

**INDEPENDENCE
TAX CREDIT PLUS III**

ANNUAL REPORT

**For Fiscal Year Ended
March 31, 2009**

July 2009

Message to Our BACsholders:

We would like to take this opportunity to present the Annual Report for Independence Tax Credit Plus LP III (the "Partnership") for the year ended March 31, 2009.

To date, the Partnership has liquidated one of its original 20 assets in its portfolio. The General Partner continues to research liquidation opportunities for the Partnerships remaining assets. We anticipate full liquidation will occur within the next few years. We will, of course, keep you apprised of any sales of interests or assets in future reports. 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.

Should you have any questions concerning your investment please contact Denise Bernstein of the Partnership's Investor Relations department at 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>2009</u> | <u>2008</u> |
| ASSETS | | |
| Property and equipment – at cost, less accumulated depreciation (Notes 2 and 4) | \$ 49,495,584 | \$ 55,068,077 |
| Cash and cash equivalents (Notes 2 and 12) | 2,920,187 | 1,129,466 |
| Cash held in escrow (Note 5) | 5,154,827 | 5,684,885 |
| Deferred costs, less accumulated amortization (Notes 2 and 6) | 503,291 | 687,005 |
| Other assets | <u>1,192,915</u> | <u>939,926</u> |
| Total assets | <u>\$ 59,266,804</u> | <u>\$ 63,509,359</u> |
| LIABILITIES AND PARTNERS' CAPITAL (DEFICIT) | | |
| Liabilities: | | |
| Mortgage notes payable (Note 7) | \$ 38,658,408 | \$ 43,468,564 |
| Accounts payable | 902,181 | 894,007 |
| Accrued interest payable | 10,702,346 | 9,665,774 |
| Security deposits payable | 424,241 | 517,574 |
| Due to local general partners and affiliates (Note 8) | 2,309,783 | 1,657,112 |
| Due to general partner and affiliates (Note 8) | <u>6,348,322</u> | <u>6,102,814</u> |
| Total liabilities | <u>59,345,281</u> | <u>62,305,845</u> |
| Minority interest (Note 2) | <u>406,997</u> | <u>172,601</u> |
| Commitments and contingencies (Notes 7, 8 and 12) | | |
| Partners' capital (deficit): | | |
| Limited partners (43,440 BACs issued and outstanding) (Note 1) | (382,825) | 1,406,733 |
| General Partner | <u>(102,649)</u> | <u>(375,820)</u> |
| Total partners' capital (deficit) | <u>(485,474)</u> | <u>1,030,913</u> |
| Total liabilities and partners' capital (deficit) | <u>\$ 59,266,804</u> | <u>\$ 63,509,359</u> |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

| | Years Ended March 31, | |
|--|-----------------------|-----------------------|
| | 2009 | 2008* |
| Operations: | | |
| Revenues | | |
| Rental income | \$ 6,554,634 | \$ 6,646,013 |
| Other | <u>313,403</u> | <u>387,205</u> |
| Total revenues | <u>6,868,037</u> | <u>7,033,218</u> |
| Expenses | | |
| General and administrative | 2,005,907 | 1,917,419 |
| General and administrative-related parties (Note 8) | 856,339 | 924,344 |
| Repairs and maintenance | 1,636,910 | 1,687,096 |
| Operating and other | 1,059,026 | 882,246 |
| Real estate taxes | 361,104 | 347,953 |
| Insurance | 498,463 | 510,401 |
| Financial, primarily interest | 1,765,837 | 1,776,709 |
| Depreciation and amortization | 2,406,794 | 2,369,820 |
| Loss on impairment of property (Note 4) | <u>436,836</u> | <u>0</u> |
| Total expenses | <u>11,027,216</u> | <u>10,415,988</u> |
| Loss from operations before minority interest | (4,159,179) | (3,382,770) |
| Minority interest in loss of subsidiaries from operations | <u>241,116</u> | <u>212,262</u> |
| Loss from operations | (3,918,063) | (3,170,508) |
| Discontinued operation (Note 13): | | |
| Income from discontinued operation (including minority interest and gain on sale of property) | <u>2,110,429</u> | <u>50,545</u> |
| Net loss | \$ <u>(1,807,634)</u> | \$ <u>(3,119,963)</u> |
| Loss from operations – limited partners | \$ (3,878,882) | \$ (3,138,803) |
| Income from discontinued operation (including minority interest and gain on sale of property) – limited partners | <u>2,089,324</u> | <u>50,040</u> |
| Net loss – limited partners | \$ <u>(1,789,558)</u> | \$ <u>(3,088,763)</u> |
| Number of BACs outstanding | <u>43,440</u> | <u>43,440</u> |
| Loss from operations per BAC | \$ (89.29) | \$ (72.25) |
| Income from discontinued operation (including minority interest and gain on sale of property) per BAC | <u>48.09</u> | <u>1.15</u> |
| Loss per BAC | \$ <u>(41.20)</u> | \$ <u>(71.10)</u> |

* Reclassified for comparative purposes.

