

**INDEPENDENCE  
TAX CREDIT PLUS**

**ANNUAL REPORT**

**For Fiscal Year Ended  
March 31, 2010**



July 2010

Message to Our BACsholders:

We would like to take this opportunity to present the Annual Report for Independence Tax Credit Plus LP (the "Partnership") for the fiscal year ended March 31, 2010.

During the first quarter of 2010 the Partnership sold its limited partnership interest in Creative Choice Homes II, Ltd. ("Opa-Locka") to an affiliate of the local general partner. As such, the Partnership's portfolio currently consists of 10 assets.

Additionally, during January 2010, a purchase and sale agreement to sell the property and the related assets and liabilities of Cloisters Limited Partnership II was entered into with an unaffiliated third party purchaser. We anticipate this sale to occur during this year.

Detailed information on the Partnership's overall performance is reported in the Management's Discussion and Analysis of Financial Condition and Results of Operations and Note sections of this report.

The General Partner continues to research liquidation opportunities for remaining assets and anticipates full liquidation to occur within the next two-three years. Please realize that full liquidation is dependent on certain economic conditions.

Should you have any questions regarding your investment in this Partnership please do not hesitate to contact Denise Bernstein of the Partnership's Investor Relations Department at 1-800- 600-6422 and then press 1 for the company directory.

Very truly yours,

A handwritten signature in cursive script that reads "Robert A. Pace".

Robert A. Pace  
Chief Financial Officer  
Related Independence Associates, Inc.

## Consolidated Balance Sheets

March 31,  

	2010	2009
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### ASSETS

#### Operating Assets

Property and equipment, at cost, less accumulated depreciation (Notes 2, 4, 7 and 10)	\$ 15,647,943	\$ 22,693,155
Cash and cash equivalents (Notes 2, 3 and 13)	1,601,240	5,253,902
Cash held in escrow (Notes 3 and 5)	2,178,742	2,005,856
Deferred costs, less accumulated amortization (Notes 2 and 6)	187,494	199,544
Other assets	721,872	792,384

Total operating assets	20,337,291	30,944,841
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#### Assets from discontinued operations (Note 14)

Property and equipment held for sale, net of accumulated depreciation (Note 4)	2,606,404	29,015,203
Net assets held for sale	167,215	4,246,142

Total assets from discontinued operations	2,773,619	33,261,345
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Total assets	\$ 23,110,910	\$ 64,206,186
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### LIABILITIES AND PARTNERS' CAPITAL (DEFICIT)

#### Operating Liabilities

Mortgage notes payable (Notes 3 and 7)	\$ 19,936,251	\$ 20,705,851
Accounts payable	1,139,138	1,181,205
Accrued interest payable	11,600,608	10,496,943
Security deposits payable	154,305	169,564
Due to local general partners and affiliates (Note 8)	705,651	745,843
Due to general partners and affiliates (Note 8)	4,797,738	9,756,202

Total operating liabilities	38,333,691	43,055,608
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#### Liabilities from discontinued operations (Note 14)

Mortgage notes payable of assets held for sale (Note 7)	3,129,354	19,248,504
Net liabilities held for sale	1,333,122	15,690,152

Total liabilities from discontinued operations	4,462,476	34,938,656
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Total liabilities	42,796,167	77,994,264
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#### Commitments and contingencies (Notes 7, 8 and 13)

#### Partners' (deficit) capital

Limited partners (76,786 BACs issued and outstanding)	(28,251,234)	(20,269,539)
General partners	4,352,232	2,924,584
Independence Tax Credit Plus L.P. total	(23,899,002)	(17,344,955)

Noncontrolling interests	4,213,745	3,556,877
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Total partners' (deficit) capital	(19,685,257)	(13,788,078)
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Total liabilities and partners' (deficit) capital	\$ 23,110,910	\$ 64,206,186
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See accompanying notes to consolidated financial statements.

## Consolidated Statements of Operations

	Years Ended March 31,	
	2010	2009*
Revenues		
Rental income	\$ 6,900,266	\$ 6,638,557
Other income (Notes 1 and 13)	<u>106,699</u>	<u>142,068</u>
Total revenues	<u>7,006,965</u>	<u>6,780,625</u>
Expenses		
General and administrative	1,337,019	1,414,399
General and administrative-related parties (Note 8)	907,460	1,386,315
Repairs and maintenance	1,800,306	2,083,031
Operating	1,191,330	1,291,824
Taxes	513,241	473,516
Insurance	379,506	387,951
Financial, principally interest	1,489,942	1,459,593
Depreciation and amortization	1,405,765	1,385,377
Loss on impairment of properties	<u>5,080,000</u>	<u>0</u>
Total expenses from operations	<u>14,104,569</u>	<u>9,882,006</u>
Loss from operations	(7,097,604)	(3,101,381)
Loss from discontinued operations (Note 14)	<u>(10,898,813)</u>	<u>(2,713,912)</u>
Net loss	<u>(17,996,417)</u>	<u>(5,815,293)</u>
Net loss attributable to noncontrolling interests from operations	64,964	4,503
Net loss attributable to noncontrolling interests from discontinued operations	<u>9,869,135</u>	<u>916,441</u>
Net loss attributable to noncontrolling interests	<u>9,934,099</u>	<u>920,944</u>
Net loss attributable to Independence Tax Credit Plus L.P.	<u>\$ (8,062,318)</u>	<u>\$ (4,894,349)</u>
Loss from operations – limited partners	\$ (6,962,314)	\$ (3,065,909)
Loss from discontinued operations (including (loss) gain on sale of properties) – limited partners	<u>(1,019,381)</u>	<u>(1,779,496)</u>
Net loss – limited partners	<u>\$ (7,981,695)</u>	<u>\$ (4,845,405)</u>
Number of BACs outstanding	<u>76,786</u>	<u>76,786</u>
Loss from operations per weighted average BAC	\$ (90.67)	\$ (39.93)
Loss from discontinued operations per weighted average BAC	<u>(13.28)</u>	<u>(23.17)</u>
Net loss per weighted average BAC	<u>\$ (103.95)</u>	<u>\$ (63.10)</u>

\* Reclassified for comparative purpose.

See accompanying notes to consolidated financial statements.

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

	<u>Total</u>	<u>Limited Partners</u>	<u>General Partner</u>	<u>Noncontrolling Interests</u>
Partner's capital (deficit) – April 1, 2008	\$ (11,971,902)	\$ (15,424,134)	\$ (837,446)	\$ 4,289,678
Net loss	(5,815,293)	(4,845,405)	(48,944)	(920,944)
Contribution – write off of related party debt	511,127	0	59,450	451,677
Contribution – write off of partnership management fees related to sold properties	3,751,524	0	3,751,524	0
Distributions	<u>(263,534)</u>	<u>0</u>	<u>0</u>	<u>(263,534)</u>
Partner's capital (deficit) – March 31, 2009	(13,788,078)	(20,269,539)	2,924,584	3,556,877
Net loss	(17,996,417)	(7,981,695)	(80,623)	(9,934,099)
Contribution – write-off of related party debt	10,795,392	0	0	10,795,392
Contribution – write-off of partnership management fees related to sold properties	1,508,271	0	1,508,271	0
Distributions	<u>(204,425)</u>	<u>0</u>	<u>0</u>	<u>(204,425)</u>
Partner's capital (deficit) – March 31, 2010	<u>\$ (19,685,257)</u>	<u>\$ (28,251,234)</u>	<u>\$ 4,352,232</u>	<u>\$ 4,213,745</u>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

Increase (Decrease) in Cash and Cash Equivalents

	<u>Years Ended March 31,</u>	
	<u>2010</u>	<u>2009*</u>
Cash flows from operating activities:		
Net loss	\$ (17,996,417)	\$ (5,815,293)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Loss (gain) on sale	10,489,922	(7,494,728)
Depreciation and amortization	1,645,430	3,180,992
Loss on impairment of properties	6,687,000	9,706,033
(Increase) decrease in assets:		
Cash held in escrow	1,194,691	2,688,444
Other assets	(774,051)	(65,510)
Increase (decrease) in liabilities:		
Accounts payable	(209,569)	98,672
Accrued interest payable	1,024,549	407,777
Security deposit payable	(43,985)	(22,241)
Due to local general partners and affiliates	193,980	(819,536)
Due to general partner and affiliates	<u>(3,851,981)</u>	<u>(336,084)</u>
Total adjustments	<u>16,355,986</u>	<u>7,343,819</u>
Net cash (used in) provided by operating activities	<u>(1,640,431)</u>	<u>1,528,526</u>
Cash flows from investing activities:		
Proceeds from sales	10,922,000	9,605,431
Cost related to sales	(307,918)	(53,194)
Acquisition of property and equipment	(823,743)	(1,414,288)
Decrease (increase) in cash held in escrow	427,898	(2,942,866)
(Decrease) increase in due to local general partners and affiliates	<u>(765,532)</u>	<u>1,504,855</u>
Net cash provided by investing activities	<u>9,452,705</u>	<u>6,699,938</u>
Cash flows from financing activities:		
Increase in deferred costs	(6,582)	0
Repayments of mortgage notes	(11,453,552)	(7,497,888)
(Decrease) increase in due to local general partners and affiliates	(19,102)	411,137
Decrease in capitalization of consolidated subsidiaries attributable to noncontrolling interest	<u>(5,025)</u>	<u>(263,533)</u>
Net cash used in financing activities	<u>(11,484,261)</u>	<u>(7,350,284)</u>
Net (decrease) increase in cash and cash equivalents	(3,671,987)	878,180
Cash and cash equivalents at beginning of year	<u>5,292,033</u>	<u>4,413,853</u>
Cash and cash equivalents at end of year**	<u>\$ 1,620,046</u>	<u>\$ 5,292,033</u>
Supplemental disclosure of cash flows information:		
Cash paid during the year for interest	<u>\$ 1,557,713</u>	<u>\$ 2,753,554</u>

See accompanying notes to consolidated financial statements.

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

	<u>Years Ended March 31,</u>	
	<u>2010</u>	<u>2009*</u>
Summarized below are the components of the gain on sale of investments and properties:		
Proceeds from sale of investments and properties – net	\$ (10,614,082)	\$ (9,552,237)
Decrease in property and equipment, net of accumulated depreciation	26,195,736	21,922,479
Decrease in cash held in escrow	1,679,214	4,846,860
Decrease in prepaid expenses and other assets	1,196,142	443,570
Decrease in deferred costs	1,555	336,369
Decrease in mortgage notes payable	(5,435,198)	(23,358,373)
Decrease in accounts payable and other liabilities	(2,333,356)	(438,576)
Decrease in accrued interest payable	(104,261)	(1,079,733)
Decrease in security deposits payable	(40,107)	(350,230)
(Decrease) increase in due to general partners and affiliates	(32,500)	599,991
Decrease in due to local general partners and affiliate	(10,619,213)	(1,375,975)
Increase in capitalization of consolidated subsidiaries attributable to noncontrolling interest	10,595,992	451,677
Contribution from write-off of related party debt	0	59,450
Supplemental disclosures of non-cash investing and financing activities:		
Contribution from write-off of partnership management fees related to sold properties	\$ 1,508,271	\$ 3,751,524

\* Reclassified for comparative purposes.

\*\* Cash and cash equivalents, end of year, for the years ended March 31, 2010 and 2009, includes cash and cash equivalents from discontinued operations of \$18,806 and \$38,131, respectively.

