



**LIBERTY**  
**TAX CREDIT PLUS II**

**QUARTERLY**  
**REPORT**

**Ended**  
**June 30, 2007**



August 2007

Message to Our BACHolders:

We are pleased to present the Quarterly Report for Liberty Tax Credit Plus II L.P. (the Partnership) for the fiscal quarter ended June 30, 2007.

Since our last report, the property and the related assets and liabilities of Whittier Plaza Associates were sold to an unaffiliated third party. To date, the Partnership has disposed of twenty of its twenty-seven investments. The Management's Discussion and Analysis of Financial Condition and Results of Operations section of this report provides more detailed information on property performance and partnership operations.

The General Partner continues to actively work with the local general partners to pursue purchasers for the remaining properties. 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, flowing style.

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

## Consolidated Balance Sheets

	June 30, 2007 <u>(Unaudited)</u>	March 31, 2007 <u>(Audited)</u>
ASSETS		
Operating assets		
Property and equipment, at cost, net of accumulated depreciation of \$35,344,211 and \$34,809,639, respectively	\$ 25,121,970	\$ 25,652,480
Cash and cash equivalents	3,652,845	4,001,566
Cash held in escrow	2,593,210	2,453,458
Deferred costs, net of accumulated amortization of \$299,197 and \$290,528, respectively	1,281,607	1,290,276
Other assets	<u>1,800,941</u>	<u>1,514,685</u>
Total operating assets	<u>34,450,573</u>	<u>34,912,465</u>
Assets from discontinued operations (Note 5)		
Property and equipment held for sale, net of accumulated depreciation of \$1,247,717 and \$2,137,910, respectively	1,599,798	2,370,180
Net assets held for sale	<u>3,534,961</u>	<u>3,644,409</u>
Total assets from discontinued operations	<u>5,134,759</u>	<u>6,014,589</u>
Total assets	<u>\$ 39,585,332</u>	<u>\$ 40,927,054</u>

See accompanying notes to consolidated financial statements.

## Consolidated Balance Sheets (continued)

	June 30, 2007 <u>(Unaudited)</u>	March 31, 2007 <u>(Audited)</u>
<b>LIABILITIES AND PARTNERS' (DEFICIT) CAPITAL</b>		
Operating liabilities		
Mortgage notes payable	\$ 33,942,000	\$ 34,049,829
Accounts payable	2,296,830	1,787,747
Accrued interest payable	2,882,515	2,944,857
Security deposits payable	250,068	257,600
Due to local general partners and affiliates	3,112,182	3,103,199
Due to general partners and affiliates	785,050	644,814
Due to selling partners	<u>886,877</u>	<u>885,000</u>
Total operating liabilities	<u>44,155,522</u>	<u>43,673,046</u>
Liabilities from discontinued operations (Note 5)		
Mortgage notes payable of assets held for sale	1,824,685	3,412,534
Net liabilities held for sale (including minority interest)	<u>2,856,082</u>	<u>3,038,175</u>
Total liabilities from discontinued operations	<u>4,680,767</u>	<u>6,450,709</u>
Total liabilities	<u>48,836,289</u>	<u>50,123,755</u>
Minority interests	<u>(20,202)</u>	<u>(19,986)</u>
Commitments and contingencies (Note 6)		
Partners' (deficit) capital:		
Limited partners (115,917.5 BACs issued and outstanding)	(20,569,975)	(20,516,475)
General partners	<u>11,339,220</u>	<u>11,339,760</u>
Total partners' (deficit) capital	<u>(9,230,755)</u>	<u>(9,176,715)</u>
Total liabilities and partners' (deficit) capital	<u>\$ 39,585,332</u>	<u>\$ 40,927,054</u>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Operations

(Unaudited)

	Three Months Ended June 30,	
	<u>2007</u>	<u>2006*</u>
Operations:		
Revenues		
Rental income	\$ 1,995,075	\$ 1,938,512
Other	<u>83,277</u>	<u>88,419</u>
Total revenues	<u>2,078,352</u>	<u>2,026,931</u>
Expenses		
General and administrative	481,538	381,867
General and administrative - related parties (Note 2)	253,078	442,884
Repairs and maintenance	965,843	739,557
Operating	262,026	235,723
Taxes	113,519	112,404
Insurance	90,922	90,473
Financial	475,351	481,378
Depreciation and amortization	<u>543,241</u>	<u>529,619</u>
Total expenses from operations	<u>3,185,518</u>	<u>3,013,905</u>
Loss from operations before minority interest	(1,107,166)	(986,974)
Minority interest in loss of subsidiaries from operations	<u>216</u>	<u>769</u>
Loss from operations	\$ (1,106,950)	\$ (986,205)

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Operations (continued)

(Unaudited)

