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BERKSHIRE INCOME REALTY INC

Form 8-K/A

January 13, 2004

12

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): October 30, 2003

Berkshire Income Realty, Inc.
(Exact Name of Registrant as Specified in its Charter)

Maryland	001-31659	32-0024337
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. 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

Not applicable
(Former Name or Former Address, if Changed Since Last Report)

Berkshire Income Realty, Inc. (the "Company") hereby amends its Current Report on Form 8-K dated October 30, 2003, filed with the Securities and Exchange Commission on November 14, 2003, to amend Item 7 to include required financial statements, pro forma financial information and certain exhibits.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS

At the time of filing of the Form 8-K disclosing the acquisition of St. Marin/Karrington Apartments by the Company, the financial statements of the acquired entity were not available. The Company indicated that it would file the necessary financial information within sixty days after the initial filing date.

(a) Financial Statements under Rules 3-14 of Regulation S-X:

1. Report of Independent Auditors
2. Statements of Revenue and Certain Expenses of St. Marin/Karrington Apartments for the nine months ended September 30, 2003 and 2002 (unaudited), and the year ended December 31, 2002.
3. Notes to the Financial Statements of St. Marin/Karrington Apartments.

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

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1. Unaudited Pro Forma Consolidated Balance Sheet of Berkshire Income Realty, Inc. at September 30, 2003.
2. Unaudited Pro Forma Consolidated Statements of Operations of Berkshire Income Realty, Inc. for the nine months ended September 30, 2003 and the year ended December 31, 2002.
3. Notes to the Unaudited Pro Forma Consolidated Financial Statements of Berkshire Income Realty, Inc.

(c) Exhibits

EXHIBIT NO.

- *10.1 Agreement of Purchase and Sale, dated October 16, 2003 by and between WHCO Real Estate Limited Partnership and Berkshire Income Realty - OP, L.P.
- *10.2 Assignment and Assumption to Agreement of Purchase and Sale, dated October 29, 2003 by and between WHCO Real Estate Limited Partnership and Berkshire Income Realty - OP, L.P.
- *10.3 First Amendment to Agreement of Purchase and Sale, dated October 20, 2003 by and between WHCO Real Estate Limited Partnership and St. Marin/Karrington Limited Partnership
- *10.4 Second Amendment to Agreement of Purchase and Sale, dated October 30, 2003 by and between WHCO Real Estate Limited Partnership and St. Marin/Karrington Limited Partnership
- *10.5 Agreement of Purchase and Sale, dated October 16, 2003 by and between WHCO II Real Estate Limited Partnership and Berkshire Income Realty - OP, L.P.
- *10.6 Assignment and Assumption to Agreement of Purchase and Sale, dated October 29, 2003 by and between WHCO II Real Estate Limited Partnership and Berkshire Income Realty - OP, L.P.

*Previously filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on November 14, 2003.

SIGNATURES

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

Berkshire Income Realty, Inc.

/s/ David C. Quade

Date: January 13, 2004

Name: David C. Quade
Title: President and Chief Financial Officer

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Report of Independent Auditors

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

We have audited the accompanying Statement of Revenue and Certain Expenses of the St. Marin/Karrington Apartments (the "Property") for the year ended December 31, 2002. This financial statement is the responsibility of the Property's management. Our responsibility is to express an opinion on this financial 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 financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial 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 financial statement. We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenue and certain expenses described in Note 1 of the Property for the year ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP
 Boston, Massachusetts
 January 5, 2004

ST. MARIN/KARRINGTON APARTMENTS STATEMENTS OF REVENUE AND CERTAIN EXPENSES (in thousands)

	Nine Months Ended Year Ended September 30,		December 31,
	2003 Unaudited	2002 Unaudited	2002
REVENUE:			
Rental	\$ 4,370	\$ 4,372	\$ 5,848
Other	207	156	216
Total revenue	4,577	4,528	6,064
CERTAIN EXPENSES:			
Operating	818	702	936
Repairs and Maintenance	237	273	367

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General and administrative	244	228	312
Real estate taxes	1,033	1,016	1,250
	-----	-----	-----
Total certain expenses	2,332	2,219	2,865
	-----	-----	-----
REVENUE IN EXCESS OF CERTAIN EXPENSES	\$ 2,245	\$ 2,309	\$ 3,199
	=====	=====	=====

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

ST. MARIN/KARRINGTON LIMITED PARTNERSHIP
NOTES TO FINANCIAL STATEMENTS
(in thousands)

1. Basis of Presentation and Summary of Significant Accounting Policies

The accompanying Statement of Revenues and Certain Expenses include the operations (see "Basis of Presentation" below) of St. Marin Apartments and Karrington Apartments, two residential multifamily properties formerly owned and managed by a third party not related to the Berkshire Income Realty, Inc. (the "Company").

