

BERKSHIRE INCOME REALTY INC
Form 10-K
March 31, 2011

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2010

or

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

Commission File number 001-31659

Berkshire Income Realty, Inc.

State of Incorporation – Maryland
Internal Revenue Service – Employer Identification No. 32-0024337
One Beacon Street, Boston, Massachusetts 02108
(617) 523-7722

Securities registered pursuant to Section 12(b) of the
Act:

Title of Class	Name of each exchange on which registered
Series A 9% Cumulative Redeemable Preferred Stock	NYSE Amex

Securities registered pursuant to Section 12(g) of the
Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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.

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Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Non-accelerated filer
Accelerated Filer Smaller reporting company

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Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Aggregate market value of voting and non-voting common equity held by non-affiliates: Not applicable.

There were 1,406,196 shares of Class B common stock outstanding as of March 30, 2011.

There are no documents required to be incorporated by reference to this Annual Report on Form 10K.

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SPECIAL NOTE REGARD FORWARD-LOOKING STATEMENTS

Certain statements contained in this report, including information with respect to our future business plans, constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “33 Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “34 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 business strategy and operations, future expansion plans, future prospects, financial position, anticipated revenues or losses and projected costs, and objectives of management. Without limiting the foregoing, the words “may,” “will,” “should,” “could,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of these 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 (“REITs”)), possible sales of assets, the acquisition restrictions placed on the Company by an affiliated entity, Berkshire Multifamily Value Fund II, LP (“BVF II” or “Fund II”), availability of capital, interest rates and interest rate spreads, changes in accounting principles generally accepted in the United States of America (“GAAP”) and policies and guidelines applicable to REITs, those factors set forth herein in Part I, Item 1A. “Risk Factors” and other risks and uncertainties as may be detailed from time to time in our public announcements and our reports filed with the Securities and Exchange Commission (the “SEC”).

The risks listed here are not exhaustive. Other sections of this report may include additional factors that could adversely affect our business and financial performance. 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 risks 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, undue reliance should not be placed on forward-looking statements as a prediction of actual results.

As used herein, the terms “we”, “us”, “BIR” or the “Company” refer to Berkshire Income Realty, Inc., a Maryland corporation incorporated on July 19, 2002. The Company is in the business of acquiring, owning, operating and renovating multifamily apartment communities. Berkshire Property Advisors, L.L.C. (“Berkshire Advisor” or “Advisor”) is an affiliated entity we have contracted with to make decisions relating to the day-to-day management and operation of our business, subject to the Board of Directors (“Board”) oversight. Refer to Part III, Item 13 – Certain Relationships and Related Transactions and Director Independence and Notes to the Consolidated Financial Statements, Note 13 – Related Party Transactions of this Form 10-K for additional information about the Advisor.

PART I

ITEM 1. BUSINESS

Executive Summary

During 2010, the Company continued to implement its ongoing strategy of assessing its mortgage debt to aggressively finance, refinance and add supplemental debt to its portfolio to help minimize the effects of rising mortgage interest rates in the future and maximize the cash available for capital investments. While the capital and credit markets continue to provide challenges, the Company has been successful in obtaining replacement financing of a loan that

matured during 2009 in the amount of \$16,428,100. The Company also completed the conversion of a construction loan to permanent financing with a final loan amount of \$12,950,000.

The Company applied great focus to maintaining occupancy levels at all properties throughout the portfolio in an effort to maximize operating revenue and cash. The occupancy levels remained stable in the mid 90% range for most properties which approximates average occupancy levels from the prior year at the Company's Same Portfolio Properties ("Same Store"). Occupancy levels benefited from the Company's rental rate setting strategy which, during the current year, attempts to balance occupancy with rental rate pressure from competition to achieve the highest occupancy levels possible in the continued challenging economy. As in past years when the rental market exhibits signs of softness, BIR has offered short-term rental concessions to new and renewing tenants at properties within markets experiencing the slowdown to maintain occupancy without producing significant fluctuations in market rental rates. The Company utilizes revenue management software at most properties in the portfolio which has proven beneficial in the process of maximizing rental revenue.

The Company continues to employ a strategy of increasing the value of its portfolio by implementing property management efficiencies, physical asset improvements at its properties and replacement of existing properties with higher quality assets through acquisitions and dispositions. The Company's efforts to execute these strategies continued to provide the desired operating results during the year and partially offset the negative effects, such as decreasing market rents, resulting from the continued challenging economic operating environment. Examples of successful initiatives undertaken during 2010 include maintaining high occupancy levels across the portfolio and ongoing renovation projects at certain properties including projects at mid-rise tower properties such as Berkshires at Town Center (formerly known as Hampton House) in Towson, Maryland and Executive House in Philadelphia, Pennsylvania. The high occupancy has helped maintain property revenue and support net operating results, the renovation of the mid-rise towers ensure these existing properties are the most desirable they can be to prospective tenants in markets challenged by the economy. These value-adding initiatives are instituted by management while it balances the maximization of cash flows and the judicious investment of funds in qualified projects during these challenging economic conditions.

In 2010, while the economic environment shows some signs of improving, the Company continued to employ adjustments made to our operating model in order to manage the portfolio through these sustained challenging economic times. The operating model adjustments employed have yielded positive results during 2010 and it is our intention to continue to focus on day-to-day operations in an effort to maintain occupancies and maximize net operating income. We feel our current focus on operations positions the Company to take advantage of improvements in operating conditions as the sustained economic downturn abates and improvement in the national economy is realized. The Company will continue to take advantage of acquisition and disposition investment opportunities as they become available that meet the desired investment parameters of the portfolio. The Company's investment strategy will continue to focus on transactions that yield higher quality properties utilizing sourcing strategies that include market, non-market/seller direct, bank and lender owned real estate and foreclosure auctions within continued limitations of the credit and equity markets. The Company will consider placing funds, as available, in qualifying investment opportunities in the form of acquisition of new properties, property development projects, renovation of established properties and other qualifying investments including the acquisition of debt secured by real estate. The Company is not currently marketing or considering the sale of any properties in the portfolio but will reassess its plans if markets adjust during the year.

BUSINESS

In 2002, the Company filed a registration statement on Form S-11 with the SEC with respect to its offers (the "Offering") to issue its 9% Series A Cumulative Redeemable Preferred Stock ("Preferred Shares") in exchange for interests ("Interests") in various mortgage funds (collectively, the "Mortgage Funds"). For each Interest in the Mortgage Funds validly tendered and not withdrawn in the Offering, the Company offered to issue its Preferred Shares based on an exchange ratio applicable to each Mortgage Fund. The registration statement was declared effective on January 9, 2003. Offering costs incurred in connection with the Offering have been reflected as a reduction of Preferred Shares reflected in the financial statements of the Company. On April 4, 2003 and April 18, 2003, the Company issued 2,667,717 and 310,393 Preferred Shares, respectively, with a \$25.00 liquidation preference per share. Simultaneously with the completion of the Offering on April 4, 2003, KRF Company contributed its ownership interests in five multifamily apartment communities (the "Properties") to our operating partnership, Berkshire Income Realty – OP, L.P. (the "Operating Partnership"), in exchange for common limited partner interests in the Operating Partnership. KRF Company then contributed an aggregate of \$1,283,213, or 1% of the fair value of the total net assets of the Operating Partnership, to the Company, which together with the \$100 contributed prior to the Offering, resulted in the issuance of 1,283,313 shares of common stock of the Company to KRF Company. This amount was contributed by the Company to its wholly owned subsidiary, BIR GP, L.L.C., who then contributed the cash to the Operating Partnership in exchange for the sole general partner interest in the Operating Partnership.

The Company's financial statements include the accounts of the Company, its subsidiary, the Operating Partnership, as well as the various subsidiaries of the Operating Partnership. The Company owns preferred and general partner interests in the Operating Partnership. The remaining common limited partnership interests in the Operating Partnership owned by KRF Company and affiliates are reflected as Noncontrolling Interest in Operating Partnership in the financial statements of the Company.

The Company does not have any employees. Its day-to-day business is managed by Berkshire Advisor, an affiliate of KRF Company, the holder of the majority of our common stock, which has been retained pursuant to the advisory services agreement described under Part III, Item 13 – Certain Relationships and Related Transactions, and Director Independence.

Our principal executive offices are located at One Beacon Street, Suite 1500, Boston, Massachusetts 02108 and our telephone number at that address is (617) 523-7722.

We are required to file annual, quarterly, and current reports, and other documents with the SEC under the Securities Exchange Act of 1934, as amended. The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers, including the Company, that file electronically with the SEC. The public can obtain any documents that we file with the SEC at <http://www.sec.gov>. The Company voluntarily provides, free of charge, paper or electronic copies of all filings upon request. Additionally, all filings are available free of charge on our website. Our Internet address is <http://www.berkshireincomerealty.com>.

ITEM 1A. RISK FACTORS

RISK FACTORS

The following risk factors should be read carefully in connection with evaluating our business and the forward-looking statements contained in this report and other statements we or our representatives make from time to time. Any of the following risks could materially adversely affect our business, our operating results, our financial condition and the actual outcome of matters as to which forward-looking statements are made in this report. In connection with the forward-looking statements that appear in this report, you should also carefully review the cautionary statement referred to herein under “Special Note Regarding Forward-Looking Statements.”

Risk Factors Relating to Our Business

Operating risks and lack of liquidity may adversely affect our investments in real property.

Varying degrees of risk affect real property investments. The investment returns available from equity investments in real estate depend in large part on the amount of income earned and capital appreciation generated by the related properties as well as the expenses incurred. If our assets do not generate revenue sufficient to meet operating expenses, including debt service and capital expenditures, our income and ability to service our debt and other obligations could be adversely affected. Some significant expenditures associated with an investment in real estate, such as mortgage and other debt payments, real estate taxes and maintenance costs, generally are not reduced when circumstances cause a reduction in revenue from the investment. In addition, income from properties and real estate values are also affected by a variety of other factors, such as interest rate levels, governmental regulations and applicable laws and the availability of financing.

Equity real estate investments, such as ours, are relatively illiquid. This illiquidity limits our ability to vary our portfolio in response to changes in economic or other conditions. We cannot be certain that we will recognize full value for any property that we are required to sell for liquidity reasons. Our inability to respond rapidly to changes in the performance of our investments could adversely affect our financial condition and results of operations.

Our properties are subject to operating risks common to apartment ownership in general. These risks include: our ability to rent units at the properties; competition from other apartment communities; excessive building of comparable properties that might adversely affect apartment occupancy or rental rates; increases in operating costs due to inflation and other factors, which increases may not necessarily be offset by increased rents; increased affordable housing requirements that might adversely affect rental rates; inability or unwillingness of residents to pay rent increases; and future enactment of rent control laws or other laws regulating apartment housing, including present and possible future laws relating to access by disabled persons or the right to convert a property to other uses, such as condominiums or cooperatives. If operating expenses increase, the local rental market may limit the extent to which rents may be increased to meet increased expenses without decreasing occupancy rates. If any of the above were to occur, our ability to meet our debt service and other obligations could be adversely affected.

In order to achieve or enhance our desired financial results, we may make investments that involve more risk than market rate core and core-plus acquisitions.

In many of the markets where we may seek to acquire multifamily apartment communities we may face significant competition from well capitalized real estate investors, including private investors, publicly traded REITs and institutional investors. This competition can result in sellers obtaining premiums on their real estate, which sometimes pushes the price beyond what we may consider to be a prudent purchase price. To mitigate these factors, our sourcing strategy includes non-market/seller direct deals, bank and lender owned real estate and foreclosure auctions. Some of

these acquisition strategies can involve more risk than market rate core and core-plus acquisitions. The additional risks associated with these broader sourcing strategies could result in lower profits, or higher losses, than would be realized in market rate acquisitions.

We may renovate our properties, which could involve additional operating risks.

We expect to be working on the renovation of multifamily properties that we may acquire. We may also acquire completed multifamily properties. The renovation of real estate involves risks in addition to those involved in the ownership and operation of established multifamily properties, including the risks that specific project approvals may take longer to obtain than expected, that construction may not be completed on schedule or budget and that the properties may not achieve anticipated rent or occupancy levels.

We may not be able to pay the costs of necessary capital improvements on our properties, which could adversely affect our financial condition.

We anticipate funding any required capital improvements on our properties using cash flow from operations, cash reserves or additional financing if necessary. However, the anticipated sources of funding may not be sufficient to make the necessary improvements. If our cash flow from operations and cash reserves proves to be insufficient, we might have to fund the capital improvements by borrowing money. If we are unable to borrow money on favorable terms, or at all, we may not be able to make necessary capital improvements, which could harm our financial condition.

Our tenants-in-common or future venture partners may have interests or goals that conflict with ours, which may restrict our ability to manage some of our investments and adversely affect our results of operations.

One or more of the properties that we own, or properties we acquire in the future may be owned through tenancies-in-common or by venture partnerships between us and the seller of the property, an independent third party or another investment entity sponsored by our affiliates. Our investment through tenancies-in-common or in venture partnerships that own properties may, under certain circumstances, involve risks that would not otherwise be present. For example, our tenant-in-common or venture partner may experience financial difficulties and may at any time have economic or business interests or goals that are inconsistent with our economic or business interests or our policies or goals. In addition, actions by, or litigation involving, any tenant-in-common or venture partner might subject the property owned through a tenancy-in-common or by the venture to liabilities in excess of those contemplated by the terms of the tenant-in-common or venture agreement. Also, there is a risk of impasse between the parties since generally either party may disagree with a proposed transaction involving the property owned through a tenancy-in-common or venture partnership and impede any proposed action, including the sale or other disposition of the property.

Our inability to dispose of a property we may acquire in the future without the consent of a tenant-in-common or venture partner would increase the risk that we could be unable to dispose of the property, or dispose of it promptly, in response to economic or other conditions. The inability to respond promptly to changes in performance of the property could adversely affect our financial condition and results of operations.

We may face significant competition and we may not compete successfully.

We may face significant competition in seeking investments including competition from our affiliate BVF II. Acquisition restrictions placed on the Company by BVF II are applicable during the investment period of the Fund II. The investment period of BVF II ends in October of 2011. We may be unable to acquire a desired property because of competition from other well capitalized real estate investors, such as publicly traded REITs, institutional investors and other investors, including companies that may be affiliated with the Advisor. When we are successful in acquiring a desired property, competition from other real estate investors may significantly increase our purchase price. Some of our competitors may have greater financial and other resources than us and may have better relationships with lenders and sellers, and we may not be able to compete successfully for investments.

We plan to borrow, which may adversely affect our return on our investments and may reduce income available for distribution.

Where possible, we may seek to borrow funds to increase the rate of return on our investments and to allow us to make more investments than we otherwise could. Borrowing by us presents an element of risk if the cash flow from our properties and other investments is insufficient to meet our debt service and other obligations. A property

encumbered by debt increases the risk that the property will operate at a loss and may ultimately be forfeited upon foreclosure by the lender. Loans that do not fully amortize during the term, such as “bullet” or “balloon-payment” loans, present refinancing risks. Variable rate loans increase the risk that the property may become unprofitable in adverse economic conditions. Loans that require guaranties, including full principal and interest guaranties, master leases, debt service guaranties and indemnities for liabilities such as hazardous waste, may result in significant liabilities for us.

Under our current investment policies, we may not incur indebtedness if by doing so our ratio of debt to total assets, at fair market value, exceeds 75%. However, we may reevaluate our borrowing policies from time to time, and the Board may change our investment policies without the consent of our stockholders.

Our insurance on our real estate may not cover all losses.

We carry comprehensive liability, fire, terrorism, extended coverage and rental loss insurance covering all of our properties, with policy specifications and insured limits that we believe are adequate and appropriate under the circumstances. Many insurance carriers are excluding asbestos-related claims and mold remediation-related claims from standard policies, pricing asbestos and mold remediation endorsements at prohibitively high rates or adding significant restrictions to this coverage. Because of our inability to obtain specialized coverage at rates that correspond to the perceived level of risk, we have not obtained insurance for asbestos-related claims or mold remediation-related risks. We continue to evaluate the availability and cost of additional insurance coverage from the insurance market. If we decide in the future to purchase coverage for asbestos or mold remediation insurance, the cost could have a negative impact on our results of operations. If an uninsured loss or a loss in excess of insured limits occurs on a property, we could lose our capital invested in the property, as well as the anticipated future revenues from the property and, in the case of debt that is recourse to us, we would remain obligated for any mortgage debt or other financial obligations related to the property. Any loss of this nature could adversely affect us.

Additionally, the policy specifications of our insurance coverage on our properties include deductibles related to an insured loss. The deductibles applicable to an insured loss caused by “Named Storms”, a term as defined in the insurance policy, which are usually in the form of a hurricane, at certain properties we operate, are higher than deductibles for other insured losses covered by the policy. Specifically, the deductibles for “Named Storms” are based on a percentage of the insured property value with a specific minimum amount. Both the percentage and the related minimum amounts are higher than the standard policy deductibles for insured losses caused by a “Named Storm” in certain higher risk counties of certain states, including Florida, North Carolina, Texas and Virginia and even higher amounts for insured losses caused by a “Named Storm” in the counties of Dade, Broward and Palm Beach, Florida. Losses resulting from “Named Storms” could adversely affect us.

As part of our risk management program, our property and general liability insurance loss coverage is subject to a deductible amount, which varies by type of claims. In addition to the deductible exposure, the Company has elected to balance insurance costs by assuming limited amounts of additional loss risk in the form of self insurance. The self insurance participation is in the form of a primary layer of loss coverage which is subject to exposure prior to the traditional insurance coverage becoming applicable. Additionally, the property and general liability insurance coverage is provided by policies that cover a pool of operating real estate properties and administrative activities owned by multiple ownership funds but under the common management of Berkshire Advisor. The pooling of the insurance activities results in the sharing of any loss exposure among the larger group, as the self insurance layer covers the total operating portfolio and administrative pool of Berkshire Advisor.

Environmental compliance costs and liabilities with respect to our real estate may adversely affect our results of operations.

Our operating costs may be affected by our obligation to pay for the cost of complying with existing environmental laws, ordinances and regulations, as well as the cost of complying with future legislation with respect to the assets, or loans collateralized by assets, with environmental problems that materially impair the value of assets. Under various federal, state or local environmental laws, ordinances and regulations, an owner of real property may be liable for the costs of removal or remediation of hazardous or toxic substances located on or in the property. These laws often impose liability without regard to whether the owner knew of, or was responsible for, the presence of the hazardous or toxic substances.

The costs of any required remediation or removal of these substances may be substantial. In addition, the owner’s liability as to any property is generally not limited under these laws, ordinances and regulations and could exceed the value of the property and/or the aggregate assets of the owner. The presence of hazardous or toxic substances, or the

failure to remediate properly, may also adversely affect the owner's ability to sell or rent the property or to borrow using the property as collateral. Under these laws, ordinances and regulations, an owner or any entity who arranges for the disposal of hazardous or toxic substances, such as asbestos, at a disposal facility may also be liable for the costs of any required remediation or removal of the hazardous or toxic substances at the facility, whether or not the facility is owned or operated by the owner or entity. In connection with the ownership of any of our properties, or participation in ventures, or the disposal of hazardous or toxic substances, we may be liable for any of these costs.

Other federal, state and local laws may impose liability for the release of hazardous material, including asbestos-containing materials, into the environment, or require the removal of damaged asbestos containing materials in the event of remodeling or renovation, and third parties may seek recovery from owners of real property for personal injury associated with exposure to released asbestos-containing materials or other hazardous materials. We do not currently have insurance for asbestos-related claims.

Recently there has been an increasing number of lawsuits against owners and managers of multifamily properties alleging personal injury and property damage caused by the presence of mold in residential real estate. Some of these lawsuits have resulted in substantial monetary judgments or settlements. We do not currently have insurance for all mold-related risks. Environmental laws may also impose restrictions on the manner in which a property may be used or transferred or in which businesses may be operated, and these restrictions may require additional expenditures. In connection with the ownership of properties, we may be potentially liable for any of these costs. The cost of defending against claims of liability or remediating contaminated property and the cost of complying with environmental laws could materially adversely affect our results of operations and financial condition.

We have been notified of the presence of asbestos in certain structural elements in our properties, which we are addressing in accordance with various operations and maintenance plans. The asbestos operations and maintenance plans require that all structural elements that contain asbestos not be disturbed. In the event the asbestos containing elements are disturbed either through accident, such as a fire, or as a result of planned renovations at the property, those elements would require removal by a licensed contractor, who would provide for containment and disposal in an authorized landfill. The property managers of our properties have been directed to work proactively with licensed ablation contractors whenever there is any question regarding possible exposure.

We are not aware of any environmental liability relating to our properties that we believe would have a material adverse effect on our business, assets or results of operations. Nevertheless, it is possible that there are material environmental liabilities of which we are unaware with respect to our properties. Moreover, we cannot be certain that future laws, ordinances or regulations will not impose material environmental liabilities or that the current environmental condition of our properties will not be affected by residents and occupants of our properties, by the uses or condition of properties in the vicinity of our properties, such as leaking underground storage tanks, or by third parties unaffiliated with us.

We face risks associated with climate change regulations.

Growing concerns about the change in the climate have resulted in new laws and regulations that are intended to limit the amount of carbon emission into the atmosphere. The Company believes that the proposal and enactment of such laws and regulations could increase operating costs of our properties, including energy costs for electricity, heating and cooling as well as increased cost of waste removal at our properties. The Company does not currently believe that increased costs, if any, would have a material impact on the results of operations and anticipates that any increased costs would be passed through to our residents by use of the utility recovery programs employed by the Company.

Our failure to comply with various regulations affecting our properties could adversely affect our financial condition.

Various laws, ordinances, and regulations affect multifamily residential properties, including regulations relating to recreational facilities, such as activity centers and other common areas. We believe that each of our properties has all material permits and approvals to operate its business.

Our multifamily residential properties must comply with Title II of the Americans with Disabilities Act (the "ADA") to the extent that such properties are public accommodations and/or commercial facilities as defined by the ADA. Compliance with the ADA requires removal of structural barriers to handicapped access in certain public areas of our properties where such removal is readily achievable. The ADA does not, however, consider residential properties to be public accommodations or commercial facilities, except to the extent portions of such facilities, such as a leasing office, are open to the public. We believe that our properties comply in all material respects with all current requirements under the ADA and applicable state laws. Noncompliance with the ADA could result in imposition of fines or an award of damages to private litigants. The cost of defending against any claims of liability under the ADA or the payment of any fines or damages could adversely affect our financial condition.

The Fair Housing Act (the “FHA”) requires, as part of the Fair Housing Amendments Act of 1988, apartment communities first occupied after March 13, 1990 to be accessible to the handicapped. Noncompliance with the FHA could result in the imposition of fines or an award of damages to private litigants. We believe that our properties that are subject to the FHA are in compliance with such law. The cost of defending against any claims of liability under the FHA or the payment of any related fines or damages could adversely affect our financial condition.

We face risks associated with property acquisitions.

We intend to acquire additional properties in the future, either directly or by acquiring entities that own properties. These acquisition activities are subject to many risks. We may acquire properties or entities that are subject to liabilities or that have problems relating to environmental condition, state of title, physical condition or compliance with zoning laws, building codes, or other legal requirements. In each case, our acquisition may be without any recourse, or with only limited recourse, with respect to unknown liabilities or conditions.

As a result, if any liability were asserted against us relating to those properties or entities, or if any adverse condition existed with respect to the properties or entities, we might have to pay substantial sums to settle or cure it, which could adversely affect our cash flow and operating results. Unknown liabilities to third parties with respect to properties or entities acquired might include: liabilities for clean-up of undisclosed environmental contamination; claims by tenants, vendors or other persons dealing with the former owners of the properties; liabilities incurred in the ordinary course of business; and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

We may acquire multifamily apartment communities through foreclosure auctions, which limit our ability to perform due diligence.

One of our acquisition strategies seeks to acquire multifamily apartment communities through foreclosure auctions. Generally when a property is foreclosed on by a lender, there is minimal time between the announcement of foreclosure and the auction to dispose of the property and access to the property for due diligence is either severely limited or unavailable. The lack of time and access for due diligence can result in only limited knowledge of problems, including environmental issues, that are identified after the acquisition has taken place. While the Company generally includes provisions for unforeseen problems into its underwriting models, there is no assurance that these provisions will be sufficient to remediate all of the issues identified after closing. If significant issues are identified after closing, which were not provided for during the underwriting, this sourcing strategy could result in lower profits, or higher losses, than would be realized in market rate acquisitions, where full due diligence is available.

