

**INDEPENDENCE  
TAX CREDIT PLUS IV**

**ANNUAL REPORT**

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



July 2011

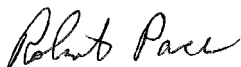
Message to Our BACsholders:

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

The Partnership currently maintains a portfolio of 12 assets. Since our last report there have been no new developments with respect to liquidating the Partnership's assets. The General Partner continues to research opportunities to liquidate the remaining assets and full liquidation is expected to occur within the next two-three years. This disposition time line is dependent upon certain economic conditions, therefore no assurances can be given with respect to the final termination of the Partnership. For more detailed information on the overall performance of the Partnership we urge you to read the Management's Discussion and Analysis of Financial Condition and Results of operations, and Notes section of this report.

Should you have any questions with respect to your investment in this Partnership please do not hesitate to contact Denise Bernstein of the Investor Relations Department at 1-800-600-6422.

Very truly yours,

A handwritten signature in cursive script that reads "Robert Pace".

Robert A. Pace  
Chief Financial Officer  
Related Independence L.L.C.

## Consolidated Balance Sheets

	March 31,	
	<u>2011</u>	<u>2010</u>
ASSETS		
Operating assets:		
Property and equipment, at cost, less accumulated depreciation (Notes 2, 4 and 7)	\$ 14,995,942	\$ 18,938,097
Cash and cash equivalents (Notes 2, 3 and 13)	1,402,683	1,176,371
Cash held in escrow (Notes 2, 3 and 5)	2,005,507	2,053,883
Deferred costs - less accumulated amortization (Notes 2 and 6)	446,127	314,520
Due from local general partners and affiliates (Note 8)	474,935	415,917
Other assets	<u>397,837</u>	<u>368,261</u>
Total assets	<u>\$ 19,723,031</u>	<u>\$ 23,267,049</u>
LIABILITIES AND PARTNERS' CAPITAL (DEFICIT)		
Operating liabilities:		
Mortgage notes payable (Notes 3 and 7)	\$ 25,811,620	\$ 24,703,113
Accounts payable and other liabilities	443,014	554,586
Accrued interest payable	6,210,704	6,474,837
Security deposits payable	299,570	308,937
Due to local general partners and affiliates (Note 8)	1,948,426	1,760,553
Due to general partner and affiliates (Note 8)	<u>2,682,152</u>	<u>2,470,084</u>
Total liabilities	<u>37,395,486</u>	<u>36,272,110</u>
Commitments and contingencies (Notes 8 and 13)		
Partners' capital (deficit):		
Limited partners (100,000 BACs authorized; 45,844 issued and outstanding) (Note 1)	\$(18,028,454)	\$(13,728,173)
General partners	<u>(588,757)</u>	<u>(545,320)</u>
Independence Tax Credit Plus L.P. IV total	<u>(18,617,211)</u>	<u>(14,273,493)</u>
Noncontrolling interests (Note 2)	<u>944,756</u>	<u>1,268,432</u>
Total partners' capital	<u>(17,672,455)</u>	<u>(13,005,061)</u>
Total liabilities and partners' capital (deficit)	<u>\$ 19,723,031</u>	<u>\$ 23,267,049</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

## Consolidated Statements of Operations

	<u>Years Ended March 31,</u>	
	<u>2011</u>	<u>2010</u>
Operations:		
Revenues		
Rental income	\$ 4,948,635	\$ 4,891,163
Other (Note 2)	<u>256,715</u>	<u>125,800</u>
Total revenues	<u>5,205,350</u>	<u>5,016,963</u>
Expenses		
General and administrative	1,554,768	1,462,258
General and administrative-related parties (Note 8)	648,614	593,921
Repairs and maintenance	830,169	995,971
Operating and other	793,506	813,693
Real estate taxes	150,033	119,982
Insurance	219,598	230,667
Financial, primarily interest	1,298,582	1,357,379
Depreciation and amortization	1,126,511	1,717,972
Loss on impairment of assets	<u>2,920,932</u>	<u>12,993,000</u>
Total expenses	<u>9,542,713</u>	<u>20,284,843</u>
Net loss	(4,337,363)	(15,267,880)
Net (income) loss attributable to noncontrolling interests	<u>(6,355)</u>	<u>30,439</u>
Net loss attributable to Independence Tax Credit Plus LP IV	<u>\$ (4,343,718)</u>	<u>\$ (15,237,441)</u>
Net loss – limited partners	<u>\$ (4,300,281)</u>	<u>\$ (15,085,067)</u>
Number of BACs outstanding	<u>45,844</u>	<u>45,844</u>
Net loss per BAC	<u>\$ (93.80)</u>	<u>\$ (329.05)</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

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

	Total	Limited Partners	General Partners	Noncontrolling Interests
Partners' capital (deficit) – April 1, 2009	\$ 2,267,819	\$ 1,356,894	\$ (392,946)	\$ 1,303,871
Net loss	(15,267,880)	(15,085,067)	(152,374)	(30,439)
Distributions	(5,000)	0	0	(5,000)
Partner's capital (deficit) – March 31, 2010	(13,005,061)	(13,728,173)	(545,320)	1,268,432
Net income (loss)	(4,337,363)	(4,300,281)	(43,437)	6,355
Distributions	(330,031)	0	0	(330,031)
Partner's capital (deficit) – March 31, 2011	\$ (17,672,455)	\$ (18,028,454)	\$ (588,757)	\$ 944,756

*The accompanying notes are an integral part of these consolidated financial statements.*