See accompanying notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

### March 31, 2010

#### NOTE 1 – General

Independence Tax Credit Plus L.P. (the “Partnership”), a Delaware limited partnership, was organized on November 7, 1990, but had no activity until May 31, 1991 (which date is considered to be inception for financial accounting purposes) and commenced its public offering on July 1, 1991. The general partner of the Partnership is Related Independence Associates L.P., a Delaware limited partnership (the “General Partner”). The general partner of the General Partner is Independence Associates GP LLC., a Delaware corporation. The ultimate parent of the General Partner is Centerline Holding Company (“Centerline”).

The Partnership’s business is to invest as a limited partner in other partnerships (“Local Partnerships,” “subsidiaries” or “subsidiary partnerships”) that own leveraged apartment complexes (“Apartment Complexes”) that are eligible for the low-income housing tax credit (“Tax Credit”) enacted in the Tax Reform Act of 1986, some of which may also be eligible for the historic rehabilitation tax credit. Qualified Beneficial Assignment Certificates (“BACs”) holders are entitled to Tax Credits over the period of the Partnership’s entitlement to claim Tax Credits (for each Property, generally ten years from the date of investment or, if later, the date the Property is placed in service; referred to herein as the “Credit Period”) with respect to each Apartment Complex.

The Partnership is currently in the process of developing a plan to dispose all of its investments. As of March 31, 2010, the Partnership has disposed of eighteen of the twenty-eight original Properties. During the year ended March 31, 2010, one Local Partnership sold its property and the related assets and liabilities and the Partnership sold its limited partnership interest in one Local Partnership. Through March 31, 2010, four Local Partnerships have sold their property and the related assets and liabilities, the Partnership has sold its limited partnership interest in thirteen Local Partnerships and one Local Partnership has transferred the deed to the property and related assets and liabilities of such Local Partnership (see Note 10). In addition, as of March 31, 2010, two Local Partnerships entered into agreements to sell their property and the related assets and liabilities (see Note 11).

The Partnership was authorized to issue a total of 200,000 BACs which were registered with the Securities and Exchange Commission for sale to the public. Each BAC represents all of the economic and virtually all of the ownership rights attributable to a limited partnership interest. As of March 31, 2010, the Partnership had raised a total of \$76,786,000 representing 76,786 BACs and no further issuance of BACs is anticipated.

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

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

##### a) Basis of Accounting

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

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

### March 31, 2010

#### b) Basis of Consolidation

The consolidated financial statements include the accounts of the Partnership and thirteen (2009 Fiscal Year) and twenty four (2008 Fiscal Year) subsidiary partnerships in which the Partnership is a limited partner. Through the rights of the Partnership and/or an affiliate of the General Partner, which affiliate has a contractual obligation to act on behalf of the Partnership, to remove the general partner of the subsidiary local partnerships and to approve certain major operating and financial decisions, the Partnership has a controlling financial interest in the subsidiary local partnerships. All intercompany accounts and transactions with the subsidiary partnerships have been eliminated in consolidation.

The Partnership has adopted FASB Accounting Standards Codification (“ASC”) Topic 810, *Noncontrolling Interests in Consolidated Financial Statements* (“ASC 810”), which is effective for fiscal year ends beginning after December 15, 2008. In accordance with ASC 810, losses attributable to noncontrolling interests amounted to approximately \$9,934,000 for the year ended March 31, 2010. Prior to the adoption of this ASC, losses attributable to noncontrolling interests which exceeded the noncontrolling interests’ investment in a subsidiary partnership were charged to the Partnership. Such losses aggregated approximately \$27,000 for the year ended March 31, 2009. Increases (decreases) in the capitalization of consolidated subsidiaries attributable to noncontrolling interest arise from cash contributions from and cash distributions to the noncontrolling interest partners. The Partnership’s investment in each subsidiary is equal to the respective subsidiary’s partners’ equity less noncontrolling interest capital, if any.

#### c) Cash and Cash Equivalents

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

#### d) Property and Equipment

Property and equipment to be held and used are carried at cost which includes the purchase price, acquisition fees and expenses, construction period interest and any other costs incurred in acquiring the properties. The cost of property and equipment is depreciated over their estimated useful lives using accelerated and straight-line methods. Expenditures for repairs and maintenance are charged to expense as incurred; major renewals and betterments are capitalized. At the time property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are eliminated from the assets and accumulated depreciation accounts and the profit or loss on such disposition is reflected in earnings. The Partnership complies with ASC 360, *Property, Plant and Equipment* (“ASC 360”). 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 is below depreciated cost. At that time, 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.

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. Property and equipment that are held for sale are included in discontinued operations. There are two assets classified as property and equipment-held for sale as of March 31, 2010 (see Note 11).

During the year ended March 31, 2010 and 2009, the Partnership recorded approximately \$6,687,000 and \$9,706,000, respectively, as an aggregate loss on impairment of assets. Through March 31, 2010, the

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

### March 31, 2010

Partnership has recorded approximately \$24,418,000 as an aggregate loss on impairment of assets or reduction to estimated fair value.

#### e) Income Taxes

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

The Partnership's management have analyzed the Partnership's tax positions and concluded that no liability for unrecognized tax benefits should be recorded for position taken on returns filed for open tax years. As of and during the year ended March 31, 2010, the Partnership did not have a liability for any unrecognized tax benefits or related interest and penalties. Such related interest and penalties, if any, would be included in general and administrative expense.

The Partnership relies on a 2% safe harbor established by an Internal Revenue Service ("IRS") regulation to avoid being characterized as a "publicly-traded partnership" that is taxed as a corporation.

In the normal course of business the Partnership or one of its subsidiaries is subject to examination by federal, state and local jurisdictions in which it operates where applicable. At March 31, 2010, the tax year that remain subject to examination by the major tax jurisdictions under the statute of limitations is from the year 2006 forward.

#### f) Revenue Recognition

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

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

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

	Years Ended March 31,	
	2010	2009*
Interest	\$ 24,870	\$ 82,893
Other	<u>81,829</u>	<u>59,175</u>
Total other revenue	<u>\$ 106,699</u>	<u>\$ 142,068</u>

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2010**

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

	Years Ended March 31,	
	2010	2009*
Interest	\$ 10,330	\$ 86,925
Grant revenue (i)	1,200,936	690,125
Other	97,598	166,071
Total other revenue	<u>\$ 1,308,864</u>	<u>\$ 943,121</u>

\* Reclassified for comparative purposes.

- (i) Opa-Locka received a Housing Development Grant (“HDG”) through Miami-Dade County for a total of \$1,891,061. \$1,391,000 of the funds were to be provided by FEMA, and \$500,000 by Miami-Dade County as the project was completed. The funds were to be used to modify the site to help mitigate future damage from possible floods mostly due to hurricanes. Completion of the project occurred during 2009. During the years ended December 31, 2009 and 2008, the property recognized as income \$1,200,936 and \$690,125, respectively, of the funds in connection with the grant. In total, Opa-Locka has received \$841,625 of the funds from FEMA leaving a balance due of \$1,049,436. As of December 31, 2009, Opa-Locka had capitalized and placed in service \$1,891,061 related to these improvements.

g) Loss Contingencies

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

h) Use of Estimates

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

i) Recent Accounting Pronouncements

In January, 2010, the FASB issued under Topic 820, *Fair Value Measurements and Disclosures*, ASU 2010-06, “Improving Disclosures about Fair Value Measurements”. This ASU reports on new disclosure requirements — and clarifications of existing requirements — under ASC Subtopic 820-10 (originally issued as FAS 157). The new disclosure requirements apply to interim and annual reporting periods beginning after December 15, 2009, with one exception: The new rules regarding purchases, sales, issuances and settlements associated with Level 3 measurements will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this accounting standard is not expected to have a material effect on the Partnership’s consolidated financial statements.

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

### March 31, 2010

In January 2010, the FASB issued under ASC Topic 810, *Consolidation*, ASU 2010-02, *Accounting and Reporting for Decreases in Ownership of a Subsidiary – a Scope Clarification*. The objective of ASU 2010-02 is to address implementation issues related to changes in ownership provisions. This ASU clarifies that decreases in ownership provisions within ASC Topic 810-10 applies to a) a subsidiary or group of assets that is a business or nonprofit activity, b) a subsidiary that is a business or nonprofit activity that is transferred to an equity method investee or joint venture or c) an exchange of a group of assets that constitutes a business or nonprofit activity for a non-controlling interest in an entity (including equity method investee or joint venture). This ASU clarifies that the decrease in ownership guidance within ASC Topic 810-10 does not apply to the following transactions even if they involve businesses: a) sales in substance of real estate and b) conveyances of oil and gas mineral rights. This ASU also expands disclosure requirements for the deconsolidation of a subsidiary or derecognition of a group of assets within the scope of ASC Topic 810-10. This ASU is effective in the period in which an entity adopts Statement of Financial Accounting Standards (SFAS) No. 160, *Non-controlling Interests in Consolidated Financial Statements*. If an entity has previously adopted SFAS160, the amendments in this update are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. Retrospective application to the first period that an entity adopted SFAS 160 is required. The adoption of this accounting standard did not have a material effect on the Partnership's consolidated financial statements.

On August 26, 2009, the FASB issued *Accounting Standard Update (ASU) 2009-05, Measuring Liabilities at Fair Value*, to clarify how entities should estimate the fair value of liabilities under the ASC Topic 820, *Fair Value Measurements and Disclosures*. The amendments in ASU 2009-05 reduce potential ambiguity in financial reporting when measuring the fair value of liabilities. Therefore, preparers, investors, and other users of financial statements will have a better understanding of how the fair value of liabilities was measured, helping to improve consistency in the application of Topic 820. The FASB issued ASU 2009-05 as a result of expressed concern that there may be a lack of observable market information to measure the fair value of a liability. For example, in the hypothetical transfer of an asset subject to a restriction there will be no observable data available to measure the liability because it is restricted from being transferred. This guidance is effective for the first reporting period (including interim periods) beginning after issuance. The adoption of this accounting standard did not have a material effect on the Partnership's consolidated financial statements.

In June 2009, the FASB issued ASC 105-10 (formerly SFAS No. 168), *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. The objective of this statement is to replace SFAS No. 162 and to establish the FASB Accounting Standards Codification as the source of the authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. The rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. This statement shall be effective for financial statements issued for interim and annual periods ending after September 15, 2009 and was adopted by the Partnership for its second quarter reporting. The adoption did not have a significant impact on the reporting of our financial position, results of operations or cash flows.

In June 2009, the FASB issued under ASC Topic 810-Consolidation, SFAS No. 167, an amendment to FASB Interpretation 46(R), "Consolidation of Variable Interest Entities." The statement requires an entity to perform an analysis to determine whether the entity's variable interest give it a controlling financial interest in a variable interest entity by rationalizing characteristics that would give it power to direct the activities of a variable interest entity and the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. The statement is effective for years beginning after November 15, 2009 and is not expected to have a material effect on the Partnership's consolidated financial statements.

**Notes to Consolidated Financial Statements** (continued)  
**March 31, 2010**

In June 2009, the FASB issued under ASC Topic 860 – *Transfers and Servicing*, SFAS No. 166, “Accounting for Transfers of Financial Assets”, an amendment to SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities.” The statement defines the term “participating interest” to establish specific conditions for reporting a transfer of financial assets as a sale and improves financial reporting by eliminating (a) the exception for qualifying special-purpose entities from consolidation guidance and (b) the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. The statement is effective for annual reports for years beginning after November 15, 2009 and is not expected to have a material effect on the Partnership’s consolidated financial statements.

NOTE 3 – Fair Value of Financial Instruments

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

Cash and Cash Equivalents, Investments Available-for-Sale and Cash Held in Escrow

The carrying amount approximates fair value.

Mortgage Notes Payable

The Partnership adopted FASB ASC 820 – “*Fair Value Measurements*” for financial assets and liabilities. ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 820 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances.

