease in cash held in escrow | 1,089,991 | 18,663 |
| Decrease in rents receivable | 112,648 | 14,532 |
| Decrease in other assets | 173,305 | 38,109 |
| (Decrease) increase in accounts payable | (2,007,315) | 254,160 |
| Decrease in accrued interest payable | (1,442,747) | 0 |
| Decrease in security deposits payable | (97,924) | (18,663) |
| Decrease in deferred cost | 558,641 | 0 |
| Decrease in capitalization of consolidated subsidiaries attributable to minority interest | (133,714) | 0 |

Supplemental disclosures of non-cash investing and financing activities:

| | | |
|---|-----------|------|
| Contribution from write-off of related party debt | \$ 35,000 | \$ 0 |
| Contribution from write-off of partnership management fees related to sold properties | 2,069,453 | 0 |

* Cash and cash equivalents, end of period, includes cash and cash equivalents from discontinued operations of \$387,688 and \$453,045, respectively.

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 15, 2008

Note 1 – General

The consolidated financial statements for the nine months ended December 15, 2008 and 2007, include the accounts of Liberty Tax Credit Plus L.P. (the “Partnership”) and seven and nine subsidiary partnerships (each a “subsidiary partnership” or “Local Partnership”), respectively, in which the Partnership is a limited partner. Through the rights of the Partnership and/or a general partner of the Partnership (a “General Partner”), which General Partner has a contractual obligation to act on behalf of the Partnership, to remove the general partners of each subsidiary partnership (the “Local General Partners”) and to approve certain major operating and financial decisions, the Partnership has a controlling financial interest in the subsidiary partnerships. As of January 12, 2009, the Partnership has disposed of all thirty-one of its original investments.

All intercompany accounts and transactions with the subsidiary partnerships have been eliminated in consolidation.

For financial reporting purposes, the Partnership’s fiscal quarter ends on December 15. All subsidiary partnerships have fiscal quarters ending September 30. Accounts of the subsidiary partnerships have been adjusted for intercompany transactions from October 1 through December 15. The Partnership’s quarter ends on December 15 in order to allow adequate time for the subsidiary partnerships’ 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”).

In the opinion of the General Partners, the accompanying unaudited financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position of the Partnership as of December 15, 2008 and March 15, 2008, the results of operations for the three and nine months ended December 15, 2008 and 2007 and cash flows for the nine months ended December 15, 2008 and 2007. However, the operating results and cash flows for the nine months ended December 15, 2008 may not be indicative of the results for the year.

Certain information and note disclosures which are normally included in financial statements prepared in accordance with GAAP have been omitted or condensed. These consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in

Notes to Consolidated Financial Statements (continued)

December 15, 2008

the Partnership's Annual Report on Form 10-K for the period ended March 15, 2008.

Increases (decreases) in the capitalization of consolidated subsidiaries 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' investments in the subsidiary partnerships have been charged to the Partnership. There were no such losses for the three and nine months ended December 15, 2008 and 2007. In consolidation, all subsidiary partnership losses are included in the Partnership's capital account except for losses allocated to minority interest capital.

Recent Accounting Pronouncements

In October 2008, the Financial Accounting Standards Board ("FASB") issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*, which addresses the application of Statement of Financial Accounting Standards ("SFAS") No.157 for illiquid financial instruments. FSP FAS 157-3 clarifies that approaches to determining fair value other than the market approach may be appropriate when the market for a financial asset is not active. We do not expect the adoption of FSP FAS 157-3 to have a material effect on our consolidated financial statements.

NOTE 2 - 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)
December 15, 2008

The costs incurred to related parties from operations for the three and nine months ended December 15, 2008 and 2007 were as follows:

| | Three Months Ended December 15, | | Nine Months Ended December 15, | |
|--|------------------------------------|------------------|-----------------------------------|------------------|
| | <u>2008</u> | <u>2007*</u> | <u>2008</u> | <u>2007*</u> |
| Partnership management fees (a) | \$ 52,500 | \$ 77,125 | \$156,514 | \$305,125 |
| Expense reimbursement (b) | <u>(5,709)</u> | <u>70,816</u> | <u>24,184</u> | <u>166,792</u> |
| Total general and administrative-related parties | <u>\$ 46,791</u> | <u>\$147,941</u> | <u>\$180,698</u> | <u>\$471,917</u> |

* Reclassified for comparative purpose.

