

**INDEPENDENCE**  
**TAX CREDIT PLUS IV**

**QUARTERLY**  
**REPORT**

**Ended**  
**September 30, 2011**

November 2011

Message to Our BACsholders:

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

Since our last report there have not been any sales of Partnership assets and the Partnership's portfolio remains with 12 assets. The General Partnership continues to research opportunities to liquidate the portfolio with full liquidation expected within the next two-three years. This disposition timeline is dependent upon certain economic conditions and no assurances can be given with respect to terminating 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 the Notes section of this report.

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

Very truly yours,



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

## Condensed Consolidated Balance Sheets

	September 30, 2011	March 31, 2011
ASSETS		
Operating assets		
Property and equipment – (at cost, net of accumulated depreciation of \$24,465,416 and \$24,041,023, respectively)	\$ 14,575,699	\$ 14,995,942
Cash and cash equivalents	942,412	1,402,683
Cash held in escrow	2,116,041	2,005,507
Deferred costs (net of accumulated amortization of \$776,412 and \$758,921, respectively)	428,636	446,127
Due from local general partners and affiliates (Note 3)	540,686	474,935
Other assets	<u>611,515</u>	<u>397,837</u>
Total assets	<u>\$ 19,214,989</u>	<u>\$ 19,723,031</u>

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

## Condensed Consolidated Balance Sheets *(continued)*

	September 30, 2011	March 31, 2011
LIABILITIES AND PARTNERS' CAPITAL (DEFICIT)		
Operating liabilities		
Mortgage notes payable	\$ 25,578,135	\$ 25,811,620
Accounts payable and other liabilities	398,829	443,014
Accrued interest payable	6,472,167	6,210,704
Security deposits payable	299,070	299,570
Interest rate swap (Note 4)	77,601	-
Due to local general partners and affiliates (Note 3)	1,935,589	1,948,426
Due to general partners and affiliates (Note 3)	<u>2,830,577</u>	<u>2,682,152</u>
Total liabilities	<u>37,591,968</u>	<u>37,395,486</u>
Commitments and contingencies (Note 6)		
Partners' capital (deficit)		
Limited partners – 45,844 Beneficial Assignment Certificates (“BACs”) issued and outstanding	(18,674,204)	(18,028,454)
General partners	<u>(595,280)</u>	<u>(588,757)</u>
Independence Tax Credit Plus L.P. IV total	(19,269,484)	(18,617,211)
Noncontrolling interests	<u>892,505</u>	<u>944,756</u>
Total partners' capital (deficit)	<u>(18,376,979)</u>	<u>(17,672,455)</u>
Total liabilities and partners' capital (deficit)	<u>\$ 19,214,989</u>	<u>\$ 19,723,031</u>

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

## Condensed Consolidated Statements of Operations

(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2011	2010*	2011	2010*
Operations:				
Revenues				
Rental income	\$ 1,361,697	\$ 1,270,805	\$ 2,647,677	\$ 2,502,669
Other	29,549	31,449	54,717	51,140
Total revenues	<u>1,391,246</u>	<u>1,302,254</u>	<u>2,702,394</u>	<u>2,553,809</u>
Expenses				
General and administrative	360,097	371,835	747,095	760,217
General and administrative-related parties (Note 3)	169,719	168,314	334,731	340,819
Repairs and maintenance	248,269	203,750	475,167	425,069
Operating and other	199,945	179,687	412,700	382,379
Real estate taxes	34,621	32,075	72,445	66,954
Insurance	64,094	61,518	117,529	119,564
Interest	347,330	338,262	650,113	674,430
Change in fair value of interest rate swap (Note 4)	45,367	-	77,601	-
Depreciation and amortization	<u>224,523</u>	<u>282,977</u>	<u>441,884</u>	<u>562,921</u>
Total expenses	<u>1,693,965</u>	<u>1,638,418</u>	<u>3,329,265</u>	<u>3,332,353</u>
Net loss	<u>(302,719)</u>	<u>(336,164)</u>	<u>(626,871)</u>	<u>(778,544)</u>
Net income attributable to noncontrolling interests	<u>(25,501)</u>	<u>(2,466)</u>	<u>(25,402)</u>	<u>(11,400)</u>
Net loss attributable to Independence Tax Credit Plus L.P. IV	<u>\$ (328,220)</u>	<u>\$ (338,630)</u>	<u>\$ (652,273)</u>	<u>\$ (789,944)</u>
Net loss – limited partners	<u>\$ (324,938)</u>	<u>\$ (335,244)</u>	<u>\$ (645,750)</u>	<u>\$ (782,045)</u>
Number of BACs outstanding	<u>45,844</u>	<u>45,844</u>	<u>45,844</u>	<u>45,844</u>
Net loss per weighted average BAC	<u>\$ (7.09)</u>	<u>\$ (7.31)</u>	<u>\$ (14.09)</u>	<u>\$ (17.06)</u>

