

BERKSHIRE INCOME REALTY INC
Form 8-K/A
February 20, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K/A

Amendment No. 1

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of Earliest event reported): December 6, 2006

Berkshire Income Realty, Inc

(Exact name of Registrant as specified in its charter)

Maryland
(State or other jurisdiction of incorporation)

001-31659
(Commission File Number)

32-0024337
(I.R.S. Employer
Identification No.)

One Beacon Street, Boston, Massachusetts
(Address of principal executive offices)

02108
(Zip Code)

Registrant's telephone number, including area code(617) 523 - 7722

(Former name or former address, if changes since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

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o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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Berkshire Income Realty, Inc. (the Registrant) hereby amends its Report on Form 8-K (the Form 8-K), filed with the Securities and Exchange Commission on December 12, 2006, to amend Item 9.01 therein to include required financial statements, pro forma financial information and certain exhibits.

At the time of filing of the Form 8-K disclosing the acquisition of The Standard at Lenox Park Apartments (Lenox Park) by the Registrant, the financial statements of the acquired property were not available. The Registrant indicated that it would file the necessary financial information no later than February 21, 2007.

Item 9.01 Financial Statements and Exhibits

(a) Financial Statements under Rule 3-14 of Regulation S-X for Lenox Park:

1. Report of Independent Auditors.
2. Statements of Revenue and Certain Expenses of Lenox Park for the nine months ended September 30, 2006 and 2005 (unaudited) and the year ended December 31, 2005.
3. Notes to Statements of Revenue and Certain Expenses of Lenox Park.
4. Statement of Estimated Taxable Operating Results and Estimated Cash to be Made Available by Operations.

(b) Pro Forma Financial Information under Article 11 of Regulation S-X for Lenox Park:

1. Unaudited Pro Forma Consolidated Balance Sheet of Berkshire Income Realty, Inc. as of September 30, 2006.
2. Unaudited Pro Forma Consolidated Statements of Operations of Berkshire Income Realty, Inc. for the nine months ended September 30, 2006 and for the year ended December 31, 2005.
3. Notes to the Unaudited Pro Forma Consolidated Financial Statements of Berkshire Income Realty, Inc.

(c) Exhibits

EXHIBIT NO.

Exhibit 10.1 Purchase and Sale Agreement between Berkshire Income Realty OP, L.P. and ING U.S. - Residential Fund, L.P., dated November 10, 2006. *

*Previously filed as an exhibit to the Registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on November 16, 2006. The agreement relates to the purchase of The Standard at Lenox Park Apartments, a 375-unit multifamily apartment community located in Atlanta, Georgia, from ING U.S. Residential Fund, L.P., an unaffiliated third party. The purchase price was \$47,100,000 and was subject to normal operating pro rations. Concurrent with the closing of the acquisition on December 6, 2006 the Registrant obtained financing in the amount of \$35,000,000 in the form of a first mortgage note payable, which is collateralized by the property. The note payable has a fixed interest rate of 5.80% for a term of 10 years and has an original maturity date of December 1, 2016. The loan requires payment of interest only for the first 60 months and the rate of interest is fixed for the term of the loan.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: February 20, 2007

Berkshire Income Realty, Inc.

/s/ Christopher M. Nichols
Christopher M. Nichols
Principal Accounting Officer

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Report of Independent Auditors

To the Board of Directors and Shareholders of Berkshire Income Realty, Inc.

We have audited the accompanying Statement of Revenue and Certain Expenses of the Lenox Park, Atlanta, Georgia, for the year ended December 31, 2005. The Statement is the responsibility of Lenox Park's management. Our responsibility is to express an opinion on the Statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Statement. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Statement was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission (for inclusion in the Current Report on Form 8K/A of Berkshire Income Realty, Inc.) as described in Note 1 and is not intended to be a complete presentation of Lenox Park's revenue and expenses.

