

BERKSHIRE INCOME REALTY INC
Form 10-Q
November 15, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period _____ or _____

Commission File number 001-31659

Berkshire Income Realty, Inc.

(Exact name of registrant as specified in its charter)

Maryland

32-0024337

(State of other jurisdiction of incorporation or organization)

(IRS employer identification no.)

One Beacon Street, Boston, Massachusetts

02108

(Address of principal executive offices)

(Zip code)

(Registrant's telephone number, including area code)

(617) 523-7722

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act)

Yes

No

There were 1,283,313 shares of Class B common stock outstanding as of November 12, 2004

BERKSHIRE INCOME REALTY, INC.

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PART I. Financial Information

Item 1. Financial Statements:

BERKSHIRE INCOME REALTY, INC.(FORMERLY
BERKSHIRE INCOME REALTY PREDECESSOR GROUP)
CONSOLIDATED BALANCE SHEETS
(unaudited)

	September 30, 2004	December 31, 2003
ASSETS		
Multifamily apartment communities, net of accumulated depreciation of \$110,520,391 and \$102,609,721, respectively	\$ 154,399,789	\$ 145,222,916
Cash and cash equivalents	34,904,628	42,145,947
Available for sale securities, at fair value	18,610,841	18,488,414
Cash restricted for tenant security deposits	857,735	856,498
Replacement reserve escrow	478,247	318,708
Prepaid expenses and other assets	7,839,526	5,113,200
Investment in Mortgage Funds	13,027,092	24,046,908
Investment in Multifamily Joint Venture	2,306,847	--
Acquired in place leases and tenant relationships, net of accumulated amortization of \$1,253,003 and \$212,200, respectively	226,471	1,061,004
Deferred expenses, net of accumulated amortization of \$540,567 and \$323,067 respectively	1,529,684	1,621,498
Total assets	<u>\$ 234,180,860</u>	<u>\$ 238,875,093</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Mortgage notes payable	\$ 186,092,756	\$ 184,471,204
Due to affiliates	1,221,154	1,318,755
Dividends and distributions payable	1,087,607	1,087,593
Accrued expenses and other liabilities	3,874,790	3,268,859
Tenant security deposits	1,074,738	971,363

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Revenue:				
Rental	\$ 9,190,568	\$ 6,908,604	\$ 27,079,335	\$ 20,597,848
Interest	153,997	11,519	640,010	78,235
Utility reimbursement	132,474	132,671	395,860	339,975
Other	463,604	374,448	1,159,968	926,784
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Total revenue	9,940,643	7,427,242	29,275,173	21,942,842
	<hr/>	<hr/>	<hr/>	<hr/>
Expenses:				
Operating	2,542,538	1,912,239	7,304,839	5,187,303
Maintenance	782,811	714,588	2,102,462	1,783,680
Real estate taxes	1,085,799	643,050	3,236,604	1,817,100
General and administrative	355,951	476,240	1,074,150	1,148,700
Management fees	647,398	464,696	1,922,754	1,572,990
Depreciation	2,751,854	1,818,769	8,194,823	5,453,969
Loss on extinguishment of debt	--	86,748	--	337,832
Organizational costs	--	--	--	213,428
Interest	2,638,987	1,829,877	8,093,230	5,580,719
Loss on sale of securities	--	--	163,630	--
Amortization of acquired in-place leases and Tenant relationships	361,251	--	1,134,188	--
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	\$ 11,166,589	7,946,207	33,226,680	23,095,721
	<hr/>	<hr/>	<hr/>	<hr/>
Loss before minority interest in properties, equity in loss of Multifamily Joint Venture, equity in income of				

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
Mortgage Funds, minority common interest in Operating Partnership and gain on transfer of property to Multifamily Joint Venture				
Multifamily Joint Venture	\$ (1,225,946)	(518,965)	(3,951,507)	(1,152,879)
Minority interest in properties	(2,418)	(31,025)	(111,228)	(125,228)
Equity in loss of Multifamily Joint Venture	(58,105)	--	(160,778)	--
Equity in income of Mortgage Funds	1,559,844	3,153,016	2,824,714	4,882,802
Minority common interest in Operating Partnership	(244,025)	(488,050)	(732,075)	(488,050)
Income (loss) before gain on transfer of property to Multifamily Joint Venture	29,350	2,114,976	(2,130,874)	3,116,645
Gain on transfer of property to Multifamily Joint Venture	--	--	232,704	--
Net income (loss)	29,350	2,114,976	(1,898,170)	3,116,645
Preferred dividend	(1,675,200)	\$ (1,675,202)	(5,025,638)	(3,276,089)
Net income (loss) available to common shareholders	\$ (1,645,850)	\$ 439,774	\$ (6,923,808)	\$ (159,444)

