

**INDEPENDENCE**  
**TAX CREDIT PLUS II**

**QUARTERLY**  
**REPORT**

**Ended**  
**September 30, 2011**

November 2011

Message to Our BACsholders:

We would like to take this opportunity to present the Quarterly Report for Independence Tax Credit Plus LP II, (the “Partnership”) for the quarter ended September 30, 2011.

The Partnership has not sold any of its partnership interests since our last report. As such, it continues to hold six assets in its portfolio. The General Partner continues to research liquidation opportunities for the remaining interests and complete liquidation of the assets is anticipated to occur within the next year or two. This timeline is approximate and there can be no guarantees made with respect to the timing of future sales. For more detailed information on the overall performance of the Partnership we urge you to read the Management’s Discussion and Analysis of Financial Condition and Results of Operations and Notes section of this report.

The Schedule K-1 forms for 2011 will be mailed during the first quarter of 2012 and simultaneously will be accessible via our website. Please go to [www.centerline.com](http://www.centerline.com) and click on “K-1 Tax information for Investors”, then click on the Partnership in which you are an investor. You will be asked to provide your taxpayer identification number and your six-digit investor number. If you do not know your investor number, have recently changed your mailing address or have questions concerning your investment, please contact Denise Bernstein of the Partnership’s Investor Relations Department at 1-800-600-6422.

Very truly yours,



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

## Consolidated Balance Sheets

	September 30, 2011	March 31, 2011
	(Unaudited)	(Audited)
ASSETS		
Operating assets		
Property and equipment at cost, net of accumulated depreciation of \$24,723,490 and \$28,173,471, respectively	\$ 9,048,247	\$ 16,574,109
Cash and cash equivalents	2,227,095	1,479,226
Cash held in escrow	1,893,373	2,086,911
Deferred costs, net of accumulated amortization of \$58,619 and \$63,134, respectively	84,726	90,211
Other assets	<u>608,146</u>	<u>385,197</u>
Total operating assets	<u>13,861,587</u>	<u>20,615,654</u>
Assets from discontinued operations (Note 5)		
Property and equipment held for sale, net of accumulated depre- ciation of \$0 and \$3,055,377, respectively	-	1,699,698
Net assets held for sale	<u>-</u>	<u>99,678</u>
Total assets from discontinued op- erations	<u>-</u>	<u>1,799,376</u>
Total assets	<u>\$ 13,861,587</u>	<u>\$ 22,415,030</u>

See accompanying notes to consolidated financial statements.

## Consolidated Balance Sheets (continued)

	September 30, 2011 <u>(Unaudited)</u>	March 31, 2011 <u>(Audited)</u>
<b>LIABILITIES AND PARTNERS' (DEFICIT) CAPITAL</b>		
Liabilities		
Mortgage notes payable	\$ 18,501,430	\$ 20,243,830
Accounts payable	597,929	599,843
Security deposit payable	164,010	254,770
Accrued interest	17,312,120	16,805,364
Due to local general partners and affiliates	801,612	1,023,346
Due to general partner and affiliates	<u>4,995,112</u>	<u>5,270,129</u>
Total operating liabilities	<u>42,372,213</u>	<u>44,197,282</u>
Liabilities from discontinued operations (Note 5)		
Mortgage notes payable of assets held for sale	-	4,139,881
Net liabilities held for sale	<u>-</u>	<u>1,493,357</u>
Total liabilities from discontinued operations	<u>-</u>	<u>5,633,238</u>
Total liabilities	<u>42,372,213</u>	<u>49,830,520</u>
Commitments and contingencies (Note 6)		
Partners' (deficit) capital		
Limited partners (58,928 BACs issued and outstanding)	(28,870,182)	(26,466,187)
General partner	<u>309,439</u>	<u>283,722</u>
Independence Tax Credit Plus L.P. II total	<u>(28,560,743)</u>	<u>(26,182,465)</u>
Noncontrolling interests	<u>50,117</u>	<u>(1,233,025)</u>
Total partners' deficit	<u>(28,510,626)</u>	<u>(27,415,490)</u>
Total liabilities and partners' (deficit) capital	<u>\$ 13,861,587</u>	<u>\$ 22,415,030</u>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Operations