The costs incurred to related parties from discontinued operations for the three and nine months ended December 15, 2008 and 2007 were as follows:

| | Three Months Ended December 15, | | Nine Months Ended December 15, | |
|---|------------------------------------|------------------|-----------------------------------|------------------|
| | <u>2008</u> | <u>2007*</u> | <u>2008</u> | <u>2007*</u> |
| Local administrative fee (d) | \$ 2,500 | \$ 3,125 | \$ 7,500 | \$ 9,375 |
| Total general and administrative-General Partners | <u>2,500</u> | <u>3,125</u> | <u>7,500</u> | <u>9,375</u> |
| Property management fees incurred to affiliates of the local general partners (c) | <u>75,792</u> | <u>160,979</u> | <u>270,187</u> | <u>426,306</u> |
| Total general and administrative-related parties | <u>\$ 78,292</u> | <u>\$164,104</u> | <u>\$277,687</u> | <u>\$435,681</u> |

* Reclassified for comparative purpose.

(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. Unpaid partnership management fees for any year will be accrued without interest and will be payable from working capital reserves or to the extent of available funds after the Partnership has made distributions to the limited partners and BACs holders of sale or refinancing proceeds equal to their original capital contributions plus a 10% priority return thereon (to the extent not theretofore paid out of cash flow). During the quarter ended December 15, 2008, manage-

Notes to Consolidated Financial Statements (continued) December 15, 2008

ment deemed the unpaid partnership management fees related to sold properties uncollectible and wrote off approximately \$2,069,000, resulting in a non-cash General Partner contribution of the same amount. Partnership management fees owed to the General Partners amounting to approximately \$125,000 and \$2,172,000 were accrued and unpaid as of December 15, 2008 and March 15, 2008, respectively. Without the General Partner's advances and continued accrual without payment of certain fees and expense reimbursements, the Partnership would not be in a position to meet its obligations.

(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 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 affiliates of the General Partners amounting to approximately \$15,000 and \$84,000 were accrued and unpaid as of December 15, 2008 and March 15, 2008, respectively.

(c) Property management fees incurred by the subsidiary partnerships in operations amounted to \$142,282 and \$224,792 and \$471,941 and \$617,747 for the three and nine months ended December 15, 2008 and 2007, respectively. Of these fees, \$75,792 and \$160,979 and \$270,187 and \$426,306 were incurred to affiliates of the Local General Partners, all of which related to discontinued operations.

(d) Liberty Associates III L.P., a General Partner and 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.

NOTE 3 – Fair Value Measurements

In the first quarter of 2008, we adopted SFAS No. 157, "*Fair Value Measurements*", for financial assets and liabilities. This standard defines fair value, provides guidance for measuring fair value and requires certain disclosures. This standard does not require any new fair value measurements, but discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service

Notes to Consolidated Financial Statements (continued)
December 15, 2008

capacity of an asset or replacement cost). The statement provides for a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs that reflect our own assumptions.

As permitted, we chose not to elect the fair value option as prescribed by FASB SFAS No. 159, “*The Fair Value Option for Financial Assets and Financial Liabilities*” – Including an Amendment of FASB Statement No. 115, for our financial assets and liabilities that had not been previously carried at fair value. Therefore, we did not elect to fair value any additional items under SFAS No. 159. We, in accordance with Financial Accounting Standards Board Staff Position No. 157-2, “*The Effective Date of FASB Statement No. 157*”, will defer application on SFAS No. 157 for nonfinancial assets and nonfinancial liabilities until first quarter 2009.

The estimated fair value of financial instruments has been determined using available market information or other appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Consequently, the estimates are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange. At December 15, 2008, the carrying amount of the Partnership’s mortgage notes payable approximated fair value as their contractual interest rates approximated market yields for similar debt instruments.