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
Basic and diluted earnings per share data:				
Net income (loss) per common share	\$ (1.28)	\$ 0.34	\$ (5.40)	\$ (0.19)
Weighted average number of common shares outstanding, basic and diluted	1,283,313	1,283,313	1,283,313	837,207

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

BERKSHIRE INCOME REALTY, INC.
(FORMERLY BERKSHIRE INCOME REALTY PREDECESSOR GROUP)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(unaudited)

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Comprehensive income (loss):				
Net income (loss)	\$ 29,350	\$ 2,114,976	\$ (1,898,170)	\$ 3,116,645
Other comprehensive income (loss):				
Unrealized gain on available for sale securities	--	--	14,229	--
Comprehensive income (loss):	\$ 29,350	\$ 2,114,976	\$ (1,883,941)	\$ 3,116,645

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

BERKSHIRE INCOME REALTY, INC.
(FORMERLY BERKSHIRE INCOME REALTY PREDECESSOR GROUP)
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004
(unaudited)

<u>Series A Preferred Stock</u>		<u>Class B Common Stock</u>		<u>Other Accumulated Deficit</u>	<u>Total Comprehensive Income</u>	<u>Stockholders' Equity</u>
<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			

	Series A Preferred Stock		Class B Common Stock		Other Accumulated Deficit	Total Comprehensive Income	Stockholders' Equity
Balance at December 31, 2003	2,978,110	\$ 70,210,830	1,283,313	\$ 12,833	\$ (22,452,115)	\$ (14,229)	\$ 47,757,319
Net loss	--	--	--	--	(1,898,170)	--	(1,898,170)
Net unrealized gain on available for sale securities	--	--	--	--	--	14,229	14,229
Distributions to common shareholders	--	--	--	--	(17,925)	--	(17,925)
Distributions to preferred shareholders	--	--	--	--	(5,025,638)	--	(5,025,638)
Balance at September 30, 2004	2,978,110	\$ 70,210,830	1,283,313	\$ 12,833	\$ (29,393,848)	\$ --	\$ 40,829,815

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

BERKSHIRE INCOME REALTY, INC.
(FORMERLY BERKSHIRE INCOME REALTY PREDECESSOR GROUP)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Nine months ended September 30,	
	2004	2003
Cash flows from operating activities:		
Net income (loss)	\$ (1,898,170)	\$ 3,116,645
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of deferred financing costs	221,946	140,621
Amortization of acquired in-place leases and tenant relationships	1,134,188	--
Depreciation	8,194,823	5,453,969
Loss on the extinguishment of debt	--	337,832
Loss on available for sale securities	163,630	--
Minority interest in properties	732,075	488,050
Accretion of Mortgage Funds	(1,726,193)	(1,808,529)
Equity in loss of Multifamily Joint Venture	160,778	--
Gain on transfer of Multifamily Joint Venture	(232,704)	--
Minority interest in Operating Partnership	111,228	125,228