(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2011	2010*	2011*	2010*
Revenues				
Rental income	\$ 1,493,622	\$ 1,416,624	\$ 2,895,069	\$ 2,850,503
Other income	12,338	3,625	31,069	20,350
Total revenues	<u>1,505,960</u>	<u>1,420,249</u>	<u>2,926,138</u>	<u>2,870,853</u>
Expenses				
General and administrative	513,843	621,441	1,024,218	1,147,924
General and administrative- related parties (Note 2)	113,752	192,620	183,653	396,583
Repairs and maintenance	352,469	476,209	702,111	836,729
Operating	148,539	181,199	353,855	453,334
Taxes	81,672	66,550	162,933	132,254
Insurance	56,514	53,940	109,179	106,389
Financial, principally interest	303,566	284,464	600,510	583,045
Depreciation and amortization	274,205	282,055	547,681	565,815
Total expenses from operations	<u>1,844,560</u>	<u>2,158,478</u>	<u>3,684,140</u>	<u>4,222,073</u>
Loss from operations	(338,600)	(738,229)	(758,002)	(1,351,220)
Income (loss) from discontinued operations	<u>3,838,874</u>	<u>1,720,306</u>	<u>(387,134)</u>	<u>1,582,168</u>
Net income (loss)	<u>3,500,274</u>	<u>982,077</u>	<u>(1,145,136)</u>	<u>230,948</u>
Net loss attributable to noncon- trolling interests from opera- tions	2,336	5,524	5,681	9,550
Net income attributable to noncontrolling interests from discontinued operations	<u>(167,297)</u>	<u>(932,512)</u>	<u>(1,288,823)</u>	<u>(931,146)</u>
Net income attributable to noncontrolling interests	<u>(164,961)</u>	<u>(926,988)</u>	<u>(1,283,142)</u>	<u>(921,596)</u>
Net income (loss) attributable to Independence Tax Credit Plus L.P. II	<u>\$ 3,335,313</u>	<u>\$ 55,089</u>	<u>\$ (2,428,278)</u>	<u>\$ (690,648)</u>

See accompanying notes to consolidated financial statements.

**Consolidated Statements of Operations** *(continued)*  
*(Unaudited)*

	Three Months Ended September 30,		Six Months Ended September 30,	
	2011	2010*	2011*	2010*
Loss from operations – limited partners	(332,901)	(725,378)	(744,798)	(1,328,253)
Income (loss) from discontinued operations (including gain (loss) on sale of properties) – limited partners	<u>3,634,861</u>	<u>779,916</u>	<u>(1,659,197)</u>	<u>644,511</u>
Net income (loss) – limited partners	<u>\$ 3,301,960</u>	<u>\$ 54,538</u>	<u>\$ (2,403,995)</u>	<u>\$ (683,742)</u>
Number of BACs outstanding	<u>58,928</u>	<u>58,928</u>	<u>58,928</u>	<u>58,928</u>
Loss from operations per weighted average BAC	\$ (5.65)	\$ (12.31)	\$ (12.64)	\$ (22.54)
Income (loss) from discontinued operations per weighted average BAC	<u>61.68</u>	<u>13.24</u>	<u>(28.16)</u>	<u>10.94</u>
Net income (loss) per weighted average BAC	<u>\$ 56.03</u>	<u>\$ 0.93</u>	<u>\$ (40.80)</u>	<u>\$ (11.60)</u>

\* Reclassified for comparative purposes.

See accompanying notes to consolidated financial statements.

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

	<u>Total</u>	<u>Limited Partners</u>	<u>General Partner</u>	<u>Noncontrolling Interests</u>
Partners' deficit – April 1, 2011	\$ (27,415,490)	\$ (26,466,187)	\$ 283,722	\$ (1,233,025)
Net loss	(1,145,136)	(2,403,995)	(24,283)	1,283,142
Contributions – write-off of related party debt	<u>50,000</u>	<u>-</u>	<u>50,000</u>	<u>-</u>
Partners' deficit – September 30, 2011	<u>\$ (28,510,626)</u>	<u>\$ (28,870,182)</u>	<u>\$ 309,439</u>	<u>\$ 50,117</u>

See accompanying notes to consolidated financial statements.

**Consolidated Statements of Cash Flows**  
*(Unaudited)*

	Six Months Ended September 30,	
	2011	2010
Cash flows from operating activities:		
Net (loss) income	\$ (1,145,136)	\$ 230,948
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Loss (gain) on sale of properties	466,090	(1,815,882)
Depreciation and amortization	666,908	1,125,371
Changes in operating assets and liabilities:		
Decrease in accounts payable	(202,750)	(76,646)
(Decrease) increase in security deposit payable	(369)	5,180
Increase in accrued interest	723,144	933,768
Increase in cash held in escrow	(107,795)	(153,161)
(Increase) decrease in other assets	(569,311)	20,250
Decrease in due to local general partners and affiliates	(14,194)	(85,134)
(Decrease) increase in due to general partner and affiliates	(225,017)	247,377
Total adjustments	<u>736,706</u>	<u>201,123</u>
Net cash (used in) provided by operating activities	<u>(408,430)</u>	<u>432,071</u>

See accompanying notes to consolidated financial statements.