\* Reclassified for comparative purposes.

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

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

	<u>Independence Tax Credit Plus L.P. IV</u>			
	<u>Total</u>	<u>Limited Partners</u>	<u>General Partner</u>	<u>Non-controlling Interests</u>
Partners' capital (deficit) – April 1, 2011	\$ (17,672,455)	\$ (18,028,454)	\$ (588,757)	\$ 944,756
Net (loss) income	(626,871)	(645,750)	(6,523)	25,402
Distributions	<u>(77,653)</u>	<u>-</u>	<u>-</u>	<u>(77,653)</u>
Partners' capital (deficit) – September 30, 2011	<u>\$ (18,376,979)</u>	<u>\$ (18,674,204)</u>	<u>\$ (595,280)</u>	<u>\$ 892,505</u>

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

## Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Six Months Ended	
	September 30,	
	2011	2010
Cash flows from operating activities:		
Net loss	\$ (626,871)	\$ (778,544)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	441,884	562,921
Change in fair value of rate swap	77,601	-
Changes in assets and liabilities:		
(Increase) decrease in cash held in escrow	(39,080)	117,604
Increase in other assets	(213,678)	(147,444)
(Decrease) increase in accounts payable	(44,186)	49,865
Increase in accrued interest payable	261,463	329,842
(Decrease) increase in security deposit payable	(500)	7,338
Increase in due from general partner and affiliates	(65,751)	(15,077)
Decrease in due to local general partners and affiliates	(16,777)	(49,596)
Increase in due to general partner and affiliates	148,425	149,001
Total adjustments	549,401	1,004,454
Net cash (used in) provided by operating activities	(77,470)	225,910

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

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

	Six Months Ended	
	September 30,	
	2011	2010
Cash flows from investing activities:		
Increase in cash held in escrow	(71,454)	(32,651)
Acquisition of property and equipment	(4,149)	(5,412)
Net repayments from local general partners and affiliates	3,940	5,555
	<u>(71,663)</u>	<u>(32,508)</u>
Net cash used in investing activities		
Cash flows from financing activities:		
Repayments of mortgage notes	(233,485)	(236,945)
Net Proceeds from refinance	-	517,812
Distributions to noncontrolling interests	(77,653)	(10,833)
	<u>(311,138)</u>	<u>270,034</u>
Net cash (used in) provided by financing activities		
Net (decrease) increase in cash and cash equivalents	(460,271)	463,436
Cash and cash equivalents at beginning of period	1,402,683	1,176,371
Cash and cash equivalents at end of period	<u>\$ 942,412</u>	<u>\$ 1,639,807</u>