	Three Months Ended	
	June 30,	
	<u>2007</u>	<u>2006*</u>
Discontinued operations:		
Income (loss) from discontinued operations (including gain (loss) on sale of properties and minority interest) (Note 5)	<u>1,052,910</u>	<u>(2,417,041)</u>
Net loss	<u>\$ (54,040)</u>	<u>\$ (3,403,246)</u>
Loss from operations – limited partners	\$ (1,095,881)	\$ (976,343)
Income (loss) from discontinued operations (including gain (loss) on sale of properties and minority interest) – limited partners	<u>1,042,381</u>	<u>(2,392,871)</u>
Net loss – limited partners	<u>\$ (53,500)</u>	<u>\$ (3,369,214)</u>
Number of BACs outstanding	<u>115,917.5</u>	<u>115,917.5</u>
Loss from operations per BAC	\$ (9.45)	\$ (8.42)
Income (loss) from discontinued operations (including gain (loss) on sale of properties and minority interest) per BAC	<u>8.99</u>	<u>(20.65)</u>
Net loss per BAC	<u>\$ (0.46)</u>	<u>\$ (29.07)</u>

\* Reclassified for comparative purposes.

See accompanying notes to consolidated financial statements.

**Consolidated Statement of Changes in Partners' (Deficit)  
Capital**  
*(Unaudited)*

	<u>Total</u>	<u>Limited Partners</u>	<u>General Partner</u>
Partners' (deficit) capital – April 1, 2007	\$ (9,176,715)	\$ (20,516,475)	\$ 11,339,760
Net loss	<u>(54,040)</u>	<u>(53,500)</u>	<u>(540)</u>
Partners' (deficit) capital – June 30, 2007	<u>\$ (9,230,755)</u>	<u>\$ (20,569,975)</u>	<u>\$ 11,339,220</u>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

Increase (Decrease) in Cash and Cash Equivalents  
(Unaudited)

	Three Months Ended	
	June 30,	
	<u>2007</u>	<u>2006</u>
Net loss	\$ <u>(54,040)</u>	\$ <u>(3,403,246)</u>
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	550,174	1,032,610
(Gain) loss on sale of properties	(1,052,687)	42,934
Loss on impairment of property and equipment	0	880,000
Minority interest in (loss) income of subsidiaries	(221)	790,553
(Increase) decrease in cash held in escrow	(44,282)	378,108
Increase in other assets	(274,320)	(193,208)
Increase in due from general partners and affiliates	0	(1,034,096)
Increase in accounts payable and other liabilities	530,737	1,382,427
(Decrease) increase in accrued interest payable	(62,421)	27,827
Decrease in security deposits payable	(11,082)	(15,995)
Increase in due to local general partners and affiliates	8,983	118,273
Decrease in due to local general partners and affiliates	0	(527,532)
Increase in due to general partners and affiliates	<u>140,844</u>	<u>798,136</u>
Total adjustments	<u>(214,275)</u>	<u>3,680,037</u>
Net cash (used in) provided by operating activities	<u>(268,315)</u>	<u>276,791</u>

See accompanying notes to consolidated financial statements.

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

	Three Months Ended	
	June 30,	
	<u>2007</u>	<u>2006</u>
Cash flows from investing activities:		
Proceeds from sale of properties	1,444,500	375,000
Costs paid relating to sale of properties	(270,828)	0
(Increase) decrease in cash held in escrow	(125,411)	30,122
Improvements to property and equipment	<u>(4,062)</u>	<u>(15,458)</u>
Net cash provided by investing activities	<u>1,044,199</u>	<u>389,664</u>
Cash flows from financing activities:		
Repayments of mortgage notes	(1,132,583)	(1,134,020)
Increase in due to selling partner	<u>1,877</u>	<u>1,875</u>
Net cash used in financing activities	<u>(1,130,706)</u>	<u>(1,132,145)</u>
Net decrease in cash and cash equivalents	(354,822)	(465,690)
Cash and cash equivalents at beginning of period	<u>4,475,744</u>	<u>1,584,050</u>
Cash and cash equivalents at end of period*	<u>\$ 4,120,922</u>	<u>\$ 1,118,360</u>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows (continued)

Increase (Decrease) in Cash and Cash Equivalents

(Unaudited)

	Three Months Ended	
	June 30,	
	2007	2006
Summarized below are the components of the loss on sale of properties:		
Net proceeds from sale of property	\$ (1,173,672)	\$ (375,000)
Decrease in property and equipment, net of accumulated depreciation	764,028	1,929,708
Decrease in deferred costs	15,396	98,622
Decrease in other assets	6,089	76,450
Decrease in cash held in escrow	99,288	227,179
Decrease in accounts payable and other liabilities	(15,475)	(147,956)
Decrease in accrued interest	(4,521)	(3,628)
Decrease in security deposits payable	(10,517)	(11,146)
Decrease in mortgage notes payable	(563,095)	(1,343,393)
(Decrease) increase in due to local general partners and their affiliates	(124,400)	473,177
Decrease in due to general partners and their affiliates	(45,808)	0
Decrease in capitalization of consolidated subsidiaries attributable to minority interest	0	(881,079)

\* Cash and cash equivalents, end of period, includes cash equivalents from discontinued operations of \$468,077 and \$459,960.