## Consolidated Statements of Cash Flows

	<u>Years Ended March 31,</u>	
	<u>2011</u>	<u>2010*</u>
Cash flows from operating activities:		
Net loss	\$ (4,337,363)	\$ (15,267,880)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,126,511	1,717,972
Loss on impairment of assets	2,920,932	12,993,000
Decrease in cash held in escrow	102,116	275,017
(Increase) decrease in other assets	(29,576)	13,027
(Decrease) increase in accounts payable and other liabilities	(111,572)	104,448
(Decrease) increase in accrued interest payable	(264,133)	472,637
Decrease in security deposits payable	(9,367)	(4,785)
Decrease in due to local general partners and affiliates	(29,708)	(79,865)
Increase in due from local general partners	(59,018)	(34,845)
Increase in due to general partner and affiliates	212,068	286,797
Total adjustments	<u>3,858,253</u>	<u>(15,743,403)</u>
Net cash (used in) provided by operating activities	<u>(479,110)</u>	<u>475,523</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(70,259)	(90,820)
(Increase) decrease in cash held in escrow	(53,740)	55,187
Net repayment from local general partners and affiliates	<u>217,581</u>	<u>25,447</u>
Net cash provided by (used in) investing activities	<u>93,582</u>	<u>(10,186)</u>
Cash flows from financing activities:		
Repayments of mortgage notes	(1,941,493)	(485,366)
Proceeds from mortgage notes	3,050,000	0
Distributions to noncontrolling interests	(330,031)	(5,000)
Increase in deferred costs	<u>(166,636)</u>	<u>(19,735)</u>
Net cash provided by (used in) financing activities	<u>611,840</u>	<u>(510,101)</u>
Net increase (decrease) in cash and cash equivalents	226,312	(44,764)
Cash and cash equivalents at beginning of year	<u>1,176,371</u>	<u>1,221,135</u>
Cash and cash equivalents at end of year	<u>\$ 1,402,683</u>	<u>\$ 1,176,371</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 1,385,516</u>	<u>\$ 970,290</u>

\* Reclassified for comparative purposes.

*The accompanying notes are an integral part of these consolidated financial statements.*

## Notes to Consolidated Financial Statements March 31, 2011

### NOTE 1 – General

Independence Tax Credit Plus L.P. IV (a Delaware limited partnership) (the “Partnership”) was organized on February 22, 1995. The general partner of the Partnership is Related Independence L.L.C., a Delaware limited liability company (the “General Partner”). Centerline Holding Company (“Centerline”) is the ultimate parent of Centerline Affordable Housing Advisors LLC (“CAHA”), the managing member of the General Partner.

The Partnership’s business is primarily 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”) enacted in the Tax Reform Act of 1986, some of which may also be eligible for the historic rehabilitation tax credit. Qualified Beneficial Assignment Certificates (“BACs”) holders are entitled to Tax Credits over 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; referred to herein as the “Credit Period”) with respect to each Apartment Complex.

The Partnership had originally acquired limited partnership interests in fourteen subsidiary partnerships, all of which have been, or were, consolidated. The Partnership does not anticipate acquiring limited partnership interests in additional subsidiary partnerships. The Partnership’s investments in Local Partnerships represent from 98.99% to 99.89% interests, except for one investment which is a 58.12% interest.

The Partnership was authorized to issue a total of 100,000 (\$100,000,000) Beneficial Assignment Certificates (“BACs”) which have been 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. The Partnership had raised a total of \$45,844,000 representing 45,844 BACs.

### 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 U.S. generally accepted accounting principles (“GAAP”).

#### b) Basis of Consolidation

The consolidated financial statements include the accounts of the Partnership and its subsidiary partnerships for the years ended March 31, 2011 and 2010, respectively, in which the Partnership is a limited 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 Partnership, to remove the general partner of the subsidiary local partnerships (the “Local General Partner”) and to approve certain major operating and financial decisions, the Partnership has a controlling financial interest in the subsidiary partnerships. All

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

### **March 31, 2011**

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

In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 810, *Noncontrolling Interests in Consolidated Financial Statements* (“ASC 810”), (income) loss attributable to noncontrolling interests amounted to approximately \$(6,000) and \$30,000 for the year ended March 31, 2011 and 2010, respectively. The Partnership’s investment in each subsidiary is equal to the respective subsidiary’s partners’ equity less noncontrolling interest capital, if any.

#### c) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash in banks, and investments in short-term highly liquid investments purchased with original maturities of three months or less.

#### d) Property and Equipment

Property and equipment to be held and used are carried at cost which includes the purchase price, acquisition fees and expenses, construction period interest and any other costs incurred in acquiring the properties. The cost of property and equipment is depreciated over their estimated useful lives using accelerated and straight-line methods. Expenditures for repairs and maintenance are charged to expense as incurred; major renewals and betterments are capitalized. At the time property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are eliminated from the assets and accumulated depreciation accounts and the profit or loss on such disposition is reflected in earnings. The determination of asset impairment is a two-step process. First, management estimates amounts recoverable through future operations and sale of the property on an undiscounted basis. If such estimates are below depreciated cost, property investments are reduced to estimated fair value (using estimated future discounted net cash flows) when the property is considered to be impaired and the depreciated cost exceeds 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 assets classified as property and equipment-held for sale at March 31, 2011.

#### e) Revenue Recognition

Rental income is earned 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 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.

#### f) Income Taxes

The Partnership is not a tax paying entity for income tax purposes and, accordingly, no provision has been made for income taxes. The Partnership may be subject to state and local taxes in jurisdictions in which it operates.

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

The Partnership has no material liability for unrecognized tax benefits and no material change to the beginning partner's capital of the Partnership. As of and during the year ended March 31, 2011, the Partnership did not have a liability for any unrecognized tax benefits or related interest and penalties.

The Partnership relies on a 2% safe harbor established by an Internal Revenue Service ("IRS") regulation to avoid being characterized as a "publicly-traded partnership" that is taxed as a corporation.

Income tax returns for the year prior to 2007 are no longer subject to examination by tax authorities.

### **g) Mortgage Financing and Offering Costs**

Costs incurred in connection with obtaining permanent mortgage financing are capitalized and amortized over the lives of the related mortgage notes. Costs incurred to sell BACs, including brokerage fees and the nonaccountable expense allowance, are considered selling and offering expenses. These costs are charged directly to limited partners' capital.

### **h) Deferred Costs**

Deferred costs and fees incurred in connection with the purchase of interests in certain subsidiary partnerships have been capitalized as property costs and are being amortized over the lives of the related properties.

### **i) 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 consolidated financial statements and the amount of loss can be reasonably estimated.