Development risks could affect available capital and operating profitability.

We intend to develop new apartment units on property that we own or may acquire in the future. These development projects are subject to many risks including governmental approvals, which we have no assurance will be obtained. We may develop properties that have problems relating to environmental conditions, compliance with zoning laws, building codes, or other legal requirements or may be subject to unknown liabilities to third parties with respect to undisclosed environmental contamination, claims by vendors or claims by other persons. The cost to construct the projects may require capital in excess of projected amounts and possibly render the economic viability of the project unfeasible. The apartment units in the completed project may command rents and occupancy rates at less than anticipated levels and result in operating expenses at higher than forecasted levels.

We may also develop properties with joint venture partners. Joint ventures, as previously discussed, have their own risks and those risks may compound the risks associated with a development.

We face valuation and liquidity risk.

The Company may invest in real estate and real estate related investments for which no liquid market exists. The market prices for such investments may be volatile and may not be readily ascertainable. In addition, the economy

has not yet fully recovered from the significant disruptions in the global capital, credit and real estate markets. These disruptions have led to, among other things, a significant decline in the volume of transaction activity, in the fair value of many real estate and real estate related investments, and a significant contraction in short-term and long-term debt and equity funding sources. This contraction in capital includes sources that the Company may depend on to finance certain investments. The decline in prices of real estate and real estate related investments, as well as the availability of observable transaction data and inputs, may have made it more difficult to determine the fair value of such investments. As a result, amounts ultimately realized by the Company from investments sold may differ from the fair values presented, and the differences could be material.

We face financing and/or refinancing risk.

There is no guarantee that the Company's borrowing arrangements or other arrangements for obtaining leverage will continue to be available, or if available, will be available on terms and conditions acceptable to the Company. Unfavorable economic conditions also could increase funding costs, limit access to the capital markets or result in a decision by lenders not

to extend credit to the Company. In addition, a decline in market value of the Company's assets may have particular adverse consequences in instances where the Company borrowed money based on the fair value of those assets. A decrease in market value of those assets may result in the lender requiring the Company to post additional collateral or otherwise sell assets at a time when it may not be in the Company's best interest to do so. In the event the Company is required to liquidate all or a portion of its portfolio quickly, the Company may realize significantly less than the value at which it previously recorded those investments. As of December 31, 2010, the Company does not have significant exposure to financing in which the lender can require the Company to post additional collateral or otherwise sell assets to settle the financing obligations.

We face loan covenant risk.

In the normal course of business, the Company enters into loan agreements with certain lenders to finance its real estate investment transactions. These loan agreements contain, among other conditions, events of default and various covenants and representations. The Company believes it was in compliance with all these covenants during 2010. However, if the lenders determine we were not in compliance, the lenders may decide to curtail or limit extension of credit, and the Company may be forced to repay its loans. For the year ended December 31, 2010, no loan agreements were terminated as a result of non-compliance with covenants. In the event the Company's current credit facilities are not extended and/or the Company is forced to repay its loans, the Company may be required to sell assets at potentially unfavorable prices. In addition, if the Company is required to liquidate all or a portion of its portfolio quickly, the Company may realize significantly less than the value at which it previously recorded those investments.

We face development financing risk.

In order to fund new real estate investments, as well as refurbish and improve existing investments, both the Company as well as potential owners must periodically spend money. The availability of funds for new investments and maintenance of existing investments depends in large measure on capital markets and liquidity factors over which management can exert little control. Events over the past several years, including failures and near failures of a number of large financial service companies, have made the capital markets increasingly volatile from which they have not fully recovered. As a result, many current and prospective owners are finding financing to be increasingly difficult to obtain. In addition, such failures may prevent some projects that are in construction or development from drawing on existing financing commitments, and replacement financing may not be available or may only be available on less favorable terms. Delays, increased costs and other impediments to restructuring such projects may affect our ability to execute our investment strategy in connection with such projects. This contraction in capital sources has not had a significant adverse impact on the Company's liquidity position, results of operations and financial condition but may adversely impact the Company if market conditions continue to deteriorate.

We face diversification risk.

The assets of the Company are concentrated in the real estate sector, specifically garden style and mid-rise multifamily apartment communities. Accordingly, the investment portfolio of the Company may be subject to more rapid change in value than would be the case if the Company were to maintain a wide diversification among investments or industry sectors. Furthermore, even within the real estate sector, the investment portfolio may be relatively concentrated in terms of geography and type of real estate investment. The Company is engaged primarily in the ownership, acquisition, development, rehabilitation and operations of multifamily apartment communities in the Baltimore/Washington D.C., Southeast, Southwest, Northwest and Midwest areas of the United States. This lack of diversification may subject the investments of the Company to more rapid change in value than would be the case if the assets of the Company were more widely diversified.

We face concentrations of market, interest rate and credit risk.

Concentrations of market, interest rate and credit risk may exist with respect to the Company's investments and its other assets and liabilities. Market risk is a potential loss the Company may incur as a result of changes in the fair value of its investment. The Company may also be subject to risk associated with concentrations of investments in geographic regions and industries. Interest rate risk includes the risk associated with changes in prevailing interest rates. These derivatives are predominantly used for managing risk associated with the Company's portfolio of investments. Credit risk includes the possibility that a loss may occur from the failure of counterparties or issuers to make payments according to the terms of a contract. The Company's exposure to credit risk at any point in time is generally limited to amounts recorded as assets on the consolidated balance sheet.

Certain Federal Income Tax Risks

Our failure to qualify as a REIT would result in higher taxes and reduced cash available for distribution to our stockholders.

We intend to operate in a manner to allow us to qualify as a REIT for federal income tax purposes. Although we believe that we have been organized and will operate in this manner, we cannot be certain that we will be able to operate so as to qualify as a REIT under the Tax Code, or to remain so qualified. Qualification as a REIT involves the application of highly technical and complex provisions of the Tax Code for which there are only limited judicial or administrative interpretations. The determination of various factual matters and circumstances not entirely within our control may affect our ability to qualify as a REIT.

The complexity of these provisions and of the applicable income tax regulations under the Tax Code is greater in the case of a REIT that holds its assets through a partnership, as we do. Moreover, our qualification as a REIT depends upon the qualification of certain of our investments as REITs. In addition, we cannot be certain that legislation, new regulations, administrative interpretations or court decisions will not significantly change the tax laws with respect to the qualification as a REIT or the federal income tax consequences of this qualification. We are not aware of any proposal currently being considered by Congress to amend the tax laws in a manner that would materially and adversely affect our ability to operate as a REIT.

If for any taxable year we fail to qualify as a REIT, we would not be allowed a deduction for distributions to our stockholders in computing our taxable income and we would be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. In addition, we would normally be disqualified from treatment as a REIT for the four taxable years following the year of losing our REIT status. This would likely result in significant increased costs to us. Any corporate tax liability could be substantial and would reduce the amount of cash available for distribution to our stockholders and for investment, which in turn could have an adverse impact on the value of, and trading prices for, our publicly traded securities.

Although we intend to operate in a manner designed to qualify as a REIT, future economic, market, legal, tax or other considerations may cause our Board and the holders of our common stock to determine that it is in the best interests of the Company and our stockholders to revoke our REIT election.

We believe that our operating partnership will be treated for federal income tax purposes as a partnership and not as a corporation or an association taxable as a corporation. If the Internal Revenue Service were to determine that our operating partnership were properly to be treated as a corporation, our operating partnership would be required to pay federal income tax at corporate rates on its net income, its partners would be treated as stockholders of the operating partnership and distributions to partners would constitute dividends that would not be deductible in computing the operating partnership's taxable income. In addition, we would fail to qualify as a REIT, with the resulting consequences described above.

As of December 31, 2010, the Company is in compliance under the Tax Code to qualify as a REIT.

REIT distribution requirements could adversely affect our liquidity.

To obtain the favorable tax treatment for REITs qualifying under the Tax Code, we generally are required each year to distribute to our stockholders at least 90% of our real estate investment trust taxable income, determined without regard to the deduction for dividends paid and by excluding net capital gains. We are subject to a 4% nondeductible excise tax on the amount, if any, by which distributions paid by us with respect to any calendar year are less than the

sum of: (1) 85% of our ordinary income for the calendar year; (2) 95% of our capital gain net income for the calendar year, unless we elect to retain and pay income tax on those gains; and (3) 100% of our undistributed amounts from prior years.

Failure to comply with these requirements would result in our income being subject to tax at regular corporate rates.

We intend to distribute our income to our stockholders in a manner intended to satisfy the distribution requirement and to avoid corporate income tax and the 4% excise tax. Differences in timing between the recognition of income and the related cash receipts or the effect of required debt amortization payments could require us to borrow money or sell assets to distribute enough of our taxable income to satisfy the distribution requirement and to avoid corporate income tax and the 4% excise tax in a given year.

Legislative or regulatory action could adversely affect holders of our securities.

In recent years, numerous legislative, judicial and administrative changes have been made to the federal income tax laws applicable to investments in REITs and similar entities. Additional changes to tax laws are likely to continue to occur in the future, and we cannot be certain that any such changes will not adversely affect the taxation of a holder of our securities.

Risk Factors Relating to Our Management

We are dependent on Berkshire Advisor and may not find a suitable replacement at the same cost if Berkshire Advisor terminates the advisory services agreement.

We have entered into a contract with Berkshire Advisor (which we refer to as the advisory services agreement) under which Berkshire Advisor is obligated to manage our portfolio and identify investment opportunities consistent with our investment policies and objectives, as the Board may adopt from time to time.

Although the Board has continuing exclusive authority over our management, the conduct of our affairs and the management and disposition of our assets, the Board initially has delegated to Berkshire Advisor, subject to the supervision and review of our Board, the power and duty to make decisions relating to the day-to-day management and operation of our business. We generally utilize officers of Berkshire Advisor to provide our services and employ only a few individuals as our officers, none of whom are compensated by us for their services to us as our officers. We believe that our success depends to a significant extent upon the experience of Berkshire Advisor's officers, whose continued service is not guaranteed. We have no separate facilities and are completely reliant on Berkshire Advisor, which has significant discretion as to the implementation of our operating policies and strategies. We face the risk that Berkshire Advisor could terminate the advisory services agreement and we may not find a suitable replacement at the same cost with similar experience and ability. However, we believe that so long as KRF Company, which is an affiliate of Berkshire Advisor, continues to own a significant amount of our common stock, Berkshire Advisor will not terminate the advisory services agreement. Although KRF Company currently owns most of our common stock, we cannot be certain that KRF Company will continue to do so.

Our relationship with Berkshire Advisor may lead to general conflicts of interest that adversely affect the interests of holders of our Series A Preferred Stock.

Berkshire Advisor is an affiliate of KRF Company, which owns the majority of our common stock. All of our directors and executive officers, other than our three independent directors, are also officers or directors of Berkshire Advisor. As a result, our advisory services agreement with Berkshire Advisor was not negotiated at arm's-length and its terms, including the fees payable to Berkshire Advisor, may not be as favorable to us as if it had been negotiated with an unaffiliated third party. Asset management fees and acquisition fees for new investments are payable to Berkshire Advisor under the advisory services agreement regardless of the performance of our portfolio and may create conflicts of interest. Conflicts of interest also may arise in connection with any decision to renegotiate, renew or terminate our advisory services agreement. In order to mitigate these conflicts, the renegotiation, renewal or termination of the advisory services agreement requires the approval of the Audit Committee (which committee is comprised of our three directors who are independent under applicable rules and regulations of the SEC and the NYSE Amex).

Through December 31, 2004, our property manager, an affiliate of Berkshire Advisor, in most cases provided on-site management services for our properties. Our directors who are affiliates of our property manager might be subject to conflicts of interest in their dealings with our property manager. In order to mitigate these conflicts, the renegotiation,

renewal or termination of the property management agreements requires the approval of the Audit Committee (which committee is comprised of our three directors who are independent under applicable rules and regulations of the SEC and the NYSE Amex). As of January 1, 2005, Berkshire Advisor assumed the role of property manager for our properties, under the same terms as the agreements with the prior property manager.

Berkshire Advisor and its affiliates may engage in other businesses and business ventures, including business activities relating to real estate or other investments, whether similar or dissimilar to those made by us, or may act as advisor to any other person or entity (including other REITs). The ability of Berkshire Advisor and its officers and employees to engage in these other business activities may reduce the time Berkshire Advisor spends managing us. Berkshire Advisor and its affiliates may have conflicts of interest in the allocation of management and staff time, services and functions among us and its other investment entities presently in existence or subsequently formed. However, under our advisory services agreement with Berkshire Advisor, Berkshire Advisor is required to devote sufficient resources as may be required to discharge its obligations to us under the advisory services agreement.

Our advisory services agreement with Berkshire Advisor provides that neither Berkshire Advisor nor any of its affiliates is obligated to present to us all investment opportunities that come to their attention, even if any of those opportunities might be suitable for investment by us. It is within the sole discretion of Berkshire Advisor to allocate investment opportunities to us as it deems advisable. However, it is expected that, to the extent possible, the resolution of conflicting investment opportunities between us and others will be based upon differences in investment objectives and policies, the makeup of investment portfolios, the amount of cash and financing available for investment and the length of time the funds have been available, the estimated income tax effects of the investment, policies relating to leverage and cash flow, the effect of the investment on diversification of investment portfolios and any regulatory restrictions on investment policies.

Our Board of Directors has approved investment guidelines for Berkshire Advisor, but might not approve each multifamily residential property investment decision made by Berkshire Advisor within those guidelines.

Berkshire Advisor is authorized to follow investment guidelines adopted from time to time by the Board in determining the types of assets it may decide to recommend to the Board as proper investments for us. The Board periodically reviews our investment guidelines and our investment portfolio. In conducting periodic reviews, the Board relies primarily on information provided by Berkshire Advisor. However, Berkshire Advisor may make investments in multifamily residential property on our behalf within the Board approved guidelines without the approval of the Board.

We may change our investment strategy without stockholder consent, which could result in our making different and potentially riskier investments.

We may change our investment strategy at any time without the consent of our stockholders, which could result in our making investments that are different from, and possibly riskier than, our initial plan to primarily acquire, own, develop and operate multifamily residential properties. In addition, the methods of implementing our investment policies may vary as new investment techniques are developed. A change in our investment strategy may increase our exposure to interest rate and real estate market fluctuations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

A summary of the multifamily apartment communities in which the Company had an interest as of December 31, 2010 is presented below. Schedule III included in Item 15 to this report contains additional detailed information with respect to individual properties consolidated by the Company in the financial statements contained herein and is incorporated by reference herein.

Description	Location	Year Acquired	Total Units (Unaudited)	Ownership Interest	2010 Occupancy (1) (Unaudited)
Berkshires of Columbia	Columbia, Maryland	1983	316	91.38 %	96.58 %
Seasons of Laurel	Laurel, Maryland	1985	1,088	100.00 %	95.58 %
Walden Pond/Gables	Houston, Texas	1983/2003	556	100.00 %	95.10 %
Laurel Woods	Austin, Texas	2004	150	100.00 %	97.28 %
Bear Creek	Dallas, Texas	2004	152	100.00 %	93.94 %
Bridgewater	Hampton, Virginia	2004	216	100.00 %	95.23 %
Arboretum	Newport News, Virginia	2004	184	100.00 %	95.30 %
Reserves at Arboretum	Newport News, Virginia	2009 (2)	143	100.00 %	95.60 %
Silver Hill	Newport News, Virginia	2004	153	100.00 %	95.30 %
Arrowhead	Palatine, Illinois	2004	200	58.00 %	94.72 %
Moorings	Roselle, Illinois	2004	216	58.00 %	96.47 %
Country Place I	Burtonsville, Maryland	2004	192	58.00 %	97.45 %
Country Place II	Burtonsville, Maryland	2004	120	58.00 %	97.45 %
Yorktowne	Millersville, Maryland	2004	216	100.00 %	96.40 %
Berkshires on Brompton	Houston, Texas	2005	362	100.00 %	97.61 %
Riverbirch	Charlotte, North Carolina	2005	210	100.00 %	95.84 %
Lakeridge	Hampton, Virginia	2005	282	100.00 %	96.85 %
Berkshires at Citrus Park	Tampa, Florida	2005	264	100.00 %	94.70 %
Briarwood Village	Houston, Texas	2006	342	100.00 %	96.17 %
Chisholm Place	Dallas, Texas	2006	142	100.00 %	97.29 %
	Atlanta, Georgia	2006	375	100.00 %	96.36 %

Standard at Lenox Park						
Berkshires at Town						
Center	Towson, Maryland	2007	199	100.00 %	90.78 %	
Sunfield Lakes	Sherwood, Oregon	2007	200	100.00 %	94.58 %	
Executive House	Philadelphia, Pennsylvania	2008	302	100.00 %	97.79 %	
GLO	Los Angeles, California	2009	201	89.955 %	93.11 %	
			6,781			

All of the properties in the above table are encumbered by mortgages as of December 31, 2010.

(1) Represents the average year-to-date physical occupancy.

(2) Property was acquired as raw land in 2004. Development of the multifamily apartment community on the land was completed and the property was fully leased during the year ended December 31, 2009.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. REMOVED

PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND
5. ISSUER REPURCHASES OF EQUITY SECURITIES

There is no established public trading market for the outstanding common stock of the Company, the majority of which is held by KRF Company. As of March 30, 2011, there were 0 and 3 holders of shares of our Class A Common Stock and Class B Common Stock, respectively. No shares of the Class A Common Stock have been issued as of December 31, 2010. During 2009, the Company declared and distributed a special dividend in the amount of \$0.000017 per share of common stock on December 30, 2009. The Company did not declare a dividend on its common stock for any quarter during 2010 but plans to declare cash dividends on its outstanding common stock in the future as operations allow. Refer to Declaration of Dividends and Distributions in Part II Item 7 – Management's Discussion and Analysis of financial Condition and Results of Operations of Berkshire Income Realty, Inc.

Refer to Part III Item 12 – Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters herein for disclosures relating to the Company's equity compensation plans.

During the period from October 1, 2010 to December 31, 2010, no purchases of any of the Company's securities registered pursuant to Section 12 of the 34 Act, were made by or on behalf of the Company or any affiliated purchaser.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial data regarding the financial position and operating results of the Company. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of Berkshire Income Realty, Inc." for a discussion of the entities that comprise the Company. The following financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations of Berkshire Income Realty, Inc." and the financial statements of the Company (including the related notes contained therein). See the "Index to Financial Statements and Financial Statement Schedule" on page 53 to this report.

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Selected financial data for the years ended December 31, 2009, 2008, 2007 and 2006 have been revised to reflect the sale of Century, St. Marin/Karrington (“St. Marin”), Westchester West and Berkshires at Westchase (“Westchase”) in 2008, Dorsey’s Forge (“Dorsey’s”) and Trellis at Lee’s Mill (“Trellis”) in 2007. The operating results of Century, St. Marin, Westchase and Westchester West from 2006 through 2009, Dorsey’s for 2006 and Trellis for 2006 have been reclassified to discontinued operations to provide comparable information to 2010.

	Berkshire Income Realty, Inc.				
	December 31,				
	2010	2009 Adjusted*	2008 Adjusted*	2007	2006
Operating Data:					
Total Revenue	\$81,682,890	\$79,622,513	\$70,205,385	\$65,838,354	\$53,887,413
Depreciation	31,326,510	32,136,098	28,277,756	25,838,371	19,807,424
Loss before equity in loss of Multifamily Venture Limited Partnership And Mezzanine Loan Limited Liability Company and loss from discontinued operations	(21,646,286)	(23,419,798)	(18,950,782)	(18,371,334)	(12,912,153)
Loss from continuing operations	(25,726,511)	(28,510,162)	(23,179,972)	(21,326,981)	(17,557,191)
Income (loss) from discontinued operations	-	(175,072)	77,179,208	30,191,208	(2,439,590)
Net income (loss) attributable to Parent Company	5,926,204	5,864,070	35,781,455	2,928,632	(19,996,781)
Net income (loss) available to common shareholders	(774,561)	(836,715)	29,080,773	(3,772,160)	(26,697,574)
Net loss from continuing operations attributable to Parent Company per common share, basic and diluted	\$(0.55)	\$(0.48)	\$(34.21)	\$(24.15)	\$(17.25)
Net income (loss) from discontinued operations attributable to Parent Company per common share, basic and diluted	\$0.00	\$(0.12)	\$54.89	\$21.47	\$(1.73)
Net income (loss) available to common shareholders per common share, basic and diluted	\$(0.55)	\$(0.60)	\$20.68	\$(2.68)	\$(18.98)
Weighted average common shares outstanding, basic and diluted	1,406,196	1,406,196	1,406,196	1,406,196	1,406,196
Cash dividends declared on common OP Units and Shares	\$-	\$-	\$12,000,000	\$4,000,000	\$12,000,000
Balance Sheet Data, at year end:					
Real estate, before accumulated depreciation	\$619,577,347	\$610,702,698	\$555,681,036	\$608,505,122	\$594,268,122
Real estate, after accumulated depreciation	419,531,860	441,983,721	419,002,572	464,265,061	445,597,599
Cash and cash equivalents	12,893,665	17,956,617	24,227,615	22,479,937	15,393,249
Total assets	456,866,429	502,172,132	479,263,174	528,062,630	492,700,178
Total long term obligations	476,386,979	474,830,728	432,013,999	506,903,882	469,378,510
Noncontrolling interest in properties	(191,881)	416,382	293,650	-	-

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Noncontrolling interest in operating partnership	(65,806,083)	(34,172,349)	-	-	-
Stockholders' equity (deficit)	28,691,012	29,465,573	30,302,313	2,061,803	5,939,014
Other Data:					
Total multifamily apartment communities (at end of year)	26	26	24	27	27
Total apartment units (at end of year)	6,781	6,781	6,434	7,869	7,900
Funds from operations (1)	6,428,251	4,801,142	7,355,092	6,983,249	6,633,510
Cash flows provided by operating activities	13,953,330	9,596,978	12,464,803	13,545,647	15,123,243
Cash flows (used in) provided by investing activities	3,520,272	(25,744,815)	21,304,954	(30,113,455)	(83,385,159)
Cash flows (used in) provided by financing activities	(22,536,554)	9,876,839	(32,022,079)	23,654,496	61,520,507
Cumulative effect of change in accounting principle	-	-	(529,563)	-	-

* See Notes to the Consolidated Financial Statements, Note 5 – Investment in Multifamily Venture Limited Partnership

(1) The Company has adopted the revised definition of Funds from Operations (“FFO”) adopted by the Board of Governors of the National Association of Real Estate Investment Trusts (“NAREIT”). Management considers FFO to be an appropriate measure of performance of an equity REIT. We calculate FFO by adjusting net income (loss) (computed in accordance with GAAP, including non-recurring items), for gains (or losses) from sales of properties, real estate related depreciation and amortization, and adjustment for unconsolidated partnerships and ventures. Management believes that in order to facilitate a clear understanding of the historical operating results of the Company, FFO should be considered in conjunction with net income (loss) as presented in the consolidated financial statements included elsewhere herein. Management considers FFO to be a useful measure for reviewing the comparative operating and financial performance of the Company because, by excluding gains and losses related to sales of previously depreciated operating real estate assets and excluding real estate asset depreciation and amortization (which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates), FFO can help one compare the operating performance of a company’s real estate between periods or as compared to different companies.

The Company’s calculation of FFO may not be directly comparable to FFO reported by other REITs or similar real estate companies that have not adopted the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently. FFO is not a GAAP financial measure and should not be considered as an alternative to net income (loss), the most directly comparable financial measure of our performance calculated and presented in accordance with GAAP, as an indication of our performance. FFO does not represent cash generated from operating activities determined in accordance with GAAP and is not a measure of liquidity or an indicator of our ability to make cash distributions. We believe that to further understand our performance, FFO should be compared with our reported net income (loss) and considered in addition to cash flows in accordance with GAAP, as presented in our consolidated financial statements.