**Consolidated Statements of Cash Flows** *(continued)*  
*(Unaudited)*

	Six Months Ended September 30,	
	<u>2011</u>	<u>2010</u>
Cash flows from investing activities:		
Proceeds from sale of properties	1,481,329	1,045,822
Costs paid relating to sale of properties	-	(2,105)
Improvements to property and equipment	-	(185,274)
(Increase) decrease in cash held in escrow	<u>(78,142)</u>	<u>21,176</u>
Net cash provided by investing activities	<u>1,403,187</u>	<u>879,619</u>
Cash flows from financing activities:		
Principal payments of mortgage notes	(246,888)	(349,635)
Repayment of advances to local general partners and affiliates	-	8,094
Decrease in capitalization of consolidated subsidiaries attributable to noncontrolling interests	<u>-</u>	<u>(75,000)</u>
Net cash used in financing activities	<u>(246,888)</u>	<u>(416,541)</u>
Net increase in cash and cash equivalents	747,869	895,149
Cash and cash equivalents at beginning of period	<u>1,479,226</u>	<u>1,587,016</u>
Cash and cash equivalents at end of period*	<u>\$ 2,227,095</u>	<u>\$ 2,482,165</u>

See accompanying notes to consolidated financial statements.

**Consolidated Statements of Cash Flows** *(continued)*  
*(Unaudited)*

	Six Months Ended September 30,	
	2011	2010
Summarized below are the components of the loss (gain) on sale of properties:		
Proceeds from sale of properties – net	\$ (1,481,329)	\$ (1,043,717)
Property and equipment, net of accumulated depreciation	8,560,347	5,285,972
Deferred costs	3,790	35,534
Other assets	352,612	42,363
Cash held in escrow	472,903	78,112
Accounts payable and other liabilities	184,528	149,395
Due to general partners and affiliates	(70,000)	(5,726)
Due to local general partners and affiliates	(207,540)	22,772
Mortgage payable	(5,635,393)	(6,310,623)
Accrued interest	(1,641,401)	(27,714)
Security deposits	(122,427)	(42,250)
Contribution – General Partner	50,000	-

\* Cash and cash equivalents at end of period, includes cash and cash equivalents from discontinued operations of \$0 and \$82,252, respectively.

See accompanying notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

### September 30, 2011 (Unaudited)

#### Note 1 – General

The consolidated financial statements include the accounts of Independence Tax Credit Plus L.P. II (the “Partnership”) and twelve other limited partnerships (“subsidiary partnerships”, “subsidiaries” or “Local Partnerships”) owning leveraged apartment complexes that are eligible for the low-income housing tax credit. The general partner of the Partnership is Related Independence Associates L.P., a Delaware limited partnership (the “General Partner”), which is managed by an affiliate of Centerline Holding Company (“Centerline”), which is the ultimate parent of the manager of the general partner of the General Partner. Through the rights of the Partnership and/or an affiliate of the General Partner, which affiliate has a contractual obligation to act on behalf of the Partnership, to remove the general partner of each of the subsidiary partnerships (each a “Local General Partner”) and to approve certain major operating and financial decisions, the Partnership has a controlling financial interest in the subsidiary partnerships.

For financial reporting purposes, the Partnership’s fiscal quarter ends September 30. All subsidiaries have fiscal quarters ending June 30. Accounts of the subsidiaries have been adjusted for intercompany transactions from July 1 through September 30. The Partnership’s fiscal quarter ends September 30 in order to allow adequate time for the subsidiaries’ financial statements to be prepared and consolidated. 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 attributable to noncontrolling interests amounted to approximately \$(165,000), \$(927,000), \$(1,283,000) and \$(922,000) for the three and six months ended September 30, 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.

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been omitted or condensed. These condensed financial statements should be read in conjunction with the financial statements and notes thereto included in the

## **Notes to Consolidated Financial Statements** *(continued)* **September 30, 2011** (Unaudited)

Partnership's Annual Report on Form 10-K for the year ended March 31, 2011.

The books and records of the Partnership are maintained on the accrual basis of accounting in accordance with GAAP. In the opinion of the General Partner of the Partnership, the accompanying unaudited financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position of the Partnership as of September 30, 2011, the results of its operations for the three and six months ended September 30, 2011 and 2010 and its cash flows for the six months ended September 30, 2011 and 2010. However, the operating results and cash flows for the six months ended September 30, 2011 may not be indicative of the results for the entire year.

