

**INDEPENDENCE  
TAX CREDIT PLUS III**

**ANNUAL REPORT**

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



July 2011

Message to Our BACsholders:

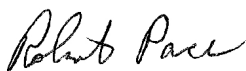
We would like to take this opportunity to present the Annual Report for the Independence Tax Credit Plus LP II (the "Partnership") for the year ended March 31, 2011.

To date, the Partnership liquidated its investment in four of the original twenty assets in its original portfolio. Since the last quarterly report, no further liquidation of its assets has occurred. Additionally, there have not been any material changes to the financial operations as compared to the year ended 2010.

The General Partner continues to research opportunities to liquidate the remaining portfolio and full liquidation is expected to occur within the next two-four years. However, as this is dependent upon certain economic conditions, no assurances can be given with respect to this disposition timeline. Detailed information on the Partnership's overall performance is reported in the Management's Discussion and Analysis of Financial Condition and Results of Operations and Note sections of this report.

Should you have any questions with respect to 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 Pace".

Robert A. Pace  
Chief Financial Officer  
Related Independence Associates III L.P.

## Consolidated Balance Sheets

	March 31,	
	<u>2011</u>	<u>2010</u>
ASSETS		
Property and equipment – at cost, less accumulated depreciation (Notes 2 and 4)	\$ 11,596,805	\$ 14,210,626
Cash and cash equivalents (Notes 2 and 12)	1,854,271	2,168,916
Cash held in escrow (Note 5)	4,688,130	4,709,839
Deferred costs, less accumulated amortization (Notes 2 and 6)	366,667	430,299
Other assets	<u>749,674</u>	<u>858,666</u>
Total assets	<u>\$ 19,255,547</u>	<u>\$ 22,378,346</u>
LIABILITIES AND PARTNERS' CAPITAL (DEFICIT)		
Liabilities:		
Mortgage notes payable (Note 7)	\$ 30,836,027	\$ 33,056,050
Accounts payable	1,018,576	955,138
Accrued interest payable	9,248,146	11,409,657
Security deposits payable	359,273	372,137
Due to local general partners and affiliates (Note 8)	2,079,679	2,074,690
Due to general partner and affiliates (Note 8)	<u>5,434,965</u>	<u>5,786,301</u>
Total liabilities	<u>48,976,666</u>	<u>53,653,973</u>
Commitments and contingencies (Notes 7, 8 and 12)		
Partners' capital (deficit):		
Limited partners (43,440 BACs issued and outstanding) (Note 1)	(26,875,523)	(28,126,901)
General Partner	<u>326,474</u>	<u>(273,217)</u>
Independence Tax Credit Plus L.P. III total	<u>(26,549,049)</u>	<u>(28,400,118)</u>
Noncontrolling interests (Note 2)	<u>(3,172,070)</u>	<u>(2,875,509)</u>
Total partners' capital (deficit)	<u>(29,721,119)</u>	<u>(31,275,627)</u>
Total liabilities and partners' capital (deficit)	<u>\$ 19,255,547</u>	<u>\$ 22,378,346</u>

*See accompanying notes to consolidated financial statements.*

## Consolidated Statements of Operations

	Years Ended March 31,	
	2011	2010*
Operations:		
Revenues		
Rental income	\$ 5,849,649	\$ 5,694,673
Other	256,372	295,005
Gain on extinguishment of debt (Note 12)	-	172,373
Total revenues	<u>6,106,021</u>	<u>6,162,051</u>
Expenses		
General and administrative	2,271,724	2,149,155
General and administrative-related parties (Note 8)	725,698	825,807
Repairs and maintenance	1,128,763	1,176,151
Operating and other	862,889	836,020
Real estate taxes	253,684	279,043
Insurance	384,392	408,953
Financial, primarily interest	1,373,413	1,397,025
Depreciation and amortization	713,555	1,930,256
Loss on impairment of fixed assets (Note 4)	1,877,504	23,880,423
Total expenses	<u>9,591,622</u>	<u>32,882,833</u>
Loss from operations	(3,485,601)	(26,720,782)
Income (loss) from discontinued operations	<u>4,557,460</u>	<u>(4,794,510)</u>
Net income (loss)	1,071,859	(31,515,292)
Net loss attributable to noncontrolling interests from operations	224,652	2,700,926
Net (income) loss attributable to noncontrolling interests from discontinued operations	<u>(32,493)</u>	<u>790,047</u>
Net loss attributable to noncontrolling interests	<u>192,159</u>	<u>3,490,973</u>
Net income (loss) attributable to Independence Tax Credit Plus L.P. III	<u>\$ 1,264,018</u>	<u>\$ (28,024,319)</u>
Loss from operations – limited partners	(3,228,339)	(23,779,658)
Income (loss) from discontinued operations – limited partners	<u>4,479,717</u>	<u>(3,964,418)</u>
Net income (loss) – limited partners	<u>\$ 1,251,378</u>	<u>\$ (27,744,076)</u>
Number of BACs outstanding	<u>43,440</u>	<u>43,440</u>
Loss from operations per BAC	\$ (74.31)	\$ (547.42)
Income (loss) from discontinued operation per BAC	<u>103.12</u>	<u>(91.26)</u>
Income (loss) per BAC	<u>\$ 28.81</u>	<u>\$ (638.68)</u>

\* Reclassified for comparative purposes.

*See accompanying notes to consolidated financial statements.*

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

	<u>Total</u>	<u>Limited Partners</u>	<u>General Partner</u>	<u>Noncontrolling Interests</u>
Partners' capital (deficit) – April 1, 2009	(78,477)	(382,825)	(102,649)	406,997
Net loss	(31,515,292)	(27,744,076)	(280,243)	(3,490,973)
Distributions	(115,736)	-	-	(115,736)
Contributions – write-off of partnership management fees related to the sold properties (Note 8)	107,175	-	107,175	-
Contributions – write-off of related party debt (Note 10)	<u>326,703</u>	<u>-</u>	<u>2,500</u>	<u>324,203</u>
Partners' capital (deficit) – March 31, 2010	(31,275,627)	(28,126,901)	(273,217)	(2,875,509)
Net income (loss)	1,071,859	1,251,378	12,640	(192,159)
Distributions	(104,402)	-	-	(104,402)
Contributions – write-off of partnership management fees related to the sold properties (Note 8)	574,551	-	574,551	-
Contributions – write-off of related party debt (Note 10)	<u>12,500</u>	<u>-</u>	<u>12,500</u>	<u>-</u>
Partners' capital (deficit) – March 31, 2011	<u>\$ (29,721,119)</u>	<u>\$ (26,875,523)</u>	<u>\$ 326,474</u>	<u>\$ (3,172,070)</u>