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Partners' Capital (Deficit)

| | <u>Total</u> | <u>Limited Partners</u> | <u>General Partner</u> |
|--|---------------------|-----------------------------|----------------------------|
| Partners' capital (deficit) – April 1, 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 | 1,030,913 | 1,406,733 | (375,820) |
| Net loss | (1,807,634) | (1,789,558) | (18,076) |
| Contributions – write-off of partnership management fees related to the sold property (Note 8) | 286,247 | 0 | 286,247 |
| Contributions – write-off of related party debt (Note 10) | <u>5,000</u> | <u>0</u> | <u>5,000</u> |
| Partners' capital (deficit) – March 31, 2009 | <u>\$ (485,474)</u> | <u>\$ (382,825)</u> | <u>\$ (102,649)</u> |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Increase (Decrease) in Cash and Cash Equivalents

| | Years Ended March 31, | |
|---|-----------------------|----------------|
| | 2009 | 2008 |
| Cash flows from operating activities: | | |
| Net loss | \$ (1,807,634) | \$ (3,119,963) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Gain on sale of property | (5,139,562) | 0 |
| Depreciation and amortization | 2,753,922 | 2,610,459 |
| Loss on impairment of property | 436,836 | 0 |
| Minority interest in income (loss) of subsidiary partnerships | 2,732,534 | (211,726) |
| (Increase) decrease in assets: | | |
| Cash held in escrow | 186,829 | (176,965) |
| Other assets | (331,433) | (144,879) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 77,111 | 287,889 |
| Accrued interest | 1,036,572 | 1,073,597 |
| Security deposit payable | (12,171) | 21,634 |
| Due to local general partners and affiliates | 353,208 | 39,796 |
| Due to general partners and affiliates | 536,755 | 672,229 |
| Total adjustments | 2,630,601 | 4,172,034 |
| Net cash provided by operating activities | 822,967 | 1,052,071 |
| Cash flows from investing activities: | | |
| Acquisition of property and equipment | (348,187) | (132,392) |
| Proceeds from sale of property | 2,200,000 | 0 |
| Costs related to sale of property | (211,014) | 0 |
| Decrease (increase) in cash held in escrow | 206,682 | (11,306) |
| Decrease in due to local general partners and affiliates | (20,445) | (116,207) |
| Net cash provided by (used in) investing activities | 1,827,036 | (259,905) |

See accompanying notes to consolidated financial statements.

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

| | <u>Years Ended March 31,</u> | |
|---|------------------------------|---------------------|
| | <u>2009</u> | <u>2008</u> |
| Cash flows from financing activities: | | |
| Principal payments of mortgage notes | (4,810,156) | (610,936) |
| Proceeds from mortgage notes | 6,775,000 | 550,000 |
| Decrease in due to local general partners and affiliates | (4,926) | (243,242) |
| Increase in deferred costs | (321,062) | 0 |
| Decrease in capitalization of consolidated subsidiaries attributable to minority interest | <u>(2,498,138)</u> | <u>(44,875)</u> |
| Net cash used in financing activities | <u>(859,282)</u> | <u>(349,053)</u> |
| Net increase in cash and cash equivalents | 1,790,721 | 443,113 |
| Cash and cash equivalents at beginning of year | <u>1,129,466</u> | <u>686,353</u> |
| Cash and cash equivalents at end of year | <u>\$ 2,920,187</u> | <u>\$ 1,129,466</u> |
| Supplemental disclosure of cash flows information: | | |
| Cash paid during the year for interest | <u>\$ 721,400</u> | <u>\$ 818,878</u> |
| Summarized below are the components of the gain on sale of property: | | |
| Proceeds from sale of property – net | \$ (1,988,986) | \$ 0 |
| Decrease in property and equipment, net of accumulated depreciation | 2,913,634 | 0 |
| Decrease in deferred costs | 321,064 | 0 |
| Decrease in cash held in escrow | 136,547 | 0 |
| Decrease in other assets | 78,444 | 0 |
| Decrease in accounts payable and other liabilities | (68,937) | 0 |
| Decrease in security deposit payable | (81,162) | 0 |
| Decrease in mortgage note payable | (6,775,000) | 0 |
| Increase in due to Local General Partners and affiliates | 324,834 | 0 |
| Decrease in due to General Partners and affiliates | (5,000) | 0 |
| Capital contribution – General Partners | 5,000 | 0 |
| Supplemental disclosures of non-cash investing and financing activities: | | |
| Contribution from write-off of partnership management fees related to sold properties | \$ 286,247 | \$ 0 |

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements March 31, 2009

NOTE 1 – General

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

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

The Partnership had originally acquired interests in twenty subsidiary partnerships. During the year ended March 31, 2009, the Partnership has sold its limited partnership interest in one Local Partnership. There can be no assurance as to when the Partnership will dispose of its remaining investments or the amount of proceeds which may be received.

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, 2009 and 2008, respectively, (the 2008 and 2007 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

Notes to Consolidated Financial Statements (continued) **March 31, 2009**

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

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 \$2,975,000 and \$6,000 for the years ended March 31, 2009 and 2008, 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).

During the year ended March 31, 2009, the Partnership recorded approximately \$437,000 as an aggregate loss on impairment of assets or reduction to estimated fair value. Through March 31, 2009, the Partnership recorded approximately \$1,840,000 as an aggregate 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. There are no Local Partnerships whose assets are classified as property and equipment as held for sale as of March 31, 2009.

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.

