

**INDEPENDENCE  
TAX CREDIT PLUS II**

**ANNUAL REPORT**

**For Fiscal Year Ended  
March 31, 2011**



July 2011

Message to Our BACsholders:

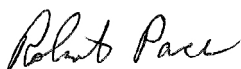
We would like to take this opportunity to present the Annual Report for Independence Tax Credit Plus LP II (the "Partnership") for the year fiscal year ended March 31, 2011.

During the first quarter of 2011 the Partnership sold its limited partnership interests in Brynview Terrace L.P., Colden Oaks L.P., P&P Home for the Elderly, L.P. and Martha Bryant Manor L.P. Subsequent to the fiscal year ended March 31, 2011, the Partnership sold its interests in Mansion Court Associates. As such, the Partnership's portfolio currently consists of seven assets. For specific details regarding these sales and the Partnership's overall performance please refer to 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 the remaining assets contained in its portfolio. Although full liquidation is anticipated to occur within the next two-three years, there can be no assurance made with respect to this timeline.

Should you have questions concerning your investment in this Partnership, please contact Denise Bernstein of the Partnership's Investor Relations Department at 1-800-600-6422.

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,	
	2011	2010
Property and equipment net, less accumulated depreciation (Notes 2, 4 and 7)	\$ 16,574,109	\$ 33,890,998
Cash and cash equivalents (Notes 2, 3 and 13)	1,479,226	1,587,016
Cash held in escrow (Notes 3 and 5)	2,086,911	2,923,692
Deferred costs, less accumulated amortization (Notes 2 and 6)	90,211	175,505
Other assets	<u>385,197</u>	<u>523,427</u>
Total operating assets	<u>20,615,654</u>	<u>39,100,638</u>
Assets from discontinued operations (Note 14)		
Property and equipment held for sale, net of accumulated depreciation (Note 4)	1,699,698	-
Net assets held for sale	<u>99,678</u>	<u>-</u>
Total assets from discontinued operations	<u>1,799,376</u>	<u>-</u>
Total assets	<u>\$ 22,415,030</u>	<u>\$ 39,100,638</u>
LIABILITIES AND PARTNERS' EQUITY (DEFICIT)		
Liabilities:		
Mortgage notes payable (Note 7)	\$ 20,243,830	\$ 51,101,479
Accounts payable	599,843	781,692
Security deposits payable	254,770	420,089
Accrued interest	16,805,364	23,334,820
Due to local general partners and affiliates (Note 8)	1,023,346	1,051,929
Due to general partner and affiliates (Note 8)	<u>5,270,129</u>	<u>6,747,079</u>
Total operating liabilities	<u>44,197,282</u>	<u>83,437,088</u>
Liabilities from discontinued operations (Note 14)		
Mortgage note payable of assets held for sale	4,139,881	-
Net liabilities held for sale	<u>1,493,357</u>	<u>-</u>
Total liabilities from discontinued operations	<u>5,633,238</u>	<u>-</u>
Total liabilities	<u>\$ 49,830,520</u>	<u>\$ 83,437,088</u>
Commitments and contingencies (Notes 7, 8 and 13)		
Partners' equity (deficit):		
Limited partners (58,928 BACs issued and outstanding)	(26,466,187)	(41,301,465)
General partner	<u>283,722</u>	<u>(918,143)</u>
Independence Tax Credit Plus L.P. II total	(26,182,465)	(42,219,608)
Noncontrolling interests	<u>(1,233,025)</u>	<u>(2,116,842)</u>
Total partners' equity (deficit)	<u>(27,415,490)</u>	<u>(44,336,450)</u>
Total liabilities and partners' equity (deficit)	<u>\$ 22,415,030</u>	<u>\$ 39,100,638</u>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Operations

	Years Ended March 31,	
	<u>2011</u>	<u>2010*</u>
Revenues		
Rental income	\$ 7,051,333	\$ 6,844,133
Other income	<u>93,534</u>	<u>101,808</u>
Total revenues	<u>7,144,867</u>	<u>6,945,941</u>
Expenses		
General and administrative	2,365,107	2,213,191
General and administrative-related parties (Note 8)	1,112,191	1,156,497
Repairs and maintenance	1,828,861	1,530,565
Operating	905,280	1,024,058
Taxes	593,043	467,681
Insurance	262,780	264,137
Financial, principally interest	1,231,737	1,221,819
Depreciation and amortization	1,402,377	1,887,640
Loss on impairment of assets	<u>1,047,336</u>	<u>10,482,091</u>
Total expenses from operations	<u>10,748,712</u>	<u>20,247,679</u>
Loss from operations	(3,603,845)	(13,301,738)
Income (loss) from discontinued operations	<u>19,588,416</u>	<u>(10,368,262)</u>
Net income (loss)	15,984,571	(23,670,000)
Net loss attributable to noncontrolling interests from operations	28,664	125,726
Net (income) loss attributable to noncontrolling interests from discontinued operations	<u>(1,028,106)</u>	<u>1,390,498</u>
Net (income) loss attributable to noncontrolling interests	(999,442)	1,516,224
Net income (loss) attributable to Independence Tax Credit Plus L.P. II	<u>\$ 14,985,129</u>	<u>\$ (22,153,776)</u>
Loss from operations – limited partners	\$ (3,539,429)	\$ (13,044,252)
Income (loss) from discontinued operations – limited partners	<u>18,374,707</u>	<u>(8,887,986)</u>
Net income (loss) – limited partners	<u>\$ 14,835,278</u>	<u>\$ (21,932,238)</u>
Number of BACs outstanding	<u>58,928</u>	<u>58,928</u>
Loss from operations per BAC	\$ (60.06)	\$ (221.36)
Income (loss) from discontinued operations per BAC	<u>311.81</u>	<u>(150.83)</u>
Net income (loss) per BAC	<u>\$ 251.75</u>	<u>\$ (372.19)</u>

\* Reclassified for comparative purposes.

See accompanying notes to consolidated financial statements.

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

	<u>Total</u>	<u>Limited Partners</u>	<u>General Partner</u>	<u>Noncontrolling Interests</u>
Partners deficit – April 1, 2009	\$ (21,733,936)	\$ (19,369,227)	\$ (724,890)	\$ (1,639,819)
Net loss	(23,670,000)	(21,932,238)	(221,538)	(1,516,224)
Distributions	(322,425)	-	-	(322,425)
Contributions	71,456	-	-	71,456
Contributions – write-off of related party debt	<u>1,318,455</u>	<u>-</u>	<u>28,285</u>	<u>1,290,170</u>
Partners deficit – March 31, 2010	(44,336,450)	(41,301,465)	(918,143)	(2,116,842)
Net income	15,984,571	14,835,278	149,851	999,442
Distributions	(115,625)	-	-	(115,625)
Contributions – write-off of related party debt	85,000	-	85,000	-
Contributions – write-off of partnership management fees related to sold properties	<u>967,014</u>	<u>-</u>	<u>967,014</u>	<u>-</u>
Partners equity (deficit) – March 31, 2011	<u>\$ (27,415,490)</u>	<u>\$ (26,466,187)</u>	<u>\$ 283,722</u>	<u>\$ (1,233,025)</u>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