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

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

### Note 1 – General

The condensed consolidated financial statements, as of September 30, 2011, include the accounts of Independence Tax Credit Plus L.P. IV (the “Partnership”) and twelve other limited partnerships (“subsidiary partnerships”, “subsidiaries” or “Local Partnerships”) owning affordable apartment complexes (“Properties”) that are eligible for the low-income housing tax credits. Some of the Properties may also be eligible for the historic rehabilitation tax credits. The general partner of the Partnership is Related Independence L.L.C., a Delaware limited liability company (the “General Partner”), which is managed by an affiliate of Centerline Holding Company (“Centerline”), the ultimate parent of the manager of the general partner of the General Partner. Through the rights of the Partnership and/or an affiliate of the General Partner, which affiliate has a contractual obligation to act on behalf of the Partnership to remove the general partner of the subsidiary partnerships (“Local General Partners”) and to approve certain major operating and financial decisions, the Partnership has a controlling financial interest in the subsidiary partnerships. The Partnership is currently in the process of developing a plan to dispose of all its investments.

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

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

In accordance with Accounting Standards Codification (“ASC”) Topic 810, “Consolidation” (“ASC 810”), income attributable to noncontrolling interests amounted to approximately \$26,000 and \$2,000 and \$25,000 and \$11,000 for the three and six months ended September 30, 2011 and 2010, respectively. The Partnership’s investment in each subsidiary is equal to the respective subsidiary’s partners’ equity less noncontrolling interest capital, if any.

## **Notes to Condensed Consolidated Financial Statements September 30, 2011 (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 consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Partnership’s Annual Report on Form 10-K for the year ended March 31, 2011.

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

### 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

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

and are not depreciated. There are no assets classified as property and equipment-held for sale at September 30, 2011.

### Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Estimates are adjusted to reflect actual experience when necessary. Significant accounting estimates reflected in the Partnership's condensed consolidated financial statements include revenue recognition, fair value of financial instruments, the properties and the useful lives of property and equipment.

### 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 income is recognized when earned and charged to tenants' accounts receivable if not received by the due date. Rental payments received in advance of the due date are deferred until earned. Rental subsidies are recognized as rental income during the month in which it is earned.

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

### Income Taxes

The Partnership is not 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.

### NOTE 2 – Liquidity

At September 30, 2011, the Partnership's liabilities exceeded assets by \$18,376,979 and for the six months ended September 30, 2011 incurred a net loss of \$626,871. However, the Partnership has working capital re-

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

serves of approximately \$211,000 at September 30, 2011. Such amount is considered sufficient to cover the Partnership's day to day operating expenses, excluding fees to the General Partner, for at least the next year. The Partnership's operating expenses, excluding the Local Partnerships' expenses and related party expenses, amounted to approximately \$79,000 for the six months ended September 30, 2011.

As discussed in Note 3, partnership management fees of approximately \$2,286,000 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.

The mortgage notes payable balance of \$25,578,135 and the accrued interest payable balance of \$6,472,167 are 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 unless an operating deficit guaranty agreement is in effect. 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.

### **NOTE 3 – Related Party Transactions**

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 has Operating Deficit Guaranty Agreements with the Local Partnerships whereby the Local General Partners of such Local

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

Partnerships and/or their affiliates agree 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 September 30, 2011 and 2010, Operating Deficit Guarantees aggregate approximately \$123,000 for these periods. 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 September 30, 2011 and 2010, there has been no funding under the Operating Deficit Guaranty Agreements.

### B) Related Party Expenses

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

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	<u>2011</u>	<u>2010*</u>	<u>2011</u>	<u>2010*</u>
Partnership management fees (a)	\$ 73,500	\$ 73,500	\$ 147,175	\$ 149,500
Expense reimbursement (b)	32,312	38,775	64,625	77,550
Local administrative fee (c)	<u>10,000</u>	<u>9,750</u>	<u>20,000</u>	<u>19,500</u>
Total general and administrative – General Partners	115,812	122,025	231,800	246,550
Property management fees incurred to affiliates of the subsidiary partnerships' general partners	<u>53,907</u>	<u>46,289</u>	<u>102,931</u>	<u>94,269</u>
Total general and administrative-related parties	<u>\$ 169,719</u>	<u>\$ 168,314</u>	<u>\$ 334,731</u>	<u>\$ 340,819</u>

\* Reclassified for comparative purposes.