*See accompanying notes to consolidated financial statements.*

## Consolidated Statements of Cash Flows

*Increase (Decrease) in Cash and Cash Equivalents*

	<u>Years Ended March 31,</u>	
	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Net income (loss)	\$ 1,071,859	\$ (31,515,292)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
(Gain) loss on sale of properties	(4,985,357)	1,351,902
Gain on extinguishment of debt	-	(172,373)
Depreciation and amortization	829,947	2,330,446
Loss on impairment of fixed assets	1,877,504	26,632,368
(Increase) decrease in assets:		
Cash held in escrow	(95,253)	(110,344)
Other assets	94,738	314,227
Increase (decrease) in liabilities:		
Accounts payable	25,774	(25,397)
Accrued interest	1,087,034	1,064,165
Security deposit payable	5,128	(1,013)
Due to local general partners and affiliates	(14,901)	94,302
Due to general partner and affiliates	258,215	(444,846)
Total adjustments	<u>(917,171)</u>	<u>31,033,437</u>
Net cash provided by (used in) operating activities	<u>154,688</u>	<u>(481,855)</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(105,582)	(149,386)
Proceeds from sale of properties	25,000	270,000
Costs related to sale of properties	(25,840)	(72,385)
Decrease in cash held in escrow	36,624	259,783
Increase in due to local general partners and affiliates	22,890	14,808
Net cash (used in) provided by investing activities	<u>(46,908)</u>	<u>322,820</u>
Cash flows from financing activities:		
Principal payments of mortgage notes	(320,023)	(456,500)
Increase (decrease) in due to local general partners and affiliates	2,000	(20,000)
Decrease in capitalization of consolidated subsidiaries attributable to noncontrolling interests	(104,402)	(115,736)
Net cash used in financing activities	<u>(422,425)</u>	<u>(592,236)</u>
Net decrease in cash and cash equivalents	(314,645)	(751,271)
Cash and cash equivalents at beginning of year	<u>2,168,916</u>	<u>2,920,187</u>
Cash and cash equivalents at end of year	<u>\$ 1,854,271</u>	<u>\$ 2,168,916</u>

*See accompanying notes to consolidated financial statements.*

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

	<u>Years Ended March 31,</u>	
	<u>2010</u>	<u>2009</u>
Supplemental disclosure of cash flows information:		
Cash paid during the year for interest	<u>\$ 545,467</u>	<u>\$ 620,457</u>
Summarized below are the components of the gain on sale of properties:		
(Proceeds from) cost of sale of properties – net	\$ 840	\$ (197,615)
Decrease in property and equipment, net of accumulated depreciation	70,215	6,536,710
Decrease in deferred costs	5,369	7,812
Decrease in cash held in escrow	14,254	295,549
Decrease in other assets	80,338	20,022
Increase in accounts payable and other liabilities	37,664	78,353
Decrease in accrued interest payable	(3,248,545)	(356,854)
Decrease in security deposit payable	(17,992)	(51,091)
Decrease in mortgage note payable	(1,900,000)	(4,973,485)
Decrease in due to Local General Partners and affiliates	(5,000)	(324,203)
Decrease in due to general partner and affiliates	(35,000)	(10,000)
Capital contribution – General Partners	12,500	2,500
Increase in capitalization of consolidated subsidiaries attributable to noncontrolling interests	-	324,204
Supplemental disclosures of non-cash investing and financing activities:		
Contribution from write-off of partnership management fees related to sold properties	\$ 574,551	\$ 107,175

*See accompanying notes to consolidated financial statements.*

## Notes to Consolidated Financial Statements March 31, 2011

### NOTE 1 – General

Independence Tax Credit Plus L.P. III (the “Partnership”) is a limited partnership which was formed under the laws of the State of Delaware on December 23, 1993. The general partner of the Partnership is Related Independence Associates III L.P., a Delaware limited partnership (the “General Partner”). The general partner of the General Partner is Related Independence Associates III Inc., a Delaware corporation (“RIAI III”). The ultimate parent of the General Partner is Centerline Holding Company (“Centerline”).

The Partnership’s business is to invest in other partnerships (“Local Partnerships,” “subsidiaries” or “subsidiary partnerships”) owning leveraged apartment complexes (“Apartment Complexes” or “Properties”) that are eligible for the low-income housing tax credit (“Tax Credit”) under Section 42 of the Internal Revenue Code, some of which may also be eligible for the historic rehabilitation tax credit.

The Partnership had originally acquired interests in twenty subsidiary partnerships. During the year ended March 31, 2011, the Partnership sold its limited partnership interests in one Local Partnership. Through March 31, 2011, the Partnership has sold its limited partnership interests in four 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.

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 in the Partnership. As of the termination of the offering on May 9, 1995, the Partnership had received \$43,440,000 of gross proceeds of its offering (the “Gross Proceeds”) from 2,810 investors (“BACs holders”).

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 seventeen and nineteen subsidiary partnerships in which the Partnership is a limited partner for the years ended March 31, 2011 and 2010, respectively, (the 2010 and 2009 Fiscal Years). 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 partners of the subsidiary local partnerships (“Local General Partners”) and to approve certain major operating and financial decisions, the Partnership has a controlling financial

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

### **March 31, 2011**

interest in the subsidiary 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"), loss attributable to noncontrolling interests amounted to approximately \$192,000 and \$3,491,000 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 investments purchased with original maturities of three months or less.

#### d) Property and Equipment

Property and equipment to be held and used are carried at cost which includes the purchase price, acquisition fees and expenses, construction period interest and any other costs incurred in acquiring the properties. The cost of property and equipment is depreciated over their estimated useful lives using accelerated and straight-line methods. Expenditures for repairs and maintenance are charged to expense as incurred; major renewals and betterments are capitalized. At the time property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are eliminated from the assets and accumulated depreciation accounts and the profit or loss on such disposition is reflected in earnings. A loss on impairment of assets is recorded when management estimates amounts recoverable through future operations and sale of the property on an undiscounted basis are below depreciated cost. At that time, property investments themselves are reduced to estimated fair value (generally using discounted cash flows).

During the year ended March 31, 2011, the Partnership recorded approximately \$1,878,000 as a loss on impairment of assets or reduction to estimated fair value. Through March 31, 2011, the Partnership has recorded approximately \$30,350,000 as an aggregate loss on impairment of assets or reduction to estimated fair value for several Local Partnerships.

At the time management commits to a plan to dispose of assets, said assets are adjusted to the lower of carrying amount or fair value less costs to sell. These assets are classified as property and equipment-held for sale and are not depreciated. There are no Local Partnerships whose assets are classified as property and equipment as held for sale as of March 31, 2011.

#### 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	\$ 94,636	\$ 135,755
Other	<u>161,736</u>	<u>159,250</u>
Total other revenue	<u>\$ 256,372</u>	<u>\$ 295,005</u>

Other revenues from discontinued operation 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	\$ 232	\$ 3,526
Other	<u>11,155</u>	<u>10,927</u>
Total other revenue	<u>\$ 11,387</u>	<u>\$ 14,453</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) Loss Contingencies

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

#### h) Use of Estimates

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

#### i) Recent Accounting Pronouncements

In May 2011, the FASB issued under Topic 820, *Fair Value Measurements and Disclosures*, ASU 2011-04, "Amendments to Achieve Common Fair Value Measurement 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.

