

INDEPENDENCE
TAX CREDIT PLUS III

QUARTERLY
REPORT

Ended
September 30, 2011

November 2011

Message to Our BACsholders:

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

Subsequent to our last report the Partnership sold its limited partnership interest in BK-9-A Partners, L.P. and BK-10-Partners, L.P. to affiliates of the local general partners. Detailed information on these sales and the overall performance of the Partnership is reported in the Management's Discussion and Analysis of Financial Condition and Results of Operations and Note sections of this report.

The General Partner continues to research liquidation opportunities for the remaining 14 assets in the Partnership's portfolio. Full liquidation is anticipated 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.

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

Very truly yours,



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

Consolidated Balance Sheets

	September 30, 2011 <u>(Unaudited)</u>	March 31, 2011 <u>(Audited)</u>
ASSETS		
Operating Assets		
Property and equipment at cost, net of accumulated depreciation of \$22,781,080 and \$23,866,683, respectively	\$ 9,347,737	\$ 11,596,805
Cash and cash equivalents	1,836,220	1,854,271
Cash held in escrow	4,703,669	4,688,130
Deferred costs, net of accumulated amortization of \$539,913 and \$612,953, respectively	265,637	366,667
Other assets	<u>683,605</u>	<u>749,674</u>
Total assets	<u>\$ 16,836,868</u>	<u>\$ 19,255,547</u>
LIABILITIES AND PARTNERS' CAPITAL (DEFICIT)		
Operating Liabilities		
Mortgage notes payable	\$ 28,097,884	\$ 30,836,027
Accounts payable	1,037,527	1,018,576
Accrued interest payable	9,618,948	9,248,146
Security deposit payable	334,388	359,273
Due to local general partners and affiliates	2,049,773	2,079,679
Due to general partners and affiliates	<u>5,574,018</u>	<u>5,434,965</u>
Total liabilities	<u>46,712,538</u>	<u>48,976,666</u>
Commitments and contingencies (Note 6)		
Partners' capital (deficit)		
Limited partners (43,440 BACs issued and outstanding)	(27,327,496)	(26,875,523)
General partners	<u>321,908</u>	<u>326,474</u>
Independence Tax Credit Plus L.P. III total	<u>(27,005,588)</u>	<u>(26,549,049)</u>
Noncontrolling interests	<u>(2,870,082)</u>	<u>(3,172,070)</u>
Total partners' capital (deficit)	<u>(29,875,670)</u>	<u>(29,721,119)</u>
Total liabilities and partners' capital (deficit)	<u>\$ 16,836,868</u>	<u>\$ 19,255,547</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2011	2010*	2011	2010*
Revenues				
Rental income	\$ 1,484,980	\$ 1,347,647	\$ 2,847,808	\$ 2,710,812
Other income	<u>89,487</u>	<u>66,332</u>	<u>129,911</u>	<u>106,999</u>
Total revenues	<u>1,574,467</u>	<u>1,413,979</u>	<u>2,977,719</u>	<u>2,817,811</u>
Expenses				
General and administrative	522,477	597,357	1,002,949	1,040,762
General and administrative-related parties (Note 2)	174,333	174,500	351,577	364,101
Repairs and maintenance	200,136	226,161	485,476	548,802
Operating	170,544	201,310	363,928	372,994
Taxes	65,597	67,974	128,860	140,066
Insurance	91,297	93,945	178,386	194,738
Financial, principally interest	315,338	316,660	623,787	638,192
Depreciation and amortization	<u>129,138</u>	<u>149,906</u>	<u>258,278</u>	<u>299,895</u>
Total expenses from operations	<u>1,668,860</u>	<u>1,827,813</u>	<u>3,393,241</u>	<u>3,599,550</u>
Loss from operations	(94,393)	(413,834)	(415,522)	(781,739)
Income (loss) from discontinued operations	<u>453,442</u>	<u>(86,318)</u>	<u>451,621</u>	<u>(181,852)</u>
Net income (loss)	<u>359,049</u>	<u>(500,152)</u>	<u>36,099</u>	<u>(963,591)</u>
Net (income) loss attributable to noncontrolling interests from operations	(33,827)	24,997	42,550	32,181
Net (income) loss attributable to noncontrolling interests from discontinued operations	<u>(535,195)</u>	<u>856</u>	<u>(535,188)</u>	<u>1,806</u>
Net (income) loss attributable to noncontrolling interests	<u>(569,022)</u>	<u>25,853</u>	<u>(492,638)</u>	<u>33,987</u>
Net loss attributable to Independence Tax Credit Plus L.P. III	<u>\$ (209,973)</u>	<u>\$ (474,299)</u>	<u>\$ (456,539)</u>	<u>\$ (929,604)</u>