In our opinion, the Statement referred to above presents fairly, in all material respects, the revenue and certain expenses described in Note 1 of Lenox Park for the year ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

February 12, 2007

STANDARD AT LENOX PARK APARTMENTS

STATEMENTS OF REVENUE AND CERTAIN EXPENSES

| | For the Nine months ended September 30, 2006 (unaudited) | 2005 (unaudited) | For the Year ended December 31, 2005 |
|---------------------------------------|-------------------------------------------------------------------------|-----------------------------|-----------------------------------------------------|
| Revenue | | | |
| Rental | \$ 2,791,935 | \$ 2,581,452 | \$ 3,489,609 |
| Utility reimbursement | 75,078 | 77,001 | 102,497 |
| Other | 127,838 | 82,442 | 115,747 |
| Total revenue | 2,994,851 | 2,740,895 | 3,707,853 |
| Certain expenses | | | |
| Operating | 691,317 | 653,756 | 870,018 |
| Repairs and maintenance | 203,920 | 205,788 | 274,357 |
| General and administrative | 82,723 | 69,639 | 90,635 |
| Real estate taxes | 337,963 | 369,986 | 484,083 |
| Total certain expenses | 1,315,923 | 1,299,169 | 1,719,093 |
| Revenue in excess of certain expenses | \$ 1,678,928 | \$ 1,441,726 | \$ 1,988,760 |

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

THE STANDARD AT LENOX PARK APARTMENTS

NOTES TO STATEMENTS OF REVENUE AND CERTAIN EXPENSES

1. Operations, Basis of Presentation and Summary of Significant Accounting Policies

Operations

The accompanying Statements of Revenue and Certain Expenses include the operations (see Basis of Presentation below) of The Standard at Lenox Park Apartments (Lenox Park), a multifamily apartment community owned and managed by ING U.S. Residential Fund, L.P., a third party not related to Berkshire Income Realty, Inc. (the Company).

On December 6, 2006, Berkshire Income Realty OP, L.P. (BIR-OP), the operating subsidiary of the Company, through a newly formed and wholly owned subsidiary, BIR Lenox Park, L.L.C., consummated the acquisition of 100% of the fee simple interest of Lenox Park, a 375 unit multifamily apartment community located in Atlanta, Georgia, from ING U.S. Residential Fund, L.P.

Basis of Presentation

The accompanying Statements of Revenue and Certain Expenses have been prepared on the accrual basis of accounting.

The accompanying Statements of Revenue and Certain Expenses are not representative of the actual operations of Lenox Park for the periods presented. As required by the Securities and Exchange Commission, Regulation S-X Rule 3-14, certain expenses, which may not be comparable to the expenses to be incurred by the Company in future operations of Lenox Park, have been excluded. Expenses excluded relate to Lenox Park s management fees, interest expense, depreciation and amortization expense. The Company is not aware of any other material factors relating to Lenox Park that would cause the reported financial information not to be indicative of future operating results.

Summary of Significant Accounting Policies

Real Estate

Costs related to the acquisition and improvements to the property and related equipment are capitalized. Expenditures for repairs and maintenance items are expensed as incurred.

Revenue Recognition

Rental income attributable to residential leases is recorded when due from residents. Leases are generally for terms of one year. Recoveries from tenants for utility expenses are recognized in the period the applicable costs are incurred. Other revenue includes application, relet, pet, laundry, late, cable and damage fees.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Real Estate Taxes

Real estate taxes are accrued and expensed over the periods presented in the statements of revenues and certain expenses. Payments of real estate taxes are generally made in arrears and are recorded against the accrual.

BERKSHIRE INCOME REALTY, INC.

PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

INTRODUCTION TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

On December 6, 2006, Berkshire Income Realty OP, L.P. (BIR-OP), through a newly formed and wholly owned subsidiary, BIR Lenox Park, L.L.C., consummated the acquisition of 100% of the fee simple interest of The Standard at Lenox Park Apartments (Lenox Park), a 375 unit multifamily apartment community located in Atlanta, Georgia, from ING U.S. Residential Fund, L.P., an unaffiliated third party. The purchase price was \$47,100,000 and was subject to normal operating pro rations.

Concurrent with the closing on the acquisition, Berkshire Income Realty, Inc. (the Company) obtained financing on the property. The financing includes a \$35,000,000 first mortgage note payable, which is collateralized by the property. The note payable has a fixed interest rate of 5.80% for a term of 10 years and has an original maturity date of December 1, 2016. The loan requires payment of interest only for the first 60 months and the rate of interest is fixed for the term of the loan.