Notes to Consolidated Financial Statements (continued)

March 31, 2009

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

| | Years Ended March 31, | |
|---------------------|-----------------------|-------------------|
| | 2009 | 2008* |
| Interest | \$ 165,083 | \$ 176,366 |
| Other | <u>148,320</u> | <u>210,839</u> |
| Total other revenue | <u>\$ 313,403</u> | <u>\$ 387,205</u> |

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

| | Years Ended March 31, | |
|---------------------|-----------------------|------------------|
| | 2009 | 2008* |
| Interest | \$ 4,045 | \$ 3,381 |
| Other | <u>16,204</u> | <u>8,659</u> |
| Total other revenue | <u>\$ 20,249</u> | <u>\$ 12,040</u> |

* Reclassified for comparative purposes.

f) Income Taxes

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

Notes to Consolidated Financial Statements (continued) March 31, 2009

i) Recent Accounting Pronouncements

In April 2009, the Financial Accounting Standards Board (“FASB”) issued FSP No. FAS 107-1 and APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments”. This FSP amends FASB Statement No. 107 to require disclosures about fair values of financial instruments for interim reporting periods as well as in annual financial statements. The FSP also amends APB Opinion No. 28 to require those disclosures in summarized financial information at interim reporting periods. This FSP becomes effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The adoption of this FSP is not expected to have a material impact on the Partnership’s consolidated financial statements.

In April 2009, the FASB issued FSP NO. FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly”. This FSP provides additional guidance on determining fair value when the volume and level of activity for the asset or liability have significantly decreased when compared with normal market activity for the asset or liability. A significant decrease in the volume or level of activity for the asset of liability is an indication that transactions or quoted prices may not be determinative of fair value because transactions may not be orderly. In that circumstance, further analysis of transactions or quoted prices is needed, and an adjustment to the transactions or quoted prices may be necessary to estimate fair value. This FSP becomes effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The adoption of this FSP is not expected to have a material impact on the Partnership’s consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, “Non-controlling 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 non-controlling interest in one or more subsidiaries. The effective date for this provision is for fiscal years 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

During the first quarter of 2008, we adopted the provisions required by SFAS No. 157 relating to financial assets and liabilities. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 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 SFAS No. 159, “*The Fair Value Option for Financial Assets and Financial Liabilities*” – Including an Amendment of FASB

Notes to Consolidated Financial Statements (continued)
March 31, 2009

Statement No. 115, 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 SFAS No. 159.

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

| | <u>At March 31, 2009</u> | | <u>At March 31, 2008</u> | |
|----------------|--------------------------|-----------------------------|--------------------------|-----------------------------|
| | <u>Carrying Amount</u> | <u>Fair Estimated Value</u> | <u>Carrying Amount</u> | <u>Fair Estimated Value</u> |
| LIABILITIES: | | | | |
| Mortgage notes | \$ 38,658,408 | \$ 37,957,356 | \$ 43,468,564 | \$ 42,700,335 |

NOTE 4 – Property and Equipment

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

| | <u>March 31,</u> | | Estimated Useful Lives (Years) |
|--------------------------------|----------------------|----------------------|--------------------------------|
| | <u>2009</u> | <u>2008</u> | |
| Land | \$ 1,099,060 | \$ 1,166,583 | - |
| Building and improvements | 75,616,485 | 81,802,719 | 20-40 |
| Furniture and fixtures | <u>1,610,768</u> | <u>1,490,968</u> | 5-12 |
| | 78,326,313 | 84,460,270 | |
| Less: Accumulated depreciation | <u>(28,830,729)</u> | <u>(29,392,193)</u> | |
| | <u>\$ 49,495,584</u> | <u>\$ 55,068,077</u> | |

Depreciation expense for the years ended March 31, 2009 and 2008 amounted to \$2,341,322 and \$2,302,500, respectively.

During the 2008 Fiscal Year, there was a decrease in accumulated depreciation in the amount of \$3,079,926 which related to discontinued assets.

Depreciation expenses for the discontinued property and equipment for the years ended March 31, 2009 and 2008 amounted to \$228,888 and \$232,384, respectively.

During the year ended March 31, 2009, 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 further impaired and wrote it down

Notes to Consolidated Financial Statements (continued)
March 31, 2009

to its fair value which resulted in an additional loss on impairment of approximately \$437,000 (consisting of approximately \$486,000 of fixed assets and approximately \$49,000 of accumulated depreciation). In addition to an earlier writedown of approximately \$1,403,000, the property was further written down to its fair value of approximately \$207,000. Fair value was obtained from an assessment made by the management 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.

NOTE 5 – Cash Held in Escrow

Cash held in escrow consists of the following:

| | March 31, | |
|--|---------------------|---------------------|
| | <u>2009</u> | <u>2008</u> |
| Purchase price payments* | \$ 115,345 | \$ 115,345 |
| Real estate taxes, insurance and other | 3,143,379 | 3,359,417 |
| Reserve for replacements | 1,582,860 | 1,789,542 |
| Tenant security deposits | <u>313,243</u> | <u>420,581</u> |
| | <u>\$ 5,154,827</u> | <u>\$ 5,684,885</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, | | |
|--------------------------------|-------------------|-------------------|---------------|
| | <u>2009</u> | <u>2008</u> | <u>Period</u> |
| Financing costs | \$ 1,107,801 | \$ 1,335,101 | * |
| Less: Accumulated amortization | <u>(604,510)</u> | <u>(648,096)</u> | |
| | <u>\$ 503,291</u> | <u>\$ 687,005</u> | |

* Over the life of the related mortgages.

Amortization expense for the years ended March 31, 2009 and 2008 amounted to \$65,472 and \$67,320, respectively.

Amortization expense from discontinued operations for the years ended March 31, 2009 and 2008 amounted to \$118,240 and \$8,255, respectively.