The following table presents a reconciliation of net income (loss) to FFO for the years ended December 31, 2010, 2009 and 2008:

	2010	December 31, 2009 Adjusted*	2008 Adjusted*
Net income (loss)	\$ (25,726,511)	\$ (28,685,234)	\$ 53,999,236
Add:			
Depreciation of real property	28,064,868	28,207,506	24,618,377
Depreciation of real property included in results of discontinued operations	-	-	3,335,613
Amortization of acquired in-place leases and tenant relationships	117,848	827,930	474,258
Amortization of acquired in-place leases and tenant relationships included in results of discontinued operations	-	-	-
Equity in loss of Multifamily Venture Limited Partnership	4,080,225	4,143,070	4,321,483
Funds from operations of Multifamily Venture Limited Partnership	940,551	1,064,133	1,026,424
Less:			
Noncontrolling interest in properties share of funds from operations	(1,048,730)	(756,263)	(932,812)
	-	-	(79,487,487)

Gain on disposition of real estate assets			
Funds from Operations	\$ 6,428,251	\$ 4,801,142	\$ 7,355,092

* See Notes to the Consolidated Financial Statements, Note 5 – Investment in Multifamily Venture Limited Partnership

FFO for the year ended December 31, 2010 increased as compared to FFO for the year ended December 31, 2009. The increase in FFO is due primarily to expenses incurred in 2009 for which there were no comparative expenses in 2010, including transaction costs for the acquisition of Glo of \$1,183,299, costs of \$774,990 accrued in 2009 for a legal matter, which were included in General and Administrative expense on the Consolidated Statement of Operations in 2009, and the other-than-temporary impairment write-off of the Company's investment in the Mezzanine Loan LLC in the amount of \$1,117,825 recorded during the same period. The decrease in expenses was partially offset by \$2,207,795 of accrued incentive advisory fee pursuant to the Advisory Services Agreement for which there was no comparative expense in 2009.

ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
7. OPERATIONS OF BERKSHIRE INCOME REALTY, INC.

Management's Discussion and Analysis of Financial Condition and Results of Operation of Berkshire Income Realty, Inc. is intended to facilitate an understanding of the Company's business and results of operations. It should be read in conjunction with the Consolidated Financial Statements, the accompanying notes to the Consolidated Financial Statements and the selected financial data included in this Form 10K. This Form 10K, including the following discussion, contains forward looking statements regarding future events or trends as described more fully under "Special Note Regarding Forward-Looking Statements" on page 4. Actual results could differ materially from those projected in such statements as a result of the risk factors described in Part I Item 1A, Risk Factors of this Form 10K.

Overview

The Company is engaged primarily in the ownership, acquisition, development, rehabilitation and operation of multifamily apartment communities in the Baltimore/Washington D.C., Southeast, Southwest, Northwest and Midwest areas of the United States. We conduct substantially all of our business and own, either directly or through subsidiaries, substantially all of our assets through the Operating Partnership, a Delaware limited partnership. The Company's wholly owned subsidiary, BIR GP, L.L.C., a Delaware limited liability company, is the sole general partner of the Operating Partnership. As of March 30, 2011, the Company is the owner of 100% of the preferred limited partner units of the Operating Partnership, whose terms mirror the terms of the Company's Preferred Shares and, through BIR GP, L.L.C., owns 100% of the general partner interest of the Operating Partnership, which represents approximately 2.39% of the common economic interest of the Operating Partnership.

Our general and limited partner interests in the Operating Partnership entitle us to share in cash distributions from, and in the profits and losses of, the Operating Partnership in proportion to our percentage interest therein. The other partners of the Operating Partnership are affiliates of the Company that contributed their direct or indirect interests in certain properties to the Operating Partnership in exchange for common units of limited partnership interest in the Operating Partnership.

Our highlights of the year ended December 31, 2010 included the following:

- § On March 15, 2010, the supplemental mortgages outstanding and secured by the Glo property in the amount of \$12,210,000 matured. As a requirement of the financing, the amounts maturing on March 15, 2010 were backed by irrevocable letters of credit which were used to retire the matured debt. Additionally, as a requirement of the bank that issued the irrevocable letters of credit, the Company was required to segregate cash in an amount sufficient to back the letters of credit. On March 15, 2010, the segregated cash was used to settle the letters of credit.
- § On April 23, 2010, the Company completed the conversion of the Reserves at Arboretum development construction loan to permanent financing. The final loan amount is \$12,950,000 with a term of 5 years and fixed interest at 6.20%.
- § On May 20, 2010, the Company closed on \$16,428,100 of financing for the Citrus Park property insured by the U.S. Department of Housing and Urban Development ("HUD"). The all-in coupon rate is 5% and the term is 35 years. Proceeds from the closing were primarily used to repay the revolving credit facility balance of \$15,720,000 and accrued interest to an affiliate of the Company and applicable closing costs.

Acquisition Strategy

The Company continues to seek out market rate core and core-plus acquisitions as it grows its portfolio. However, it is facing significant competition in many of the markets where it intends to invest. To broaden the scope of its acquisition sourcing efforts the Company continues to seek non-market/seller direct deals, bank and lender owned real estate and foreclosure auctions. We believe that this broadened approach will provide additional opportunities to acquire multifamily apartment communities that otherwise would not exist in the highly competitive markets in which we are seeking to buy.

Financing and Capital Strategy

In select instances the Company evaluates opportunities available through venture relationships with institutional real estate investors on certain acquisitions. We believe this strategy allows the Company to enhance its returns on core and core-plus properties, without increasing the risk that is otherwise inherent in real estate investments. We believe a venture strategy allows us to acquire more multifamily apartment communities than our current capital base would otherwise allow, thereby achieving greater diversification and a larger portfolio to support the operating overhead inherent in a public company.

On January 28, 2005, the Board approved the investment of up to \$25,000,000 in, or 10% of the total equity raised by Berkshire Multifamily Value Fund, L.P. (“BVF”). The investment was also approved by the Audit Committee, which is composed solely of directors who are independent under applicable rules and regulations of the SEC and the NYSE Amex. BVF, which was sponsored by our affiliate, Berkshire Advisors, was formed in August of 2005 and successfully raised equity in excess of expectations. The Company has committed to invest \$23,400,000, or approximately 7%, in BVF and made all contributions of its commitment of \$23,400,000 as of December 31, 2008. The Company has evaluated its investment in BVF and concluded that the investment, although subject to the requirements of ASC 810-10 “Consolidation of Variable Interest Entities”, does not require the Company to consolidate the activity of BVF. Additionally, the Company has determined, pursuant to the guidance promulgated in ASC 810-20, that the Company does not have a controlling interest in the BVF and is not required to consolidate the activity of BVF. The Company accounts for its investment in BVF under ASC 970-323, as an equity method investment.

BVF II, an investment fund formed during 2007, was sponsored by our affiliate, Berkshire Advisors. The Company did not make an investment in BVF II, but as an affiliate, is subject to certain investment restrictions. The investment objectives of BVF II are similar to those of the Company and under the terms of BVF II, Berkshire Advisors is generally required to present investment opportunities, which meet BVF II’s investment criteria, only to BVF II. Under the terms of BVF II, the Company has the right to acquire assets that: (i) satisfy the requirements of Section 1031 of the Internal Revenue Code for like-kind exchanges for properties held by the Company or (ii) involve less than \$8,000,000 of equity capital in any 12-month period if such capital is generated as a result of refinancing of debts of the Company. The restrictions of BVF II are only applicable during the commitment phase of BVF II and the \$8,000,000 equity capital limit can be carried over from any prior 12-month period and can accumulate to a total of \$16,000,000.

The Company has completed the development of one of the two parcels of vacant land that it owns. The property, known as the Reserves at Arboretum, was approved for development on November 1, 2007 and construction of the 143 units and clubhouse began in early 2008. The project development cost was estimated at approximately \$17,358,000 and was completed in early 2009. As of December 31, 2009, the project development costs incurred were approximately \$16,958,000 and included all costs, exclusive of land, with the exception of some minor costs to complete final items. Interest costs were capitalized on the development until construction was substantially complete in the first quarter of 2009. There was \$152,188 of interest capitalized in the year ended December 31, 2009 and no interest was capitalized in 2010. No development plans are currently in the works for the other vacant parcel.

Subsequent to year end, the Company, through various joint venture agreements, committed to participate in the development of two mid-rise apartment building projects. The first is a 201-unit multifamily mid-rise community in Denver, Colorado. The Company will own a 90% interest in the project and has committed \$8,000,000 of capital to the venture, of which approximately \$2,000,000 was funded at closing in February 2011. The second project is a 603-unit multifamily mid-rise community in Washington, D.C. The Company will own a one-third interest in a joint venture with an affiliated entity that will own a 90% interest in the project. The Company has committed \$15,400,000 of capital to the project, of which approximately \$12,000,000 was funded at closing in March 2011. Both projects are expected to begin construction in the first quarter of 2011. Refer to Notes to the Consolidated Financial Statements, Note 18 – Subsequent Events in Part IV, Item 15 – Exhibits and Financial Statement Schedules of this Form 10K for additional information about the new development projects.

Critical Accounting Policies

The discussion below describes what we believe are the critical accounting policies that affect the Company’s more significant judgments and the estimates used in the preparation of its financial statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America

("GAAP") requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities in the Company's financial statements and related notes. We believe that the following critical accounting policies affect significant judgments and estimates used in the preparation of the Company's financial statements.

Purchase Accounting for Acquisition of Real Estate

The Company accounts for its acquisitions of investments in real estate in accordance with Accounting Standards Codification ("ASC") 805-10, which requires the fair value of the real estate acquired to be allocated to the acquired tangible assets, consisting of land, building, furniture, fixtures and equipment and identified intangible assets and liabilities, consisting of the value of the above-market and below-market leases, the value of in-place leases and value of other tenant relationships, based in each case on their fair values. The Company considers acquisitions of operating real estate assets to be businesses as that term is contemplated in ASC 810-10.

The Company allocates purchase price to the fair value of the tangible assets of an acquired property (which includes land, building, furniture, fixtures and equipment) determined by valuing the property as if it were vacant. The as-if-vacant value is allocated to land and buildings, furniture, fixtures and equipment based on management's determination of the relative fair values of these assets.

Above-market and below-market in-place lease values for acquired properties are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. The capitalized above-market lease values are amortized as a reduction of rental income over the remaining non-cancelable terms of the respective leases. The capitalized below-market lease values are amortized as an increase to rental income over the initial term and any fixed-rate renewal periods in the respective leases.

Management may engage independent third-party appraisers to perform these valuations and those appraisals use commonly employed valuation techniques, such as discounted cash flow analyses. Factors considered in these analyses may include estimates of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases. The Company also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired. In estimating carrying costs, management also includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods depending on specific local market conditions and depending on the type of property acquired.

The total amount of other intangible assets acquired is further allocated to in-place leases and tenant relationships, which includes other tenant relationship intangible values based on management's evaluation of the specific characteristics of the residential leases and the Company's tenant retention history. The value of in-place leases and tenant relationships are amortized over the initial term of the respective leases and any expected renewal period.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets used in operations for impairment when there is an event or change in circumstances that indicates an impairment in value. If such impairment is present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future rental occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. No such losses have been recognized to date.

Impairment of Investments in Unconsolidated Joint Ventures

Our investments in unconsolidated joint ventures are reviewed for impairment periodically and we record impairment charges when events or circumstances change indicating that a decline in the fair values below the carrying values has occurred and such decline is other-than-temporary. The ultimate realization of our investment in unconsolidated joint ventures is dependent on a number of factors, including the performance of each investment and market conditions. We will record an impairment charge if we determine that a decline in the value of an investment in an unconsolidated joint venture is other-than-temporary. The Company recognized non-cash impairment charges of \$1,117,825 on its investment in the Mezzanine Loan Limited Liability Company in 2009. The Company did not recognize an impairment charge in 2010.

Capital Improvements

The Company's policy is to capitalize the cost of acquisitions (exclusive of transaction costs), rehabilitation and improvement of properties. Capital improvements are costs that increase the value and extend the useful life of an asset. Ordinary repair and maintenance costs that do not extend the useful life of the asset are expensed as incurred. Costs incurred on a lease turnover due to normal wear by the resident are expensed on the turn. Recurring capital improvements typically include items such as appliances, carpeting, flooring, HVAC equipment, kitchen and bath cabinets, site improvements and various exterior building improvements. Non-recurring upgrades include kitchen and bath upgrades, new roofs, window replacements and the development of on-site fitness, business and community centers.

The Company is required to make subjective assessments as to the useful lives of its properties and improvements for purposes of determining the amount of depreciation to reflect on an annual basis. These assessments have a direct impact on the Company's net income.

Investments in Multifamily Venture Limited Partnership

The Company's investments in the Multifamily Venture Limited Partnership, or ownership arrangements with unaffiliated third parties, were evaluated pursuant to the requirements of ASC 810-10 and none were determined to require the Company to consolidate the operating results of the investee. Additionally, the Company has determined, pursuant to the guidance promulgated in ASC 810-20 that the Company does not have a controlling interest in the Multifamily Venture Limited Partnership and is not required to consolidate the activity of the fund. The Company has accounted for the investments in accordance with ASC 970-323 as an equity method investment. The investments are carried as an asset on the balance sheet as Investment in Multifamily Venture Limited Partnership and the Company's equity in the income or loss of the venture is reflected as a single line item in the income statement as Equity in loss of Multifamily Venture Limited Partnership.

Corporate Governance

Since the incorporation of our Company, we have implemented the following corporate governance initiatives to address certain legal requirements promulgated under the Sarbanes-Oxley Act of 2002, as well as NYSE Amex corporate governance listing standards:

- § We have elected annually three independent directors, Messrs. Robert Kaufman, Richard Peiser and Randolph Hawthorne, each of whom the Board determined to be independent under applicable SEC and NYSE Amex rules and regulations;
- § The Board has determined annually that Robert Kaufman, the Chairman of our Audit Committee, qualifies as an "audit committee financial expert" under applicable rules and regulations of the SEC;
- § The Board's Audit Committee adopted our Audit and Non-Audit Services Pre-Approval Policy, which sets forth the procedures and the conditions pursuant to which permissible services to be performed by our independent public accountants must be pre-approved;
- § The Board's Audit Committee established "Audit Committee Complaint Procedures" for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, including the anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
- § The Board adopted a Code of Business Conduct and Ethics, which governs business decisions made and actions taken by our directors, officers and employees and a copy of which is available in print to stockholders upon written request addressed to the Company, c/o Investor Relations, One Beacon Street, Suite 1500, Boston, MA 02108; and
- § The Board established an Ethics Hotline that employees may use to anonymously report possible violations of the Code of Business Conduct and Ethics, including concerns regarding questionable accounting, internal accounting controls or auditing matters.

Recent Accounting Pronouncements

Effective January 1, 2010, the Company adopted ASC 810-10 and Amendments to ASC 810-10 which requires management to reassess their variable interest entities. The Company's adoption of this guidance did not have any

impact on its financial position and results of operations.

Liquidity and Capital Resources

Cash and Cash Flows

As of December 31, 2010, 2009 and 2008, the Company had approximately, \$12,894,000, \$17,957,000 and \$24,228,000 of cash and cash equivalents, respectively.

	Year ended December 31,		
	2010	2009	2008
Cash provided by operating Activities	\$ 13,953,330	\$ 9,596,978	\$ 12,464,803
Cash provided by (used in) investing activities	3,520,272	(25,744,815)	21,304,954
Cash provided by (used in) financing activities	(22,536,554)	9,876,839	(32,022,079)

During the year ended December 31, 2010, cash decreased by \$5,062,952. The main component of the overall decrease was \$22,536,554 of cash used in the Company's financing activities. The financing activities relate mainly to principal payments on revolving credit facility of \$15,720,000, repayment of the supplemental mortgage on the Glo property of \$12,210,000 at maturity and payment of principal amortization on existing mortgage loans of \$3,674,875, and distributions to preferred shareholders of \$6,700,765, partially offset by borrowings from mortgage notes payable of \$17,013,537, which included \$16,428,100 of HUD-insured financing for the Citrus Park property. As a requirement of the financing, the matured supplemental mortgage on the Glo property was backed by irrevocable letters of credit which were used to retired the matured debt. Cash provided by investing activities relate primarily to transfers of \$12,621,014 from restricted cash, partially offset by capital expenditures of \$9,048,464. Additionally, the net cash used in the financing and investing activities of the Company was further offset by an increase in cash of \$13,953,330 provided by the operating activities of the Company.

The Company's principal liquidity demands are expected to be distributions to our preferred shareholders, distributions to common shareholders and Operating Partnership unitholders, subject to sufficient liquidity, capital improvements, rehabilitation projects and repairs and maintenance for the properties, acquisition of additional properties within the investment restrictions placed on it by BVF II and debt repayment. Debt repayment in 2011 represents normal monthly amortization of the mortgage debt.

The Company intends to meet its short-term liquidity requirements through net cash flows provided by operating activities and advances from the revolving credit facility. The Company considers its ability to generate cash to be adequate to meet all operating requirements and make distributions to its preferred stockholders in accordance with the provisions of the Tax Code, applicable to REITs. Funds required to make distributions to our preferred and common shareholders and Operating Partnership unitholders that are not provided by operating activities will be supplemented by property debt financing and refinancing activities. As circumstances dictate and depending on the availability of funds, the Board may vote to forgo quarterly distributions to the Company's common shareholders and Operating Partnership unitholders as it has done during 2010.

The Company intends to meet its long-term liquidity requirements through property debt financing and refinancing noting that possible interest rate increases resulting from current economic conditions could negatively impact the

Company's ability to refinance existing debt at acceptable rates. The Company has one supplemental mortgage with an outstanding balance of approximately \$3,500,000 that matures in 2012. In 2013, approximately \$55,995,000 of the Company's outstanding mortgage debt is due to mature and be repaid. The Company may seek to expand its ability to purchase properties through the use of venture relationships with other companies.

There is no guarantee that the Company's borrowing arrangements or other arrangements for obtaining liquidity will continue to be available, or if available, will be available on terms and conditions acceptable to the Company. Unfavorable economic conditions also could increase funding costs, limit access to the capital markets or result in a decision by lenders not to extend credit to the Company. In addition, a decline in market value of the Company's assets may have particular adverse consequences in instances where the Company borrowed money based on the fair value of those assets. A decrease in market value of those assets may result in the lender requiring the Company to post additional collateral at a time when it may not be in the Company's best interest to do so. As of December 31, 2010 the Company does not have significant exposure to financing in which the lender can require the Company to post additional collateral or otherwise sell assets to settle the financing obligations.

As of December 31, 2010, the Company has obtained fixed interest rate mortgage financing on all of the properties in the portfolio except the Glo property which has variable rate debt. The Company completed the conversion of the Reserves at Arboretum development construction loan to permanent financing in the amount of \$12,950,000 and closed on \$16,428,100 of HUD-insured financing for the Citrus Park property during the year ended December 31, 2010.

The Company has a \$20,000,000 revolving credit facility in place with an affiliate of the Company. The facility provides for interest on borrowings at a rate of 5% above the 30-day LIBOR rate, as announced by Reuters, and fees based on borrowings under the facility and various operational and financial covenants, including a maximum leverage ratio and a maximum debt service ratio. The facility provides for a 60-day notice of termination by which the lender can affect a termination of the commitment under the facility and render all outstanding amounts due and payable. Additionally, the facility also contains a clean-up requirement which requires the borrower to repay in full all outstanding loans and have no outstanding obligations under the Agreement for a 14 consecutive day period during each 365-day period. During the year ended December 31, 2010, the Company did not borrow any amounts under the revolving credit facility and repaid advances of \$15,720,000 during the same period. There is no outstanding balance under the facility as of December 31, 2010.

Subsequent to year end, on February 17, 2011, the Company executed an amendment to the facility (the "Credit Facility Amendment") which provides for a temporary modification of certain provisions of the facility during a period commencing with the date of execution and ending on July 31, 2012 (the "Amendment Period"), subject to extension. During the Amendment Period, certain provisions of the facility are modified and include: an increase in the amount of the commitment from \$20,000,000 to \$40,000,000; elimination of the leverage ratio covenant and clean-up requirement (each as defined in the revolving credit facility agreement) and computation and payment of interest on a quarterly basis. At the conclusion of the Amendment Period, including extensions, the provisions modified pursuant to the Credit Facility Amendment will revert back to the provisions of the revolving credit facility agreement prior to the Amendment Period. Refer to Notes to the Consolidated Financial Statements, Note 18 – Subsequent Events in Part IV, Item 15 – Exhibits and Financial Statement Schedules of this Form 10K for additional information.

Indebtedness

The following table provides summary information with respect to the mortgage debt incurred by the Company during the year ended December 31, 2010:

Property Name	New Balance	Closing Date	Interest Rate	Term
Fixed Rate Mortgages:				
Reserves at Arboretum (1)	\$ 12,950,000	April 23, 2010	6.20 %	5 years
Citrus Park	16,428,100	May 20, 2010	5.00 %	35 Years
Total				
	\$ 29,378,100			

(1) Conversion of the Reserves at Arboretum development construction loan to permanent financing was completed on April 23, 2010.

Capital Expenditures

The Company incurred \$3,286,267 and \$3,845,840 in recurring capital expenditures during the years ended December 31, 2010 and 2009, respectively. Recurring capital expenditures typically include items such as appliances, carpeting, flooring, HVAC equipment, kitchen and bath cabinets, site improvements and various exterior building improvements.

The Company incurred \$5,762,197 and \$10,442,549 in renovation-related and development capital expenditures during the years ended December 31, 2010 and 2009, respectively. Renovation related capital expenditures generally

include capital expenditures of a significant non-recurring nature, including construction management fees payable to an affiliate of the Company, where the Company expects to see a financial return on the expenditure or where the Company believes the expenditure preserves the status of a property within its sub-market.

During 2007, the Company, as part of the decision to acquire the Hampton House property, contemplated a rehabilitation project at the 196-unit property of approximately \$6,150,000 for interior and exterior renovation improvements. The project includes rehabilitation of interior common areas including the lobby and central utility systems and replacement of all windows and painting of the exterior. As of December 31, 2010, the project was 98% complete as 193 of the 196 units had been completed, of which 192 units, or 99% have been leased.

The Company has completed the development of one of the two parcels of vacant land that it owns. The property, known as the Reserves at Arboretum, was approved for development on November 1, 2007 and construction of the 143 units and clubhouse began in early 2008. The project development cost was estimated at approximately \$17,358,000 and was completed

in early 2009. As of December 31, 2009, the project development costs incurred were approximately \$16,958,000 and included all costs, exclusive of land, with the exception of some minor costs to complete final items. Interest costs are capitalized on the development until construction is substantially complete. There was \$152,188 of interest capitalized in the year ended December 31, 2009 and no interest was capitalized in 2010. No development plans are currently in the works for the other vacant parcel.

Pursuant to terms of the mortgage debt on certain properties in the Company's portfolio, lenders require the Company to fund repair or replacement escrow accounts. The funds in the escrow accounts are disbursed to the Company upon completion of the required repairs or renovations activities. The Company is required to provide to the lender documentation evidencing the completion of the repairs, and in some cases, are subject to inspection by the lender. Refer to Part IV Item 15 – Notes to the Consolidated Financial Statements, Footnote 10 – Commitments and Contingencies.

The Company's capital budgets for 2011 anticipate spending approximately \$7,780,000 for ongoing rehabilitation. As of December 31, 2010, the Company has not committed to any new significant rehabilitation projects.

Off-Balance Sheet Arrangements

The Company's investment in BVF obligated the Company to make capital contributions to BVF in the amount of \$23,400,000 during the investment period of BVF. As of December 31, 2010, the Company has made 100% of the capital contributions required by BVF. The Company has no obligation to make any additional contributions of capital to BVF.

Acquisitions and Dispositions

Discussion of acquisitions for the year ended December 31, 2010

The Company did not acquire any properties during the year ended December 31, 2010.

Discussion of dispositions for the year ended December 31, 2010

The Company did not dispose of any properties during the year ended December 31, 2010.

Contractual Obligations and Other Commitments

On January 25, 2008, the Company, through its wholly owned subsidiary, BIR Arboretum Development L.L.C., executed a fixed rate first mortgage note for \$13,650,000, which is collateralized by the related property. The proceeds of the loan were used to build a multifamily apartment community on a parcel of land adjacent to the Arboretum Place Apartments, a multifamily apartment community also owned by the Company. The interest rate on the note is fixed at 6.20% and has a term of seven years, including a two-year construction period and five years of permanent financing. The loan was granted with equity requirements that provide for the Company to make an equity investment of \$5,458,671, inclusive of land equity of \$2,150,000, in the project. On April 23, 2010, the Company completed the conversion of the loan from the construction phase to the permanent phase which required the Company to return \$162,027 due to loan-to-value limitations. The final amount of the loan was \$12,950,000. As of December 31, 2010, the Company received proceeds pursuant to the loans of \$13,112,027, of which \$585,437 was received during the year ended December 31, 2010.