### **j) Use of Estimates**

The preparation of consolidated 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.

### **k) Recent Accounting Pronouncements**

In May 2011, the FASB issued under Topic 820, *Fair Value Measurements and Disclosures*, ASU 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs". The amendments in this ASU result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the Board does not intend for amendments in this ASU to result in a change in the application of the requirements in Topic 820. The amendments in this ASU are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. The adoption of this accounting standard will not have a material effect on the Partnership's consolidated financial statements.

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

NOTE 3 – Fair Value of Financial Instruments

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

Cash and Cash Equivalents and Cash Held in Escrow

The carrying amount approximates fair value.

Accounts Payable and Other Liabilities

The carrying amount approximates fair value.

Mortgage Notes Payable, Accrued Interest and Interest Rate Swap Agreement

The Partnership has categorized its financial assets and liabilities based upon the fair value hierarchy specified by ASC Topic 820, Fair Value Measurements and Disclosures (“ASC 820”). This standard defines fair value, provides guidance for measuring fair value and requires certain disclosures. This standard does not require any new fair value measurements, but discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). This standard provides for a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs that reflect the Partnership’s own assumptions.

Mortgage Notes Payable and Accrued Interest

The estimated fair value of mortgage notes payable and accrued interest 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.

	At March 31, 2011		At March 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
LIABILITIES:				
Mortgage notes and accrued interest	\$ 32,022,324	\$ 13,190,132	\$ 31,177,950	\$ 12,763,485

Fair value for the mortgage notes and accrued interest have been estimated using Level 3 inputs. Fair value for interest rate swap has been estimated using Level 2 inputs.

At March 31, 2011, the total fair value of the interest rate swap was a reduction of the mortgage note liability of approximately \$7,000.

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

### March 31, 2011

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

#### Interest Rate Swap Agreement

For the interest rate swap, in the absence of readily determinable fair values, the fair value is estimated by the Partnership with the assistance of valuations obtained from the Bank of Hawaii (the "Bank"), at which the swap transaction is held. The interest rate swap is valued based on the Bank's estimate of the net present value of the expected cash flows from each transaction subject to the interest rate swap using relevant mid-market data inputs and based on the assumption of no unusual market conditions or forced liquidation. The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Partnership believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

On August 24, 2010, GP Kaneohe Limited Partnership ("Kaneohe"), a subsidiary partnership, entered into an interest rate swap agreement with the Bank as a prerequisite for obtaining refinancing on its original mortgage note payable in the amount of \$2,297,000. The agreement provides a fixed rate of interest on the notional amount, as provided in the agreement, in exchange for the variable rate. The swap contract became effective September 1, 2010. The following are the terms under the swap:

Fixed swap – notional amount	\$	3,050,000
Fixed rate		4.65%
Variable rate at March 31, 2011		3.75%
Termination date		September 1, 2015

Pursuant to ASC Topic 815-10, Derivative Instruments ("ASC 815-10"), derivative instruments not meeting the criteria for hedge accounting (or for which an entity elects not to apply hedge accounting to the derivative in the event that the criteria are met) are recorded at fair value with any change in fair value reflected in the statement of operations in the period of change.

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

Due to General Partner and Affiliates and Due to/from Local General Partners and Affiliates

Management believes it is not practical to estimate the fair value of due to General Partner and affiliates and due to/from Local General Partners and affiliates because market information on such obligations are not currently available.

NOTE 4 – Property and Equipment

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

	<u>March 31,</u>		Estimated Useful Lives (Years)
	<u>2011</u>	<u>2010</u>	
Land	\$ 2,003,490	\$ 2,003,490	
Building and improvements	35,641,565	38,507,210	27.5 – 40
Furniture and fixtures	<u>1,391,910</u>	<u>1,376,938</u>	3 – 10
	39,036,965	41,887,638	
Less: Accumulated depreciation	<u>(24,041,023)</u>	<u>(22,949,541)</u>	
	<u>\$ 14,995,942</u>	<u>\$ 18,938,097</u>	

Depreciation expense for the years ended March 31, 2011 and 2010 amounted to \$1,091,482 and \$1,694,374, respectively.

Impairments

During the years ended March 31, 2011 and 2010, the Partnership performed a fair value analysis on all of its remaining investments due to the current deteriorating market conditions in the real estate industry. Impairment of assets is a two-step process. First, management estimated amounts recoverable through future operations and sale of the Property on an undiscounted basis. If such estimates were below depreciated cost, Property investments themselves were reduced to estimated fair value (generally using the discounted cash flow valuation method). Each Local Partnership must continue to comply with its Tax Credit requirements until the end of the Compliance Period in order to avoid recapture of the Tax Credits. Therefore, a 5-year cash flow projection was used, as this period is indicative of the average holding period left of the remaining investments. A net operating income projection was prepared to calculate a residual value at the end of the 5-year period. Based on this analysis, the Partnership deemed the properties of the below Local Partnerships impaired and wrote them down to their estimated fair value which resulted in \$2,920,932 and \$12,993,000 of losses on impairment for the year ended March 31, 2011 and 2010, respectively. Impairment on the properties were measured using Level 3 inputs.

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

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

Belmont/McBride Apartments Limited Partnership	\$ 1,159,000
Kanisa Apartments, Ltd.	517,441
KSD Village Apartments, Phase II, Ltd.	324,000
Marlton Housing Partnership, L.P.	3,126
NNPHI Senior Housing Limited Partnership	900,000
Sojourner Douglass, L.P.	<u>17,365</u>
	<u>\$ 2,920,932</u>

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

Bakery Village Urban Renewal Associates, LP	\$ 8,083,000
Belmont/McBride Apartments Limited Partnership	2,299,000
Figueroa Senior Housing Limited Partnership	1,295,000
Guymon Housing Partners, L.P.	<u>1,316,000</u>
	<u>\$ 12,993,000</u>

**NOTE 5 – Cash Held in Escrow**

Cash held in escrow from operating assets consists of the following:

	March 31,	
	<u>2011</u>	<u>2010</u>
Purchase price payments*	\$ 338,250	\$ 340,846
Real estate taxes, insurance and other	364,769	442,805
Reserve for replacement	1,030,909	974,573
Tenant security deposits	<u>271,579</u>	<u>295,659</u>
	<u>\$ 2,005,507</u>	<u>\$ 2,053,883</u>

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

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

NOTE 6 – Deferred Costs

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

	March 31,		Period
	2011	2010	
Financing costs	\$ 1,051,526	\$ 884,890	2 through 45 years
Other deferred costs	<u>153,522</u>	<u>153,522</u>	
	1,205,048	1,038,412	
Less: Accumulated amortization	<u>(758,921)</u>	<u>(723,892)</u>	
	<u>\$ 446,127</u>	<u>\$ 314,520</u>	

Amortization expense for the years ended March 31, 2011 and 2010 amounted to \$35,029 and \$23,598, respectively.