As permitted, we chose not to elect the fair value option as prescribed by FASB ASC 825 – “*Financial Instruments*” – Including an Amendment of ASC 320 – “*Investments – Debt and Equity Securities*”, 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 ASC 825.

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. The following are financial instruments for which the Partnership’s estimate of fair value differs from the carrying amounts:

	At March 31, 2010		At March 31, 2009	
	Carrying Amount	Fair Estimated Value	Carrying Amount	Fair Estimated Value
LIABILITIES:				
Mortgage notes	\$ 23,065,605	\$ 19,275,709	\$ 39,954,355	\$ 37,186,773

For the mortgage notes, fair value is calculated using present value cash flow models based on a discount rate. It was determined that the Tender Option Bond market, through which these bonds have been securitized in the past, continued to see a dramatic slowdown with limited liquidity and significantly reduced

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2010**

transaction levels. To assist in valuing these notes, the Partnership held separate discussions with various third party investment banks who are leaders in the municipal bond business. The discussions produced assumptions that were based on market conditions as well as the credit quality of the underlying property partnerships, which held the mortgage notes, to determine what discount rates to utilize.

NOTE 4 – Property and Equipment

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

	March 31,		Estimated Useful Lives (Years)
	2010	2009	
Land	\$ 2,434,199	\$ 2,470,944	-
Building and improvements	35,182,541	40,984,897	15-40
Furniture and fixtures	<u>1,598,432</u>	<u>1,552,462</u>	3-10
	39,215,172	45,008,303	
Less: Accumulated depreciation	<u>(23,567,229)</u>	<u>(22,315,148)</u>	
	<u>\$ 15,647,943</u>	<u>\$ 22,693,155</u>	

The initial cost to the Partnership, as shown in Schedule III in Item 15 includes approximately \$4,500,000 of acquisition fees paid to the General Partner and \$1,057,104 of acquisition expenses.

In connection with the rehabilitation of the properties, the subsidiary partnerships have incurred developer's fees of approximately \$14,500,000 to the Local General Partners and affiliates, net of approximately \$979,000 earned by the Partnership. Such fees were included in the cost of property and equipment.

Depreciation expense for the years ended March 31, 2010 and 2009 amounted to \$1,393,715 and \$1,372,412, respectively.

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2010**

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

	March 31,		Estimated Useful Lives (Years)
	2010	2009	
Land	\$ 377,296	\$ 1,097,362	-
Building and improvements	4,278,327	48,908,038	15-40
Furniture and fixtures	189,667	825,306	3-10
	<u>4,845,290</u>	<u>50,830,706</u>	
Less: Accumulated depreciation	<u>(2,238,886)</u>	<u>(21,815,503)</u>	
	<u>\$ 2,606,404</u>	<u>\$ 29,015,203</u>	

Depreciation expense for the discontinued property and equipment for the years ended March 31, 2010 and 2009 amounted to \$1,304 and \$1,734,313, respectively.

During the years ended March 31, 2010 and 2009, there were write-offs of accumulated depreciation in the amounts of \$19,719,554 and \$24,461,998, which were related to the discontinued assets.

Impairment of Properties

During the year ended March 31, 2010, the Partnership performed a fair value analysis on all of its remaining investments due to the current deteriorating market conditions in the real estate industry. Impairment of assets is a two-step process. First, management estimated amounts recoverable through future operations and sale of the Property on an undiscounted basis. If such estimates were below depreciated cost, Property investments themselves were reduced to estimated fair value (generally using the discounted cash flow valuation method). Each Local Partnership must continue to comply with its Tax Credit requirements until the end of the Compliance Period in order to avoid recapture of the Tax Credits. Therefore, a 5-year cash flow projection was used, as this period is indicative of the average holding period left of the remaining investments. A net operating income projection was prepared to calculate a residual value at the end of the 5-year period. Based on this analysis, the Partnership deemed the properties of the below Local Partnerships impaired and wrote them down to their estimated fair values which resulted in \$6,687,000 of losses on impairment in the current year.

Impairments recorded for the year ended March 31, 2010 were as follows:

Arlington-Rodeo Properties	\$ 2,666,000
Chester Renaissance Associates	1,104,000
Milford Crossings Associates	<u>1,310,000</u>
	<u>\$ 5,080,000</u>

Impairments recorded relating to discontinued operations for the year ended March 31, 2010 were as follows:

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2010**

Homestead Apartments II Ltd.	\$ <u>1,607,000</u>
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Impairments recorded relating to discontinued operations for the year ended March 31, 2009 were as follows:

Landreth Venture	\$ 2,999,000
Bethel Villa Associates	720,000
Plainsboro Housing Partners L.P.	800,000
Cloisters L.P. II	<u>5,187,000</u>
	<u>\$ 9,706,000</u>

NOTE 5 – Cash Held in Escrow

Cash held in escrow consists of the following:

	March 31,	
	<u>2010</u>	<u>2009</u>
Real estate taxes, insurance and other	\$ 424,071	\$ 434,600
Reserve for replacements	1,595,138	1,398,684
Tenant security deposits	<u>159,533</u>	<u>172,572</u>
	<u>\$ 2,178,742</u>	<u>\$ 2,005,856</u>

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

	March 31,	
	<u>2010</u>	<u>2009</u>
Real estate taxes, insurance and other	\$ 24,873	\$ 2,214,019
Reserve for replacements	0	1,126,310
Tenant security deposits	<u>71,660</u>	<u>230,893</u>
	<u>\$ 96,533</u>	<u>\$ 3,571,222</u>

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2010**

NOTE 6 – Deferred Costs

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

	March 31,		Period
	2010	2009	
Financing expenses	\$ 469,039	\$ 469,039	*
Less: Accumulated amortization	<u>(281,545)</u>	<u>(269,495)</u>	
	<u>\$ 187,494</u>	<u>\$ 199,544</u>	

Amortization expense from operations for the years ended March 31, 2010 and 2009 amounted to \$12,050 and \$12,965, respectively.

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

	March 31,		Period
	2010	2009	
Financing expenses	\$ 94,797	\$ 1,106,847	*
Less: Accumulated amortization	<u>(90,269)</u>	<u>(868,985)</u>	
	<u>\$ 4,528</u>	<u>\$ 237,862</u>	

\* Over the life of the respective mortgages.

Amortization expense from discontinued operations for the years ended March 31, 2010 and 2009 amounted to \$238,361 and \$61,301, respectively.

During the years ended March 31, 2010 and 2009, there were write-offs of deferred costs of \$1,018,632 and \$1,289,092 and accumulated amortization of \$1,017,077 and \$952,723, respectively, which were related to discontinued assets.

NOTE 7 – Mortgage Notes Payable

The mortgage notes from operations are payable in aggregate monthly installments of approximately \$109,000, including principal and interest at rates varying from 1% to 7.9% per annum, through the year 2048. Each subsidiary partnership's mortgage note payable is collateralized by the land and buildings of the respective subsidiary partnership, the assignment of certain subsidiary partnership's rents and leases, and is without further recourse.

Certain mortgage notes with balances aggregating \$4,380,000 and \$4,560,000 at December 31, 2009 and 2008, respectively, which bear interest at rates ranging from 2.0% to 5.4% per annum, were eligible for interest rate subsidies. Accordingly, the subsidiary partnerships paid only that portion of the monthly

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2010**

payments that would be required if the interest rate was 1% and the balance was subsidized under Sections 236 and 551(b) of the National Housing Act.

Annual principal payment requirements on the mortgage notes from operations, as of March 31, 2010, for each of the next five fiscal years and thereafter, are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2010	\$ 805,172
2011	854,865
2012	2,768,977
2013	1,510,065
2014	372,986
Thereafter	<u>13,624,186</u>
	<u>\$ 19,936,251</u>

Accrued interest payable as of March 31, 2010 and 2009 was approximately \$11,601,000 and \$10,497,000, respectively. Interest accrues on all mortgage loans, which include primary and secondary loans. Certain secondary loans have provisions such that interest is accrued but not payable until a future date. The Partnership anticipates the payment of accrued interest on the secondary loans (which make up the majority of the accrued interest payable amount and which have been accumulating since the Partnership's investment in the respective Local Partnership) will be made from future refinancings or sales proceeds of the respective Local Partnerships.

The mortgage agreements from operations require monthly deposits to replacement reserves of approximately \$37,000 and monthly deposits to escrow accounts for real estate taxes, hazard and mortgage insurance and other (Note 5).

The mortgage notes from discontinued operations are payable in aggregate monthly installments of approximately \$15,000, including principal and interest at rates varying from 5.17% to 9% per annum, through the year 2010. Each subsidiary partnership's mortgage note payable is collateralized by the land and buildings of the respective subsidiary partnership, the assignment of certain subsidiary partnership's rents and leases, and is without further recourse.

Annual principal payment requirements on the mortgage notes from discontinued operations, as of March 31, 2010, for each of the next five fiscal years and thereafter, are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2010	\$ 3,129,354
2011	0
2012	0
2013	0
2014	0
Thereafter	<u>0</u>
	<u>\$ 3,129,354</u>

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2010**

Accrued interest payable from discontinued operations as of March 31, 2010 and 2009 was approximately \$497,000 and \$680,000, respectively. Interest accrues on all mortgage loans, which include primary and secondary loans. Certain secondary loans have provisions such that interest is accrued but not payable until a future date. The Partnership anticipates the payment of accrued interest on the secondary loans (which make up the majority of the accrued interest payable amount and which have been accumulating since the Partnership's investment in the respective Local Partnership) will be made from future refinancings or sales proceeds of the respective Local Partnerships.

NOTE 8 – Related Party Transactions

An affiliate of the General Partner, Independence SLP L.P., has a 0.1% interest as a special limited partner in each of the Local Partnerships. An affiliate of the General Partner also has a minority interest in certain Local Partnerships.

A) Other Related Party Expenses

The General Partner and its affiliates perform services for the Partnership. The costs incurred from operations for the years ended March 31, 2010 and 2009 were as follows:

	Years Ended March 31,	
	2010	2009*
Partnership management fees (i)	\$ 336,000	\$ 742,000
Expense reimbursement (ii)	166,059	244,875
Local administrative fee (iii)	<u>10,000</u>	<u>10,000</u>
Total general and administrative – General Partner	<u>512,059</u>	<u>996,875</u>
Property management fees incurred to affiliates of the Local General Partners	<u>395,401</u>	<u>389,440</u>
Total general and administrative – related parties	<u>\$ 907,460</u>	<u>\$ 1,386,315</u>

The General Partner and its affiliates perform services for the Partnership. The cost incurred from discontinued operations for the years ended March 31, 2010 and 2009 were as follows:

	Years Ended March 31,	
	2010	2009*
Local administrative fee (iii)	<u>\$ 12,500</u>	<u>\$ 27,117</u>
Total general and administrative-General Partners	<u>12,500</u>	<u>27,117</u>
Property management fees incurred to affiliates of the Local General Partners	<u>55,439</u>	<u>324,822</u>
Total general and administrative-related parties	<u>\$ 67,939</u>	<u>\$ 351,939</u>

\* Reclassified for comparative purposes.