Increase (Decrease) in Cash and Cash Equivalents

	Years Ended March 31,	
	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Net income (loss)	\$ 15,984,571	\$ (23,670,000)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Gain on sale of properties	(20,284,069)	(2,418,403)
Depreciation and amortization	2,094,452	3,462,993
Loss on impairment of assets	1,047,336	21,749,607
(Increase) decrease in assets:		
Cash held in escrow	(100,004)	(61,943)
Other assets	(34,772)	(170,090)
Increase (decrease) in liabilities:		
Accounts payable	(251,558)	31,976
Security deposit payable	15,892	6,493
Accrued interest	1,796,255	1,923,216
Due to local general partners and affiliates	(48,709)	(76,464)
Due to general partner and affiliates	(322,436)	711,529
Total adjustments	<u>(16,087,613)</u>	<u>25,158,914</u>
Net cash (used in) provided by operating activities	<u>(103,042)</u>	<u>1,488,914</u>
Cash flows from investing activities:		
Proceeds from sale	1,160,185	177,501
Costs paid relating to sale of properties	(47,105)	-
Improvements to property and equipment	(423,670)	(308,168)
Decrease (increase) in cash held in escrow	<u>30,449</u>	<u>(216,269)</u>
Net cash provided by (used in) investing activities	<u>719,859</u>	<u>(346,936)</u>
Cash flows from financing activities:		
Principal payments of mortgage notes	(635,677)	(670,885)
Increase in due to local general partners and affiliates	156,059	104,982
Decrease in due to local general partners and affiliates	-	(38,182)
Decrease in capitalization of consolidated subsidiaries attributable to non-controlling interest	<u>(244,989)</u>	<u>(250,969)</u>
Net cash used in financing activities	<u>(724,607)</u>	<u>(855,054)</u>
Net (decrease) increase in cash and cash equivalents	(107,790)	286,924
Cash and cash equivalents at beginning of year	<u>1,587,016</u>	<u>1,300,092</u>
Cash and cash equivalents at end of year	<u>\$ 1,479,226</u>	<u>\$ 1,587,016</u>
Supplemental disclosure of cash flows information:		
Cash paid during the year for interest	<u>\$ 728,796</u>	<u>\$ 1,004,995</u>
Supplemental disclosure of non-cash investing and financing activities:		
Contribution from write-off of partnership management fee related to sold properties	<u>\$ 967,014</u>	<u>\$ -</u>

See accompanying notes to consolidated financial statements.

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

Years Ended March 31,	
2011	2010

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

Proceeds from sale of property – net	\$ (1,113,080)	\$ (177,501)
Decrease in property and equipment, net of accumulated depreciation	12,925,270	3,663,465
Decrease in deferred costs	65,931	6,840
Decrease in cash held in escrow	166,752	324,899
Decrease in other assets	554,302	43,922
Increase in accounts payable	79,184	2,609
Decrease in accrued interest	(6,900,698)	(828,083)
Decrease in security deposit payable	(149,176)	(43,441)
Decrease in mortgage note payable	(26,082,091)	(5,173,331)
Increase (decrease) in due to local general partners and affiliates	122,673	(1,483,737)
Decrease in due to general partners and affiliates	(167,500)	(72,500)
Capital contribution – General Partner	85,000	28,285
Increase in capitalization of consolidated subsidiaries attributable to non-controlling interest	129,364	1,290,170

See accompanying notes to consolidated financial statements.

## Notes to Consolidated Financial Statements March 31, 2011

### NOTE 1 – General

Independence Tax Credit Plus L.P. II (a Delaware limited partnership) (the “Partnership”) was organized on February 11, 1992 and commenced its public offering on January 19, 1993. 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 Related Independence Associates Inc., a Delaware Corporation (“RIAI”). The ultimate parent of the General Partner is Centerline Holding Company (“Centerline”).

The Partnership’s business is primarily to invest in other partnerships (“Local Partnerships,” “subsidiaries” or “subsidiary partnerships”) owning leveraged 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.

The Partnership had originally acquired interests in fifteen subsidiary partnerships. During the fiscal year ended March 31, 2011, the Partnership sold its limited partnership interests in five Local Partnerships. As of March 31, 2011, the Partnership has sold its limited partnership interests in seven Local Partnerships. In addition, as of March 31, 2011, the Partnership has entered into an agreement to sell its limited partnership interests in one Local Partnership. Subsequently, the Partnership sold its limited partnership interests in one other Local Partnership. 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.

The Partnership was authorized to issue a total of 100,000 (\$100,000,000) Beneficial Assignment Certificates (“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. The Partnership raised a total of \$58,928,000 representing 58,928 BACs. The offering was terminated on April 7, 1994.

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”).

#### b) Basis of Consolidation

The consolidated financial statements include the accounts of the Partnership and fourteen (2010 Fiscal Year) and fifteen (2009 Fiscal Year) subsidiary partnerships in which the Partnership is the principal limited partner, with an ownership interest of 98.99%. 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 Part-

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

### March 31, 2011

nership, to remove the general partners of the subsidiary local partnerships (“Local General Partners”) 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.

In accordance with FASB Accounting Standards Codification (“ASC”) Topic 810, *Noncontrolling Interests in Consolidated Financial Statements* (“ASC 810”), (income) loss attributable to noncontrolling interests amounted to approximately \$(999,000) and \$1,516,000 for the year ended March 31, 2011 and 2010, respectively. 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. Cash held in escrow has various use restrictions and is not considered a cash equivalent.

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

During the year ended March 31, 2011, the Partnership recorded approximately \$1,047,000 as an aggregate loss on impairment of assets or reduction to estimated fair value. Through March 31, 2011, the Partnership has recorded approximately \$29,131,000 as an aggregate loss on impairment of property.

#### e) 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.

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2011**

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

	<u>Years Ended March 31,</u>	
	<u>2011</u>	<u>2010*</u>
Interest	\$ 7,878	\$ 9,161
Other	<u>85,656</u>	<u>92,647</u>
Total other revenue	<u>\$ 93,534</u>	<u>\$ 101,808</u>

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

	<u>Years Ended March 31,</u>	
	<u>2011</u>	<u>2010*</u>
Interest	\$ 24,591	\$ 5,805
Other	<u>99,562</u>	<u>231,096</u>
Total other revenue	<u>\$ 124,153</u>	<u>\$ 236,901</u>

\* Reclassified for comparative purposes.

f) 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 (See Note 9).

The Partnership's management have analyzed the Partnership's tax positions and concluded that no liability for unrecognized tax benefits should be recorded for positions taken on returns filed for open tax years. As of and during the year ended March 31, 2011, 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, among other things, 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, 2011, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations is from the year 2007 forward.

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

### March 31, 2011

#### g) Recent Accounting Pronouncements

In May 2011, the FASB issued under Topic 820, *Fair Value Measurements and Disclosures*, ASU 2011-04, "Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs". The amendments in this ASU result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the Board does not intend for amendments in this ASU to result in a change in the application of the requirements in Topic 820. The amendments in this ASU are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. The adoption of this accounting standard will not have a material effect on the Partnership's consolidated financial statements.

#### h) Offering Costs

Costs incurred to sell BACs, including brokerage and the nonaccountable expense allowance, are considered selling and offering expenses. These costs are charged directly to limited partners' capital.

#### i) 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.

#### j) 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.

#### 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 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 ASC 825 – "*Financial Instruments*" – Including an Amendment of ASC 320 – "*Investments – Debt and Equity Securities*", for our

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2011**

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, 2011		At March 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
LIABILITIES:				
Mortgage notes	\$ 24,383,711	\$ 11,934,332	\$ 51,101,479	\$ 22,545,093

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 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 and their estimated useful lives are as follows:

	March 31,		Estimated Useful Lives (Years)
	2011	2010	
Land	\$ 1,785,200	\$ 5,555,807	-
Building and improvements	42,420,182	71,705,509	10-40
Furniture and fixtures	542,198	1,027,453	5-10
	44,747,580	78,288,769	
Less: Accumulated depreciation	(28,173,471)	(44,397,771)	
	<u>\$ 16,574,109</u>	<u>\$ 33,890,998</u>	

Original acquisition costs totaling \$4,369,919, of which \$3,501,977 was paid to the General Partner, are included in the cost of property and equipment.