Nine months ended September 30,

Increase (decrease) in cash attributable to changes in assets and liabilities:		
Tenant security deposits, net	250,683	22,199
Prepaid expenses and other assets	(610,593)	132,476
Due to/from affiliate	(97,861)	(1,421,665)
Accrued expenses and other liabilities	859,965	1,425,898
	<hr/>	<hr/>
Net cash provided by operating activities	7,263,795	8,012,724
	<hr/>	<hr/>
Cash flows from investing activities:		
Capital improvements	(7,505,136)	(3,935,688)
Acquisition of multifamily apartment communities	(33,057,228)	(7,071,171)
Earnest money deposits on future acquisitions	(201,622)	--
Proceeds received from transfer of property to Multifamily Joint Venture	3,831,728	--
Purchase of available for sale securities	(271,827)	--
Investments in Mortgage Funds	--	(212,998)
Deposits to replacement reserve	(332,592)	(305,457)
Withdrawals from replacement reserve	173,053	462,000
Distributions from investment in Multifamily Joint Venture	150,201	--
Investment in Multifamily Joint Venture	(529,689)	--
Distributions from investment of Mortgage Funds	12,746,009	36,277,291
Acquisition of in-place leases and tenant relationships	(643,450)	--
	<hr/>	<hr/>
Net cash provided by (used in) investing activities	(25,640,553)	25,213,977
	<hr/>	<hr/>
Cash flows from financing activities:		
Principal payments on mortgage notes payable	(1,698,448)	(1,073,312)
Prepayments of mortgages notes payable	--	(20,810,471)
Borrowings from mortgage notes payable	20,720,000	31,467,000
Syndication costs	--	(4,241,200)
Deposits on mortgages notes payable	(2,075,275)	--
Deferred financing costs	(303,512)	(452,247)
Cash shortfall distribution from Multifamily Joint Venture	379,527	--
Distributions to owners	--	(104,079)
Contributions from owners	--	1,518,382
Distributions to minority interest in properties	(111,228)	(125,228)
Distributions on common operating partnership units	(750,000)	--
Distributions to preferred shareholders	(5,025,625)	(2,438,496)
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Net cash provided by financing activities	11,135,439	3,740,349
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On March 30, 2004, the Operating Partnership, through its newly formed and wholly owned subsidiary BIR Laurel Woods Limited Partnership, purchased Laurel Woods Apartments (Laurel Woods), a 150-unit multifamily apartment community located in Austin, Texas, from Berkshire Mortgage Finance Limited Partnership (the Seller), an affiliate of the Company. The acquisition was approved by the audit committee of the Company's Board of Directors (the Board), which is composed solely of directors who are independent under applicable rules and regulations of the Securities and Exchange Commission (the SEC) and the American Stock Exchange. The Seller acquired the property through foreclosure on February 2, 2004. The purchase price of \$5,250,000 was funded with available cash.

On March 31, 2004, the Operating Partnership, through its newly formed and wholly owned subsidiary BIR Bear Creek Limited Partnership, purchased Bear Creek Apartments (Bear Creek) from an unaffiliated third party. The purchase price of \$4,900,000 was funded with available cash. Bear Creek apartments is a 152-unit multifamily apartment community located in Dallas, Texas. Prior to the sale, the seller had acquired the property through foreclosure.

New Accounting Pronouncements

In January 2003, the FASB issued Financial Interpretation No. 46 Consolidation of Variable Interest Entities (FIN 46), as further revised in December 2003 (FIN 46R), which clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have a controlling interest or sufficient equity at risk for the entity to finance its activities without additional financial support. FIN 46 requires that if a business entity has a controlling financial interest in a variable interest entity, the financial statements must be included in the consolidated financial statements of the business entity. The adoption of FIN 46 for all interests in variable interest entities created after January 31, 2003 was effective immediately. For variable interest entities created before February 1, 2003, it was effective July 1, 2003. The Company adopted FIN 46R during the first quarter of 2004. The Company evaluated its investments in the six mortgage funds (the Mortgage Funds), interests for which it previously offered (the Offering) to exchange shares of its 9% Series A Cumulative Redeemable Preferred Stock (the Preferred Stock), and its investment in the Multifamily Joint Venture and concluded that the investments did not meet the requirements for consolidation under FIN 46R.

In March 2004, the Emerging Issues Task Force (EITF) reached a final consensus regarding Issue 03-6, Participating Securities and the Two-Class Method under FAS 128. Issue 03-6 addresses a number of questions regarding the computation of earnings per share (EPS) by companies that have issued securities other than common stock that participate in dividends and earnings of the issuing entity. Such securities are contractually entitled to receive dividends when and if the entity declares dividends on common stock. Issue 03-6 also provides further guidance in applying the two-class method of calculating EPS once it is determined that a security is participating. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. Issue 03-6 is effective for the period ended June 30, 2004, and should be applied by restating prior period earnings per share. The Company has determined that this consensus has no impact on the Company's EPS calculations.

Reclassifications

Certain prior period balances have been reclassified in order to conform to the current period presentation.