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2011	2010*	2011	2010*
Loss from operations – limited partners	(126,938)	(384,949)	(369,242)	(742,062)
Loss from discontinued operations – limited partners	<u>(80,935)</u>	<u>(84,607)</u>	<u>(82,731)</u>	<u>(178,246)</u>
Net loss – limited partners	<u>\$ (207,873)</u>	<u>\$ (469,556)</u>	<u>\$ (451,973)</u>	<u>\$ (920,308)</u>
Number of BACs outstanding	<u>43,440</u>	<u>43,440</u>	<u>43,440</u>	<u>43,440</u>
Loss from operations per BAC	\$ (2.92)	\$ (8.86)	\$ (8.50)	\$ (17.08)
Loss from discontinued operations per BAC	<u>(1.86)</u>	<u>(1.95)</u>	<u>(1.90)</u>	<u>(4.11)</u>
Net loss per BAC	<u>\$ (4.78)</u>	<u>\$ (10.81)</u>	<u>\$ (10.40)</u>	<u>\$ (21.19)</u>

* Reclassified for comparative purposes.

See accompanying notes to consolidated financial statements.

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

	<u>Total</u>	<u>Limited Partners</u>	<u>General Partner</u>	<u>Non- controlling Interests</u>
Partners' capital (deficit) – April 1, 2011	\$ (29,721,119)	\$ (26,875,523)	\$ 326,474	\$ (3,172,070)
Net income (loss) – six months ended September 30, 2011	36,099	(451,973)	(4,566)	492,638
Distributions	<u>(190,650)</u>	<u>-</u>	<u>-</u>	<u>(190,650)</u>
Partners' (deficit) capital – September 30, 2011	<u>\$ (29,875,670)</u>	<u>\$ (27,327,496)</u>	<u>\$ 321,908</u>	<u>\$ (2,870,082)</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended September 30,	
	2011	2010
Cash flows from operating activities:		
Net income (loss)	\$ 36,099	\$ (963,591)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
(Gain) loss on sale of property	(441,490)	42,454
Depreciation and amortization	308,255	353,769
Changes in assets and liabilities:		
(Decrease) increase in accounts payable	(54,869)	245,946
Increase in accrued interest payable	370,802	702,707
Increase in security deposit payable	26,481	5,434
(Increase) decrease in cash held in escrow	(133,414)	163,691
Increase in other assets	(75,721)	(256,622)
Decrease in due to local general partners and affiliates	(28,732)	(206,935)
Increase in due to general partner and affiliates	<u>139,053</u>	<u>132,143</u>
Total adjustments	<u>110,365</u>	<u>1,182,587</u>
Net cash provided by operating activities	<u>146,464</u>	<u>218,996</u>
Cash flows from investing activities:		
Purchase of property and equipment	(4,991)	(3,563)
Proceeds from sale of properties	280,000	-
Costs related to sale of properties	(43,985)	-
Increase in cash held in escrow	(32,402)	(54,257)
Increase (decrease) in due to local general partners and affiliates	<u>9,418</u>	<u>(115,836)</u>
Net cash provided by (used in) investing activities	<u>208,040</u>	<u>(173,656)</u>

See accompanying notes to consolidated financial statements.