See accompanying notes to consolidated financial statements.

## **Notes to Consolidated Financial Statements**

### **June 30, 2007 (Unaudited)**

#### Note 1 – General

The consolidated financial statements for the three months ended June 30, 2007 and 2006 include the accounts of Liberty Tax Credit Plus II L.P. (the "Partnership") and eight and nineteen subsidiary partnerships ("subsidiaries", "subsidiary partnerships" or "Local Partnerships"), respectively, in which the Partnership is the limited partner. Through the rights of the Partnership and/or Related Credit Properties II L.P., a Delaware limited partnership, Liberty Associates II L.P., a Delaware limited partnership, or Liberty GP II Inc., a Delaware corporation (each a "General Partner" and collectively, the "General Partners"), which General Partners have a contractual obligation to act on behalf of the Partnership, to remove the general partner of the subsidiary partnerships (each, a "Local General Partner"), and to approve certain major operating and financial decisions, the Partnership has a controlling financial interest in each of the subsidiary partnerships. Through June 30, 2007, the Partnership had disposed of twenty of its twenty-seven original investments (see Note 3). In addition, as of June 30, 2007, one Local Partnership has entered into an agreement to sell its property and the related assets and liabilities (see Note 4).

For financial reporting purposes, the Partnership's fiscal quarter ends on June 30 in order to allow adequate time for the subsidiaries' financial statements to be prepared and consolidated. All subsidiary partnerships have fiscal quarters ending March 31. Accounts of the subsidiary partnerships have been adjusted for intercompany transactions from April 1 through June 30.

All intercompany accounts and transactions have been eliminated in consolidation.

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

Losses attributable to minority interests which exceed the minority interests' investment in a subsidiary partnership have been charged to the Partnership. Such losses aggregated approximately \$109,000 and \$0 for the three months ended June 30, 2007 and 2006, respectively. The Partnership's investment in each subsidiary is equal to the respective subsidiary partners' equity less minority interest capital, if any.

**Notes to Consolidated Financial Statements** (continued)  
**June 30, 2007** (Unaudited)

The books and records of the Partnership are maintained on the accrual basis in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In the opinion of each 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 June 30, 2007 and March 31, 2007, the results of its operations and its cash flows for the three months ended June 30, 2007 and 2006. However, the operating results for the three months ended June 30, 2007 may not be indicative of the results for the year.

Certain information and note disclosures 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 the Partnership's Annual Report on Form 10-K for the year ended March 31, 2007.

Note 2 - Related Party Transactions

One of the General Partners has a 1% interest, as a special limited partner, in each of the Local Partnerships. An affiliate of the General Partners also has a minority interest in certain Local Partnerships.

The costs incurred to related parties from operations for the three months ended June 30, 2007 and 2006 were as follows:

**Notes to Consolidated Financial Statements** (continued)  
**June 30, 2007** (Unaudited)

	Three Months Ended June 30,	
	<u>2007</u>	<u>2006*</u>
Partnership management fees (a)	\$ 94,000	\$ 283,750
Expense reimbursement (b)	53,842	54,597
Local administrative fee (d)	<u>3,750</u>	<u>3,125</u>
Total general and administrative-General Partners	151,592	341,472
Property management fees incurred to affiliates of the Local General Partners (c)	<u>101,486</u>	<u>101,412</u>
Total general and administrative-related parties	<u>\$ 253,078</u>	<u>\$ 442,884</u>

\* Reclassified for comparative purposes.

The costs incurred to related parties from discontinued operations for the three months ended June 30, 2007 and 2006 were as follows:

	Three Months Ended June 30,	
	<u>2007</u>	<u>2006*</u>
Property management fees incurred to affiliates of the General Partners (c)	\$ 0	\$ 114,596
Local administrative fee (d)	<u>1,250</u>	<u>4,125</u>
Total general and administrative-General Partners	1,250	118,721
Property management fees incurred to affiliates of the Local General Partners (c)	<u>2,260</u>	<u>56,800</u>
Total general and administrative-related parties	<u>\$ 3,510</u>	<u>\$ 175,521</u>

\* Reclassified for comparative purposes.

**Notes to Consolidated Financial Statements** (continued)  
**June 30, 2007** (Unaudited)

(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 limited partnership agreement of the Partnership (the “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 year ended March 31, 2007, management deemed the unpaid partnership management fees related to sold properties uncollectible and wrote off approximately \$12,325,000, resulting in a non-cash General Partner contribution of the same amount. Partnership management fees owed to the General Partners amounting to approximately \$2,117,000 and \$2,023,000 were accrued and unpaid as of June 30, 2007 and March 31, 2007, respectively. In the absence of the General Partner’s continued accrual without payment, the Partnership will 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 \$49,000 and \$33,000 were accrued and unpaid as of June 30, 2007 and March 31, 2007, respectively.