NOTE 7 – Mortgage Loans Payable

The mortgage loans from operations are payable in aggregate monthly installments of approximately \$142,000 including principal and interest with rates varying from 0% to 8.46% per annum and have maturity dates ranging from 2014 through 2051. The loans are collateralized by the land and buildings of the subsidiary partnerships, the assignment of certain subsidiary partnerships' rents and leases, and are without further recourse. Certain obligations are guaranteed by affiliates of the general partner.

Annual principal payments on the permanent debt requirements for mortgage notes payable for each of the next five calendar years and thereafter are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2011	\$ 432,799
2012	447,566
2013	475,755
2014	519,654
2015	534,614
Thereafter	<u>23,401,232</u>
	<u>\$ 25,811,620</u>

The mortgage agreements generally require monthly deposits to replacement reserves and monthly deposits to escrow accounts for real estate taxes, hazard and mortgage insurance and other expenses (Note 5).

Accrued interest payable amounted to approximately \$6,211,000 and \$6,475,000 as of March 31, 2011 and 2010, respectively. Interest accrues on all mortgage loans, which include primary and secondary

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

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 indicated in the above table 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 or through assumption by the buyer upon sale of the Partnership's interest in the respective Local Partnership. 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.

**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 Local Partnership Agreements, the General Partner, the Local General Partners and their respective affiliates receive their pro-rata share of profits, losses and tax credits.

**A) Guarantees**

The Partnership negotiated Operating Deficit Guaranty Agreements with the Local Partnerships whereby the Local General Partners of such Local Partnerships and/or their affiliates agreed to fund operating deficits for a specified period of time. The terms of the Operating Deficit Guaranty Agreements vary for each of these Local Partnerships, with maximum dollar amounts to be funded for a specified period of time, generally three years, commencing on the break-even date. As of March 31, 2011 and 2010, Operating Deficit Guarantees aggregate approximately \$123,000 for these years. Amounts funded under such agreements will be treated as non-interest bearing loans, which will be paid only out of 50% of available cash flow or out of available net sale or refinancing proceeds. As of March 31, 2011 and 2010, there has been no funding under the Operating Deficit Guaranty Agreements.

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

B) Related Party Expenses

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

	Years Ended March 31,	
	2011	2010
Partnership management fees (a)	\$ 291,925	\$ 208,973
Expense reimbursements (b)	122,788	158,165
Local administrative fees (c)	<u>40,000</u>	<u>39,000</u>
 Total general and administrative – General Partner	 454,713	 406,138
 Property management fees incurred to affiliates of the subsidiary partnerships’ general partners	 <u>193,901</u>	 <u>187,783</u>
 Total general and administrative-related parties	 <u>\$ 648,614</u>	 <u>\$ 593,921</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 its review of the Partnership’s investments. Unpaid partnership management fees for any year are accrued without interest and will be payable out of sales or refinancing proceeds only to the extent of available funds after payments on all Partnership liabilities have been made other than to those owed to the General Partner and its affiliates. Partnership management fees owed to the General Partner amounting to approximately \$2,138,000 and \$1,847,000 were accrued and unpaid as of March 31, 2011 and 2010, respectively. Current year partnership management fees may be paid out of operating reserves or refinancing and sales proceeds. However, the General Partner cannot demand payment of the deferred fees beyond the Partnership’s ability to pay them.

(b) The Partnership reimburses the General Partner and its affiliates for actual Partnership operating expenses incurred by the General Partner and its affiliates on the Partnership’s behalf. The amount of reimbursement from the Partnership is limited by the provisions of the Partnership Agreement. Another affiliate of the General Partner performs asset monitoring for the Partnership. These services include site visits and evaluations of the subsidiary partnerships’ performance. Expense reimbursements and asset monitoring fees owed to the General Partner and its affiliates amounting to approximately \$65,000 and \$86,000 were accrued and unpaid as of March 31, 2011 and 2010, respectively. The General Partner does not intend to demand payment of the deferred payables beyond the Partnership’s ability to pay them. The Partnership anticipates that these will be paid from working capital reserves or future sales proceeds.

(c) Independence SLP IV 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. Local administrative fees owed to Independence SLP IV L.P. amounting to \$223,000 and \$279,000 were accrued

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

and unpaid as of March 31, 2011 and 2010, respectively. These fees have been deferred in certain cases and the Partnership anticipates that they will be paid from working capital reserves or future sales proceeds.

As of March 31, 2011 and 2010, the Partnership owed the General Partner and its affiliates approximately \$256,000 for advances made by the General Partner and its affiliates to two Local Partnerships. These advances represent historical amounts loaned in conjunction with the initial capital contributions to the Local Partnerships. Payments of these advances have been deferred and may be paid out of operating reserves or refinancing and sales proceeds. The General Partner does not intend to demand payment of the deferred advances beyond the Partnership's ability pay them.

