

INDEPENDENCE
TAX CREDIT PLUS III

QUARTERLY
REPORT

Ended
June 30, 2009

August 2009

Message to Our BACsholders:

We would like to take this opportunity to present the Quarterly Report for the Independence Tax Credit Plus LP III (the "Partnership") for the quarter ended June 30, 2009.

Since our last report the Partnership has not liquidated any assets and operations have not changed significantly. The Partnership's portfolio still consists of 19 of its original 20 assets. The General Partner continues to research opportunities for the Partnership's remaining assets. We anticipate full liquidation will occur within the next two-four years. We will, of course, keep you apprised of any sales 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

	June 30, 2009 <u>(Unaudited)</u>	March 31, 2009 <u>(Audited)</u>
ASSETS		
Operating Assets		
Property and equipment, at cost, net of accumulated depreciation of \$29,408,615 and \$28,830,729, respectively	\$ 48,917,698	\$ 49,495,584
Cash and cash equivalents	2,891,760	2,920,187
Cash held in escrow	5,167,600	5,154,827
Deferred costs, net of accumulated amortization of \$620,676 and \$604,510, respectively	487,125	503,291
Other assets	<u>1,337,427</u>	<u>1,192,915</u>
Total assets	<u>\$ 58,801,610</u>	<u>\$ 59,266,804</u>

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets *(continued)*

	June 30, 2009 <u>(Unaudited)</u>	March 31, 2009 <u>(Audited)</u>
LIABILITIES AND PARTNERS' CAPITAL (DEFICIT)		
Operating Liabilities		
Mortgage notes payable	\$ 38,557,955	\$ 38,658,408
Accounts payable	984,428	902,181
Accrued interest payable	11,032,664	10,702,346
Security deposits payable	434,111	424,241
Due to local general partners and affiliates	2,352,182	2,309,783
Due to general partners and affiliates	<u>6,424,744</u>	<u>6,348,322</u>
Total liabilities	<u>59,786,084</u>	<u>59,345,281</u>
Commitments and contingencies (Note 6)		
Partners' capital (deficit)		
Limited partners (43,440 BACs issued and outstanding)	(1,154,126)	(382,825)
General partners	<u>(110,440)</u>	<u>(102,649)</u>
Independence Tax Credit Plus L.P. III total	<u>(1,264,566)</u>	<u>(485,474)</u>
Noncontrolling interests	<u>280,092</u>	<u>406,997</u>
Total partners' capital (deficit)	<u>(984,474)</u>	<u>(78,477)</u>
Total liabilities and partners' capital (deficit)	<u>\$ 58,801,610</u>	<u>\$ 59,266,804</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations
(Unaudited)

	Three Months Ended June 30,	
	<u>2009</u>	<u>2008*</u>
Revenues		
Rental income	\$ 1,677,553	\$ 1,642,699
Other income	<u>89,584</u>	<u>66,300</u>
Total revenues	<u>1,767,137</u>	<u>1,708,999</u>
Expenses		
General and administrative	491,977	507,307
General and administrative-related parties (Note 2)	219,642	207,359
Repairs and maintenance	373,076	331,658
Operating	276,190	262,731
Taxes	86,217	82,396
Insurance	127,199	127,200
Financial, principally interest	436,951	430,570
Depreciation and amortization	<u>594,052</u>	<u>588,303</u>
Total expenses from operations	<u>2,605,304</u>	<u>2,537,524</u>
Loss from operations	(838,167)	(828,525)
Income from discontinued operation	<u>0</u>	<u>18,003</u>
Net loss	(838,167)	(810,522)
Net loss attributable to noncontrolling interests from operations	59,075	75,360
Net income attributable to noncontrolling interests from discontinued operation	<u>0</u>	<u>(187)</u>
Net loss attributable to noncontrolling interests	59,075	75,173
Net loss attributable to Independence Tax Credit Plus L.P. III	<u>\$ (779,092)</u>	<u>\$ (735,349)</u>