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

	Six Months Ended September 30,	
	2011	2010
Cash flows from financing activities:		
Repayments of mortgage notes	(181,905)	(170,507)
Repayment of advances to local general partners and affiliates	-	(127,066)
Distributions to noncontrolling interests	<u>(190,650)</u>	<u>(102,371)</u>
Net cash used in financing activities	<u>(372,555)</u>	<u>(399,944)</u>
Net decrease in cash and cash equivalents	(18,051)	(354,604)
Cash and cash equivalents at beginning of period	<u>1,854,271</u>	<u>2,168,916</u>
Cash and cash equivalents at end of period	<u>\$ 1,836,220</u>	<u>\$ 1,814,312</u>
Summarized below are the components of the gain on sale of property:		
Proceeds from sale of property – net	\$ (236,015)	\$ -
Decrease in property and equipment, net of accumulated depreciation	1,974,108	-
Decrease in deferred costs	72,728	-
Decrease in prepaid expenses and other assets	141,789	-
Decrease in cash held in escrow	150,277	-
Increase in accounts payable and other liabilities	73,818	42,454
Decrease in security deposit payable	(51,366)	-
Decrease in mortgage note payable	(2,556,237)	-
Decrease in due to local general partners and affiliates	(10,592)	-

See accompanying notes to consolidated financial statements.

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

Note 1 – General

The consolidated financial statements include the accounts of Independence Tax Credit Plus L.P. III (the “Partnership”) and sixteen other limited partnerships (“subsidiary partnerships”, “subsidiaries” or “Local Partnerships”) owning apartment complexes that are eligible for the federal low-income housing tax credit (“Tax Credit”). The general partner of the Partnership is Related Independence Associates III L.P., a Delaware limited partnership (the “General Partner”), which is managed by an affiliate of Centerline Holding Company (“Centerline”), the ultimate parent of the general partner of the General Partner. Through the rights of the Partnership and/or an affiliate of the General Partner, which affiliate has a contractual obligation to act on behalf of the Partnerships, to remove the general partner of the Local Partnerships and to approve certain major operating and financial decisions, the Partnership has a controlling financial interest in the subsidiary partnerships (“Local General Partners”). During the six months ended September 30, 2011, the Partnership has sold its limited partnership interests in two local Partnerships. As of September 30, 2011, the Partnership has sold its limited partnership interests in six Local Partnerships (see Note 4).

For financial reporting purposes, the Partnership’s fiscal quarter ends September 30, 2011. All subsidiaries have fiscal quarters ending June 30, 2011. Accounts of the subsidiaries have been adjusted for intercompany transactions from July 1 through September 30. The Partnership’s fiscal quarter ends September 30 in order to allow adequate time for the subsidiaries’ financial statements to be prepared and consolidated.

All intercompany accounts and transactions with the subsidiary partnerships have been eliminated in consolidation.

In accordance with FASB Accounting Standards Codification (“ASC”) Topic 810, *Noncontrolling Interests in Consolidated Financial Statements* (“ASC 810”), net (income) loss attributable to noncontrolling interests amounted to approximately \$(569,000) and \$26,000 and \$(493,000) and \$34,000 for the three and six months ended September 30, 2011 and 2010, respectively. The Partnership’s investment in each subsidiary is equal to the respective subsidiary’s partners’ equity less noncontrolling interest capital, if any.

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been omitted or

Notes to Consolidated Financial Statements

September 30, 2011 (Unaudited)

condensed. These condensed financial statements should be read in conjunction with the financial statements and notes thereto included in the Partnership's Annual Report on Form 10-K for the year ended March 31, 2011.

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

Recent Accounting Pronouncements

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

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

NOTE 2 – Related Party Transactions

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

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2011	2010*	2011	2010*
Partnership management fees (a)	\$ 62,500	\$ 57,618	\$ 127,325	\$ 130,118
Expense reimbursement (b)	49,171	52,577	98,343	105,154
Local administrative fee (c)	11,188	14,964	22,375	29,928
Total general and administrative – General Partner	<u>122,859</u>	<u>125,159</u>	<u>248,043</u>	<u>265,200</u>
Property management fees incurred to affiliates of the subsidiary partnerships' general partners	<u>51,474</u>	<u>49,341</u>	<u>103,534</u>	<u>98,901</u>
Total general and administrative-related parties	<u>\$ 174,333</u>	<u>\$ 174,500</u>	<u>\$ 351,577</u>	<u>\$ 364,101</u>

* Reclassified for comparative purposes.