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2010**

- (i) The General Partner is 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 Agreement), for administering the affairs of the Partnership. Subject to the foregoing limitation, the partnership management fee will be determined by the General Partner in its sole discretion based upon its review of the Partnership's investments. Unpaid partnership management fees for any year are to be deferred without interest and will be payable out of sales or refinancing proceeds only to the extent of available funds after payments on all Partnership liabilities have been made other than to those owed to the General Partner and its affiliates, and after the Limited Partners have received a 10% return on their capital contributions. During the year ended March 31, 2010, management deemed the unpaid partnership management fees related to sold properties uncollectible and wrote off approximately \$1,508,000, resulting in a non-cash General Partner contribution of the same amount. Partnership management fees owed to the General Partner amounting to approximately \$4,555,000 and \$6,219,000 were accrued and unpaid as of March 31, 2010 and 2009, respectively, and are included in the line item Due to general partners and affiliates on the consolidated balance sheets. Current year partnership management fees may be paid out of operating reserves or refinancing and sales proceeds. As such the General Partner cannot demand payment of the deferred fees except as noted above.
- (ii) The Partnership reimburses the General Partner and its affiliates for actual Partnership operating expenses incurred by the General Partner and its 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 Partner performs asset monitoring for the Partnership. These services include site visits and evaluations of the subsidiary partnerships' performance. The General Partner does not intend to demand payment of the deferred payables beyond the Partnership's ability to pay them. The Partnership anticipates that these will be paid from working capital reserves or future sales proceeds. Expense reimbursements owed to the General Partners and its affiliates amounting to approximately \$41,000 and \$963,000 were accrued and unpaid as of March 31, 2010 and 2009, respectively.
- (iii) Independence SLP L.P. is entitled to receive a local administrative fee of up to \$2,500 per year from each subsidiary partnership. As of March 31, 2010 and 2009, the subsidiary partnerships owed approximately \$154,000 and \$256,000, respectively, of these fees to Independence SLP L.P. These fees also have been deferred in certain cases and the Partnership anticipates that they will be paid from working capital reserves or future sales proceeds.

As of March 31, 2010, the Partnership owed \$80,000 to the Special Limited Partner for the fees it received from one Local Partnership on its behalf. As of March 31, 2009, the Partnership owed an affiliate of the General Partner approximately \$2,441,000 for operating advances. These advances were non-interest bearing and had no set repayment terms. The Partnership advanced these monies to one Local Partnership to fund its operations. These advances were repaid to the affiliate during the year ended March 31, 2010.

As of March 31, 2010 and 2009, 655 North Street L.P. owed an affiliate of the General Partner approximately \$23,000 and \$26,000, respectively, for advances under the Mark-to-Market program. In addition, as of March 31, 2009, Rolling Green owed an affiliate of the General Partner approximately \$341,000 for operating advances.

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2010**

B) Due to Local General Partners and Affiliates

Due to local general partners and affiliates included in operating liabilities consists of the following:

	March 31,	
	2010	2009
Operating advances	\$ 237,183	\$ 165,038
Development fee payable	163,223	163,223
Long-term notes payable (i)	111,548	129,274
Accrued interest on long-term notes payable	7,718	9,094
Management and other fees	185,979	279,214
	<u>\$ 705,651</u>	<u>\$ 745,843</u>

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

655 North Street L.P.

In December 2003, 655 North Street was refinanced as part of the mark-to-market program and the owner was required to make an additional investment. This capital recovery payment is payable over ten years with interest accruing at 7.5% per annum.

	\$ 111,548	\$ 129,274
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Due to local general partners and affiliates included in the discontinued liabilities consists of the following:

	March 31,	
	2010	2009
Operating deficit advances	\$ 0	\$ 1,204,533
Operating advances	496,961	245,311
Development fee payable	0	1,120,234
Long-term notes payable (ii)	0	979,770
Accrued interest on long-term notes payable	0	1,449,870
Management and other fees	28,309	301,619
Construction costs	0	6,393,608
	<u>\$ 525,270</u>	<u>\$ 11,694,945</u>

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2010**

(ii) Long-term notes payable included in the discontinued liabilities consist of the following:

Creative Choice Homes II, LTD. \$ 0 \$ 979,770

The first note bears interest at 7% payable monthly. Principal on the loan was due and payable in full on December 31, 2009. No payments were made during the current year on this note. Delinquent principal payments as of December 31, 2009 amounted to \$479,770, and thus, this note is technically in default. The second note bears interest at 12% payable monthly. Principal on the loan was due and payable in full on December 31, 2009. No payments were made during the current year on this note. Delinquent principal payments as of December 31, 2009 amounted to \$500,000, and thus, this note is technically in default. On January 1, 2010, the Partnership sold its limited partnership interest in Opa-Locka (see Note 10).

C) Other

Pursuant to the Partnership Agreement and the partnership agreements of the Local Partnerships, the General Partner and Independence SLP L.P. received their pro rata share of profits, losses and tax credits.

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2010**

NOTE 9 – Taxable Net Loss

Our adoption of FASB Interpretation (“FIN”) No. 48 did not have a material impact on the consolidated financial statements and does not impact our financial position at March 31, 2010.

A reconciliation of the financial statements net loss to the taxable net loss for the Partnership and its consolidated subsidiaries follows:

	<u>2009</u>	<u>2008</u>
Financial statement net loss	\$ (8,062,318)	\$ (4,894,349)
Differences between depreciation and amortization expense recorded for financial reporting purposes and the accelerated cost recovery system utilized for income tax purposes	(1,106,204)	(900,088)
Differences resulting from parent company having a different fiscal year for income tax and financial reporting purposes	330,258	(75,487)
Tax exempt interest income	(28,237)	(75,941)
Non-deductible loss on impairment of property	6,687,000	9,706,034
Difference resulting from forgiveness of related-party debt considered a General Partner contribution for financial purposes and income for tax purposes.	1,508,271	3,177,916
Difference between gain on sale of properties for financial reporting purposes and gain on sale for income tax purposes	16,083,681	(5,888,036)
Other, including related party accruals not deductible until paid	<u>(10,384,124)</u>	<u>(1,333,576)</u>
Taxable net income (loss) as shown on the income tax return for the calendar year ended	<u>\$ 5,028,327</u>	<u>\$ (283,527)</u>

No provision for income taxes related to the operations of the Partnership has been included in the accompanying financial statements because, as a partnership, it is not subject to federal or material state income taxes and the tax effect of its activities accrues to the BACsholders. Net income for financial statement purposes may differ significantly from taxable income reportable to BACsholders as a result of differences between the tax bases and financial reporting bases of assets and liabilities and the taxable income allocation requirements under its partnership agreement. In the event of an examination of the Partnership’s tax return, the tax liability of the partners could be changed if an adjustment in the Partnership’s income is ultimately sustained by the taxing authorities. At March 31, 2010, the tax basis net assets exceeded the financial statement net assets by approximately \$2,900,000 due to depreciation differences, impairments and related party advances.

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

### March 31, 2010

#### NOTE 10 – Sale of Properties

The Partnership is currently in the process of developing a plan to dispose all of its investments. It is anticipated that the process will continue to take a number of years. During the year ended March 31, 2010, one Local Partnership sold its property and the related assets and liabilities and the Partnership sold its limited partnership interest in one Local Partnership. Through March 31, 2010, four Local Partnerships have sold their property and the related assets and liabilities, the Partnership has sold its limited partnership interest in thirteen Local Partnerships and one Local Partnership has transferred the deed to the property and related assets and liabilities of such Local Partnership. In addition, two Local Partnerships have entered into agreements to sell their property and the related assets and liabilities. 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 January 1, 2010, the Partnership sold its limited partnership interest in Creative Choice Homes II, Ltd. (“Opa-Locka”) to an affiliate of the Local General Partner for a sales price of \$227,500. The sale resulted in a loss of approximately \$11,524,000 resulting from the write-off of the basis in the Local Partnership of approximately \$11,752,000 at the date of the sale and the receipt of \$227,500 in cash from the sale. The sale also resulted in a non-cash contribution to the Local Partnership from the Local General Partner of approximately \$10,574,000 as a result of the write-off of fees owed by the Local Partnership to the Local General Partner.

On September 30, 2009, the property and related assets and liabilities of Rolling Green were sold to an affiliate of the General Partner for a sales price of \$12,000,000. The Partnership received \$170,000 from this sale after the repayment of the mortgages, other liabilities and closing costs of approximately \$11,830,000. The distribution received was used to repay to the Partnership a portion of the funds advanced by it to Rolling Green. The sale resulted in a gain of approximately \$1,098,000 resulting from the write-off of the deficit basis in the property at the date of sale, which was recorded during the quarter ended December 31, 2009. An adjustment to the gain of approximately \$(15,000) was recorded during the quarter ended March 31, 2010, resulting in an overall gain of approximately \$1,083,000. The sale also resulted in a non-cash contribution to the Local Partnership from the Local General Partner of approximately \$221,000 as a result of the write-off of advances owed by Rolling Green to the Local General Partner.

On January 23, 2009, the Partnership sold its limited partnership interest in Plainsboro Housing Partners, L.P. (“Plainsboro”) to an affiliate of the Local General Partner for a sales price of \$1,401,000. During the quarter ended December 31, 2008, in accordance with ASC 360, *Property, Plant and Equipment* (“ASC 360”), the Partnership deemed the building impaired and wrote it down to its fair value, resulting in a loss on impairment of \$800,000. The sale resulted in a gain of approximately \$153,000 resulting from the write-off of the basis in the Local Partnership of approximately \$1,248,000 at the date of the sale and the receipt of \$1,401,000 in cash from the sale. The sale also resulted in a non-cash contribution to the Local Partnership from the General Partner of approximately \$3,000 as a result of write-off of the fees owed by the Local Partnership to an affiliate of the General Partner.

On December 31, 2008, the Partnership sold its limited partnership interest in Christine Apartments L.P. (“Christine Apartments”) to the Local General Partner for a sales price of \$50,000. The sale resulted in a gain of approximately \$737,000 resulting from the write-off of the deficit basis in the Local Partnership of approximately \$687,000 at the date of the sale and the receipt of \$50,000 in cash from the sale, which was recorded during the quarter ended December 31, 2008. An adjustment to the gain of approximately

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2010**

\$(5,000) was recorded during the quarter ended March 31, 2009, resulting in an overall gain of approximately \$732,000.

On December 17, 2008, the property and the related assets and liabilities of West Diamond Street Associates (“West Diamond”) were sold to an unaffiliated third party purchaser for a sales price of \$1 plus the assumption of the outstanding mortgage notes. The sale resulted in a gain of approximately \$1,066,000 resulting from the write-off of the deficit basis in the property at the date of sale.

On November 30, 2008, the Partnership sold its limited partnership interest in Conifer Bateman Associates (“Bateman Hotel”) to the Local General Partner for a sales price of \$50. The sale resulted in a loss of approximately \$87,000 resulting from the write-off of the basis in the Local Partnership of approximately \$87,000 at the date of the sale, which was recorded during the quarter ended December 31, 2008. An adjustment to the loss of approximately \$(5,000) was recorded during the quarter ended March 31, 2009, resulting in an overall loss of approximately \$82,000. The sale also resulted in a non-cash contribution to the Local Partnership from the General Partner of approximately \$14,000 as a result of write-off of the fees owed by the Local Partnership to an affiliate of the General Partner.

On October 21, 2008, the Partnership sold its limited partnership interest in Lancaster Terrace L.P. (“Lancaster”) to the Local General Partner for a sales price of \$1,564,990. The sale resulted in a gain of approximately \$904,000 resulting from the write-off of the basis in the Local Partnership of approximately \$660,000 at the date of the sale and the receipt of \$1,564,190 in cash from the sale, which was recorded during the quarter ended December 31, 2008. An adjustment to the gain of approximately \$111,000 was recorded during the quarter ended March 31, 2009, resulting in an overall gain of approximately \$1,015,000. The sale also resulted in a non-cash contribution to the Local Partnership from the General Partner of approximately \$2,000 as a result of write-off of the fees owed by the Local Partnership to an affiliate of the General Partner.