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,	
	<u>2009</u>	<u>2008*</u>
Loss from operations – limited partners	\$ (771,301)	\$ (745,633)
Income from discontinued operation – limited partners	<u>0</u>	<u>17,637</u>
Net loss – limited partners	<u>\$ (771,301)</u>	<u>\$ (727,966)</u>
Number of BACs outstanding	<u>43,440</u>	<u>43,440</u>
Loss from operations per BAC	\$ (17.75)	\$ (17.16)
Income from discontinued operation per BAC	<u>0</u>	<u>0.40</u>
Net loss per BAC	<u>\$ (17.75)</u>	<u>\$ (16.76)</u>

* Reclassified for comparative purpose.

See accompanying notes to consolidated financial statements.

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

	<u>Total</u>	<u>Limited Partners</u>	<u>General Partner</u>	<u>Noncontrolling Interests</u>
Partners' capital (deficit) - April 1, 2009	\$ (78,477)	\$ (382,825)	\$ (102,649)	\$ 406,997
Net loss – three months ended June 30, 2009	(838,167)	(771,301)	(7,791)	(59,075)
Distributions	<u>(67,830)</u>	<u>0</u>	<u>0</u>	<u>(67,830)</u>
Partners' (deficit) capital – June 30, 2009	<u>\$ (984,474)</u>	<u>\$ (1,154,126)</u>	<u>\$ (110,440)</u>	<u>\$ 280,092</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended June 30,	
	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Net loss	\$ <u>(838,167)</u>	\$ <u>(810,522)</u>
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	594,052	648,463
Increase in accounts payable	82,247	263,840
Increase in accrued interest payable	330,318	418,849
Increase (decrease) in security deposit payable	9,870	(62,961)
Increase in cash held in escrow	(37,527)	(80,132)
Increase in other assets	(144,512)	(204,247)
Increase in due to local general partners and affiliates	42,399	74,738
Increase in due to general partner and affiliates	<u>76,422</u>	<u>130,926</u>
Total adjustments	<u>953,269</u>	<u>1,189,476</u>
Net cash provided by operating activities	<u>115,102</u>	<u>378,954</u>
Cash flows from investing activities:		
Purchase of property and equipment	0	(447)
Decrease in cash held in escrow	24,754	62,212
Decrease in due to local general partners and affiliates	<u>0</u>	<u>(100,473)</u>
Net cash provided by (used in) investing activities	<u>24,754</u>	<u>(38,708)</u>

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,	
	<u>2009</u>	<u>2008</u>
Cash flows from financing activities:		
Repayments of mortgage notes	(100,453)	(146,205)
Decrease in due to local general partners and affiliates	0	(2,000)
Decrease in capitalization of consolidated subsidiaries attributable to noncontrol- ling interests	<u>(67,830)</u>	<u>(12,242)</u>
Net cash used in financing activities	<u>(168,283)</u>	<u>(160,447)</u>
Net (decrease) increase in cash and cash equivalents	(28,427)	179,799
Cash and cash equivalents at beginning of period	<u>2,920,187</u>	<u>1,129,466</u>
Cash and cash equivalents at end of period	<u>\$ 2,891,760</u>	<u>\$ 1,309,265</u>

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

June 30, 2009 (Unaudited)

Note 1 - General

The consolidated financial statements include the accounts of Independence Tax Credit Plus L.P. III (the "Partnership") and nineteen other limited partnerships ("subsidiary partnerships", "subsidiaries" or "Local Partnerships") owning apartment complexes that are eligible for the federal low-income housing tax credit ("Tax Credit"). The general partner of the Partnership is Related Independence Associates III L.P., a Delaware limited partnership (the "General Partner"). Through the rights of the Partnership and/or an affiliate of the General Partner, which affiliate has a contractual obligation to act on behalf of the Partnerships, to remove the general partner of the Local Partnerships and to approve certain major operating and financial decisions, the Partnership has a controlling financial interest in the subsidiary partnerships ("Local General Partners"). As of June 30, 2009, the Partnership has sold its limited partnership interest in one Local Partnership (see Note 4).