#### 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, the Partnership 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, the Partnership 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 indic-

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

ative 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 March 31, 2011</u>		<u>At March 31, 2010</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
LIABILITIES:				
Mortgage notes	\$ 30,836,027	\$ 15,030,431	\$ 33,056,050	\$ 13,900,141

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 and their estimated useful lives from operations are as follows:

	<u>March 31,</u>		Estimated Useful Lives (Years)
	<u>2011</u>	<u>2010</u>	
Land	\$ 653,477	\$ 967,824	-
Building and improvements	33,566,625	36,831,478	20-40
Furniture and fixtures	<u>1,243,386</u>	<u>1,319,076</u>	5-12
	35,463,488	39,118,378	
Less: Accumulated depreciation	<u>(23,866,683)</u>	<u>(24,907,752)</u>	
	<u>\$ 11,596,805</u>	<u>\$ 14,210,626</u>	

Depreciation expense for the years ended March 31, 2011 and 2010 amounted to \$656,954 and \$1,870,661, respectively.

During the years ended March 31, 2011 and 2010, there was a decrease in accumulated depreciation in the amount of \$1,786,295 and \$4,667,301, respectively, which related to discontinued assets. In addition, during the years ended March 31, 2011 and 2010, there was a decrease in accumulated depreciation in the amount of \$26,458 and \$1,520,941, respectively, related to impairments.

Depreciation expenses for the discontinued property and equipment for the years ended March 31, 2011 and 2010 amounted to \$114,730 and \$394,604, respectively.

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

Impairments

During the year ended March 31, 2010, the Partnership performed a fair value analysis on all of its remaining investments due to the current deteriorating market conditions in the real estate industry. Impairment of assets is a two-step process. First, management estimated amounts recoverable through future operations and sale of the Property on an undiscounted basis. If such estimates were below depreciated cost, Property investments themselves were reduced to estimated fair value (generally using the discounted cash flow valuation method). Each Local Partnership must continue to comply with its Tax Credit requirements until the end of the Compliance Period in order to avoid recapture of the Tax Credits. Therefore, a 5-year cash flow projection was used, as this period is indicative of the average holding period left of the remaining investments. A net operating income projection was prepared to calculate a residual value at the end of the 5-year period. Based on this analysis, the Partnership deemed the properties of the below Local Partnerships impaired and wrote them down to their estimated fair value which resulted in \$1,877,504 and \$26,632,368 of losses on impairment for the year ended March 31, 2011 and 2010, respectively.

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

Aspen-Olive Associates	\$ 113,301
Lewis Street L.P.	134,127
Edward Hotel Limited Partnership	278,600
Mansion Court Phase II Venture	194,168
Dreitzer House	57,371
Savannah Park Housing Limited Partnership	144,508
Universal Court Associates	143,893
West Mill Creek Associates III LP	<u>811,536</u>
	<u>\$ 1,877,504</u>

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

Overtown Development Group, Ltd.	\$ 915,000
Aspen-Olive Associates	2,119,000
Dreitzer House	4,146,000
Edward Hotel Limited Partnership	1,553,952
West Mill Creek Associates III LP	2,371,000
Lewis Street L.P.	1,307,471
Park Housing Limited Partnership	1,165,000
Sumpter Commons Associates, L.P.	491,000
Brannon Group, L.C.	4,382,000
Savannah Park Housing Limited Partnership	2,192,000
Universal Court Associates	<u>3,238,000</u>
	<u>\$ 23,880,423</u>

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

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

Jefferis Square Housing Partnership L.P.	<u>\$ 2,751,945</u>
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NOTE 5 – Cash Held in Escrow

Cash held in escrow consists of the following:

	March 31,	
	2011	2010
Purchase price payments*	\$ 115,345	\$ 115,345
Real estate taxes, insurance and other	3,174,223	3,116,942
Reserve for replacements	1,130,796	1,199,487
Tenant security deposits	<u>267,766</u>	<u>278,065</u>
	<u>\$ 4,688,130</u>	<u>\$ 4,709,839</u>

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

NOTE 6 – Deferred Costs

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

	March 31,		Period
	2011	2010	
Financing costs	\$ 979,620	\$ 1,009,556	*
Less: Accumulated amortization	<u>(612,953)</u>	<u>(579,257)</u>	
	<u>\$ 366,667</u>	<u>\$ 430,299</u>	

\* Over the life of the related mortgages.

Amortization expense for the years ended March 31, 2011 and 2010 amounted to \$56,601 and \$59,594, respectively.

Amortization expense from discontinued operations for the years ended March 31, 2010 and 2010 amounted to \$1,662 and \$5,586, respectively.

During the 2010 and 2009 Fiscal Years, there was a decrease in deferred costs and accumulated amortization in the amount of \$29,936 and \$98,245, respectively, which related to discontinued assets.

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

NOTE 7 – Mortgage Notes Payable

The mortgage notes, which are collateralized by land and buildings, are payable in aggregate monthly installments of approximately \$71,000 including principal and interest at rates varying from 0% to 9.5% per annum, through the year 2046. 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.

Annual principal payment requirements by the subsidiary partnerships for each of the next five years and thereafter, are as follows:

<u>December 31,</u>	<u>Amount</u>
2011	\$ 2,762,616
2012	2,364,334
2013	1,718,807
2014	252,671
2015	4,116,857
Thereafter	<u>19,620,742</u>
	<u>\$ 30,836,027</u>

Accrued interest payable as of March 31, 2011 and 2010 was approximately \$9,248,000 and \$11,410,000, respectively. Interest accrues on all mortgage loans, which include primary and secondary loans. Certain secondary loans have provisions such that interest is accrued but not payable until a future date. The Partnership anticipates the payment of accrued interest on the secondary loans (which make up the majority of the accrued interest payable amount and which have been accumulating since the Partnership's investment in the respective Local Partnership) will be made from future refinancings or sales proceeds from the respective Local Partnerships.

The mortgage agreements require monthly deposits to replacement reserves of approximately \$13,000 and monthly deposits to escrow accounts for real estate taxes, hazard and mortgage insurance and other (see Note 5).

During the year ended March 31, 2010, BK-10K Partners L.P. ("Knickerbocker") recognized a gain on extinguishment of debt on its New York City Department of Housing Preservation and Development ("HPD") Third Mortgage, which had a balance of \$172,373 and a construction period interest rate of 0.25% per annum, and subsequent rate of 0%. No regular payments of principal were required under the HPD mortgage. The terms included provisions that the HPD mortgage would be canceled and extinguished if Knickerbocker did not default on its first and second mortgages during the first fifteen years of their terms, which Knickerbocker complied with in 2009.

NOTE 8 – Related Party Transactions

An affiliate of the General Partner has a .01% interest as a special limited partner in each of the Local Partnerships.