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2011	2010*	2011	2010*
Local administrative fee (c)	\$ 1,250	\$ 1,875	\$ 2,500	\$ 3,750
Total general and administrative-General Partner	<u>1,250</u>	<u>1,875</u>	<u>2,500</u>	<u>3,750</u>
Property management fees incurred to affiliates of the subsidiary partnerships' general partners	<u>11,192</u>	<u>16,813</u>	<u>21,625</u>	<u>37,909</u>
Total general and administrative-related parties	<u>\$ 12,442</u>	<u>\$ 18,688</u>	<u>\$ 24,125</u>	<u>\$ 41,659</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

Notes to Consolidated Financial Statements

September 30, 2011 (Unaudited)

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 \$3,647,000 and \$3,520,000 were accrued and unpaid as of September 30, 2011 and March 31, 2011, respectively, and are included in the line item Due to general partners and affiliates in the consolidated balance sheets. 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, the General Partner 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, the Partnership 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 \$860,000 were accrued and unpaid as of September 30, 2011 and March 31, 2011, 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

Notes to Consolidated Financial Statements

September 30, 2011 (Unaudited)

\$5,000 per year from each subsidiary partnership. Local administrative fee owed to Independence SLP III L.P. amounting to \$568,000 and \$561,000 were accrued and unpaid as of September 30, 2011 and March 31, 2011, 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 September 30, 2011 and March 31, 2011, the Partnership owed Related Capital, an affiliate of the General Partner, approximately \$86,000 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 September 30, 2011 and March 31, 2011, the Partnership owed Centerline Corporate Partners V LP, an affiliate of the General Partner, approximately \$153,000 and the General Partner approximately \$259,000 for advances made to two Local Partnerships. These advances represent historical amounts loaned in conjunction with the initial capital contributions to the Local Partnerships. Payment of these operating advances has been deferred and may be paid out of operating reserves or refinancing and sales proceeds. The General Partner and its affiliates do not intend to demand payment of the deferred advances beyond the Partnership's ability to pay them.

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

B) Due to Local General Partners and Affiliates

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

	September 30, 2011	March 31, 2011
Operating advances	\$ 651,888	\$ 649,651
Development fee payable	844,382	834,964
Other capitalized costs	16,335	16,335
Construction costs payable	146,487	146,487
General Partner loan payable	204,008	204,008
Management and other operating fees	<u>186,673</u>	<u>228,234</u>
	<u>\$ 2,049,773</u>	<u>\$ 2,079,679</u>

C) Advances from Partnership to Local Partnerships

As of September 30, 2011 and March 31, 2011, the Partnership has advanced certain Local Partnership operating loans (non-interest bearing) amounting to approximately \$8,000 and \$878,000 primarily in conjunction with the Local Partnership's contribution agreements. The advances for Knickerbocker Avenue and Lafayette Avenue in the amounts of \$454,441 and \$416,094, respectively, were written off during the quarter ended September 30, 2011 due to the sale of these properties (see Note 4). Such amounts are eliminated in consolidation. The following table summarizes these advances:

	September 30, 2011	March 31, 2011
New Zion	\$ 2,655	\$ 2,655
Knickerbocker Avenue	-	454,441
Lafayette Avenue	-	416,094
Sumpter Commons	<u>5,075</u>	<u>5,075</u>
	<u>\$ 7,730</u>	<u>\$ 878,265</u>

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

NOTE 3 – Fair Value of Financial Instruments

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

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

The carrying amount approximates fair value.

Mortgage Notes Payable

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

As permitted, we chose not to elect the fair value option as prescribed by FASB ASC 825 – “*Financial Instruments*” – Including an Amendment of ASC 320 – “*Investments – Debt and Equity Securities*”, for our financial assets and liabilities that had not been previously carried at fair value. Therefore, we did not elect to fair value any additional items under ASC 825.