- (a) The General Partner is entitled to receive a partnership management fee, after payment of all Partnership expenses, which together with the annual local administrative fees will not exceed a maximum of

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

0.5% per annum of invested assets (as defined in the Partnership Agreement), for administering the affairs of the Partnership. Subject to the foregoing limitation, the partnership management fee will be determined by the General Partner in its sole discretion based upon its review of the Partnership's investments. Unpaid partnership management fees for any year are 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 those owed to the General Partner and its affiliates. Partnership management fees owed to the General Partner amounting to approximately \$2,286,000 and \$2,138,000 were accrued and unpaid as of September 30, 2011 and March 31, 2011, 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 were accrued and unpaid as of both September 30, 2011 and March 31, 2011. 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 \$224,000 were accrued and unpaid as of both September 30, 2011 and March 31, 2011. These fees have been deferred in certain cases and the Partnership anticipates that they will be paid from working capital reserves or future sales proceeds.

As of September 30, 2011 and March 31, 2011, the Partnership owed the General Partner and its affiliates approximately \$256,000 for advances

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

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

The amounts due to Local General Partners and affiliates from operating liabilities consist of the following:

	September 30, 2011	March 31, 2011
	<u>                    </u>	<u>                    </u>
Development fee payable	\$ 1,552,470	\$ 1,578,347
Construction costs payable	50,000	50,000
Operating advances	326,782	296,965
Management and other fees	<u>6,337</u>	<u>23,114</u>
	<u>\$ 1,935,589</u>	<u>\$ 1,948,426</u>

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

	September 30, 2011	March 31, 2011
	<u>                    </u>	<u>                    </u>
Local general partner loan receivable	<u>\$ 540,686</u>	<u>\$ 474,935</u>

NOTE 4– 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:

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

### 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 (“ASC 820”). This standard defines fair value, provides guidance for measuring fair value and requires certain disclosures. This standard 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.

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

	At September 30, 2011		At March 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
LIABILITIES:				
Mortgage notes and accrued interest	\$ 32,050,302	\$ 14,237,310	\$ 32,022,324	\$ 13,190,132

Fair value for the mortgage notes has been estimated using Level 3 inputs. Fair value for interest rate swaps has been estimated using Level 2 inputs.

At September 30, 2011, the fair value of the interest rate swap was an increase of the mortgage note liability and a corresponding charge to operations of approximately \$78,000.

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

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 September 30, 2011		3.75 %
Termination date		September 1, 2015

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

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.

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.

### 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 unique obligations are not currently available.

### NOTE 5 – Sale of Properties

The Partnership is currently in the process of developing a plan to dispose of all its investments. It is anticipated that this process will continue to take a number of years. As of September 30, 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

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

will be sufficient to return to the limited partners their original investments.

### NOTE 6 – Commitments and Contingencies

There have been no material changes and/or additions to the disclosures regarding the subsidiary partnerships which were included in the Partnership's Annual Report on Form 10-K for the fiscal year ended March 31, 2011.

#### a) Property Management Fees

The Local Partnerships have entered into management agreements with ten managing agents to manage the Partnership's twelve properties. Of these, six managing agents are affiliates of the Local General Partner for six properties. The base management fee percentage ranges between 5% and 10% of all rents collected, and the management agreement for one of the properties provides for a monthly payment of \$2,024. Property management fees incurred by the Local Partnerships amounted to \$104,956 and \$86,293 and \$176,995 and \$166,427 for the three and six months ended September 30, 2011 and 2010, respectively. Of these fees, \$53,907 and \$46,289 and \$102,931 and \$94,269 were incurred to the Local General Partners for the three and six months ended September 30, 2011 and 2010, respectively.