For financial reporting purposes, the Partnership's fiscal quarter ends June 30, 2009. All subsidiaries have fiscal quarters ending March 31, 2009. Accounts of the subsidiaries have been adjusted for intercompany transactions from April 1 through June 30. The Partnership's fiscal quarter ends June 30 in order to allow adequate time for the subsidiaries' financial statements to be prepared and consolidated.

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

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

The Partnership has adopted SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, ("SFAS No. 160") which is effective for fiscal year ends beginning after December 15, 2008. In accordance with SFAS No. 160, losses attributable to minority interests amounted to approximately \$59,000 for the three months ended June 30, 2009. Prior to the adoption of this SFAS, losses attributable to minority interests which exceeded the minority interests' investment in a subsidiary partnership were charged to the Partnership. There were no such losses for the three months ended June 30, 2008. The Partnership's investment in each subsidiary is equal to the respective subsidiary's partners' equity less minority interest capital, if any.

Notes to Consolidated Financial Statements *(continued)*
June 30, 2009 (Unaudited)

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been omitted or condensed. These condensed financial statements should be read in conjunction with the financial statements and notes thereto included in the Partnership’s Annual Report on Form 10-K for the year ended March 31, 2009.

The books and records of the Partnership are maintained on the accrual basis of accounting in accordance with GAAP. In the opinion of the General Partner of the Partnership, the accompanying unaudited financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position of the Partnership as of June 30, 2009 and the results of operations and its cash flows for the three months ended June 30, 2009 and 2008. However, the operating results for the three months ended June 30, 2009 may not be indicative of the results for the year.

The Partnership has evaluated and disclosed, as applicable, subsequent events through August 7, 2009, the issuance date of these financial statements.

NOTE 2 – Related Party Transactions

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

The costs incurred to related parties from operations for the three months ended June 30, 2009 and 2008 were as follows:

Notes to Consolidated Financial Statements *(continued)*
June 30, 2009 (Unaudited)

	Three Months Ended June 30,	
	<u>2009</u>	<u>2008*</u>
Partnership management fees (a)	\$ 83,500	\$ 81,497
Expense reimbursement (b)	48,324	42,705
Local administrative fee (c)	<u>17,903</u>	<u>18,750</u>
Total general and administrative-General Partner	<u>149,727</u>	<u>142,952</u>
Property management fees incurred to affiliates of the subsidiary partnerships' general partners (d)	<u>69,915</u>	<u>64,407</u>
Total general and administrative-related parties	<u>\$ 219,642</u>	<u>\$ 207,359</u>

* Reclassified for comparative purposes.

The costs incurred to related parties from discontinued operation for the three months ended June 30, 2009 and 2008 were as follows:

	Three Months Ended June 30,	
	<u>2009</u>	<u>2008</u>
Local administrative fee (c)	\$ <u>0</u>	\$ <u>1,250</u>
Total general and administrative-General Partner	<u>0</u>	<u>1,250</u>
Property management fees incurred to affiliates of the subsidiary partnerships' general partners (d)	<u>0</u>	<u>13,843</u>
Total general and administrative-related parties	<u>\$ 0</u>	<u>\$ 15,093</u>

(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

Notes to Consolidated Financial Statements *(continued)*
June 30, 2009 (Unaudited)

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 \$3,719,000 and \$3,636,000 were accrued and unpaid as of June 30, 2009 and March 31, 2009, 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) Independence SLP III L.P., a special limited partner of the subsidiary partnerships, is entitled to receive a local administrative fee of up to \$5,000 per year from each subsidiary partnership.
- (d) Property management fees incurred by Local Partnerships amounted to \$110,848 and \$123,658 for the three months ended June 30, 2009 and 2008, respectively. Of these fees, \$69,915 and \$78,250, respectively, were incurred to affiliates of the Local General Partners, of which \$0 and \$13,843 of these fees relate to the discontinued operation, respectively.

