

**INDEPENDENCE
TAX CREDIT PLUS III**

ANNUAL REPORT

**For Fiscal Year Ended
March 31, 2008**

June 2008

Message to Our BACsholders;

We would like to take this opportunity to present the Annual Report for Independence Tax Credit Plus L.P. III (the "Partnership") for the fiscal year ended March 31, 2008.

The Partnership is anticipated to generate tax credits through 2009. However, BACsholders will continue to receive Schedule K-1 forms until the last asset is sold and the Partnership is terminated. The Partnership is expected to continue its operations through 2012. However, no assurances can be made with respect to such date.

Detailed information on the Partnership's overall performance is reported in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this report. We urge you to read that section for a complete update on the financial condition of the Partnership.

Should you have any questions concerning your investment, please contact Denise Bernstein of the Partnership's Investor Relations Department t 1-800-600-6422, ext. 6451.

Very truly yours,

A handwritten signature in black ink, appearing to read "Robert L. Levy". The signature is written in a cursive, flowing style.

Robert L. Levy
Chief Financial Officer
Related Independence Associates III L.P.

Consolidated Balance Sheets

	March 31,	
	<u>2008</u>	<u>2007</u>
Property and equipment - at cost, less accumulated depreciation (Notes 2 and 4)	\$ 55,068,077	\$ 57,470,569
Cash and cash equivalents (Notes 2 and 10)	1,129,466	686,353
Cash held in escrow (Note 5)	5,684,885	5,496,614
Deferred costs, less accumulated amortization (Notes 2 and 6)	687,005	762,580
Other assets	<u>939,926</u>	<u>795,047</u>
Total assets	<u>\$ 63,509,359</u>	<u>\$ 65,211,163</u>
 LIABILITIES AND PARTNERS' CAPITAL (DEFICIT) 		
Liabilities:		
Mortgage notes payable (Note 7)	\$ 43,468,564	\$ 43,529,500
Accounts payable	894,007	606,118
Accrued interest payable	9,665,774	8,592,177
Security deposits payable	517,574	495,940
Due to local general partners and affiliates (Note 8)	1,657,112	1,976,765
Due to general partner and affiliates (Note 8)	<u>6,102,814</u>	<u>5,430,585</u>
Total liabilities	<u>62,305,845</u>	<u>60,631,085</u>
Minority interest (Note 2)	<u>172,601</u>	<u>429,202</u>
Commitments and contingencies (Notes 7, 8 and 10)		
Partners' capital (deficit):		
Limited partners (43,440 BACs issued and outstanding) (Note 1)	1,406,733	4,495,496
General Partner	<u>(375,820)</u>	<u>(344,620)</u>
Total partners' capital (deficit)	<u>1,030,913</u>	<u>4,150,876</u>
Total liabilities and partners' capital (deficit)	<u>\$ 63,509,359</u>	<u>\$ 65,211,163</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

	Years Ended March 31,		
	<u>2008</u>	<u>2007*</u>	<u>2006*</u>
Revenues			
Rental income	\$ 7,559,423	\$ 7,128,762	\$ 6,950,116
Other income	<u>399,245</u>	<u>305,282</u>	<u>288,371</u>
	<u>7,958,668</u>	<u>7,434,044</u>	<u>7,238,487</u>
Expenses			
General and administrative	2,025,715	1,977,391	1,989,980
General and administrative-related parties (Note 8)	983,376	832,674	945,649
Repairs and maintenance	1,776,830	1,662,034	1,670,321
Operating	1,126,009	1,069,984	1,020,552
Real estate taxes	347,953	358,083	336,201
Insurance	567,070	538,762	533,452
Financial, principally interest	1,852,945	1,830,713	1,825,894
Depreciation and amortization	2,610,459	2,689,496	2,682,591
Loss on impairment of property (Note 4)	<u>0</u>	<u>1,402,760</u>	<u>0</u>
Total expenses	<u>11,290,357</u>	<u>12,361,897</u>	<u>11,004,640</u>
Net loss before minority interest	(3,331,689)	(4,927,853)	(3,766,153)
Minority interest in loss of subsidiary partnerships	<u>211,726</u>	<u>246,896</u>	<u>294,378</u>
Net loss	\$ <u>(3,119,963)</u>	\$ <u>(4,680,957)</u>	\$ <u>(3,471,775)</u>
Net loss - Limited Partners	\$ <u>(3,088,763)</u>	\$ <u>(4,634,147)</u>	\$ <u>(3,437,057)</u>
Number of BACs outstanding	<u>43,440</u>	<u>43,440</u>	<u>43,440</u>
Net loss per BAC	\$ <u>(71.10)</u>	\$ <u>(106.68)</u>	\$ <u>(79.12)</u>