On October 30, 2003, the Company, through its subsidiary, Berkshire Income Realty, O.P., L.P., acquired the St. Marin Apartments, a 350 unit multifamily apartment community and the Karrington Apartments, a 250 unit multifamily apartment community, for \$26,125 and \$20,000, respectively.

The contiguous properties, located in Coppell, Texas, will be operated by the Company as one under one name St. Marin/Karrington Apartments (the "Property").

Basis of Presentation

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The accompanying financial statements has been prepared on the accrual basis of accounting.

The accompanying financial statements are not representative of the actual operations of the Property 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 that are expected to be incurred by the Company in future operations, have been excluded. Expenses excluded relate to property management and asset management fees, ownership fees, interest, depreciation and amortization expense. The Company 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.

Real Estate

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

Revenue Recognition

The Property leases its residential property units under short-term operating leases. Lease terms generally are less than one year in duration. Rental revenue is recognized as earned.

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 ("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.

Interim Unaudited Financial Statements

The accompanying interim statements of revenue and certain expenses for the periods from January 1, 2003 and 2002 through September 30, 2003 and 2002 are unaudited and together with the statements of revenues and certain expenses for the year ended December 31, 2002 have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission described above. These financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for fair statements for the period. The results of such periods are not necessarily indicative of the results for the full years.

BERKSHIRE INCOME REALTY, INC.
(FORMERLY BERKSHIRE INCOME REALTY PREDECESSOR GROUP)
PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except for rental rates)

INTRODUCTION TO UNAUDITED PRO FORMA FINANCIAL STATEMENTS

On October 20, 2003, the audit committee of the board of directors of Berkshire Income Realty, Inc. (the "Company") approved the acquisition by the Operating Partnership of the St. Marin/Karrington Apartments from a third party. On October 30, 2003, the operating partnership subsidiary of the Company, through its newly formed and wholly owned subsidiary St. Marin/Karrington Limited Partnership, purchased The St. Marin Apartments, a 350 unit multifamily

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apartment community and The Karrington Apartments, a 250 unit multifamily apartment community, which are contiguous properties located in Coppell, Texas, from WHCO Real Estate Limited Partnership and WHCO II Real Estate Limited Partnership, respectively. Both of the sellers were third parties. The purchase prices of \$26,125 and \$20,000 for St. Marin and Karrington, respectively, were paid in cash.

The Company paid the purchase price and related closing costs for each property with available working capital. Subsequent to the purchase, the Company obtained a mortgage in the amount of \$32,500. The mortgage note has a 9 year term at 4.90% fixed interest rate.

The Company is operating the two properties as one, under the name St. Marin/Karrington Apartments.

The Properties' sources of revenue is primarily its tenant rental revenue. Other revenue includes application, relet, pet, nonsufficient fund, laundry, late, cable and damage fees. St. Marin and Karrington Apartments are located adjacent from each other and were purchased to operate as one property by the Company. Vacancies in first quarter 2002 were 13.2%, approximately double the vacancy rate in 2001 for the market. There will be increased competition in the market as 1,600 permits for new multi-family construction were issued during the first quarter of 2003. The Company believes that the market is well positioned for recovery in the near to mid term, and that managing the properties as one multi-family apartment community will create additional positive results. St. Marin and Karrington Apartments charge rents that are competitive in the area, with rental rates for 1 bedroom to 3 bedrooms ranging from \$738-\$2,200 per month. Physical occupancy for St. Marin/Karrington at September 30, 2003 was 92%.

The Company does not intend to spend a material amount on capital improvements. Normal capital improvements such as those during rental turnovers (i.e. interior painting) and capital improvements for the overall maintenance of the property will be determined as those projects become necessary.

The Company, after reasonable inquiry, is not aware of any material factors relating to St. Marin and Karrington other than those stated above that would cause the reported financial information not to be indicative of future operating results.

The following unaudited pro forma financial statements give effect to the acquisition by the Company of St. Marin/Karrington. The unaudited pro forma balance sheet as of September 30, 2003 presents the financial position of the Company as if the acquisition of St. Marin/Karrington, which occurred subsequent to September 30, 2003, had occurred on September 30, 2003. The unaudited pro forma statements of operations for the nine months ended September 30, 2003 and the year ended December 31, 2002 reflect the results of operations of St. Marin/Karrington as if the acquisition of St. Marin/Karrington had been completed as of January 1, 2002.