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

Pursuant to the Partnership Agreement and the partnership agreements of the Local Partnerships (“Local Partnership Agreements”), the General Partner and its affiliates receive their pro rata shares of profits, losses and Tax Credits.

A) Guarantees

In connection with investments in development-stage Apartment Complexes, the General Partner generally required that the Local General Partners provide completion guarantees and/or undertake to repurchase the Partnership’s interest in the Local Partnership if construction or rehabilitation was not completed substantially on time or on budget (“Development Deficit Guarantees”). The Development Deficit Guarantees generally also required the Local General Partner to provide any funds necessary to cover net operating deficits of the Local Partnership until such time as the Apartment Complex had achieved break-even operations. The General Partner generally required that the Local General Partners undertake an obligation to fund operating deficits of the Local Partnership (up to a stated maximum amount) during a limited period of time (typically three to five years) following the achievement of break-even operations (“Operating Deficit Guarantees”). As of March 31, 2011, the gross amount of the Operating Deficit Guarantees aggregate approximately \$5,487,000, of which approximately \$3,931,000 have expired. In cases where the General Partner deemed it appropriate, the obligations of a Local General Partner under the Development Deficit, Operating Deficit and/or Rent-Up Guarantees were secured by letters of credit and/or cash escrow deposits.

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

B) Other Related Party Expenses

The General Partner and its affiliates perform services for the Partnership. The costs incurred to the General Partner from operations and other related parties from operations for the years ended March 31, 2011 and 2010 were as follows:

	<u>Years Ended March 31,</u>	
	<u>2011</u>	<u>2010*</u>
Partnership management fees (a)	\$ 249,443	\$ 316,457
Expense reimbursement (b)	193,281	213,801
Local administrative fees (c)	<u>49,750</u>	<u>64,855</u>
Total general and administrative-General Partner	492,474	595,113
Property management fees incurred to affiliates of the subsidiary partnerships' general partners	<u>233,224</u>	<u>230,694</u>
Total general and administrative-related parties	<u>\$ 725,698</u>	<u>\$ 825,807</u>

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

	<u>Years Ended March 31,</u>	
	<u>2011</u>	<u>2010*</u>
Local administrative fees (c)	<u>\$ 2,500</u>	<u>\$ 7,500</u>
Total general and administrative – General Partner	2,500	7,500
Property management fees incurred to affiliates of the subsidiary partnerships' general partners	<u>32,163</u>	<u>48,109</u>
Total general and administrative-related parties	<u>\$ 34,663</u>	<u>\$ 55,609</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 are to be deferred without interest and will be payable out of sales or refinancing proceeds only to the extent of available funds after payments on all Partnership liabilities have been made other than to those owed to the General Partner and its affiliates, and after the Limited Partners have received a 10% return on their capital contributions. Partnership management fees owed to the General Partner amounting to approximately \$3,520,000 and \$3,845,000 were accrued and unpaid as of March 31, 2011 and 2010, respectively,

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

and are included in the line item Due to general partner and affiliates in the consolidated balance sheets. Current year partnership management fees may be paid out of operating reserves or refinancing and sales proceeds. As such the General Partner cannot demand payment of the deferred fees except as noted above. During the year ended March 31, 2011, management deemed the unpaid partnership management fees that were related to the property sold during the year ended March 31, 2011 uncollectible and as a result, wrote them off in the amount of approximately \$575,000, resulting in a non-cash General Partner contribution of the same amount.

- (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 Partners and its affiliates amounting to approximately \$860,000 and \$864,000 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 III L.P., a 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 III L.P. amounting to \$561,000 and \$582,000 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 March 31, 2010, the Partnership owed the General Partner and its affiliates approximately \$86,000 and \$85,000, respectively, for expenditures paid on its behalf and voluntary operating advances made by the General Partner and its affiliates to fund operations of the Partnership. Payment of these operating advances have been deferred and may be paid out of operating reserves or refinancing and sales proceeds. The General Partner does not intend to demand payment of the deferred advances beyond the Partnership's ability pay them.

As of March 31, 2010, the Partnership owed \$9,000 to the Special Limited Partner for the fees it received from one Local Partnership on its behalf. As of March 31, 2011 and 2010, the amounts payable totaling approximately \$408,000 and \$401,000, respectively, represent loans made to the subsidiary partnerships by the affiliates of the General Partner.

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

C) Due to Local General Partners and Affiliates

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

	March 31,	
	2011	2010
Operating advances	\$ 649,651	\$ 704,044
Development fee payable	834,964	817,074
Other capitalized costs	16,335	16,335
Construction costs payable	146,487	146,487
General Partner loan payable	204,008	202,008
Management and other operating fees	228,234	188,742
	<u>\$ 2,079,679</u>	<u>\$ 2,074,690</u>

D) Advances from Partnership to Local Partnerships

As of March 31, 2011, the Partnership has advanced certain Local Partnership operating loans (non-interest bearing) amounting to approximately \$878,000 primarily in conjunction with the Local Partnership's contribution agreements. Such advances are eliminated in consolidation and are included in the line item Due to local general partners and affiliates. The following table summarizes these advances:

	March 31,	
	2011	2010
New Zion	\$ 2,655	\$ 2,655
Knickerbocker Avenue	454,441	454,441
Lafayette Avenue	416,094	416,094
Sumpter Commons	5,075	5,075
	<u>\$ 878,265</u>	<u>\$ 878,265</u>

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 follows:

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

	<u>Years Ended March 31,</u>	
	<u>2011</u>	<u>2010</u>
Financial statement net income (loss)	\$ 1,264,018	\$ (28,024,319)
Differences between depreciation and amortization expense records for financial reporting purposes and the accelerated costs recovery system utilized for income tax purposes	(1,681,605)	(466,514)
Differences resulting from parent company having a different fiscal year for income tax and financial reporting purposes	63,078	(30,466)
Difference between gain on sale of property recorded for financial statement and income tax reporting purposes	(1,814,909)	1,661,213
Loss on impairment of property for financial reporting purposes not deductible for tax purposes	1,877,504	26,632,368
Write-off of Partnership management fees included in income for tax purposes	574,551	107,175
Other, including accruals for financial reporting not deductible for tax purposes until paid and losses allocated to minority interests for tax purposes	<u>579,692</u>	<u>(2,517,058)</u>
Net income (loss) as shown on the income tax return for the calendar year ended	<u>\$ 862,329</u>	<u>\$ (2,637,601)</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 \$19,356,697 due to depreciation differences, impairments and related party accruals.

**NOTE 10 – Sale of Properties**

The Partnership is in the process of developing a plan to dispose of all of its investments. It is anticipated that this process will continue to take a number of years. During the year ended March 31, 2011, the Partnership sold its limited partnership interests in one Local Partnership. As of March 31, 2011, the Partnership has sold its limited partnership interests in four 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

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

### **March 31, 2011**

sales received by the Partnership will be sufficient to return to the limited partners their original investment.