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>
Partners' capital (deficit) – April 1, 2005	\$ 12,303,608	\$ 12,566,700	\$ (263,092)
Net loss	<u>(3,471,775)</u>	<u>(3,437,057)</u>	<u>(34,718)</u>
Partners' capital (deficit) – March 31, 2006	8,831,833	9,129,643	(297,810)
Net loss	<u>(4,680,957)</u>	<u>(4,634,147)</u>	<u>(46,810)</u>
Partners' capital (deficit) – March 31, 2007	4,150,876	4,495,496	(344,620)
Net loss	<u>(3,119,963)</u>	<u>(3,088,763)</u>	<u>(31,200)</u>
Partners' capital (deficit) – March 31, 2008	<u>\$ 1,030,913</u>	<u>\$ 1,406,733</u>	<u>\$ (375,820)</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Increase (Decrease) in Cash and Cash Equivalents

	Years Ended March 31,		
	2008	2007	2006
Cash flows from operating activities:			
Net loss	\$ (3,119,963)	\$ (4,680,957)	\$ (3,471,775)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	2,610,459	2,689,496	2,682,591
Loss on impairment of fixed assets	0	1,402,760	0
Minority interest in loss of subsidiary partnerships	(211,726)	(246,896)	(294,378)
(Increase) decrease in assets:			
Cash held in escrow	(176,965)	160,715	(272,282)
Other assets	(144,879)	(164,269)	69,175
Increase (decrease) in liabilities:			
Accounts payable	287,889	(39,099)	15,591
Accrued interest	1,073,597	1,006,524	999,505
Security deposit payable	21,634	30,414	39,976
Due to local general partners and affiliates	39,796	169,206	8,874
Due to general partners and affiliates	672,229	603,433	271,405
Total adjustments	4,172,034	5,612,284	3,520,457
Net cash provided by operating activities	1,052,071	931,327	48,682
Cash flows from investing activities:			
Acquisition of property and equipment	(132,392)	(363,622)	(138,170)
(Increase) decrease in cash held in escrow	(11,306)	83,634	(15,014)
(Decrease) increase in due to local general partners and affiliates	(116,207)	(58,517)	52,741
Net cash used in investing activities	(259,905)	(338,505)	(100,443)
Cash flows from financing activities:			
Principal payments of mortgage notes	(610,936)	(479,276)	(3,452,420)
Proceeds from mortgage notes	550,000	0	5,120,086
(Decrease) increase in due to local general partners and affiliates	(243,242)	26,526	2,000
Increase in deferred costs	0	0	(238,457)
Decrease in capitalization of consolidated subsidiaries attributable to minority interest	(44,875)	(73,032)	(1,268,983)
Net cash (used in) provided by financing activities	(349,053)	(525,782)	162,226
Net increase in cash and cash equivalents	443,113	67,040	110,465
Cash and cash equivalents at beginning of year	686,353	619,313	508,848
Cash and cash equivalents at end of year	\$ 1,129,466	\$ 686,353	\$ 619,313
Supplemental disclosure of cash flows information:			
Cash paid during the year for interest	\$ 818,878	\$ 824,189	\$ 658,864
Supplemental disclosure of non-cash investing and financing activities:			
Decrease in property and equipment due to decrease in due to local general partners and affiliates	\$ 0	\$ 184,481	\$ 0

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements March 31, 2008

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.

As of March 31, 2008, the Partnership held a limited partnership interest in twenty subsidiary partnerships.

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 twenty subsidiary partnerships in which the Partnership is a limited partner for the years ended March 31, 2008, 2007 and 2006, respectively, (the 2007, 2006 and 2005 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 interest in the subsidiary partnerships. All intercompany accounts and transactions with the subsidiary partnerships have been eliminated in consolidation.

Notes to Consolidated Financial Statements (continued)
March 31, 2008

Increases (decreases) in the capitalization of consolidated subsidiaries attributable to minority interest arise from cash contributions and cash distributions to the minority interest partners.

Losses attributable to minority interest which exceed the minority interests' investment in a subsidiary have been charged to the Partnership. Such losses aggregated approximately \$6,000, \$34,000 and \$21,000 for the years ended March 31, 2008, 2007 and 2006, respectively. The Partnership's investment in each subsidiary is equal to the respective subsidiary's partners' equity less minority interest capital, if any. In consolidation, all subsidiary partnership losses are included in the Partnership's capital account except for losses allocated to minority interest capital.