Notes to Consolidated Financial Statements (continued)
December 15, 2008

| | At December 15, 2008 | | Fair Value Measurements at December 15, 2008 using Fair Value Hierarchy | | |
|----------------|----------------------|---------------|---|---------|---------------|
| | Cost | Fair Value | Level 1 | Level 2 | Level 3 |
| LIABILITIES: | | | | | |
| Mortgage notes | \$ 14,648,341 | \$ 14,648,341 | \$ 0 | \$ 0 | \$ 14,648,341 |

NOTE 4 – Sale of Properties

The Partnership is currently in the process of disposing all of its investments. As of December 15, 2008, the Partnership has sold its limited partnership interest in ten Local Partnerships, the property and the related assets and liabilities of seventeen Local Partnerships and has transferred the deed to the property and the related assets and liabilities of one Local Partnership. In addition, as of December 15, 2008, the Partnership has entered into agreements to sell its limited partnership interest in two Local Partnerships and one Local Partnership entered into an agreement to sell its property and the related assets and liabilities (see Note 5). Subsequently, the Partnership’s limited partnership interest in two Local Partnerships and the property and the related assets and liabilities of one Local Partnership were sold (see Note 8) and as such, the Partnership has disposed of all of its investments. Based on the historical operating results of the Local Partnerships and the current economic conditions, including changes in tax laws, the proceeds from such sales received by the Partnership will not be sufficient to return to the limited partners their original investment.

On September 30, 2008, the Partnership sold its limited partnership interest in Grove Parc to an affiliate of the Local General Partner for a sales price of \$10,000. The sale resulted in a gain of approximately \$17,892,000 resulting from the write-off of the deficit basis in the Local Partnership of approximately \$17,882,000 at the date of the sale and the \$10,000 received from the sale. The sale also resulted in a non-cash contribution to the Local Partnership from the General Partner of approximately \$35,000 as a result of write-off of fees owed by the Local Partnership to an affiliate of the General Partner.

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 \$2,241,000 and liabilities of \$7,505,000 resulted in a gain of approximately \$5,239,000.

Notes to Consolidated Financial Statements (continued)
December 15, 2008

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 distributions to minority interest of approximately \$2,900,000. The sale resulted in a gain of approximately \$1,587,000, resulting from the write-off of the deficit basis in property at the date of sale, which was recorded during the quarter ended June 15, 2008. An adjustment of approximately \$280,000 in gain was recorded during the quarter ended September 15, 2008, resulting in an overall gain of approximately \$1,867,000.

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 \$269,886 as a distribution from this sale after the repayment of other liabilities, closing cost and distribution to minority interest of approximately \$4,814,000. The sale resulted in a gain of approximately \$1,412,000, resulting from the write-off of the deficit basis in property at the date of sale, which was recorded during the quarter ended June 15, 2008. An adjustment of approximately \$270,000 in gain was recorded during the quarter ended December 15, 2008, resulting in an overall gain of approximately \$1,682,000.

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 \$291,000. 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. Adjustments of approximately \$88,000 and \$766,000 in gain were recorded during the quarters ended September 15, 2007 and March 15, 2008, respectively, resulting in overall gain of approximately \$830,000.

Notes to Consolidated Financial Statements (continued) December 15, 2008

NOTE 5 – Assets Held for Sale

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. State Street has been classified as an asset held for sale as of the quarter ended June 15, 2008. As of September 30, 2008, State Street had property and equipment, at cost, of approximately \$13,923,000, accumulated depreciation of approximately \$10,353,000 and mortgage debt of approximately \$5,329,000. Subsequently, on January 12, 2009, the property and the related assets and liabilities of State Street were sold (see Note 8).

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. B & C Housing has been classified as an asset held for sale as of the quarter ended June 15, 2008. As of September 30, 2008, B & C Housing had property and equipment, at cost, of approximately \$9,272,000, accumulated depreciation of approximately \$6,006,000 and mortgage debt of approximately \$6,479,000. Subsequently, on December 31, 2008, the Partnership sold its limited partnership interest in B&C Housing (see Note 8).

On November 20, 2008, the Partnership entered into a new assignment and assumption 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 \$125,000. West Kinney has been classified as an asset held for sale as of the quarter ended June 15, 2007. As of September 30, 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 \$2,841,000. Subsequently, on December 31, 2008, the Partnership sold its limited partnership interest in West Kinney (see Note 8).

NOTE 6 – 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 December 15, 2008, Grove Parc, B & C Housing, State Street and West Kinney, were classified as discontinued operations on the consolidated

Notes to Consolidated Financial Statements (continued)
December 15, 2008

balance sheets. As of March 15, 2008, Magnolia, Greenleaf, Quality Hill and West Kinney were classified as discontinued operations on the consolidated balance sheets.