(c) Property management fees incurred by subsidiary partnerships in operations amounted to \$117,431 and \$331,253 for three months ended June 30, 2007 and 2006, respectively. Of these fees \$103,746 and \$272,808, respectively, were incurred to affiliates of the Local General Partners. Included in amounts incurred to affiliates of the Local General Partners are \$0 and \$114,596, respectively, which were also incurred to affiliates of the General Partners. Also included in these fees are \$2,260 and \$171,396, respectively, which were incurred to affiliates of the Local General Partners of properties (of which \$0 and \$114,596, respectively,

**Notes to Consolidated Financial Statements (continued)**  
**June 30, 2007 (Unaudited)**

were also incurred to affiliates of the General Partners) classified as discontinued operations.

(d) Liberty Associates II, L.P., a 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 – Sale of Properties**

The Partnership is currently in the process of disposing of its investments. It is anticipated that this process will take a number of years. As of June 30, 2007, the property and the related assets and liabilities of fourteen Local Partnerships and the limited partnership interest in six Local Partnerships were sold. In addition, as of June 30, 2007, one Local Partnership has entered into an agreement to sell its property and the related assets and liabilities (see Note 4). There can be no assurance as to when the Partnership will dispose of its remaining investments or the amount of proceeds which may be received. However, based on the historical operating results of the Local Partnerships and the current economic conditions, including changes in tax laws, it is unlikely that the proceeds from such sales received by the Partnership will be sufficient to return to the limited partners their original investment.

On April 20, 2007, the property and the related assets and liabilities of Whittier Plaza Associates, L.P. ("Whittier") were sold to an unaffiliated third party purchaser for a sales price of \$1,444,500. The Partnership received \$162,800 as a distribution from this sale after the repayment of mortgages, other liabilities and closing costs of approximately \$1,282,000. The sale resulted in a gain of approximately \$1,053,000 resulting from the write-off of the deficit basis in the property at the date of the sale.

On June 5, 2006, the property and the related assets and liabilities of Willoughby/Wyckoff Housing Associates, L.P. ("Willoughby") were sold to an unaffiliated third party purchaser for a sales price of \$4,800,000. There was no distribution 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 \$2,095,000 resulting from the write-off of the deficit basis in the property at the date of the sale, which was recognized in the Partnership's Form 10-Q dated September 30, 2006. An adjustment to the gain of approximately \$(62,000) was recorded in the

**Notes to Consolidated Financial Statements** (continued)  
**June 30, 2007** (Unaudited)

quarter ended March 31, 2007, resulting in an overall gain of approximately \$2,033,000.

On May 1, 2006, the property and the related assets and liabilities of 2051 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 \$200,066 as a distribution from this sale after the repayment of mortgages, other liabilities, distributions to minority interests and closing costs of approximately \$4,737,000. The sale resulted in a gain of approximately \$2,141,000 resulting from the write-off of the deficit basis in the property at the date of the sale, which was recognized in the Partnership's Form 10-Q dated September 30, 2006. An adjustment to the gain of approximately \$350,000 was recorded in the quarter ended March 31, 2007, resulting in an overall gain of approximately \$2,491,000.

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 \$66,147 as a distribution from this sale after the repayment of mortgages, other liabilities, distributions to minority interests and closing costs of approximately \$1,731,000. The sale resulted in a gain of approximately \$647,000 resulting from the write-off of the deficit basis in the property at the date of the sale, which was recognized in the Partnership's Form 10-Q dated September 30, 2006. An adjustment to the gain of approximately \$57,000 was recorded in the quarter ended March 31, 2007, resulting in an overall gain of approximately \$704,000.

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 \$443,807 as a distribution from this sale after the repayment of mortgages, other liabilities, distributions to minority interests and closing costs of approximately \$6,821,000. The sale resulted in a gain of approximately \$3,144,000 resulting from the write-off of the deficit basis in the property at the date of the sale, which was recognized in the Partnership's Form 10-Q dated September 30, 2006. An adjustment to the gain of approximately \$195,000 was recorded in the quarter ended March 31, 2007, resulting in an overall gain of approximately \$3,339,000.

On January 17, 2006, the Partnership's remaining 80% of its limited partnership interest in Santa Juanita II Limited Partnership ("Santa Jua-

**Notes to Consolidated Financial Statements (continued)**  
**June 30, 2007 (Unaudited)**

nita”) was sold to the Local General Partner for a sales price of \$375,000 cash plus 50% of the amount, if any, by which the aggregate sales price for the apartment units exceeds the actual conversion cost, as defined in the transfer agreement, from the Local General Partner’s conversion of the property to condominium ownership. The Partnership received proceeds of \$375,000 from this sale. The sale resulted in a loss of approximately \$907,000 resulting from the write-off of the basis in the property of approximately \$1,282,000 and the \$375,000 cash received from the sale.

On July 15, 2005, the Partnership sold the initial 20% of its limited partnership interest in Santa Juanita to the Local General Partner for \$100,000, resulting in a gain of \$100,000 which was recognized during the quarter ended September 30, 2005.