On December 31, 2010, the Partnership sold its limited partnership interest in Jefferis Square Housing Partnership L.P. ("Jefferis") to an affiliate of the Local General Partner for a sales price of \$25,000. The Partnership received approximately \$2,000 after the repayment of other liabilities of approximately \$23,000. The sale resulted in a gain of approximately \$4,832,000, resulting from the write-off of the deficit basis in the Local Partnership of approximately \$4,830,000 at the date of the sale and the \$2,000 cash received from the sale, which was recorded during the quarter ended December 31, 2010. An adjustment to the gain of approximately \$196,000 was recorded during the quarter ended March 31, 2011, resulting in an overall gain of \$5,028,000. In addition, the sale resulted in a non-cash contribution to the Local Partnership from the General Partner of approximately \$12,500 as a result of the write-off of fees owed by the Local Partnership to an affiliate of the General Partner.

On March 31, 2010, the Partnership sold its limited partnership interest in Livingston Manor Urban Renewal Associates, L.P. ("Livingston Manor") to an affiliate of the Local General Partner for a sales price of \$20,000. The Partnership received approximately \$7,000 after the repayment of other liabilities of approximately \$13,000. The sale resulted in a loss of approximately \$1,870,000, resulting from the write-off of the basis in the Local Partnership of approximately \$1,877,000 at the date of the sale and the \$7,000 cash received from the sale which was recorded during the year ended March 31, 2010. An adjustment to the loss of approximately \$42,000 was recorded during the quarter ended June 30, 2010, resulting in an overall loss of approximately \$1,912,000. In addition, the sale resulted in a non-cash contribution to the Local Partnership from the Local General Partner of approximately \$324,000 as a result of the write-off of fees owed by the Local Partnership to the Local General Partner.

On August 26, 2009, the Partnership sold its limited partnership interest in Pacific-East L.P. ("Eastern Parkway") to an affiliate of the Local General Partner for a sales price of \$250,000. The Partnership received approximately \$191,000 after the repayment of other liabilities of approximately \$59,000. The sale resulted in a gain of approximately \$638,000, resulting from the write-off of the deficit basis in the Local Partnership of approximately \$388,000 at the date of the sale and the \$191,000 cash received from the sale, which was recorded during the quarter ended September 30, 2009. An adjustment to the gain of approximately \$(120,000) was recorded during the quarter ended March 31, 2010, resulting in an overall gain of \$518,000. The sale also resulted in a write-off of operating advances of approximately \$1,016,000 owed to the Partnership which are eliminated in consolidation. In addition, the sale resulted in a non-cash contribution to the Local Partnership from the General Partner of approximately \$2,500 as a result of the write-off of fees owed by the Local Partnership to an affiliate of the General Partner.

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

NOTE 11 – 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	\$ 1,530,456	\$ 1,541,105	\$ 1,483,401	\$ 1,551,059
Operating expenses	<u>(1,912,313)</u>	<u>(1,957,680)</u>	<u>(1,750,880)</u>	<u>(3,970,749)</u>
Loss from operations	(381,857)	(416,575)	(267,479)	(2,419,690)
(Loss) income from discontinued operations	<u>(81,582)</u>	<u>(83,577)</u>	<u>4,725,656</u>	<u>(3,037)</u>
Net (loss) income	(463,439)	(500,152)	4,458,177	(2,422,727)
Net loss attributable to noncontrolling interests from operations	7,310	25,019	25,294	167,029
Net loss (income) attributable to noncontrolling interests from discontinued operations	<u>\$ 824</u>	<u>\$ 834</u>	<u>\$ (34,151)</u>	<u>\$ -</u>
Net (loss) income attributable to Independence Tax Credit Plus L.P. III	<u>\$ (455,305)</u>	<u>\$ (474,299)</u>	<u>\$ 4,449,320</u>	<u>\$ (2,255,698)</u>
Net (loss) income – limited partnership	<u>\$ (450,752)</u>	<u>\$ (469,556)</u>	<u>\$ 4,404,827</u>	<u>\$ (2,233,141)</u>
Loss per weighted average BAC from operations	\$ (8.54)	\$ (8.92)	\$ (5.52)	\$ (51.33)
(Loss) income per weighted average BAC from discontinued operation	<u>(1.84)</u>	<u>(1.89)</u>	<u>106.92</u>	<u>(0.07)</u>
Net (loss) income per weighted average BAC	<u>\$ (10.38)</u>	<u>\$ (10.81)</u>	<u>\$ 101.40</u>	<u>\$ (51.40)</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	\$ 1,540,700	\$ 1,663,365	\$ 1,453,520	\$ 1,504,466
Operating expenses	<u>(2,208,370)</u>	<u>(2,219,077)</u>	<u>(2,145,292)</u>	<u>(26,310,093)</u>
Loss from operations	(667,670)	(555,712)	(691,772)	(24,805,627)
Loss (income) from discontinued operations	<u>(170,497)</u>	<u>424,953</u>	<u>(144,278)</u>	<u>(4,904,688)</u>
Net loss	(838,167)	(130,759)	(836,050)	(29,710,315)
Net loss attributable to noncontrolling interests from operations	58,360	61,968	56,835	2,523,763
Net loss (income) attributable to noncontrolling interests from discontinued operations	<u>\$ 715</u>	<u>\$ (149,415)</u>	<u>\$ 1,446</u>	<u>\$ 937,301</u>
Net loss attributable to Independence Tax Credit Plus L.P. III	<u>\$ (779,092)</u>	<u>\$ (218,206)</u>	<u>\$ (777,769)</u>	<u>\$ (26,249,251)</u>
Net loss – limited partnership	<u>\$ (771,301)</u>	<u>\$ (216,024)</u>	<u>\$ (769,991)</u>	<u>\$ (25,986,758)</u>
Loss per weighted average BAC from operations	\$ (13.89)	\$ (11.25)	\$ (14.47)	\$ (507.81)
(Loss) income per weighted average BAC from discontinued operation	<u>(3.87)</u>	<u>6.28</u>	<u>(3.26)</u>	<u>(90.41)</u>
Net loss per weighted average BAC	<u>\$ (17.76)</u>	<u>\$ (4.97)</u>	<u>\$ (17.73)</u>	<u>\$ (598.22)</u>

\* Reclassified for comparative purposes.

**NOTE 12 – Commitments and Contingencies**

**a) Going Concern Consideration**

At March 31, 2011, the Partnership's liabilities exceeded assets by \$29,721,119 and for the 2010 year recognized net income of \$1,071,859, including gain on sale of properties of \$4,985,357 and loss on impairment of properties of \$1,877,504. 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 \$3,520,000 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. During the year ended March 31, 2011, the Partnership wrote off approximately \$575,000 of such management fees.