Consolidated Balance Sheets of Discontinued Operations:

| | <u>December 15,</u> <u>2008</u> | <u>March 15,</u> <u>2008</u> |
|--|------------------------------------|---------------------------------|
| Assets | | |
| Property and equipment, net of accumulated depreciation of \$20,892,221 and \$18,141,851, respectively | \$ 9,633,255 | \$ 10,588,776 |
| Cash and cash equivalents | 387,688 | 250,991 |
| Cash held in escrow | 2,945,745 | 1,260,586 |
| Deferred costs, net of accumulated amortization of \$29,885 and \$324,585, respectively | 150,012 | 173,516 |
| Other assets | <u>397,562</u> | <u>152,363</u> |
| Total assets | <u>\$ 13,514,262</u> | <u>\$ 12,426,232</u> |
| Liabilities | | |
| Mortgage notes payable | \$ 14,648,341 | \$ 17,314,761 |
| Accounts payable and other liabilities | 3,456,037 | 3,684,320 |
| Due to local general partners and affiliates | 485,999 | 83,431 |
| Due to general partners and affiliates | 3,750 | 24,998 |
| Minority interest | <u>(566,304)</u> | <u>1,166,600</u> |
| Total liabilities | <u>\$ 18,027,823</u> | <u>\$ 22,274,110</u> |

The following table summarizes the results of operations of the Local Partnerships that are classified as discontinued operations. For the three and nine months ended December 15, 2008, Greenleaf, Quality Hill, Magnolia and Grove Parc, which were sold during the current year, and B&C Housing, State Street and West Kinney, which were classified as assets held for sale, were all classified as discontinued operations on the consolidated financial statements. For the three and nine months ended December 15, 2007, Charles Drew, which was sold during the nine months ended December 15, 2007, Sartain School Venture, L.P., which was sold during the year ended March 31, 2008, Greenleaf, West Kinney and Quality Hill, which were classified as assets held for sale at December 15, 2007, and, in order to present comparable results for the three and nine months ended December 15, 2008, Grove Parc, B&C Housing, State

Notes to Consolidated Financial Statements (continued)

December 15, 2008

Street and Magnolia, were all classified as discontinued operations on the consolidated financial statements.

Consolidated Statements of Discontinued Operations:

| | Three Months Ended December 15, | | Nine Months Ended December 15, | |
|--|------------------------------------|-----------------------|-----------------------------------|-----------------------|
| | 2008 | 2007* | 2008 | 2007* |
| Revenues: | | | | |
| Rental income | \$ 2,341,919 | \$ 2,929,037 | \$ 7,344,780 | \$ 9,326,959 |
| Other | 386,765 | 37,479 | 775,489 | 100,664 |
| Gain on sale of properties | 18,162,279 | 0 | 26,680,542 | 84,827 |
| Total revenue | <u>20,890,963</u> | <u>2,966,516</u> | <u>34,800,811</u> | <u>9,512,450</u> |
| Expenses: | | | | |
| General and administrative | 436,012 | 513,813 | 1,491,519 | 1,767,674 |
| General and administrative-related parties (Note 2) | 78,292 | 164,104 | 277,687 | 435,681 |
| Repairs and maintenance | 836,203 | 957,236 | 2,722,141 | 2,516,878 |
| Operating | 335,001 | 446,019 | 1,393,943 | 1,660,524 |
| Taxes | 103,465 | 168,977 | 437,288 | 497,975 |
| Insurance | 96,703 | 160,054 | 417,481 | 541,701 |
| Interest | 638,589 | 1,067,916 | 1,908,589 | 2,906,504 |
| Depreciation and amortization | 5,187 | 582,691 | 524,314 | 1,865,027 |
| Total expenses | <u>2,529,452</u> | <u>4,060,810</u> | <u>9,172,962</u> | <u>12,191,964</u> |
| Income (loss) before minority interest | 18,361,511 | (1,094,294) | 25,627,849 | (2,679,514) |
| Minority interest in (income) loss of subsidiaries from discontinued operations | <u>(18,134)</u> | <u>5,132</u> | <u>1,019,913</u> | <u>(302,332)</u> |
| Net income (loss) from discontinued operations (including gain on sale of properties) | <u>\$18,343,377</u> | <u>\$ (1,089,162)</u> | <u>\$26,647,762</u> | <u>\$ (2,981,846)</u> |
| Income (loss) – limited partners from discontinued operations (including gain on sale of properties) | <u>\$18,159,943</u> | <u>\$ (1,078,270)</u> | <u>\$26,381,285</u> | <u>\$ (2,952,028)</u> |
| Number of BACs outstanding | <u>15,987.5</u> | <u>15,987.5</u> | <u>15,987.5</u> | <u>15,987.5</u> |
| Income (loss) from discontinued operations (including gain on sale of properties) per BAC | <u>\$ 1,135.88</u> | <u>\$ (67.45)</u> | <u>\$ 1,650.12</u> | <u>\$ (184.65)</u> |