### Recent Accounting Pronouncements

In June 2011, the FASB issued under Topic 220, Comprehensive Income, ASU 2011-05, "Presentation of Comprehensive Income". The amendments in this ASU require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. In addition, the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity has been eliminated. For public entities, the amendments are effective for fiscal years and interim periods within those years, beginning after December 15, 2011. However, early adoption is permitted. The adoption of this accounting standard will not have a material effect on the Partnership's consolidated financial statements.

### NOTE 2 – Related Party Transactions

An affiliate of the General Partner, Independence SLP L.P., 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.

**Notes to Consolidated Financial Statements** (continued)  
**September 30, 2011** (Unaudited)

A) Other Related Party Expenses

The costs incurred to related parties for the three and six months ended September 30, 2011 and 2010 were as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2011	2010*	2011	2010*
Partnership management fees (a)	\$ 39,176	\$ 113,500	\$ 34,929	\$ 238,500
Expense reimbursement (b)	39,337	43,814	78,674	87,629
Local administrative fee (c)	4,000	4,000	8,000	8,000
Total general and administrative - General Partner	<u>82,513</u>	<u>161,314</u>	<u>121,603</u>	<u>334,129</u>
Property management fees incurred to affiliates of the subsidiary partnerships' general partners	<u>31,239</u>	<u>31,306</u>	<u>62,050</u>	<u>62,454</u>
Total general and administrative-related parties	<u>\$ 113,752</u>	<u>\$ 192,620</u>	<u>\$ 183,653</u>	<u>\$ 396,583</u>

\* Reclassified for comparative purposes.

The costs incurred to related parties from discontinued operations for the three and six months ended September 30, 2011 and 2010 were as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2011	2010*	2011	2010*
Local administrative fees (c)	\$ 1,875	\$ 5,625	\$ 3,750	\$ 11,875
Total general and administrative – General Partner	<u>1,875</u>	<u>5,625</u>	<u>3,750</u>	<u>11,875</u>
Property management fees incurred to affiliates of the subsidiary partnerships' general partners	<u>35,767</u>	<u>59,119</u>	<u>89,285</u>	<u>116,670</u>
Total general and administrative-related parties	<u>\$ 37,642</u>	<u>\$ 64,744</u>	<u>\$ 93,035</u>	<u>\$ 128,545</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

**Notes to Consolidated Financial Statements** *(continued)*  
**September 30, 2011** (Unaudited)

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 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 \$4,774,000 and \$4,930,000 were accrued and unpaid as of September 30, 2011 and March 31, 2011, 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 were accrued and unpaid as of both September 30, 2011 and March 31, 2011. 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. As of September 30, 2011 and March 31, 2011, the subsidiary partnerships owed approximately \$182,000 and \$241,000, respectively, of these fees to

**Notes to Consolidated Financial Statements** (continued)  
**September 30, 2011** (Unaudited)

Independence SLP L.P. 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 September 30, 2011 and March 31, 2011, the Partnership owed \$0 and \$80,000, respectively, to Independence SLP L.P. for the fees it received from a Local Partnership on its behalf.

**B) Due to Local General Partners and Affiliates**

Due to local general partners and affiliates at September 30, 2011 and March 31, 2011 consists of the following:

	September 30, 2011	March 31, 2011
	<u>                    </u>	<u>                    </u>
Operating advances		
Construction costs payable	\$ 180,177	\$ 413,318
Management and other operating advances	382,200	382,200
Loans payable to local general partner and affiliates (a)	2,241	(9,166)
	<u>236,994</u>	<u>236,994</u>
	<u>\$ 801,612</u>	<u>\$ 1,023,346</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.

**NOTE 3 – Fair Value of Financial Instruments**

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

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

The carrying amount approximates fair value.

**Notes to Consolidated Financial Statements** (continued)  
**September 30, 2011** (Unaudited)

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 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:

	<u>At September 30, 2011</u>		<u>At March 31, 2011</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
LIABILITIES:				
Mortgage notes	\$ 18,501,430	\$ 11,469,293	\$ 24,383,711	\$ 11,934,332

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.

**Notes to Consolidated Financial Statements** *(continued)*  
**September 30, 2011** (Unaudited)

NOTE 4 – Sale of Properties

The Partnership is in the process of disposing of all of its investments. During the six months ended September 30, 2011, the Partnership sold its limited partnership interest in three Local Partnerships. As of September 30, 2011, the Partnership has sold its limited partnership interests in ten Local Partnerships. 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 September 21, 2011, the Partnership sold its limited partnership interest in NLEDC, Limited Partnership (“Paradise Arms”) to the Local General Partner for a sales price of \$5,000. The sale resulted in a gain of approximately \$3,846,000 resulting from the write-off of the deficit basis in the Local Partnership of approximately \$3,841,000 and the \$5,000 cash received from the sale, which was recorded during the quarter ended September 30, 2011. 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.