All of the mortgage payable balance of \$30,836,027 and the accrued interest payable balance of \$9,248,146 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 \$882,000 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 \$161,000 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 Concerns and Uncertainties

Mansion Court Phase II Venture ("Mansion Court")

The financial statements for Mansion Court have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates continuation of Mansion Court as a going concern. In prior years and in 2010, Mansion Court has sustained operating losses 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. Mansion Court also has experienced a high number of vacancies due to deteriorating conditions in the area. Management of Mansion Court 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 interests balance was \$(166,000) and \$(164,000), respectively. Mansion Court's net loss after noncontrolling interests amounted to approximately \$250,000 and \$65,000 for the 2010 and 2009 Fiscal Years, respectively. The financial statements 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, *Property, Plant and Equipment*, the Partnership deemed the building of Mansion Court impaired and wrote it down to its fair value of zero, which resulted in a loss on impairment of approximately \$194,000. Fair value was obtained from an assessment made by 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.

Brannon Group, L.C. ("Keys")

The financial statements for Keys have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates continuation of Keys as a going concern. Keys has obligations that matured on March 31, 2011 in the amount of \$1,246,798. If Keys is unable to raise sufficient funds to meet these obligations, it would raise substantial doubt about its ability to continue as a going concern. Keys' management has obtained an extension and is currently working with the lender to refinance its obligations.

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

The Partnership's investment in Keys at March 31, 2011 and 2010 was reduced to zero as a result of prior years' losses and the noncontrolling interests balance was approximately \$(2,543,000) and \$(2,307,000), respectively. Keys' net income (loss) after noncontrolling interests amounted to approximately \$75,000 and \$(2,333,000) for the 2010 and 2009 Fiscal Years, respectively. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

During the year ended March 31, 2010, in accordance with ASC 360, *Property, Plant and Equipment*, the Partnership deemed the building of Keys impaired and wrote it down to its estimated fair value which resulted in a loss of impairment of approximately \$4,382,000. Fair value was obtained from an assessment made by the management after indications that the carrying value of the assets was not recoverable.

c) Subsidiary Partnerships – Gain on Extinguishment of Debt

During the year ended March 31, 2010, BK-10K Partners L.P. ("Knickerbocker") recognized a gain on extinguishment of debt on its New York City Department of Housing Preservation and Development ("HPD") Third Mortgage, which had a balance of \$172,373 and a construction period interest rate of 0.25% per annum, and subsequent rate of 0%. No regular payments of principal were required under the HPD mortgage. The terms included provisions that the HPD mortgage would be canceled and extinguished if Knickerbocker did not default on its first and second mortgages during the first fifteen years of their terms, which Knickerbocker complied with in 2009.

d) Leases

Savannah Park Housing Limited Partnership is leasing the land on which its apartment complex is located for a term of 50 years, which commenced in August 1996, with monthly rent payments of \$1,449. Estimated future minimum payments due under the terms of the lease are as follows:

<u>December 31,</u>	<u>Amount</u>
2011	\$ 21,252
2012	21,252
2013	21,252
2014	21,252
2015	21,252
Thereafter	<u>651,728</u>
	<u>\$ 757,988</u>

As of December 31, 2010, the lease agreement was current. For the years ended December 31, 2010 and 2009, \$21,252 and \$21,252, respectively, have been paid under the terms of the lease and \$0 and \$0, respectively, remained payable.

e) 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"). Uninsured cash and cash equivalents approximated \$637,000 at March 31, 2011.

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

f) Property Management Fees

Property management fees incurred by Local Partnerships amounted to \$423,182 and \$456,453 for the years ended March 31, 2011 and 2010, respectively. Of these fees, \$265,387 and \$278,803 were incurred to affiliates of the subsidiary partnerships' general partners, which includes \$32,163 and \$48,109 of fees relating to discontinued operations.

g) Cash Distributions

Cash distributions from the Local Partnerships to the Partnership are restricted by the provisions of the respective Local Partnership Agreements and/or HUD based on operating results and a percentage of the owner's equity contribution. Such cash distributions are typically made from surplus cash flow.

h) Other

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 was 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, 2009, all the Local Partnerships have completed their Credit Periods.

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 31% of the Properties are located in any single state. There are also substantial risks associated with owning interests in properties, as does the Partnership, which receive government assistance, for example the possibility that Congress may not appropriate funds to enable the Department of Housing and Urban Development ("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.

i) 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 occurring during this subsequent event reporting period which require recognition or disclosure in the financial statements.

NOTE 13 – Discontinued Operations

The following table summarizes the results of operations of the Local Partnerships that are classified as discontinued operations. For the year ended March 31, 2011, Jefferis Square, which was sold during the year ended March 31, 2011, and Livingston Manor, which was sold on March 2010, were classified as discontinued operations in the consolidated statements of operations. For the year ended March 31, 2010, Eastern Parkway and Livingston Manor, which were sold during the year ended March 31, 2010

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

and Jefferis Square, in order to present comparable results to the year ended March 31, 2011, were classified as discontinued operations in the consolidated statements of operations.

Consolidated Statement of Discontinued Operations:

	<u>Years Ended March 31,</u>	
	<u>2011</u>	<u>2010*</u>
Revenues		
Rental income	\$ 347,373	\$ 796,851
Other (Note 2)	11,387	14,453
Gain (loss) on sale of properties (Note 10)	<u>4,985,357</u>	<u>(1,351,902)</u>
Total revenues	<u>5,344,117</u>	<u>(540,598)</u>
Expenses		
General and administrative	130,131	270,395
General and administrative-related parties (Note 8)	34,663	55,609
Repairs and maintenance	91,144	137,644
Taxes	24,051	58,913
Operating and other	29,856	144,000
Insurance	9,699	53,752
Financial, primarily interest	350,721	381,464
Depreciation and amortization	116,392	400,190
Loss on impairment of fixed assets	<u>-</u>	<u>2,751,945</u>
Total expenses	<u>786,657</u>	<u>4,253,912</u>
Income (loss) from discontinued operations	4,557,460	(4,794,510)
Noncontrolling interest in (income) loss of subsidiaries from discontinued operations	<u>(32,493)</u>	<u>790,047</u>
Income (loss) from discontinued operations – Independence Tax Credit Plus L.P. III	<u>\$ 4,524,967</u>	<u>\$ (4,004,463)</u>
Income (loss) – limited partners from discontinued operations	<u>\$ 4,479,717</u>	<u>\$ (3,964,418)</u>
Number of BACs outstanding	<u>43,440</u>	<u>43,440</u>
Income (loss) from discontinued operations	<u>\$ 103.12</u>	<u>\$ (91.26)</u>

\* Reclassified for comparative purposes.