**Note 4 – Assets Held for Sale**

On February 1, 2007, Williamsburg Residential, L.P. (“Williamsburg”) entered into a purchase and sale agreement to sell its property and the related assets and liabilities to an unaffiliated third party purchaser for a sales price of \$2,250,346. The sales documents have been executed and the initial deposit funds are being held in escrow. The closing is expected to occur by the end of 2007. No assurance can be given that the sale will actually occur. As of March 31, 2007, Williamsburg had property and equipment, at cost, of approximately \$2,778,000, accumulated depreciation of approximately \$1,216,000 and mortgage debt of approximately \$1,825,000.

**Note 5 – 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 June 30, 2007, Whittier and Williamsburg were classified as discontinued operations in the consolidated balance sheets. The amounts shown below as of June 30, 2007 also include residual cash, other assets, and accounts payable balances of 96<sup>th</sup> Street, Concourse Artists, Grand Concourse, Robin Housing, Spring Creek, West 107<sup>th</sup> Street and Willoughby which were sold during the year ended March 31, 2007. As of March 31, 2007, 14<sup>th</sup> Street, 96<sup>th</sup> Street, Concourse Artists, Grand Concourse, Metropolitan, Robin Housing, Rolling Green, Santa Juanita, Spring Creek, West

**Notes to Consolidated Financial Statements (continued)**  
**June 30, 2007 (Unaudited)**

107<sup>th</sup> Street, Whittier, Williamsburg and Willoughby were classified as discontinued operations in the consolidated balance sheets.

Consolidated Balance Sheets of Discontinued Operations:

	<u>June 30,</u> <u>2007</u>	<u>March 31,</u> <u>2007</u>
<b>Assets</b>		
Property and equipment, net of accumulated depreciation of \$1,247,717 and \$2,137,910, respectively	\$ 1,599,798	\$ 2,370,180
Cash and cash equivalents	468,077	474,178
Cash held in escrow	106,164	175,511
Deferred costs, net of accumulated amortization of \$199,319 and \$241,287, respectively	0	15,975
Other assets	<u>2,960,720</u>	<u>2,978,745</u>
<b>Total assets</b>	<b><u>\$ 5,134,759</u></b>	<b><u>\$ 6,014,589</u></b>
<b>Liabilities</b>		
Mortgage notes payable	\$ 1,824,685	\$ 3,412,534
Accounts payable	411,799	405,619
Accrued interest payable	16,346	20,945
Security deposits payable	15,784	29,851
Due to local general partners and their affiliates	65,546	189,946
Due to general partners and affiliates	1,628,647	1,673,847
Minority interest	<u>717,960</u>	<u>717,967</u>
<b>Total liabilities</b>	<b><u>\$ 4,680,767</u></b>	<b><u>\$ 6,450,709</u></b>

The following table summarizes the results of operations of the Local Partnerships that are classified as discontinued operations. For the three months ended June 30, 2007, Whittier, which was sold during the three months ended June 30, 2007, and Williamsburg, which was classified as assets held for sale, were classified as discontinued operations on the consolidated financial statements. For the three months ended June 30, 2006, Santa Juanita, Concourse Artists, Grand Concourse, Robin Housing and Willoughby, which were sold during the three months ended June 30, 2006, and, in order to present comparable results to the three months

**Notes to Consolidated Financial Statements (continued)**  
**June 30, 2007 (Unaudited)**

ended June 30, 2007, 14<sup>th</sup> Street, 96<sup>th</sup> Street, Metropolitan, Rolling Green, Spring Creek, West 107<sup>th</sup> Street, Whittier and Williamsburg were classified as discontinued operations on the consolidated financial statements.

Consolidated Statements of Discontinued Operations:

	Three Months Ended June 30,	
	<u>2007</u>	<u>2006*</u>
Revenues		
Rental income	\$ 170,743	\$ 2,909,785
Other	17,393	66,820
Gain (loss) on sale of properties (Note 3)	<u>1,052,687</u>	<u>(42,934)</u>
Total revenue	<u>1,240,823</u>	<u>2,933,671</u>
Expenses		
General and administrative	63,589	722,365
General and administrative-related parties (Note 2)	3,510	175,521
Repairs and maintenance	22,448	700,120
Operating	7,188	874,180
Taxes	13,897	108,184
Insurance	6,642	183,611
Interest	63,711	412,417
Depreciation and amortization	6,933	502,992
Loss on impairment of fixed assets	<u>0</u>	<u>880,000</u>
Total expenses	<u>187,918</u>	<u>4,559,390</u>
Income (loss) before minority interest	1,052,905	(1,625,719)
Minority interest in loss (income) of subsidiaries from discontinued operations	<u>5</u>	<u>(791,322)</u>
Net income (loss) from discontinued operations (including minority interest)	<u>\$ 1,052,910</u>	<u>\$ (2,417,041)</u>
Income (loss) – limited partners from discontinued operations (including minority interest)	<u>\$ 1,042,381</u>	<u>\$ (2,392,871)</u>
Number of BACs outstanding	<u>115,917.5</u>	<u>115,917.5</u>
Income (loss) from discontinued operations (including minority interest) per BAC	<u>\$ 8.99</u>	<u>\$ (20.65)</u>