Notes to Consolidated Financial Statements (continued)

March 31, 2009

NOTE 7 – Mortgage Notes Payable

The mortgage notes, which are collateralized by land and buildings, are payable in aggregate monthly installments of approximately \$75,000 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.

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> |
|---------------------|----------------------|
| 2009 | \$ 418,052 |
| 2010 | 2,178,966 |
| 2011 | 2,699,797 |
| 2012 | 1,788,693 |
| 2013 | 1,708,651 |
| Thereafter | <u>29,864,249</u> |
| | <u>\$ 38,658,408</u> |

Accrued interest payable as of March 31, 2009 and 2008 was approximately \$10,702,000 and \$9,666,000, 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 \$17,000 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 com-

Notes to Consolidated Financial Statements (continued)
March 31, 2009

pleted 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, 2009, the gross amount of the Operating Deficit Guarantees aggregate approximately \$5,487,000, all of which have expired. In cases where the General Partner deemed it appropriate, the obligations of a Local General Partner under the Development Deficit, Operating Deficit and/or Rent-Up Guarantees were secured by letters of credit and/or cash escrow deposits.

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 from operations for the years ended March 31, 2009 and 2008 were as follows:

| | <u>Years Ended March 31,</u> | |
|--|------------------------------|-------------------|
| | <u>2009</u> | <u>2008*</u> |
| Partnership management fees (a) | \$ 335,722 | \$ 353,261 |
| Expense reimbursement (b) | 175,041 | 224,923 |
| Local administrative fees (d) | <u>71,611</u> | <u>74,656</u> |
| Total general and administrative-General Partner | 582,374 | 652,840 |
| Property management fees incurred to affiliates of the subsidiary partnerships’ general partners (c) | <u>273,965</u> | <u>271,504</u> |
| Total general and administrative-related parties | <u>\$ 856,339</u> | <u>\$ 924,344</u> |

Notes to Consolidated Financial Statements (continued)
March 31, 2009

Expenses incurred to related parties from discontinued operation for the years ended March 31, 2009 and 2008 were as follows:

| | Years Ended March 31, | |
|--|-----------------------|------------------|
| | <u>2009</u> | <u>2008</u> |
| Local administrative fees (d) | \$ <u>5,000</u> | \$ <u>5,000</u> |
| Total general and administrative – General Partner | 5,000 | 5,000 |
| Property management fees incurred to affiliates of the subsidiary partnerships' general partners (c) | <u>58,640</u> | <u>54,032</u> |
| Total general and administrative-related parties | <u>\$ 63,640</u> | <u>\$ 59,032</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 \$3,636,000 and \$3,586,000 were accrued and unpaid as of March 31, 2009 and 2008, respectively. During the year ended March 31, 2009, management deemed the unpaid partnership management fees that were related to the property sold during the year ended March 31, 2009 uncollectible and as a result, wrote them off in the amount of approximately \$286,000, resulting in a non-cash General Partner contribution of the same amount. 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 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 \$515,438 and \$507,998 for the years ended March 31, 2009 and 2008, respectively. Of these fees, \$332,605 and \$325,536 were incurred to affiliates of the subsidiary partnerships' general partners, which includes \$58,640 and \$54,032 of fees relating to discontinued operations.
- (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.

Notes to Consolidated Financial Statements (continued)
March 31, 2009

C) Due to Local General Partners and Affiliates

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

| | March 31, | |
|-------------------------------------|---------------------|---------------------|
| | <u>2009</u> | <u>2008</u> |
| Operating advances | \$ 579,057 | \$ 103,064 |
| Development fee payable | 1,125,638 | 1,146,083 |
| Other capitalized costs | 16,335 | 16,335 |
| Construction costs payable | 146,487 | 146,487 |
| General Partner loan payable | 222,008 | 3,292 |
| Management and other operating fees | <u>220,258</u> | <u>241,851</u> |
| | <u>\$ 2,309,783</u> | <u>\$ 1,657,112</u> |

D) Advances from Partnership to Local Partnerships

As of March 31, 2009, the Partnership has advanced certain Local Partnership operating loans (non-interest bearing) amounting to approximately \$1,895,000. Such advances are eliminated in consolidation. The following table summarizes these advances:

| | March 31, | |
|----------------------|---------------------|---------------------|
| | <u>2009</u> | <u>2008</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 |
| Sumpter Commons | 5,075 | 5,575 |
| 2301 First Avenue | <u>0</u> | <u>1,080,628</u> |
| | <u>\$ 1,894,586</u> | <u>\$ 2,975,714</u> |

On December 31, 2008, the Partnership sold its limited partnership interest in 2301 First Avenue (see Note 10). The sale resulted in a write-off of operating advances owed to the Partnership.

NOTE 9 – Taxable Net Loss

Our adoption of FASB interpretation (“FIN”) No. 48 did not have a material impact on the consolidated financial statements and does not impact our financial position at March 31, 2009.