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

	<u>Years Ended March 31,</u>	
	<u>2011</u>	<u>2010*</u>
Cash flows from discontinued operations		
Net cash (used in) provided by operating activities	\$ (202,910)	\$ (4,313,145)
Net cash provided by investing activities	\$ 20,809	\$ 9,205,430
Net cash provided by (used in) financing activities	\$ 1,662	\$ (4,989,394)

\* 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 the Form 10-K is available upon written request)

Liquidity and Capital Resources

The Partnership had originally invested approximately \$35,051,000 (including approximately \$873,000 classified as loans repayable from sale/refinancing proceeds in accordance with the contribution agreement with one Local Partnership and not including acquisition fees of approximately \$2,510,000) of the net proceeds of its Offering in twenty Local Partnerships of which approximately \$120,000 remains to be contributed to the Local Partnerships for payment by them to the original sellers of the Properties (not including approximately \$115,000 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.

The Partnership is in the process of developing a plan to dispose of all of its investments. During the year ended March 31, 2011, the Partnership sold its limited partnership interests in one Local Partnership. As of March 31, 2011, the Partnership has sold its limited partnership interests in four 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.

Short-term

During the year ended March 31, 2010, the Partnership's primary sources of funds included: (i) working capital reserves; (ii) interest earned on the working capital reserves; (iii) cash distributions from operations of the Local Partnerships; and (iv) sales proceeds and distributions. Such funds are available to meet the obligations of the Partnership. The Partnership does not anticipate providing cash distributions to BACs holders in circumstances other than refinancing or sales. Cash distributions received from the Local Partnerships, as well as the working capital reserves referred to above, 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 \$91,000 and \$46,000, respectively. Additionally, during the years ended March 31, 2011 and 2010, the Partnership received

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

approximately \$0 and \$197,000, respectively, in net proceeds from the sale of Local Partnerships' limited partnership interest. 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 (\$315,000). This decrease was due to repayment of mortgage notes (\$320,000), costs related to sale of properties (\$26,000), purchase of property and equipment (\$106,000) and a decrease in capitalization of consolidated subsidiaries attributable to noncontrolling interests (\$104,000), which exceeded net cash provided by operating activities (\$155,000), proceeds from sale of properties (\$25,000), a net increase in due to local general partners and affiliates relating to investing and financing activities (\$25,000), and a decrease in cash held in escrow relating to investing activities (\$37,000). Included in the adjustments to reconcile the net income to net cash provided by operating activities is depreciation and amortization in the amount of approximately (\$830,000), gain on sale of properties of approximately \$4,985,000 and loss on impairment of fixed assets of approximately (\$1,878,000).

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 \$4,901,452 and \$4,838,572, respectively.

Accounts payable as of March 31, 2011 and 2010 were \$1,018,576 and \$955,138, 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. Accrued interest as of March 31, 2011 and 2010 was \$9,248,146 and \$11,409,657, 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, the Partnership believes it (and the applicable Local Partnerships) has sufficient liquidity and ability to generate cash and to meet existing and known or reasonably likely future cash requirements over both the short and long term. In addition, assuming the General Partner continues to defer the payment of fees as discussed below and in Note 8 to the Financial Statements in Item 8, the Partnership believes it has sufficient liquidity and ability to generate cash and to meet existing and known or reasonably likely future cash requirements over both the short and long term.

The Partnership has an unconsolidated working capital reserve of approximately \$882,000 at March 31, 2011.

### Long-term

Partnership management fees owed to the General Partner amounting to approximately \$3,520,000 and \$3,845,000 were accrued and unpaid as of March 31, 2011 and 2010, respectively, and are included in the line item Due to general partner and affiliates in the consolidated balance sheets. During the year ended March 31, 2011, management deemed the unpaid partnership management fees that were related to the property sold during the year ended March 31, 2011, uncollectible and as a result, wrote them off

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

in the amount of approximately \$575,000, resulting in a non-cash General Partner contribution of the same amount. Unpaid partnership management fees for any year are to be deferred without interest and will be payable out of sales or refinancing proceeds only to the extent of available funds after payments on all Partnership liabilities have been made other than to those owed to the General Partner and its affiliates, and after the Limited Partners have received a 10% return on their capital contributions.

All other payables included in Due to general partner and affiliates are expected to be paid, if at all, from working capital reserves. See Note 12 in Item 8 for further discussion of amounts due to the General Partner and its affiliates. The General Partner does not anticipate advancing going forward any operating funds to any of the Local Partnerships in which the Partnership has invested. Even if a situation arose where the General Partner and its affiliates needed to but were not able to make operating advances in the future due to lack of funds, the only impact on the Partnership would be that it would lose its investment in that particular Local Partnership. The Partnership's ability to continue its operations would not be affected.

For discussion of contingencies affecting certain subsidiary 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 the expiration of the Compliance Period. Through December 31, 2009, only Mansion Court Phase II Venture ("Mansion Court") was required to recapture \$489,362 of low-income housing Tax Credits.

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 for 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 has invested the proceeds of its Offering in twenty Local Partnerships, all of which, other than Mansion Court, had their Tax Credits fully in place. As of December 31, 2009, the Credit Periods had expired and the Partnership has met its objective of generating Tax Credits for qualified BACs holders. The Compliance Periods will continue through December 31, 2014 with respect to the Properties depending upon when the Credit Period commenced.

### Tabular Disclosure of Contractual Obligations

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

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

<u>Contractual Obligations</u>	<u>Total</u>	<u>Payment Due by Period</u>			<u>More than 5 Years</u>
		<u>Less than 1 Year</u>	<u>1 – 3 Years</u>	<u>3 -5 Years</u>	
Mortgage notes payable (a)	\$ 30,836,027	\$ 2,762,616	\$ 4,083,141	\$ 4,369,528	\$ 19,620,742
Land lease obligations (b)	<u>757,988</u>	<u>21,252</u>	<u>42,504</u>	<u>42,504</u>	<u>651,728</u>
Total	<u>\$ 31,594,015</u>	<u>\$ 2,783,868</u>	<u>\$ 4,125,645</u>	<u>\$ 4,412,032</u>	<u>\$ 20,272,470</u>

- (a) The mortgage and construction notes, which are collateralized by land and buildings, are payable in aggregate monthly installments of approximately \$71,000 including principal and interest at rates varying from 0% to 10% per annum, through the year 2046. 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) One of the subsidiary partnerships is leasing the land on which its apartment complex is located for a term of 50 years, which commenced in August 1996, with monthly rent payments of \$1,449. Additional rent of \$322 per month, up to \$100,000, will be paid during the final term to reimburse the District of Columbia Department of Housing and Community Development for site improvement costs. See Item 8, "Financial Statements and Supplementary Data", Note 12d.

### Off Balance Sheet Arrangements

The Partnership has no off-balance sheet arrangements.

### Critical Accounting Policies

In preparing the consolidated financial statements, management has made estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Set forth below is a summary of the accounting policies that management believes are critical to the preparation of the consolidated financial statements. The summary should be read in conjunction with the more complete discussion of the Partnership's accounting policies included in 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 depreciation cost exceeds estimated fair value.

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

During the year ended March 31, 2010, the Partnership recorded approximately \$1,878,000 as a loss on impairment of assets or reduction to estimated fair value. Through March 31, 2010, the Partnership has recorded approximately \$30,350,000 as an aggregate loss on impairment of assets or reduction to estimated fair value.