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2011**

In connection with the rehabilitation of the properties, the subsidiary partnerships incurred developer's fees of \$9,282,042 to the Local General Partners and their affiliates. Such fees have been included in the cost of property and equipment.

Depreciation expense for the years ended March 31, 2011 and 2010 amounted to \$1,398,824 and \$1,884,137, respectively. During the year ended March 31, 2011, there was a decrease in accumulated depreciation on dispositions and impairments in the amount of \$88,084.

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

	<u>March 31,</u>		Estimated
	<u>2011</u>	<u>2010</u>	Useful Lives
			(Years)
Land	\$ 626,361	\$ -	-
Building and improvements	4,110,566	-	15-40
Furniture and fixtures	18,148	-	3-10
	<u>4,755,075</u>	<u>-</u>	
Less: Accumulated depreciation	<u>(3,055,377)</u>	<u>-</u>	
	<u>\$ 1,699,698</u>	<u>\$ -</u>	

Depreciation expenses for the discontinued property and equipment for the years ended March 31, 2011 and 2010 amounted to \$672,265 and \$1,547,741, respectively. During the year ended March 31, 2011, there was a decrease in accumulated depreciation on dispositions and impairments in the amount of \$15,155,928.

Impairments

During the years ended March 31, 2011 and 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 value which resulted in \$1,047,336 and \$21,749,607 of losses on impairment for the years ended March 31, 2011 and 2010, respectively.

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2011**

Impairments from operations recorded for the year ended March 31, 2011 were as follows:

Lincoln Renaissance	\$ 277,431
Mansion Court Associates	301,015
Affordable Greene Associates, LP	<u>468,890</u>
	<u>\$ 1,047,336</u>

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

Lincoln Renaissance	\$ 2,892,091
Renaissance Plaza '93	<u>7,590,000</u>
	<u>\$ 10,482,091</u>

Impairments from discontinued operations recorded for the year ended March 31, 2010 is as follows:

Tasker Village Associates	\$ 2,441,516
Brynview Terrace L.P.	595,000
Martha Bryant Manor L.P.	2,875,000
NLEDC, LP	1,769,000
P&P Homes for the Elderly, L.P.	<u>3,587,000</u>
	<u>\$ 11,267,516</u>

**NOTE 5 – Cash Held in Escrow**

Cash held in escrow from operations consists of the following:

	March 31,	
	2011	2010
Purchase price payments*	\$ 6,000	\$ 6,000
Real estate taxes, insurance and other	355,716	533,372
Reserve for replacements	1,448,972	1,939,947
Tenant security deposits	<u>276,223</u>	<u>444,373</u>
	<u>\$ 2,086,911</u>	<u>\$ 2,923,692</u>

\* Represents amounts to be paid to seller upon meeting specified rental achievement criteria.

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2011**

Cash held in escrow from discontinued operations consists of the following:

	March 31,	
	2011	2010
Real estate taxes, insurance and other	\$ 23,452	\$ -
Reserve for replacements	37,905	-
Tenant security deposits	<u>32,071</u>	<u>-</u>
	<u>\$ 93,428</u>	<u>\$ -</u>

NOTE 6 – Deferred Costs

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

	March 31,		Period
	2011	2010	
Financing costs	\$ 119,642	\$ 356,802	*
Other	<u>33,703</u>	<u>33,703</u>	various
	153,345	390,505	
Less: Accumulated amortization	<u>(63,134)</u>	<u>(215,000)</u>	
	<u>\$ 90,211</u>	<u>\$ 175,505</u>	

\* Over the life of the related mortgages.

Amortization expense for the years ended March 31, 2011 and 2010 amounted to \$3,553 and \$3,503, respectively.

Amortization expense from discontinued operations for the years ended March 31, 2011 and 2010 amounted to \$15,810 and \$27,612, respectively. During the year ended March 31, 2011, there was a decrease in deferred costs and accumulated amortization of \$237,160 and \$171,229, respectively, related to discontinued operations.

NOTE 7 – Mortgage Notes Payable

The mortgage notes from operations are payable in aggregate monthly installments of approximately \$55,000 including principal and interest at rates ranging from 0% to 8.75% per annum, through the year 2038. Each subsidiary partnership's mortgage note payable is collateralized by the land and buildings of the respective subsidiary partnership, the assignment of each certain subsidiary partnership's rents and leases, and is without further recourse.

One mortgage note with a balance of \$1,815,375 and \$2,214,339 at December 31, 2010 and 2009, respectively, which bears interest at 7% per annum is eligible for an interest rate subsidy. Accordingly, the

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2011**

subsidiary partnership paid only that portion of the monthly payments that would be required if the interest rate was 1%. The balance was subsidized under Section 236 of the National Housing Act.

Derby Run Associate L.P.'s mortgage note payable in the original amount of \$6,900,000 is serviced by Centerline (formerly PW Funding), an affiliate of the General Partner. The mortgage note balance was \$0 and \$6,382,102 as of December 31, 2010 and 2009, respectively. On July 30, 2010, the Partnership sold its limited partnership interest to an affiliate of the Local General Partner (see Note 10).

Annual principal payment requirements for mortgage notes from operations payable by the subsidiary partnerships for each of the next five years and thereafter are as follows:

<u>December 31,</u>	<u>Amount</u>
2011	\$ 2,538,563
2012	480,770
2013	515,426
2014	5,575,257
2015	26,159
Thereafter	<u>11,107,655</u>
	<u>\$ 20,243,830</u>

Accrued interest payable as of March 31, 2011 and 2010 was approximately \$16,805,000 and \$23,335,000, 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 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 or through assumption by the buyer upon sale of the Partnership interest in the respective Local Partnerships.

The mortgage agreements require monthly deposits to replacement reserves of approximately \$24,000 and monthly deposits to escrow accounts for real estate taxes, hazard insurance and mortgage insurance and other (see Note 5).

The mortgage notes from discontinued operations are payable in aggregate monthly installments of approximately \$9,000 including principal and interest at rates ranging from 0% to 9.05% per annum, through the year 2052. Each subsidiary partnership's mortgage note payable is collateralized by the land and buildings of the respective subsidiary partnership, the assignment of each certain subsidiary partnership's rents and leases, and is without further recourse.

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2011**

Annual principal payment requirements for mortgage notes from discontinued operations payable by the subsidiary partnerships for each of the next five years and thereafter, are as follows:

<u>December 31,</u>	<u>Amount</u>
2011	\$ 25,626
2012	28,044
2013	30,690
2014	33,585
2015	36,754
Thereafter	<u>3,985,182</u>
	<u>\$ 4,139,881</u>

Accrued interest payable from discontinued operations as of March 31, 2011 and 2010 was approximately \$1,425,000 and \$0, 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 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 or through assumption by the buyer upon sale of the Partnership interest in the respective Local Partnerships.

The mortgage agreements from discontinued operations require monthly deposits to replacement reserves of approximately \$1,000 and monthly deposits to escrow accounts for real estate taxes, hazard insurance and mortgage insurance and other (see Note 5).