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).

Through March 31, 2008, the Partnership has recorded approximately \$1,403,000 as a loss on impairment of assets or reduction to estimated fair value for one Local Partnership.

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. Through March 31, 2008, the Partnership has not recorded or classified any property and equipment as held for sale.

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, 2008

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

	Years Ended March 31,		
	2008	2007	2006
Interest	\$ 179,747	\$ 149,881	\$ 118,270
Other	<u>219,498</u>	<u>155,401</u>	<u>170,101</u>
Total other revenue	<u>\$ 399,245</u>	<u>\$ 305,282</u>	<u>\$ 288,371</u>

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 (Note 9).

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) New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which established a framework for measuring the fair value of assets and liabilities as required by numerous other accounting pronouncements, and expands disclosure requirements for the fair values of certain assets and liabilities. This statement is effective for the Partnership's year ending March 31, 2009. The provisions of this statement will not have a material impact on the consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. This statement was issued with the intent to provide an alternative measurement treatment for certain financial assets and liabilities. The alternative measurement would permit fair value to be used for both initial and subsequent measurement, with changes in fair value recognized in earnings as those changes occur. This "Fair Value Option" would be available on a contract by contract basis. This statement is effective for the Partnerships' year ending March 31, 2009. The provisions of this statement will not have a material impact on the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. This statement was issued with the intent to improve the relevance, comparability and transparency of the financial information that a reporting entity provides in its consolidated financial statements for those entities that have outstanding noncontrolling interest in one or more subsidiaries. The

Notes to Consolidated Financial Statements (continued)
March 31, 2008

effective date for this provision is for fiscal year ends beginning after December 15, 2008. The Partnership is currently evaluating the impact of the provisions of this statement on the consolidated financial statements.

NOTE 3 - Fair Value of Financial Instruments

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

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

The carrying amount approximates fair value.

Mortgage Notes Payable

The fair value of mortgage notes payable is estimated, where practicable, based on the borrowing rate currently available for similar loans.

The estimated fair values of the Partnership's mortgage notes payable and construction loans payable are as follows:

	March 31, 2008		March 31, 2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Mortgage notes payable for which it is:				
Practicable to estimate fair value	\$ 16,923,739	\$ 16,155,510	\$ 13,217,202	\$ 12,194,421
Not practicable	26,544,825	*	30,312,298	*

* Management believes it is not practical to estimate the fair value of the mortgage notes payable because mortgage programs with similar characteristics are not currently available to the Local Partnerships.

Management believes it is not practical to estimate the fair value of due to local and general partners and affiliates because market information on such unique loans are not currently available to the Local Partnerships.

The carrying amount of other financial instruments that require such disclosure approximates fair value.

Notes to Consolidated Financial Statements (continued)
March 31, 2008

NOTE 4 - Property and Equipment

The components of property and equipment and their estimated useful lives are as follows:

	<u>March 31,</u>		Estimated
	<u>2008</u>	<u>2007</u>	Useful
			Lives
			(Years)
Land	\$ 1,166,583	\$ 1,166,583	-
Building and improvements	81,802,719	81,876,119	20-40
Furniture and fixtures	<u>1,490,968</u>	<u>1,375,560</u>	5-12
	84,460,270	84,418,262	
Less: Accumulated depreciation	<u>(29,392,193)</u>	<u>(26,947,693)</u>	
	<u>\$ 55,068,077</u>	<u>\$ 57,470,569</u>	

Included in property and equipment is \$2,509,717 of acquisition fees paid to the General Partner and \$1,178,468 of acquisition expenses as of March 31, 2008 and 2007, respectively. In addition, as of March 31, 2008 and 2007, building and improvements include \$1,106,837 of capitalized interest.

In connection with the rehabilitation of the properties, the subsidiary partnerships have incurred developer's fees of \$8,980,181 to the Local General Partners and their affiliates as of March 31, 2008 and 2007. Such fees have been included in the cost of property and equipment.

Depreciation expense for the years ended March 31, 2008, 2007 and 2006 amounted to \$2,534,884, \$2,612,983, and \$2,574,993, respectively. Additionally, \$90,384 of accumulated depreciation was written-off during the year ended March 31, 2008.