At the time management commits to a plan to dispose of assets, said assets are adjusted to the lower of carrying amount or fair value less costs to sell. These assets are classified as property and equipment-held for sale and are not depreciated. There are no Local Partnerships whose assets are classified as property and equipment as held for sale as of March 31, 2011.

### 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 in Item 8).

### Income Taxes

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

### Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standard Board ("FASB") issued under Topic 820, *Fair Value Measurements and Disclosures*, ASU 2011-04, "Amendments to Achieve Common Fair Value Measurement 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 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.

### 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) excluding the results of its discontinued operation which are not reflected in the following discussion (see Item 8, Note 13).

The net income (loss) for the 2010 and 2009 Fiscal Years aggregated \$1,071,859 and \$(31,515,292), respectively.

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

The Partnership and BACs holders began recognizing 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, 2009, Credit Periods had expired for all properties.

### 2010 vs. 2009

Rental income increased by approximately 3% for the 2010 Fiscal Year as compared to the 2009 Fiscal Year, primarily due to an increase in rental rates and tenant assistance payments at several Local Partnerships, offset by a decrease in rental subsidy income at one Local Partnership and a decrease in rental income at a second Local Partnership.

Other income decreased approximately \$39,000 for the 2010 Fiscal Year as compared to the 2009 Fiscal Year, primarily due to insurance proceeds received in the prior year resulting from a water pipe damage at one Local Partnership, a decrease in interest income due to lower reserve balances at a second Local Partnership and a decrease in late charges at a third Local Partnership, partially offset by a real estate tax refund received by a fourth Local Partnership.

Total expenses excluding general and administrative-related parties, depreciation and amortization and loss on impairment of fixed assets remained consistent with a decrease of less than 1% for the 2010 Fiscal Year as compared to the 2009 Fiscal Year.

General and administrative – related party expenses decreased approximately \$100,000 for the 2010 Fiscal Year as compared to the 2009 Fiscal Year, primarily due to a decrease in partnership management fees and other expense reimbursement allocations at the Partnership level due to sale of properties.

Depreciation and amortization expense decreased approximately \$1,217,000 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 2009 Fiscal Year at twelve Local Partnerships.

Loss on impairment of fixed assets amounted to approximately \$1,878,000 and \$23,880,000 for the 2010 and 2009 Fiscal Year, respectively. See Note 4 in Item 8 for detailed discussion on impairments.

### Results of Operations of Certain Local Partnerships

#### Subsidiary Partnerships – Going Concerns and Uncertainties

##### Mansion Court Phase II Venture (“Mansion Court”)

The financial statements for Mansion Court have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates continuation of Mansion Court as a going concern. In prior years and in 2010, Mansion Court has sustained operating losses 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. Mansion Court also has experienced a high number of vacancies due to deteriorating conditions in the area. Management of Mansion Court 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 interests balance was \$(166,000) and \$(164,000),

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

respectively. Mansion Court's net loss after noncontrolling interests amounted to approximately \$250,000 and \$65,000 for the 2010 and 2009 Fiscal Years, respectively. The financial statements 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, *Property, Plant and Equipment*, the Partnership deemed the building of Mansion Court impaired and wrote it down to its fair value of zero, which resulted in a loss on impairment of approximately \$194,000. Fair value was obtained from an assessment made by 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.

### Brannon Group, L.C. ("Keys")

The financial statements for Keys have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates continuation of Keys as a going concern. Keys has obligations that matured on March 31, 2011 in the amount of \$1,246,798. If Keys is unable to raise sufficient funds to meet these obligations, it would raise substantial doubt about its ability to continue as a going concern. Keys' management has obtained an extension and is currently working with the lender to refinance its obligations.

The Partnership's investment in Keys at March 31, 2011 and 2010 was reduced to zero as a result of prior years' losses and the noncontrolling interests balance was approximately \$(2,543,000) and \$(2,307,000), respectively. Keys' net income (loss) after noncontrolling interests amounted to approximately \$75,000 and \$(2,333,000) for the 2010 and 2009 Fiscal Years, respectively. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

During the year ended March 31, 2010, in accordance with ASC 360, *Property, Plant and Equipment*, the Partnership deemed the building of Keys impaired and wrote it down to its estimated fair value which resulted in a loss of impairment of approximately \$4,382,000. Fair value was obtained from an assessment made by the management after indications that the carrying value of the assets was not recoverable.

### Subsidiary Partnerships – Gain on Extinguishment of Debt

During the year ended March 31, 2010, BK-10K Partners L.P. ("Knickerbocker") recognized a gain on extinguishment of debt on its New York City Department of Housing Preservation and Development ("HPD") Third Mortgage, which had a balance of \$172,373 and a construction period interest rate of 0.25% per annum, and subsequent rate of 0%. No regular payments of principal were required under the HPD mortgage. The terms included provisions that the HPD mortgage would be canceled and extinguished if Knickerbocker did not default on its first and second mortgages during the first fifteen years of their terms, which Knickerbocker complied with in 2009.

### 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 increase 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-

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

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. Inflation also affects the Local Partnerships adversely by increasing operating costs, 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 10% 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 of the Notes to Consolidated Financial Statements, the fair value of the mortgage notes payable. The Partnership does not have any other market risk sensitive instruments.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Partners of  
Independence Tax Credit Plus L.P. III and Subsidiaries  
(a Delaware limited partnership)

We have audited the consolidated balance sheets of Independence Tax Credit Plus L.P. III and Subsidiaries (a Delaware limited partnership) as of March 31, 2011 and 2010, and the related consolidated statements of operations, changes in partners' capital (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 (2010 Fiscal Year) and seventeen (2009 Fiscal Year) subsidiary partnerships whose income (losses) aggregated \$2,857,967 and \$(4,927,774) for the years ended March 31, 2011 and 2010, respectively, and whose assets constituted 63% and 61% of the Partnership's assets at March 31, 2011 and 2010, presented in the accompanying consolidated financial statements. The financial statements for fourteen (2010 Fiscal Year) and sixteen (2009 Fiscal Year) of these subsidiary partnerships were audited by other auditors whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for these subsidiary partnerships, is based solely upon the reports of the other auditors. The financial statement for one (2010 and 2009 Fiscal Years) 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 referred to above, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Independence Tax Credit Plus L.P. III 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 12(b), the consolidated financial statements include the financial statements of two subsidiary partnerships with significant uncertainties. The financial statements of these subsidiary partnerships were prepared assuming that they will continue as going concerns. These two subsidiary partnerships' net losses aggregated \$413,927 (2010 Fiscal Year) and \$4,959,477 (2009 Fiscal Year) and their assets aggregated \$1,715,468 at March 31, 2011 and \$1,938,832 at March 31, 2010. Management's plan in regard to this matter is also described in Note 12(b). 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 L.P. III**

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