C) Due to/from Local General Partners and Affiliates

Due to Local General Partners and affiliates from operating liabilities consists of the following:

	March 31,	
	<u>2011</u>	<u>2010</u>
Development fee payable	\$ 1,578,347	\$ 1,586,284
Construction costs payable	50,000	50,000
Operating advances	296,965	71,447
Management and other fees	<u>23,114</u>	<u>52,822</u>
	<u>\$ 1,948,426</u>	<u>\$ 1,760,553</u>

Due from Local General Partners and affiliates from operating liabilities consists of the following:

	March 31,	
	<u>2011</u>	<u>2010</u>
Local general partner loan receivable	<u>\$ 474,935</u>	<u>\$ 415,917</u>

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

NOTE 9 – Taxable Net Loss

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

	<u>Years Ended March 31,</u>	
	<u>2011</u>	<u>2010</u>
Financial statement net loss	\$ (4,343,718)	\$(15,237,441)
Differences between depreciation and amortization expense for financial reporting purposes and income tax purposes	(975,690)	(479,158)
Differences resulting from Partnership having a different fiscal year for income tax and financial reporting purposes	92,022	(143,342)
Tax exempt interest income	(19)	(124)
Provision for loss on impairment	2,920,932	12,993,000
Other, including accruals for financial reporting purposes not deductible for income tax purposes until paid	<u>(60,630)</u>	<u>(337,224)</u>
Net loss per income tax returns	<u>\$ (2,367,103)</u>	<u>\$ (3,204,289)</u>

NOTE 10 – Sale of Property

The Partnership is currently in the process of developing a plan to dispose of all of its investments. It is anticipated that this process will continue to take a number of years. As of March 31, 2011, the Partnership's limited partnership interest in one Local Partnership and the property and the related assets and liabilities of one Local Partnership have been sold. 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.

NOTE 11 – Assets Held for Sale

On August 23, 2010, the Partnership had entered into assignment and assumption agreements to sell its limited partnership interest in (i) Figueroa Senior Housing Limited Partnership ("Figueroa") to an unaffiliated third party purchaser for the sale price of \$10,000 and (ii) NNPHI Senior Housing Limited Partnership ("Normandie") to an unaffiliated third party purchaser for a sales price of \$20,000. During the quarter ended March 31, 2011, negotiations fell through on both contracts and they are no longer under contract for sale. Management has determined that the sale of these two properties will not be likely in the near future, and as such, they have been reclassified from discontinued operations into continuing operations.

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

NOTE 12 – Selected Quarterly Financial Data (Unaudited)

The following table summarizes the Partnership’s quarterly results of operations for the years ended March 31, 2011 and 2010.

OPERATIONS	Quarter Ended			
	June 30, 2010	September 30, 2010*	December 31, 2010*	March 31, 2011
Revenues	\$ 1,251,555	\$ 1,302,254	\$ 1,354,009	\$ 1,297,532
Total expenses	<u>(1,693,935)</u>	<u>(1,638,418)</u>	<u>(1,673,691)</u>	<u>(4,536,669)</u>
Loss from operations	<u>(442,380)</u>	<u>(336,164)</u>	<u>(319,682)</u>	<u>(3,239,137)</u>
Net (income) loss attributable to noncontrolling interests from operations	<u>(8,934)</u>	<u>(2,466)</u>	<u>(2,741)</u>	<u>7,786</u>
Net loss – Independence Tax Credit Plus L.P. IV	<u>\$ (451,314)</u>	<u>\$ (338,630)</u>	<u>\$ (322,423)</u>	<u>\$ (3,231,351)</u>
Net loss – limited partnership	<u>\$ (446,801)</u>	<u>\$ (335,244)</u>	<u>\$ (319,199)</u>	<u>\$ (3,199,037)</u>
Net loss per weighted average BAC	<u>\$ (9.75)</u>	<u>\$ (7.31)</u>	<u>\$ (6.96)</u>	<u>\$ (69.78)</u>

OPERATIONS	Quarter Ended			
	June 30, 2009	September 30, 2009	December 31, 2009	March 31, 2010
Revenues	\$ 1,316,947	\$ 1,289,401	\$ 1,260,234	\$ 1,150,381
Total expenses	<u>(1,865,813)</u>	<u>(1,849,363)</u>	<u>(1,812,797)</u>	<u>(14,756,870)</u>
Loss from operations	(548,866)	(559,962)	(552,563)	(13,606,489)
Net (income) loss attributable to noncontrolling interests from operations	<u>(5,644)</u>	<u>(1,610)</u>	<u>(2,323)</u>	<u>40,016</u>
Net loss – Independence Tax Credit Plus L.P. IV	<u>\$ (554,510)</u>	<u>\$ (561,572)</u>	<u>\$ (554,886)</u>	<u>\$ (13,566,473)</u>
Net loss – limited partnership	<u>\$ (548,965)</u>	<u>\$ (555,956)</u>	<u>\$ (549,337)</u>	<u>\$ (13,430,809)</u>
Net loss per weighted average BAC	<u>\$ (11.97)</u>	<u>\$ (12.13)</u>	<u>\$ (11.98)</u>	<u>\$ (292.97)</u>

\* Reclassified for comparative purposes.

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

NOTE 13 – Commitments and Contingencies

a) Uninsured Cash and Cash Equivalents

The Partnership and its subsidiary partnerships maintain their cash and cash equivalents in various banks. The accounts at each bank are insured by the Federal Deposit Insurance Corporation (“FDIC”). At March 31, 2011, uninsured cash and cash equivalents at various banking institutions approximated \$558,000.

b) Leases

Certain subsidiary partnerships have land lease arrangements whereby they are obligated to pay \$1 per annum through June 2054.

c) Property Management Fees

Property management fees incurred by the Local Partnerships amounted to \$292,210 and \$293,275 for the years ended March 31, 2011 and 2010, respectively. Of these fees, \$193,901 and \$187,783 were incurred to affiliates of the Local General Partners.

d) Other

The Partnership is subject to the risks incident to potential losses arising from the management and ownership of improved real estate and poor economic conditions.

The Partnership and BACs holders began to recognize Tax Credits with respect to a Property when the Credit Period for such Property commenced. The Credit Period generally runs for ten years from the date it commenced with respect to each eligible Property. Because of the time required for the acquisition, completion and rent-up of Properties, as expected, the amount of Tax Credits per BAC gradually increased over the first three years of the Partnership. Tax Credits not recognized in the first three years were recognized in the 11th through 13th years. The Partnership generated \$69,006 and \$945,893 of Tax Credits during each of the 2010 and 2009 tax years, respectively. As of December 31, 2010, all the Local Partnerships had completed their Credit Periods.