The estimated fair value of financial instruments has been determined using available market information or other appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Consequently, the estimates are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange. The following are financial instruments for which the Partnership’s estimate of fair value differs from the carrying amounts:

	At September 30, 2011		At March 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
LIABILITIES:				
Mortgage notes	\$ 28,097,884	\$ 14,332,453	\$ 30,836,027	\$ 15,030,431

Notes to Consolidated Financial Statements

September 30, 2011 (Unaudited)

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 – 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 six months ended September 30, 2011, the Partnership sold its limited partnership interests in two local Partnerships. As of September 30, 2011, the Partnership has sold its limited partnership interests in six 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 investment.

On August 23, 2011, the Partnership sold its limited partnership interest in BK-9-A Partners, L.P. (“Lafayette Avenue”) to an affiliate of the Local General Partner for a sales price of \$30,000. The Partnership did not receive any cash after the repayment of other liabilities. The sale resulted in a gain of approximately \$874,000, resulting from the write-off of the basis in the Local Partnership of the same amount at the date of the sale, which was recorded during the quarter ended September 30, 2011.

On August 23, 2011, the Partnership sold its limited partnership interest in BK-10K Partners, L.P. (“Knickerbocker Apartment”) to an affiliate of the Local General Partner for a sales price of \$250,000. The Partnership received approximately \$236,000 after the repayment of other liabilities of approximately \$14,000. The sale resulted in a loss of approximately \$433,000, resulting from the write-off of the basis in the Local Partnership of approximately \$669,000 at the date of the sale and the \$236,000 cash received from the sale, which was recorded during the quarter ended September 30, 2011.

Notes to Consolidated Financial Statements

September 30, 2011 (Unaudited)

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.

NOTE 5 – Discontinued Operations

The following table summarizes the results of operations of the Local Partnerships that are classified as discontinued operations. For the three and six months ended September 30, 2011, Lafayette Avenue and Knickerbocker Apartments, which were sold during the six months ended September 30, 2011, were classified as discontinued operations in the consolidated financial statements. For the three and six months ended September 30, 2010, Jefferis Square, which was sold during the year ended March 31, 2011, Livingston Manor, which was sold during the quarter ended March 31, 2010, and Lafayette Avenue and Knickerbocker Apartments, in order to present comparable results to the three and six months ended September 30, 2011, were classified as discontinued operations in the consolidated financial statements.

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

Consolidated Statements of Discontinued Operations:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2011	2010*	2011	2010*
Revenues				
Rental income	\$ 132,636	\$ 193,091	\$ 267,423	\$ 470,255
Other	40	1,224	111	4,752
Gain (loss) on sale of properties (Note 4)	<u>441,490</u>	<u>-</u>	<u>441,490</u>	<u>(42,454)</u>
Total revenue	<u>574,166</u>	<u>194,315</u>	<u>709,024</u>	<u>432,553</u>
Expenses				
General and administrative	14,639	31,600	30,860	105,695
General and administrative-related parties (Note 2)	12,442	18,688	24,125	41,659
Repairs and maintenance	9,068	27,415	18,282	62,522
Operating and other	23,436	43,820	61,947	89,016
Insurance	6,618	11,302	13,053	20,216
Taxes	-	6,418	-	12,956
Interest	29,532	114,438	59,158	228,467
Depreciation and amortization	<u>24,989</u>	<u>26,952</u>	<u>49,977</u>	<u>53,874</u>
Total expenses	<u>120,724</u>	<u>280,633</u>	<u>257,402</u>	<u>614,405</u>
Income (loss) from discontinued operations	453,442	(86,318)	451,622	(181,852)
Noncontrolling interest in (income) loss of subsidiaries from discontinued operations	<u>(535,195)</u>	<u>856</u>	<u>(535,188)</u>	<u>1,806</u>
Loss from discontinued operations – Independence Tax Credit Plus LP III	<u>\$ (81,753)</u>	<u>\$ (85,462)</u>	<u>\$ (83,566)</u>	<u>\$ (180,046)</u>
Loss — limited partners from discon- tinued operations	<u>\$ (80,935)</u>	<u>\$ (84,607)</u>	<u>\$ (82,731)</u>	<u>\$ (178,246)</u>
Number of BACs outstanding	<u>43,440</u>	<u>43,440</u>	<u>43,440</u>	<u>43,440</u>
Loss from discontinued operations per BAC	<u>\$ (1.86)</u>	<u>\$ (1.95)</u>	<u>\$ (1.90)</u>	<u>\$ (4.11)</u>

* Reclassified for comparative purposes.