Lenox Park s source of revenue is primarily its tenant rental revenue. Other revenue includes application, relet, pet, laundry, late, cable and damage fees. The Company believes Lenox Park is located in a distinct market and appeals to a distinct tenancy. The Atlanta Metropolitan Area, in the Company s opinion, is a fundamentally sound, well-occupied market with positive trends in population, vacancy rates and rent increases for garden, mid and high-rise style apartments.

The Company, after reasonable inquiry, is not aware of any material factors relating to the property that would cause the reported financial information not to be indicative of future operating results.

The following unaudited pro forma consolidated financial statements give effect to the acquisition by the Company of Lenox Park. The unaudited pro forma consolidated balance sheet as of September 30, 2006 presents the financial position of the Company as if the acquisition of the property, which occurred subsequent to September 30, 2006, had occurred on September 30, 2006. The unaudited pro forma consolidated statements of operations for the nine months ended September 30, 2006 and the year ended December 31, 2005, reflect the results of operations of the Company as if the acquisition of Lenox Park had been completed as of January 1, 2005.

These unaudited pro forma consolidated financial statements do not represent the Company s financial condition or results of operations for any future date or period. Actual future results could be materially different from these pro forma results. The unaudited pro forma consolidated financial statements should be read in conjunction with the audited financial statements of the Company and the related management s discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended December 31, 2005. In addition, the statements of revenue and certain expenses of Lenox Park contained elsewhere in this Form 8-K/A should be read in conjunction with these unaudited pro forma consolidated financial statements.

Forward Looking Statements

Certain statements contained in this report constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements, subject to a number of risks and uncertainties that could cause actual results to differ significantly from those described in this report. These forward-looking statements include statements regarding, among other things, our belief that Lenox Park is located in a distinct market and appeals to a distinct tenancy, our opinion that the Buckhead section of Atlanta, Georgia is fundamentally sound, well-occupied and has positive trends in population, vacancy rates and rent increases for garden style apartments. Without limiting the foregoing, the words may, will, should, could, expects, plans, anticipates, estimates, predicts, potential, or continue or the negative of such terms and other comparable terminology are intended to identify forward-looking statements. There are a number of important factors that could cause our results to differ materially from those indicated by such forward-looking statements. These factors include, but are not limited to, changes in economic conditions generally and the real estate and bond markets specifically, legislative/regulatory changes including changes to laws governing the taxation of real estate investment trusts

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(REITs), availability of capital, interest rates and interest rate spreads, changes in GAAP and policies and guidelines applicable to REITs, those set forth in the Risk Factors section of the Company's Annual Report on Form 10-K for the year ended December 31, 2005 and other risks and uncertainties as may be detailed from time to time in our public announcements and SEC filings. The risks listed herein are not exhaustive. Moreover, we operate in a competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

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BERKSHIRE INCOME REALTY, INC.

PRO FORMA CONSOLIDATED BALANCE SHEET

As of September 30, 2006

(unaudited)

| | Berkshire Income Realty, Inc. | Standard at Lenox Park (a) | Notes | Pro Forma |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|----------------------------------|-------|----------------|
| ASSETS | | | | |
| Multifamily apartment communities, net of accumulated depreciation of \$143,055,349 | \$ 400,984,895 | \$ 47,040,404 | | \$ 448,025,299 |
| Cash and cash equivalents | 45,225,209 | (18,083,621 |) (b) | 27,141,588 |
| Cash restricted for tenant security deposits | 1,940,971 | - | | 1,940,971 |
| Replacement reserve escrow | 613,521 | 5,000,000 | (b) | 5,613,521 |
| Prepaid expenses and other assets | 13,211,848 | 140,180 | | 13,352,028 |
| Investment in Multifamily Venture | 7,794,953 | - | | 7,794,953 |
| Acquired in place leases and tenant relationships, net of accumulated amortization of \$5,870,263 | | | | |
| | 471,201 | 592,687 | | 1,063,888 |
| Deferred expenses, net of accumulated amortization of \$598,034 | 3,148,916 | 355,165 | | 3,504,081 |
| Total assets | \$ 473,391,514 | \$ 35,044,815 | | \$ 508,436,329 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | | | |
| Liabilities: | | | | |
| Mortgage notes payable | \$ 434,839,200 | \$ 35,000,000 | (b) | \$ 469,839,200 |
| Due to affiliates | 1,656,139 | - | | 1,656,139 |
| Dividends and distributions payable | 9,837,607 | - | | 9,837,607 |
| Accrued expenses and other liabilities | 12,143,037 | 1,109 | | 12,144,146 |
| Tenant security deposits | 2,175,478 | 43,706 | | 2,219,184 |
| Total liabilities | 460,651,461 | 35,044,815 | | 495,696,276 |
| Commitments and contingencies | | | | |
| Minority interest in properties | 81,495 | | | 81,495 |
| Minority interest in Operating Partnership | | | | |
| Stockholders' equity: | | | | |
| Series A 9% Cumulative Redeemable Preferred Stock, no par value, \$25 stated value, 5,000,000 shares authorized, 2,978,110 shares issued and outstanding at September 30, 2006 | 70,210,830 | | | 70,210,830 |
| Class A common stock, \$.01 par value, 5,000,000 shares authorized; 0 shares issued and outstanding at September 30, 2006 | | | | |
| Class B common stock, \$.01 par value, 5,000,000 shares authorized; 1,406,196 issued and outstanding at September 30, 2006 | 14,062 | | | 14,062 |
| Excess stock, \$.01 par value, 15,000,000 shares authorized, 0 shares issued and outstanding at September 30, 2006 | | | | |
| Accumulated Deficit | (57,566,334 |) | | (57,566,334 |
| | | | |) |
| Total stockholders' equity | 12,658,558 | | | 12,658,558 |
| Total liabilities and stockholders' equity | \$ 473,391,514 | \$ 35,044,815 | | \$ 508,436,329 |