During the year ended March 31, 2007, in accordance with Statement of Financial Accounting Standards No. 144 ("SFAS No. 144") "Accounting for the Impairment of Disposal of Long-Lived Assets", the Partnership deemed the building of Mansion Court Phase II Venture impaired and wrote it down to its fair value which resulted in a loss on impairment of approximately \$1,403,000 (consisting of approximately \$1,976,000 of fixed assets and approximately \$573,000 of accumulated depreciation). Fair value was obtained from an appraisal after indications that the carrying value of the assets was not recoverable evidenced by a history of negative net operating income over the past few years. Therefore, the property was written down to its appraised value of approximately \$549,000.

Notes to Consolidated Financial Statements (continued)
March 31, 2008

NOTE 5 - Cash Held in Escrow

Cash held in escrow consists of the following:

	March 31,	
	<u>2008</u>	<u>2007</u>
Purchase price payments*	\$ 115,345	\$ 130,418
Real estate taxes, insurance and other	3,359,417	3,193,913
Reserve for replacements	1,789,542	1,763,163
Tenant security deposits	<u>420,581</u>	<u>409,120</u>
	<u>\$ 5,684,885</u>	<u>\$ 5,496,614</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
	<u>2008</u>	<u>2007</u>	<u> </u>
Financing costs	\$ 1,335,101	\$ 1,335,101	*
Less: Accumulated amortization	<u>(648,096)</u>	<u>(572,521)</u>	
	<u>\$ 687,005</u>	<u>\$ 762,580</u>	

* Over the life of the related mortgages.

Amortization expense for the years ended March 31, 2008, 2007 and 2006 amounted to \$75,575, \$76,513 and \$107,598, respectively.

NOTE 7 - Mortgage Notes Payable

The mortgage notes, which are collateralized by land and buildings, are payable in aggregate monthly installments of approximately \$100,000 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.

Notes to Consolidated Financial Statements (continued)

March 31, 2008

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>
2008	\$ 594,415
2009	639,748
2010	3,610,902
2011	1,732,766
2012	2,075,127
Thereafter	<u>34,815,606</u>
	<u>\$ 43,468,564</u>

Accrued interest payable as of March 31, 2008 and 2007 was approximately \$ 9,666,000 and \$8,592,000, 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 \$18,000 and monthly deposits to escrow accounts for real estate taxes, hazard and mortgage insurance and other (Note 5).

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.

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, 2008, the gross amount of the Operating Deficit Guarantees aggregate approximately \$5,487,000, all of which have expired. Management does not ex-

Notes to Consolidated Financial Statements (continued)
March 31, 2008

pect that expiration to have a material impact on liquidity, based on prior years' fundings. Amounts funded under such agreements are treated as noninterest bearing loans, which will be paid only out of 50% of available cash flow or out of available net sale or refinancing proceeds. In some instances, the Local General Partners were required to undertake an obligation to comply with a Rent-Up Guaranty Agreement, whereby the Local General Partner agreed to pay liquidated damages if predetermined occupancy rates were not achieved. These payments would have been made without right of repayment. 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.

B) Other Related Party Expenses

The General Partner and its affiliates perform services for the Partnership. The costs incurred to the General Partner and other related parties for the years ended March 31, 2008, 2007 and 2006 were as follows:

	Years Ended March 31,		
	2008	2007*	2006*
Partnership management fees (a)	\$ 353,261	\$ 341,984	\$ 351,400
Expense reimbursement (b)	224,923	140,388	233,499
Local administrative fees (d)	<u>79,656</u>	<u>70,456</u>	<u>77,320</u>
Total general and administrative-General Partner	657,840	552,828	662,219
Property management fees incurred to affiliates of the subsidiary partnerships' general partners (c)	<u>325,536</u>	<u>279,846</u>	<u>283,430</u>
Total general and administrative-related parties	<u>\$ 983,376</u>	<u>\$ 832,674</u>	<u>\$ 945,649</u>

* Reclassified for comparative purposes.

(a) The General Partner is entitled to receive a partnership management fee, after payment of all Partnership expenses, which together with the annual local administrative fees will not exceed a maximum of 0.5% per annum of invested assets (as defined in the Partnership Agreement), for administering the affairs of the Partnership. Subject to the foregoing limitation, the partnership management fee will be determined by the General Partner in its sole discretion based upon its review of the Partnership's investments. Unpaid partnership management fees for any year will be accrued without interest and will be payable only to the extent of available funds after the Partnership has made distributions to the limited partners of sale or refinancing proceeds equal to their original capital contributions plus a 10% priority return thereon (to the extent not theretofore paid out of cash flow). Partnership management fees owed to the General Partner amounting to approximately \$3,586,000 and \$3,233,000 were accrued and unpaid as of March 31, 2008 and 2007, respectively. Without the General Partner's continued accrual without payment the Partnership will not be in a position to meet its obligations. The General Partner has continued allowing the accrual without payment of these amounts but is under no obligation to continue to do so.