The following unaudited pro forma financial statements also give effect to certain additional significant events that have occurred during the period, including the consumation of the offer to exchange the Company's 9% Series A Cumulative Preferred Shares for interests in the following six mortgage funds: Krupp Government Income Trust, Krupp Government Income Trust II, Krupp Insured Mortgage Limited Partnership, Krupp Insured Plus Limited Partnership, Krupp Insured Plus II Limited Partnership, Krupp Insured Plus III Limited Partnership (collectively, the "Mortgage Funds") and the acquisition of McNab KC3 Limited Partnership ("McNab").

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BERKSHIRE INCOME REALTY, INC.
(FORMERLY BERKSHIRE INCOME REALTY PREDECESSOR GROUP)
PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except for rental rates)

These unaudited pro forma 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. These unaudited pro forma 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 Form 10-K for the year ended December 31, 2002, as well as the unaudited financial statements and the related management's discussion and analysis or financial condition and results of operations included in the Quarterly Reports on Form 10-Q for the quarter ended September 30, 2003. In addition, in conjunction with these unaudited pro forma financial statements, you should read the financial statements on St. Marin/Karrington, contained elsewhere in this Form 8-K/A.

BERKSHIRE INCOME REALTY, INC.
(FORMERLY BERKSHIRE INCOME REALTY PREDECESSOR GROUP)
PRO FORMA CONSOLIDATED BALANCE SHEET
As of September 30, 2003
(unaudited, in thousands, except share and per share data)

	Berkshire Income Realty, Inc.	St. Marin / Karrington Acquisition Note (a)	Proforma
	-----	-----	-----
ASSETS			
Multifamily apartment communities, net of accumulated depreciation of \$100,166	\$ 99,896	\$ 45,333	\$ 145,229
Cash and cash equivalents	41,819	(14,243) (b)	27,576
Cash restricted for tenant security deposits	855	-	855
Replacement reserve escrow	250	-	250
Prepaid expenses and other assets	3,601	201	3,802
Investment in Mortgage Funds	40,197	-	40,197
Deferred expenses, net of accumulated amortization of \$281	1,262	11	1,273
Acquired in-place leases	-	1,273	1,273
	-----	-----	-----
Total assets	\$ 187,880	\$ 32,575	\$ 220,455
	=====	=====	=====

LIABILITIES AND STOCKHOLDERS'
EQUITY

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Liabilities:

Mortgage notes payable	\$ 131,901	\$ 32,500 (b)	\$ 164,401
Due to affiliates	1,456	-	1,456
Dividend and distributions payable	1,338	-	1,338
Accrued expenses and other liabilities	3,317	42	3,359
Tenant security deposits	940	33	973
	-----	-----	-----
Total liabilities	138,952	32,575	171,527
Minority interest	-	-	-
Commitments and Contingencies	-	-	-
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, 2003	70,212	-	70,212
Class A common stock, \$.01 par, 5,000,000 shares authorized; 0 shares issued and outstanding at September 30, 2003	-	-	-
Excess stock, \$.01 par value, 15,000,000 shares authorized, 0 shares issued and outstanding at September 30, 2003	12	-	12
Accumulated Deficit	(21,296)	-	(21,296)
	-----	-----	-----
Total stockholders' equity	48,928	-	48,928
	-----	-----	-----
Total liabilities and stockholders' equity	\$187,880	\$ 32,575	\$ 220,455
	=====	=====	=====

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

BERKSHIRE INCOME REALTY, INC.
(FORMERLY BERKSHIRE INCOME REALTY PREDECESSOR GROUP)
PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
Nine Months Ended September 30, 2003
(unaudited, in thousands, except share and per share data)

Berkshire Income Realty, Inc.	Mortgage Funds Note (d)	St. Marin / Karrington Acquisition Note (f)	Proforma
-----	-----	-----	-----