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2011**

NOTE 8 – Related Party Transactions

An affiliate of the General Partner has a .01% interest as a special limited partner in each of the subsidiary partnerships. An affiliate of the General Partner also has a minority interest in certain local partnerships.

A) Other Related Party Expenses

The costs incurred to related parties from operations for the years ended March 31, 2011 and 2010 were as follows:

	Years Ended March 31,	
	<u>2011</u>	<u>2010*</u>
Partnership management fees (a)	\$ 452,789	\$ 489,648
Expense reimbursement (b)	152,872	178,167
Local administrative fees (c)	<u>21,000</u>	<u>21,000</u>
Total general and administrative - General Partner	<u>626,661</u>	<u>688,815</u>
Property management fees incurred to affiliates of the subsidiary partnerships' general partners	<u>485,530</u>	<u>467,682</u>
Total general and administrative - related parties	<u>\$ 1,112,191</u>	<u>\$ 1,156,497</u>

Expenses incurred to related parties from discontinued operation for the years ended March 31, 2011 and 2010 were as follows:

	Years Ended March 31,	
	<u>2011</u>	<u>2010*</u>
Local administrative fees (c)	<u>\$ 17,980</u>	<u>\$ 22,500</u>
Total general and administrative - General Partner	17,980	22,500
Property management fees incurred to affiliates of the subsidiary partnerships' general partners	<u>47,061</u>	<u>121,652</u>
Total general and administrative-related parties	<u>\$ 65,041</u>	<u>\$ 144,152</u>

\* Reclassified for comparative purposes.

- (a) The General Partner is entitled to receive a partnership management fee, after payment of all Partnership expenses, which together with the annual local 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 will be accrued without interest and will be payable from working capital reserves or to the extent of available funds after the Partnership has made distributions to the limited partners of sale or refinancing

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2011**

proceeds equal to their original capital contributions plus a 10% priority return thereon (to the extent not theretofore paid out of cash flow). Partnership management fees owed to the General Partner amounting to approximately \$4,930,000 and \$5,877,000 were accrued and unpaid as of March 31, 2011 and 2010, respectively, and are included in the line item Due to general partners and affiliates in the consolidated balance sheets. During the year ended March 31, 2011, management deemed the unpaid partnership management fees related to sold properties uncollectible and wrote off approximately \$967,000, resulting in a noncash General Partner contribution of the same amount. 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.

- (b) 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. Expense reimbursements and asset monitoring fees owed to the General Partner and its affiliates amounting to approximately \$39,000 and \$477,000 were accrued and unpaid as of March 31, 2011 and 2010, respectively. 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.
- (c) Independence SLP L.P., a special limited partner of the subsidiary partnerships, is entitled to receive a local administrative fee of up to \$5,000 per year from each subsidiary partnership. Local administrative fee owed to Independence SLP L.P. amounting to approximately \$241,000 and \$381,000 were accrued and unpaid as of March 31, 2011 and 2010, respectively. These fees 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, 2011 and 2010, the Partnership owes \$80,000 and \$12,000, respectively, to the Special Limited Partner for the fees it received from a Local Partnership on its behalf.

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2011**

B) Due to Local General Partners and Affiliates

Due to local general partners and affiliates at March 31, 2011 and 2010 consists of the following:

	<u>March 31,</u>	
	<u>2011</u>	<u>2010</u>
Operating advances	\$ 413,318	\$ 257,259
Development fee payable	-	258,606
Construction costs payable	382,200	382,200
Management and other operating advances	(9,166)	(83,130)
Loans payable to local general partner and affiliates (a)	<u>236,994</u>	<u>236,994</u>
	<u>\$ 1,023,346</u>	<u>\$ 1,051,929</u>

- (a) Affordable Green Associates, L.P. borrowed monies from affiliates of the Local General Partners while the building was being constructed. Interest was accrued at rates from 8% to 11% during the construction period. The loans are now due on demand and do not accrue interest.

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2011**

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, 2011.

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

	<u>Years Ended March 31,</u>	
	<u>2011</u>	<u>2010</u>
Financial statement net income (loss)	\$ 14,985,129	\$(22,153,776)
Differences between depreciation and amortization expense records for financial reporting purposes and the accelerated costs recovery system utilized for income tax purposes	(1,407,597)	(464,215)
Differences resulting from parent company having a different fiscal year for income tax and financial reporting purposes	29,106	(28,422)
Differences between gain on sale of properties for financial reporting purposes and gain on sale for income tax purposes	(17,348,103)	(471,126)
Accrued interest not deductible for tax purposes until paid	1,129,479	829,192
Non-deductible loss on impairment of Property	1,047,336	21,749,607
Write-off of Partnership management fees included in income for tax purposes	967,014	-
Other expense, including related party accruals for financial reporting not deductible for tax purposes until paid	<u>1,524,734</u>	<u>(1,049,462)</u>
Net income (loss) as shown on the income tax return for the calendar year ended	<u>\$ 927,098</u>	<u>\$ (1,588,202)</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 BACs holders. Net income for financial statement purposes may differ significantly from taxable income reportable to BACs holders 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, 2011, the tax basis net assets exceeded the financial statement net assets by approximately \$11,938,000 due to depreciation differences, impairments and related party accruals.

## **Notes to Consolidated Financial Statements** *(continued)* **March 31, 2011**

### NOTE 10 – Sale of Properties

The Partnership is in the process of developing a plan to dispose of all of its investments. During the fiscal year ended March 31, 2011, the Partnership sold its limited partnership interests in five Local Partnerships. As of March 31, 2011, the Partnership has sold its limited partnership interests in seven Local Partnerships. In addition, as of March 31, 2011, the Partnership has entered into an agreement to sell its limited partnership interests in one Local Partnership. Subsequently, the Partnership sold its limited partnership interests in one Local Partnership. 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 investments. All gains and losses on sales are included in discontinued operations.

On March 31, 2011, the Partnership sold its limited partnership interest in Brynview Terrace, L.P. (“Brynview”) to the Local General Partner for a sales price of \$2. The Partnership did not receive any cash from this sale and paid other liabilities of \$5,000 in relation to the sale. The sale resulted in a gain of approximately \$1,024,000 resulting from the write-off of the deficit basis in the Local Partnership of approximately \$1,029,000 and the \$5,000 cost incurred relating to the sale, which was recorded during the year ended March 31, 2011.

On March 31, 2011, the Partnership sold its limited partnership interest in Colden Oaks Limited Partnership (“Colden Oaks”) to an affiliate of the Local General Partner for a sales price of \$2. The Partnership did not receive any cash from this sale and paid other liabilities of \$5,000 in relation to the sale. The sale resulted in a gain of approximately \$5,061,000 resulting from the write-off of the deficit basis in the Local Partnership of approximately \$5,066,000 and the \$5,000 cost incurred relating to the sale, which was recorded during the year ended March 31, 2011. In addition, the sale resulted in a noncash contribution to the Local Partnership from the General Partner of approximately \$85,000 as a result of the write-off of fees owed by the Local Partnership to an affiliate of the General Partner.

On February 9, 2011, the Partnership sold its limited partnership interest in P&P Home for the Elderly, L.P. (“P&P”) to an unaffiliated third party purchaser for a sales price of \$50,000. The Partnership received \$79,363 (including a distribution from sale of \$49,363) after the payment of other liabilities of approximately \$20,000. The sale resulted in a gain of approximately \$6,288,000 resulting from the write-off of the deficit basis in the Local Partnership of approximately \$6,208,000 and the \$79,363 cash received from the sale, which was recorded during the year ended March 31, 2011.