On June 30, 2011, the Partnership redeemed its limited partnership interest in Neptune Venture L.P. (“Winding Ridge”) to the Local General Partner for a sales price of \$1,476,329. The sale resulted in a loss of approximately \$5,836,000 resulting from the write-off of the basis in the Local Partnership of approximately \$7,313,000 and the \$1,476,329 cash received from the sale, which was recorded during the quarter ended June 30, 2011. An adjustment to the loss of approximately (\$96,000) was recorded during the quarter ended September 30, 2011, resulting in an overall loss of approximately \$5,932,000. In accordance with the partnership agreement of Winding Ridge, the Local General Partner was to be paid certain fees and distributions, based on the selling price, contingent upon the completion of a sale. These fees, amounting to \$6,725,000, were based on the implied sales price of \$8,201,828 as determined by an independent real estate service agency. No cash payments were made for these fees. In addition, the sale resulted in a noncash contribution to the Local Partnership from the General Partner of approximately \$4,000 as a

**Notes to Consolidated Financial Statements** *(continued)*  
**September 30, 2011** (Unaudited)

result of the write-off of fees owed by the Local Partnership to an affiliate of the General Partner.

On May 12, 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 resulted in a gain of approximately \$1,698,000 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 quarter ended June 30, 2011. An adjustment to the gain of approximately \$1,000 was recorded during the quarter ended September 30, 2011, resulting in an overall gain of approximately \$1,699,000. In addition, the sale resulted in a noncash contribution to the Local Partnership from the General Partner of approximately \$46,000 as a result of the write-off of fees owed by the Local Partnership to an affiliate of the General Partner.

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. An adjustment to the gain of approximately (\$4,000) was recorded during the quarter ended June 30, 2011, resulting in an overall gain of approximately \$1,020,000.

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. An adjustment to the gain of approximately \$7,000 was recorded during the quarter ended June 30, 2011, resulting in an overall gain of approximately \$5,068,000.

**Notes to Consolidated Financial Statements** *(continued)*  
**September 30, 2011** (Unaudited)

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. An adjustment to the gain of approximately (\$112,000) was recorded during the quarter ended June 30, 2011, resulting in an overall gain of approximately \$6,176,000.

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. An adjustment to the gain of approximately \$30,000 was recorded during the quarter ended June 30, 2011, resulting in an overall gain of approximately \$6,188,000.

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 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 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

**Notes to Consolidated Financial Statements** *(continued)*  
**September 30, 2011** (Unaudited)

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.

**NOTE 5 – Discontinued Operations**

The following table summarizes the financial position of the Local Partnerships that are classified as discontinued operations because the respective Local Partnerships were classified as assets held for sale or were sold. As of September 30, 2011, Paradise Arms, Mansion Court and Winding Ridge, which were sold during the six months ended September 30, 2011, were all classified as discontinued operations on the consolidated balance sheets. As of March 31, 2011, Paradise Arms, which was classified as an asset held for sale, was classified as discontinued operations on the consolidated balance sheets.

**Notes to Consolidated Financial Statements** *(continued)*  
**September 30, 2011** (Unaudited)

Consolidated Balance Sheets:

	September 30, 2011	March 31, 2011
	<u>                    </u>	<u>                    </u>
<b>Assets</b>		
Property and equipment – less accumulated depreciation of \$0 and \$3,055,377, respectively	\$ -	\$ 1,699,698
Cash held in escrow	-	93,428
Other assets	-	6,250
<b>Total assets</b>	<u><u>\$ -</u></u>	<u><u>\$ 1,799,376</u></u>
<b>Liabilities</b>		
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
<b>Total liabilities</b>	<u><u>\$ -</u></u>	<u><u>\$ 5,633,238</u></u>

The following table summarizes the results of operations of the Local Partnerships that were classified as discontinued operations. For the three and six months ended September 30, 2011, Martha Bryant, P&P, Colden Oaks and Brynview, which were sold during the year ended March 31, 2011, Paradise Arms, Mansion Court and Winding Ridge, which were sold during the six months ended September 30, 2011, were all classified as discontinued operations in the consolidated statements of operations. For the three and six months ended September 30, 2010, Tasker, which was sold during the year ended March 31, 2010, and Derby Run, which was sold during the six months ended September 30, 2010, and Martha Bryant, P&P, Colden Oaks, Brynview, Paradise Arms, Mansion Court and Winding Ridge, in order to present comparable results to the six months ended September 30, 2011, were all classified as discontinued operations in the consolidated statements of operations.