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Revenue:				
Rental	\$ 20,598	\$ -	\$ 4,370	\$24,968
Interest	78	-	-	78
Utility reimbursement	340	-	-	340
Other	925	-	207	1,132
	-----	-----	-----	-----
Total revenue	21,941	-	4,577	26,518
	-----	-----	-----	-----
Expenses:				
Operating	5,184	-	818	6,002
Maintenance	1,784	-	237	2,021
Real estate taxes	1,819	-	1,033	2,852
General and administrative	1,149	-	244	1,393
Organizational costs	213	-	-	213
Management fees	1,573	-	321 (g)	1,894
Depreciation	5,454	-	1,516 (h)	6,970
Interest	5,580	-	1,194 (i)	6,774
Loss on extinguishment of debt	339	-	-	339
	-----	-----	-----	-----
Total expenses	23,095	-	5,363	28,458
Loss before minority interest in properties, equity in income of Mortgage Funds and minority common interest in Operating Partnership				
	(1,154)	-	(786)	(1,940)
Minority interest in properties				
	(125)	-	-	(125)
Equity in income of Mortgage Funds				
	4,883	1,916	-	6,799
	-----	-----	-----	-----
Income (loss) before minority common interest in Operating Partnership				
	\$ 3,604	\$ 1,916	\$ (786)	\$ 4,734
Minority common interest in Operating Partnership				
	(488)	-	-	(488)
	-----	-----	-----	-----
Net income (loss)				
	\$ 3,116	\$ 1,916	\$ (786)	\$ 4,246
	=====	=====	=====	=====
Preferred dividend				
	(3,276)	(1,749) (i)	-	(5,025)
	-----	-----	-----	-----
Net income (loss) available to common shareholders				
	\$ (160)	167	\$ (786)	\$ (779)
	=====	=====	=====	=====
Earnings per common share, basic				
	\$ (0.19)			\$ (.61)
	=====			=====
Weighted average number of common shares outstanding				
	837,207			1,283,313
	=====			=====

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

BERKSHIRE INCOME REALTY, INC.
(FORMERLY BERKSHIRE INCOME REALTY PREDECESSOR GROUP)
PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
Year Ended December 31, 2002
(in thousands, except share and per share data)

	Berkshire Income Predecessor Group	Mortgage Funds Note (d)	McNab Note (c)	St. Marin / Karrington Acquisition Note (f)	Proforma
Revenue:					
Rental	\$ 23,699	\$ -	\$ 2,649	\$ 4,575 (c)	\$ 32,196
Interest	370	-	5	-	375
Utility reimbursements	511	-	29	-	540
Other	903	-	194	216	1,313
Total revenue	25,483	-	2,877	4,791	34,424
Expenses:					
Operating	5,717	-	602	936	7,255
Maintenance	1,883	-	203	367	2,453
Real estate taxes	1,771	-	443	1,250	3,464
General and administrative	661	450 (k)	65	312	1,488
Management fees	1,703	-	86	427 (g)	2,216
Depreciation	5,284	-	594	2,021 (h)	7,899
Interest	4,988	-	1,459	1,593 (i)	9,313
Participating note interest	-	-	175	-	175
Total expenses	22,007	450	3,627	6,906	34,263
Income (loss) before minority interest in properties, equity in income of Mortgage Funds and minority common interest in Operating Partnership	3,476	(450)	(750)	(2,115)	161
Minority interest in properties	(1,520)	-	-	-	(1,520)
Equity in income of Mortgage Funds	-	8,836	-	-	8,836
Income (loss) before minority common interest in Operating Partnership	1,956	8,386	(750)	(2,115)	7,477

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Minority common interest in Operating Partnership	-	-	-	-	-
Net income (loss)	\$ 1,956	\$ 8,386	\$ (750)	\$ (2,115)	\$ 7,477
Preferred Dividend	-	(6,700) (i)	-	-	(6,700)
Net income (loss) available to common shareholders	\$ 1,956	\$ 1,686	\$ (750)	\$ (2,115)	\$ 777
Earnings per common share, basic					\$ 0.61
Weighted average number of common shares outstanding					1,283,313

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

BERKSHIRE INCOME REALTY, INC.
NOTES TO PRO FORMA COMBINED FINANCIAL STATEMENTS

PRO FORMA FINANCIAL STATEMENT ADJUSTMENTS

The following pro forma adjustments summarize the adjustments made to the September 30, 2003 Berkshire Income Realty Inc. balance sheet:

- (a) The assets of St. Marin/Karrington have been reflected as if the acquisition of St. Marin/Karrington had occurred on September 30, 2003.

Purchase accounting was applied for the acquisition of the St. Marin/Karrington property consistent with provisions of Statement of Financial Accounting Standards No. 141, Business Combinations. In accordance with FAS 141, the fair value of the real state 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, based in each case on their fair values.

The Company purchased the net assets of St. Marin/Karrington totaling \$46,743, including closing costs and acquisition fees. The Company also assumed liabilities relating to normal operations, such as security deposits and other miscellaneous accrued expenses.

The net purchase price was allocated as follows:

Fixed assets	\$ 45,333
In-place leases	1,273
Prepaid expenses	201
Deferred expenses	11
Liabilities assumed	(75)

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Total \$ 46,743
=====

- (b) Berkshire Income Realty, Inc. purchased St. Marin/Karrington for a total purchase price including closing costs and acquisition fees of \$46,763, and subsequently obtained a mortgage note in the amount of \$32,500, resulting in a proforma net cash adjustment of \$(14,243) at September 30, 2003.