NOTE 14 – Liquidity

At March 31, 2011, the Partnership’s liabilities exceeded assets by \$17,672,455 and for the year ended March 31, 2011 incurred a net loss of \$4,337,363. However, the Partnership has working capital reserves of approximately \$353,000 at March 31, 2011. Such amount is considered sufficient to cover the Partnership’s day to day operating expenses, excluding fees to the General Partner, for at least the next year. The Partnership’s operating expenses, excluding the Local Partnerships’ expenses and related party expenses, amounted to approximately \$130,000 for the year ended March 31, 2011.

As discussed in Note 8 in Item 8, partnership management fees of approximately \$2,138,000 will be payable out of sales or refinancing proceeds only to the extent of available funds after payments on all other Partnership liabilities have been made other than those owed to the General Partner and its affiliates. As such, the General Partner cannot demand payment of these deferred fees beyond the Partnership’s ability to pay them.

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

The mortgage payable balance of \$25,811,620 and the accrued interest payable balance of \$6,210,704 is of a nonrecourse nature and secured by the respective properties. The Partnership is currently in the process of developing a plan to dispose of all of its investments. Historically, the mortgage notes and accrued interest thereon have been assumed by the buyer in instances of sales of the Partnership's interest or have been paid off from sales proceeds in instances of sales of the property. In most instances when the Partnership's interest was sold and liabilities were assumed, the Partnership recognized a gain from the sale. The Partnership owns the limited partner interest in all its investments, and as such, has no financial responsibility to fund operating losses incurred by the Local Partnerships. The maximum loss the Partnership would incur is its net investment in the respective Local Partnerships and the potential recapture of Tax Credits if the investment is lost before the expiration of the Compliance Period. Dispositions of any investment in a Local Partnership should not impact the future results of liquidity and financial condition of the Partnership.

**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)

Liquidity and Capital Resources

The Partnership originally invested approximately \$37,555,000 (not including acquisition fees of approximately \$1,771,000) of the net proceeds of the Offering in fourteen Local Partnerships, of which approximately \$794,000 remains to be paid to the Local Partnerships (including approximately \$338,000 being held in escrow) as certain benchmarks, such as occupancy level, are attained prior to the release of the funds. During the year ended March 31, 2011, approximately \$3,000 was paid to Local Partnerships. The Partnership does not anticipate acquiring additional properties, but the Partnership may be required to fund potential purchase price adjustments based on tax credit adjustor clauses. There were no such adjustments made during the year ended March 31, 2011.

The Partnership is currently in the process of developing a plan to dispose of all of its investments. It is anticipated that this process will continue to take a number of years. As of March 31, 2011, the Partnership has sold its limited partnership interest in one Local Partnership and the property and the related assets and liabilities of another 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.

Short-Term

The Partnership's primary sources of funds include: (i) working capital reserves; (ii) interest earned on the working capital reserves; (iii) cash distributions from operations of the Local Partnerships; and (iv) sales proceeds and distributions. Such funds, although minimal (other than possible sales proceeds and sales distributions), 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. During the year ended March 31, 2011 and 2010, distributions from operations of the Local Partnerships amounted to approximately \$7,000 and \$5,000, respectively. In addition, during the year ended March 31, 2011 and 2010, refinancing proceeds amounted to approximately \$518,000 and \$0, respectively.

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

For the year ended March 31, 2011, cash and cash equivalents of the Partnership and its consolidated Local Partnerships increased approximately \$226,000. This increase was due to proceeds from a refinanced mortgage note of \$3,050,000 and net repayments from local general partners and affiliates of approximately \$218,000, which exceeded net cash used in operating activities of approximately \$479,000, repayment of mortgage notes of approximately \$1,941,000, an increase in deferred costs of approximately \$167,000, an increase in cash held in escrow relating to investing activities of approximately \$54,000, acquisition of property and equipment of approximately \$70,000 and a distribution to noncontrolling interests of approximately \$330,000. Included in the adjustments to reconcile the net loss to net cash used in operating activities is depreciation and amortization in the amount of approximately \$1,127,000 and loss on impairment of asset of approximately \$2,921,000.

Total expenses for the years ended March 31, 2011 and 2010, excluding depreciation and amortization, interest, general and administrative – related parties, and loss on impairment of asset, totaled \$3,548,074 and \$3,622,571, respectively.

Accounts payable arising from operations totaled \$443,014 and \$554,586 as of March 31, 2011 and 2010, respectively. Accounts payable are short term liabilities which are expected to be paid from operating cash flows, working capital balances at the Local Partnership level, Local General Partner advances and, in certain circumstances, advances from the Partnership. Accrued interest payable as of March 31, 2011 and 2010 was \$6,210,704 and \$6,474,837, 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 amount and which has 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. Furthermore, 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 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 not including fees owed to the General Partner. However, assuming the General Partner continues to defer the payment of fees as discussed below and in Note 8 to the Financial Statements in Item 8, the Partnership believes it has sufficient liquidity and ability to generate cash and to meet existing and known or reasonably likely future cash requirements over both the short and long term.

Security deposits payable to tenants are offset by cash held in security deposits, which are included in "Cash held in escrow" on the financial statements.

At March 31, 2011, there is approximately \$353,000 in working capital reserves. The General Partner believes that these reserves, plus any cash distributions received from the operations of the Local Partnerships, will be sufficient to fund the Partnership's ongoing operations for the foreseeable future not including fees owed to the General Partner.