**Notes to Consolidated Financial Statements** *(continued)*  
**September 30, 2011 (Unaudited)**

Consolidated Statements of Discontinued Operations:

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2011	2010*	2011	2010*
Revenues				
Rental income	\$ 462,919	\$ 1,442,753	\$ 1,184,320	\$ 2,754,213
Other	(2,137)	71,530	1,425	133,497
Gain (loss) gain on sale of properties (Note 4)	<u>3,750,577</u>	<u>1,776,751</u>	<u>(466,090)</u>	<u>1,815,882</u>
Total revenue	<u>4,211,359</u>	<u>3,291,034</u>	<u>719,655</u>	<u>4,703,592</u>
Expenses				
General and administrative	79,810	287,668	234,876	644,645
General and administrative-related parties (Note 2)	37,642	64,744	93,035	128,545
Repairs and maintenance	52,215	282,172	215,707	534,233
Operating and other	25,398	124,967	103,919	256,664
Taxes	55,405	104,585	116,469	195,475
Insurance	13,133	49,387	39,485	90,466
Interest	49,625	365,084	184,071	711,840
Depreciation and amortization	<u>59,257</u>	<u>292,121</u>	<u>119,227</u>	<u>559,556</u>
Total expenses	<u>372,485</u>	<u>1,570,728</u>	<u>1,106,789</u>	<u>3,121,424</u>
Income (loss) from discontinued operations	\$ 3,838,874	\$ 1,720,306	\$ (387,134)	\$ 1,582,168
Noncontrolling interest in income of subsidiaries from discontinued operations	<u>(167,297)</u>	<u>(932,512)</u>	<u>(1,288,823)</u>	<u>(931,146)</u>
Income (loss) from discontinued operation – Independence Tax Credit Plus LP II	<u>\$ 3,671,577</u>	<u>\$ 787,794</u>	<u>\$ (1,675,957)</u>	<u>\$ 651,022</u>
Income (loss) – limited partners from discontinued operations	<u>\$ 3,634,861</u>	<u>\$ 779,916</u>	<u>\$ (1,659,197)</u>	<u>\$ 644,511</u>
Number of BACs outstanding	<u>58,928</u>	<u>58,928</u>	<u>58,928</u>	<u>58,928</u>
Income (loss) from discontinued operations per BAC	<u>\$ 61.68</u>	<u>\$ 13.24</u>	<u>\$ (28.16)</u>	<u>\$ 10.94</u>

**Notes to Consolidated Financial Statements** *(continued)*  
**September 30, 2011** (Unaudited)

Cash Flows from Discontinued Operations:

	Six Months Ended September 30,	
	<u>2011</u>	<u>2010*</u>
Net cash used in operating activities	\$ (1,729,884)	\$ (546,559)
Net cash provided by investing activities	\$ 1,417,285	\$ 950,957
Net cash provided by (used in) financing activities	\$ 172,791	\$ (134,642)

NOTE 6 – Commitments and Contingencies

a) Going Concern Consideration

At September 30, 2011, the Partnership's liabilities exceeded assets by \$28,510,626 and for the six months ended September 30, 2011, incurred net loss of \$ (1,145,136), including loss on sale of properties of \$466,090. These factors raise substantial doubt about the Partnership's ability to continue as a going concern. As discussed in Note 2, partnership management fees of approximately \$4,774,000 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 \$18,501,430 and the accrued interest payable balance of \$17,312,120 is of a nonrecourse nature and secured by the respective properties. The Partnership is currently in the process of disposing of all of its investments. Historically, the mortgage notes and accrued interest thereon have been assumed by the buyer in instances of sales of the Partnership's interest or have been paid off from sales proceeds in instances of sales of the property. In most instances when the Partnership's interest was sold and liabilities were assumed, the Partnership recognized a gain from the sale. The Partnership owns the limited partner interest in all its investments, and as such has no financial

**Notes to Consolidated Financial Statements** *(continued)*  
**September 30, 2011** (Unaudited)

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 and the potential recapture of the Tax Credits if the investment is lost before the expiration of the Compliance Period. Dispositions of any investment in a Local Partnership should not impact the future results of operations, liquidity, or financial condition of the Partnership.