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

Notes to Consolidated Financial Statements (continued)
March 31, 2009

| | <u>Years Ended March 31,</u> | |
|---|------------------------------|-----------------------|
| | <u>2008</u> | <u>2007</u> |
| Financial statement net loss | \$ (1,807,634) | \$ (3,119,963) |
| Differences between depreciation and amortization expense records for financial reporting purposes and the accelerated costs recovery system utilized for income tax purposes | (308,517) | (513,901) |
| Differences resulting from parent company having a different fiscal year for income tax and financial reporting purposes | 22,882 | (2,498) |
| Difference between gain on sale of property recorded for financial statement and income tax reporting purposes | (2,540,098) | 0 |
| Loss on impairment of property for financial reporting purposes not deductible for tax purposes | 436,836 | 0 |
| Other, including accruals for financial reporting not deductible for tax purposes until paid and losses allocated to minority interests for tax purposes | <u>4,107,030</u> | <u>979,408</u> |
| Net loss as shown on the income tax return for the calendar year ended | <u>\$ (89,501)</u> | <u>\$ (2,656,954)</u> |

NOTE 10 – Sale of Property

The Partnership is in the process of disposing of all of its investments. During the fiscal year ended March 31, 2009, the Partnership sold its limited partnership interest in one Local Partnership. There can be no assurance as to when the Partnership will dispose of its remaining investments or the amount of proceeds which may be received. However, based on the historical operating results of the Local Partnerships and the current economic conditions, including changes in tax laws, it is unlikely that the proceeds from such sales received by the Partnership will be sufficient to return to the limited partners their original investments. All gains and losses on sales are included in discontinued operations.

On December 31, 2008, the Partnership sold its limited partnership interest in 2301 First Avenue Limited Partnership L.P. (“2301 First Avenue”) to an affiliate of the Local General Partner for a sales price of \$2,200,000. The sale resulted in a gain of approximately \$5,140,000, resulting from the write-off of the deficit basis in the Local Partnership of approximately \$2,940,000 at the date of the sale and the \$2,200,000 cash received from the sale. The sale also resulted in a write-off of operating advances of approximately \$1,064,000 owed to the Partnership which eliminates in consolidation. In addition, the sale resulted in a non-cash contribution to the Local Partnership from the General Partner of approximately \$5,000 as a result of the write-off of fees owed by the Local Partnership to an affiliate of the General Partner.

Notes to Consolidated Financial Statements (continued)
March 31, 2009

NOTE 11 – Selected Quarterly Financial Data (Unaudited)

The following table summarizes the Partnership's quarterly results of operations for the years ended March 31, 2009 and 2008.

| OPERATIONS | Quarter Ended | | | |
|---|---------------------|-----------------------|----------------------|--------------------|
| | June 30, 2008 | September 30, 2008 | December 31, 2008 | March 31, 2009 |
| Revenues | \$ 1,708,999 | \$ 1,748,910 | \$ 1,752,035 | \$ 1,658,093 |
| Operating expenses | <u>(2,537,524)</u> | <u>(2,622,596)</u> | <u>(2,469,983)</u> | <u>(3,397,113)</u> |
| Loss from operations before minority interest | (828,525) | (873,686) | (717,948) | (1,739,020) |
| Minority interest in loss (income) of subsidiaries from operations | <u>75,360</u> | <u>55,198</u> | <u>(615,329)</u> | <u>725,887</u> |
| Loss from operations | (753,165) | (818,488) | (1,333,277) | (1,013,133) |
| Income from discontinued operation (including minority interest and gain on sale of property) | <u>17,816</u> | <u>22,479</u> | <u>737,325</u> | <u>1,332,809</u> |
| Net loss (income) | <u>\$ (735,349)</u> | <u>\$ (796,009)</u> | <u>\$ (595,952)</u> | <u>\$ 319,676</u> |
| Net loss (income) – limited partnership | <u>\$ (727,996)</u> | <u>\$ (788,049)</u> | <u>\$ (589,992)</u> | <u>\$ 316,479</u> |
| Loss per weighted average BAC from operations | \$ (17.16) | \$ (18.65) | \$ (30.38) | \$ (23.10) |
| Income per weighted average BAC from discontinued operation | <u>0.40</u> | <u>0.51</u> | <u>16.80</u> | <u>30.38</u> |
| Net loss (income) per weighted average BAC | <u>\$ (16.76)</u> | <u>\$ (18.14)</u> | <u>\$ (13.58)</u> | <u>\$ 7.28</u> |

Notes to Consolidated Financial Statements (continued)
March 31, 2009

| OPERATIONS | Quarter Ended | | | |
|---|---------------------|------------------------|-----------------------|---------------------|
| | June 30, 2007 | September 30, 2007* | December 31, 2007* | March 31, 2008* |
| Revenues | \$ 1,690,145 | \$ 1,724,041 | \$ 1,767,071 | \$ 1,851,961 |
| Operating expenses | <u>(2,463,376)</u> | <u>(2,622,985)</u> | <u>(2,561,945)</u> | <u>(2,767,681)</u> |
| Loss from operations before minority interest | (773,231) | (898,945) | (794,874) | (915,720) |
| Minority interest in loss (income) of subsidiaries from operations | <u>226,101</u> | <u>(108,957)</u> | <u>37,155</u> | <u>57,963</u> |
| Loss from continuing operations | (547,130) | (1,007,901) | (757,719) | (857,757) |
| Income (loss) from discontinued operation (including minority interest) | <u>72,085</u> | <u>33,259</u> | <u>67,080</u> | <u>(121,880)</u> |
| Net loss | <u>\$ (475,045)</u> | <u>\$ (974,642)</u> | <u>\$ (690,639)</u> | <u>\$ (979,637)</u> |
| Net loss – limited partnership | <u>\$ (470,294)</u> | <u>\$ (964,896)</u> | <u>\$ (683,733)</u> | <u>\$ (969,841)</u> |
| Loss per weighted average BAC from operation | \$ (12.47) | \$ (22.97) | \$ (17.26) | \$ (19.55) |
| Income (loss) per weighted average BAC from discontinued operation | <u>1.64</u> | <u>0.76</u> | <u>1.52</u> | <u>(2.77)</u> |
| Net loss per weighted average BAC | <u>\$ (10.83)</u> | <u>\$ (22.21)</u> | <u>\$ (15.74)</u> | <u>\$ (22.32)</u> |

* Reclassified for comparative purposes.