(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

Notes to Consolidated Financial Statements (continued)
March 31, 2008

affiliate of the General Partner performs asset monitoring for the Partnership. These services include site visits and evaluations of the subsidiary partnerships' performance.

(c) Property management fees incurred by Local Partnerships amounted to \$507,998, \$505,392 and \$498,034 for the years ended March 31, 2008, 2007 and 2006, respectively. Of these fees, \$325,536, \$279,846 and \$283,430 were incurred to affiliates of the subsidiary partnerships' general partners.

(d) 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.

C) Due to Local General Partners and Affiliates

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

	March 31,	
	<u>2008</u>	<u>2007</u>
Operating advances	\$ 103,064	\$ 126,817
Development fee payable	1,146,083	1,254,234
Other capitalized costs	16,335	16,335
Construction costs payable	146,487	154,543
General Partner loan payable	3,292	246,534
Management and other operating fees	<u>241,851</u>	<u>178,302</u>
	<u>\$ 1,657,112</u>	<u>\$ 1,976,765</u>

D) Advances from Partnership to Local Partnerships

As of March 31, 2008, the Partnership has advanced certain Local Partnership operating loans (non-interest bearing) amounting to approximately \$2,976,000. Such advances are eliminated in consolidation. The following table summarizes these advances:

	March 31,	
	<u>2008</u>	<u>2007</u>
New Zion	\$ 2,655	\$ 2,655
Knickerbocker Avenue	454,441	454,441
Lafayette Avenue	416,094	416,094
Eastern Parkway	1,016,321	1,016,321
2301 First Avenue	1,080,628	1,080,628
Sumpter Commons	<u>5,575</u>	<u>10,580</u>
	<u>\$ 2,975,714</u>	<u>\$ 2,980,719</u>

Notes to Consolidated Financial Statements (continued)
March 31, 2008

NOTE 9 – Taxable Net Loss

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

	<u>Years Ended December 31,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Financial statement net loss	\$ (3,119,963)	\$ (4,680,957)	\$ (3,471,775)
Differences between depreciation and amortization expense records for financial reporting purposes and the accelerated costs recovery system utilized for income tax purposes	(513,901)	(153,314)	(169,991)
Differences resulting from parent company having a different fiscal year for income tax and financial reporting purposes	(2,498)	(20,730)	27,039
Loss on impairment of property for financial reporting purposes not deductible for tax purposes	0	1,402,760	0
Other, including accruals for financial reporting not deductible for tax purposes until paid	<u>979,408</u>	<u>361,011</u>	<u>(227,594)</u>
Net loss as shown on the income tax return for the calendar year ended	<u>\$ (2,656,954)</u>	<u>\$ (3,091,230)</u>	<u>\$ (3,842,321)</u>

Notes to Consolidated Financial Statements (continued)
March 31, 2008

NOTE 10 – Selected Quarterly Financial Data (Unaudited)

The following table summarizes the Partnership’s quarterly results of operations for the years ended March 31, 2008 and 2007.

OPERATIONS	Quarter Ended			
	June 30, 2007	September 30, 2007	December 31, 2007	March 31, 2008
Revenues	\$ 1,996,187	\$ 1,954,440	\$ 1,998,986	\$ 2,009,055
Operating expenses	<u>(2,697,261)</u>	<u>(2,820,126)</u>	<u>(2,725,078)</u>	<u>(3,047,892)</u>
Loss before minority interest	(701,074)	(865,686)	(726,092)	(1,038,837)
Minority interest in loss of subsidiaries	<u>226,029</u>	<u>(108,956)</u>	<u>35,453</u>	<u>59,200</u>
Net loss	<u>\$ (475,045)</u>	<u>\$ (974,642)</u>	<u>\$ (690,639)</u>	<u>\$ (979,637)</u>
Net loss per weighted average BAC	<u>\$ (10.83)</u>	<u>\$ (22.21)</u>	<u>\$ (15.74)</u>	<u>\$ (22.32)</u>