On August 24, 2010, GP Kaneohe Limited Partnership ("Kaneohe"), a subsidiary partnership, entered into an interest rate swap agreement with the Bank as a prerequisite for obtaining refinancing on its original mortgage note payable in the amount of \$2,297,000. The agreement provides a fixed rate of 4.65% that was exchanged for a floating rate of 3.75% on the notional amount of \$3,050,000. The swap contract became effective September 1, 2010 and terminates September 1, 2015. The fair value of the interest rate cap agreement as of December 31, 2010 was approximately \$7,000, for which it could be settled

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

based on estimates obtained from the financial institution. Counterparty risk represents the risk of loss from nonperformance by financial counterparties to a contract. Interest rate swap can result in exposure to credit risks in the event of default by a counterparty. The current financial crisis affecting the global banking systems and financial markets has resulted in many financial institutions becoming less credit-worthy or having diminished liquidity. Thus, the Partnership could be exposed to an increased level of counterparty risk and could incur financial losses.

The Partnership negotiated Operating Deficit Guaranty Agreements with the Local Partnerships by which the general partners of such Local Partnerships and/or their affiliates agreed to fund operating deficits for a specified period of time. The terms of the Operating Deficit Guaranty Agreements vary for each of these Local Partnerships, with maximum dollar amounts to be funded for a specified period of time, generally three years, commencing on the break-even date. As of both March 31, 2011 and 2010, the gross amount of the Operating Deficit Guarantees aggregate approximately \$123,000. As of both March 31, 2011 and 2010, no amounts have been funded under the Operating Deficit Guaranty Agreements. Amounts funded under such agreements will be treated as non-interest bearing loans, which will be paid only out of 50% of available cash flow or out of available net sale or refinancing proceeds.

### Long-Term

Partnership management fees owed to the General Partner amounting to approximately \$2,138,000 and \$1,847,000 were accrued and unpaid as of March 31, 2011 and 2010, respectively, and are included in the line item Due to general partner and affiliates in the consolidated balance sheets. Unpaid partnership management fees for any year are to be deferred without interest and will be payable out of sales or refinancing proceeds only to the extent of available funds after payments on all Partnership liabilities have been made other than to those owed to the General Partner and its affiliates.

All other payables are expected to be paid, if at all, from working capital reserves. The General Partner does not anticipate making any future advances of operating funds to any of the Local Partnerships in which the Partnership has invested. Even if a situation arose where the General Partner and its affiliates needed to but were not able to make operating advances in the future due to lack of funds, the only impact on the Partnership would be that it would lose its investment in that particular Local Partnership. The Partnership's ability to continue its operations would not be affected.

Based on the foregoing, the Partnership's liquidity consideration is mitigated by factors as discussed in Note 14 in Item 8.

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. Since revenues from sales of assets are driven by market conditions, inflation has little impact on sales.

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. As of December 31, 2010, the Credit Periods have expired. However, each Local Partnership must continue to comply with the Tax Credit requirements until the end of the Compliance Period in

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

order to avoid recapture of the Tax Credits. The Compliance Periods expired with respect to the two Properties that have been sold but will continue through December 31, 2015 with respect to the remaining Properties depending upon when the Compliance Period commenced.

### Sale of Underlying Properties/Local Partnership Interests

For a discussion of the sale of properties in which the Partnership owns direct and indirect interests, see Note 10 in Item 8.

### Discontinued Operations

The Partnership is currently in the process of developing a plan to dispose of all of its investments. Any dispositions would meet the criteria established for recognition as a discontinued operation under ASC 360, *Property, Plant and Equipment* ("ASC 360"), which specifically requires that such amounts must differentiate a component of a business comprised of operations and cash flows that can be clearly distinguished operationally and for financial reporting purposes, from the rest of the entity. There are no assets classified as property and equipment-held for sale at March 31, 2011.

### Tabular Disclosure of Contractual Obligations

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

#### Contractual Obligations

	<u>Total</u>	<u>Payment Due by Period</u>			
		<u>Less than 1 Year</u>	<u>1 – 3 Years</u>	<u>3 – 5 Years</u>	<u>More than 5 Years</u>
Mortgage notes payable (a)	<u>\$ 25,811,620</u>	<u>\$ 432,799</u>	<u>\$ 923,321</u>	<u>\$ 1,054,268</u>	<u>\$ 23,401,232</u>

(a) The mortgage loans are payable in aggregate monthly installments of approximately \$142,000 including principal and interest with rates varying from 0% to 8.46% per annum and have maturity dates ranging from 2014 through 2051. The loans are collateralized by the land and buildings of the subsidiary partnerships, the assignment of certain subsidiary partnerships' rents and leases, and are without further recourse. Certain obligations are guaranteed by affiliates of the general partner.

### 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 consolidated 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.

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

### Property and Equipment/Valuation of Long-Lived Assets

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 determination of asset impairment is a two-step process. First, management estimates amounts recoverable through future operations and sale of the property on an undiscounted basis. If such estimates are below depreciated cost, property investments are reduced to estimated fair value (using estimated future discounted net cash flows) when the property is considered to be impaired and the depreciated cost exceeds 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 assets classified as property and equipment-held for sale at March 31, 2011.

### Fair Value Measurements

The estimated fair value of mortgage notes payable, accrued interest and the interest rate swap have 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.

Fair value for the mortgage notes and accrued interest have been estimated using Level 3 inputs. Fair value for interest rate swap has been estimated using Level 2 inputs. The carrying amount of accounts payable and other liabilities and other assets approximates fair value due to their short-term nature.

### Revenue Recognition

Rental income is earned 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 payments received in advance of the due date are deferred until earned. Rental subsidies are recognized as rental income during the month in which it is earned.

Other revenues are recorded when earned and consist of the following items: Interest income earned on cash and cash equivalent balances and cash held in escrow balances, income from forfeited security deposits, late charges, laundry and vending income and other rental related items (see Item 8, Note 2e).

### Related Parties

Under the terms of the Partnership Agreement, the Partnership has entered into certain arrangements with the General Partner and its affiliates, which provide for compensation to be paid to the General Partner and its affiliates. Such arrangements include (but are not limited to) agreements to pay annual Partnership management fees, nonrecurring acquisition fees, a nonaccountable acquisition expense allowance, an accountable expense reimbursement and subordinated disposition fees to the General Partner and/or its affiliates. In addition, the General Partner is entitled to a subordinated interest in cash from sales or refi-

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

nanings and a 1% interest in net income, net loss, distributions of adjusted cash from operations and cash from sales or refinancings. Certain members and officers of the General Partner receive compensation from the General Partner and its affiliates for services performed for various affiliated entities which may include services performed for the Partnership. The maximum annual partnership management fee paid to the General Partner is 0.5% of invested assets. See Note 8 in Item 8, which is incorporated herein by reference.