The Partnership has working capital reserves of approximately \$1,784,000 at September 30, 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 \$76,000 for the six months ended September 30, 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**

Mansion Court Associates (“Mansion Court”)

On May 12, 2011, the Partnership sold its limited partnership interest in Mansion Court (see Note 4). Mansion Court had net income of approximately \$1,751,000, including a gain on sale of approximately \$1,772,000, for the six months ended September 30, 2011. Mansion Court had sustained operating losses over the years and had not generated sufficient cash flow from operations to meet its obligations. The Local General Partner had provided funding in the past years; however there was no obligation to do so. The property also had experienced a high number of vacancies due to deteriorating conditions in the area. As of April 30, 2011, the project had 23 out of 30 vacant units. Vacancies continued to increase due to declining conditions in the surrounding neighborhood, and the expenditure of funds to make improvements would not benefit the property. The Local General Partner was exploring options to mitigate increased crime and deteriorating neighborhood conditions. These options included assistance from local government housing agencies and transfer of ownership.

**Notes to Consolidated Financial Statements** *(continued)*  
**September 30, 2011** (Unaudited)

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.

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").

d) Cash Distributions

Cash distributions from the Local Partnerships to the Partnership are restricted by the provisions of the respective agreements of limited partnership of the Local Partnerships and/or the U.S. Department of Housing and Urban Development.

e) Property Management Fees

Property management fees incurred by the Local Partnerships amounted to \$150,222, \$193,380, \$314,326 and \$391,577 for the three and six months ended September 30, 2011 and 2010, respectively. Of these fees \$67,006, \$90,425, \$151,335 and \$179,124 were earned by affiliates of the Local General Partners for the three and six months ended September 30, 2011 and 2010, respectively, which include \$35,767, \$59,119, \$89,285 and \$116,670 of fees relating to discontinued operations for the three and six months ended September 30, 2011 and 2010, respectively.

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 20% 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.

## **Notes to Consolidated Financial Statements** *(continued)* **September 30, 2011** (Unaudited)

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 the issuance date of this report and determined that there were no events or transactions occurring during the subsequent event reporting period which require recognition or disclosure in the financial statements.

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

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

### Liquidity and Capital Resources

The Partnership originally invested all of its net proceeds in fifteen Local Partnerships. The Partnership is in the process of disposing of all of its investments. During the six months ended September 30, 2011, the Partnership sold its limited partnership interest in three Local Partnerships. As of September 30, 2011, the Partnership has sold its limited partnership

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

interests in ten Local Partnerships. 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 BACs holders their original investments. All gains and losses on sales are included in discontinued operations.

### Short-Term

The Partnership's primary sources of funds include: (i) working capital reserves; (ii) interest earned on the working capital reserves; (iii) cash distributions from operations of the Local Partnerships; and (iv) sales proceeds and distributions. Such funds are available to meet the obligations of the Partnership. The Partnership does not anticipate providing cash distributions to BACs holders in circumstances other than refinancing or sales. Cash distributions received from the Local Partnerships, as well as the working capital reserves referred to above, will be used towards the future operating expenses of the Partnership. During the six months ended September 30, 2011 and 2010, the amounts received from operations of the Local Partnerships were approximately \$12,000 and \$15,000, respectively. In addition, during the six months ended September 30, 2011 and 2010, distributions to the Partnership from sales proceeds amounted to approximately \$1,481,000 and \$1,044,000, respectively. The Partnership does not anticipate being able to make distributions sufficient to return to BACs holders their original capital contributions.

During the six months ended September 30, 2011, cash and cash equivalents of the Partnership and its consolidated Local Partnerships increased approximately \$748,000. This increase was due to net proceeds from sale of properties (\$1,481,000), which exceeded cash used in operating activities (\$408,000), an increase in cash held in escrow relating to investing activities (\$78,000) and principal payments of mortgage notes (\$247,000). Included in the adjustment to reconcile the net loss to cash used in operating activities is depreciation and amortization of approximately \$667,000 and loss on sale of properties of approximately \$466,000.

Total expenses from operations for the three and six months ended September 30, 2011 and 2010 excluding depreciation and amortization, inter-

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

est and general and administrative – related parties, totaled \$1,153,037, \$1,399,339, \$2,352,296 and \$2,676,630, respectively.

Accounts payable from operations as of September 30, 2011 and March 31, 2011 were \$597,929 and \$599,843, 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 \$0 and \$16,308 as of September 30, 2011 and March 31, 2011, respectively. Accrued interest payable from operations as of September 30, 2011 and March 31, 2011 was \$17,312,120 and \$16,805,364, respectively. Accrued interest payable from discontinued operations totaled \$0 and \$1,425,013 as of September 30, 2011 and March 31, 2011, 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. 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 2 to the Financial Statements, 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 \$1,784,000 at September 30, 2011.