OPERATIONS	Quarter Ended			
	June 30, 2006	September 30, 2006	December 31, 2006	March 31, 2007
Revenues	\$ 1,809,387	\$ 1,869,778	\$ 1,889,328	\$ 1,865,551
Operating expenses	<u>(2,629,423)</u>	<u>(2,660,999)</u>	<u>(2,640,388)</u>	<u>(4,431,087)</u>
Loss before minority interest	(820,036)	(791,221)	(751,060)	(2,565,536)
Minority interest in loss of subsidiaries	<u>68,382</u>	<u>64,973</u>	<u>57,550</u>	<u>55,991</u>
Net loss	<u>\$ (751,654)</u>	<u>\$ (726,248)</u>	<u>\$ (693,510)</u>	<u>\$ (2,509,545)</u>
Net loss per weighted average BAC	<u>\$ (17.13)</u>	<u>\$ (16.55)</u>	<u>\$ (15.81)</u>	<u>\$ (57.19)</u>

Notes to Consolidated Financial Statements (continued)
March 31, 2008

NOTE 11 - Commitments and Contingencies

a) 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 2007, the Mansion Court has sustained operating losses and has not generated sufficient cash flow from operations to meet its obligations, particularly related party payables. 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 is exploring 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, 2008 and 2007 was reduced to zero as a result of prior years’ losses and the minority interest balance was \$0 at each date. Mansion Court’s net loss after minority interest amounted to approximately \$83,000, \$1,556,000 and \$91,000 for the 2007, 2006 and 2005 Fiscal Years. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

b) 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>
2008	\$ 21,252
2009	21,252
2010	21,252
2011	21,252
2012	21,252
Thereafter	715,484
	<u>\$ 821,744</u>

As of December 31, 2007, the lease agreement was current. For the years ended December 31, 2007 and 2006, \$21,252 and \$38,962, respectively, have been paid under the terms of the lease and \$0 and \$0, respectively, remained payable.

c) Uninsured Cash and Cash Equivalents

The Partnership maintains its cash and cash equivalents in various banks. The accounts at each bank are guaranteed by the Federal Deposit Insurance Corporation up to \$100,000. Uninsured cash and cash equivalents approximated \$646,000 at March 31, 2008.

Notes to Consolidated Financial Statements (continued)
March 31, 2008

d) 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.

e) 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 is leased to qualified tenants) commenced. Because of the time required for the acquisition, completion and rent-up of Properties, the amount of Tax Credits per BAC gradually increased over the first three years of the Partnership. Tax Credits not recognized in the first three years will be recognized in the 11th through 13th years. The Partnership generated \$1,999,760, \$3,164,434 and \$4,614,216 Tax Credits during the 2007, 2006 and 2005 tax years, respectively.

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 35% 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.

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 received \$43,440,000 in gross proceeds for BACs pursuant to the Offering resulting in net proceeds available for investment of approximately \$35,000,000 after volume discounts, payment of sales commissions, acquisition fees and expenses, organization and offering expenses and establishment of a working capital reserve.

As of March 31, 2008, the Partnership has invested approximately \$35,051,000 (including approximately \$2,953,000 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, 2008, the Partnership did not make any advances to the Local Partnerships. Although the Partnership will not be acquiring additional

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

Properties, the Partnership may be required to fund potential purchase price adjustments based on tax credit adjustor clauses.

Short-term

The Partnership's primary source of funds is rental revenues, which are fully utilized at the Property level.

For the year ended March 31, 2008, cash and cash equivalents of the Partnership and its twenty consolidated Local Partnerships increased approximately (\$443,000). This increase was due to net cash provided by operating activities (\$1,052,000), which exceeded an increase in cash held in escrow relating to investing activities (\$11,000) a net decrease in due to local general partners and affiliates relating to investing and financing activities (\$359,000), purchases of property and equipment (\$132,000), a net repayment of mortgage notes (\$61,000) and a decrease in capitalization of consolidated subsidiaries attributable to minority interest (\$45,000). Included in the adjustment to reconcile the net loss to cash provided by operating activities is depreciation and amortization in the amount of approximately \$(2,610,000).

During the year ended March 31, 2008, the Partnership received approximately \$84,000 in distributions from operations of the Local Partnerships. Management anticipates receiving distributions from operations in the future, although not to a level sufficient to permit providing cash distributions to the BACs holders. These distributions will be set aside as working capital reserves and although likely not sufficient to cover all Partnership expenses, will be used to meet the operating expenses of the Partnership.

A working capital reserve was previously established from the Partnership's funds available for investment, which includes amounts which may be required for potential purchase price adjustments based on tax credit adjustor clauses. At March 31, 2008, approximately \$43,000 of this reserve remained unused.