Notes to Consolidated Financial Statements (continued)
December 15, 2008

Cash Flows from Discontinued Operations:

| | Nine Months Ended December 15, | |
|---|-----------------------------------|----------------|
| | <u>2008</u> | <u>2007*</u> |
| Net cash provided by operating activities | \$ 2,323,853 | \$ 1,651,862 |
| Net cash provided by investing activities | \$ 7,560,821 | \$ 3,126,833 |
| Net cash used in financing activities | \$ (7,494,748) | \$ (2,577,365) |

* Reclassified for comparative purposes.

NOTE 7 – 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 \$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

The Tax Credit Periods and Compliance Periods for each Local Partnership have expired with each Local Partnership having utilized its full Tax Credits without recapture.

Notes to Consolidated Financial Statements (continued) December 15, 2008

e) Other

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 14th 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 4).

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. On April 29, 2008, State Street entered into a purchase and sale agreement to sell its property and related assets and liabilities (see Note 5) and the property was subsequently sold on January 12, 2009 (see Note 8).

Grove Parc

Grove Parc 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. The mortgage was in technical default and on March 11, 2008 the mortgagee assigned the mortgage to HUD pursuant to the applicable FHA insurance. On September 30, 2008, the Partnership sold its limited partnership interest in Grove Parc (see Note 4).

The Partnership is subject to the risks incident to potential losses arising from the management and ownership of improved real estate. Subsequent to December 15, 2008, the Partnership has disposed of all of its investments in subsidiary partnerships (see Note 8).

NOTE 8 – Subsequent Events

As of January 12, 2009, the Partnership has disposed of all thirty-one of its original investments. During the fourth fiscal quarter ending March 15, 2009, the Partnership will commence the process of winding up its operations. In accordance with the provisions of the Partnership Agree-

Notes to Consolidated Financial Statements (continued)

December 15, 2008

ment, a cash distribution is expected to be made during 2009 from available cash less costs incurred to terminate the Partnership.

On January 12, 2009, the property and the related assets and liabilities of State Street were sold to an unaffiliated third party purchaser for a sales price of \$1,500,000 plus the assumption of the mortgage debt. The Partnership received \$275,000 as a distribution from this sale after the repayment of other liabilities and closing cost of approximately \$1,225,000. The sale will result in a gain of approximately \$33,000, resulting from the write-off of the deficit basis in property at the date of sale, which will be recognized during the quarter ending March 15, 2009.

On December 31, 2008, the Partnership sold its limited partnership interest in West Kinney to an affiliate of the Local General Partner for a sales price of \$125,000. The sale will result in a gain of approximately \$1,305,000 resulting from the write-off of the deficit basis in the Local Partnership of approximately \$1,180,000 at the date of the sale and the \$125,000 received from the sale, which will be recognized during the quarter ending March 15, 2009.

On December 31, 2008, the Partnership sold its limited partnership interest in B&C Housing to an affiliate of the Local General Partner for a sales price of \$75,000. The sale will result in a gain of approximately \$4,313,000 resulting from the write-off of the deficit basis in the Local Partnership of approximately \$4,238,000 at the date of the sale and the \$75,000 received from the sale, which will be recognized during the quarter ending March 15, 2009.

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

(Summarized from Form 10-Q as filed with the Securities and Exchange Commission. A copy is available upon written request)

Liquidity and Capital Resources

The Partnership's capital was originally invested in thirty-one Local Partnerships. As of December 15, 2008, the Partnership has an interest in three remaining Local Partnerships, all of which were subsequently sold in December 2008 and January 2009. During the fourth fiscal quarter ending March 15, 2009, the Partnership will commence the process of winding up its operations. In accordance with the provisions of the Part-

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

nership Agreement, a cash distribution is expected to be made during 2009 from available cash less costs incurred to terminate the Partnership.