NOTE 12 – 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 2008, 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 continues to explore options to mitigate increased crime and deteriorating neighborhood conditions. These options include assistance from local government housing agencies and could include transfer of ownership.

The Partnership’s investment in Mansion Court at March 31, 2009 and 2008 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

Notes to Consolidated Financial Statements (continued)
March 31, 2009

loss after minority interest amounted to approximately \$521,000 and \$83,000 for the 2008 and 2007 Fiscal Years. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

During the year ended March 31, 2009, in accordance with SFAS No. 144, the Partnership deemed the building of Mansion Court further impaired and wrote it down to its new reduced fair value of approximately \$207,000, which resulted in a further loss on impairment of approximately \$437,000. 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.

b) Leases

Savanah 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> |
|---------------------|-------------------|
| 2009 | \$ 21,252 |
| 2010 | 21,252 |
| 2011 | 21,252 |
| 2012 | 21,252 |
| 2013 | 21,252 |
| Thereafter | <u>694,232</u> |
| | <u>\$ 800,492</u> |

As of December 31, 2008, the lease agreement was current. For the years ended December 31, 2008 and 2007, \$21,252 and \$21,252, 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 \$250,000. Uninsured cash and cash equivalents approximated \$1,568,000 at March 31, 2009.

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

Notes to Consolidated Financial Statements (continued)
March 31, 2009

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 \$290,438 and \$1,999,760 Tax Credits during the 2008 and 2007 tax years, respectively. At December 31, 2008, only Mansion Court Phase II Venture was required to recapture \$489,362 of low-income housing tax credits.

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 32% 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.

NOTE 13 – Discontinued Operations

The following table summarizes the results of operation of the Local Partnership that is classified as discontinued operation. For the year ended March 31, 2009, 2301 First Avenue, which was sold during the year, was classified as a discontinued operation in the consolidated statements of operations. For the year ended March 31, 2008, 2301 First Avenue, in order to present comparable results to the year ended March 31, 2009, was classified as a discontinued operation in the consolidated statements of operations.

Notes to Consolidated Financial Statements (continued)
March 31, 2009

Consolidated Statement of Discontinued Operation:

| | <u>Years Ended March 31,</u> | |
|--|------------------------------|------------------|
| | <u>2009</u> | <u>2008*</u> |
| Revenues | | |
| Rental income | \$ 920,282 | \$ 913,410 |
| Other (Note 2) | 20,249 | 12,040 |
| Gain on sale of properties (Note 10) | <u>5,139,562</u> | <u>0</u> |
| Total revenues | <u>6,080,093</u> | <u>925,450</u> |
| Expenses | | |
| General and administrative | 142,066 | 108,296 |
| General and administrative-related parties (Note 8) | 63,640 | 59,032 |
| Repairs and maintenance | 80,165 | 89,734 |
| Operating and other | 250,328 | 243,763 |
| Insurance | 49,629 | 56,669 |
| Financial, primarily interest | 63,058 | 76,236 |
| Depreciation and amortization | <u>347,128</u> | <u>240,639</u> |
| Total expenses | <u>996,014</u> | <u>874,369</u> |
| Income before minority interest | 5,084,079 | 51,081 |
| Minority interest in income of subsidiaries from discontinued operation | <u>(2,973,650)</u> | <u>(536)</u> |
| Total income from discontinued operation (including gain on sale of property and minority interest) | <u>\$ 2,110,429</u> | <u>\$ 50,545</u> |
| Income – limited partners from discontinued operation (including gain on sale of property and minority interest) | <u>\$ 2,089,324</u> | <u>\$ 50,040</u> |
| Number of BACs outstanding | <u>43,440</u> | <u>43,440</u> |
| Income from discontinued operation (including gain on sale of property and minority interest) per BAC | <u>\$ 48.09</u> | <u>\$ 1.15</u> |

* Reclassified for comparative purposes.

Notes to Consolidated Financial Statements (continued) March 31, 2009

| | Years Ended March 31, | |
|---|-----------------------|--------------|
| | 2009 | 2008* |
| Cash flows from discontinued operation | | |
| Net cash (used in) provided by operating activities | \$ (698,799) | \$ 187,402 |
| Net cash provided by investing activities | \$ 2,239,461 | \$ 25,114 |
| Net cash used in financing activities | \$ (544,706) | \$ (172,388) |

* Reclassified for comparative purposes.

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

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

Liquidity and Capital Resources

The Partnership had originally invested approximately \$35,051,000 (including approximately \$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, 2009, the Partnership did not make any advances to the Local Partnerships. Although the Partnership will not be acquiring additional Properties, the Partnership may be required to fund potential purchase price adjustments based on tax credit adjustor clauses.

The Partnership is in the process of disposing all of its investments. As of March 31, 2009, the Partnership has sold its limited partnership interest in one Local Partnership. There can be no assurance as to when the Partnership will dispose of its remaining investments or the amount of proceeds which may be received. However, based on the historical operating results of the Local Partnerships and the current economic conditions, including changes in tax laws, it is unlikely that the proceeds from such sales received by the Partnership will be sufficient to return to the limited partners their original investments. All gains and losses on sales are included in discontinued operations.