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, 2008, the gross amount of the Operating Deficit Guarantees aggregate approximately \$5,487,000, all of which have expired. Management does not expect that expiration to have a material impact on liquidity, based on prior years' fundings. Amounts funded under such agreements are treated as noninterest bearing loans, which will be paid only out of 50% of available cash flow or out of available net sale or refinancing proceeds. In some instances, the Local General Partners were required to undertake an obligation to comply with a Rent-Up Guaranty Agreement, whereby the Local General Partner agreed to pay liquidated damages if predetermined occupancy rates were not achieved. These payments would have been made without right of repayment. 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.

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

The Operating Deficit Guaranty Agreements were negotiated to protect the Partnership's interest in the Local Partnerships and to provide incentive to the Local General Partners to generate positive cash flow.

Total expenses for the year ended March 31, 2008, 2007 and 2006, respectively, excluding depreciation and amortization, interest, general and administrative – related parties and loss on impairment of fixed assets, totaled \$5,843,577 and \$5,616,460.

Accounts payable as of March 31, 2008 and 2007 were \$894,007 and \$606,118 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. 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.

Accrued interest as of March 31, 2008 and 2007 was \$9,665,774 and \$8,592,177 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.

Partnership management fees owed to the General Partner amounting to approximately \$3,586,000 and \$3,233,000 were accrued and unpaid as of March 31, 2008 and 2007, respectively. Without the General Partner's continued accrual without payment of certain fees and expense reimbursements, the Partnership will not be in a position to meet its obligations. The General Partner has continued allowing the accrual without payment of these amounts but is under no obligation to continue to do so.

Long-term

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 will eliminate the ability to generate future Tax Credits from such Local Partnership and may also result in recapture of Tax Credits if the investment is lost before the expiration of the Compliance Period.

Except as described above, management is not aware of any trends or events, commitments or uncertainties, which have not otherwise been disclosed that will or are likely to impact liquidity in a material way. Management believes the only impact would be 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 have their Tax Credits fully in place. Tax Credits are attached to a Property for a period of ten years, and are transferable with the Property during the remainder of the ten-year

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

period. If trends in the real estate market warranted the sale of a Property, the remaining Tax Credits would transfer to the new owner, thereby adding value to the Property on the market. However, such value declines each year and is not included in the financial statement carrying amount. The Credit Periods have expired with respect to certain Local Partnerships, and, with respect to the others, are scheduled to expire at various times through December 31, 2009 depending upon when the Credit Period commenced. 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 as of March 31, 2008 to make future payments under its debt agreements and other contractual obligations.

	<u>Total</u>	<u>Less than 1 Year</u>	<u>1 - 3 Years</u>	<u>3 - 5 Years</u>	<u>More than 5 Years</u>
Mortgage notes payable (a)	\$ 43,468,564	\$ 594,415	\$ 4,250,650	\$ 3,807,893	\$ 34,815,606
Land lease obligations (b)	<u>821,744</u>	<u>21,252</u>	<u>42,504</u>	<u>42,504</u>	<u>715,484</u>
Total	<u>\$ 44,290,308</u>	<u>\$ 615,667</u>	<u>\$ 4,293,154</u>	<u>\$ 3,850,397</u>	<u>\$ 35,531,090</u>

- (a) The mortgage and construction notes, which are collateralized by land and buildings, are payable in aggregate monthly installments of approximately \$100,000 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 11a.

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.

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

Property and Equipment

Property and equipment to be held and used are carried at cost which includes the purchase price, acquisition fees and expenses, 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 Statement of Financial Accounting Standards ("SFAS") No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". 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).

Through March 31, 2008, the Partnership has recorded approximately \$1,403,000 as a loss on impairment of assets or reduction to estimated fair value for one Local Partnership.

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. Through March 31, 2008, the Partnership has not recorded or classified any property and equipment as held for sale.

Revenue Recognition

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

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

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

	Years Ended March 31,		
	2008	2007	2006
Interest	\$ 179,747	\$ 149,881	\$ 118,270
Other	<u>219,498</u>	<u>155,401</u>	<u>170,101</u>
Total other revenue	<u>\$ 399,245</u>	<u>\$ 305,282</u>	<u>\$ 288,371</u>

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

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.