On February 24, 2009, the Company, through its joint venture, BIR Holland JV LLC, in connection with the acquisition of Glo, assumed a mortgage note payable with outstanding balances of \$47,500,000, which is collateralized by the related property. The note has a variable interest rate. As of December 31, 2010, the

weighted-average variable interest rate is 1.59%. In accordance with ASC 805-10, the Company recorded this mortgage at fair value, which was determined by calculating the present value of the future payments at current interest rates. The fair market value at the acquisition date for the debt assumed on Glo was \$42,203,273. The mortgage note originally required two principal reductions during 2009 and 2010 in the amount of \$9,500,000 and \$2,710,000, respectively. On July 27, 2009, Fannie Mae granted a six-month extension for the amount originally due in 2009 of \$9,500,000 to March 15, 2010. On March 15, 2010, the supplemental mortgages outstanding and secured by Glo in the amount of \$12,210,000 matured. As a requirement of the financing, the amounts maturing on March 15, 2010 were backed by irrevocable letters of credit which were used to retire the matured debt. Additionally, as a requirement of the bank that issued the irrevocable letters of credit, the Company was required to segregate cash in an amount sufficient to back the letters of credit. On March 15, 2010, the segregated cash was used to settle the letters of credit. Because the assumed mortgage was originally recorded at fair value, the Company is required to amortize the difference between the fair value and the face value of the mortgage over the life of the mortgage. During the year ended December 31, 2010, the Company recorded \$427,589 of amortization of the fair value adjustment, resulting in an

increase in the recorded mortgage balance and a charge to interest expense. During 2010, the Company identified certain errors in its previously reported financial statements. Because these changes are not material to the Company's financial statements for the period prior to 2010 or to 2010 taken as a whole, the Company corrected these errors during 2010. These adjustments included entries to correct errors in amortization of the fair value adjustment for 2009. Had these errors been corrected in the proper periods, the impact of the adjustments on 2010 would have been a decrease in interest expense and net loss of \$196,552.

On May 20, 2010, the Company closed on \$16,428,100 of financing for the Citrus Park property insured by HUD. The all-in coupon rate is 5% and the term is 35 years. Proceeds from the closing were primarily used to repay the revolving credit facility balance of \$15,720,000 and accrued interest to an affiliate of the Company and applicable closing costs.

The Company expects to continue to take advantage of the low interest rate mortgage environment as it acquires additional properties. The Company expects to use leverage amounts up to 75% of the fair market value on a portfolio basis.

The primary obligations of the Company relate to its borrowings under the mortgage notes payable. The \$476,386,979 in mortgage notes payable has varying maturities ranging from 1 to 35 years. The following table summarizes our contractual obligations as of December 31, 2010:

	2011	2012	2013	2014	2015	Thereafter
Long Term Debt Obligations (1)	\$4,033,830	\$9,251,274	\$61,379,687	\$66,591,051	\$63,630,104	\$271,501,033
Capital Lease Obligations	-	-	-	-	-	-
Operating Lease Obligations	-	-	-	-	-	-
Purchase Obligations (2)	-	-	-	-	-	-
Other Long-Term Liabilities Reflected on Balance Sheet under GAAP	-	-	-	-	-	-

(1) Amounts include principal payments only. The Company will pay interest on outstanding indebtedness based on the rates and terms as summarized in Part IV Item 15 - Notes to the Consolidated Financial Statements, Footnote 6 – Mortgage Notes Payable.

(2) The Company has obligations under numerous contracts with various service providers at its properties. None of these contracts are for periods greater than one year or are material either individually or in aggregate to the Company's operations.

Competition

The Company competes with other multifamily apartment community owners and operators and other real estate companies in seeking properties for acquisition and in attracting potential residents. The Company's properties are in developed areas where there are other properties of the same type, which directly compete for residents. The Company believes that its focus on resident service and satisfaction gives it a competitive advantage when competing against other communities for tenants.

Market Environment

While economists declared the worst recession to hit the United States since the 1930s was over in late 2009, with policymakers' efforts to stabilize the banking system and provide a fiscal stimulus to the economy, the high national unemployment rate has started to stabilize and, in some markets, begun to improve. While there continue to be indications of stabilization during 2010 in both domestic and foreign economies, the signs of a strong and sustained expansion are not yet evident. A leading indicator of stabilization and expansion includes the recovery in the labor markets, which tend to recover with some lag. It is only when the labor markets stabilize that there will be an increase in household formation, which represents the greatest driver for rental apartments.

The Company both believes and recognizes that real estate goes through cycles and while the drivers of these cycles can vary greatly from cycle to cycle, the outcome is generally the same with periods of improving values and profit growth followed by periods of stagnant or declining values and profit stagnation. The Company recognizes, however, that real estate investing requires a long-term perspective and, as history suggests, a company's ability to remain resilient during tough economic times will often lead to opportunities. In general, multifamily real estate fundamentals of well located quality real estate remained relatively steady during the recent economic downturn. Occupancy rates continue to hover in the low to mid-90% range for well located, well managed properties though continued weakness in the economy and/or a lack of improvement in employment rates could have a negative impact on both occupancy and rent levels. Credit worthy borrowers in the multifamily sector continue to be able to access capital through Fannie Mae and Freddie Mac, and other sources, at

historically attractive rates. Though there is no assurance that under existing or future regulatory restrictions this source of capital, unique to multifamily borrowers, will continue to be available.

The Company continues to believe that projected demographic trends will favor the multifamily sector, driven primarily by the continued flow of echo boomers (children of baby boomers, age 20 to 29), the fastest growing segment of the population, and an increasing number of immigrants who are often renters by necessity. In many cases, the current economic climate has delayed many would-be residents from entering the rental market and instead choosing to remain at home or to share rental units instead of renting their own space. This trend may be creating a backlog of potential residents who will enter the market as the economy begins to rebound and unemployment rates begin to trend back to historical norms. The Company's properties are generally located in markets where zoning restrictions, scarcity of land and high construction costs create significant barriers to new development. The Company believes it is well positioned to manage its portfolio through the remainder of this economic downturn and is prepared to take advantage of opportunities that present themselves during such times.

Declaration of Dividends and Distributions on Class B Common Stock

On May 6, 2008, the Board authorized the general partner of the Operating Partnership to distribute quarterly distributions of \$1,000,000 each, in the aggregate, from its operating cash flows to common general and common limited partners, payable on August 15, 2008 and November 15, 2008. On the same day, the Board also declared a common dividend of \$0.016996 per share on the Company's Class B common stock payable concurrently with the Operating Partnership distributions. Also on May 6, 2008, the Board authorized the general partner of the Operating Partnership to distribute a special distribution of \$10,000,000 from its operating cash flows to common general and common limited partners, payable on May 15, 2008. On the same day, the Board also declared a common dividend of \$0.169963 per share on the Company's Class B common stock payable concurrently with the Operating Partnership distribution.

On December 30, 2009, the Board authorized the general partner of the Operating Partnership to distribute a special distribution of \$1,025. \$1,000 of the total distribution was an in-kind distribution of the Company's investment in the Mezzanine Loan LLC to KRF Company LLC, an affiliate of the company and majority holder of the Class B common stock. The remaining \$25 balance of the special distribution was paid to the two remaining holders in cash from its operating cash flows to common general and common limited partners, payable on December 30, 2009. On the same day, the Board also declared a common dividend of \$0.000017 per share on the Company's Class B common stock payable concurrently with the Operating Partnership distribution.

For the year ended December 31, 2010 and 2009, the Company declared a total of \$0 and \$1,025 respectively, of distributions to common shareholders. There was no common dividend payable outstanding at December 31, 2010 or December 31, 2009.

The Company's policy to provide for common distributions is based on available cash and Board approval.

Results of Operations and Financial Condition

During the year ended December 31, 2010, the Company's portfolio (the "Total Property Portfolio"), which consists of all properties acquired or placed in service and owned through December 31, 2010, remained unchanged. As a result of changes in the Total Portfolio over time, including the change in the portfolio holdings during 2009, the financial statements show considerable changes in revenue and expenses from period to period. The Company does not believe that its period-to-period financial data are comparable. Therefore, the comparison of operating results for the years ended December 31, 2010 and 2009 reflect changes attributable to the properties that were owned by the Company throughout each period presented (the "Same Property Portfolio").

Net Operating Income (“NOI”) falls within the definition of a “non-GAAP financial measure” as stated in Item 10(e) of Regulation S-K promulgated by the SEC. The Company believes NOI is a measure of operating results that is useful to investors to analyze the performance of a real estate company because it provides a direct measure of the operating results of the Company’s multifamily apartment communities. The Company also believes it is a useful measure to facilitate the comparison of operating performance among competitors. The calculation of NOI requires classification of income statement items between operating and non-operating expenses, where operating items include only those items of revenue and expense which are directly related to the income producing activities of the properties. We believe that to achieve a more complete understanding of the Company’s performance, NOI should be compared with our reported net income (loss). Management uses NOI to evaluate the operating results of properties without reflecting the effect of capital decisions such as the issuance of mortgage debt and investments in capital items, in turn these capital decisions have an impact on interest expense and depreciation and amortization.

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The most directly comparable financial measure of our NOI, calculated and presented in accordance with GAAP, is net income (loss), shown on the statement of operations. For the years ended December 31, 2010, 2009 and 2008, the net income (loss) was (\$25,726,511), (\$28,685,234) and \$53,999,236, respectively. A reconciliation of our NOI to net income for the years ended December 31, 2010, 2009 and 2008 are presented as part of the following tables on pages 30 and 34.

Comparison of year ended December 31, 2010 to the year ended December 31, 2009

The tables below reflect selected operating information for the Same Property Portfolio and the Total Property Portfolio for the years ended December 31, 2010 and 2009. The Same Property Portfolio consists of the 24 properties acquired or placed in service on or prior to January 1, 2009 and owned through December 31, 2010. The Total Property Portfolio includes the effect of the change in the one property acquired during the year ended December 31, 2009, Glo, and the completion of development of one property, the Reserves at Arboretum, during the same period. (The 2009 activity for the Century, St Marin, Westchester West and Westchase has been removed from the presentation as the results have been reflected as discontinued operations in the consolidated statements of operations.)

	Same Property Portfolio Year Ended December 31,			
	2010	2009	Increase/ (Decrease)	% Change
Revenue:				
Rental	\$ 70,268,796	\$ 69,975,083	\$ 293,713	0.42 %
Interest, utility reimbursement and other	5,532,766	4,851,521	681,245	14.04 %
Total revenue	75,801,562	74,826,604	974,958	1.30 %
Operating Expenses:				
Operating	17,868,866	18,741,371	(872,505)	(4.66)%
Maintenance	4,890,072	3,970,056	920,016	23.17 %
Real estate taxes	7,174,239	7,534,411	(360,172)	(4.78)%
General and administrative	1,907,378	1,790,710	116,668	6.52 %
Management fees	2,924,039	2,940,387	(16,348)	(0.56)%
Total operating expenses	34,764,594	34,976,935	(212,341)	(0.61)%
Net Operating Income	41,036,968	39,849,669	1,187,299	2.98 %
Non-operating expenses:				
Depreciation	29,017,214	30,389,055	(1,371,841)	(4.51)%
Interest	25,227,588	25,405,106	(177,518)	(0.70)%
Amortization of acquired in-place leases and tenant relationships	44,550	309,339	(264,789)	(85.60)%
	54,289,352	56,103,500	(1,814,148)	(3.23)%

Total non-operating expenses				
Loss before equity in loss of Multifamily Venture Limited Partnership and Mezzanine Loan Limited Liability Company and loss from discontinued operations	(13,252,384)	(16,253,831)	3,001,447	18.47 %
Equity in loss of Multifamily Venture Limited Partnership	-	-	-	-
Equity in loss of Mezzanine Loan Limited Liability Company	-	-	-	-
Discontinued operations	-	-	-	-
Net loss	\$ (13,252,384)	\$ (16,253,831)	\$ 3,001,447	18.47 %

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	Total Portfolio			
	Year Ended December 31,			
	2010	2009 Adjusted*	Increase/ (Decrease)	% Change
Revenue:				
Rental	\$ 75,234,879	\$ 74,043,952	\$ 1,190,927	1.61 %
Interest, utility reimbursement and other	6,448,011	5,578,561	869,450	15.59 %
Total revenue	81,682,890	79,622,513	2,060,377	2.59 %
Operating Expenses:				
Operating	19,866,004	20,614,401	(748,397)	(3.63)%
Maintenance	5,139,923	4,132,269	1,007,654	24.39 %
Real estate taxes	7,990,892	8,485,196	(494,304)	(5.83)%
General and administrative	4,401,076	5,688,334	(1,287,258)	(22.63)%
Management fees	4,803,585	4,770,659	32,926	0.69 %
Incentive advisory fees	2,207,795	-	2,207,795	100.00 %
Total operating expenses	44,409,275	43,690,859	718,416	1.64 %
Net Operating Income	37,273,615	35,931,654	1,341,961	3.73 %
Non-operating expenses:				
Depreciation	31,326,510	32,136,098	(809,588)	(2.52)%
Interest	27,475,543	26,387,424	1,088,119	4.12 %
Amortization of acquired in-place leases and tenant relationships	117,848	827,930	(710,082)	(85.77)%
Total non-operating expenses	58,919,901	59,351,452	(431,551)	(0.73)%
Loss before equity in loss of Multifamily Venture Limited Partnership and Mezzanine Loan Limited Liability Company and loss from discontinued operations	(21,646,286)	(23,419,798)	1,773,512	7.57 %
	(4,080,225)	(4,143,070)	62,845	1.52 %

Equity in loss of
Multifamily Venture
Limited Partnership

Equity in (loss) income of Mezzanine Loan Limited Liability Company	-	(947,294)	947,294	100.00 %
Discontinued operations	-	(175,072)	175,072	100.00 %
Net loss	\$ (25,726,511)	\$ (28,685,234)	\$ 2,958,723	10.31 %

* See Notes to the Consolidated Financial Statements, Note 5 – Investment in Multifamily Venture Limited Partnership

Comparison of the year ended December 31, 2010 to the year ended December 31, 2009
(Same Property Portfolio)

Revenue

Rental Revenue

Rental revenue for the Same Property Portfolio increased for the twelve-month period ended December 31, 2010 in comparison to the similar period in 2009. The increase is mainly attributable to increased occupancy at most of the properties, more specifically at the Hampton House and Executive House properties as a result of the completion and availability of renovated units from its ongoing rehabilitation project. Market conditions remain stable in the majority of the sub-markets in which the Company owns and operates apartments however the current economic environment has resulted in increased bad debts at certain properties in the portfolio. The Company continues to benefit from its focus on resident retention and property rehabilitation projects at various properties in the Same Property Portfolio where successful projects improve the consumer appeal and historically have yielded increased rental revenues as rehabilitated units become available for occupancy at the incrementally higher rental rates than the pre-rehabilitation levels. Given current economic conditions, the Company is prioritizing the retention of quality tenants in properties throughout the portfolio.

Interest, utility reimbursement and other revenue

Same Property Portfolio interest, utility reimbursement and other revenues increased for the year ended December 31, 2010 as compared to the year ended December 31, 2009. Increase in utility reimbursement is mainly due to successful increases in usage of bill back programs to tenants. Other revenue increased is mainly attributable to increased income received from various cable service companies for their exclusive rights to service our properties.

Operating Expenses

Operating

Overall operating expenses decreased in the twelve-month period ended December 31, 2010 as compared to the same period of 2009. Savings in marketing costs and utilities, including electricity and gas, were partially offset by higher expenses in payroll due to higher bonus payment, and water and sewer. Group insurance expenses for the year ended December 31, 2010 were lower compared to the same period ended December 31, 2009 as a result of the Company's property insurance coverage renewal in April 2010. Savings in marketing costs is primarily as a result of the Company's overall direction to focus on internet-based advertising in place of print advertising.

Maintenance

Maintenance expense increased in the twelve months ended December 31, 2010 as compared to the same period of 2009, primarily due to increase in snow removal costs at the Seasons and Berkshire of Columbia properties during the first quarter of 2010, partially offset by reduced turnover-related expenses as a result of increased occupancy at most of the properties. Management continues to employ a proactive maintenance rehabilitation strategy at its apartment communities and considers the strategy an effective program that preserves, and in some cases increases, its occupancy levels through improved consumer appeal of the apartment communities, from both an interior and exterior perspective.

Real Estate Taxes

Real estate taxes decreased for the year ended December 31, 2010 from the comparable period of 2009. The Company continually scrutinizes the assessed values of its properties and avails itself of arbitration or similar forums made available by the taxing authority for increases in assessed value that it considers to be unreasonable. The Company has been successful in achieving tax abatements for certain of its properties based on challenges made to the assessed values. Going forward, the Company anticipates a general upward trend in real estate tax expense as local and state taxing agencies continue to place significant reliance on property tax revenue.

General and Administrative

General and administrative expenses increased in the twelve-month period ended December 31, 2010 compared to 2009. The overall increase is due mainly to normal operating expense fluctuations experienced throughout the properties of the Same Property Portfolio.

Management Fees

Management fees of the Same Property Portfolio decreased slightly in the twelve-month period ended December 31, 2010 compared to the same period of 2009. Property management fees are assessed on the revenue stream of the properties managed by an affiliate of the Company.

Non-Operating Expenses

Depreciation

Depreciation expense of the Same Property Portfolio decreased for the twelve months ended December 31, 2010 as compared to the same period of the prior year. The decrease is a result of assets that have been fully depreciated, offset by the additions to the basis of fixed assets in the portfolio driven by substantial rehabilitation projects ongoing at the Hampton House property and to a lesser degree, normal recurring capital spending activities over the remaining properties in the Same Property Portfolio.

Interest, inclusive of amortization of deferred financing fees

Interest expense for the twelve months ended December 31, 2010 decreased over the comparable period of 2009. The decrease is primarily attributable to the pay off of the Citrus Park loan in November 2009 and is partially offset by interest related to the HUD-insured replacement financing on the same property totaling \$16,428,100 which closed in May 2010 and was at a more favorable rate than the previous loan.

Amortization of acquired in-place leases and tenant relationships

Amortization of acquired in-place-leases and tenant relationships decreased in the twelve-month period ended December 31, 2010 as compared to the same period in 2009. The decrease is related mainly to the completion of amortization of the acquired-in-place-lease intangible assets booked at acquisition and amortized over a twelve-month period which did not extend into the twelve-month period ended December 31, 2010.

Comparison of the twelve months ended December 31, 2010 to the twelve months ended December 31, 2009 (Total Property Portfolio)

In general, increases in revenues and total operating expenses and the related losses of the Total Property Portfolio for the twelve months ended December 31, 2010 as compared to the twelve months ended December 31, 2009 are due mainly, in addition to the reasons discussed above, to the fluctuations in the actual properties owned during the comparative periods, as two properties were acquired or developed during 2009. The increase was partially offset by decreased rent concessions amortization recorded during the period. Increase in total operating expenses for the year ended December 31, 2010 as compared to the same period in 2009 is mainly attributable to the transaction costs of \$1,183,299 associated with the acquisition of Glo expensed pursuant to the guidance of ASC 805-10 adopted by the Company on January 1, 2009 and cost accrued for the judgment in the Lakeridge legal matter of \$774,990, which were included in General and Administrative expense on the Consolidated Statement of Operations for the year ended December 31, 2009. The difference is partially offset by bond redemption fees of \$223,300 incurred related to the maturity of the Glo property loans which matured in March 2010. The fees were included in General and Administrative expenses for the year ended December 31, 2010. In addition, the Company recognized \$2,207,795 of accrued Incentive Advisory Fee pursuant to the Advisory Services Agreement. (Refer to Note 13 – Related Party Transactions on page 79 for further discussion.) Non-operating expenses decreased for the twelve months ended December 31, 2010 as compared to the same period in 2009 mainly due to the reasons discussed in the Same Property Portfolio, partially offset by increases in interest expenses as a result of increases in the level of mortgage and revolving credit debt outstanding and \$427,589 of negatively amortized interest recorded on the Glo property loans.

Comparison of year ended December 31, 2009 to the year ended December 31, 2008

The tables below reflect selected operating information for the Same Property Portfolio and the Total Property Portfolio for the years ended December 31, 2009 and 2008. The Same Property Portfolio consists of the 23 properties acquired or placed in service on or prior to January 1, 2008 and owned through December 31, 2009. The Total Property Portfolio includes the effect of the change in the 1 property acquired during the year, Glo, and the completion of development of 1 property, the Reserves at Arboretum. (The 2008 activity for the Century, St Marin, Westchester West and Westchase has been removed from the presentation as the results have been reflected as discontinued operations in the consolidated statements of operations.)

	Same Property Portfolio Year Ended December 31,			
	2009	2008	Increase/ (Decrease)	% Change
Revenue:				
Rental	\$ 65,557,162	\$ 64,379,361	\$ 1,177,801	1.83 %
Interest, utility reimbursement and other	4,666,052	4,199,498	466,554	11.11 %
Total revenue	70,223,214	68,578,859	1,644,355	2.40 %
Operating Expenses:				
Operating	17,379,707	16,600,542	779,165	4.69 %
Maintenance	3,777,766	4,325,488	(547,722)	(12.66)%
Real estate taxes	7,215,711	7,115,666	100,045	1.41 %
General and administrative	1,707,923	1,517,223	190,700	12.57 %
Management fees	2,756,327	2,738,118	18,209	0.67 %
Total operating expenses	32,837,434	32,297,037	540,397	1.67 %
Net Operating Income	37,385,780	36,281,822	1,103,958	3.04 %
Non-operating expenses:				
Depreciation	27,944,756	27,681,017	263,739	0.95 %
Interest, inclusive of deferred financing fees	23,637,097	23,090,981	546,116	2.37 %
Amortization of acquired in-place leases and tenant relationships	19,473	181,534	(162,061)	(89.27)%
Total non-operating expenses	51,601,326	50,953,532	647,794	1.27 %

Loss before equity in loss of Multifamily Venture Limited Partnership and Mezzanine Loan Limited Liability Company and loss from discontinued operations	(14,215,546)	(14,671,710)	456,164	3.11	%
Equity in loss of Multifamily Venture Limited Partnership	-	-	-	-	
Equity in loss of Mezzanine Loan Limited Liability Company	-	-	-	-	
Discontinued operations	-	-	-	-	
Net loss	\$ (14,215,546)	\$ (14,671,710)	\$ 456,164	3.11	%

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	Total Portfolio				
	Year Ended December 31,				
	2009	2008	Increase/		%
	Adjusted*	Adjusted*	(Decrease)		Change
Revenue:					
Rental	\$ 74,043,952	\$ 65,441,106	\$ 8,602,846	13.15	%
Interest, utility reimbursement and other	5,578,561	4,764,279	814,282	17.09	%
Total revenue	79,622,513	70,205,385	9,417,128	13.41	%
Operating Expenses:					
Operating	20,614,401	17,703,108	2,911,293	16.45	%
Maintenance	4,132,269	4,377,041	(244,772)	(5.59)	%
Real estate taxes	8,485,196	7,435,548	1,049,648	14.12	%
General and administrative	5,688,334	3,030,145	2,658,189	87.72	%
Management fees	4,770,659	4,487,677	282,982	6.31	%
Total operating expenses	43,690,859	37,033,519	6,657,340	17.98	%
Net Operating Income	35,931,654	33,171,866	2,759,788	8.32	%
Non-operating expenses:					
Depreciation	32,136,098	28,277,756	3,858,342	13.64	%
Interest, inclusive of deferred financing fees	26,387,424	23,370,634	3,016,790	12.91	%
Amortization of acquired in-place leases and tenant relationships	827,930	474,258	353,672	74.57	%
Total non-operating expenses	59,351,452	52,122,648	7,228,804	13.87	%
Loss before equity in loss of Multifamily Venture Limited Partnership and Mezzanine Loan Limited Liability Company and loss from discontinued operations	(23,419,798)	(18,950,782)	(4,469,016)	23.58	%
Equity in loss of Multifamily Venture Limited Partnership	(4,143,070)	(4,321,483)	178,413	4.13	%
Equity in (loss) income of Mezzanine Loan Limited Liability Company	(947,294)	92,293	(1,039,587)	(1,126.40)	%

Discontinued operations	(175,072)	77,179,208	(77,354,280)	(100.23)%
Net (loss) income	\$ (28,685,234)	\$ 53,999,236	\$ (82,684,470)	(153.12)%

* See Notes to the Consolidated Financial Statements, Note 5 – Investment in Multifamily Venture Limited Partnership

Comparison of the year ended December 31, 2009 to the year ended December 31, 2008
(Same Property Portfolio)

Revenue

Rental Revenue

Rental revenue of the Same Property Portfolio increased for the twelve-month period ended December 31, 2009 in comparison to the similar period in 2008. The increase is mainly attributable to increased occupancy as a result of the completion of the utility conversion at the Seasons of Laurel property where turnover and vacancies have been reduced and the completion and availability of renovated units destroyed by a fire at Country Place II and a hurricane at Walden Pond. Market conditions remain stable in the majority of the sub-markets in which the Company owns and operates apartments however the current economic environment has resulted in increased bad debts at certain properties in the portfolio. The Company continues to benefit from its focus on resident retention and property rehabilitation projects at various properties in the Same Property Portfolio where successful projects improve the consumer appeal and historically have yielded increased rental revenues as rehabilitated units become available for occupancy at the incrementally higher rental rates than the pre-rehabilitation levels. Given current economic conditions, the Company is prioritizing the retention of quality tenants in properties throughout the portfolio.