#### b) Other

The Partnership is subject to risks incident to potential losses arising from the management and ownership of real estate. The Partnership can also be affected by poor economic conditions generally; however no more than 25% of the properties are located in any single state. The properties are concentrated in New Jersey (25%), Kentucky (17%) and California (17%). There are also substantial risks associated with owning properties receiving government assistance, for example the possibility that Congress may not appropriate funds to enable the U.S. Department of Housing and Urban Development ("HUD") to make rental assistance payments. HUD also restricts annual cash distributions to partners based on operating results and a percentage of the owners' equity contribution. As of September 30, 2011, there were three Local Partnerships subsidized by HUD. The Partnership cannot sell or substantially liquidate its investments in subsidiary partnerships during the period that the subsidy agreements are in existence without HUD's approval. Furthermore there

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

may not be market demand for apartments at full market rents when the rental assistance contract expires.

The Partnership and BACs holders began to recognize Tax Credits with respect to a Property when the Credit Period for such Property commenced. As of December 31, 2010, all the Local Partnerships had completed their Credit Periods. However, each Local Partnership must continue to comply with the Tax Credit requirements until the end of the fifteen year compliance period ("Compliance Period") in order to avoid recapture of the Tax Credits. The Compliance Periods will continue through December 31, 2015 with respect to the remaining Properties depending upon when the Compliance Period commenced.

Except as described above, management is not aware of any trends or events, commitments or uncertainties, which have not otherwise been disclosed, that will or are likely to impact liquidity in a material way. Management believes the only impact would be 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 not be affected. However, the geographic diversification of the portfolio may not protect against a general downturn in the national economy.

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

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

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

#### Liquidity and Capital Resources

The Partnership originally invested approximately \$37,555,000 (not including acquisition fees of approximately \$1,771,000) of net proceeds in fourteen Local Partnerships of which, as of September 30, 2011, 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, must be attained prior to the release of the funds. During the six months ended September 30, 2011, no pay-

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

ments were made to the Local Partnerships. The Partnership does not anticipate acquiring additional properties.

### Short-Term

The Partnership's primary sources of funds include: (i) working capital reserves, exclusive of Local Partnerships' working capital; (ii) interest earned on the working capital reserves; (iii) cash distributions from operations of the Local Partnerships; and (iv) sales and/or refinance proceeds and distributions. Such funds, although minimal (other than possible sales and/or refinance proceeds and 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 six months ended September 30, 2011, and 2010, distributions from operations of the Local Partnerships amounted to approximately \$15,000 and \$2,000, respectively

For the six months ended September 30, 2011, cash and cash equivalents of the Partnership and its consolidated Local Partnerships decreased approximately \$460,000. This decrease was due to net cash used in operating activities of approximately \$77,000, an increase in cash held in escrow relating to investing activities of approximately \$71,000, acquisition of property and equipment of approximately \$4,000, repayment of mortgage notes of approximately \$233,000 and distributions to noncontrolling interests of approximately \$78,000, which exceeded net repayments to local general partners and affiliates of approximately \$4,000. 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 \$442,000 and a change from interest rate swap of approximately \$78,000.

Total expenses from operations for the three and six months ended September 30, 2011, and 2010, excluding depreciation and amortization, interest, unrealized loss on interest rate swap and general and administrative-related parties, totaled \$907,026 and \$848,865 and \$1,824,936 and \$1,754,183, respectively.

Accounts payable totaled \$398,829 and \$443,014 as of September 30, 2011, and March 31, 2011, 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 September 30, 2011, and March 31, 2011

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

was \$6,472,167 and \$6,210,704, respectively. Accrued interest payable represents the accrued interest on all mortgage notes, which include primary and secondary notes. Certain secondary notes 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 notes (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 refinancing 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. Assuming the General Partner continues to defer the payment of fees as discussed below and in Note 3 to the Financial Statements, the Partnership believes it has sufficient liquidity and ability to generate cash and to meet existing and known or reasonably likely future cash requirements over both the short and long term.