Short-term

During the year ended March 31, 2009, the Partnership's primary sources of funds included: (i) working capital reserves; (ii) interest earned on the working capital reserves; (iii) cash distributions from operations of the Local Partnerships; and (iv) sales proceeds and distributions. Such funds are available to meet the obligations of the Partnership. The Partnership does not anticipate providing cash distributions to BACs holders in circumstances other than refinancing or sales. Cash distributions received from the Local Partnerships, as well as the working capital reserves referred to above, will be used towards the future operating expenses of the Partnership. During the years ended March 31, 2009 and 2008, the amounts received from operations of the Local Partnerships were approximately \$134,000 and \$84,000,

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

respectively. Additionally, during the years ended March 31, 2009 and 2008, the Partnership received approximately \$2,200,000 and \$0, respectively, in proceeds from the sale of Local Partnerships' limited partnership interest. The Partnership does not anticipate being able to make distributions sufficient to return to BACs holders their original capital contributions.

For the year ended March 31, 2009, cash and cash equivalents of the Partnership and its consolidated Local Partnerships increased approximately \$1,791,000. This increase was due to net cash provided by operating activities (\$823,000), proceeds from sale of property (\$2,200,000), proceeds from mortgage notes (\$6,775,000) and an increase in cash held in escrow relating to investing activities (\$207,000), which exceeded a net decrease in due to local general partners and affiliates relating to investing and financing activities (\$25,000), purchases of property and equipment (\$348,000), costs related to sale of property (\$211,000), an increase in deferred cost (\$321,000) and a decrease in capitalization of consolidated subsidiaries attributable to minority interest (\$2,498,000). Included in the adjustment to reconcile the net loss to cash provided by operating activities is depreciation and amortization of approximately \$(2,754,000), gain on sale of property of approximately \$(5,140,000) and loss on impairment of property of approximately \$(437,000).

Total expenses for the year ended March 31, 2009 and 2008, respectively, excluding depreciation and amortization, interest, general and administrative – related parties and loss on impairment of fixed assets, totaled \$5,561,410 and \$5,345,115, respectively.

Accounts payable as of March 31, 2009 and 2008 were \$902,181 and \$894,007, 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, 2009 and 2008 was \$10,702,346 and \$9,665,774, 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.

The Partnership has an unconsolidated working capital reserve of approximately \$2,019,000 at March 31, 2009.

Partnership management fees owed to the General Partner amounting to approximately \$3,636,000 and \$3,586,000 were accrued and unpaid as of March 31, 2009 and 2008, respectively. During the year ended March 31, 2009, management deemed the unpaid partnership management fees that were related to the property sold during the year ended March 31, 2009, uncollectible and as a result, wrote them off in the amount of approximately \$286,000, resulting in a non-cash General Partner contribution of the same amount. 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

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

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. At December 31, 2008, only Mansion Court Phase II Venture was required to recapture \$489,362 of low-income housing tax credits.

Except as described above, management is not aware of any trends or events, commitments or uncertainties, which have not otherwise been disclosed that will or are likely to impact liquidity in a material way. Management believes the only impact would be for laws that have not yet been adopted. The portfolio is diversified by the location of the Properties around the United States so that if one area of the country is experiencing downturns in the economy, the remaining Properties in the portfolio may be experiencing upswings. However, the geographic diversification of the portfolio may not protect against a general downturn in the national economy. The Partnership has invested the proceeds of its Offering in twenty Local Partnerships, all of which 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 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 from operations as of March 31, 2009 to make future payments under its debt agreements and other contractual obligations.

| | Total | Less than 1 Year | 1 – 3 Years | 3 - 5 Years | More than 5 Years |
|----------------------------|----------------------|---------------------|---------------------|---------------------|----------------------|
| Mortgage notes payable (a) | \$ 38,658,408 | \$ 418,052 | \$ 4,878,763 | \$ 3,497,344 | \$ 29,864,249 |
| Land lease obligations (b) | <u>800,492</u> | <u>21,252</u> | <u>42,504</u> | <u>42,504</u> | <u>694,232</u> |
| Total | <u>\$ 39,458,900</u> | <u>\$ 439,304</u> | <u>\$ 4,921,267</u> | <u>\$ 3,539,848</u> | <u>\$ 30,558,481</u> |

- (a) The mortgage and construction notes, which are collateralized by land and buildings, are payable in aggregate monthly installments of approximately \$75,000 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.

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

- (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 12b.

Off Balance Sheet Arrangements

The Partnership has no off-balance sheet arrangements.

Critical Accounting Policies

In preparing the consolidated financial statements, management has made estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Set forth below is a summary of the accounting policies that management believes are critical to the preparation of the consolidated financial statements. The summary should be read in conjunction with the more complete discussion of the Partnership's accounting policies included in Item 8, Note 2 to the consolidated financial statements in this annual report on Form 10-K.

Property and Equipment

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

During the year ended March 31, 2009, the Partnership recorded approximately \$437,000 as an aggregate loss on impairment of assets or reduction to estimated fair value. Through March 31, 2009, the Partnership has recorded approximately \$1,840,000 as an aggregate loss on impairment of assets or reduction to estimated fair value.