On February 9, 2011, the Partnership sold its limited partnership interest in Martha Bryant Manor, L.P. (“Martha Bryant”) to an unaffiliated third party purchaser for a sales price of \$15,000. The Partnership did not receive any cash from this sale and paid other liabilities of \$15,000 in relation to the sale. The sale resulted in a gain of approximately \$6,158,000 resulting from the write-off of the deficit basis in the Local Partnership of the same amount at the date of sale, which was recorded during the year ended March 31, 2011.

On July 30, 2010, the Partnership sold its limited partnership interest in Derby Run Associates (“Derby Run”) to an affiliate of the Local General Partner for a sales price of \$1,045,822. The Partnership received \$1,043,717 after the repayment of other liabilities of approximately \$2,000. The sale resulted in a gain of approximately \$1,777,000 resulting from the write-off of the deficit basis in the Local Partnership of approximately \$733,000 and the \$1,043,717 net cash received from the sale, which was recorded during the quarter ended September 30, 2010. An adjustment to the gain of approximately (\$56,000) was

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2011**

recorded during the quarter ended March 31, 2011, resulting in an overall gain of approximately \$1,721,000.

On March 31, 2010, the Partnership sold its limited partnership interest in Tasker Village Associates (“Tasker”) to an affiliate of the Local General Partner for a sales price of \$20,000. The Partnership did not receive any cash from this sale after the repayment of other liabilities of \$20,000. The sale resulted in a gain of approximately \$2,361,000, resulting from the write-off of the deficit basis in the Local Partnership of the same amount at the date of the sale, which was recorded during the year ended March 31, 2010. Adjustments to the gain of approximately \$39,000 and (\$7,000) were recorded during the quarters ended June 30, 2010 and March 31, 2011, respectively, resulting in an overall gain of approximately \$2,400,000. In addition, the sale resulted in a non-cash contribution to the Local Partnership from (i) the General Partner of approximately \$28,000 as a result of the write-off of fees owed by the Local Partnership to an affiliate of the General Partner; and (ii) the Local General Partners of approximately \$99,000 as a result of the write-off of fees owed by the Local Partnership to the Local General Partner.

On December 31, 2009, the Partnership sold its limited partnership interest in Creative Choice Homes VI, Ltd. (“CCH VI”) to the Local General Partner for a sales price of \$177,500. The sale resulted in a gain of approximately \$57,000, resulting from the write-off of the basis in the Local Partnership of approximately \$120,000 at the date of the sale and the \$177,500 cash received from the sale, which was recorded during the year ended March 31, 2010. In addition, the sale resulted in a non-cash contribution to the Local Partnership from the Local General Partner of approximately \$1,191,000 as a result of the write-off of fees owed by the Local Partnership to the Local General Partner.

**NOTE 11 – Assets Held for Sale**

On August 23, 2010, the Partnership entered into an assignment and assumption agreement to sell its limited partnership interest in NLEDC, L.P. (“Paradise Arms”) to an unaffiliated third party purchaser for a sales price of \$15,000. During the year 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 \$1,769,000. As of December 31, 2010, Paradise Arms had property and equipment, at cost, of approximately \$4,708,000, accumulated depreciation of approximately \$3,023,000 and mortgage debt of approximately \$4,140,000. The sale is expected to be consummated during the second quarter of 2011.

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2011**

NOTE 12 – Selected Quarterly Financial Data (Unaudited)

The following table summarizes the Partnership's quarterly results of operations for the years ended March 31, 2011 and 2010.

OPERATIONS	Quarter Ended			
	June 30, 2010	September 30, 2010	December 31, 2010	March 31, 2011
Revenues	\$ 1,888,585	\$ 1,853,181	\$ 1,795,137	\$ 1,607,964
Operating expenses	<u>(2,447,407)</u>	<u>(2,538,243)</u>	<u>(2,292,249)</u>	<u>(3,470,813)</u>
Loss from operations	(558,822)	(685,062)	(497,112)	(1,862,849)
(Loss) income from discontinued operations	<u>(192,307)</u>	<u>1,667,139</u>	<u>(194,486)</u>	<u>18,308,070</u>
Net (loss) income	(751,129)	982,077	(691,598)	16,445,221
Net loss attributable to noncontrolling interests from operations	3,470	4,959	3,278	16,957
Net loss (income) attributable to noncontrolling interests from discontinued operations	<u>\$ 1,922</u>	<u>\$ (931,947)</u>	<u>\$ 1,950</u>	<u>\$ (100,031)</u>
Net (loss) income attributable to Independence Tax Credit Plus L.P. II	<u>\$ (745,737)</u>	<u>\$ 55,089</u>	<u>\$ (686,370)</u>	<u>\$ 16,362,147</u>
Net (loss) income – limited partnership	<u>\$ (738,280)</u>	<u>\$ 54,538</u>	<u>\$ (679,506)</u>	<u>\$ 16,198,526</u>
Loss per weighted average BAC from operations	\$ (9.33)	\$ (11.42)	\$ (8.30)	\$ (31.01)
(Loss) income per weighted average BAC from discontinued operation	<u>(3.20)</u>	<u>12.35</u>	<u>(3.23)</u>	<u>305.89</u>
Net (loss) income per weighted average BAC	<u>\$ (12.53)</u>	<u>\$ 0.93</u>	<u>\$ (11.53)</u>	<u>\$ 274.88</u>

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2011**

OPERATIONS	Quarter Ended			
	June 30, 2009*	September 30, 2009*	December 31, 2009*	March 31, 2010*
Revenues	\$ 1,711,939	\$ 1,720,343	\$ 1,735,385	\$ 1,778,274
Operating expenses	<u>(2,543,250)</u>	<u>(2,243,504)</u>	<u>(2,304,692)</u>	<u>(13,156,233)</u>
Loss from operations	(831,311)	(523,161)	(569,307)	(11,377,959)
Loss from discontinued operations	<u>(316,081)</u>	<u>(393,240)</u>	<u>(247,269)</u>	<u>(9,411,672)</u>
Net loss	(1,147,392)	(916,401)	(816,576)	(20,789,631)
Net loss attributable to noncontrolling interests from operations	5,967	2,849	3,538	113,372
Net loss attributable to noncontrolling interest from discontinued operations	<u>\$ 3,162</u>	<u>\$ 3,941</u>	<u>\$ 2,467</u>	<u>\$ 1,380,928</u>
Net loss attributable to Independence Tax Credit Plus L.P. II	<u>\$ (1,138,263)</u>	<u>\$ (909,611)</u>	<u>\$ (810,571)</u>	<u>\$ (19,295,331)</u>
Net loss – limited partnership	<u>\$ (1,126,880)</u>	<u>\$ (900,515)</u>	<u>\$ (802,465)</u>	<u>\$ (19,102,378)</u>
Loss per weighted average BAC from operations	\$ (13.86)	\$ (8.74)	\$ (9.51)	\$ (189.25)
Loss per weighted average BAC from discontinued operation	<u>(5.26)</u>	<u>(6.54)</u>	<u>(4.11)</u>	<u>(134.92)</u>
Net loss per weighted average BAC	<u>\$ (19.12)</u>	<u>\$ (15.28)</u>	<u>\$ (13.62)</u>	<u>\$ (324.17)</u>

\* Reclassified for comparative purposes.

**NOTE 13 – Commitments and Contingencies**

**a) Going Concern Consideration**

At March 31, 2011, the Partnership's liabilities exceeded assets by \$27,415,490 and for the year then ended incurred net income of \$15,984,571, including gain on sale of properties of \$20,284,069 and loss on impairment of properties of \$1,047,336. 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 \$4,930,000 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 recorded as capital contributions.