On October 17, 2008, the Partnership sold its limited partnership interest in Bethel Villa Associates, L.P. (“Bethel Villa”) to the Local General Partner for a sales price of \$750,000. During the quarters ended March 31, 2008 and December 31, 2008, in accordance with ASC 360, the Partnership deemed the building impaired and wrote it down to its fair value, which resulted in a loss on impairment of \$5,000,000 and \$720,000, respectively. The sale resulted in a loss of approximately \$28,000 resulting from the write-off of the basis in the Local Partnership of approximately \$778,000 at the date of the sale and the receipt of \$750,000 in cash from the sale, which was recorded during the quarter ended December 31, 2008. An adjustment to the loss of approximately \$373,000 was recorded during the quarter ended March 31, 2009, resulting in an overall gain of approximately \$345,000.

On August 22, 2008, the Partnership sold its limited partnership interest in Lares Apartments Limited Partnership (“Lares”) to the Local General Partner for a sales price of \$125,000. The sale resulted in a gain of approximately \$691,000 resulting from the write-off of the deficit basis in the Local Partnership at the date of the sale of approximately \$566,000 and the receipt of \$125,000 in cash from the sale, which was recorded during the quarter ended December 31, 2008. An adjustment to the gain of approximately \$(31,000) was recorded during the quarter ended March 31, 2009, resulting in an overall gain of approximately \$660,000.

On August 22, 2008, the Partnership sold its limited partnership interest in Lajas Apartments Limited Partnership (“Lajas”) to the Local General Partner for a sales price of \$121,250. The sale resulted in a gain of approximately \$690,000, resulting from the write-off of the deficit basis in the Local Partnership at the date of the sale of approximately \$568,000 and the receipt of \$121,730 in cash from the sale, which was recorded during the quarter ended December 31, 2008. An adjustment to the gain of approximately

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

### March 31, 2010

\$(40,000) was recorded during the quarter ended March 31, 2009, resulting in an overall gain of approximately \$650,000.

On May 6, 2008, the Partnership sold its limited partnership interest in Susquehanna Partners (“Susquehanna”) to an affiliate of the Local General Partner for a sales price of \$1. During the quarter ended March 31, 2008, in accordance with ASC 360, the Partnership deemed the building impaired and wrote it down to its fair value, which resulted in a loss on impairment of \$630,000. The sale resulted in a loss of approximately \$49,000, resulting from the write-off of the basis in the Local Partnership of approximately \$49,000 at the date of the sale, which was recorded during the quarter ended June 30, 2008. Adjustments to the loss of approximately \$(1,000) and \$(37,000) were recorded during the quarters ended September 30, 2008 and March 31, 2009, resulting in an overall loss of approximately \$11,000. The sale also resulted in a non-cash contribution to the Local Partnership from the General Partner of approximately \$41,000 as a result of write-off of the fees owed by the Local Partnership to an affiliate of the General Partner.

On April 1, 2008, the Partnership sold its limited partnership interest in Landreth Venture (“Landreth”) to the Local General Partner for a sales price of \$17,500. During the year ended March 31, 2009 and 2008, in accordance with ASC 360, the building was deemed impaired and written down to its fair value, resulting in a loss on impairment of approximately \$3,000,000 and \$730,000, respectively. The sale resulted in a gain of approximately \$10,000, resulting from the write-off of the basis in the Local Partnership at the date of the sale of approximately \$7,000 and the \$17,500 cash received from the sale, which was recorded during the quarter ended June 30, 2008. Adjustments to the gain of approximately \$1,000 and \$3,009,000 were recorded during the quarter ended September 30, 2008 and March 31, 2009, resulting in an overall gain of approximately \$3,020,000.

On March 20, 2008, the property and the related assets and liabilities of Homestead Apartments Associates Ltd. (“Homestead”) were sold to an unaffiliated third party purchaser for a sales price of \$4,000,000. The Partnership received \$32,500 as a distribution from this sale after the repayment of the mortgages, other liabilities and closing costs of approximately \$3,967,500. The sale resulted in a gain of approximately \$75,000 resulting from the write-off of the deficit basis in the property at the date of sale, which was recorded during the quarter ended June 30, 2008. Adjustments to the gain of approximately \$201,000, \$(7,000) and \$(324,000) were recorded during the quarters ended September 30, 2008, December 31, 2008 and March 31, 2009, resulting in an overall loss of approximately \$55,000.

On November 30, 2007, the property and the related assets and liabilities of Harbor Court Limited Partnership (“Harbor Court”) were sold to an unaffiliated third party purchaser for a sales price of \$2,100,000. The Partnership received \$1,991,996 as a distribution from this sale after the repayment of other liabilities, closing costs and distributions to minority interests of approximately \$108,000. The sale resulted in a gain of approximately \$1,260,000, which was recorded during the quarter ended March 31, 2008. An adjustment to the gain of approximately \$(49,000) was recorded during the quarter ended June 30, 2009, resulting in an overall gain of approximately \$1,211,000. The sale also resulted in a non-cash distribution to the Local General Partner of approximately \$199,000 as a result of the write-off of receivables from the Local General Partner to Harbor Court.

#### NOTE 11 – Assets Held for Sale

On January 1, 2010, Cloisters Limited Partnership II (“Cloisters”) 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 \$1,800,000. As of December 31, 2009, Cloisters had property and equipment, at cost, of approximately \$795,000 and accumulated depreciation of approximately \$120,000.

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2010**

On April 1, 2008, Homestead Apartments Associates II Ltd. (“Homestead II”) 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 \$4,000,000. During the quarter ended March 31, 2010, in accordance with ASC 360, the Partnership deemed the building impaired and wrote it down to its fair value, which resulted in a loss on impairment of \$1,607,000. The sale is contingent upon receiving an allocation of HOME funds, which Homestead II has applied for and expects to receive in July 2010. As of December 31, 2009, Homestead II had property and equipment, at cost, of approximately \$3,987,000, accumulated depreciation of approximately \$2,076,000 and mortgage debt of approximately \$3,129,000.

NOTE 12 – Selected Quarterly Financial Data (Unaudited)

The following table summarizes the Partnership’s quarterly results of operations for the years ended March 31, 2010 and 2009.

OPERATIONS	Quarter Ended			
	June 30, 2009*	September 30, 2009*	December 31, 2009*	March 31, 2010
Revenues	\$ 1,766,188	\$ 1,773,653	\$ 1,768,518	\$ 1,698,606
Operating expenses	<u>(2,426,302)</u>	<u>(2,263,427)</u>	<u>(2,129,135)</u>	<u>(7,285,705)</u>
Loss from operations	(660,114)	(489,774)	(360,617)	(5,587,099)
Income (loss) from discontinued operations	<u>62,315</u>	<u>382,569</u>	<u>407,613</u>	<u>(11,751,310)</u>
Net (loss) income	(597,799)	(107,205)	46,996	(17,338,409)
Net loss attributable to noncontrolling interests from operations	4,852	2,639	1,413	56,060
Net (income) loss attributable to noncontrolling interests from discontinued operations	<u>\$ (197,555)</u>	<u>\$ (760,374)</u>	<u>\$ 9,156</u>	<u>\$ 10,817,908</u>
Net (loss) income attributable to Independence Tax Credit Plus L.P.	<u>\$ (790,502)</u>	<u>\$ (864,940)</u>	<u>\$ 57,565</u>	<u>\$ (6,464,441)</u>
Net (loss) income – limited partnership	<u>\$ (782,597)</u>	<u>\$ (856,291)</u>	<u>\$ 56,989</u>	<u>\$ (6,399,796)</u>
Loss per weighted average BAC from operations	\$ (8.45)	\$ (6.28)	\$ (4.63)	\$ (71.31)
(Loss) income per weighted average BAC from discontinued operation	<u>(1.74)</u>	<u>(4.87)</u>	<u>5.37</u>	<u>(12.04)</u>
Net (loss) income per weighted average BAC	<u>\$ (10.19)</u>	<u>\$ (11.15)</u>	<u>\$ 0.74</u>	<u>\$ (83.35)</u>

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2010**

OPERATIONS	Quarter Ended			
	June 30, 2008*	September 30, 2008*	December 31, 2008*	March 31, 2009*
Revenues	\$ 1,674,173	\$ 1,689,920	\$ 1,757,358	\$ 1,659,174
Operating expenses	<u>(2,558,247)</u>	<u>(2,433,729)</u>	<u>(2,253,585)</u>	<u>(2,636,445)</u>
Loss from operations	(884,074)	(743,809)	(496,227)	(977,271)
(Loss) income from discontinued operations	<u>(440,343)</u>	<u>223,905</u>	<u>1,117,336</u>	<u>(3,614,810)</u>
Net (loss) income	(1,324,417)	(519,904)	621,109	(4,592,081)
Net loss attributable to noncontrolling interests from operations	570	936	431	2,566
Net (income) loss attributable to noncontrolling interest from discontinued operations	<u>\$ (864,019)</u>	<u>\$ 6,809</u>	<u>\$ (460,479)</u>	<u>\$ 2,234,130</u>
Net (loss) income attributable to Independence Tax Credit Plus L.P.	<u>\$ (2,187,866)</u>	<u>\$ (512,159)</u>	<u>\$ 161,061</u>	<u>\$ (2,355,385)</u>
Net (loss) income – limited partnership	<u>\$ (2,165,987)</u>	<u>\$ (507,038)</u>	<u>\$ 159,450</u>	<u>\$ (2,331,830)</u>
Loss per weighted average BAC from operations	\$ (11.39)	\$ (9.58)	\$ (6.39)	\$ (12.57)
(Loss) income per weighted average BAC from discontinued operation	<u>(16.82)</u>	<u>2.98</u>	<u>8.47</u>	<u>(17.80)</u>
Net (loss) income per weighted average BAC	<u>\$ (28.21)</u>	<u>\$ (6.60)</u>	<u>\$ 2.08</u>	<u>\$ (30.37)</u>

\* Reclassified for comparative purposes.

**NOTE 13 – Commitments and Contingencies**

**a) Going Concern Consideration**

At March 31, 2010, the Partnership's liabilities exceeded assets by \$19,685,257 and for the 2009 year incurred a net loss of \$17,996,417, including loss on sale of properties of \$10,489,922 and loss on impairment of properties of \$6,687,000. These factors raise substantial doubt about the Partnership's ability to continue as a going concern. As discussed in Note 8, partnership management fees of approximately \$4,555,000 will be payable out of sales or refinancing proceeds only to the extent of available funds after payments on all other Partnership liabilities have been made and after the Limited Partners have received a 10% return on their capital contributions. As such, the General Partner cannot demand payment of these deferred fees beyond the Partnership's ability to pay them. In addition, where the Partnership has unpaid partnership management fees related to sold properties, such management fees are written off and

## **Notes to Consolidated Financial Statements** *(continued)* **March 31, 2010**

recorded as capital contributions. During the year ended March 31, 2010, the Partnership wrote off approximately \$1,508,000 of such management fees.

All of the mortgage payable balance of \$23,065,605 and the accrued interest payable balance of \$12,097,579 is of a nonrecourse nature and secured by the respective properties. The Partnership is currently in the process of developing a plan to dispose all of its investments. Historically, the mortgage notes and accrued interest thereon have been assumed by the buyer in instances of sales of the Partnership's interest or have been paid off from sales proceeds in instances of sales of the property. In most instances when the Partnership's interest was sold and liabilities were assumed, the Partnership recognized a gain from the sale. The Partnership owns the limited partner interest in all its investments, and as such has no financial responsibility to fund operating losses incurred by the Local Partnerships. The maximum loss the Partnership would incur is its net investment in the respective Local Partnerships. Dispositions of any investment in a Local Partnership should not impact the future results of operations, liquidity, or financial condition of The Partnership.