At the time management commits to a plan to dispose of assets, said assets are adjusted to the lower of carrying amount or fair value less costs to sell. These assets are classified as property and equipment-held for sale and are not depreciated. There are no Local Partnerships whose assets are classified as property and equipment as held for sale as of March 31, 2009.

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

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

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

| | Years Ended March 31, | |
|---------------------|-----------------------|-------------------|
| | <u>2009</u> | <u>2008*</u> |
| Interest | \$ 165,083 | \$ 176,366 |
| Other | <u>148,320</u> | <u>210,839</u> |
| Total other revenue | <u>\$ 313,403</u> | <u>\$ 387,205</u> |

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

| | Years Ended March 31, | |
|---------------------|-----------------------|------------------|
| | <u>2009</u> | <u>2008*</u> |
| Interest | \$ 4,045 | \$ 3,381 |
| Other | <u>16,204</u> | <u>8,659</u> |
| Total other revenue | <u>\$ 20,249</u> | <u>\$ 12,040</u> |

* Reclassified for comparative purposes.

Income Taxes

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

Recent Accounting Pronouncements

In April 2009, the Financial Accounting Standards Board ("FASB") issued FSP No. FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments". This FSP amends FASB Statement No. 107 to require disclosures about fair values of financial instruments for interim reporting periods as well as in annual financial statements. The FSP also amends APB Opinion No. 28 to require those disclosures in summarized financial information at interim reporting periods. This FSP becomes effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for

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

periods ending after March 15, 2009. The adoption of this FSP is not expected to have a material impact on the Partnership's consolidated financial statements.

In April 2009, the FASB issued FSP NO. FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly". This FSP provides additional guidance on determining fair value when the volume and level of activity for the asset or liability have significantly decreased when compared with normal market activity for the asset or liability. A significant decrease in the volume or level of activity for the asset of liability is an indication that transactions or quoted prices may not be determinative of fair value because transactions may not be orderly. In that circumstance, further analysis of transactions or quoted prices is needed, and an adjustment to the transactions or quoted prices may be necessary to estimate fair value. This FSP becomes effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The adoption of this FSP is not expected to have a material impact on the Partnership's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, "Non-controlling 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 non-controlling interest in one or more subsidiaries. The effective date for this provision is for fiscal years 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, 2009 and 2008 (the 2008 and 2007 Fiscal Years) excluding the results of its discontinued operation which are not reflected in the following discussion (see Item 8, Note 13).

The net loss for the 2008 and 2007 Fiscal Years aggregated \$1,807,634 and \$3,119,963, 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 \$290,438 and \$1,999,760 Tax Credits during the 2008 and 2007, tax years, respectively.

2008 vs. 2007

Rental income decreased by approximately 1% for the 2008 Fiscal Year as compared to the 2007 Fiscal Year, primarily due to an adjustment in the prior year for the underaccrual of subsidiary receivable at one Local Partnership, decreases in occupancy due to the current economic downturn at a second and third Local Partnership, offset by an increase in tenant assistance payments and rental rates at several other Local Partnerships.

Other income decreased approximately \$74,000 for the 2008 Fiscal Year as compared to the 2007 Fiscal Year, primarily due to an insurance refund received in the prior year at one Local Partnership, a real estate tax refund received in the prior year at a second Local Partnership and a decrease in interest in-

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

come at a third Local Partnership, partially offset by an increase due to insurance proceeds received resulting from fire damage in the current year at a fourth Local Partnership.

Total expenses, excluding operating and other and loss on impairment of fixed assets, remained fairly consistent with an increase of less than 1% for the 2008 Fiscal Year as compared to the 2007 Fiscal Year.

Operating and other expense increased approximately \$177,000 for the 2008 Fiscal Year as compared to the 2007 Fiscal Year, primarily due to an imposed water bill by the City of New York for the prior years of 2002 to 2008 at one Local Partnership as well as an increase in overall utility costs at several other Local Partnerships.

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 2008, 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 continues to explore options to mitigate increased crime and deteriorating neighborhood conditions. These options include assistance from local government housing agencies and could include transfer of ownership.

The Partnership's investment in Mansion Court at March 31, 2009 and 2008 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 \$521,000 and \$83,000 for the 2008 and 2007 Fiscal Years. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

During the year ended March 31, 2009, in accordance with SFAS No. 144, the Partnership deemed the building of Mansion Court further impaired and wrote it down to its new reduced fair value of approximately \$207,000, which resulted in a further loss on impairment of approximately \$437,000. 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.

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

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

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, 2009 and 2008, and the related consolidated statements of operations, changes in partners' capital (deficit), and cash flows for the years ended March 31, 2009 and 2008 (the 2008 and 2007 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 eighteen (2008 Fiscal Year) and seventeen (2007 Fiscal Year) subsidiary partnerships whose losses aggregated \$3,006,866 and \$2,069,413 for the years ended March 31, 2009 and 2008, respectively, and whose assets constituted 84% and 80% of the Partnership's assets at March 31, 2009 and 2008, 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. The financial statement for one of these subsidiary partnerships is unaudited.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based upon our audits, and the reports of the other auditors referred to above, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Independence Tax Credit Plus L.P. III and Subsidiaries at March 31, 2009 and 2008, and the results of their operations and their cash flows for the years ended March 31, 2009 and 2008, in conformity with U.S. generally accepted accounting principles.

/s/TRIEN ROSENBERG ROSENBERG
WEINBERG CIULLO & FAZZARI LLP

New York, New York
June 22, 2009

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