Notes to Consolidated Financial Statements (continued)
June 30, 2009 (Unaudited)

NOTE 3 – Fair Value Measurements

The Partnership 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 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:

	At June 30, 2009		At March 31, 2009	
	Carrying Amount	Fair Estimated Value	Carrying Amount	Fair Estimated Value
LIABILITIES:				
Mortgage notes	\$ 38,557,955	\$ 37,858,706	\$ 38,658,408	\$ 37,957,356

NOTE 4 – Sale of Property

The Partnership is in the process of selling its investments. Through June 30, 2009, the Partnership sold its limited partnership interest in one Local Partnership (Note 5). There can be no assurance as to when the Partnership will dispose of its remaining investments or the amount of proceeds which may be received. However, based on the historical operating results of the Local Partnerships and the current economic conditions, including changes in tax laws, it is unlikely that the proceeds from such

Notes to Consolidated Financial Statements *(continued)*
June 30, 2009 (Unaudited)

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

NOTE 5 – Discontinued Operations

The following table summarizes the results of operations of the Local Partnership that is classified as a discontinued operation. For the three months ended June 30, 2009, there were no properties classified as discontinued operations in the consolidated financial statements. For the three months ended June 30, 2008, 2301 First Avenue, which was sold during the year ended March 31, 2009, and in order to present comparable results to the three months ended June 30, 2009, was classified as a discontinued operation in the consolidated financial statements.

Notes to Consolidated Financial Statements *(continued)*
June 30, 2009 (Unaudited)

Consolidated Statements of Discontinued Operations:

	Three Months Ended <u>June 30, 2008</u>
Revenues	
Rental income	\$ 242,055
Other	<u>3,312</u>
Total revenue	<u>245,367</u>
Expenses	
General and administrative	21,806
General and administrative-related parties (Note 2)	15,093
Repairs and maintenance	22,320
Operating and other	73,142
Insurance	14,000
Interest	20,843
Depreciation and amortization	<u>60,160</u>
Total expenses	<u>227,364</u>
Income from discontinued operation before non- controlling interest	18,003
Noncontrolling interest in income of subsidiaries from discontinued operation	<u>(187)</u>
Income from discontinued operation	<u>\$ 17,816</u>
Income – limited partners from discontinued operation	<u>\$ 17,637</u>
Number of BACs outstanding	<u>43,440</u>
Income from discontinued operation	<u>\$ 0.40</u>

Notes to Consolidated Financial Statements *(continued)*
June 30, 2009 (Unaudited)

Cash flows from Discontinued Operation:

	Three Months Ended <u>June 30, 2008</u>
Net cash provided by operating activities	\$ 40,642
Net cash used in investing activities	\$ (374)
Net cash used in financing activities	\$ (49,629)

NOTE 6 – Commitments and Contingencies

a) Subsidiary Partnerships – Going Concerns and Uncertainties

Mansion Court Phase II Venture (“Mansion Court”)

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, primarily payable to related parties. 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 June 30, 2009 and March 31, 2009 was zero as a result of prior years’ losses and the noncontrolling interests balance was \$0 at each date. Mansion Court’s net loss after noncontrolling interests amounted to approximately \$19,000 and \$13,000 for the three months ended June 30, 2009 and 2008, respectively.

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

Notes to Consolidated Financial Statements *(continued)*
June 30, 2009 (Unaudited)

recoverable, evidenced by a history of net operating losses over the past few years.

b) Leases

Savannah Park Housing L.P. (“Tobias”), one of the subsidiary partnerships, is leasing the land on which its apartment complex is located for a term of 50 years, which commenced in August 1996, with monthly rent payments of \$1,771. As of June 30, 2009, the lease agreement was current. Estimated aggregate future minimum payments due under the term of the lease were \$795,179 as of March 31, 2009.