**Notes to Consolidated Financial Statements** (continued)  
**June 30, 2007** (Unaudited)

Cash flows from Discontinued Operations:

	Three Months Ended June 30,	
	<u>2007</u>	<u>2006*</u>
Net cash provided by operating activities	\$ <u>10,450</u>	\$ <u>1,878,922</u>
Net cash provided by investing activities	\$ <u>1,171,003</u>	\$ <u>329,017</u>
Net cash used in financing activities	\$ <u>(1,024,754)</u>	\$ <u>(151,291)</u>

\* Reclassified for comparative purposes.

Note 6 – Commitments and Contingencies

a) Subsidiary Partnerships - Going Concerns and Uncertainties

The auditors for two subsidiary partnerships, Whittier and Westminster, modified their reports on the 2006 Fiscal Year financial statements due to the uncertainty of each subsidiary partnership's ability to continue as a going concern. The financial statements do not include any adjustments that would be necessary in the event the subsidiary partnerships are unable to continue as going concerns.

Whittier Plaza Associates Limited Partnership ("Whittier")

The financial statements for Whittier have been prepared assuming that Whittier will continue as a going concern. Whittier has sustained continuous losses since commencement of operations in 1988, including losses of \$24,274 and \$28,239 in 2006 and 2005 Fiscal Years, respectively. Whittier has experienced higher vacancies and lower rents than those originally projected, resulting in increased difficulty in meeting both operating and debt service obligations. The Local General Partner, pursuant to a development deficit guarantee agreement, has advanced approximately \$5,000 and \$3,000 in the 2006 and 2005 Fiscal Years, respectively, and approximately \$497,000 since 1988 to fund operating cash shortfalls. In addition, Whittier's management company, an affiliate of the Local General Partner, has deferred receipt of various fees since 1991 totaling approximately \$116,000. These items raise substantial doubt about Whittier's ability to continue as a going concern. The Partnership's investment in Whittier was reduced to zero at both June 30, 2007 and March 31, 2007 as a result of prior years' losses and the minority interest balance

**Notes to Consolidated Financial Statements (continued)**  
**June 30, 2007 (Unaudited)**

was \$0 at each date. Whittier's net income (loss) after minority interest amounted to approximately \$1,000, excluding gain on sale of approximately \$1,074,000, and (\$18,000) for three months ended June 30, 2007 and 2006, respectively. On April 20, 2007, the property and the related assets and liabilities of Whittier were sold (see Note 3).

Westminster Place II – Olive Site, L.P. (“Westminster”)

The financial statements for Westminster have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of Westminster as a going concern. Westminster's rental subsidy fund agreement with the Missouri Housing Development Commission (“MHDC”) was depleted in June 2004. Westminster has been approved by the MHDC for rental increases, however, these increases have not been sufficient to cover the loss of the rental subsidy payments. The loss of the rental subsidy payments and insufficient rental increases raise substantial doubt about Westminster's ability to continue as a going concern. Management is exploring a sale of Westminster and will continue to submit requests for rental increases for MHDC approval.

b) Subsidiary Partnerships - Other

Goodfellow Place Limited Partnership (“Goodfellow”)

In recent years, Goodfellow has experienced significant cash flow deficiencies. In addition, current liabilities exceed current assets by approximately \$42,000, and there is approximately \$435,000 due to the General Partners and their affiliates. As of June 30, 2007, the General Partners advanced Goodfellow approximately \$399,000 in the form of a long term interest free loan. The General Partners have informally indicated that they will continue to advance funds to Goodfellow in 2007, as needed, with an unsecured loan that will strengthen Goodfellow's overall financial position. Management believes that this action will allow Goodfellow to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of the sale of the Property and subsequent liquidation of the Local Partnership.

Williamsburg Residential, L.P. (“Williamsburg”)

In November 1996, the Local General Partner of Williamsburg stopped making its mortgage note payments which constituted an event of default. A Reinstatement and Modification Agreement was entered into effective March 1, 1997. The Partnership has advanced Williamsburg the necessary funds to keep the mortgage and escrows current during 2006 and is expected to continue to do so during 2007.