Short-Term

The Partnership's primary sources 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. During the nine months ended December 15, 2008 and 2007, distributions from operations of the Local Partnerships amounted to approximately \$0 and \$60,000, respectively. Additionally, during the nine months ended December 15, 2008 and 2007, the Partnership received approximately \$270,000 and \$2,765,000 distributions of proceeds from sales, respectively.

For the nine months ended December 15, 2008, cash and cash equivalents of the Partnership and its consolidated Local Partnerships decreased approximately \$2,756,000. This decrease is attributable to costs paid relating to sale of properties (\$286,000), repayments of mortgage notes (\$7,591,000), a net decrease in due to local general partners and affiliates relating to finance activities (\$38,000), an increase in cash held in escrow relating to investing activities (\$448,000) and distributions (\$2,828,000), which exceeded net cash provided by operating activities (\$65,000) and proceeds from sale of investments (\$8,369,000). Included in the adjustments to reconcile net income to net cash provided by operating activities are depreciation and amortization of approximately (\$524,000) and a gain on sale of properties (\$26,681,000).

Accounts payable as of December 15, 2008 and March 15, 2008, were \$24,368 and \$3,988,892, 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. 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. In addition, accounts payable from discontinued operations, as of December 15, 2008 and March 15, 2008, totaled \$623,326 and \$1,095,701, respectively.

Accrued interest payable as of December 15, 2008 and March 15, 2008 was \$0 and \$1,312,357, respectively. Accrued interest payable represents

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

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. Furthermore, 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. In addition, accrued interest payable from discontinued operations, as of December 15, 2008 and March 15, 2008, totaled \$2,748,200 and \$2,517,813, respectively.

A working capital reserve at the Partnership level of approximately \$4,114,000 remained unused at December 15, 2008.

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

During the quarter ended December 15, 2008, management deemed the unpaid partnership management fees related to sold properties uncollectible and wrote off approximately \$2,069,000, resulting in a non-cash General Partner contribution of the same amount. Partnership management fees owed to the General Partners amounting to approximately \$125,000 and \$2,172,000 were accrued and unpaid as of December 15, 2008 and March 15, 2008, respectively. Unpaid partnership management fees for any year will be accrued without interest and will be payable from working capital reserves or to the extent of available funds after the Partnership has made distributions to the limited partners and BACs holders of sale or refinancing proceeds equal to their original capital contributions plus a 10% priority return thereon (to the extent not theretofore paid out of cash flow). Without the General Partner's advances and continued accrual without payment of certain fees and expense reimbursements, the Partnership would not be in a position to meet its obligations.

For a discussion of contingencies that affected certain Local Partnerships prior to their disposition, see Item 1, Note 7 to the financial statements. The Tax Credit Periods and Compliance Periods for each Local Partnership have expired with each Local Partnership having utilized its full Tax Credits without recapture. Subsequent to December 15, 2008, the Part-

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

nership has disposed of all of its investments in subsidiary partnerships (see Note 8).

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. The Partnership has liquidated its portfolio and is in the final stages of winding up its affairs.

Off-Balance Sheet Arrangements

The Partnership has no off-balance sheet arrangements.

Tabular Disclosure of Contractual Obligations

The Partnership disclosed in Item 7 to the financial statements in the Partnership's Annual Report on Form 10-K for the year ended March 15, 2008, the Partnership's commitments to make future payments under its debt agreements and other contractual obligations. There are no material changes to such disclosure or amounts as of December 15, 2008.

Fair Value Measurements

In the first quarter of 2008, we adopted SFAS No. 157, "*Fair Value Measurements*", for financial assets and liabilities. This standard defines fair value, provides guidance for measuring fair value and requires certain disclosures. This standard does not require any new fair value measurements, but discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). The statement provides for a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in ac-

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

tive markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs that reflect our own assumptions.

As permitted, we chose not to elect the fair value option as prescribed by FASB SFAS No. 159, “*The Fair Value Option for Financial Assets and Financial Liabilities*” – Including an Amendment of FASB Statement No. 115, for our financial assets and liabilities that had not been previously carried at fair value. Therefore, we did not elect to fair value any additional items under SFAS No. 159. We, in accordance with Financial Accounting Standards Board Staff Position No. 157-2, “*The Effective Date of FASB Statement No. 157*”, will defer application on SFAS No. 157 for nonfinancial assets and nonfinancial liabilities until first quarter 2009.