Interest, utility reimbursement and other revenue

Same Property Portfolio interest, utility reimbursement and other revenues increased for the twelve-month period ended December 31, 2009 as compared to the twelve-month period ended December 31, 2008. Increase in utility reimbursement is mainly due to successful increases in usage of bill back programs to tenants. Other revenues increased as a result of revenues from fees charged to tenants and potential tenants, including late fees, cable, valet trash and other similar revenue items.

Operating Expenses

Operating

Overall operating expenses increased in the twelve-month period ended December 31, 2009 as compared to the same period of 2008. The increase is mainly due to higher property insurance expenses as a result of the Company's property insurance coverage renewal in April 2009, higher utilities expenses including water and sewer and gas, offset by savings in electricity. The increase in water and sewer expenses is primarily due to an adjustment in 2009 to reclass the portions that relate to water and sewer from real estate expenses. Water and sewer expenses were billed collectively with real estate taxes by the various agents and were recorded as part of real estate expenses historically as a result. The Seasons of Laurel property has historically contributed significantly to the Company's overall utility expense as the electricity charges at the property have been paid by the Company and were not billed directly to tenants for usage of their apartment unit. The Company has completed a project to modify the utility infrastructure to allow for direct billing of electric costs by individual apartment units. The changes to the infrastructure were completed in the fourth quarter of 2008 with the related direct billing to tenants reaching full implementation in early 2009. As a result of the individual apartment units being migrated to a direct tenant billing, the Company has realized a reduction in electricity expense at Seasons and anticipates the reductions and related comparative savings to continue going forward.

Maintenance

Maintenance expense decreased in the twelve months ended December 31, 2009 as compared to the same period of 2008, due mainly to the Company's focus on expense controls during the challenging economic environment as well and to a lesser degree higher occupancy levels in the current year across the portfolio, specifically at the Seasons of Laurel, resulting in less turnover and related turnover expenses. The Company has focused efforts on containing expenses in an effort to maximize operating results and conserve capital during this period of unfavorable operating conditions. Reductions in expense items such as landscaping and contract labor reflect careful scrutiny of expenditures and deferral or elimination of the expense when appropriate. Also, the Company has focused on maintaining high occupancy levels through the recent challenging economic conditions and as a result has seen a reduction of expenses normally associated with turning over the units to new tenants such as painting and carpet cleaning. Management continues to employ a proactive maintenance rehabilitation strategy at its apartment communities and considers the strategy an effective program that preserves, and in some cases increases, its occupancy levels through improved consumer appeal of the apartment communities, from both an interior and exterior perspective. During the comparative periods, maintenance items of a non-recurring or annual nature have been carefully considered and in some cases delayed or eliminated in an effort to bolster operating results.

Real Estate Taxes

Real estate taxes increased for the year ended December 31, 2009 from the comparable period of 2008. The increase is due mainly to the continued escalation of assessed property valuations for properties in the Same Property Portfolio including properties located in Maryland. The Company continually scrutinizes the assessed values of its properties and avails itself of arbitration or similar forums made available by the taxing authority for increases in assessed value that it considers to be unreasonable. The Company has been successful in achieving tax abatements for certain of its properties based on challenges made to the assessed values. The Company anticipates a continued upward trend in real estate tax expense as local and state taxing agencies continue to place significant reliance on property tax revenue.

General and Administrative

General and administrative expenses increased in the twelve-month period ended December 31, 2009 compared to 2008. The increase is due to increases in legal expenses related to current tenant issues, service fees associated with the qualification of prospective tenants and increases in security expense at certain properties. The remainder of the net increase in expenses are related to normal operating expense fluctuations experienced throughout the properties of the Same Property Portfolio.

Management Fees

Management fees of the Same Property Portfolio increased slightly in the twelve-month period ended December 31, 2009 compared to the same period of 2008 based on increased level of revenues in the comparative periods. Property management fees are assessed on the revenue stream of the properties managed by an affiliate of the Company.

Non-Operating Expenses

Depreciation

Depreciation expense of the Same Property Portfolio increased for the twelve months ended December 31, 2009 as compared to the same period of the prior year. The increased expense is related to the additions to the basis of fixed assets in the portfolio driven by substantial rehabilitation projects ongoing at the Standard of Lenox and the Hampton House properties and to a lesser degree, normal recurring capital spending activities over the remaining properties in the Same Property Portfolio.

Interest, inclusive of deferred financing fees

Interest expense for the twelve months ended December 31, 2009 increased over the comparable period of 2008. The increase is attributable to the refinancing of mortgages on properties at an incrementally higher principal level than the related paid-off loan. The majority of the increase is due to the pay off of the Briarwood loan balance of \$8,600,333 at maturity in April 2008 and a new loan on the same property that was obtained in October 2008, in addition to new mortgage loans on Berkshire of Columbia and BIR Laurel Wood properties that were closed in the first quarter of 2009.

Amortization of acquired in-place leases and tenant relationships

Amortization of acquired in-place-leases and tenant relationships decreased significantly in the twelve-month period ended December 31, 2009 as compared to the same period in 2008. The decrease is related mainly to the completion of amortization of the acquired-in-place-lease intangible assets booked at acquisition and amortized over a twelve-month period which did not extend into the twelve-month period ended December 31, 2009.

Comparison of the twelve months ended December 31, 2009 to the twelve months ended December 31, 2008
(Total Property Portfolio)

In general, increases in revenues, total operating expenses and non-operating expenses and the related losses of the Total Property Portfolio for the twelve months ended December 31, 2009 as compared to the twelve months ended December 31, 2008 are due mainly, in addition to the reasons discussed above, to the fluctuations in the actual properties owned during the comparative periods, as the net number of properties owned remained consistent as two properties were sold in 2008 and two properties were acquired or developed during 2009. Also, an increase in the level of mortgage and revolving credit debt outstanding during the comparative periods contributed to the expense increase. General and administrative expenses for the twelve months ended December 31, 2009 include costs associated with the acquisition of the Glo property expensed pursuant to the guidance of ASC 805-10 adopted by the Company on January 1, 2009 and costs paid for the judgment in the Lakeridge legal matter.

Funds From Operations

The Company has adopted the revised definition of Funds from Operations (“FFO”) adopted by the Board of Governors of the National Association of Real Estate Investment Trusts (“NAREIT”). FFO falls within the definition of a “non-GAAP financial measure” as stated in Item 10(e) of Regulation S-K promulgated by the SEC. Management considers FFO to be an appropriate measure of performance of an equity REIT. We calculate FFO by adjusting net income (loss) (computed in accordance with GAAP, including non-recurring items), for gains (or losses) from sales of properties, real estate related depreciation and amortization, and adjustment for unconsolidated partnerships and ventures. Management believes that in order to facilitate a clear understanding of the historical operating results of the Company, FFO should be considered in conjunction with net income (loss) as presented in the consolidated financial statements included elsewhere herein. Management considers FFO to be a useful measure for reviewing the comparative operating and financial performance of the Company because, by excluding gains and losses related to sales of previously depreciated operating real estate assets and excluding real estate asset depreciation and amortization (which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates), FFO can help one compare the operating performance of a company’s real estate between periods or as compared to different companies.

The Company’s calculation of FFO may not be directly comparable to FFO reported by other REITs or similar real estate companies that have not adopted the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently. FFO is not a GAAP financial measure and should not be considered as an alternative to net income (loss), the most directly comparable financial measure of our performance calculated and presented in accordance with GAAP, as an indication of our performance. FFO does not represent cash generated from operating activities determined in accordance with GAAP and is not a measure of liquidity or an indicator of our ability to make cash distributions. We believe that to further understand our performance; FFO should be compared with our reported net income (loss) and considered in addition to cash flows in accordance with GAAP, as presented in our consolidated financial statements.

The following table presents a reconciliation of net income (loss) to FFO for the years ended December 31, 2010, 2009 and 2008:

	2010	December 31, 2009 Adjusted*	2008 Adjusted*
Net income (loss)	\$ (25,726,511)	\$ (28,685,234)	\$ 53,999,236
Add:			
Depreciation of real property	28,064,868	28,207,506	24,618,377
Depreciation of real property included in results of discontinued operations	-	-	3,335,613
Amortization of acquired in-place leases and tenant relationships	117,848	827,930	474,258
Amortization of acquired in-place leases and tenant relationships included in results of discontinued operations	-	-	-
Equity in loss of Multifamily Venture Limited Partnership	4,080,225	4,143,070	4,321,483
	940,551	1,064,133	1,026,424

Funds from operations of Multifamily Venture Limited Partnership			
Less:			
Noncontrolling interest in properties share of funds from operations	(1,048,730)	(756,263)	(932,812)
Gain on disposition of real estate assets	-	-	(79,487,487)
Funds from Operations	\$ 6,428,251	\$ 4,801,142	\$ 7,355,092

* See Notes to the Consolidated Financial Statements, Note 5 – Investment in Multifamily Venture Limited Partnership

FFO for the year ended December 31, 2010 increased as compared to FFO for the year ended December 31, 2009. The increase in FFO is due primarily to expenses incurred in 2009 for which there were no comparative expenses in 2010, including transaction costs for the acquisition of Glo of \$1,183,299, costs of \$774,990 accrued in 2009 for a legal matter, which were included in General and Administrative expense on the Consolidated Statement of Operations in 2009, and the other-than-temporary impairment write-off of the Company's investment in the Mezzanine Loan LLC in the amount of \$1,117,825 recorded during the same period. The decrease in expenses was partially offset by \$2,207,795 of accrued incentive advisory fee pursuant to the Advisory Services Agreement for which there was no comparative expense in 2009.

Environmental Issues

There are no recorded amounts resulting from environmental liabilities because there are no known contingencies with respect to environmental liabilities. The Company obtains environmental audits, through various sources including lender evaluations and acquisition due diligence, for each of its properties at various intervals throughout a property's life. The Company has not been advised by any third party as to the existence of, nor has it identified on its own, any material liability for site restoration or other costs that may be incurred with respect to any of its properties. The Company reevaluates potential environmental liabilities on an annual basis by reviewing the current properties in the portfolio at year end as the portfolio continues to change with the sale and acquisition of properties.

Inflation and Economic Conditions

Substantially all of the leases at the initial properties are for a term of one year or less, which enables the Company to seek increased rents for new leases or upon renewal of existing leases. These short-term leases minimize the potential adverse effect of inflation on rental income, although residents may leave without penalty at the end of their lease terms and may do so if rents are increased significantly. During the recent recessionary period and subsequent period of stabilization that affected the national economy from late 2007 through 2010, the Company has closely monitored its rent levels in an effort to maintain high occupancies by retaining residents at current rent levels on renewal and forgoing rent increases. The Company has maintained average occupancy of 95% during the same period, and most recently during 2010, has had the ability to increase rent levels at certain properties where local market conditions have experienced an improvement in the underlying economic trends including decreases in the unemployment rate and a contraction in available apartment units with a corresponding increase in demand for those units.

While economists declared the worst recession to hit the United States since the 1930s was over in late 2009, with policymakers' efforts to stabilize the banking system and provide a fiscal stimulus to the economy, the high national unemployment rate have started to stabilize and, in some markets, begun to improve. While there continue to be indications of stabilization during 2010 in both domestic and foreign economies, the signs of a strong and sustained expansion are not yet evident. A leading indicator of stabilization and expansion includes the recovery in the labor markets, which tend to recover with some lag. It is only when the labor markets stabilize that there will be an increase in household formation, which represents the greatest driver for rental apartments.

The Company both believes and recognizes that real estate goes through cycles and while the drivers of these cycles can vary greatly from cycle to cycle, the outcome is generally the same with periods of improving values and profit growth followed by periods of stagnant or declining values and profit stagnation. The Company recognizes, however, that real estate investing requires a long-term perspective and, as history suggests, a company's ability to remain resilient during tough economic times will often lead to opportunities. In general, multifamily real estate fundamentals of well located quality real estate remained relatively steady during the recent economic downturn. Occupancy rates continue to hover in the low to mid-90% range for well located, well managed properties though continued weakness in the economy and/or a lack of improvement in employment rates could have a negative impact on both occupancy and rent levels. Credit worthy borrowers in the multifamily sector continue to be able to access capital through Fannie Mae and Freddie Mac, and other sources, at historically attractive rates, though there is no assurance that under existing or future regulatory restrictions this source of capital, unique to multifamily borrowers, will continue to be available.

The Company continues to believe that projected demographic trends will favor the multifamily sector, driven primarily by the continued flow of echo boomers (children of baby boomers, age 20 to 29), the fastest growing segment of the population, and an increasing number of immigrants who are often renters by necessity. In many cases, the current economic climate has delayed many would-be residents from entering the rental market and instead choosing to remain at home or to share rental units instead of renting their own space. This trend may be creating a

backlog of potential residents who will enter the market as the economy begins to rebound and unemployment rates begin to trend back to historical norms. The Company's properties are generally located in markets where zoning restrictions, scarcity of land and high construction costs create significant barriers to new development. The Company believes it is well positioned to manage its portfolio through the remainder of this economic downturn and is prepared to take advantage of opportunities that present themselves during such times.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The tables below provide information about the Company's financial instruments that are sensitive to changes in interest rates, specifically debt obligations. The tables present principal cash flows and related weighted average interest rates by expected maturity dates for mortgage notes payable as of December 31, 2010 and 2009.

The following table reflects the mortgage notes payable as of December 31, 2010.

	2011	2012	2013	2014	2015	Thereafter	Total
Fixed Rate Debt	\$4,033,830	\$8,587,250	\$60,571,170	\$65,769,590	\$62,795,493	\$244,208,785	\$445,966,118
Average Interest Rate	5.33 %	5.64 %	5.05 %	5.49 %	5.67 %	5.88 %	5.67 %
Variable Rate Debt	\$-	\$664,024	\$808,517	\$821,461	\$834,611	\$27,292,248	\$30,420,861
Average Interest Rate	-	1.59 %	1.59 %	1.59 %	1.59 %	1.59 %	1.59 %

The following table reflects the mortgage notes payable as of December 31, 2009.

	2010	2011	2012	2013	2014	Thereafter	Total
Fixed Rate Debt	\$3,369,044	\$4,924,807	\$9,738,365	\$61,802,741	\$67,085,003	\$285,707,495	\$432,627,455
Average Interest Rate	5.29 %	5.53 %	5.74 %	5.08 %	5.51 %	5.90 %	5.71 %
Variable Rate Debt	\$12,210,000	\$-	\$661,339	\$804,774	\$817,133	\$27,710,027	\$42,203,273
Average Interest Rate	1.52 %	1.52 %	1.52 %	1.52 %	1.52 %	1.52 %	1.52 %

The level of market rate interest risk experienced in 2010 remained consistent with the level of risk seen during 2009. While the level of outstanding mortgage debt payable of \$476,386,979 at December 31, 2010 was incrementally higher than the December 31, 2009 balance of outstanding debt of \$474,830,728, the average interest

rate on the fixed rate debt decreased slightly to 5.67% at December 31, 2010 from 5.71% at December 31, 2009. Additionally, while the average interest rate on the variable rate debt increased from 1.52% at December 31, 2009 to 1.59% at December 31, 2010, the outstanding amount of variable rate debt decrease by \$12,210,000 over the same period. At December 31, 2010, all properties were encumbered by mortgage debt.

The Company manages its interest rate risk on mortgage debt by monitoring the funding markets and the related changes in prevailing mortgage debt interest levels. Financing on new acquisitions, if applicable, is obtained at prevailing market rates while mortgage debt interest rates on existing properties is monitored to determine if refinancing at current prevailing rates would be appropriate. The Company has been successful in obtaining new financing during the 2010 and 2009, a period in which the debt market has been challenged by unfavorable national economic conditions as well as declines in property values and the tightening of lending guidelines by creditors. The Company continues to take advantage of all opportunities to acquire long term debt at favorable interest rates via first mortgage refinancing, supplemental mortgage financing and assumption of debt with favorable terms pursuant to the acquisition of new properties.

As of December 31, 2010 and 2009, respectively, the Company had \$30,420,861 and \$42,203,273 of variable interest rate debt outstanding.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See “Index to Consolidated Financial Statements and Financial Statement Schedules” on page 53 to this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A(T). CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Based on their evaluation, required by the Securities Exchange Act Rules 13a-15(b) and 15d-15(b), the Company’s principal executive officer and principal financial officer have concluded that the Company’s disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e)) were effective as of December 31, 2010 to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and were effective as of December 31, 2010 to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management’s Annual Report on Internal Control Over Financial Reporting

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. The Company’s internal control over financial reporting is a process designed under the supervision of the Company’s principal executive officer and principal financial officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company’s financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

The Company’s management, with oversight and input from the Company’s principal executive officer and principal financial officer, conducted an assessment of the effectiveness of its internal control over financial reporting as of December 31, 2010. The Company’s management based its assessment on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under that framework, the Company’s management concluded that the Company’s internal control over financial reporting was effective as of December 31, 2010.

This annual report does not include an attestation report of the Company’s registered public accounting firm regarding internal control over financial reporting. The Company’s management’s report was not subject to attestation by the Company’s registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only its management’s report in this annual report.

Changes in Internal Control over Financial Reporting

There were no other changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f)), identified in connection with the evaluation required by paragraph (d) of the Securities Exchange Act Rules 13a-15 or 15d-15 that occurred during the quarter ended December 31, 2010 that affected, or were reasonably likely to affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The Company's executive officers and directors are as follows:

Name and Age	Position or Offices Held
Douglas Krupp (64)	Chairman of the Board of Directors
David C. Quade (67)	President, Chief Financial Officer and Director
Randolph G. Hawthorne (61)	Director
Robert M. Kaufman (61)	Director
Richard B. Peiser (62)	Director
Frank Apeseche (53)	Vice President and Treasurer
Christopher M. Nichols (46)	Senior Vice President, Principal Financial Officer and Assistant Secretary
Mary Beth Bloom (37)	Vice President and Secretary

Douglas Krupp, Director and Chairman of the Board of Berkshire Income Realty, Inc. since January 28, 2005. Mr. Krupp is also the co-founder and Vice-Chairman of our affiliate, the Berkshire Group, an integrated real estate and financial services firm engaged in real estate acquisitions, property management and investment sponsorship. The Berkshire Group was established as The Krupp Companies in 1969. Mr. Krupp served as Chairman of the Board of Trustees of both Krupp Government Income Trust I & Krupp Government Income Trust II from 1991-2005. Formerly, Mr. Krupp served as Chairman of the Board of Directors of Berkshire Realty Company, Inc. and Harborside Healthcare Company, two publicly traded companies on the NYSE Amex. Mr. Krupp is a member of the Anti-Defamation League's National Executive Committee, a member of its Board of Trustees and Vice President of the ADL Foundation. Mr. Krupp is on the Board of Directors for The Commonwealth Shakespeare Company, a Member of the Corporation of Partners HealthCare System and a past member of the Board of Directors for Brigham & Women's Hospital. Mr. Krupp is a graduate of Bryant College. In 1989, he received an Honorary Doctorate of Science in Business Administration from this institution and was elected trustee in 1990.

David C. Quade, Director, President and Chief Financial Officer of Berkshire Income Realty, Inc. since July 19, 2002. Since December of 1998, Mr. Quade has been Executive Vice President and Chief Financial Officer of The Berkshire Group and Berkshire Property Advisors, LLC, both affiliates of Berkshire Income Realty. During that period, he led the efforts to acquire, finance and asset manage the initial properties contributed by KRF Company in connection with the Offering. Previously, Mr. Quade was a Principal and Executive Vice President and Chief Financial Officer of Leggat McCall Properties from 1981-1998, where he was responsible for strategic planning, corporate and property financing and asset management. Before that, Mr. Quade worked in senior financial capacities for two NYSE Amex listed real estate investment trusts, North American Mortgage Investors and Equitable Life Mortgage and Realty Investors. He also worked at Coopers & Lybrand, LLP (now known as PricewaterhouseCoopers, LLP), an international accounting and consulting firm. He has a Professional Accounting Program degree from Northwestern University Graduate School of Business. Mr. Quade also holds a Bachelor of Science degree and a Master of Business Administration degree from Central Michigan University. Mr. Quade also serves as Chairman of the Board of Directors of the Marblehead/Swampscott YMCA and Director of the North Shore YMCA.

Randolph G. Hawthorne, Director of Berkshire Income Realty, Inc. since October 15, 2002. Mr. Hawthorne is currently the Principal of a private investment and consulting firm known as RGH Ventures and has served as such since January of 2001. Mr. Hawthorne is a member of the Multifamily Council Gold Flight of the Urban Land

Institute, and is active in the National Multi Housing Council, which he led as the Chairman from 1996-1997. He also presently serves on the Board of Directors of the National Housing Conference and is a member of the Harvard Real Estate Academic Initiative Alumni Advisory Board. He previously served as an independent member of the Advisory Board of Berkshire Mortgage Finance, a former affiliate of the Berkshire Income Realty, Inc. Mr. Hawthorne has previously served as President of the National Housing and Rehabilitation Association and has served on the Editorial Board of the Tax Credit Advisor and Multi-Housing News. From 1973-2001, Mr. Hawthorne was a Principal and Owner of Boston Financial, a full service real estate firm, which was acquired in 1999 by Lend Lease, a major global real estate firm, which at that time was the largest U.S. manager of tax-exempt real estate assets. During his 28 years with Boston Financial and then Lend Lease, Mr. Hawthorne served in a variety of senior leadership roles including on the Boston Financial Board of Directors. Mr. Hawthorne holds a Master of Business Administration degree from Harvard University and a Bachelor of Science degree from the Massachusetts Institute of Technology. Mr. Hawthorne is a Trustee of The Berkshire Theatre Festival, and serves on the Board of Directors of the Celebrity Series of Boston and The Boston Home.

Robert M. Kaufman, Director of Berkshire Income Realty, Inc. since October 15, 2002. Mr. Kaufman is currently the Senior Vice President and Chief Operating Officer of Outcome Sciences, Inc. since April 1, 2007 and was formerly the President and Chief Operating Officer of Oakley Investment, Inc., a private investment firm. Mr. Kaufman was a founder and the Chief Executive Officer of Medeview, Inc., a healthcare technology company, from 2000-2002. From 1996-1999, Mr. Kaufman served as Chief Executive Officer of a senior housing company known as Carematrix Corp. and in 1999 served as a consultant to Carematrix Corp. Prior to that, Mr. Kaufman worked for Coopers & Lybrand, LLP (now known as PricewaterhouseCoopers, LLP), an international accounting and consulting firm, from 1972-1996. During his tenure at Coopers & Lybrand, he was a partner from 1982-1996 primarily servicing real estate and healthcare industry clients and served as a member of the National Board of Partners. In addition, while a partner at Coopers & Lybrand, Mr. Kaufman was a member of the Mergers and Acquisitions and Real Estate Groups, the Associate Chairman of the National Retail and Consumer Products Industry Group and was a National Technical Consulting Partner. Mr. Kaufman received his Bachelor of Arts from Colby College and his Master of Business Administration degree from Cornell University.