Unaudited interim financial statements

The accompanying interim financial statements of the Company are unaudited; however, the financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in conjunction with the rules and regulations of the SEC. Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with GAAP are omitted. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair presentation of the financial statements for the interim periods have been included. The results of operations for the interim periods are not necessarily indicative of the results to be obtained for other interim periods or for the full fiscal year. The interim financial statements and notes thereto should be read in conjunction with the Company's financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2003 and Forms 8-K/A filed on April 12, 2004 for the significant acquisition of Marina Mile, as well as the Form 8-K filed on April 14, 2004 for the acquisition of Laurel Woods and Bear Creek.

2. MULTIFAMILY APARTMENT COMMUNITIES

The Company allocates the acquisition cost of real estate to land, building, tenant relationships and acquired in-place leases based on an assessment of their fair value at the time of purchase. The value of in-place leases and tenant relationships are amortized to expense over the initial terms of the respective leases.

The results of operations of Laurel Woods and Bear Creek, both acquired in 2004, are included in the Company's September 30, 2004 consolidated Statement of Operations for the period subsequent to the purchase date. The purchase prices of Laurel Woods and Bear Creek were

2. MULTIFAMILY APARTMENT COMMUNITIES

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\$5,250,000 and \$4,900,260, respectively. The following condensed information provides the amount assigned to each major asset category of the respective properties on the acquisition dates, which are included on the Company's September 30, 2004 consolidated balance sheet:

	Laurel Woods	Bear Creek
Multifamily apartment communities	\$ 5,151,566	\$ 4,792,404
Acquired in-place leases	75,620	61,706
Tenant relationships	22,814	46,150
Total recorded at acquisition date	\$ 5,250,000	\$ 4,900,260

3. AVAILABLE-FOR-SALE SECURITIES

The following summarizes the Company's holdings of available-for-sale securities by major security type as of September 30, 2004 and December 31, 2003:

	September 30, 2004	December 31, 2003
Cost	\$ 18,610,841	\$ 18,502,643
Total unrealized loss	--	(14,229)
Aggregate fair value	\$ 18,610,841	\$ 18,488,414

4. INVESTMENT IN MORTGAGE FUNDS

The Company's investments in the Mortgage Funds consist of the following:

Mortgage Fund	Nominal Ownership
Krupp Government Income Trust I ("GIT")	30.76%
Krupp Government Income Trust II ("GIT II")	28.81%
Krupp Income Partnership ("KIP")1	29.66%
Krupp Income Partnership III ("KIP III")1	28.63%

The summarized balance sheets of the individually significant investment in each of the Mortgage Funds and the combined investment in Mortgage Funds as of September 30, 2004 and December 31, 2003 are as follows:

(1) KIP and KIP III liquidated on September 8, and September 29, 2004, respectively, thus the Company's nominal ownership is 0% on September 30, 2004.

	September 30, 2004		
	GIT II	GIT	Combined
ASSETS			
Mortgage investments	\$ 43,727,267	\$ 22,295	\$ 43,749,562
Cash and cash equivalents	4,224,568	2,840,280	7,064,848
Other assets	675,246	3,689	678,935
Total assets	\$ 48,627,081	\$ 2,866,264	\$ 51,493,345

4. INVESTMENT IN MORTGAGE FUNDS

September 30, 2004

LIABILITIES AND SHAREHOLDERS'
EQUITY

Liabilities	\$ 154,122	\$ 148,950	\$ 303,072
Shareholders' equity	48,472,959	2,717,314	51,190,273
Total liabilities and shareholders' equity	\$ 48,627,081	\$ 2,866,264	\$ 51,493,345
Company's share of equity	13,965,059	835,846	14,800,905
Basis differential (1)	(1,773,813)	--	(1,773,813)
Carrying value of the Company's investment in Mortgage Funds	\$ 12,191,246	\$ 835,846	\$ 13,027,092

December 31, 2003

	GIT II	Total Other Investments in Mortgage Funds	Combined
ASSETS			
Mortgage investments	\$ 45,079,586	\$ 38,687,776	\$ 83,767,362
Cash and cash equivalents	5,454,067	3,918,598	9,372,665
Other assets	852,987	256,513	1,109,500
Total assets	\$ 51,386,640	\$ 42,862,887	\$ 94,249,527
LIABILITIES AND STOCKHOLDERS' EQUITY			
Liabilities	\$ 183,380	\$ 677,376	\$ 860,756
Shareholders' equity	51,203,260	42,185,511	93,388,771
Total liabilities and shareholders' equity	\$ 51,386,640	\$ 42,862,887	\$ 94,249,527
Company's share of equity	\$ 14,751,659	\$ 12,488,725	\$ 27,240,384
Basis differential (1)	(2,012,971)	(1,180,505)	(3,193,476)
Carrying value of the Company's investment in Mortgage Funds	\$ 12,738,688	\$ 11,308,220	\$ 24,046,908