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

Cash flows from Discontinued Operations:

	Six Months Ended September 30,	
	2011	2010*
Net cash provided by operating activities	\$ (2,230,355)	\$ (121,339)
Net cash provided by (used in) investing activities	\$ 234,603	\$ (6,719)
Net cash used in financing activities	\$ (22,107)	\$ (27,928)

* Reclassified for comparative purposes.

NOTE 6 – Commitments and Contingencies

a) Going Concern Consideration

At September 30, 2011, the Partnership's liabilities exceeded assets by \$29,875,670 and for the six months ended September 30, 2011 the Partnership incurred a net income of \$36,099, although this included gain on sale of properties of \$441,490. These factors raise substantial doubt about the Partnership's ability to continue as a going concern. As discussed in Note 2, partnership management fees of approximately \$3,647,000 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 \$28,097,884 and the accrued interest payable balance of \$9,618,948 is of a nonrecourse nature and secured by the respective properties. The Partnership is currently in the process of developing a plan to dispose all of its investments. Historically, the mortgage notes and accrued interest thereon have been assumed by the buyer in instances of sales of the Partnership's interest or have been paid off from sales proceeds in instances of sales of the property. In most

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

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

The Partnership has working capital reserves of approximately \$1,139,000 at September 30, 2011. Such amount is considered sufficient to cover the Partnership's day to day operating expenses, excluding fees to the General Partner, for at least the next year. The Partnership's operating expenses, excluding the Local Partnerships' expenses and related party expenses amounted to approximately \$70,000 for the six months ended September 30, 2011.

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

b) **Subsidiary Partnerships – Going Concerns and Uncertainties**

Mansion Court Phase II Venture (“Mansion Court”)

In prior years and in 2011, 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 September 30, 2011 and March 31, 2011 was zero as a result of prior years' losses and the noncontrolling interests balance was \$(167,000) and \$(166,000), respectively. Mansion Court's net loss after noncontrolling interests amounted

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

to approximately \$27,000 and \$30,000 for the six months ended September 30, 2011 and 2010, respectively.

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”)

Keys had obligations that matured on March 31, 2011 in the amount of \$1,246,798. Keys’ management has obtained an extension and is currently working with the lender to refinance its obligations. 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.

The Partnership’s investment in Keys at September 30, 2011 and March 31, 2011 was zero as a result of prior years’ losses and the noncontrolling interests balance was approximately \$(2,619,000) and \$(2,543,000), respectively. Keys’ net income (loss) after noncontrolling interests amounted to approximately \$24,000 and \$(43,000) for the six months ended September 30, 2011 and 2010, respectively.

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) Leases

Savannah Park Housing L.P. (“Tobias”), 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 \$1,771. As of September 30, 2011, the lease agreement was current. Estimated aggregate future minimum payments due under the term of the lease were \$747,362 as of June 30, 2011.

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

d) 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 up to \$250,000.

e) Cash Distributions

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

f) Property Management Fees

Property management fees incurred by Local Partnerships amounted to \$105,751 and \$124,231 and \$211,818 and \$237,724 for the three and six months ended September 30, 2011 and 2010, respectively. Of these fees, \$62,666 and \$66,154 and \$125,159 and \$136,810 were incurred to affiliates of the subsidiary partnerships’ general partners, which includes \$11,192 and \$16,813 and \$21,625 and \$37,909 of fees relating to discontinued operations.

g) 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 had completed their Credit Periods. The Compliance Periods will continue through December 31, 2014 with respect to the Properties depending upon when the Credit Period commenced.

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

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

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.

h) Subsequent Events

Management has evaluated all subsequent events from the date of the balance sheet through the issuance date of this report and determined that there were no events or transactions occurring during the subsequent event reporting period which require recognition or disclosure in the financial statements.