Richard B. Peiser, Director of Berkshire Income Realty, Inc. since October 15, 2002. Mr. Peiser is currently the Michael D. Spear Professor of Real Estate Development at Harvard University and has worked in that position since 1998. Mr. Peiser is also a member of the Department of Urban Planning and Design in the Harvard University Graduate School of Design and has served as such since 1998. Before joining the faculty of Harvard University in 1998, Mr. Peiser served as Director of the Lusk Center of Real Estate Development from 1987-1998 as well as Founder and Academic Director of the Master of Real Estate Development Program at the University of Southern California from 1986-1998. Mr. Peiser has also worked as a real estate developer and consultant since 1978. In addition, Mr. Peiser has published numerous articles relating to various aspects of the real estate industry. Mr. Peiser taught at Southern Methodist University from 1978-1984, the University of Southern California from 1985-1998 and at Stanford University in the fall of 1981. Mr. Peiser the Chairman of Kailong REI, a real estate investment and asset management company based in Shanghai, China. Mr. Peiser served as a trustee of the Urban Land Institute from 1997 to 2004 and as a Director of the firm American Realty Advisors from 1998 to 2005. Additionally, Mr. Peiser served as a faculty representative on the Harvard University Board of Overseer's Committee on Social Responsibility from 1999-2002 and has served as co-editor of the Journal of Real Estate Portfolio Management from 2003 to 2007. Mr. Peiser holds a Bachelor of Arts degree from Yale University, a Master of Business Administration degree from Harvard University and a Ph.D. in land economics from Cambridge University.

Frank Apeseche, Vice President and Treasurer of Berkshire Income Realty, Inc. since July 19, 2002. Mr. Apeseche is also President and Managing Partner of The Berkshire Group, an affiliate of Berkshire Income Realty, Inc. Mr. Apeseche was President and Chief Executive Officer of our affiliate, BG Affiliate, from 1995-2000. Mr. Apeseche was Chief Financial Officer of The Berkshire Group from 1993-1995 and Vice President and Treasurer of Berkshire Realty Company, Inc. from 1993-1994. Mr. Apeseche was the Chief Planning Officer of the Berkshire Group from 1986-1993. Before joining The Berkshire Group in 1986, Mr. Apeseche was a manager with ACCENTURE (formerly Andersen Consulting) where he specialized in providing technology solutions to Fortune 500 clients. Mr. Apeseche received a Bachelor of Arts degree with distinction from Cornell University and a Master of Business Administration degree with Honors from the University of Michigan.

Christopher M. Nichols, Senior Vice President, Principal Financial Officer and Assistant Secretary of Berkshire Income Realty, Inc. since July 19, 2002. Mr. Nichols currently holds the position of Vice President, Controller and Assistant Secretary of Berkshire Income Realty, Inc. Mr. Nichols is also the Company's Principal Accounting Officer. Mr. Nichols joined The Berkshire Group in 1999 as the Assistant Corporate Controller. Before joining the Company, Mr. Nichols served as the Accounting Manager and then as the Corporate Controller for Mac-Gray Corporation from 1997-1999, a NYSE Amex listed company. At Mac-Gray, Mr. Nichols had primary oversight of the accounting and financial reporting systems. Mr. Nichols worked as a Senior Staff Auditor for Mullen & Company from 1994-1997. Mr. Nichols has a Bachelor of Science degree in Accountancy from Bentley College as well as Associate Degrees in Computer Information Systems and in Electrical Engineering. Mr. Nichols is a Certified Public

Accountant.

Mary Beth Bloom, Vice President and Secretary of Berkshire Income Realty, Inc. since August 9, 2005. Ms. Bloom currently serves and has served as Vice President and General Counsel to The Berkshire Group, an affiliate of Berkshire Income Realty, Inc, since 2005. From 2000-2005, Ms. Bloom served as the Assistant General Counsel to The Berkshire Group and from 2003-2005, she served as Assistant Secretary to Berkshire Income Realty, Inc. Prior to joining The Berkshire Group, Ms. Bloom was an attorney with John Hancock Financial Services. She received a Bachelor of Arts from the College of the Holy Cross and a Juris Doctor from New England School of Law. Ms. Bloom is admitted to practice law in Massachusetts and New York and is a member of the American, Massachusetts and New York Bar Associations.

The Board has determined that Robert Kaufman, Randolph Hawthorne and Richard Peiser, a majority of our directors, are independent under applicable SEC and NYSE Amex rules and regulations. Such persons act as the Company's Audit Committee. The Board has determined that Robert Kaufman qualifies as an "audit committee financial expert" under applicable SEC rules and regulations.

The Company does not currently have a nominating committee as the Board has determined, given its relatively small size, that Robert Kaufman, Randolph Hawthorne and Richard Peiser, (the "Independent Directors") shall perform this function. Nominees for positions on the Board are identified and recommended by a majority of the Independent Directors on the Board (as defined in the NYSE Amex listing requirements). Director candidates, including Directors up for re-election and those nominated by Shareholders entitled to vote for the election of directors, are considered based upon various criteria, including broad-based business and professional skills and experience, personal integrity, sound business judgment, community involvement, and time available to devote to Board activities. The 5 nominees approved by the Board are Directors standing for re-election. The Company has not paid a fee to any third party to identify or evaluate or assist in identifying or evaluating potential nominees. The Board did not receive a Director candidate recommendation from a shareholder that beneficially owned more than 5% of the Company's common voting shares or from a group of shareholders that beneficially owned, in the aggregate, more than 5% of the Company's common voting shares. The Board will consider Director candidates recommended by shareholders entitled to vote for the election of directors.

A shareholder entitled to vote for the election of directors, who wishes to recommend a prospective nominee for the Board should notify the Company's Secretary in writing at One Beacon Street, Suite 1500, Boston, MA 02108 with the identity of the nominator and nominee, the biographical information for each nominee, a description of business and personal experience for each nominee, a written consent from the nominee to serve as a Director if so elected and any other information that the voting shareholder considers appropriate at least 90 days prior to the annual meeting at which Directors are to be elected.

The Company has adopted a code of ethics (the "Code") that applies to all of its employees (including its principal executive officers, principal financial officer and principal accounting officer) and directors. The Company intends to satisfy the disclosure requirement under Item 10 of Form 8-K regarding an amendment to, or waiver from, a provision of the Code applicable to certain enumerated executive officers by posting such information on its website at <http://www.berkshireincomerealty.com>. The Company shall provide to any person without charge, upon request, a copy of the Code. Any such request must be made in writing to the Company, c/o James Juliano, One Beacon Street, Boston, MA 02108.

SECTION 16 (a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Based solely on a review of reports furnished to the Company or written representations from the Company's directors, executive officers and 10% stockholders, during the fiscal year ended December 31, 2010 and prior fiscal years, except as noted below, none of the Company's directors, executive officers and 10% stockholders failed to file on a timely basis any reports required to be filed pursuant to Section 16 of the Securities Exchange Act of 1934, as amended.

Randolph Hawthorne, a director, filed a Form 4 on an untimely basis on March 16, 2010 that covered his purchase on March 13, 2009, of 100 shares of the Company's 9% Series A Cumulative Redeemable Preferred Stock.

ITEM 11. EXECUTIVE COMPENSATION

The Company does not currently have a compensation committee as the Board has determined that such a committee is unnecessary, in light of the fact that, except for our independent directors identified above, our executive officers

and directors are not compensated by us for their services to us as officers and directors. However, certain of our officers and directors are compensated by our advisor, Berkshire Advisor, for their services to Berkshire Advisor. The Company has no employees under any employment or other agreement either formal or implied. The Company pays Berkshire Advisor, an affiliate, property and asset management fees for services related to the management of the Company. The Company also reimburses Berkshire Advisor for the salaries of employees of the Advisor who work directly at our properties. The Company does not bear risk associated with compensation policies and practices of employees as employee related costs incurred by the Advisor are limited to the fixed management fees or cost reimbursements paid by the Company. Refer to Part IV Item 15 - Notes to the Consolidated Financial Statements, Footnote 13 – Related Party transaction for additional information.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation	All Other Compensation (\$)	Total (\$)
							Earnings (\$)		
N/A	N/A	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

The Board has determined that Robert Kaufman, Randolph Hawthorne and Richard Peiser, a majority of our directors, are independent under applicable SEC and NYSE Amex rules and regulations. The Board has determined that the independent directors will be compensated at the rate of \$30,000 per year, payable in cash, for their service as directors and receive reimbursement for their travel expenses incurred in connection with Board duty. There were no other arrangements to compensate the directors for Board or committee involvement in 2010.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information regarding the beneficial ownership of our equity securities as of December 31, 2010 by (1) each person who is known by us to beneficially own five percent or more of any class of our equity securities, (2) each of our directors and executive officers and (3) all of our directors and executive officers as a group. The address for each of the persons named in the table is One Beacon Street, Suite 1500, Boston, Massachusetts 02108.

Title of Class	Name and Address of Beneficial Owner (1)	Amount and Nature of Beneficial Ownership	Percent of Class
Class B Common Stock	Douglas Krupp	1,283,313 (2)	91%
Class B Common Stock	George Krupp	1,283,313 (3)	91%
Class B Common Stock	Douglas Krupp 1980 Family Trust	1,283,313 (4)	91%
Class B Common Stock	George Krupp 1980 Family Trust	1,283,313 (5)	91%
Class B Common Stock	Krupp Family Limited Partnership-94	1,283,313 (6)	91%
Class B Common Stock	KRF Company	1,283,313	91%
Class B Common Stock	Thomas Shuler	63,560	5%
Class B Common Stock	David Olney	59,323	4%
Class B Common Stock	All directors and executive officers as a group	1,406,196 (7)	100%

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Preferred Shares	Robert M. Kaufman	74,573	(8)	5%
Preferred Shares	Thomas Shuler	6,760		*
Preferred Shares	Randolph G. Hawthorne	4,600		*
Preferred Shares	Richard B. Peiser	2,955		*
Preferred Shares	David C. Quade	1,434	(9)	*
Preferred Shares	Mary Beth Bloom	1,150		*

* - Represents less than 1% of shares outstanding in class.

(1) c/o The Berkshire Group, One Beacon Street, Suite 1500, Boston, MA 02108.

(2) Includes 1,283,313 shares owned by KRF Company. The Krupp Family Limited Partnership-94 owns 100% of the limited liability company interests in KRF Company. The general partners of Krupp Family Limited Partnership-94 are George Krupp and Douglas Krupp, who each own 50% of the general partnership interests in Krupp Family Limited Partnership-94. By virtue of their interests in the Krupp Family Limited Partnership-94, George Krupp and Douglas Krupp may each be deemed to beneficially own the 1,283,313 shares of Class B common stock owned by KRF Company. Douglas Krupp is also a director of the Company. George Krupp is a former director of the Company.

(3) Includes 1,283,313 shares owned by KRF Company that may be deemed to be beneficially owned by George Krupp, as described in Footnote (2).

- (4) Includes 1,283,313 shares owned by KRF Company. The Krupp Family Limited Partnership-94 owns 100% of the limited liability company interests in KRF Company. The Douglas Krupp 1980 Family Trust owns 50% of the limited partnership interests in Krupp Family Limited Partnership-94. By virtue of its interest in The Krupp Family Limited Partnership-94, The Douglas Krupp 1980 Family Trust may be deemed to beneficially own the 1,283,313 shares of Class B common stock owned by KRF Company. The trustee of the Douglas Krupp 1980 Family Trust is Robert Dombroff. The trustee controls the power to dispose of the assets of the trust and thus may be deemed to beneficially own the 1,283,313 shares of Class B common stock owned by KRF Company; however, the trustee disclaims beneficial ownership of all of those shares that are or may be deemed to be beneficially owned by Douglas Krupp or George Krupp.
- (5) Includes 1,283,313 shares owned by KRF Company. The Krupp Family Limited Partnership-94 owns 100% of the limited liability company interests in KRF Company. The George Krupp 1980 Family Trust owns 50% of the limited partnership interests in Krupp Family Limited Partnership-94. By virtue of its interest in The Krupp Family Limited Partnership-94, The George Krupp 1980 Family Trust may be deemed to beneficially own the 1,283,313 shares of Class B common stock owned by KRF Company. The trustee of the George Krupp 1980 Family Trust is Robert Dombroff. The trustee controls the power to dispose of the assets of the trust and thus may be deemed to beneficially own the 1,283,313 shares of Class B common stock owned by KRF Company; however, the trustee disclaims beneficial ownership of all of those shares that are or may be deemed to be beneficially owned by Douglas Krupp or George Krupp.
- (6) Includes 1,283,313 shares owned by KRF Company. Krupp Family Limited Partnership-94 owns 100% of the limited liability company interests in KRF Company. By virtue of its interest in KRF Company, Krupp Family Limited Partnership-94 is deemed to beneficially own the 1,283,313 shares of Class B common stock owned by KRF Company.
- (7) Includes 1,283,313 shares owned by KRF Company that may be deemed to be beneficially owned by Douglas Krupp, as described in Footnote (2).
- (8) Robert M. Kaufman does not own shares of Class B common stock. Mr. Kaufman does own 67,673 shares of the Preferred Shares of the Company. Additionally, 6,900 shares of the Preferred Shares are owned Mr. Kaufman's spouse and may be deemed to be beneficially owned by Mr. Kaufman.
- (9) David C. Quade does not own shares of Class B common stock. Mr. Quade does own 874 shares of the Preferred Shares of the Company. Additionally, 560 shares of the Preferred Shares are owned Mr. Quade's spouse and may be deemed to be beneficially owned by Mr. Quade.

Under our charter, we are authorized to issue 10,000,000 shares of our common stock, of which 5,000,000 shares have been classified as Class A Common Stock and 5,000,000 shares have been classified as Class B Common Stock. As of December 31, 2010 and 2009, we had 1,406,196 shares of our Class B common stock outstanding, the majority of which is owned by KRF Company, and no outstanding shares of Class A Common Stock.

Each share of Class B Common Stock entitles the holder to ten votes per share, and each share of Class A Common Stock entitles the holder to one vote per share, on all matters to be submitted to the stockholders for vote. Each share of Class B Common Stock is convertible, at the option of the holder at any time, into one share of Class A Common Stock. The exclusive voting power of the Company's stockholders for all purposes (including amendments to the charter) is vested in the holders of our common stock. We may not issue shares of our Class A Common Stock unless the issuance has been approved by the affirmative vote of the holders of a majority of the shares of our outstanding Class B Common Stock.

The holders of our common stock are entitled to receive ratably such distributions as may be authorized from time to time on our common stock by the Board in its discretion from funds legally available for such distribution. In the event our liquidation, dissolution, winding-up or termination, after payment of all debt and other liabilities, each holder of our common stock is entitled to receive, ratably with each other holder of our common stock, all our remaining assets available for distribution to the holders of our common stock. Holders of our common stock have no subscription, redemption, appraisal or preemptive rights.

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless approved by the affirmative vote of stockholders holding at least two thirds of the shares entitled to vote on the matter. However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all the votes entitled to be cast on the matter. Our charter provides for approval of these matters by the affirmative vote of a majority of the votes entitled to be cast on the matter.

The holders of our common stock have the exclusive right (except as otherwise provided in our charter) to elect or remove directors. The outstanding shares of our common stock are fully paid and nonassessable.

Equity Compensation Plan Information

The following table sets forth information as of December 31, 2010 about shares of our equity securities outstanding and available for issuance under equity compensation plans. The Company does not have equity securities outstanding or available for issuance under an equity compensation plan as of December 31, 2010.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights Column (a)	Weighted-average exercise price of outstanding options, warrants and rights Column (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) Column (c)
Equity compensation plan approved by security holders	\$ -	\$ -	\$ -
Equity compensation plans not approved by security holders	-	-	-
Total	\$ -	\$ -	\$ -

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Management Fees

We have entered into an advisory services agreement with Berkshire Advisor. Douglas Krupp, one of our directors, together with his brother George Krupp (formerly a director of the Company and former Chairman of the Board), indirectly own substantially all of the member interests in Berkshire Advisor. Under the advisory services agreement, the Company will pay Berkshire Advisor an annual asset management fee equal to 0.40%, up to a maximum of \$1,600,000 in any calendar year, as per an amendment to the management agreement, of the purchase price of real estate properties owned by us, as adjusted from time to time to reflect the then current fair market value of the properties. The purchase price is defined as the capitalized basis of an asset under GAAP including renovation of new construction costs, costs of acquisition or other items paid or received that would be considered an adjustment to basis. The purchase price does not include acquisition fees and capital costs of a recurring nature. Berkshire Advisor may propose adjustments to the asset management fee, subject to the approval of the Audit Committee (which committee is comprised of directors who are independent under applicable rules and regulations of the SEC and NYSE Amex).

The asset management fees payable to Berkshire Advisor are payable quarterly, in arrears, and may be paid only after all distributions currently payable on the Company's Preferred Shares have been paid. Berkshire Advisor earned asset management fees of \$1,649,259, \$1,649,256 and \$1,673,441 during 2010, 2009 and 2008, respectively. The amounts in excess of the \$1,600,000 maximum payable by the Company represent fees incurred and paid by the noncontrolling partners in the properties. In addition to the fixed fee, effective January 1, 2010, the Company may also pay Berkshire Advisor an Incentive Advisory Fee based on increases in the value of the Company, as explained below, that would not be subject to the \$1,600,000 maximum. As of December 31, 2010 and 2009, respectively, \$824,632 and \$412,316 of the asset management fees are payable to Berkshire Advisor.

On November 12, 2009, the Audit Committee of the Company (which committee is comprised of the three directors who are independent under applicable rules and regulations of the SEC and the American Stock Exchange) and the Board approved an amendment to the Advisory Services Agreement with Berkshire Advisor, an affiliate of the Company. The Amendment includes an Incentive Advisory Fee component to the existing asset management fees paid to the Advisor, which is based on the increase in value of the Company over the Base Value established as of December 31, 2009. The Amendment is effective as of January 1, 2010 and requires the Company to accrue Incentive Advisory Fees payable to the Advisor up to 12% of the increase in value of the Company above the established Base Value. The Incentive Advisory Fee is variable and generally to the extent the value of the Company decreases, the accrued Incentive Advisory Fee would be reduced accordingly. Like the Asset Management Fee, the Incentive Advisory Fee requires that all distributions currently payable on the Series A 9% Cumulative Redeemable Preferred Stock be paid prior to the payment of any Incentive Advisory Fee due. As of December 31, 2010, the Company's obligation pursuant to the amendment was \$2,207,795 and is included in Due to affiliates, incentive advisory fees on the consolidated balance sheets. The Company incurred \$2,207,795 of Incentive Advisory Fees during the year ended December 31, 2010. Any future liability will be based upon any increase in value of the Company over the Base Value. Payments from

the plan will approximate the amounts the Advisor pay to its employee. Additional limits have been placed on the total amount of payments that can be made by the Company in any given year, with interest accruing at the rate of 7% on any payments due but not yet paid. The Company has not made any Incentive Advisory Fee payments as of December 31, 2010.

During 2010, 2009 and 2008, Berkshire Advisor, an affiliate of The Berkshire Group, acted as property manager under property management agreements between the Company and Berkshire Advisor. Under the property management agreement, Berkshire Advisor is entitled to receive a property management fee, payable monthly, equal to 4% of the gross rental receipts, including rentals and other operating income, received each month with respect to all managed properties. The total amount of property management fees paid or accrued to Berkshire Advisor under the property management agreements was \$3,052,447, \$3,041,240 and \$3,335,681 for the years ended December 31, 2010, 2009 and 2008, respectively. As of December 31, 2010 and 2009, respectively, \$474,353 and \$346,257 of the 2010 and 2009 property management fees are payable to Berkshire Advisor.

Berkshire Advisor is also entitled to receive an acquisition fee equal to 1% of the purchase price (as defined above) of any new property acquired directly or indirectly by us. Berkshire Advisor may propose adjustments to the acquisition fee, subject to the approval of the Audit Committee of the Board (which committee is comprised of directors who are independent under applicable rules and regulations of the SEC and NYSE Amex).

Berkshire Advisor received acquisition fees for 2010, 2009 and 2008 as follows:

	Acquisition Fee 2010	Acquisition Fee 2009	Acquisition Fee 2008
Glo	\$ -	\$ 427,500	\$ -
Executive House	-	-	500,000
	\$ -	\$ 427,500	\$ 500,000

Pursuant to the Company's adoption of ASC 805-10 as of January 1, 2009, the acquisition fee paid to Berkshire Advisor on the Glo acquisition was charged to operating expenses for the year ended December 31, 2009. The acquisition fees paid in 2008, have been capitalized and are included in the caption "Multifamily apartment communities" in Part IV Item 15 – Consolidated Balance Sheets.

Since January 1, 2005, the Company has paid a construction management fee to an affiliate, Berkshire Advisor, for services related to the management and oversight of renovation and rehabilitation projects at its properties. The Company paid or accrued \$253,845, \$438,965 and \$612,312 in construction management fees for the year ended December 31, 2010, 2009 and 2008, respectively. The fees are capitalized as part of the project cost in the year they are incurred.

The Company pays development fees to an affiliate, Berkshire Residential Development, for property development services. As of December 31, 2009, the Company has completed the development of the Arboretum Land development project and has incurred fees totaling \$902,500 for the project, of which of \$202,500 were incurred during the year ended December 31, 2009. The Company incurred \$300,000 and \$400,000 of development fees on the same project in the years ended December 31, 2008 and 2007, respectively. The fees, of which \$270,750 is related to predevelopment activities and \$631,750 is related to the development phase, are based on the project's development/construction costs. As of December 31, 2010 and 2009, \$0 and \$202,500, remained payable related to the project respectively.

Under the advisory services agreement and the property management agreements, Berkshire Advisor is reimbursed at cost for all out-of-pocket expenses incurred by them, including the actual cost of goods, materials and services that are used in connection with the management of us and our properties.

Berkshire Advisor also is reimbursed for administrative services rendered by it that are necessary for our prudent operation, including legal, accounting, data processing, transfer agent and other necessary services. Expense reimbursements paid were \$210,000, \$200,900 and \$195,900 for the years ended December 31, 2010, 2009 and 2008, respectively. Salary reimbursements paid were \$9,700,806, \$9,243,927 and \$8,795,648 for the years ended December 31, 2010, 2009 and 2008, respectively.

In addition to the fees listed above, the Multifamily Limited Partnership Venture paid construction management fees of \$525,252, \$570,602 and \$3,118,380, property management fees of \$5,764,238, \$5,841,648 and \$5,637,868 and asset management fees of \$4,480,969, \$4,763,937 and \$3,282,256 to Berkshire Advisor during 2010, 2009 and 2008, respectively.

Related party arrangements are approved by the independent directors of the Company and are evidenced by a written agreement between the Company and the affiliated entity providing the services.

The Company does not have written policies and procedures for the review, approval or ratification of transactions with related persons. The Audit Committee (which committee is comprised of directors who are independent under applicable rules and regulations of the SEC and NYSE Amex) reviews and approves all related-party transactions. The review and approval responsibility of the Audit Committee is evidenced by the Audit Committee Charter.

Director Independence

The Board has determined that Robert Kaufman, Randolph Hawthorne and Richard Peiser, a majority of our directors, are independent under applicable SEC and NYSE Amex rules and regulations. Such persons act as the Company's Audit Committee, which does not include any non-independent directors of the Company.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees

The aggregate fees billed for professional services rendered by our independent registered public accounting firm, PricewaterhouseCoopers L.L.P., was \$405,000 and \$396,000 for the years ended December 31, 2010 and 2009, respectively, for the audit of the Company's annual financial statements included in the Company's Form 10K and review of financial statements included in the Company's Forms 10Q.

Audit-Related Fees

The aggregate fees billed for assurance and related services by our independent registered public accounting firm, PricewaterhouseCoopers, L.L.P., was \$48,600 and \$85,900 for the years ended December 31, 2010 and 2009, respectively for Sarbanes-Oxley readiness procedures and the audit of certain subsidiaries.

Tax Fees

The aggregate fees billed for professional services rendered by our independent registered public accounting firm, PricewaterhouseCoopers, L.L.P., was \$53,400 and \$53,000 for the years December 31, 2010 and 2009, respectively, for tax compliance, tax advice, and tax planning.

All Other Fees

The aggregate fees billed for other services rendered by our independent registered public accounting firm, PricewaterhouseCoopers, L.L.P. was \$0 and \$0 for the years ended December 31, 2010 and 2009, respectively.

Before the Company's independent registered public accounting firm, PricewaterhouseCoopers, L.L.P., is engaged by the Company or its subsidiaries to render audit services, the engagement is approved by the Audit Committee, which is comprised solely of directors who are independent under applicable SEC and NYSE Amex rules. All audit-related fees, tax fees and other fees are pre-approved by such Audit Committee and are subject to a fee cap, which cannot exceed 5% of the total amount of the Company's revenues.