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

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BERKSHIRE INCOME REALTY, INC.

PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 (unaudited)

| | Berkshire Income Realty, Inc. | Standard at Lenox Park (g) | Notes | Pro Forma |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|----------------------------------|-------|------------------|
| Revenue: | | | | |
| Rental | \$ 52,707,449 | \$ 2,791,935 | | \$ 55,499,384 |
| Interest | 683,853 | - | | 683,853 |
| Utility reimbursement | 835,928 | 75,078 | | 911,006 |
| Other | 2,136,576 | 127,838 | | 2,264,414 |
| Total revenue | 56,363,806 | 2,994,851 | | 59,358,657 |
| Expenses: | | | | |
| Operating | 14,886,647 | 691,317 | | 15,577,964 |
| Maintenance | 4,323,984 | 203,920 | | 4,527,904 |
| Real estate taxes | 6,138,767 | 337,963 | | 6,476,730 |
| General and administrative | 2,074,312 | 82,723 | | 2,157,035 |
| Management fees | 3,456,585 | 116,791 | (c) | 3,573,376 |
| Depreciation | 19,947,747 | 1,665,231 | (d) | 21,612,978 |
| Interest | 15,074,328 | 1,549,140 | (e) | 16,623,468 |
| Loss on extinguishment of debt | 1,822,615 | - | | 1,822,615 |
| Amortization of acquired in-place leases and tenant relationships | 822,976 | 46,739 | (f) | 869,715 |
| Total expenses | 68,547,961 | 4,693,824 | | 73,241,785 |
| Loss before minority interest in properties, equity in loss of Multifamily Venture, equity in income of Mortgage Funds, minority common interest in Operating Partnership, income from discontinued operations and gain on transfer of assets to Multifamily Venture | (12,184,155) | (1,698,973) | | (13,883,128) |
| Minority interest in properties | (1,183,238) | - | | (1,183,238) |
| Equity in income (loss) of Multifamily venture | 9,128,158 | - | | 9,128,158 |
| Minority common interest in Operating Partnership | (10,737,100) | - | | (10,737,100) |
| Loss from continuing operations | (14,976,335) | \$ (1,698,973) | | (16,675,308) |
| Preferred dividend | (5,025,595) | | | (5,025,595) |
| Loss from continuing operations available to common shareholders | \$ (20,001,930) | | | \$ (21,700,903) |
| Loss from continuing operations available to common shareholders per common share, basic and diluted | \$ (14.22) | | | \$ (15.44) |
| Weighted average number of common shares outstanding | 1,406,196 | | | 1,406,196 |

The accompanying notes are an integral part of these financial statements

BERKSHIRE INCOME REALTY, INC.

PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2005

(unaudited)

| | Berkshire Income Realty, Inc. | Standard at Lenox Park (g) | Notes | Pro Forma |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|-------------------------------|-------|-----------------|
| Revenue: | | | | |
| Rental | \$ 60,508,492 | \$ 3,489,609 | | \$ 63,998,101 |
| Interest | 448,127 | - | | 448,127 |
| Utility reimbursement | 905,114 | 102,497 | | 1,007,611 |
| Other | 2,129,533 | 115,747 | | 2,245,280 |
| Total revenue | 63,991,266 | 3,707,853 | | 67,699,119 |
| Expenses: | | | | |
| Operating | 16,137,044 | 870,018 | | 17,007,062 |
| Maintenance | 4,831,932 | 274,357 | | 5,106,289 |
| Real estate taxes | 6,913,400 | 484,083 | | 7,397,483 |
| General and administrative | 3,570,894 | 90,635 | | 3,661,529 |
| Management fees | 4,285,212 | 144,214 | (c) | 4,429,426 |
| Depreciation | 21,107,820 | 2,220,308 | (d) | 23,328,128 |
| Loss on extinguishment of debt | 80,017 | - | | 80,017 |
| Interest | 17,135,689 | 2,065,520 | (e) | 19,201,209 |
| Amortization of acquired in-place leases and tenant relationships | 3,321,236 | 530,369 | (f) | 3,851,605 |
| Total expenses | 77,383,244 | 6,679,504 | | 84,062,748 |
| Loss before minority interest in properties, equity in loss of Multifamily Venture, Equity in income of Mortgage Funds and minority common interest in Operating Partnership | (13,391,978) | (2,971,651) | | (16,363,629) |
| Minority interest in properties | 83,063 | - | | 83,063 |
| Equity in loss of Multifamily Venture | (133,150) | - | | (133,150) |
| Equity in income of Mortgage Funds | 3,040,732 | - | | 3,040,732 |
| Minority common interest in Operating Partnership | (7,320,750) | - | | (7,320,750) |
| Loss from continuing operations | (17,722,083) | \$ (2,971,651) | | (20,693,734) |
| Preferred dividend | (6,700,796) | | | (6,700,796) |
| Loss from continuing operations available to common shareholders | \$ (24,422,879) | | | \$ (27,394,530) |
| Loss from continuing operations available to common shareholders per common share, basic and diluted | \$ (18.10) | | | \$ (20.31) |
| Weighted average number of common shares outstanding | 1,348,963 | | | 1,348,963 |

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

BERKSHIRE INCOME REALTY, INC.

NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

PRO FORMA CONSOLIDATED FINANCIAL STATEMENT ADJUSTMENTS

The following pro forma adjustments summarize the adjustments made to the September 30, 2006 consolidated balance sheet of the Company:

(a) The assets have been reflected as if the acquisition of Lenox Park had occurred on September 30, 2006.

Purchase accounting was applied for the acquisition of Lenox Park consistent with provisions of Statement of Financial Accounting Standards No. 141 (SFAS 141), Business Combinations. In accordance with SFAS 141, the fair value of the real estate acquired is allocated to the acquired tangible assets, consisting of land, building and personal property, and identified intangible assets and liabilities, including the value of in-place leases and tenant relationships, based in each case on their fair values. The Company currently believes that it has not received all invoices for costs related to the acquisition of Lenox Park and that the allocation of the purchase price, net of acquired in-place leases and tenant relationships, is preliminary until which time all final costs have been accumulated. The Company currently anticipates that the allocation of the purchase price and related costs will be finalized no later than March 31, 2007.

The total acquisition price paid for the property was \$48,083,621 and included closing costs, financing costs and acquisition fees. The Company also assumed liabilities relating to normal operations, such as security deposits and other miscellaneous accrued expenses and deferred revenue.

The net purchase price, including closing costs and acquisition fees, was allocated as follows:

| | The Standard at Lenox Park |
|---------------------------------------------------|---------------------------------------|
| Multifamily apartment communities | \$47,040,404 |
| Acquired in-place leases and tenant relationships | 592,687 |
| Prepaid expenses and other assets | 495,345 |
| Replacement reserve | 5,000,000 |
| Security deposits | (44,815) |
| Mortgage note payable | (35,000,000) |
| Cash paid | \$ 18,083,621 |

The Company paid an acquisition fee of \$471,000 for the purchase of Lenox Park to an affiliate of the Company.