All of the mortgage payable balance of \$24,383,711 and the accrued interest payable balance of \$18,230,377 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 Partner-

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2011**

ship'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 \$721,000 at March 31, 2011. 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 \$144,000 for the year ended March 31, 2011.

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 and Uncertainties

Mansion Court Associates ("Mansion Court")

The financial statements for Mansion Court have been prepared assuming that Mansion Court will continue as a going concern. Mansion Court had losses of \$369,996 (including loss on impairment of \$301,015) and \$79,533 for the 2010 and 2009 Fiscal Years, respectively. Mansion Court has sustained operating losses over the years and has not generated sufficient cash flow from operations to meet its obligations. The Local General Partner has provided funding in the past years; however there is no obligation to do so. The property also has experienced a high number of vacancies due to deteriorating conditions in the area. As of December 31, 2010, the property had 23 out of 30 vacant units. Vacancies continue to increase due to declining conditions in the surrounding neighborhood, and the expenditure of funds at this time to make improvements would not benefit the property. The Local General Partner continues to explore options to mitigate increased crime and deteriorating neighborhood conditions. These options include assistance from local government housing agencies and could include transfer of ownership.

The Partnership's investment in Mansion Court at March 31, 2011 and 2010 was reduced to zero as a result of prior years' losses and the noncontrolling interest balance was \$65,000 and \$69,000, respectively. Mansion Court's net loss after noncontrolling interest amounted to approximately \$366,000 and \$79,000 for the 2010 and 2009 Fiscal Years. The financial statements of Mansion Court do not include any adjustments that might result from the outcome of this uncertainty.

During the year ended March 31, 2011, in accordance with ASC 360, the Partnership deemed the building of Mansion Court impaired and wrote it down to its estimated fair value of \$0, which resulted in a loss on impairment of approximately \$301,000. Fair value was obtained from an assessment made by the management after indications that the carrying value of the assets were not recoverable, evidenced by a history of net operating losses over the past few years as discussed above.

Subsequent to March 31, 2011, Mansion Court was sold (see Note 13g).

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2011**

c) Uninsured Cash and Cash Equivalents

The Partnership maintains its cash and cash equivalents in various banks. The accounts at each bank are guaranteed by the Federal Deposit Insurance Corporation (“FDIC”). At March 31, 2011, uninsured cash and cash equivalents approximated \$818,000.

d) Cash Distributions

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

e) Property Management Fees

Property and incentive management fees incurred by subsidiary partnerships amounted to \$981,064 and \$1,018,789 for the years ended March 31, 2011 and 2010, respectively. Of these fees \$532,591 and \$589,334 were earned by affiliates of the Local General Partners, which include \$223,750 and \$213,750 of incentive management fees at one Local Partnership and \$47,061 and \$121,652 of fees relating to discontinued operations.

f) Other

The Partnership is subject to the risks incident to potential losses arising from the management and ownership of improved real estate. The Partnership can also be affected by poor economic conditions generally; however, no more than 25% 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 a property when the Credit Period for such Property (generally ten years from the date of investment or, if later, the date the Property is leased to qualified tenants) commenced. Because of the time required for the acquisition, completion and rent-up of Properties, the amount of Tax Credits per BAC gradually increased over the first three years of the Partnership. Tax Credits not recognized in the first three years were recognized in the 11th through 13th years. As of December 31, 2007, all the Local Partnerships had completed their Credit Periods. 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, 2012 with respect to the Properties depending upon when the Compliance Period commenced. At December 31, 2008, Mansion Court was required to recapture \$190,635 of low-income housing tax credits.

g) Subsequent Events

We evaluated all subsequent events from the date of the balance sheet through June 27, 2011, which represents the issuance date of these financial statements. There were no events or transactions, other

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2011**

than the one described below, occurring during this subsequent event reporting period which require recognition or disclosure in the financial statements.

Mansion Court Associates (“Mansion Court”)

On May 11, 2011, the Partnership sold its limited partnership interest in Mansion Court Associates (“Mansion Court”) to an affiliate of the Local General Partner for a sales price of \$1. The sale will result in a gain of approximately \$1,509,000, resulting from the write-off of the deficit basis in the Local Partnership of the same amount at the date of the sale, which will be recognized on the Partnership’s Form 10-Q for the quarter ending June 30, 2011.

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, 2011, Paradise Arms (which was classified as asset held for sale) was classified as discontinued operations on the consolidated balance sheets. As of March 31, 2010, no properties were classified as discontinued operations on the consolidated balance sheets.

Consolidated Balance Sheets:

	<u>March 31,</u> <u>2011</u>	<u>March 31,</u> <u>2010</u>
Assets		
Property and equipment – less accumulated depreciation of \$3,059,666 and \$0, respectively	\$ 1,699,698	\$ -
Cash held in escrow	93,428	-
Other assets	6,250	-
Total assets	<u>\$ 1,799,376</u>	<u>\$ -</u>
Liabilities		
Mortgage notes payable	\$ 4,139,881	\$ -
Accounts payable	16,308	-
Accrued interest payable	1,425,013	-
Security deposit payable	32,036	-
Due to general partners and affiliates	20,000	-
Total liabilities	<u>\$ 5,633,238</u>	<u>\$ -</u>

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2011**

The following table summarizes the results of operations of the Local Partnerships that were classified as discontinued operations in the consolidated statements of operations. For the year ended March 31, 2011, Derby Run, Martha Bryant, P&P, Colden Oaks and Brynview, which were sold during the year ended March 31, 2011, were classified as discontinued operations in the consolidated statements of operations. For the year ended March 31, 2010, CCH VI and Tasker, which were sold during the year ended March 31, 2010 and Derby Run, Martha Bryant, P&P, Colden Oaks and Brynview, in order to present comparable results to the year ended March 31, 2011, were all classified as discontinued operations in the consolidated statements of operations.

Consolidated Statements of Discontinued Operations:

	<u>Years Ended March 31,</u>	
	<u>2011</u>	<u>2010*</u>
Revenues		
Rental income	\$ 3,253,142	\$ 4,715,797
Other (Note 2)	124,153	236,901
Gain on sale of properties (Note 10)	<u>20,284,069</u>	<u>2,418,403</u>
Total revenue	<u>23,661,364</u>	<u>7,371,101</u>
Expenses		
General and administrative	959,418	1,063,579
General and administrative-related parties (Note 8)	65,041	144,152
Repairs and maintenance	659,899	1,184,436
Operating and other	336,163	496,031
Insurance	121,300	217,646
Taxes	38,340	228,332
Interest	1,200,712	1,562,318
Depreciation and amortization	692,075	1,575,353
Loss on impairment of assets	<u>-</u>	<u>11,267,516</u>
Total expenses	<u>4,072,948</u>	<u>17,739,363</u>
Income (loss) from discontinued operations	19,588,416	(10,368,262)
Noncontrolling interest in (income) loss of subsidiaries from discontinued operations	<u>(1,028,106)</u>	<u>1,390,498</u>
Income (loss) from discontinued operations – Independence Tax Credit Plus LP II	<u>\$ 18,560,310</u>	<u>\$ (8,977,764)</u>
Income (loss) – limited partners from discontinued operations	<u>\$ 18,374,707</u>	<u>\$ (8,887,986)</u>
Number of BACs outstanding	<u>58,928</u>	<u>58,928</u>
Income (loss) from discontinued operations per BAC	<u>\$ 311.81</u>	<u>\$ (150.83)</u>

**Notes to Consolidated Financial Statements** *(continued)*  
**March 31, 2011**

	<u>Years Ended March 31,</u>	
	<u>2011</u>	<u>2010*</u>
<u>Cash flows from Discontinued Operations:</u>		
Net cash (used in) provided by operating activities	\$ (969,665)	\$ 1,455,853
Net cash provided by investing activities	\$ 1,290,618	\$ 115,748
Net cash used in financing activities	\$ (413,480)	\$ (1,582,955)

\* 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

The Partnership had originally invested approximately \$47,000,000 (not including acquisition fees of approximately \$3,502,000) of the net proceeds of its Offering in fifteen Local Partnerships of which approximately \$135,000 remains to be paid (including approximately \$6,000 being held in escrow) as certain benchmarks, such as occupancy level, must be attained prior to the release of the funds. The Partnership does not intend to acquire additional Properties. During the year ended March 31, 2011, the Partnership did not make any advances to the Local Partnerships. Although the Partnership will not be acquiring additional Properties, the Partnership may be required to fund potential purchase price adjustments based on tax credit adjustor clauses.