The services described above in the captions "Audit-Related Fees," "Tax Fees" and "All Other Fees" were 100% approved by the Audit Committee.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) See “Index to Financial Statements and Financial Statement Schedule” on page 53 to this report.

(b) Exhibits:
Number and Description Under Regulation S-K

3.1 Articles of Amendment and Restatement of the Registrant (Incorporated by reference to Exhibit No. 3.1 to the Registrant's Registration Statement on Form S-11 (Registration No. 333-98571)).

3.2 By laws of the Registrant (Incorporated by reference to Exhibit No. 3.2 to the Registrant's Registration Statement on Form S-11 (Registration No. 333-98571)).

10.1 Amended and Restated Agreement of Limited Partnership of Berkshire Income Realty - OP, L.P. (Incorporated by reference to Exhibit No. 10.1 to the Registrant's Registration Statement on Form S-11 (Registration No. 333-98571)).

10.2 Contribution and Sale Agreement among KRF Company, L.L.C., KRF GP, Inc., Berkshire Income Realty - OP, L.P. and BIR Sub, L.L.C. (Incorporated by reference to Exhibit No. 10.2 to the Registrant's Registration Statement on Form S-11 (Registration No. 333-98571)).

10.3 Advisory Services Agreement between the Registrant and Berkshire Real Estate Advisors, L.L.C. (Incorporated by reference to Exhibit No. 10.3 to the Registrant's Registration Statement on Form S-11 (Registration No. 333-98571)).

10.4 Property Management Agreement between KRF3 Acquisition Company, L.L.C. and BRI OP Limited Partnership dated January 1, 2002 (Incorporated by reference to Exhibit No. 10.4 to the Registrant's Registration Statement on Form S-11 (Registration No. 333-98571)).

10.5 Property Management Agreement between Walden Pond Limited Partnership and BRI OP Limited Partnership dated January 1, 2002 (Incorporated by reference to Exhibit No. 10.5 to the Registrant's Registration Statement on Form S-11 (Registration No. 333-98571)).

10.6 Property Management Agreement between KRF5 Acquisition Company, L.L.C. and BRI OP Limited Partnership dated January 1, 2002. (Incorporated by reference to Exhibit No. 10.6 to the Registrant's Registration Statement on Form S-11 (Registration No. 333-98571)).

10.7 Property Management Agreement between KRF3 Acquisition Company, L.L.C. and BRI OP Limited Partnership dated January 1, 2002 (Incorporated by reference to Exhibit No. 10.7 to the Registrant's Registration Statement on Form S-11 (Registration No. 333-98571)).

10.8 Property Management Agreement between Seasons of Laurel, L.L.C. and BRI OP Limited Partnership dated January 1, 2002. (Incorporated by reference to Exhibit No. 10.8 to the Registrant's Registration Statement on Form S-11 (Registration No. 333-98571)).

10.9 Letter Agreement between Georgeson Shareholder Communications Inc., Georgeson Shareholder Securities Corporation and the Registrant (Incorporated by reference to Exhibit No. 10.9 to the Registrant's Registration

Statement on Form S-11 (Registration No. 333-98571)).

- 10.10 Waiver and Standstill Agreement, dated as of August 22, 2002, by and among Krupp Government Income Trust, Krupp Government Income Trust II, the Registrant and Berkshire Income Realty-OP, L.P. (Incorporated by reference to Exhibit No. 10.10 to the Registrant's Registration Statement on Form S-11 (Registration No. 333-98571)).
- 10.11 Letter amending Waiver and Standstill Agreement, dated March 5, 2003, among Krupp Government Income Trust, Krupp Government Income Trust II, the Registrant and Berkshire Income Realty-OP, L.P. (Incorporated by reference to Exhibit No. 10.11 to the Registrant's Form 10-K for the fiscal year ended December 31, 2002).

- 10.12 Letter Agreement, dated November 1, 2002, by and among Aptco Gen-Par, L.L.C., WXI/BRH Gen-Par, L.L.C., BRE/Berkshire GP L.L.C and BRH Limited Partner, L.P. (Incorporated by reference to Exhibit No. 10.12 to the Registrant's Registration Statement on Form S-11 (Registration No. 333-98571)).
- 10.13 Amended and Restated Voting Agreement among Krupp Government Income Trust, Krupp Government Income Trust II and Berkshire Income Realty, Inc. (Incorporated by reference to Exhibit No. 10.13 to the Registrant's Registration Statement on Form S-11 (Registration No. 333-98571)).
- 10.14 Purchase and Sale Agreement dated September 2, 2004, between F.C. Trellis Associates, L.P. and BIR Trellis, L.L.C. (Incorporated by reference to Exhibit No. 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on November 17, 2004).
- 10.15 Purchase and Sale Agreement dated September 2, 2004, between F.C. Bridgewater Associates, L.P. and BIR Bridgewater, L.L.C. (Incorporated by reference to Exhibit No. 10.2 to the Registrant's Current Report on Form 8-K filed with the SEC on November 17, 2004).
- 10.16 Purchase and Sale Agreement dated September 2, 2004, between F.C. Arboretum Associates, L.P. and BIR Arboretum, L.L.C. (Incorporated by reference to Exhibit No. 10.3 to the Registrant's Current Report on Form 8-K filed with the SEC on November 17, 2004).
- 10.17 Purchase and Sale Agreement dated September 2, 2004, between F.C. Silver Hill Associates, L.P. and BIR Silver Hill, L.L.C. (Incorporated by reference to Exhibit No. 10.4 to the Registrant's Current Report on Form 8-K filed with the SEC on November 17, 2004).
- 10.18 Purchase and Sale Agreement dated September 2, 2004, between F.C. Arboretum Land Associates, L.P. and BIR Arboretum Development, L.L.C. (Incorporated by reference to Exhibit No. 10.5 to the Registrant's Current Report on Form 8-K filed with the SEC on November 17, 2004).
- 10.19 Purchase and Sale Agreement dated September 14, 2004, related to Arrowhead Apartments Associates Limited Partnership, between Capital Realty Investors-II Limited Partnership, C.R.H.C., Incorporated, BIR/ERI LP Arrowhead, L.L.C. and BIR/ERI GP Arrowhead, L.L.C. (Incorporated by reference to Exhibit No. 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on November 21, 2004).
- 10.20 Purchase and Sale Agreement dated September 14, 2004, related to Blackburn Limited Partnership, between Capital Realty Investors-II Limited Partnership, CRICO Limited Partnership of Burtonsville, BIR/ERI LP Country Place I, L.L.C. and CIR/ERI GP Country Place I, L.L.C. (Incorporated by reference to Exhibit No. 10.2 to the Registrant's Current Report on Form 8-K filed with the SEC on November 21, 2004).
- 10.21 Purchase and Sale Agreement dated September 14, 2004, related to Second Blackburn Limited Partnership, between Capital Realty Investors-II Limited Partnership, CRICO Limited Partnership of Burtonsville, BIR/ERI LP Country Place II, L.L.C. and CIR/ERI GP Country Place II, L.L.C. (Incorporated by reference to Exhibit No. 10.3 to the Registrant's Current Report on Form 8-K filed with the SEC on November 21, 2004).
- 10.22 Purchase and Sale Agreement dated September 14, 2004, related to Moorings Apartments Associates Limited Partnership, between Capital Realty Investors-II Limited Partnership, C.R.H.C., Incorporated, BIR/ERI LP The Moorings, L.L.C. and BIR/ERI GP The Moorings, L.L.C. (Incorporated by reference to Exhibit No. 10.4 to the Registrant's Current Report on Form 8-K filed with the SEC on November 21, 2004).

10.23

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Purchase and Sale Agreement dated December 9, 2004, between BRH Westchester, L.L.C., BRI OP Limited Partnership, Berkshire Income Realty - OP, L.P. and BIR Westchester, L.L.C. (Incorporated by reference to Exhibit No. 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on December 15, 2004).

10.24 Real Estate Sale Agreement dated December 15, 2004, between EQR - Yorktowne Vistas, Inc. and BIR Yorktowne, L.L.C. (Incorporated by reference to Exhibit No. 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on December 21, 2004).

10.25 Contract of Sale between Trivest Westpark L.P., as seller, and Berkshire Income Realty, Inc., as buyer, dated February 24, 2005. (Incorporated by reference to Exhibit No. 10.1 to the Registrant's Current report on Form 8-K filed with the SEC on March 2, 2005).

- 10.26 Reinstatement and First Amendment to Contract of Sale dated March 18, 2005. (Incorporated by reference to Exhibit No. 10.2 to the Registrant's Current report on Form 8-K filed with the SEC on March 23, 2005).
- 10.27 Purchase and Sale Agreement between Berkshire Income Realty-OP, L.P. and Lake Ridge Apartments, LLC dated May 24, 2005. (Incorporated by reference to Exhibit No. 10.1 to the Registrant's Current report on Form 8-K filed with the SEC on May 31, 2005).
- 10.28 Purchase and Sale Agreement between McNab KC 3 Limited Partnership and Bay Pompano Beach, LLC dated May 26, 2005. (Incorporated by reference to Exhibit No. 10.2 to the Registrant's Current report on Form 8-K filed with the SEC on May 31, 2005).
- 10.29 Revolving Credit Agreement dated as of June 30, 2005 among Berkshire Income Realty- OP, L.P., as the Borrower, Krupp Capital Associates, as the Lender, The Other Lenders Party Hereto and Krupp Capital Associates, as Administrative Agent. (Incorporated by reference to Exhibit No. 10.1 to the Registrant's Current report on Form 8-K filed with the SEC on July 7, 2005).
- 10.30 Purchase and Sale Agreement between SCP Apartments, L.L.C., and Madison - Clinton - Tampa, L.L.C., each an Alabama limited liability company and Berkshire Income Realty-OP, L.P., a Delaware limited partnership or its nominee, dated August 3, 2005. (Incorporated by reference to Exhibit No. 10.1 to the Registrant's Current report on Form 8-K filed with the SEC on August 9, 2005).
- 10.31 Agreement of Limited Partnership of Berkshire Multifamily Value fund, L.P., dated August 12, 2005. (Incorporated by reference to Exhibit No. 10.3 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on November 14, 2005).
- 10.32 Subscription Agreement between Berkshire Multifamily Value Fund, L.P., and Berkshire Income realty, Inc. dated August 12, 2005. (Incorporated by reference to Exhibit No. 10.4 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on November 14, 2005).
- 10.33 Letter agreement between Berkshire Multifamily Value Fund, L.P., and Berkshire Income Realty, Inc. dated August 12, 2005. (Incorporated by reference to Exhibit No. 10.5 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on November 14, 2005).
- 10.34 Purchase and Sale Agreement between Marina Mile, LLC and BIR I, LLC (individually and collectively, as applicable, "Seller") and Metro Real Estate Group, Inc. dated January 3, 2006. (Incorporated by reference to Exhibit No. 10.1 to the Registrant's Current report on Form 8-K filed with the SEC on January 10, 2006).
- 10.35 Second Amendment to Purchase and Sale Agreement between Marina Mile, LLC and BIR I, LLC (collectively, "Seller") and Metro Real Estate Group, Inc. dated February 8, 2006. (Incorporated by reference to Exhibit No. 10.1 to the Registrant's Current report on Form 8-K filed with the SEC on February 17, 2006).
- 10.36 Purchase and Sale Agreement between ING U.S.-Residential Fund, L.P., a Delaware limited partnership; and Berkshire Income Realty-OP, L.P., a Delaware limited partnership, dated November 10, 2006. (Incorporated by reference to Exhibit No. 10.1 to the Registrant's Current report on Form 8-K filed with the SEC on November 16, 2006).
- 10.37 Amendment to Revolving Credit Agreement dated as of June 30, 2005 among Berkshire Income Realty- OP, L.P., as the Borrower, Krupp Capital Associates, as the Lender, The Other Lenders Party Hereto and Krupp Capital Associates, as Administrative Agent. (Incorporated by reference to Exhibit No. 10.1 to the Registrant's

Current report on Form 8-K filed with the SEC on June 6, 2007).

10.38 Purchase and Sale Agreement between St. Marin/Karrington Limited Partnership, a Delaware limited partnership and Williams Asset Management, LLC, a Georgia limited liability company, dated February 26, 2008 (Incorporated by reference to Exhibit No. 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on May 2, 2008).

- 10.39 Purchase and Sale Agreement by and among EHGP, Inc., a Pennsylvania corporation, Eric Blumenfeld, an individual, EHA Acquisition, L.P., a Pennsylvania limited partnership, BIR Executive GP, L.L.C. and BIR Executive LP, L.L.C. (Incorporated by reference to Exhibit No. 99.1 to the Registrant's Current Report on Form 8-K filed with the SEC on August 13, 2008).
- 10.40 Purchase and Sale Agreement by and among Anthony W. Packer, an individual, Jerome D. Winnick, an individual, Shoreline/Marin LLC, a Delaware limited liability company, BIR Executive GP, L.L.C. and BIR Executive LP, L.L.C. (Incorporated by reference to Exhibit No. 99.2 to the Registrant's Current Report on Form 8-K filed with the SEC on August 13, 2008).
- 10.41 Purchase and Sale Agreement between BRI Westchester Limited Partnership, a Maryland limited partnership, and Home Properties, L.P., a New York limited partnership, dated September 10, 2008 (Incorporated by reference to Exhibit No. 99.1 to the Registrant's Current Report on Form 8-K filed with the SEC on September 16, 2008).
- 10.42 Amendment No. 2, dated February 17, 2011, to Revolving Credit Agreement dated as of June 30, 2005, as amended by that certain Amendment No. 1 to Revolving Credit Agreement dated as of May 31, 2007 among Berkshire Income Realty-OP, L.P., the Borrower, Berkshire Income Realty, Inc., the Guarantor, Krupp Capital Associates, in its capacity as administrative agent, the Agent, for itself and the Lenders (as defined in the Agreement), and each of the Lenders party hereto (Incorporated by reference to Exhibit No. 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on February 24, 2011).
- 10.43 Limited Liability Agreement of BIR/BVF-II NoMa JV, L.L.C. made and entered into as of March 2, 2011, by and among Berkshire Multifamily Value Fund-II OP, L.P. and Berkshire Income Realty-OP, L.P. hereto as Members, of BIR/BVF-II NoMa JV, L.L.C., a Delaware limited liability company (Incorporated by reference to Exhibit No 10.1 to the Registrant's Current Report on Form 8-K/A filed with the SEC on March 9, 2011).
- 10.44 Amended and Restated Limited Liability Company Agreement, dated as of March 2, 2011, is between MCRT/MA 104 NoMa LLC, a Delaware limited liability company, and BIR/BVF-II NoMa JV, L.L.C., a Delaware limited liability company (Incorporated by reference to Exhibit No. 10.2 to the Registrant's Current Report on Form 8-K filed with the SEC on March 8, 2011).
- 21.1 Subsidiaries of the Registrant (Incorporated by reference to Exhibit No. 21.1 to the Registrant's Registration Statement on Form S-11 (Registration No. 333-98571)).
- 31.1 Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Principal Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Principal Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(c) Financial Statement Schedules

The information required by this item is set forth below in the financial statements included herein.

BERKSHIRE INCOME REALTY, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

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All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto	

Report of Independent Registered Public Accounting Firm

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

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Berkshire Income Realty, Inc. and subsidiaries (the "Company") at December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the Standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 5 to the consolidated financial statements, the Company changed the manner in which it accounts for its equity loss of Multifamily Venture Limited Partnership effective December 31, 2010.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Boston, Massachusetts

March 31, 2011

BERKSHIRE INCOME REALTY, INC.
CONSOLIDATED BALANCE SHEETS

	2010	December 31, 2009 Adjusted*
ASSETS		
Multifamily apartment communities, net of accumulated depreciation of \$200,045,487 and \$168,718,977, respectively	\$ 419,531,860	\$ 441,983,721
Cash and cash equivalents	12,893,665	17,956,617
Cash restricted for tenant security deposits	1,610,659	1,875,771
Cash restricted other	-	12,621,014
Replacement reserve escrow	3,990,924	3,938,646
Prepaid expenses and other assets	9,258,604	10,092,883
Investment in Multifamily Venture Limited Partnership	6,047,858	10,128,083
Acquired in place leases and tenant relationships, net of accumulated amortization of \$1,226,117 and \$1,108,269, respectively	43,962	161,810
Deferred expenses, net of accumulated amortization of \$2,270,646 and \$1,880,816, respectively	3,488,897	3,413,587
Total assets	\$ 456,866,429	\$ 502,172,132
LIABILITIES AND DEFICIT		
Liabilities:		
Mortgage notes payable	\$ 476,386,979	\$ 474,830,728
Note payable, affiliate	-	15,720,000
Due to affiliates, net	1,820,827	2,149,628
Due to affiliate, incentive advisory fees	2,207,795	-
Dividend and distributions payable	837,607	837,607
Accrued expenses and other liabilities	11,092,336	11,086,062
Tenant security deposits	1,827,837	1,838,501
Total liabilities	494,173,381	506,462,526
Commitments and contingencies (Note 10)	-	-
Deficit:		
Noncontrolling interest in properties	(191,881)	416,382
Noncontrolling interest in Operating Partnership (Note 12)	(65,806,083)	(34,172,349)
Series A 9% Cumulative Redeemable Preferred Stock, no par value, \$25	70,210,830	70,210,830

stated value, 5,000,000 shares authorized, 2,978,110 shares issued and outstanding at December 31, 2010 and December 31, 2009, respectively		
Class A common stock, \$.01 par value, 5,000,000 shares authorized, 0 shares issued and outstanding at December 31, 2010 and December 31, 2009, respectively	-	-
Class B common stock, \$.01 par value, 5,000,000 shares authorized, 1,406,196 issued and outstanding at December 31, 2010 and December 31, 2009, respectively	14,062	14,062
Excess stock, \$.01 par value, 15,000,000 shares authorized, 0 shares issued and outstanding at December 31, 2010 and December 31, 2009, respectively	-	-
Accumulated deficit	(41,533,880)	(40,759,319)
Total deficit	(37,306,952)	(4,290,394)
Total liabilities and deficit	\$ 456,866,429	\$ 502,172,132

* See Note 5

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

BERKSHIRE INCOME REALTY, INC.
CONSOLIDATED STATEMENTS OF INCOME (LOSS)

	For the years ended December 31,		
	2010	2009 Adjusted*	2008 Adjusted*
Revenue:			
Rental	\$ 75,234,879	\$ 74,043,952	\$ 65,441,106
Interest	12,655	105,223	605,703
Utility reimbursement	2,341,544	1,835,985	1,433,262
Other	4,093,812	3,637,353	2,725,314
Total revenue	81,682,890	79,622,513	70,205,385
Expenses:			
Operating	19,866,004	20,614,401	17,703,108
Maintenance	5,139,923	4,132,269	4,377,041
Real estate taxes	7,990,892	8,485,196	7,435,548
General and administrative	4,401,076	5,688,334	3,030,145
Management fees	4,803,585	4,770,659	4,487,677
Incentive advisory fees	2,207,795	-	-
Depreciation	31,326,510	32,136,098	28,277,756
Interest, inclusive of amortization of deferred financing fees	27,475,543	26,387,424	23,370,634
Amortization of acquired in-place leases and tenant relationships	117,848	827,930	474,258
Total expenses	103,329,176	103,042,311	89,156,167
Loss before equity in loss of Multifamily Venture Limited Partnership and Mezzanine Loan Limited Liability Company and loss from discontinued operations	(21,646,286)	(23,419,798)	(18,950,782)
Equity in loss of Multifamily Venture Limited Partnership	(4,080,225)	(4,143,070)	(4,321,483)
Equity in income (loss) of Mezzanine Loan Limited Liability Company	-	(947,294)	92,293
Loss from continuing operations	(25,726,511)	(28,510,162)	(23,179,972)
Discontinued operations:			
Loss from discontinued operations	-	(175,072)	(2,308,279)
Gain on disposition of real estate assets	-	-	79,487,487
	-	(175,072)	77,179,208

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Net income (loss) from discontinued operations

Net income (loss)	(25,726,511)	(28,685,234)	53,999,236
Net (income) loss attributable to noncontrolling interest in properties	18,981	376,955	(5,528,481)
Net (income) loss attributable to noncontrolling interest in Operating Partnership (Note 12)	31,633,734	34,172,349	(12,689,300)
Net income attributable to Parent Company	5,926,204	5,864,070	35,781,455
Preferred dividend	(6,700,765)	(6,700,785)	(6,700,682)
Net income (loss) available to common shareholders	\$ (774,561)	\$ (836,715)	\$ 29,080,773
Net loss from continuing operations attributable to Parent Company per common share, basic and diluted	\$ (0.55)	\$ (0.48)	\$ (34.21)
Net income (loss) from discontinued operations attributable to Parent Company per common share, basic and diluted	\$ 0.00	\$ (0.12)	\$ 54.89
Net income (loss) available to common shareholders per common share, basic and diluted	\$ (0.55)	\$ (0.60)	\$ 20.68
Weighted average number of common shares outstanding, basic and diluted	1,406,196	1,406,196	1,406,196
Dividend declared per common share	\$ 0.00	\$ 0.00	\$ 0.20

* See Note 5

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

BERKSHIRE INCOME REALTY, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

Parent Company Shareholders

	Series A Preferred Stock		Class B Common Stock		Accumulated Deficit	Noncontrolling Interests – Properties	Noncontrolling Interests – Operating Partnership	Total Equity (Deficit)
	Shares	Amount	Shares	Amount				
Balance at December 31, 2007	2,978,110	\$70,210,830	1,406,196	\$14,062	\$(68,163,089)	\$-	\$-	\$2,061,803
Cumulative effect of change in accounting principle (Note 5)	-	-	-	-	(529,563)	-	-	(529,563)
Net income (loss)	-	-	-	-	35,781,455	5,528,481	-	41,309,936
Contributions	-	-	-	-	-	-	-	-
Distributions	-	-	-	-	(310,700)	(5,234,831)	-	(5,545,531)
Distributions to preferred shareholders	-	-	-	-	(6,700,682)	-	-	(6,700,682)
Adjusted balance at December 31, 2008*	2,978,110	70,210,830	1,406,196	14,062	(39,922,579)	293,650	-	30,595,963
Net income (loss)	-	-	-	-	5,864,070	(376,955)	(34,172,349)	(28,685,234)
Contributions	-	-	-	-	-	1,404,801	-	1,404,801
Distributions	-	-	-	-	(25)	(905,114)	-	(905,139)
Distributions to preferred shareholders	-	-	-	-	(6,700,785)	-	-	(6,700,785)

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Adjusted balance at December 31, 2009*	2,978,110	70,210,830	1,406,196	14,062	(40,759,319)	416,382	(34,172,349)	(4,290,394)
Net income (loss)	-	-	-	-	5,926,204	(18,981)	(31,633,734)	(25,726,511)
Contributions	-	-	-	-	-	-	-	-
Distributions	-	-	-	-	-	(589,282)	-	(589,282)
Distributions to preferred shareholders	-	-	-	-	(6,700,765)	-	-	(6,700,765)
Balance at December 31, 2010	2,978,110	\$70,210,830	1,406,196	\$14,062	\$(41,533,880)	\$(191,881)	\$(65,806,083)	\$(37,306,952)

* See Note 5

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

BERKSHIRE INCOME REALTY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended December 31,		
	2010	2009 Adjusted*	2008 Adjusted*
Cash flows from operating activities:			
Net income (loss)	\$ (25,726,511)	\$ (28,685,234)	\$ 53,999,236
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Amortization of deferred financing costs	579,859	693,459	536,398
Amortization of acquired in-place leases and tenant relationships	117,848	827,930	474,258
Amortization of fair value discount on mortgage debt	427,589	-	-
Depreciation	31,326,510	32,136,098	32,458,939
Loss on extinguishment of debt	-	-	613,061
Equity in loss of Multifamily Venture Limited Partnership	4,080,225	4,143,070	4,321,483
Equity in (income) loss of Mezzanine Loan Limited Liability Company	-	947,294	(92,293)
Gain on real estate assets related to involuntary conversion	(255,072)	(90,585)	(699,940)
Gain on disposition of real estate assets	-	-	(79,487,487)
Increase (decrease) in cash attributable to changes in assets and liabilities:			
Tenant security deposits, net	254,448	(145,912)	(454,677)
Prepaid expenses and other assets	1,208,516	136,902	2,516,217
Due to/from affiliates	(328,801)	(141,622)	338,703
Due to affiliates, incentive advisory fees	2,207,795	-	-
Accrued expenses and other liabilities	60,924	(224,422)	(2,059,095)
Net cash provided by operating activities	13,953,330	9,596,978	12,464,803
Cash flows from investing activities:			