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

At September 30, 2011, there is approximately \$211,000 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.

The Partnership has Operating Deficit Guaranty Agreements with the Local Partnerships by which the general partners of such Local Partnerships and/or their affiliates agree 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 September 30, 2011, and 2010, the gross amount of the Operating Deficit Guarantees aggregate approximately \$123,000 for these periods. As of September 30, 2011, and 2010, no amounts have been funded under the Operating Deficit Guaranty Agreements. Amounts funded under such agreements will be treated as

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

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 \$2,286,000 and \$2,138,000 were accrued and unpaid as of September 30, 2011, and March 31, 2011, respectively, and are included in the line item Due to general partners and affiliates in the condensed 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. See Note 3 in Item 1 for further discussion of amounts due to the General Partner and its affiliates. 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.

The Partnership's liquidity consideration is discussed in Note 2 in Item 1.

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. 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.

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. The portfolio is diversified by the

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

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, which is December 31, 2015, in order to avoid recapture of the Tax Credits.

### Off-Balance Sheet Arrangements

The Partnership has no off-balance sheet arrangements.

### Tabular Disclosure of Contractual Obligations

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

### Critical Accounting Policies and Estimates

In preparing the unaudited condensed 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 in Note 1 in Item 1 is the summary of the accounting policies that management believes are critical to the preparation of the condensed consolidated financial statements. The summary should be read in conjunction with the more complete discussion of the Partnership's accounting policies included in Item 8, Note 2 to the consolidated financial statements which are included in the Partnership's Annual Report on Form 10-K for the year ended March 31, 2011.

### Results of Operations

The results of operations for the three and six months ended September 30, 2011, and 2010, continued to be primarily in the form of rental income with corresponding expenses divided among operations, depreciation and mortgage interest.

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

Rental income increased approximately 7% and 6% for the three and six months ended September 30, 2011, as compared to the corresponding periods in 2010, primarily due to an increase in rental rates at two Local Partnerships and an increase in occupancies at two other Local Partnerships.

Total expenses, excluding repairs and maintenance, operating and other, depreciation and amortization and unrealized loss on interest rate swap remained fairly consistent, with an increase of less than 1% and a decrease of approximately 2% for the three and six months ended September 30, 2011 as compared to the corresponding periods in 2010.

Repairs and maintenance expense increased approximately \$45,000 and \$50,000 for the three and six months ended September 30, 2011 as compared to the corresponding periods in 2010, primarily due to increases in painting and décor and monitoring and protection service upgrades at one Local Partnership, increases in roof and gutter repairs at a second Local Partnership and an increase in carpentry & plumbing repair at a third Local Partnership, offset by decreases in janitorial expenses at a fourth Local Partnership.

Operating expenses increased approximately \$20,000 and \$30,000 for the three and six months ended September 30, 2011 as compared to the corresponding periods in 2010, primarily due to an overall increase in utility costs at several Local Partnerships.

Depreciation and amortization decreased approximately \$58,000 and \$121,000 for the three and six months ended September 30, 2011 as compared to the corresponding periods in 2010, primarily due to the reduction in carrying amounts relating to impairment of assets recorded during the year ended March 31, 2011 at six Local Partnerships.

Unrealized loss on interest rate swap increased approximately \$45,000 and \$78,000 for the three and six months ended September 30, 2011 as compared to the corresponding periods in 2010, primarily due to the change in fair value of the interest rate swap agreement at one Local Partnership.

### **Item 4. Controls and Procedures.**

(a) *Evaluation of Disclosure Controls and Procedures.* The Chief Executive Officer and Chief Financial Officer of Related Independence L.L.C, the general partner of the Partnership, have evaluated the effec-

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

tiveness of the Partnership's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act") as of the end of the period covered by this report. Based on such evaluation, such officers have concluded that, as of the end of such period, the Partnership's disclosure controls and procedures are effective.

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



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

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