### Recent Accounting Pronouncements

In May 2011, the FASB issued under Topic 820, *Fair Value Measurements and Disclosures*, ASU 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs". The amendments in this ASU result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the Board does not intend for amendments in this ASU to result in a change in the application of the requirements in Topic 820. The amendments in this ASU are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. The adoption of this accounting standard will not have a material effect on the Partnership's consolidated financial statements.

### Results of Operations

The majority of the Local Partnerships' income continues to be in the form of rental income, with the corresponding expenses being divided among operations, depreciation and mortgage interest. The following is a summary of the results of operations of the Partnership for the years ended March 31, 2011 and 2010, respectively.

The net loss for the years ended March 31, 2011 and 2010 totaled \$4,343,718 and \$15,237,441, 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 has gradually increased over the first three years of the Partnership. Tax Credits not recognized in the first three years were recognized in the 11th through 13th years. The Partnership generated \$69,006 and \$945,893 of Tax Credits during each of the 2010 and 2009 tax years, respectively.

### 2011 vs. 2010

Rental income increased approximately 1% for the year ended March 31, 2011 as compared to the corresponding period ended March 31, 2010, primarily due to rental rate increases at several Local Partnerships offset by increases in vacancy at two Local Partnerships.

Other income increased approximately \$131,000 for the year ended March 31, 2011 as compared to the corresponding period in 2010, primarily due to a settlement received from a class action suit at one Local Partnership and an adjustment on accrued interest expense from a long term debt at a second Local Partnership.

Repairs and maintenance expense decreased approximately \$166,000 for the year ended March 31, 2011 as compared to the corresponding period in 2010, primarily due to a decrease in painting and decorating costs and HVAC repairs at one Local Partnership, a decrease in flooring replacement costs and HVAC

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

repairs at a second Local Partnership, decreases in repair contracts at a third Local Partnership, and a decrease in grounds contracts and sprinkler system repair costs at a fourth Local Partnership.

Taxes increased approximately \$30,000 for the year ended March 31, 2011 as compared to the corresponding period in 2010, primarily due to a completion of real estate tax abatement at one Local Partnership and a tax credit received in the prior year at a second Local Partnership.

Total expenses, excluding repairs and maintenance, real estate taxes, depreciation and amortization and loss on impairment of asset, remained fairly consistent with an increase of approximately 1% for the year ended March 31, 2011 as compared to the corresponding period ended March 31, 2010.

Depreciation and amortization decreased approximately \$592,000 for the year ended March 31, 2011 as compared to the corresponding period in 2010, primarily due to the reduction in carrying amounts relating to impairment of assets.

Loss on impairment of fixed assets amounted to approximately \$2,921,000 and \$12,993,000 for the years ended March 31, 2011 and 2010, respectively. See Note 4 in Item 8 for detailed discussion on impairments.

### **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 8.46% 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.

On August 24, 2010, GP Kaneohe Limited Partnership ("Kaneohe"), a subsidiary partnership, entered into an interest rate swap agreement with the Bank as a prerequisite for obtaining refinancing on its original mortgage note payable in the amount of \$2,297,000. The agreement provides a fixed rate of 4.65% that was exchanged for a floating rate of 3.75% on the notional amount of \$3,050,000. The swap contract became effective September 1, 2010 and terminates September 1, 2015. The fair value of the interest rate cap agreement as of December 31, 2010 was approximately \$7,000 (a reduction of mortgage liability), based on estimates obtained from the financial institution. Counterparty risk represents the risk of loss from nonperformance by financial counterparties to a contract. Interest rate swap can result in exposure to credit risks in the event of default by a counterparty. The current financial crisis affecting the global banking systems and financial markets has resulted in many financial institutions becoming less creditworthy or having diminished liquidity. Thus, the Partnership could be exposed to an increased level of counterparty risk and could incur financial losses.

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

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 by increased operating expenses, any or all of which could threaten the financial 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

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

make it more difficult to rent apartments in the Apartment Complexes; difficulties in obtaining government approval for rent increases; limitations on the percentage of income which low and moderate income tenants may pay as rent; the possibility that Congress may not appropriate funds to enable HUD to make the rental assistance payments it has contracted to make; and that when the rental assistance contracts expire there may not be market demand for apartments at full market rents in a Local Partnership's Apartment Complex.

The Local Partnerships are impacted by inflation in several ways. Inflation allows for increases in rental rates generally to reflect the impact of higher operating and replacement costs. 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, for example, for such items as fuel, utilities and labor. However, continued inflation may result in appreciated values of the Local Partnership's apartment complexes over a period of time as rental revenues and replacement costs continue to increase.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Partners  
Independence Tax Credit Plus L.P. IV and Subsidiaries

We have audited the accompanying consolidated balance sheets of Independence Tax Credit Plus L.P. IV and Subsidiaries (a Delaware limited partnership) as of March 31, 2011 and 2010, and the related consolidated statements of operations, changes in partners' capital (deficit) and cash flows for each of the years in the two-year period ended March 31, 2011. These consolidated 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 consolidated financial statements of five and seven subsidiary partnerships, whose losses aggregated \$1,320,070 and \$11,858,536 for the years ended March 31, 2011 and 2010, respectively, and whose assets constituted 53% and 59% of consolidated assets at March 31, 2011 and 2010, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these subsidiary partnerships, is based solely on the reports of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Partnership is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion. 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 statements presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Independence Tax Credit Plus L.P. IV and Subsidiaries as of March 31, 2011 and 2010, and the results of their operations and their cash flows for each of the years ended in the two-year period ended March 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

Friedman LLP

New York, New York  
June 23, 2011



**INDEPENDENCE TAX CREDIT PLUS IV L.P.**

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