### Long-Term

Partnership management fees owed to the General Partner amounting to approximately \$4,774,000 and \$4,930,000 were accrued and unpaid as of September 30, 2011 and March 31, 2011, respectively and are included in Due to General Partner and affiliates on the Consolidated Balance Sheets.

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

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. 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 2 in Item 1 for further discussion of amounts due to the General Partner and its 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.

Based on the foregoing, the Partnership's going concern consideration is mitigated by factors as discussed in Note 6a in Item 1.

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 diversifica-

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

tion 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.

### Off-Balance Sheet Arrangements

The Partnership has no off-balance sheet arrangements.

### Tabular Disclosure of Contractual Obligations

The Partnership discloses in Item 7 of the Partnership's Annual Report on Form 10-K for the year ended March 31, 2011, the Partnership's commitments to make future payments under its debt agreements and other contractual obligations. There are no material changes to such disclosure or amounts as of September 30, 2011.

### Fair Value Measurements

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

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

The carrying amount approximates fair value.

### Mortgage Notes Payable

The Partnership adopted FASB ASC 820 – “*Fair Value Measurements*” for financial assets and liabilities. ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 820 applies to reported balances that are required or permitted to be measured at fair value under existing accounting

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

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 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:

	<u>At September 30, 2011</u>		<u>At March 31, 2011</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
LIABILITIES:				
Mortgage notes	\$ 18,501,430	\$ 11,469,293	\$ 24,383,711	\$ 11,934,332

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.

### 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

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

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 Partnership's accounting policies included in Item 8, Note 2 to the consolidated financial statements in the Partnership's Annual Report on Form 10-K for the year ended March 31, 2011.

### 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.

At the time management commits to a plan to dispose of a specific asset, said asset is adjusted to the lower of carrying amount or fair value less costs to sell. These assets are classified as property and equipment-held for sale and are not depreciated. Property and equipment that are held for sale are included in discontinued operations. There are no assets classified as property and equipment-held for sale as of September 30, 2011.

During the six months ended September 30, 2011, the Partnership has not recorded any loss on impairment of assets. Through September 30, 2011, the Partnership has recorded approximately \$29,131,000 as an aggregate loss on impairment of property.

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

### 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.

### Income Taxes

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

### Results of Operations

The Partnership's results of operations for the three and six months ended September 30, 2011 and 2010 consisted primarily of the results of the Partnership's investment in Local Partnerships. The following discussion excludes the Partnership's results of its discontinued operations, which are not reflected below.

Rental income increased approximately 5% and 2% for the three and six months ended September 30, 2011, as compared to the corresponding periods in 2010 primarily due to annual rent increases and decreases in occupancy at two Local Partnerships partially offset by an increase in vacancies at one Local Partnership.

Other income increased approximately \$9,000 and \$11,000 for the three and six months ended September 30, 2011, as compared to corresponding periods in 2010, primarily due to an increase in legal costs at one Local Partnership and an increase in miscellaneous tenant charges at a second Local Partnership.

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

General and administrative expenses decreased approximately \$108,000 and \$124,000 for the three and six months ended September 30, 2011, as compared to the corresponding periods in 2010, primarily due to a decrease in management payroll and site-specific administrative expenses at one Local Partnership and a decrease in payroll and incentive management fee at a second Local Partnership.

General and administrative-related parties expenses decreased approximately \$79,000 and \$213,000 for the three and six months ended September 30, 2011, as compared to the corresponding periods in 2010, primarily due to a decrease in partnership management fees resulting from the sale of properties at the Partnership level.

Repair and maintenance expenses decreased approximately \$124,000 and \$135,000 for the three and six months ended September 30, 2011, as compared to the corresponding periods in 2010, primarily due to a decrease in decorating, boiler, heating/cooling and elevator repairs at one Local Partnership and a decrease in major repairs, plumbing and roof repairs at a second Local Partnership, partially offset by an increase in ground maintenance, elevator and heating repairs at a third Local Partnership.

Operating expenses decreased approximately \$33,000 and \$99,000 for the three and six months ended September 30, 2011, as compared to corresponding periods in 2010, primarily due to a decrease in water and gas costs at one Local Partnership.

Real estate tax increased approximately \$15,000 and \$31,000 for the three and six months ended September 30, 2011, as compared to corresponding periods in 2010, primarily due to an increase in the tax assessment at one Local Partnership.

### **Item 4. Controls and Procedures.**

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

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

(b) *Changes in Internal Controls over Financial Reporting.* During the period ended September 30, 2011, there were no changes in the Partnership's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Partnership's internal control over financial reporting.

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

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