**Notes to Consolidated Financial Statements (continued)**  
**June 30, 2007 (Unaudited)**

The Partnership's investment in Williamsburg has been written down to \$0 by prior years' losses and the minority interest balance was approximately \$718,000 at both June 30, 2007 and March 31, 2007. Williamsburg's net loss after minority interest amounted to approximately \$500 and \$24,000 for three months ended June 30, 2007 and 2006, respectively. As of June 30, 2007, the Partnership has advanced Williamsburg approximately \$1,571,000. On February 1, 2007, Williamsburg entered into a purchase and sale agreement to sell its property and the related assets and liabilities (see Note 4).

c) 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 up to \$100,000.

d) Cash Distributions

Cash distributions from the Local Partnerships to the Partnership are restricted by the provisions of the respective Local Partnership Agreements and/or U.S. Department of Housing and Urban Development ("HUD"). Such cash distributions are typically made from surplus cash flow.

e) Tax Credits

Each Local Partnership owns one or more low-income multi-family residential complexes ("Properties") that benefited from the low-income housing tax credit program ("Tax Credits"). The Partnership's entitlement to claim Tax Credits for each Property is ten years from the date of investment or, if later, the date the Property is placed into service ("Tax Credit Period"). The Local Partnerships must comply with the Tax Credits requirements for a period of 15 years commencing at the beginning of the Tax Credit Period ("Compliance Period"). As of December 31, 2003, the Tax Credit Period for each Local Partnership had expired. A portion of the Tax Credits are subject still to recapture in future years if (i) a Local Partnership ceases to meet qualification requirements, or (ii) if there is a decrease in the qualified basis of the Local Partnership's Property, or (iii) if there is a reduction in the Local Partnership interest in the Property at any time during the Compliance Period that began with the first tax year of the Tax Credit Period. As of June 30, 2007, the Tax Credit Periods and Compliance Periods for all of the Properties have expired.

**Notes to Consolidated Financial Statements** (continued)  
**June 30, 2007** (Unaudited)

f) Other

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, as of June 30, 2007, no more than 29% of the Properties are located in any single state. There are also substantial risks associated with owning Properties receiving government assistance, such as the possibility that Congress may not appropriate funds to enable the HUD to make rental assistance payments. HUD also restricts annual cash distributions to partners based on operating results and a percentage of the owner's equity contribution. The Partnership cannot sell or substantially liquidate its investments in subsidiary partnerships during the period that the subsidiary agreements are in existence without HUD's approval. Furthermore, there may not be market demand for apartments at market rents when the rental assistance contracts expire.

**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 of Form 10-Q is available upon written request)*

Liquidity and Capital Resources

The Partnership's capital was originally invested in twenty-seven Local Partnerships. As of June 30, 2007, the properties and the related assets and liabilities of fourteen Local Partnerships and the limited partnership interest in six Local Partnerships were sold. For a discussion of these sales, see Note 3. In addition, as of June 30, 2007, one Local Partnership has entered into an agreement to sell its property and the related assets and liabilities (see Note 4).

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 31, 2007, 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 June 30, 2007.

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

### Short-Term

The Partnership's primary sources of funds include: (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 but are not expected to be significant. During the three months ended June 30, 2007 and 2006, cash distributions received from the Local Partnerships were approximately \$163,000 and \$672,000, respectively, which included distributions from sales amounting to approximately \$163,000 and \$672,000, respectively. In addition, during the three months ended June 30, 2007 and 2006, approximately \$0 and \$375,000, respectively in proceeds were received by the Partnership from the sale of partnership interest.

During the three months ended June 30, 2007, cash and cash equivalents of the Partnership and its consolidated Local Partnerships decreased approximately (\$355,000). This decrease was due to cash used in operating activities (\$268,000), repayments of mortgage notes (\$1,133,000), an increase in cash held in escrow relating to investing activities (\$125,000) and improvements to property and equipment (\$4,000), which exceeded net proceeds from sale of properties (\$1,174,000) and an increase in due to selling partner (\$2,000). In the adjustments to reconcile the net loss to net cash used in operating activities are gain on sale of properties of approximately (\$1,053,000) and depreciation and amortization of approximately (\$550,000).

The Partnership is not expected to have access to additional sources of financing, and in particular will not have the ability to access Beneficiary Assignments Certificates ("BACs") holders for additional capital contributions to provide capital if needed by the Partnership. There can be no assurance that additional funds will be available to the Partnership or any Local Partnership, nor that, if any Property is sold, the proceeds of the sale will be sufficient to pay outstanding balances due on mortgage loans or other outstanding indebtedness to which the Property is subject. The Partnership had a working capital reserve of approximately \$3,150,000 at June 30, 2007.

Total expenses for the three months ended June 30, 2007 and 2006, excluding depreciation and amortization, interest, general and administrative – related parties and provision for impairment of fixed assets, totaled \$1,913,848 and \$1,560,024, respectively.

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

Accounts payable totaled \$2,296,830 and \$1,787,747 as of June 30, 2007 and March 31, 2007, 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 June 30, 2007 and March 31, 2007 totaled \$411,799 and \$405,619, respectively.

Accrued interest payable as of June 30, 2007 and March 31, 2007 was \$2,882,515 and \$2,944,857, 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. 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 June 30, 2007 and March 31, 2007, totaled \$16,346 and \$20,945, respectively.