(b) The Company purchased Lenox Park for a total purchase price, including closing costs, financing costs and acquisition fees, of \$43,083,621, net of a mortgage in the amount of \$35,000,000, which was obtained as of the purchase date and security deposits of \$44,815, resulting in a pro forma net cash decrease of \$18,083,621 at September 30, 2006. A portion of the mortgage proceeds in the amount of \$5,000,000 were deposited into a replacement reserve account to be used for repairs outlined as a condition of the mortgage financing

The following pro forma adjustments summarize the adjustments made to the Consolidated Statement of Operations of the Company for the nine months ended September 30, 2006 and the year ended December 31, 2005. The pro forma adjustments reflect activity as if the acquisition of Lenox Park had been completed as of January 1, 2005.

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(c) Reflects property management fees based on fee agreements entered into with affiliates of the Company, calculated as follows:
 Nine months ended September 30, 2006:

| | The Standard at Lenox Park | |
|------------------------------------|-----------------------------------|---|
| Revenue subject to management fees | \$ 2,919,733 | |
| | 4.0 | % |
| Total management fees | \$ 116,791 | |

For the year ended December 31, 2005:

| | The Standard at Lenox Park | |
|------------------------------------|-----------------------------------|---|
| Revenue subject to management fees | \$ 3,605,356 | |
| | 4.0 | % |
| Total management fees | \$ 144,214 | |

(d) The depreciation expense adjustment is to reflect the expense as if the acquisition of Lenox Park had been completed as of January 1, 2005. Depreciation is computed on the straight line basis over the estimated useful lives of the assets, as follows:

| | |
|-------------------------------------|---------------|
| Rental property | 25 years |
| Improvements | 5 to 20 years |
| Appliances, carpeting and equipment | 3 to 8 years |

Allocation of the purchase price net of acquired in-place leases and tenant relationships to land, building, built-in components, improvements, carpeting, furniture and fixtures are as follows:

| Assets | Allocation % | The Standard at Lenox Park |
|---------------------|--------------|----------------------------|
| Land | 12% | \$ 5,644,848 |
| Building | 66% | 31,046,668 |
| Built-in components | 7% | 3,292,828 |
| Site improvements | 9% | 4,233,636 |
| Fixtures | 2% | 940,808 |
| Appliances | 2% | 940,808 |
| Carpeting | 2% | 940,808 |
| Total | 100% | \$ 47,040,404 |

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Charge to depreciation expense as if the acquisition of Lenox Park had occurred on December 31, 2006:

| Assets | Depreciable Life | The Standard at Lenox Park |
|---------------------------|---------------------|----------------------------|
| Building | 25 | \$ 1,241,867 |
| Built-in components | 25 | 131,713 |
| Site improvements | 15 | 282,242 |
| Fixtures | 15 | 62,721 |
| Appliances | 5 | 188,162 |
| Carpeting | 3 | 313,603 |
| Annual expense | | \$ 2,220,308 |
| Nine months ended expense | | \$ 1,665,231 |

(e) Concurrently with the acquisition of the property, the Company obtained financing on Lenox Park. The financing is in the form of a first mortgage and is collateralized by the property. The mortgage was obtained on December 6, 2006.

The following reflects the charge to interest expense, which includes the amortization of deferred mortgage costs, as if the acquisition and financing of Lenox Park and the related mortgage note payable had been completed as of January 1, 2005:

| | The Standard | |
|---------------------------------|---------------|---|
| | at | |
| | Lenox Park | |
| Mortgage note | \$ 35,000,000 | |
| Fixed interest rate | 5.80 | % |
| Annual interest expense | \$ 2,030,000 | |
| Nine months ended expense | \$ 1,522,500 | |
| Deferred mortgage costs | \$ 355,165 | |
| Amortization period in months | 120 | |
| Monthly amortization expense | \$ 2,960 | |
| Annual expense | \$ 35,520 | |
| Nine months ended expense | \$ 26,640 | |
| Total Annual expense | \$ 2,065,520 | |
| Total nine months ended expense | \$ 1,549,140 | |

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(f) Reflects an increase in amortization expense related to acquired in-place leases and tenant relationships, calculated as follows:

| | The Standard at Lenox Park |
|---------------------------------|-----------------------------------|
| Acquired in-place leases | \$ 468,050 |
| Amortization period (in months) | 12 |
| Annual amortization expense | \$ 468,050 |
| Acquired tenant relationships | \$ 124,637 |
| Amortization period (in months) | 24 |
| Annual amortization expense | \$ 62,319 |