During the fiscal year ended March 31, 2011, the Partnership sold its limited partnership interests in five Local Partnerships. As of March 31, 2011, the Partnership has sold its limited partnership interests in seven Local Partnerships. In addition, as of March 31, 2011, the Partnership has entered into an agreement to sell its limited partnership interests in one Local Partnership. Subsequently, the Partnership sold its limited partnership interests in one Local Partnership. The Partnership is in the process of developing a plan to dispose of all of its investments, but 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 investments. All gains and losses on sales are included in discontinued operations.

Short-term

During the year ended March 31, 2011, 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

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

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, will be used towards the future operating expenses of the Partnership. During the years ended March 31, 2011 and 2010, the amounts received from operations of the Local Partnerships were approximately \$120,000 and \$249,000, respectively. Additionally, during the years ended March 31, 2011 and 2010, the Partnership received approximately \$1,113,000 and \$178,000, respectively, in proceeds from the sale of Local Partnerships' limited partnership interests. The Partnership does not anticipate being able to make distributions sufficient to return to BACs holders their original capital contributions.

For the year ended March 31, 2011, cash and cash equivalents of the Partnership and its consolidated Local Partnerships decreased approximately \$108,000. This decrease was due to net cash used in operating activities (\$103,000), purchase of property and equipment (\$424,000), principal payments of mortgage notes (\$636,000), a decrease in capitalization of consolidated subsidiaries attributable to minority interest (\$245,000) and cost paid relating to sale of properties (\$47,000) which exceeded proceeds from sale of properties (\$1,160,000), a net increase in due to local general partners and affiliates relating to financing activities (\$156,000) and a decrease in cash held in escrow relating to investing activities (\$30,000). Included in the adjustment to reconcile the net income to cash used in operating activities is depreciation and amortization of approximately \$(2,094,000), gain on sale of properties of approximately (\$20,284,000) and loss on impairment of assets of approximately \$(1,047,000).

Total expenses for the year ended March 31, 2011 and 2010, respectively, excluding depreciation and amortization, interest, general and administrative – related parties and loss on impairment of fixed assets, totaled \$5,955,071 and \$5,499,632, respectively.

Accounts payable as of March 31, 2011 and 2010 were \$723,100 and \$781,692, 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 \$16,308 and \$0 as of March 31, 2011 and 2010, respectively. Accrued interest as of March 31, 2011 and 2010 was \$16,805,364 and \$23,334,820, respectively. Such amount 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 \$1,425,013 and \$0 as of March 31, 2011 and 2010, respectively. The Partnership anticipates the payment of accrued interest on the secondary loans (which make up the majority of the accrued interest payable amount and which have been accumulating since the Partnership's investment in the respective Local Partnership) will be made from future refinancings or sales proceeds of the respective Local Partnerships. In addition, each Local Partnership's mortgage notes are collateralized by the land and buildings of the respective Local Partnership, and are without further recourse to the Partnership.

Because the provisions of the secondary loans defer the payment of accrued interest of the respective Local Partnerships, and 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 (and the applicable Local Partnerships) 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 has an unconsolidated working capital reserve of approximately \$721,000 at March 31, 2011.

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

### Long-Term

Partnership management fees owed to the General Partner amounting to approximately \$4,930,000 and \$5,877,000 were accrued and unpaid as of March 31, 2011 and 2010, respectively and are included in Due to general partner and affiliates on the Consolidated Balance Sheets. During the year ended March 31, 2011, management deemed the unpaid partnership management fees related to sold properties uncollectible and wrote off approximately \$967,000 resulting in a non-cash General Partner contribution of the same amount. Unpaid partnership management fees for any year are 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. See Note 8 in Item 8 for further discussion of amounts Due to the general partner and affiliates. The General Partner does not anticipate making any future advances of 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 result in recapture of Tax Credits if the investment is lost before expiration of the Compliance Period.

Except as described above, management is not aware of any trends or events, commitments or uncertainties, which have not otherwise been disclosed that will or are likely to impact liquidity in a material way. Management believes the only impact would be from laws that have not yet been adopted. 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 originally invested the proceeds of its Offering in 15 Local Partnerships, all of which had their Tax Credits fully in place during the Credit Periods. As of December 31, 2007, all the Local Partnerships had completed their Credit Periods. 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, 2012 with respect to the Properties depending upon when the Compliance Period commenced. At December 31, 2008, Mansion Court Associates was required to recapture \$190,635 of low-income housing tax credits.

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

### Tabular Disclosure of Contractual Obligations

The following table summarizes the Partnership's commitments as of March 31, 2011 to make future payments under its debt agreements and other contractual obligations.

<u>Contractual Obligations</u>	<u>Payments Due by Period</u>				
	<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)	\$ 20,243,830	\$ 2,538,563	\$ 996,196	\$ 5,601,416	\$ 11,107,655
Loans payable to local general partner and affiliates (b)	<u>236,994</u>	<u>236,994</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 20,480,824</u>	<u>\$ 2,775,557</u>	<u>\$ 996,196</u>	<u>\$ 5,601,416</u>	<u>\$ 11,107,655</u>

(a) The mortgage notes are payable in aggregate monthly installments of approximately \$55,000 including principal and interest at rates ranging from 0% to 8.93% per annum, through the year 2052. Each subsidiary partnership's mortgage note payable is collateralized by the land and buildings of the respective subsidiary partnership, the assignment of each certain subsidiary partnership's rents and leases, and is without further recourse.

(b) See Note 8 (B) in Item 8. Financial Statements and Supplementary Data.

The following table summarizes the Partnership's commitments from discontinued operations as of March 31, 2011 to make future payments under its debt agreements and other contractual obligations.

<u>Contractual Obligations</u>	<u>Payments Due by Period</u>				
	<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)	\$ 4,139,881	\$ 25,626	\$ 58,734	\$ 70,339	\$ 3,985,182
	<u>\$ 4,139,881</u>	<u>\$ 25,626</u>	<u>\$ 58,734</u>	<u>\$ 70,339</u>	<u>\$ 3,985,182</u>

(a) The mortgage note is payable in aggregate monthly installments of approximately \$9,000 including principal and interest at rates ranging from 3.00 to 9.05% per annum, through the year 2052. The subsidiary partnership's mortgage note payable is collateralized by the land and buildings of the respective subsidiary partnership, the assignment of each certain subsidiary partnership's rents and leases, and is without further recourse.

### Off Balance Sheet Arrangements

The Partnership has no off-balance sheet arrangements.