(1) This amount represents the difference between the Company's investment in the Mortgage Funds (fair value) and its underlying equity in the net assets of the Mortgage Funds (book value). Basis differentials occurred upon the acquisition of the Mortgage Fund Interests for which the acquisition price was less than the underlying equity in the net assets of the Mortgage Funds.

The summarized statements of operations of each individually significant investment in the Mortgage Funds and the combined investment in the Mortgage Funds for the three and nine months ended September 30, 2004 are as follows:

Three months ended September 30, 2004

	GIT II	GIT	Total Other Investments in Mortgage Funds	Combined
Revenues	\$ 933,844	\$ 652,403	\$ 70,574	\$ 1,656,821
Expenses	310,547	415,048	12,096	737,691
Net income	\$ 623,297	\$ 237,355	\$ 58,478	\$ 919,130
Company's share of net income	\$ 179,572	\$ 73,011	\$ 16,724	\$ 269,307
Amortization of basis differential	83,608	852,763	354,166	1,290,537
Equity in income of Mortgage Funds	\$ 263,180	\$ 925,774	\$ 370,890	\$ 1,559,844

Nine months ended September 30, 2004

	GIT II	GIT	Total Other Investments in Mortgage Funds	Combined
Revenues	\$ 2,597,446	\$ 1,028,188	\$ 2,072,485	\$ 5,698,119
Expenses	958,668	266,869	724,595	1,950,132
Net income	\$ 1,638,778	\$ 761,319	\$ 1,347,890	\$ 3,747,987
Company's share of net income	\$ 472,132	\$ 234,182	\$ 392,207	\$ 1,098,521
Amortization of basis differential	250,824	879,199	596,170	1,726,193
Equity in income of Mortgage Funds	\$ 722,956	\$ 1,113,381	\$ 988,377	\$ 2,824,714

Three months ended September 30, 2003

	GIT II	GIT	Total Other Investments in Mortgage Funds	Combined
--	---------------	------------	--	-----------------

Three months ended September 30, 2003

Revenues	\$ 4,396,052	\$ 374,497	\$ 2,039,603	\$ 6,810,152
Expenses	687,128	189,849	581,969	1,458,946
Net income	\$ 3,708,924	\$ 184,648	\$ 1,457,634	\$ 5,351,206
Company's share of net income	\$ 1,068,541	\$ 56,798	\$ 407,653	\$ 1,532,992
Amortization of basis differential	1,019,028	590,671	10,325	1,620,024
Equity in income of Mortgage Funds	\$ 2,087,569	\$ 647,469	\$ 417,978	\$ 3,153,016

Nine months ended September 30, 2003

	GIT II	GIT	Total Other Investments in Mortgage Funds	Combined
Revenues	\$ 9,951,024	\$ 6,224,592	\$ 5,312,667	\$ 21,488,283
Expenses	1,937,250	787,575	1,556,517	4,281,342
Net income	8,013,774	5,437,017	3,756,150	17,206,941
Net income prior to exchange	(3,289,729)	(2,147,316)	(1,269,095)	(6,706,140)
Net income attributable to investment	\$ 4,724,045	\$ 3,289,701	\$ 2,487,055	\$ 10,500,801
Company's share of net income	\$ 1,360,997	\$ 1,011,912	\$ 701,364	\$ 3,074,273
Amortization of basis differential	1,166,414	710,940	(68,825)	1,808,529
Equity in income of Mortgage Funds	\$ 2,527,411	\$ 1,722,852	\$ 632,539	\$ 4,882,802

The Company acquired its interest in the Mortgage Funds on April 4 and April 18, 2003. The company recognized its proportional share of the Mortgage Funds net income beginning on those dates.

The Company received liquidating distributions of \$549,439 and \$731,168 from KIP and KIP III, respectively, during September 2004.