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

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

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Liquidity and Capital Resources

The Partnership originally invested all of its net proceeds in twenty Local Partnerships of which approximately \$120,000 remains to be paid to the Local Partnerships (including approximately \$115,000 being held in escrow). The Partnership is in the process of developing a plan to dispose of all of its investments. It is anticipated that the process will continue to take a number of years. During the six months ended September 30, 2011, the Partnership sold its limited partnership interests in two local Partnerships. As of September 30, 2011, the Partnership sold its limited partnership interests in six 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

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

historical operating results of the Local Partnerships and the current economic conditions, including changes in tax laws, it is unlikely that the proceeds from such sales received by the Partnership will be sufficient to return to the BACs holders their original investments. All gains and losses on sales are included in discontinued operations.

Short-term

The Partnership's primary sources of funds include: (i) working capital reserves; (ii) interest earned on the working capital reserves; (iii) cash distributions from operations of the Local Partnerships; and (iv) sales proceeds and distributions. Such funds are available to meet the obligations of the Partnership. The Partnership does not anticipate providing cash distributions to BACs holders in circumstances other than refinancing or sales. Cash distributions received from the Local Partnerships, as well as the working capital reserves referred to above, will be used towards the future operating expenses of the Partnership. During the six months ended September 30, 2011 and 2010, the amounts received from operations of the Local Partnerships were approximately \$114,000 and \$91,000, respectively. Additionally, during the six months ended September 30, 2011 and 2010, the Partnership received approximately \$236,000 and \$0, respectively, of distributions from the sale of local Partnerships. The Partnership does not anticipate being able to make distributions sufficient to return to BACs holders their original capital contributions.

During the six months ended September 30, 2011, cash and cash equivalents of the Partnership and its consolidated Local Partnerships decreased approximately \$18,000. This decrease was due to payments of mortgage notes \$(182,000), purchases of property and equipment \$(5,000), costs related to sale of properties \$(44,000), an increase in cash held in escrow relating to investing activities \$(32,000) and a decrease in capitalization of consolidated subsidiaries attributable to noncontrolling interests \$(191,000), which exceeded cash provided by operating activities \$146,000, proceeds from sale of properties \$280,000 and net decrease in due to local general partners and affiliates relating to investing activities \$9,000. Included in the adjustment to reconcile the net income to cash provided by operating activities is depreciation and amortization of approximately \$308,000 and gain on sale of properties of approximately \$441,000.

Total expenses for the three and six months ended September 30, 2011 and 2010, respectively, excluding depreciation and amortization, interest,

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

general and administrative – related parties, totaled \$1,050,051 and \$1,186,749 and \$2,159,599 and \$2,297,362, respectively.

Accounts payable as of September 30, 2011 and March 31, 2011 were \$1,037,527 and \$1,018,576, 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 September 30, 2011 and March 31, 2011 was \$9,618,948 and \$9,248,146, 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 2 to the Financial Statements, 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 \$1,139,000 at September 30, 2011.

Long-term

Partnership management fees owed to the General Partner amounting to approximately \$3,647,000 and \$3,520,000 were accrued and unpaid as of September 30, 2011 and March 31, 2011, respectively, and are included in the line item Due to general partners and affiliates in the consolidated balance sheets. During the year ended March 31, 2011, the General Part-

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

ner 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, the Partnership wrote them off 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 partners and affiliates are expected to be paid, if at all, from working capital reserves. See Note 2 in Item 1 for further discussion of amounts due to the General Partner and its affiliates. The General Partner does not anticipate 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.

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

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 March 31, 2011, 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

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

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 have 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.

Off-Balance Sheet Arrangements

The Partnership has no off-balance sheet arrangements.

Tabular Disclosure of Contractual Obligations

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

Fair Market Valuations

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

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

The carrying amount approximates fair value.

Mortgage Notes Payable

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

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

pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances.

As permitted, we chose not to elect the fair value option as prescribed by FASB ASC 825 – “Financial Instruments” – Including an Amendment of ASC 320 – “Investments – Debt and Equity Securities”, for our financial assets and liabilities that had not been previously carried at fair value. Therefore, we did not elect to fair value any additional items under ASC 825.