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.

d) Cash Distributions

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

e) Other

The Partnership and holders of Beneficial Assignment Certificates (“BACs”) began to recognize Tax Credits with respect to a property when the period of the Partnership’s entitlement to claim Tax Credits (for each property, generally ten years from the date of investment or, if later, the date the property is placed in service) 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 in Tax Credits during the 2008 and 2007 tax years, respectively. At December 31, 2008, only Mansion Court was required to recapture \$489,362 of low-income housing tax credits.

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

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

Liquidity and Capital Resources

The Partnership originally invested all of its net proceeds in twenty Local Partnerships of which approximately \$120,000 remains to be paid to the Local Partnerships (including approximately \$115,000 being held in escrow). The Partnership is in the process of selling its investments. As of June 30, 2009, the Partnership has sold its limited partnership interest in one Local Partnership (see Note 4).

Off-Balance Sheet Arrangements

The Partnership has no off-balance sheet arrangements.

Tabular Disclosure of Contractual Obligations

The Partnership disclosed in Item 7 of the Partnership's Annual Report on Form 10-K for the year ended March 31, 2009, the Partnership's commitments to make future payments under its debt agreements and other contractual obligations. There are no material changes to such disclosure or amounts as of June 30, 2009.

Short-Term

The Partnership's primary source of funds is rental revenues, which are fully utilized at the property level, and sales proceeds. Such sales proceeds are available to meet the obligations of the Partnership.

During the three months ended June 30, 2009, cash and cash equivalents of the Partnership and its consolidated Local Partnerships decreased approximately (\$28,000). This decrease was due to repayment of mortgage notes (\$100,000) and a decrease in capitalization of consolidated subsidiaries attributable to noncontrolling interests (\$68,000), which exceeded net cash provided by operating activities (\$115,000) and a decrease in cash held in escrow relating to investing activities (\$25,000). Included in the adjustments to reconcile the net loss to net cash provided by operating activities is depreciation and amortization in the amount of approximately (\$594,000).

During the three months ended June 30, 2009, the Partnership received \$46,000 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

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

reserves and although likely not sufficient to cover all Partnership expenses, will be used to meet the operating expenses of the Partnership.

Total expenses for the three months ended June 30, 2009 and 2008, excluding depreciation and amortization, interest and general and administrative-related parties, totaled \$1,354,659 and \$1,311,292, respectively.

Accounts payable as of June 30, 2009 and March 31, 2009, were \$984,428 and \$902,181, 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. 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 payable as of June 30, 2009 and March 31, 2009, was \$11,032,664 and \$10,702,346, respectively. Accrued interest payable 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 and which have been accumulating since the Partnership's investment in the respective Local Partnership) will be made from future refinancing 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.

Security deposits payable are offset by cash held in security deposits, which are included in "Cash held in escrow" on the consolidated balance sheets.

Long-Term

Partnership management fees owed to the General Partner amounting to approximately \$3,719,000 and \$3,636,000 were accrued and unpaid as of June 30, 2009 and March 31, 2009, 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 Part-

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

ner 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 Partner has continued allowing the accrual without payment of these amounts but is under no obligation to continue to do so.

For a discussion of contingencies affecting certain Local Partnerships, see Item 1, Note 6. 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 was required to recapture \$489,362 of low-income housing tax credits.

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. Furthermore, inflation generally does not impact the fixed long-term financing under which real property investments were purchased. Inflation also affects the Local Partnerships adversely by increasing operating costs, such as fuel, utilities, and labor.

Management is not aware of any trends or events, commitments or uncertainties which have not otherwise been disclosed that will or are likely to impact liquidity in a material way. Management believes the only impact would be from laws that have not yet been adopted. The portfolio is diversified by the location of the properties around the United States so that if one area of the country is experiencing downturns in the economy, the remaining properties in the portfolio may be experiencing upswings. However, the geographic 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. The Tax Credits are attached to the 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.