The Partnership has working capital reserves of approximately \$1,366,000 at March 31, 2010. Such amount is considered sufficient to cover the Partnership's day to day operating expenses, excluding fees to the General Partner, for at least the next year. The Partnership's operating expenses, excluding the Local Partnerships' expenses and related party expenses amounted to approximately \$170,000 for the year ended March 31, 2010.

Management believes the above mitigating factors enable the Partnership to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### **b) Subsidiary Partnerships – Going Concern**

#### Creative Choice Homes II L.P. (“Opa-Locka”)

The Partnership sold its limited partnership interest in Opa-Locka on January 1, 2010 (see Note 10 in Item 8). Prior thereto, the financial statements for Opa-Locka were prepared assuming that Opa-Locka would continue as a going concern. Opa-Locka was in default on its third and fourth mortgage notes, which were incurred to affiliates of the Local General Partner. The Local General Partner had not sent a notice of default with respect to the notes as of the year ended March 31, 2010 and would have been unable to call the notes until the first and second mortgage notes were paid in full. In addition, the current liabilities exceeded the current assets by approximately \$8,700,000. These conditions raised substantial doubt about Opa-Locka's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if Opa-Locka had been unable to continue as a going concern.

The Partnership's investment in Opa-Locka at March 31, 2010 and 2009 was reduced to zero as a result of prior years' losses, and the noncontrolling interest balance was \$0 and \$5,000 at each date. Opa-Locka's net income after noncontrolling interest amounted to approximately \$554,000 and \$487,000 for the 2009 and 2008 Fiscal Years.

#### Morrant Bay Limited Partnership (“Morrant Bay”)

The financial statements for Morrant Bay have been prepared assuming that Morrant Bay will continue as a going concern. Morrant Bay has been experiencing higher operating costs, attributable in part to escalating energy and repair costs. These conditions, in addition to regulatory rent restrictions imposed under HUD guidelines, has resulted in operating cash flow not meeting all current obligations as they become due. At December 31, 2009, current liabilities exceed current assets by approximately \$773,000.

## **Notes to Consolidated Financial Statements** *(continued)* **March 31, 2010**

This raises doubt as to whether Marrant Bay will be able to continue as a going concern. Management continually monitors operating costs and will request additional rent increases when allowed by HUD. Additionally, management is in the process of evaluating refinancing plans. During 2008, Marrant Bay entered into negotiations with a local non-profit to re-syndicate the property. In connection with this, Marrant Bay is negotiating with the General Partner to redeem the Partnership's interest in Marrant Bay for a nominal amount. There can be no assurance if or when such negotiations will result in a sale of the limited partnership's interests.

The Partnership's investment in Marrant Bay at March 31, 2010 and 2009 was reduced to zero as a result of prior years' losses and the noncontrolling interest balance was approximately \$(231,000) and \$(228,000) for the 2009 and 2008 Fiscal Years, respectively. Marrant Bay's net loss after noncontrolling interest amounted to approximately \$288,000 and \$474,000 for the 2009 and 2008 Fiscal Years. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### Boston Bay Limited Partnership ("Boston Bay")

The financial statements for Boston Bay have been prepared assuming that Boston Bay will continue as a going concern. Boston Bay has been experiencing higher operating costs, attributable in part to escalating energy and repair costs. These conditions, in addition to regulatory rent restrictions imposed under HUD guidelines, has resulted in operating cash flow not meeting all current obligations as they become due. At December 31, 2009, current liabilities exceed current assets by approximately \$299,000. This raises doubt as to whether Boston Bay will be able to continue as a going concern. Management continually monitors operating costs and will request additional rent increases when allowed by HUD. Additionally, management is in the process of evaluating refinancing plans. During 2008, Boston Bay entered into negotiations with a local non-profit to re-syndicate the property. In connection with this, Boston Bay is negotiating with the General Partner to redeem the Partnership's interest in Boston Bay for a nominal amount. There can be no assurance if or when such negotiations will result in a sale of the limited partnership's interests.

The Partnership's investment in Boston Bay at March 31, 2010 and 2009 was reduced to zero as a result of prior years' losses and the noncontrolling interest balance was approximately \$(89,000) and \$(87,000) for the 2009 and 2008 Fiscal Years, respectively. Boston Bay's net loss after noncontrolling interest amounted to approximately \$187,000 and \$342,000 for the 2009 and 2008 Fiscal Years. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### Other

The Partnership's investment as a limited partner in the Local Partnerships is subject to the risks incident to the potential losses arising from management and ownership of improved real estate. The Partnership's investments also could be adversely affected by poor economic conditions, generally, which could increase vacancy levels and rental payment defaults and by increased operating expenses, any or all of which could threaten the financial viability of one or more of the Local Partnerships.

There also are substantial risks associated with the operations of Apartment Complexes receiving government assistance. These include governmental regulations concerning tenant eligibility, which may make it more difficult to rent apartments in the Apartment Complexes; difficulties in obtaining government approval for rent increases; limitations on the percentage of income which low and moderate-income tenants may pay as rent; the possibility that Congress may not appropriate funds to enable HUD to make the rental assistance payments it has contracted to make; and that when the rental assistance

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2010**

contracts expire there may not be market demand for apartments at full market rents in a Local Partnership's Apartment Complex.

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.

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 \$250,000. As of March 31, 2010, uninsured cash and cash equivalents approximated \$1,116,000.

d) Cash Distributions

Cash distributions from the Local Partnerships to the Partnership are restricted by the provisions of the respective partnership agreements of the Local Partnerships and the U.S. Department of Housing and Urban Development ("HUD") based on operating results and a percentage of the owner's equity contribution. Such cash distributions are typically made for surplus cash flow.

e) Tax Credits

The Partnership is subject to the risks incident to potential losses arising from the management and ownership of improved real estate. The Partnership can also be affected by poor economic conditions generally; however, no more than 30% of the properties are located in any single state. There are also substantial risks associated with owning properties receiving government assistance; for example, the possibility that Congress may not appropriate funds to enable HUD to make rental assistance payments. HUD also restricts annual cash distributions to partners based on operating results and a percentage of the owner's equity contribution. The Partnership cannot sell or substantially liquidate its investments in subsidiary partnerships during the period that the subsidy agreements are in existence without HUD's approval. Furthermore, there may not be market demand for apartments at full market rents when the rental assistance contracts expire.

The Partnership and BACs holders began to recognize Tax Credits with respect to an Apartment Complex when the Credit Period for such Apartment Complex commenced. As of December 31, 2007, all Credit Periods expired. However, each Local Partnership must continue to comply with the Tax Credit requirements until the end of the Compliance Period in order to avoid recapture of the Tax Credits. The Compliance Periods will continue through December 31, 2013 with respect to the Properties depending upon when the Tax Credit Periods commenced.

f) Property Management Fees

Property management fees incurred by the subsidiary partnerships amounted to \$686,957 and \$1,035,476 for the years ended March 31, 2010 and 2009, respectively. Of these fees, \$450,840 and \$714,262 were incurred to affiliates of the general partners of the Local Partnerships (the "Local General Partners") which includes \$55,439 and \$324,882 of fees relating to discontinued operations.

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2010**

g) Subsequent Events

We evaluated all subsequent events from the date of the balance sheet through June 24, 2010, which represent the issuance date of these financial statements. There were no events or transactions occurring during this subsequent event reporting period, which require recognition or disclosure in the financial statements.

NOTE 14 – Discontinued Operations

The following table summarizes the financial position of the Local Partnerships that are classified as discontinued operations because the respective Local Partnerships were classified as assets held for sale. As of March 31, 2010, Homestead II, Rolling Green, Opa-Locka and Cloisters were classified as discontinued operations on the consolidated balance sheets. As of March 31, 2009, Homestead II, Rolling Green and Opa-Locka were classified as discontinued operations on the consolidated balance sheets.

Consolidated Balance Sheets:

	March 31,	
	<u>2009</u>	<u>2008</u>
<b>Assets</b>		
Property and equipment – less accumulated depreciation of \$2,238,886 and \$21,815,503, respectively	\$ 2,606,404	\$ 29,015,203
Cash and cash equivalents	18,806	38,131
Cash held in escrow	96,533	3,571,222
Deferred costs, net of accumulated amortization of \$90,269 and \$868,985, respectively	4,528	237,862
Other assets	<u>47,348</u>	<u>398,927</u>
<b>Total assets</b>	<u>\$ 2,773,619</u>	<u>\$ 33,261,345</u>
<b>Liabilities</b>		
Mortgage notes payable	\$ 3,129,354	\$ 19,248,504
Accounts payable	184,224	2,685,081
Accrued interest payable	496,971	680,348
Security deposit payable	71,657	140,490
Due to local general partners and affiliates	525,270	11,694,945
Due to general partners and affiliates	<u>55,000</u>	<u>489,288</u>
<b>Total liabilities</b>	<u>\$ 4,462,476</u>	<u>\$ 34,938,656</u>

The following table summarizes the results of operations of the Local Partnerships that are classified as discontinued operations. For the year ended March 31, 2010, Rolling Green and Opa-Locka, which were sold during the current year, and Homestead II and Cloisters, which were classified as assets held for sale, were all classified as discontinued operations in the consolidated financial statements. For the year ended March 31, 2009, Plainsboro, Lancaster, Bateman Hotel, West Diamond, Bethel Villa, Christine Apartments, Lares, Lajas, Landreth and Susquehanna, which were sold during the current year, Homestead, which was sold during the year ended March 31, 2008, and Homestead II, Rolling Green and Opa-Locka, which were classified as assets held for sale, and Cloisters, in order to present comparable results

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2010**

to the year ended March 31, 2010, were all classified as discontinued operations in the consolidated financial statements.

Consolidated Statements of Discontinued Operations:

	<u>Years Ended March 31,</u>	
	<u>2010</u>	<u>2009</u>
Revenues		
Rental income	\$ 7,014,291	\$ 11,713,514
Other (Note 2)	1,308,864	943,121
(Loss) gain on sale of property (Note 10)	<u>(10,489,922)</u>	<u>7,494,728</u>
Total revenue	<u>(2,166,767)</u>	<u>20,151,363</u>
Expenses		
General and administrative	1,490,895	2,666,116
General and administrative-related parties (Note 8)	67,939	351,939
Repairs and maintenance	2,199,899	3,193,924
Operating and other	739,431	1,267,779
Insurance	424,820	838,295
Taxes	732,483	1,086,508
Interest	1,229,914	1,959,067
Depreciation and amortization	239,665	1,795,614
Loss on impairment of assets	<u>1,607,000</u>	<u>9,706,033</u>
Total expenses	<u>8,732,046</u>	<u>22,865,275</u>
Loss from discontinued operations	(10,898,813)	(2,713,912)
Noncontrolling interest in loss of subsidiaries from discontinued operations	<u>9,869,135</u>	<u>916,441</u>
Loss from discontinued operations – Independence Tax Credit Plus LP II	<u>\$ (1,029,678)</u>	<u>\$ (1,797,471)</u>
Loss – limited partners from discontinued operations	<u>\$ (1,019,381)</u>	<u>\$ (1,779,496)</u>
Number of BACs outstanding	<u>76,786</u>	<u>76,786</u>
Loss from discontinued operations per BAC	<u>\$ (13.28)</u>	<u>\$ (23.17)</u>

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

### March 31, 2010

Cash Flows from Discontinued Operations:

	<u>Years Ended March 31,</u>	
	<u>2010</u>	<u>2009*</u>
Net cash used in operating activities	\$ (10,823,066)	\$ (15,664,434)
Net cash provided by investing activities	\$ 21,830,230	\$ 13,430,473
Net cash used in financing activities	\$ (20,306,756)	\$ (6,629,178)

\* Reclassified for comparative purposes.