The Company expects to receive liquidation proceeds from GIT in the fourth quarter of 2004.

5. INVESTMENT IN MULTIFAMILY JOINT VENTURE

Effective May 1, 2004, the Company consummated the Multifamily Joint Venture with the JV Partner whereby each of the parties to the agreement will participate, on a pro rata basis, in the economic benefits of the ownership of Marina Mile. Under the terms of the limited liability company agreement governing the Multifamily Joint Venture, the JV Partner contributed, in cash, 65% of the total Multifamily Joint Venture equity in exchange for a 65% interest in the L.L.C. The Operating Partnership contributed its interest in Marina Mile, L.L.C., the fee simple owner of the property, in exchange for a 35% interest in the L.L.C. and a cash distribution of approximately \$3,594,693 net of \$387,236 of additional capital invested by the Operating Partnership. Both parties will receive proportional distributions of available cash up to the effective

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10% Preferred Return. After payment of the Preferred Return and the return of each party's capital contribution, the Operating Partnership will be entitled to additional distributions equal to approximately 30% of the distributions otherwise payable to the JV Partner. The Operating Partnership is the managing member for the Multifamily Joint Venture. The Company evaluated its investment in the Multifamily Joint Venture and concluded that the investment did not fall under the requirements of FIN 46R, therefore the Company accounted for the investment under Statement of Position 78-9, Accounting for Investments in Real Estate (SOP 78-9) as an equity method investment.

The summarized balance sheet of the Multifamily Joint Venture is as follows:

	September 30, 2004
ASSETS	
Multifamily apartment communities, net	\$ 23,229,839
Cash and cash equivalents	117,241
Other assets	1,292,289
	<hr/>
Total Assets	\$ 24,639,369
	<hr/>
LIABILITIES AND OWNERS' EQUITY	
Mortgage notes payable	\$ 17,400,000
Other liabilities	648,378
Owners' equity	6,590,991
	<hr/>
Total liabilities and owners' equity	\$ 24,639,369
	<hr/>
Company's share of equity	\$ 2,306,847
	<hr/>
Carrying value of the Company's investment in Multifamily Joint Venture	\$ 2,306,847
	<hr/>

The summarized statement of operations of the Multifamily Joint Venture for the three months ended September 30, 2004 is as follows:

	Three Months Ended September 30, 2004
Revenues	\$ 804,615
Expenses	970,257
	<hr/>
Net loss	\$ (165,642)
	<hr/>
Equity in loss of Multifamily Joint Venture	\$ (58,105)
	<hr/>
	Nine Months Ended September 30, 2004
	<hr/>
Revenues	\$ 2,078,591
Expenses	2,745,391
	<hr/>
Net loss	(666,800)

	Nine Months Ended September 30, 2004
Net loss included in consolidated results	207,805
Net loss attributable to investment	\$ (458,995)
Equity in loss of Multifamily Joint Venture	\$ (160,778)

To the extent that the Company contributes assets to a joint venture, the Company's investment in the joint venture is recorded at the Company's cost basis in the assets which were contributed to the joint venture. To the extent that the Company's cost basis is different than the basis reflected at the joint venture level, the basis difference is amortized over the life of the related asset and included in the Company's share of equity in net income of joint venture. In accordance with the provisions of SOP 78-9, the Company recognizes gains on the contribution of real estate to joint ventures, relating solely to the outside partner's interest, to the extent the economic substance of the transaction is a sale.

As a result of the Multifamily Joint Venture, Marina Mile, as a multifamily apartment community, is excluded in the consolidated balance sheet and the results of operations after May 1, 2004 is included in the caption, Equity in loss of Multifamily Joint Venture. The Company's interest in the Multifamily Joint Venture is included on the consolidated balance sheet as Investment in Multifamily Joint Venture.

6. MORTGAGE NOTES PAYABLE

On August 16, 2004, the Company secured a \$3,320,000 first mortgage on Laurel Woods Apartments in Houston, Texas. Under the terms of the mortgage, the mortgage bears interest at a variable rate of the Reference Bill plus 2.20%, which was 3.73% at September 30, 2004, and matures on September 1, 2011.

7. DECLARATION OF DIVIDEND AND DISTRIBUTIONS

On May 11, 2004, the Board authorized the general partner of the Operating Partnership to d