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

Fair Market Valuations

The Partnership 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 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 June 30, 2009</u>		<u>At March 31, 2009</u>	
	<u>Carrying Amount</u>	<u>Fair Estimated Value</u>	<u>Carrying Amount</u>	<u>Fair Estimated Value</u>
LIABILITIES:				
Mortgage notes	\$ 38,557,955	\$ 37,858,706	\$ 38,658,408	\$ 37,957,356

Critical Accounting Policies and Estimates

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

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

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 its Annual Report on Form 10-K for the year ended March 31, 2009.

Property and Equipment

Property and equipment to be held and used are carried at cost which includes the purchase price, acquisition fees and expenses, construction period interest and any other costs incurred in acquiring the properties. The cost of property and equipment is depreciated over their estimated useful lives using accelerated and straight-line methods. Expenditures for repairs and maintenance are charged to expense as incurred; major renewals and betterments are capitalized. At the time property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are eliminated from the assets and accumulated depreciation accounts and the profit or loss on such disposition is reflected in earnings. The Partnership complies with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS No. 144"). 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 June 30, 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 June 30, 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 payments received in advance of the due

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

date are deferred until earned. Rental subsidies are recognized as rental income during the month in which it is earned.

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

Income Taxes

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

Results of Operations

The Partnership's results of operations for the three months ended June 30, 2009 and 2008 consisted of the results of the Partnership's investment in Local Partnerships. The following discussion excludes the Partnership's results of its discontinued operation which is not reflected below (see Note 5).

Rental income increased by approximately 2% for the three months ended June 30, 2009 as compared to the corresponding period in 2008, primarily due to an increase in tenant assistance payments, rental rates and occupancies at several Local Partnerships, offset by a decrease in occupancy at one Local Partnership.

Other income increased approximately \$23,000 for the three months ended June 30, 2009 as compared to the corresponding period in 2008, primarily due to insurance proceeds received resulting from fire damage at one Local Partnership and an increase in late fees and laundry income at a second Local Partnership.

Total expenses remained consistent with an increase of approximately 2% for the three months ended June 30, 2009 as compared to the corresponding period in 2008.

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Partnership has mortgage notes that 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 disclosed in Item 8, Note 3 to the consolidated financial statements in the Partnership's Annual Report on Form 10-K for the year ended March 31, 2009, as well as in Item 2, the fair value of the mortgage notes payable. There are no material changes to such disclosure or amounts as of June 30, 2009.

The Partnership does not have any other market risk sensitive instruments.

Item 4T. Controls and Procedures

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

(b) *Management's Report on Internal Control over Financial Reporting.* Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). In evaluating the Partnership's internal control over financial reporting, management has adopted the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring organizations of the Treadway Commission (the "COSO Framework"). Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer of the General Partner, the Partnership conducted an evaluation of the effectiveness of its internal control over financial reporting as of March 31, 2009. The Partnership's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of finan-

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

cial statements for external reporting purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Partnership; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Partnership are being made only in accordance with authorizations of management and directors of the Partnership; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Partnership's assets that could have a material effect on the financial statements. However, because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on management's evaluation under the COSO Framework, it has concluded that the Partnership's internal control over financial reporting, was, as of March 31, 2009, (1) effective at the Partnership level, in that they provide reasonable assurance that information required to be disclosed by the Partnership in the reports it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (2) ineffective at the subsidiary level due to certain deficiencies noted in the audit reports for such subsidiaries. Management will attempt to cause the Local General Partner's to remedy such deficiencies; however, the General Partner does not have control over the internal controls at the subsidiary level. Management believes they have sufficient controls at the Partnership level to mitigate these deficiencies, and such deficiencies do not have a material impact on the consolidated financial statements.

The Partnership's Annual Report on Form 10-K did not include an attestation report of the Partnership's registered public accounting firm regarding internal control over financial reporting. The Partnership's internal control over financial reporting was not subject to attestation by the Partnership's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Partnership to provide only this report.

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

(c) *Changes in Internal Controls over Financial Reporting.* Except as noted in (b) above, during the period ended June 30, 2009, there were no changes in the Partnership's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Partnership's internal control over financial reporting.

INDEPENDENCE TAX CREDIT PLUS L.P. III

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