The estimated fair value of financial instruments has been determined using available market information or other appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Consequently, the estimates are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange. The following are financial instruments for which the Partnership’s estimate of fair value differs from the carrying amounts:

	At September 30, 2011		At March 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
LIABILITIES:				
Mortgage notes	\$ 28,097,884	\$ 14,332,453	\$ 30,836,027	\$ 15,030,431

For the mortgage notes, fair value is calculated using present value cash flow models based on a discount rate. It was determined that the Tender Option Bond market, through which these bonds have been securitized in the past, continued to see a dramatic slowdown with limited liquidity and significantly reduced transaction levels. To assist in valuing these notes, the Partnership held separate discussions with various third party investment banks who are leaders in the municipal bond business. The discussions produced assumptions that were based on market conditions as well as the credit quality of the underlying property partnerships, which held the mortgage notes, to determine what discount rates to utilize.

Critical Accounting Policies and Estimates

In preparing the consolidated financial statements, management has made estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results

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

could differ from those estimates. Set forth below is a summary of the accounting policies that management believes are critical to the preparation of the consolidated financial statements. The summary should be read in conjunction with the more complete discussion of the Partnership's accounting policies included in Item 7, Note 2 to the consolidated financial statements in its Annual Report on Form 10-K for the year ended March 31, 2011.

Recent Accounting Pronouncements

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

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

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

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.

Through September 30, 2011, 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 September 30, 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.

Income Taxes

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

Results of Operations

The Partnership's results of operations for the three and six months ended September 30, 2011 and 2010 consisted of the results of the Partnership's

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

investment in Local Partnerships. The following discussion excludes the Partnership's results of its discontinued operations which is not reflected below (see Note 5 to the financial statements in Item 1).

Rental income increased by approximately 10% and 5% for the three and six months ended September 30, 2011, respectively, as compared to the corresponding periods in 2010, primarily due to an increase in rental rates and occupancies at several Local Partnerships.

Other income increased approximately \$23,000 for both the three and six months ended September 30, 2011, respectively, as compared to the corresponding periods in 2010, primarily due to a real estate tax refund received in current year at one Local Partnership and an increase in interest income earned on cash investment balances at a second Local Partnership.

Total expenses excluding general administrative, repairs and maintenance, operating and depreciation and amortization expense remained consistent with a decrease of approximately 1% and 4% for the three and six months ended September 30, 2011, respectively, as compared to the corresponding periods in 2010.

General and administrative expense decreased approximately \$60,000 for the three months ended September 30, 2011, respectively, as compared to the corresponding period in 2010, primarily due to a decrease in office expenses at one Local Partnership, a decrease in professional fees caused by the timing difference of invoices paid at a second Local Partnership and a decrease in payroll expense at a third Local Partnership.

Repairs and maintenance expense decreased approximately \$41,000 and \$63,000 for the three and six months ended September 30, 2011, respectively, as compared to the corresponding periods in 2010 primarily due to a decrease in repair contracts, janitorial supplies and monitoring expense at one Local Partnership and a decrease in repair contracts, decorating costs and snow removal costs at a second Local Partnership, partially offset by an increase in repair contracts and supplies at a third Local Partnership.

Operating expense decreased approximately \$31,000 for the three months ended September 30, 2011, as compared to the corresponding period in 2010, primarily due to a decrease in utility costs caused by the timing difference of invoices paid at one Local Partnership.

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

Depreciation and amortization expense decreased approximately \$21,000 and \$42,000 for the three and six months ended September 30, 2011, respectively, as compared to the corresponding periods in 2010, primarily due to the reduction in carrying amounts relating to impairment of assets recorded during the year ended March 31, 2011 at eight Local Partnerships.

Item 4. Controls and Procedures.

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

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

INDEPENDENCE TAX CREDIT PLUS L.P. III

625 Madison Avenue
New York, NY 10022

PRSR STD
U.S. POSTAGE
PAID
MERRILL
CORPORATION
ZIP CODE 10014