The following pro forma adjustments summarize the adjustments made to the Statements of Operations of Berkshire Income Realty, Inc and the Berkshire Income Realty Predecessor Group for the nine months ended September 30, 2003 and the year ended December 31, 2002, respectively:

- (c) Reflects the amortization of in-place leases, calculated as follows:

	December 31, 2002

Rental revenue per audited statement of revenue and certain expenses	\$ 5,848
Amortization of in-place leases	(1,273)

Proforma rental revenue	\$ 4,575
	=====

- (d) Reflects the equity interest in the net income of the Mortgage Funds earned for the period indicated as if the Interests of each Mortgage Fund tendered their Interests at January 1, 2002. The historical net income for each Mortgage Fund for the nine months ended September 30, 2003 and year ended December 31, 2002 are as follows:

Mortgage Fund	Interest in the Mortgage Fund	Mortgage Fund net income for the nine months ended September 30, 2003	Equity in income of Mortgage Funds at September 30, 2003
-----	-----	-----	-----
GIT	30.76%	\$ 5,437	\$ 1,672
GIT II	28.81%	8,013	2,309
KIM	27.81%	1,680	467
KIP	29.66%	767	228
KIP II	25.00%	251	63
KIP III	28.63%	954	273

Subtotal			5,012
Accretion			1,787

Proforma amount			6,799
Previously recognized			4,883

Net proforma adjustment			\$ 1,916
			=====

BERKSHIRE INCOME REALTY, INC.
NOTES TO PRO FORMA COMBINED FINANCIAL STATEMENTS, continued

PRO FORMA FINANCIAL STATEMENT ADJUSTMENTS

- (d) continued

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Mortgage Fund	Interest in the Mortgage Fund	Net income for the year ended December 31, 2002	Equity in income of Mortgage Funds at December 31, 2003
GIT	30.76%	\$ 7,782	\$ 2,394
GIT II	28.81%	14,037	4,044
KIM	27.81%	2,106	586
KIP	29.66%	1,934	574
KIP II	25.00%	1,570	393
KIP III	28.63%	2,954	845
Proforma amount			8,836
Previously recognized			-
Net proforma adjustment			\$ 8,836

(e) The operations of McNab have been reflected as if the acquisition of McNab had been completed as of January 1, 2002.

(f) The operations of St. Marin/Karrington have been reflected as if the acquisition of St. Marin/Karrington had been completed as of January 1, 2002.

(g) Reflects an increase in management fees based on the asset and property management fee agreements entered into with an affiliate, calculated as follows:

	Nine Months ended September 30, 2003	Year ended December 31, 2002
Asset management fee		
Multifamily apartments		\$ 46,125 .4%
Total fee	\$ 138*	\$ 185
Property management fee		
Revenues	\$ 4,577 4%	\$ 6,064 4%
Total asset management fee	183	242
Total management fees	\$ 321	\$ 427

*Annual fee adjusted for the nine month period ended September 30, 2003.

(h) The depreciation expense adjustment is to reflect as if the acquisition of St. Marin/Karrington had been completed as of January 1, 2002. Depreciation is computed on the straight line basis over the estimated useful lives of the assets, as follows:

Rental property	27.5 years
Improvements	5 to 20 years
Appliances, carpeting and equipment	3 to 8 years

(i) Reflects the charge to interest expense relating to amortization of in-place leases and interest as if the acquisition and financing of the St. Marin/Karrington and the related mortgage note payable occurred at the beginning of the period, as follows:

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Mortgage Note	\$ 32,500
Interest Rate	4.90%

Annual interest for the year ended December 31, 2002	\$ 1,593
	=====
Interest expense for the nine months ended September 30, 2003**	\$ 1,194
	=====

**Interest expense is annual expense adjusted for the appropriate time period.

BERKSHIRE INCOME REALTY, INC.
NOTES TO PRO FORMA COMBINED FINANCIAL STATEMENTS, continued

PRO FORMA FINANCIAL STATEMENT ADJUSTMENTS

- (j) Reflects a preferred dividend on the Preferred Shares, calculated as follows:

	Nine months ended September 30, 2003	Year ended December 31, 2002
	-----	-----
Preferred Stock	\$ 74,453	\$ 74,453
9% dividend rate	9%	9%
	-----	-----
Proforma Preferred dividend	5,025	6,700
Preferred dividend previously recognized	3,276	-
	-----	-----
Net proforma adjustment	\$ 1,749	\$ 6,700
	=====	=====

- (k) Reflects an increase of \$450 in general and administrative expenses as a result of being a public company for the year ended December 31, 2002.