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

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

(A copy of Form 10-K is available upon written request)

### Liquidity and Capital Resources

As of March 31, 2010, approximately \$59,700,000 (not including acquisition fees of approximately \$4,500,000) of the net proceeds of the Offering has been invested in Local Partnerships. The Partnership is currently in the process of developing a plan to dispose all of its investments. It is anticipated that the process will continue to take a number of years. During the year ended March 31, 2010, one Local Partnership sold its property and the related assets and liabilities and the Partnership sold its limited partnership interest in one Local Partnership. Through March 31, 2010, four Local Partnerships have sold their property and the related assets and liabilities, the Partnership has sold its limited partnership interest in thirteen Local Partnerships and one Local Partnership transferred the deed to the property and related assets and liabilities of such Local Partnership. In addition, two Local Partnerships entered into agreements to sell their property and the related assets and liabilities (see Notes 10 and 11 in Item 8). 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. All gains and losses on sales are included in discontinued operations.

### Short-Term

During the year ended March 31, 2010, 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. The Partnership does not anticipate providing cash distributions to BACs holders in circumstances other than refinancing or sales. Cash distributions received from the Local Partnerships, as well as the working capital reserves referred to above have been minimal but will be used towards the future operating expenses of the Partnership. During the years ended March 31, 2010 and 2009, the amounts received from operations of the Local Partnerships were approximately \$0

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

and \$75,000, respectively. Additionally, during the years ended March 31, 2010 and 2009, the Partnership received approximately \$170,000 and \$33,000 of distributions from the sale of properties and approximately \$228,000 and \$3,979,000 in proceeds from the sale of Local Partnerships' limited partnership interest, respectively. The Partnership does not anticipate being able to make distributions sufficient to return to BACs holders their original capital contributions.

During the year ended March 31, 2010, cash and cash equivalents of the Partnership and its consolidated subsidiary partnership decreased approximately \$3,672,000. This decrease is due to net cash used in operating activities (\$1,640,000), costs related to sales (\$308,000), acquisitions of property and equipment (\$824,000), repayments of mortgage notes (\$11,454,000), a net decrease in due to local general partners and affiliates relating to investing and financing activities (\$785,000), an increase in deferred costs (\$7,000) and a decrease in capitalization of consolidated subsidiaries attributable to noncontrolling interest (\$5,000), which exceeded net proceeds from sales (\$10,922,000) and a decrease in cash held in escrow (\$428,000). Included in the adjustments to reconcile the net loss to net cash used in operating activities are depreciation and amortization (\$1,645,000), loss on sale of properties (\$10,490,000) and loss on impairment of properties (\$6,687,000).

Total expenses from operations for the years ended March 31, 2010 and 2009, excluding depreciation and amortization, interest, general and administrative-related parties and loss on impairment of property, totaled \$5,221,402 and \$5,650,721, respectively.

Accounts payable from operations as of March 31, 2010 and 2009 were \$1,139,138 and \$1,181,205, 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. Accounts payable from discontinued operations totaled \$184,224 and \$2,685,081 as of March 31, 2010 and 2009, respectively. Accrued interest payable from operations as of March 31, 2010 and 2009 was \$11,600,608 and \$10,496,943, 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. Accrued interest payable from discontinued operations totaled \$496,971 and \$680,348 as of March 31, 2010 and 2009, respectively. The Partnership anticipates the payment of accrued interest on the secondary loans (which make up the majority of the accrued interest payable amount owed and which have been accumulating since the Partnership's investment in the respective Local Partnership) will be made from future refinancings or sales proceeds of the respective Local Partnerships. In addition, each Local Partnership's mortgage notes are collateralized by the land and buildings of the respective Local Partnership, and are without further recourse to the Partnership.

Because the provisions of the secondary loans defer the payment of accrued interest of the respective Local Partnerships, the Partnership believes it (and the applicable Local Partnerships) has sufficient liquidity and ability to generate cash and to meet existing and known or reasonably likely future cash requirements over both the short and long term. In addition, assuming the General Partner continues to defer the payment of fees as discussed below and in Note 8 to the Financial Statements in Item 8, the Partnership believes it 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.

The Partnership's unconsolidated working capital reserve at March 31, 2010 was approximately \$1,366,000.

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

### Long-Term

Partnership management fees owed to the General Partner amounting to approximately \$4,555,000 and \$6,219,000 were accrued and unpaid as of March 31, 2010 and 2009, respectively, and are included in the line item titled Due to general partners and affiliates on the Consolidated Balance Sheets. During the year ended March 31, 2010, management deemed the unpaid partnership management fees related to sold properties uncollectible and wrote off approximately \$1,508,000, resulting in a non-cash General Partner contribution of the same amount. Unpaid partnership management fees for any year are to be deferred without interest and will be payable out of sales or refinancing proceeds only to the extent of available funds after payments on all Partnership liabilities have been made other than to those owed to the General Partner and its affiliates, and after the Limited Partners have received a 10% return on their capital contributions.

All other amounts included in Due to General Partner and affiliates are expected to be paid, if at all, from working capital reserves. The General Partner does not anticipate advancing going forward any operating funds to any of the Local Partnerships in which the Partnership has invested. Even if a situation arose where the General Partner and its affiliates needed to but were not able to make operating advances in the future due to lack of funds, the only impact on the Partnership would be that it would lose its investment in that particular Local Partnership. The Partnership's ability to continue its operations would not be affected.

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

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 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. The Partnership had fully invested the proceeds of its Offering in twenty eight Local Partnerships, all of which had their Tax Credits fully in place. As of December 31, 2007, all Credit Periods had expired. The Compliance Periods will continue through December 31, 2013 with respect to the Properties depending upon when the Tax Compliance Periods commenced.

### Discontinued Operations

For a discussion of discontinued operations, see Note 14 in Item 8.

### Sale of Underlying Properties/Local Partnership Interests

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

### Tabular Disclosure of Contractual Obligations

The following table summarizes the Partnership's commitments as of March 31, 2010 to make future payments under its debt agreements and other contractual obligations.

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

	<u>Total</u>	<u>Less than 1 Year</u>	<u>1 – 3 Years</u>	<u>3 - 5 Years</u>	<u>More than 5 Years</u>
Mortgage notes payable (a)	\$ 19,936,251	\$ 805,172	\$ 3,623,842	\$ 1,883,051	\$ 13,624,186
Long term notes payable (b)	<u>111,548</u>	<u>17,726</u>	<u>46,911</u>	<u>46,911</u>	<u>0</u>
	<u>\$ 20,047,799</u>	<u>\$ 822,898</u>	<u>\$ 3,670,753</u>	<u>\$ 1,929,962</u>	<u>\$ 13,624,186</u>

- (a) The mortgage notes are payable in aggregate monthly installments of approximately \$109,000, including principal and interest at rates varying from 1% to 8.58% per annum, through the year 2048. Each subsidiary partnership's mortgage note payable is collateralized by the land and buildings of the respective subsidiary partnership, the assignment of certain subsidiary partnerships' rents and leases, and is without further recourse.
- (b) See Note 8 (B) i in Item 8. Financial Statements and Supplementary Data.

The following table summarizes the Partnership's commitments from discontinued operations as of March 31, 2010 to make future payments under its debt agreements and other contractual obligations.

	<u>Total</u>	<u>Less than 1 Year</u>	<u>1 – 3 Years</u>	<u>3 - 5 Years</u>	<u>More than 5 Years</u>
Mortgage notes payable (a)	\$ 3,129,354	\$ 3,129,354	\$ 0	\$ 0	\$ 0
	<u>\$ 3,129,354</u>	<u>\$ 3,129,354</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

- (a) The mortgage notes are payable in aggregate monthly installments of approximately \$15,000, including principal and interest at rates varying from 5.17% to 9% per annum, through the year 2010. Each subsidiary partnership's mortgage note payable is collateralized by the land and buildings of the respective subsidiary partnership, the assignment of certain subsidiary partnerships' rents and leases, and is without further recourse.

### Off-Balance Sheet Arrangements

The Partnership has no off-balance sheet arrangements.

### 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 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 this annual report on Form 10-K.

### Property and Equipment

Property and equipment to be held and used are carried at cost which includes the purchase price, acquisition fees and expenses, construction period interest and any other costs incurred in acquiring the Properties. The cost of property and equipment is depreciated over their estimated useful lives using accelerated and straight-line methods. Expenditures for repairs and maintenance are charged to expense as incurred; major renewals and betterments are capitalized. At the time property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are eliminated from the assets and accumulated depreciation accounts and the profit or loss on such disposition is reflected in earnings. The Partnership complies with ASC 360, *Property, Plant and Equipment* ("ASC 360"). A loss on impairment of assets is recorded when management estimates amounts recoverable through future operations

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

and sale of the Property on an undiscounted basis is below depreciated cost. At that time, 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.

At the time management commits to a plan to dispose of assets, said assets are adjusted to the lower of their carrying amount or fair value less costs to sell. These assets are classified as property and equipment-held for sale and are not depreciated. Property and equipment that are held for sale are included in discontinued operations. There are two assets classified as property and equipment-held for sale as of March 31, 2010 (see Note 11 in Item 8).

During the years ended March 31, 2010 and 2009, the Partnership recorded approximately \$6,687,000 and \$9,706,000, respectively, as an aggregate loss on impairment of assets. Through March 31, 2010, the Partnership has recorded approximately \$24,418,000 as an aggregate loss on impairment of assets.

### Revenue Recognition

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

Other revenues are recorded when earned and consist of the following items: Interest income earned on cash and cash equivalent balances and cash held in escrow balances, income from forfeited security deposits, late charges, laundry and vending income and other rental related items (see Note 2f in Item 8).

### Income Taxes

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

### Recent Accounting Pronouncements

In January, 2010, the FASB issued under Topic 820, *Fair Value Measurements and Disclosures*, ASU 2010-06, "Improving Disclosures about Fair Value Measurements". This ASU reports on new disclosure requirements — and clarifications of existing requirements — under ASC Subtopic 820-10 (originally issued as FAS 157). The new disclosure requirements apply to interim and annual reporting periods beginning after December 15, 2009, with one exception: The new rules regarding purchases, sales, issuances and settlements associated with Level 3 measurements will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this accounting standard is not expected to have a material effect on the Partnership's consolidated financial statements.

In January 2010, the FASB issued under ASC Topic 810, *Consolidation*, ASU 2010-02, *Accounting and Reporting for Decreases in Ownership of a Subsidiary – a Scope Clarification*. The objective of ASU 2010-02 is to address implementation issues related to changes in ownership provisions. This ASU clarifies that decreases in ownership provisions within ASC Topic 810-10 applies to a) a subsidiary or group of assets that is a business or nonprofit activity, b) a subsidiary that is a business or nonprofit activity that

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

is transferred to an equity method investee or joint venture or c) an exchange of a group of assets that constitutes a business or nonprofit activity for a non-controlling interest in an entity (including equity method investee or joint venture). This ASU clarifies that the decrease in ownership guidance within ASC Topic 810-10 does not apply to the following transactions even if they involve businesses: a) sales in substance of real estate and b) conveyances of oil and gas mineral rights. This ASU also expands disclosure requirements for the deconsolidation of a subsidiary or derecognition of a group of assets within the scope of ASC Topic 810-10. This ASU is effective in the period in which an entity adopts Statement of Financial Accounting Standards (SFAS) No. 160, *Non-controlling Interests in Consolidated Financial Statements*. If an entity has previously adopted SFAS 160, the amendments in this update are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. Retrospective application to the first period that an entity adopted SFAS 160 is required. The adoption of this accounting standard did not have a material effect on the Partnership's consolidated financial statements.