### Critical Accounting Policies and Estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The following is a summary of certain accounting estimates considered critical by the Partnership. The summary should be read in conjunction with the more complete discussion of the Part-

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

nership's accounting policies included in Item 8, 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*. A loss on impairment of assets is recorded when management estimates amounts recoverable through future operations and sale of the Property on an undiscounted basis are below depreciated cost. At that time, Property investments themselves are reduced to estimated fair value (generally using discounted cash flows) when the Property is considered to be impaired and the depreciated cost exceeds estimated fair value.

During the year ended March 31, 2011, the Partnership recorded approximately \$1,047,000 as an aggregate loss on impairment of assets or reduction to estimated fair value. Through March 31, 2011, the Partnership has recorded approximately \$29,131,000 as an aggregate loss on impairment of property.

### 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 2e, 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 May 2011, the Financial Accounting Standards Board ("FASB") issued under Topic 820, *Fair Value Measurements and Disclosures*, ASU 2011-04, "Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs". The amendments in this ASU result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the FASB does not intend for amendments in this ASU to result in a change in the applica-

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

tion of the requirements in Topic 820. The amendments in this ASU are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. The adoption of this accounting standard will not 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, 2011 and 2010 (the 2010 and 2009 Fiscal Years, respectively) excluding the results of its discontinued operations which are not reflected in the following discussion (see Item 8, Note 14).

The net income (loss) for the 2010 and 2009 Fiscal Years totaled \$14,984,321 and \$(22,153,776), respectively.

The Partnership and BACs holders began to recognize Tax Credits with respect to a Property when the Credit Period for such Property commenced. Because of the time required for the acquisition, completion and rent-up of Properties, the amount of Tax Credits per BAC gradually increased over the first three years of the Partnership. Tax Credits not recognized in the first three years were recognized in the 11th through 13th years. As of December 31, 2007, Credit Periods had expired for all properties.

### 2010 vs. 2009

Rental income increased approximately 3% for the 2010 Fiscal Year as compared to the 2009 Fiscal Year, primarily due to an increase in rental subsidy income at two Local Partnerships and rental increases at several other Local Partnerships.

The Partnership recorded a loss on impairments of approximately \$1,047,000 and \$21,750,000 during 2010 and 2009 Fiscal Years, respectively (see Note 4, Item 8).

Repairs and maintenance increased approximately \$298,000 for the 2010 Fiscal Year as compared to the 2009 Fiscal Year, primarily due to an increase in painting and boiler costs at one Local Partnership, an increase in exterminating costs, security contracts, repair materials and decorating costs at a second Local Partnership, an increase in flooring, carpet turnover and water heaters at a third Local Partnership and overall increased repairs at a fourth Local Partnership, offset by decreases in repair and maintenance contracts, decorating and other repairs at a fifth Local Partnership and decreases in elevator maintenance at a sixth Local Partnership.

Operating decreased approximately \$119,000 for the 2010 Fiscal Year as compared to the 2009 Fiscal Year, primarily due to a decrease in gas bulk purchases due to more favorable rates, water expense and electricity costs at one Local Partnership.

Real estate taxes increased approximately \$125,000 for the 2010 Fiscal Year as compared to the 2009 Fiscal Year, primarily due to an increase in the tax assessment of one Local Partnership.

Depreciation and amortization decreased approximately \$485,000 for the 2010 Fiscal Year as compared to the 2009 Fiscal Year, primarily due to the reduction in carrying amounts relating to impairment of assets recorded during the year ended March 31, 2010 at six Local Partnerships.

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

### Results of Operations of Certain Local Partnerships

#### Mansion Court Associates ("Mansion Court")

The financial statements for Mansion Court have been prepared assuming that Mansion Court will continue as a going concern. Mansion Court had losses of \$369,996 (including loss on impairment of \$301,015) and \$79,533 for the 2010 and 2009 Fiscal Years, respectively. Mansion Court has sustained operating losses over the years and has not generated sufficient cash flow from operations to meet its obligations. The Local General Partner has provided funding in the past years; however there is no obligation to do so. The property also has experienced a high number of vacancies due to deteriorating conditions in the area. As of December 31, 2010, the property had 23 out of 30 vacant units. Vacancies continue to increase due to declining conditions in the surrounding neighborhood, and the expenditure of funds at this time to make improvements would not benefit the property. The Local General Partner continues to explore options to mitigate increased crime and deteriorating neighborhood conditions. These options include assistance from local government housing agencies and could include transfer of ownership.

The Partnership's investment in Mansion Court at March 31, 2011 and 2010 was reduced to zero as a result of prior years' losses, and the noncontrolling interest balance was \$65,000 and \$69,000 at each date, respectively. Mansion Court's net loss after noncontrolling interest amounted to approximately \$366,000 and \$79,000 for the 2010 and 2009 Fiscal Years. The financial statements of Mansion Court do not include any adjustments that might result from the outcome of this uncertainty.

During the year ended March 31, 2011, in accordance with ASC 360, the Partnership deemed the building of Mansion Court impaired and wrote it down to its estimated fair value of \$0, which resulted in a loss on impairment of approximately \$301,000. Fair value was obtained from an assessment made by the management after indications that the carrying value of the assets were not recoverable, evidenced by a history of net operating losses over the past few years as discussed above.

Subsequent to March 31, 2011, Mansion Court was sold (see Note 13g in Item 8).

#### Other

The Partnership's investment as a limited partner in the Local Partnerships is subject to the risks of 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 financing viability of one or more of the Local Partnerships.

There also are substantial risks associated with the operation 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

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

purchased. Inflation also affects the Local Partnerships adversely by increasing operating costs as, for example, for such items as fuel, utilities and labor.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Mortgage notes are payable in aggregate monthly installments including principal and interest at rates varying from 0% to 9.05% 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 Item 8, Note 3 to the 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. II and Subsidiaries  
(A Delaware Limited Partnership)

We have audited the consolidated balance sheets of Independence Tax Credit Plus L.P. II and Subsidiaries (A Delaware Limited Partnership) as of March 31, 2011 and 2010, and the related consolidated statements of operations, changes in partners' deficit, and cash flows for the years ended March 31, 2011 and 2010 (the 2010 and 2009 Fiscal Years, respectively). These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements for fourteen (Fiscal 2010 and 2009) subsidiary partnerships whose losses aggregated \$3,780,072 and \$5,277,556 for the 2010 and 2009 Fiscal Years, respectively, and whose assets constituted 95% of the Partnership's assets at March 31, 2011 and 2010, presented in the accompanying consolidated financial statements. The financial statements of thirteen (Fiscal 2010) and fourteen (Fiscal 2009) 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 (Fiscal 2010) of these subsidiary partnerships is 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, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of Independence Tax Credit Plus L.P. II and Subsidiaries at March 31, 2011 and 2010, and the results of their operations and their cash flows for the years ended March 31, 2011 and 2010, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 13, the consolidated financial statements include the financial statements of one subsidiary partnership with significant uncertainties. The financial statements of this subsidiary partnership were prepared assuming that they will continue as a going concern. This subsidiary partnership's net loss aggregated \$369,996 (2010 Fiscal Year) and \$79,533 (2009 Fiscal Year), and their assets aggregated \$169,783 and \$464,755 at March 31, 2011 and 2010, respectively. Management's plan in regard to this matter is also described in Note 13. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ TRIEN ROSENBERG  
WEINBERG CIULLO & FAZZARI LLP

New York, New York  
June 27, 2011

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

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New York, NY 10022

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