The estimated fair value of financial instruments has been determined using available market information or other appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Consequently, the estimates are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange. At December 15, 2008, the carrying amount of the Partnership’s mortgage notes payable approximated fair value as their contractual interest rates approximated market yields for similar debt instruments.

| | At December 15, 2008 | | Fair Value Measurements at December 15, 2008 using Fair Value Hierarchy | | |
|----------------|----------------------|---------------|---|---------|---------------|
| | Cost | Fair Value | Level 1 | Level 2 | Level 3 |
| LIABILITIES: | | | | | |
| Mortgage notes | \$ 14,648,341 | \$ 14,648,341 | \$ 0 | \$ 0 | \$ 14,648,341 |

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

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

read in conjunction with the more complete discussion of the Partnership's accounting policies included in Item 8, Note 2 to the consolidated financial statements in the Partnership's Annual Report on Form 10-K for the year ended March 15, 2008.

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 or 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).

During the nine months ended December 15, 2008, the Partnership has not recorded any loss on impairment of assets or reduction to estimated fair value. Through December 15, 2008, the Partnership has recorded

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

approximately \$3,760,000 as an aggregate loss on impairment of assets or reduction to estimated fair value.

At the time management commits to a plan to dispose of assets, said assets are adjusted to the lower of carrying amount or fair value less costs to sell. These assets are classified as property and equipment-held for sale and are not depreciated. As of December 15, 2008 and March 15, 2008, the Partnership has recorded property and equipment net of accumulated depreciation of \$9,633,255 and \$10,588,776, respectively, as held for sale.

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 as rents become due 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.

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.

Results of Operations

The General Partners are currently in the process of liquidating the Partnership and all of its remaining assets are classified as assets held for sale. Therefore, all operations have been discontinued.

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Partnership had mortgage notes that were payable in aggregate monthly installments including principal and interest at rates varying from 1% to 12% per annum. The Partnership does not believe there was a material risk associated with the various interest rates associated with the mortgage notes as the majority of the Local Partnership mortgage notes had fixed rates. The Partnership disclosed in Item 8, Note 3 to the financial statements in the Partnership's Annual Report on Form 10-K for the year ended March 15, 2008, as well as in Item 2, the fair value of the mortgage notes payable.

The Partnership does not have any other market risk sensitive instruments.

Item 4T. Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures.* The Chief Executive Officer and Chief Financial Officer of Related Credit Properties L.P. and Liberty Associates III, L.P., the general partner of the Partnership, have evaluated the effectiveness of the Partnership's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, such officers have concluded that, as of the end of such period, the Partnership's disclosure controls and procedures are effective.

(b) *Management's Annual Report on Internal Control over Financial Reporting.* Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). In evaluating the Partnership's internal control over financial reporting, management has adopted the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring organizations of the Treadway Commission (the "COSO Framework"). Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer of the General Partner, the Partnership conducted an evaluation of the effectiveness of its internal control over financial reporting as of March 15, 2008. The Partnership's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accor-

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

dance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. However, because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on management's evaluation under the COSO Framework, it has concluded that the Partnership's internal control over financial reporting, was, as of March 15, 2008, (1) effective at the Partnership level, in that they provide reasonable assurance that information required to be disclosed by the Partnership in the reports it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (2) ineffective at the subsidiary level due to certain control deficiencies noted in the audit reports for such subsidiaries. Management will attempt to cause the Local General Partner's to remedy such deficiencies; however, the General Partner does not have control over the internal controls at the subsidiary level. Management believes they have sufficient controls at the Partnership level to mitigate these deficiencies, and such deficiencies do not have a material impact on the consolidated financial statements.

The Partnership's Annual Report on Form 10-K did not include an attestation report of the Partnership's registered public accounting firm regarding internal control over financial reporting. The Partnership's internal control over financial reporting was not subject to attestation by the Partnership's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Partnership to provide only this report.

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

(c) *Changes in Internal Controls over Financial Reporting.* Except as noted in (b) above, during the period ended December 15, 2008, there were no changes in the Partnership's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Partnership's internal control over financial reporting.

LIBERTY TAX CREDIT PLUS L.P.

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