New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which established a framework for measuring the fair value of assets and liabilities as required by numerous other accounting pronouncements, and expands disclosure requirements for the fair values of certain assets and liabilities. This statement is effective for the Partnership's year ending March 31, 2009. The provisions of this statement will not have a material impact on the consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. This statement was issued with the intent to provide an alternative measurement treatment for certain financial assets and liabilities. The alternative measurement would permit fair value to be used for both initial and subsequent measurement, with changes in fair value recognized in earnings as those changes occur. This "Fair Value Option" would be available on a contract by contract basis. This statement is effective for the Partnership's year ending March 31, 2009. The provisions of this statement will not have a material impact on the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. This statement was issued with the intent to improve the relevance, comparability and transparency of the financial information that a reporting entity provides in its consolidated financial statements for those entities that have outstanding noncontrolling interest in one or more subsidiaries. The effective date for this provision is for fiscal year ends beginning after December 15, 2008. The Partnership is currently evaluating the impact of the provisions of this statement on the 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, 2008, 2007 and 2006 (the 2007, 2006 and 2005 Fiscal Years).

The net loss for the 2007, 2006 and 2005 Fiscal Years aggregated \$3,119,963, \$4,680,957 and \$3,471,775 respectively.

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 will be recognized in the 11th through 13th years. The Partnership generated \$1,999,760, \$3,164,434 and \$5,580,448 Tax Credits during the 2007, 2006 and 2005, tax years, respectively.

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

2007 vs. 2006

Rental income increased by approximately 6% for the 2007 Fiscal Year as compared to the 2006 Fiscal Year, primarily due to an adjustment in the current year for the underaccrual of subsidiary receivable in the prior year at one Local Partnership and rental rate increases at the Local Partnerships.

Other income increased approximately \$94,000 for the 2007 Fiscal Year as compared to the 2006 Fiscal Year, primarily due to insurance claim proceeds received at one Local Partnership, water and sewer refunds received at a second Local Partnership and an increase in interest income at a third Local Partnership.

Total expenses, excluding general and administrative-related parties and loss on impairment of fixed assets, remained fairly consistent with an increase of 2% for the 2007 Fiscal Year as compared to the 2006 Fiscal Year.

General and administrative-related parties expense increased approximately \$151,000 for the 2007 Fiscal Year compared to the 2006 Fiscal Year, primarily due to an increase in expense reimbursements at the Partnership level and an increase in property management fees due to a change in the managing agent from an unaffiliated third party to an affiliate at one Local Partnership.

2006 vs. 2005

Rental income increased approximately 3% for the 2006 Fiscal Year compared to the 2005 Fiscal Year, primarily due to increases in occupancies at three Local Partnerships and rental rate increases at the other Local Partnerships.

Total expenses, excluding general and administrative-related parties expense and loss on impairment of fixed assets remained consistent with a decrease of less than 1% for the 2006 Fiscal Year as compared to the 2005 Fiscal Year.

General and administrative-related parties expense decreased approximately \$106,000 for the 2006 Fiscal Year compared to the 2005 Fiscal Year, primarily due to a decrease in expense reimbursements at the Partnership level and a supervisory and incentive property management fee incurred to an affiliate in the prior year at one Local Partnership.

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 2007, the Mansion Court has sustained operating losses and has not generated sufficient cash flow from operations to meet its obligations, particularly related party payables. 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 is exploring options to mitigate increased crime and deteriorating neighborhood conditions. These options include assistance from local government housing agencies and could include transfer of ownership.

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

The Partnership's investment in Mansion Court at March 31, 2008 and 2007 was reduced to zero as a result of prior years' losses and the minority interest balance was \$0 at each date. Mansion Court's net loss after minority interest amounted to approximately \$83,000, \$1,556,000 and \$91,000 for the 2007, 2006 and 2005 Fiscal Years. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Other

The Partnership's investment as a limited partner in the Local Partnerships is subject to the risks 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-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, 2008 and 2007, and the related consolidated statements of operations, changes in partners' capital (deficit), and cash flows for the years ended March 31, 2008, 2007 and 2006 (the 2007, 2006 and 2005 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 seventeen (2007 Fiscal Year), eighteen (2006 Fiscal Year) and four (2005 Fiscal Year) subsidiary partnerships whose losses aggregated \$2,069,413, \$3,812,500 and \$750,146 for the years ended March 31, 2008, 2007 and 2006, respectively, and whose assets constituted 80% and 82% of the Partnership's assets at March 31, 2008 and 2007, presented in the accompanying consolidated financial statements. The financial statements for 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.

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, 2008 and 2007, and the results of their operations and their cash flows for the years ended March 31, 2008, 2007 and 2006, in conformity with U.S. generally accepted accounting principles.

/s/TRIEN ROSENBERG ROSENBERG
WEINBERG CIULLO & FAZZARI LLP

New York, New York
June 18, 2008

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