On August 26, 2009, the FASB issued *Accounting Standard Update (ASU) 2009-05, Measuring Liabilities at Fair Value*, to clarify how entities should estimate the fair value of liabilities under the ASC Topic 820, *Fair Value Measurements and Disclosures*. The amendments in ASU 2009-05 reduce potential ambiguity in financial reporting when measuring the fair value of liabilities. Therefore, preparers, investors, and other users of financial statements will have a better understanding of how the fair value of liabilities was measured, helping to improve consistency in the application of Topic 820. The FASB issued ASU 2009-05 as a result of expressed concern that there may be a lack of observable market information to measure the fair value of a liability. For example, in the hypothetical transfer of an asset subject to a restriction there will be no observable data available to measure the liability because it is restricted from being transferred. This guidance is effective for the first reporting period (including interim periods) beginning after issuance. The adoption of this accounting standard did not have a material effect on the Partnership's consolidated financial statements.

In June 2009, the FASB issued ASC 105-10 (formerly SFAS No. 168), *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. The objective of this statement is to replace SFAS No. 162 and to establish the FASB Accounting Standards Codification as the source of the authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. The rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. This statement shall be effective for financial statements issued for interim and annual periods ending after September 15, 2009 and was adopted by the Partnership for its second quarter reporting. The adoption did not have a significant impact on the reporting of our financial position, results of operations or cash flows.

In June 2009, the FASB issued under ASC Topic 810-Consolidation, SFAS No. 167, an amendment to FASB Interpretation 46(R), "Consolidation of Variable Interest Entities." The statement requires an entity to perform an analysis to determine whether the entity's variable interest give it a controlling financial interest in a variable interest entity by rationalizing characteristics that would give it power to direct the activities of a variable interest entity and the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. The statement is effective for years beginning after November 15, 2009 and is not expected to have a material effect on the Partnership's consolidated financial statements.

In June 2009, the FASB issued under ASC Topic 860 – *Transfers and Servicing*, SFAS No. 166, "Accounting for Transfers of Financial Assets", an amendment to SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." The statement defines the term "participating interest" to establish specific conditions for reporting a transfer of financial assets as a sale

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

and improves financial reporting by eliminating (a) the exception for qualifying special-purpose entities from consolidation guidance and (b) the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. The statement is effective for annual reports for years beginning after November 15, 2009 and is not expected to have a material effect on the Partnership's consolidated financial statements.

### Results of Operations

The following is a summary of the results of operations of the Partnership for the years ended March 31, 2010 and 2009 (the 2009 and 2008 Fiscal Years, respectively), excluding the results of its discontinued operations which are not reflected in the following discussion.

The Partnership's results of operations for the 2009 and 2008 Fiscal Years consisted primarily of the results of the Partnership's investment in Local Partnerships. The majority of Local Partnership income continues to be in the form of rental income with the corresponding expenses being divided among operations, depreciation and mortgage interest.

The net loss for the 2009 and 2008 Fiscal Years totaled \$17,996,417 and \$5,815,293, respectively.

### 2009 vs. 2008

Rental income increased approximately 4% for the 2009 Fiscal Year as compared to the 2008 Fiscal Year, primarily due to annual rent increases and decreases in vacancies at several Local Partnerships.

Other income decreased approximately \$35,000 for the 2009 Fiscal Year as compared to the 2008 Fiscal Year, primarily due to a decrease in the amount of cash being invested at several Local Partnerships as well as the Partnership level partially offset by increases in tenant charges at one Local Partnership.

Total expenses, excluding general and administrative-related parties, repair and maintenance, and loss on impairment of properties, remained fairly consistent with a decrease of approximately 1% for the 2009 Fiscal Year as compared to the 2008 Fiscal Year.

General and administrative – related party expenses decreased approximately \$479,000 for the 2009 Fiscal Year as compared to the 2008 Fiscal Year, primarily due to a decrease in partnership management fees and other expense reimbursement allocations at the Partnership level due to sale of properties.

Repair and maintenance expenses decreased approximately \$283,000 for the 2009 Fiscal Year as compared to the 2008 Fiscal Year, primarily due to a decrease in building and apartment repairs, and other maintenance repairs at three Local Partnerships, partially offset by an increase in maintenance supplies and repairs, decorating and ground supplies and maintenance repairs at two Local Partnerships.

Loss on impairment of properties amounted to approximately \$6,687,000 and \$9,706,000 for the 2009 and 2008 Fiscal Years, respectively. See Note 4 in Item 8 for detailed discussion on impairments.

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

### Results of Operations of Certain Local Partnerships

#### a) Subsidiary Partnerships – Going Concern

##### Creative Choice Homes II L.P. (“Opa-Locka”)

The Partnership sold its limited partnership interest in Opa-Locka on January 1, 2010 (see Note 10 in Item 8). Prior thereto, the financial statements for Opa-Locka were prepared assuming that Opa-Locka would continue as a going concern. Opa-Locka was in default on its third and fourth mortgage notes, which were incurred to affiliates of the Local General Partner. The Local General Partner had not sent a notice of default with respect to the notes as of the year ended March 31, 2010 and would have been unable to call the notes until the first and second mortgage notes were paid in full. In addition, the current liabilities exceeded the current assets by approximately \$8,700,000. These conditions raised substantial doubt about Opa-Locka’s ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if Opa-Locka had been unable to continue as a going concern.

The Partnership’s investment in Opa-Locka at March 31, 2010 and 2009 was reduced to zero as a result of prior years’ losses, and the noncontrolling interest balance was \$0 and \$5,000 at each date. Opa-Locka’s net income after noncontrolling interest amounted to approximately \$554,000 and \$487,000 for the 2009 and 2008 Fiscal Years.

##### Morrant Bay Limited Partnership (“Morrant Bay”)

The financial statements for Morrant Bay have been prepared assuming that Morrant Bay will continue as a going concern. Morrant Bay has been experiencing higher operating costs, attributable in part to escalating energy and repair costs. These conditions, in addition to regulatory rent restrictions imposed under HUD guidelines, has resulted in operating cash flow not meeting all current obligations as they become due. At December 31, 2009, current liabilities exceed current assets by approximately \$773,000. This raises doubt as to whether Morrant Bay will be able to continue as a going concern. Management continually monitors operating costs and will request additional rent increases when allowed by HUD. Additionally, management is in the process of evaluating refinancing plans. During 2008, Morrant Bay entered into negotiations with a local non-profit to re-syndicate the property. In connection with this, Morrant Bay is negotiating with the General Partner to redeem the Partnership’s interest in Morrant Bay for a nominal amount. There can be no assurance if or when such negotiations will result in a sale of the limited partnership’s interests.

The Partnership’s investment in Morrant Bay at March 31, 2010 and 2009 was reduced to zero as a result of prior years’ losses and the noncontrolling interest balance was approximately \$(231,000) and \$(228,000) for the 2009 and 2008 Fiscal Years, respectively. Morrant Bay’s net loss after noncontrolling interest amounted to approximately \$288,000 and \$474,000 for the 2009 and 2008 Fiscal Years. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

##### Boston Bay Limited Partnership (“Boston Bay”)

The financial statements for Boston Bay have been prepared assuming that Boston Bay will continue as a going concern. Boston Bay has been experiencing higher operating costs, attributable in part to escalating energy and repair costs. These conditions, in addition to regulatory rent restrictions imposed under HUD guidelines, has resulted in operating cash flow not meeting all current obligations as they become due. At December 31, 2009, current liabilities exceed current assets by approximately \$299,000. This raises doubt as to whether Boston Bay will be able to continue as a going concern. Management continually monitors operating costs and will request additional rent increases when allowed by HUD. Addi-

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

tionally, management is in the process of evaluating refinancing plans. During 2008, Boston Bay entered into negotiations with a local non-profit to re-syndicate the property. In connection with this, Boston Bay is negotiating with the General Partner to redeem the Partnership's interest in Boston Bay for a nominal amount. There can be no assurance if or when such negotiations will result in a sale of the limited partnership's interests.

The Partnership's investment in Boston Bay at March 31, 2010 and 2009 was reduced to zero as a result of prior years' losses and the noncontrolling interest balance was approximately \$(89,000) and \$(87,000) for the 2009 and 2008 Fiscal Years, respectively. Boston Bay's net loss after noncontrolling interest amounted to approximately \$187,000 and \$342,000 for the 2009 and 2008 Fiscal Years. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### Other

The Partnership's investment as a limited partner in the Local Partnerships is subject to the risks incident to the potential losses arising from management and ownership of improved real estate. The Partnership's investments also could be adversely affected by poor economic conditions, generally, which could increase vacancy levels and rental payment defaults and by increased operating expenses, any or all of which could threaten the financial viability of one or more of the Local Partnerships.

There also are substantial risks associated with the operations of Apartment Complexes receiving government assistance. These include governmental regulations concerning tenant eligibility, which may make it more difficult to rent apartments in the Apartment Complexes; difficulties in obtaining government approval for rent increases; limitations on the percentage of income which low and moderate-income tenants may pay as rent; the possibility that Congress may not appropriate funds to enable HUD to make the rental assistance payments it has contracted to make; and that when the rental assistance contracts expire there may not be market demand for apartments at full market rents in a Local Partnership's Apartment Complex.

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.

### Item 7A. Quantitative and Qualitative Disclosure about Market Risk.

Mortgage notes are payable in aggregate monthly installments including principal and interest at rates varying from 1% to 9% 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 currently discloses in Note 3 Item 8 of the Notes to Consolidated Financial Statements, the fair value of the mortgage notes payable.

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

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the consolidated balance sheets of Independence Tax Credit Plus L.P. and Subsidiaries (A Delaware Limited Partnership) as of March 31, 2010 and 2009, and the related consolidated statements of operations, changes in partners' capital (deficit), and cash flows for the years ended March 31, 2010 and 2009 (the 2009 and 2008 Fiscal Years). These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements for eleven (2009 Fiscal Year) and nineteen (2008 Fiscal Year) subsidiary partnerships whose losses aggregated \$3,429,180 and \$11,647,146 for the 2009 and 2008 Fiscal Years, respectively, and whose assets constituted 83% and 91% of the Partnership's assets at both March 31, 2010 and 2009, respectively, presented in the accompanying consolidated financial statements. The financial statements for ten (2009 Fiscal Year) and seventeen (2008 Fiscal Year) of these subsidiary partnerships were audited by other auditors whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for these subsidiary partnerships is based solely upon the reports of the other auditors. The financial statements for one (2009 Fiscal Year) and two (2008 Fiscal Year) of these subsidiary partnerships were unaudited.

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

In our opinion, based upon our audits, and the reports of the other auditors referred to above, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Independence Tax Credit Plus L.P. and Subsidiaries at March 31, 2010 and 2009, and the results of their operations and their cash flows for the years ended March 31, 2010 and 2009, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 13(b), the consolidated financial statements include the financial statements of three subsidiary partnerships with significant uncertainties. The financial statements of these three subsidiary partnerships were prepared assuming that they will continue as going concerns. These three subsidiary partnerships' net losses aggregated \$10,504,227 (2009 Fiscal Year) and \$551,341 (2008 Fiscal Year) and their assets aggregated \$6,189,416 and \$23,400,218 at March 31, 2010 and 2009, respectively. Management's plan in regard to this matter is also described in Note 13(b). The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

TRIE ROSENBERG  
WEINBERG CIULLO & FAZZARI LLP

New York, New York  
June 24, 2010







**INDEPENDENCE TAX CREDIT PLUS L.P.**

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