For the year ended December 31, 2005:

| | The Standard at Lenox Park |
|------------------------------------------|-----------------------------------|
| Amortization of acquired in-place leases | \$ 468,050 |
| Amortization of tenant relationships | 62,319 |
| Amortization expense | \$ 530,369 |

Nine months ended September 30, 2006:

| | The Standard at Lenox Park |
|----------------------------------------------|-----------------------------------|
| Amortization of acquired in-place leases (1) | \$ 0 |
| Amortization of tenant relationships | 46,739 |
| Amortization expense | \$ 46,739 |

(1) Assumes acquired in-place leases were 100% amortized as of December 31, 2005. Amortization of acquired-in-place leases is based on the specific expiration dates of the in-place leases over a period of 12 months and amortization of the tenant relationships is based on the straight line method of amortization over a 24 month period.

(g) Unless otherwise indicated by specific reference to the notes to pro forma consolidated financial statements, the results of operations presented in the Pro Forma Consolidated Statement of Operations for Lenox Park were obtained from historical financial statements provided by the seller.

BERKSHIRE INCOME REALTY, INC.

PRO FORMA STATEMENT OF ESTIMATED TAXABLE OPERATING RESULTS AND CASH TO BE MADE AVAILABLE BY OPERATIONS**(unaudited)**

The following represents an estimate of the taxable operating results and cash to be made available by operations by the Company (including Lenox Park) based upon the pro forma consolidated statement of operations for the year ended December 31, 2005. These estimated results do not purport to represent results of operations for Lenox Park in the future and were prepared based on the assumptions outlined in the following notes, which should be read in conjunction with this statement.

| | Proforma |
|-----------------------------------------------------------------------------------------------------|-----------------|
| Revenue | \$ 67,699,119 |
| Expenses: | |
| Operating | 17,007,062 |
| Maintenance | 5,106,289 |
| Real estate taxes | 7,397,483 |
| General and administrative | 3,661,529 |
| Management fees | 4,429,426 |
| Depreciation | 23,328,128 |
| Loss on extinguishment of debt | 80,017 |
| Amortization of acquired in-place leases and tenant relationships | 768,809 |
| Interest | 19,201,206 |
| Allocation of net losses to minority interests in properties | (350,138) |
| Total expenses | 80,629,811 |
| Estimated taxable operating loss before estimated taxable income from investments in mortgage funds | (12,930,692) |
| Estimated taxable income from investments in mortgage funds | 6,014,962 |
| Estimated taxable operating loss | (6,915,730) |
| Adjustments: | |
| Add | |
| Depreciation | 23,328,128 |
| Amortization of acquired in-place leases and tenant relationships | 768,809 |
| Loss on extinguishment of debt | 80,017 |
| Estimated cash to be made available by operations | \$ 17,261,224 |

BERKSHIRE INCOME REALTY, INC.

NOTES TO PRO FORMA STATEMENT OF ESTIMATED TAXABLE OPERATING RESULTS AND CASH TO BE MADE AVAILABLE BY OPERATIONS

(unaudited)

1. Basis of Presentation

The pro forma results for December 31, 2005 presented in the *Pro Forma Statement of Estimated Taxable Operating Results and Cash to be Made Available by Operations* summarize the adjustments made to the results of operations of the Company for the year ended December 31, 2005. The pro forma adjustments reflect activity as if the acquisition of Lenox Park had been completed as of January 1, 2005.

No income taxes have been provided in the statement because the Company is organized and operates in a manner so as to qualify as a Real Estate Investment Trust (REIT) under the provisions of the Internal Revenue Code (the Code). Accordingly, the Company generally will not pay Federal income taxes on its income provided that distributions to its shareholders equal at least 90% of its REIT taxable income as defined under the Code.

The Company believes that due to its structure and the terms of the partnership agreement of the BIR-OP, the taxable income would be allocated to the preferred partners of BIR-OP and in turn be allocated to the preferred shareholders. Generally income is allocated to the preferred shareholders equal to their preferred distribution with the remaining net income, or effective net loss, allocated to the common partners of BIR-OP and the common shareholders.