### Long-Term

Partnership management fees owed to the General Partners amounting to approximately \$2,117,000 and \$2,023,000 were accrued and unpaid as of June 30, 2007 and March 31, 2007, 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). During the year ended March 31, 2007, the Partnership deemed the unpaid partnership management fees that were related to sold properties uncollectible and wrote off approximately \$12,325,000, resulting in a non-cash General Partner contribution of the same amount. Without the General Partners' continued accrual

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

without payment, the Partnership will not be in a position to meet its obligations. The General Partners have continued allowing the accrual without payment of these amounts, but are under no obligation to continue to do so. The General Partners and these affiliates have agreed to continue such support for the foreseeable future.

For a discussion of contingencies affecting certain Local Partnerships, see Item 1, Note 6. 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 are 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 the expiration of the Compliance Period during which the Properties must comply with various rent and other restrictions. As of June 30, 2007, the Compliance Periods for all the properties have ended.

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. Since revenues from sales of assets are driven by market conditions, inflation has little impact on sales.

Except as described above, management is not aware of any trends, 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 portfolio is diversified by the location of the Properties around the United States so that if one area of the country is experiencing downturns in the economy, the remaining Properties in the portfolio may be experiencing upswings. However, the geographic diversification of the portfolio may not protect against a general downturn in the national economy.

### Critical Accounting Policies

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

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

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 to the consolidated financial statements in the Annual Report on Form 10-K for the year ended March 31, 2007.

### 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 such property and equipment. 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. The Partnership complies with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"). 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. Property investments themselves are reduced to estimated fair value (generally using discounted cash flows) when the Property is considered to be impaired and the depreciated cost exceeds estimated fair value. During the three months ended June 30, 2007, the Partnership has not recorded any loss on impairment of assets. Through June 30, 2007, the Partnership has recorded approximately \$15,022,000 as a loss on impairment of assets.

In accordance with SFAS No. 144, 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

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

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

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. Such assets would be classified as property and equipment-held for sale and are not depreciated. There were one asset classified as property and equipment-held for sale at June 30, 2007. See Note 4 regarding assets held for sale and Note 5 regarding discontinued operations.

### 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 results of operations for the three months ended June 30, 2007 and 2006, as discussed below, consisted primarily of the results of the Partnership's investment in the consolidated Local Partnerships, excluding the results of its discontinued operations which are not reflected in the following discussion (see Note 5).

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

Rental income increased approximately 3% for the three months ended June 30, 2007 as compared to the corresponding period in 2006, primarily due to increases in rental rates and decreases in vacancies at three Local Partnerships partially offset by a decrease in occupancy at one Local Partnership affected by fire in 2006.

Total expenses, excluding general and administrative, general and administrative-related parties, repair and maintenance and operating, remained fairly consistent with an increase of less than 1% for the three months ended June 30, 2007 as compared to the corresponding period in 2006.

General and administrative expenses increased approximately \$100,000 for the three months ended June 30, 2007 as compared to the corresponding period in 2006, primarily due to an increase in accounting fees and an increase in legal fees due to high sales activity at the Partnership level.

General and administrative-related parties expenses decreased approximately \$190,000 for the three months ended June 30, 2007 as compared to the corresponding period in 2006, primarily due to a decrease in partnership management fees at the Partnership level resulting from the sale of properties.

Repair and maintenance expenses increased approximately \$226,000 for the three months ended June 30, 2007 as compared to the corresponding period in 2006, primarily due to increases in maintenance and repair contracts, including painting and decorating, and non-recurring repairs relating to fire damage at one Local Partnership, increases in maintenance payroll, security contract and painting and decorating expenses at a second Local Partnership, increases in plumbing and elevator repair expenses at a third Local Partnership, and increases in floor repairs, carpet and windows replacement and appliance repair expenses at two other Local Partnerships.

Operating expenses increased approximately \$26,000 for the three months ended June 30, 2007 as compared to the corresponding period in 2006, primarily due to increases in electricity costs at two Local Partnerships partially offset by a decrease in water and sewer expenses at a third Local Partnership which received a downward adjustment for an overcharge in the previous year.

## **Quantitative and Qualitative Disclosures about Market Risk**

The Partnership has mortgage notes that are payable in aggregate monthly installments including principal and interest at rates varying from 1% to 10.75% per annum. The Partnership does not believe there is a material risk associated with the various interest rates associated with the mortgage notes as the majority of the Local Partnership mortgage notes have 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 31, 2007, the fair value of the mortgage notes payable. The Partnership does not have any other market sensitive instruments. There are no material changes to such disclosure or amounts as of June 30, 2007.

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

## **Controls and Procedures**

(a) *Evaluation of Disclosure Controls and Procedures.* The Chief Executive Officer and Chief Financial Officer of Related Credit Properties II Inc., the general partner of Related Credit Properties II L.P. and Liberty Associates II, L.P., and of Liberty GP II Inc., the general partners 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) *Changes in Internal Control over Financial Reporting.* There have not been any changes in the Partnership's internal control over financial reporting during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Partnership's internal control over financial reporting.

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