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Capital improvements	(9,048,464)	(14,288,389)	(30,854,954)
Acquisition of multifamily apartment communities	-	(849,719)	(20,148,140)
Proceeds from sale of properties	-	-	72,281,539
Interest earned on replacement reserve deposits	(3,099)	(23,122)	(71,400)
Restricted cash	12,621,014	(12,621,014)	-
Deposits to replacement reserve escrow	(563,423)	(1,605,940)	(63,549)
Withdrawals from replacement reserve escrow	514,244	3,643,369	3,344,208
Investment in Multifamily Venture Limited Partnership	-	-	(2,327,750)
Investment in Mezzanine Loan Limited Liability Company	-	-	(855,000)
Net cash (used in) provided by investing activities	3,520,272	(25,744,815)	21,304,954
Cash flows from financing activities:			
Borrowings from mortgage notes payable	17,013,537	19,515,761	13,200,000
Principal payments on mortgage notes payable	(15,884,875)	(18,902,305)	(12,319,867)
Prepayments of mortgage notes payable	-	-	(6,433,293)
Borrowings from revolving credit facility – affiliate	-	15,720,000	15,000,000
Principal payments on revolving credit facility – affiliate	(15,720,000)	-	(15,000,000)
Good faith deposits on mortgage notes payable	-	-	341,250
Deferred financing costs	(655,169)	(255,494)	(874,656)
Contribution from noncontrolling interest holders	-	1,404,801	-
Distributions paid to tax authority on behalf of partners	-	-	(875,000)
Distributions to noncontrolling interest in properties	(589,282)	(905,114)	(4,359,831)
Distributions on common operating partnership units	-	(25)	(14,000,000)
Distributions to preferred shareholders	(6,700,765)	(6,700,785)	(6,700,682)
Net cash (used in) provided by financing activities	(22,536,554)	9,876,839	(32,022,079)

Net (decrease) increase in cash and cash equivalents	(5,062,952)	(6,270,998)	1,747,678
Cash and cash equivalents at beginning of period	17,956,617	24,227,615	22,479,937
Cash and cash equivalents at end of period	\$ 12,893,665	\$ 17,956,617	\$ 24,227,615

* See Note 5

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

BERKSHIRE INCOME REALTY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	For the years ended December 31,		
	2010	2009	2008
Supplemental disclosure:			
Cash paid for interest	\$ 26,431,870	\$ 25,855,880	\$ 28,128,711
Capitalization of interest	\$ -	\$ 152,188	\$ 395,514
Supplemental disclosure of non-cash investing and financing activities:			
Capital improvements included in accrued expenses and other liabilities	\$ 55,119	\$ 109,769	\$ 604,296
Dividends declared and payable to preferred shareholders	\$ 837,607	\$ 837,607	\$ 837,607
Mortgage debt assumed by buyer	-	42,203,273	100,002,097
Write-off of real estate assets – involuntary conversion	119,165	278,988	1,206,363
Insurance proceeds receivable – involuntary conversion	430,756	891,208	1,317,693
Acquisition of multifamily apartment communities:			
Assets purchased:			
Multifamily apartment communities	\$ -	\$ (41,602,373)	\$ (50,205,199)
Acquired in-place leases and tenant relationships	-	(607,893)	(662,187)
Prepaid expenses and other assets	-	(1,083,422)	(640,758)
Deferred expenses	-	-	-
Liabilities assumed:			
Accrued expenses	-	80,760	293,134
Tenant security deposit liability	-	159,936	401,496
Mortgage assumed	-	42,203,273	30,665,374
Net cash used for acquisition of multifamily apartment communities	\$ -	\$ (849,719)	\$ (20,148,140)
Sale of real estate:			

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Gross selling price	\$ -	\$ -	\$ 175,650,000
Payoff of mortgage note payable	-	-	(6,433,293)
Assumption of mortgage notes payable	-	-	(92,566,152)
Cost of sale	-	-	(4,369,016)
Cash flows from sale of real estate assets	\$ -	\$ -	\$ 72,281,539

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

BERKSHIRE INCOME REALTY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION

Berkshire Income Realty, Inc., (the “Company”), a Maryland corporation, was incorporated on July 19, 2002 and 100 Class B common shares were issued upon organization. The Company is in the business of acquiring, owning, operating and rehabilitating multifamily apartment communities. The Company conducts its business through Berkshire Income Realty-OP, L.P. (the “Operating Partnership”).

The Company’s consolidated financial statements include the accounts of the Company, its subsidiary, the Operating Partnership, as well as the various subsidiaries of the Operating Partnership. The Company owns preferred and general partner interests in the Operating Partnership. The remaining common limited partnership interests in the Operating Partnership, owned by KRF Company and affiliates, are reflected as Noncontrolling Interest in Operating Partnership in the financial statements of the Company.

Properties

A summary of the multifamily apartment communities in which the Company owns an interest at December 31, 2010 is presented below:

Description	Location	Year Acquired	Total Units (Unaudited)	Ownership Interest	2010 Occupancy (1) (Unaudited)
Berkshires of Columbia	Columbia, Maryland	1983	316	91.38%	96.58%
Seasons of Laurel	Laurel, Maryland	1985	1,088	100.00%	95.58%
Walden Pond/Gables	Houston, Texas	1983/2003	556	100.00%	95.10%
Laurel Woods	Austin, Texas	2004	150	100.00%	97.28%
Bear Creek	Dallas, Texas	2004	152	100.00%	93.94%
Bridgewater Arboretum	Hampton, Virginia Newport News, Virginia	2004	216	100.00%	95.23%
Reserves at Arboretum	Newport News, Virginia	2009	(2) 143	100.00%	95.60%
Silver Hill	Newport News, Virginia	2004	153	100.00%	95.30%
Arrowhead	Palatine, Illinois	2004	200	58.00%	94.72%
Moorings	Roselle, Illinois	2004	216	58.00%	96.47%
Country Place I	Burtonsville, Maryland	2004	192	58.00%	97.45%
Country Place II	Burtonsville, Maryland	2004	120	58.00%	97.45%
Yorktowne	Millersville, Maryland	2004	216	100.00%	96.40%
Berkshires on Brompton	Houston, Texas	2005	362	100.00%	97.61%

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Riverbirch	Charlotte, North Carolina	2005	210	100.00%	95.84%
Lakeridge	Hampton, Virginia	2005	282	100.00%	96.85%
Berkshires at Citrus Park	Tampa, Florida	2005	264	100.00%	94.70%
Briarwood Village	Houston, Texas	2006	342	100.00%	96.17%
Chisholm Place	Dallas, Texas	2006	142	100.00%	97.29%
Standard at Lenox Park	Atlanta, Georgia	2006	375	100.00%	96.36%
Berkshires at Town Center	Towson, Maryland	2007	199	100.00%	90.78%
Sunfield Lakes	Sherwood, Oregon	2007	200	100.00%	94.58%
Executive House	Philadelphia, Pennsylvania	2008	302	100.00%	97.79%
GLO	Los Angeles, California	2009	201	89.955%	93.11%
			6,781		

All of the properties in the above table are encumbered by mortgages as of December 31, 2010.

(1) Represents the average year-to-date physical occupancy.

(2) Property was acquired as raw land in 2004. Development of the multifamily apartment community on the land was completed and fully leased during the year ended December 31, 2009.

Discussion of dispositions for the years ended December 31, 2010, 2009 and 2008

On April 28, 2008, the Operating Partnership completed the sale of 100% of its interest in St. Marin/Karrington Apartments (“St. Marin”) in Coppell, Texas. The selling price was \$61,750,000 and subject to normal closing costs and operating proration. The Company retained the balance of the sale proceeds in its operating account for its operating use. The operating results of St. Marin have been presented in the consolidated statement of operations as discontinued operations in accordance with ASC 360-10.

On May 29, 2008, the Operating Partnership completed the sale of 100% of its interest in Berkshires at Westchase Apartments (“Westchase”) in Houston, Texas. The selling price was \$12,400,000 and subject to normal closing costs and operating proration. The proceeds from the sale of Westchase were deposited in the Company’s operating account for its operating use. The operating results of Westchase have been presented in the consolidated statement of operations as discontinued operations in accordance with ASC 360-10.

On October 29, 2008, the Operating Partnership completed the sale of 100% of its interest in Century Apartments (“Century”) in Cockeysville, Maryland. The selling price was \$52,000,000 and subject to normal closing costs and operating proration. The Company’s portion of the net proceeds from the sale of Century was deposited in the Company’s operating account for its operating use. The operating results of Century have been presented in the consolidated statement of operations as discontinued operations in accordance with ASC 360-10.

On December 30, 2008, the Operating Partnership completed the sale of 100% of its interest in Westchester West Apartments (“Westchester West”) in Silver Spring, Maryland. The selling price was \$49,500,000 and subject to normal closing costs and operating proration. The proceeds from the sale of Westchester West were deposited in an escrow account with a qualified institution pursuant to a transaction structured to comply with a 1031 Exchange under the Tax Code. Subsequently, the proceeds were distributed from the qualified intermediary and deposited in the Company’s operating account for its operating use. The operating results of Westchester West have been presented in the consolidated statement of operations as discontinued operations in accordance with ASC 360-10.

There were no dispositions during the year ended December 31, 2010.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of combination and consolidation

The accompanying consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and entities which it controls including those entities subject to ASC 810-10. Variable interest entities (“VIEs”) are entities in which the equity investors do not have a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. In accordance with ASC 810-10, the Company consolidates VIEs for which it has a variable interest (or a combination of variable interests) that will absorb a majority of the entity’s expected losses, receive a majority of the entity’s expected residual returns, or both, based on an assessment performed at the time the Company becomes involved with the entity. The Company reconsiders this assessment only if the entity’s governing documents or the contractual arrangements among the parties involved change in a manner that changes the characteristics or adequacy of the entity’s equity investment at risk, some or all of the equity investment is returned to the investors and other parties become exposed to expected losses of the entity, the entity undertakes additional activities or acquires additional assets beyond those that were anticipated at inception or at the last reconsideration date that increase its expected losses, or the entity receives an additional equity investment that is at risk, or curtails or modifies its activities in a way that decreases its expected losses.

For entities not deemed to be VIEs, the Company consolidates those entities in which it owns a majority of the voting securities or interests, except in those instances in which the noncontrolling voting interest owner effectively participates through substantive participative rights, as discussed in ASC 810-10 and ASC 970-323. Substantive participatory rights include the ability to select, terminate, and set compensation of the investee's management, the ability to participate in capital and operating decisions of the investee (including budgets), in the ordinary course of business.

The Company also evaluates its ownership interests in entities not deemed to be VIEs, including partnerships and limited liability companies, to determine if its economic interests result in the Company controlling the entity as promulgated in ASC 810-20.

Real estate

Real estate assets are recorded at depreciated cost. The cost of acquisition (exclusive of transaction costs), development and rehabilitation and improvement of properties are capitalized. Interest costs are capitalized on development projects until construction is substantially complete. There was \$0, \$152,188 and \$395,514 of interest capitalized in 2010, 2009 and 2008, respectively. Recurring capital improvements typically include appliances, carpeting, flooring, HVAC equipment, kitchen and bath cabinets, site improvements and various exterior building improvements. Non-recurring upgrades include kitchen and bath upgrades, new roofs, window replacements and the development of on-site fitness, business and community centers.

The Company accounts for its acquisitions of investments in real estate in accordance with ASC 805-10, which requires the fair value of the real estate acquired to be allocated to the acquired tangible assets, consisting of land, building, furniture, fixtures and equipment and identified intangible assets and liabilities, consisting of the value of the above-market and below-market leases, the value of in-place leases and value of other tenant relationships, based in each case on their fair values. The Company considers acquisitions of operating real estate assets to be businesses as that term is contemplated in ASC 810-10.

The Company allocates purchase price to the fair value of the tangible assets of an acquired property (which includes land, building, furniture, fixtures and equipment) determined by valuing the property as if it were vacant. The as-if-vacant value is allocated to land and buildings, furniture, fixtures and equipment based on management's determination of the relative fair values of these assets.

Above-market and below market in-place lease values for acquired properties are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. The capitalized above-market lease values are amortized as a reduction of rental income over the remaining non-cancelable terms of the respective leases. The capitalized below-market lease values are amortized as an increase to rental income over the initial term and any fixed-rate renewal periods in the respective leases.

Management may engage independent third-party appraisers to perform these valuations and those appraisals may use commonly employed valuation techniques, such as discounted cash flow analyses. Factors considered in these analyses include an estimate of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases. The Company also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired. In estimating carrying costs, management also includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods depending on specific local market conditions and depending on the type of property acquired.

The total amount of other intangible assets acquired is further allocated to in-place leases, which includes other tenant relationship intangible values based on management's evaluation of the specific characteristics of the residential leases and the Company's tenant retention history.

The value of in-place leases and tenant relationships are amortized over the specific expiration dates of the in-place leases over a period of 12 months and the tenant relationships are based on the straight line method of amortization over a 24 month period.

Expenditures for ordinary maintenance and repairs are charged to operations as incurred. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets, as follows:

Rental	25 to 27.5
property	years
Improvements	5 to 20
	years
Appliances	3 to 8
and	years
equipment	

When a property is sold, its costs and related depreciation are removed from the accounts with the resulting gains or losses reflected in net income or loss for the period.

Pursuant to ASC 360-10, management reviews its long-lived assets used in operations for impairment when there is an event or change in circumstances that indicates impairment in value. An asset is considered impaired when the undiscounted future cash flows are not sufficient to recover the asset's carrying value. If such impairment is present, an impairment

loss is recognized based on the excess of the carrying amount of the asset over its fair value. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future rental occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. No such impairment losses have been recognized to date.

Our investments in unconsolidated joint ventures are reviewed for impairment periodically and we record impairment charges when events or circumstances change indicating that a decline in the fair values below the carrying values has occurred and such decline is other-than-temporary. The ultimate realization of our investment in unconsolidated joint ventures is dependent on a number of factors, including the performance of each investment and market conditions. We will record an impairment charge if we determine that a decline in the value of an investment in an unconsolidated joint venture is other than temporary. Please refer to Note 4 – Investment in Mezzanine Loan Limited Liability Company for further discussion of impairments recorded.

Cash and cash equivalents

The Company participates in centralized cash management whereby cash receipts are deposited in specific property operating accounts and are then transferred to the Company's central operating account. Bills are paid from a central disbursement account maintained by an affiliate of the Company, which is reimbursed from the Company's central operating accounts. In management's opinion, the cash and cash equivalents presented in the consolidated financial statements are available and required for normal operations.

The Company invests its cash primarily in deposits and money market funds with commercial banks. All short-term investments with maturities of three months or less from the date of acquisition are included in cash and cash equivalents. The cash investments are recorded at cost, which approximates current market values.

Concentration of credit risk

The Company maintains cash deposits with major financial institutions, which from time to time may exceed federally insured limits. The Company does not believe that this concentration of credit risk represents a material risk of loss with respect to its financial position as the Company invests with creditworthy institutions including national banks and major financial institutions.

Investments

The Company accounts for its investments in accordance with ASC 320-10. At the time of purchase, fixed maturity securities are classified based on intent, as held-to-maturity, trading, or available-for-sale. In order for the security to be classified as held-to-maturity, the Company must have positive intent and ability to hold the securities to maturity. Securities held-to-maturity are stated at cost adjusted for amortization of premiums and accretion of discounts. Securities that are bought and held principally for the purpose of selling them in the near term are classified as trading. Securities that do not meet this criterion are classified as available-for-sale. Available-for-sale securities are carried at aggregate fair value with changes in unrealized gains or losses reported as a component of comprehensive income. Fair values for publicly traded securities are obtained from external market quotations. All security transactions are recorded on a trade date basis.

The Company's accounting policy for impairment requires recognition of an other-than-temporary impairment write-down on a security if it is determined that the Company is unable to recover all amounts due under the contractual obligations of the security. In addition, for securities expected to be sold, an other-than-temporary impairment charge is recognized if the Company does not expect the fair value of a security to recover to cost or amortized cost prior to the expected date of sale. Once an impairment charge has been recorded, the Company then continues to review the other-than-temporarily impaired securities for additional impairment, if necessary. Please

refer to Note 4 – Investment in Mezzanine Loan Limited Liability Company for further discussion of impairments recorded.

Cash restricted for tenant security deposits

Cash restricted for tenant security deposits represents security deposits held by the Company under the terms of certain tenant lease agreements.

Cash restricted, other

Cash restricted, other represents fund segregated in accordance with the provisions of the financing agreements for the Glo property which was acquired in 2009.

Replacement reserve escrows

Certain lenders require escrow accounts for capital improvements. The escrows are funded from operating cash, as needed.

Deferred expenses

Fees and costs incurred to obtain long-term financing have been deferred and are being amortized over the terms of the related loans, on a method which approximates the effective interest method.

Noncontrolling Interest in Properties

Unaffiliated third parties have ownership interests in six of the Company's multifamily apartment communities at December 31, 2010. Such interests are accounted for as "Noncontrolling Interest in Properties" in the accompanying financial statements. Allocations of earnings and distributions are made to noncontrolling holders based upon their respective share allocations. Accordingly, for financial reporting purposes in prior years, allocations of earnings and distributions in excess of noncontrolling holders' investment basis were allocated to the Company. As of January 1, 2009, in accordance with ASC 810-10, the noncontrolling holders interest in the properties have been reduced for their share of the current year allocation of earnings and distributions deficit and are reflected as negative amounts on the balance sheet

Noncontrolling Interest in Operating Partnership

In accordance with ASC 974-810, KRF Company and affiliates' common limited partnership interest in the Operating Partnership is being reflected as "Noncontrolling Interest in Operating Partnership" in the financial statements of the Company.

The net equity to the common and general partner interests in the Operating Partnership is less than zero after an allocation to the Company and affiliates' preferred interest in the Operating Partnership. Further, KRF Company and affiliates have no obligation to fund such deficit. Accordingly, for financial reporting purposes in prior years, KRF Company and affiliates' noncontrolling interest in the Operating Partnership had been reflected as zero with common stockholders' equity being reduced for the deficit amount. As of January 1, 2009, in accordance with ASC 810-10, KRF Company and affiliates' noncontrolling interest in the Operating Partnership have been reduced for their share of the current year deficit and are reflected as negative amounts on the balance sheet. .

In accordance with ASC 974-810, earnings of the Operating Partnership are first being allocated to the preferred interests held by the Company. The remainder of earnings, if any, is allocated to the Company's general partner and KRF Company and affiliates' common limited partnership interests in accordance with their relative ownership percentages. The excess of the allocation of income to KRF Company and affiliates over cash distributed to them will be credited directly to the Company's equity (with a corresponding debit to noncontrolling interest) until the noncontrolling interest deficit that existed upon the completion of the Offering is eliminated. Distributions to the noncontrolling holders in excess of their investment basis are recorded in the Company's statement of operations as Noncontrolling Interest in Operating Partnership.

Stockholders' equity (deficit)

Capital contributions, distributions and profits and losses are allocated in accordance with the terms of the individual partnership and or limited liability company agreements. Distributions and dividends are accrued and recorded in the period declared.

Equity offering costs

Underwriting commissions and offering costs have been reflected as a reduction of proceeds from issuance of the Preferred Shares.

Debt extinguishment costs

In accordance with ASC 470-50, the Company has determined that debt extinguishment costs do not meet the criteria for classification as extraordinary pursuant to ASC 225-20. Accordingly, costs associated with the early extinguishment of debt are included in the caption "loss on extinguishment of debt" and/or "discontinued operations" in the Statements of Operations for the year ended December 31, 2008. There were no debt extinguishment costs incurred for the years ended December 31, 2009 and 2010.

Rental revenue

The properties are leased with terms of generally one year or less. Rental revenue is recognized on a straight-line basis over the related lease term. As a result, deferred rents receivable are created when rental revenue is recognized during the concession period of certain negotiated leases and amortized over the remaining term of the lease. Recoveries from tenants for utility expenses are recognized in the period the applicable costs are incurred.

Other income

Other income, which consists primarily of income from damages, laundry, cable, phone, pool, month to month tenants, relet fees and pet fees, is recognized when earned.

Income taxes

The Company elected to be treated as a real estate investment trust ("REIT") under Section 856 of the Tax Code (the "Code"), with the filing of its first tax return. As a result, the Company generally is not subject to federal corporate income tax on its taxable income that is distributed to its stockholders.

A REIT is subject to a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its annual taxable income. The Company's policy is to make sufficient distributions of its taxable income to meet the REIT distribution requirements.

The Company must also meet other operational requirements with respect to its investments, assets and income. The Company monitors these various requirements on a quarterly basis and believes that as of and for the years ended December 31, 2010 and 2009, it was in compliance on all such requirements. Accordingly, the Company has made no provision for federal income taxes in the accompanying consolidated financial statements. The Company is subject to certain state level taxes based on the location of its properties.

The net difference between the tax basis and the reported amounts of the Company's assets and liabilities is approximately \$62,943,921 and \$76,366,295 as of December 31, 2010 and 2009, respectively. The Company believes that due to its structure and the terms of the partnership agreement of the Operating Partnership, if the net difference is realized under the Code, any impact would be substantially realized by the common partners of the Operating Partnership and the impact on the common and preferred shareholders would be negligible.

The Company monitors the impact of ASC 740-10, which clarifies the accounting for uncertainty in income taxes recognized in the Company's financial statements in accordance with ASC 740-10. As of December 31, 2010 and 2009, the Company has determined it does not have a liability related to a tax position taken or expected to be taken in a tax return and therefore has not recorded any adjustments to its financial statements.

Recent Accounting Pronouncements

Effective January 1, 2010, the Company adopted Accounting Standard Codification (“ASC”) 810-10 (“ASC 810-10”) and Amendments to ASC 810-10 which requires management to reassess their variable interest entities. The Company’s adoption of this guidance did not have any impact on its financial position and results of operations.

Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31, 2010, 2009 and 2008, comprehensive income (loss) equaled net income (loss). Therefore, the Consolidated Statement of Comprehensive Income and Loss required to be presented has been omitted from the consolidated financial statements.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, contingent assets and liabilities at the date of financial statements and revenue and expenses during the reporting period. Such estimates include the amortization of acquired in-place leases and tenant relationships, the allowance for depreciation, impairment of unconsolidated joint ventures, variable asset management fees and the fair value of the accrued participating note interest. Actual results could differ from those estimates.

Reclassifications

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

3. MULTIFAMILY APARTMENT COMMUNITIES

The following summarizes the carrying value of the Company's multifamily apartment communities:

	December 31,	
	2010	2009
Land	\$ 67,711,675	\$ 67,711,675
Buildings, improvements and personal property	551,865,672	542,991,023
Multifamily apartment communities	619,577,347	610,702,698
Accumulated depreciation	(200,045,487)	(168,718,977)
Multifamily apartment communities, net	\$ 419,531,860	\$ 441,983,721

The Company accounts for its acquisitions of investments in real estate in accordance with ASC 805-10, which requires the fair value of the real estate acquired to be allocated to the acquired tangible assets, consisting of land, building, furniture, fixtures and equipment and identified intangible assets and liabilities, consisting of the value of the above-market and below-market leases, the value of in-place leases and the value of other tenant relationships, based in each case on their fair values. The value of in-place leases and tenant relationships are amortized over the specific expiration dates of the in-place leases over a period of 12 months and the tenant relationships are based on the straight-line method of amortization over a 24-month period.

The Company evaluated the carrying value of its multifamily apartment communities for impairment pursuant to ASC 360-10. The Company did not record an impairment adjustment at December 31, 2010 or 2009.

Refer to Notes to the Consolidated Financial Statement, Footnote 1 – Organization and Basis of Presentation for discussion of dispositions for the years ended December 31, 2010, 2009 and 2008.

The operating results of discontinued operations for the years ended December 31, 2010, 2009 and 2008 are summarized as follows:

2010	2009	2008
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Revenue:			
Rental	\$ -	\$ 469	\$ 12,171,539
Interest	-	-	5,511
Utility reimbursement	-	-	374,462
Other	-	10,398	499,956
Total revenue	-	10,867	13,051,468
Expenses:			
Operating	-	80,016	2,673,064
Maintenance	-	42,209	1,079,529
Real estate taxes	-	-	1,303,033
General and administrative	-	63,710	357,622
Management fees	-	4	521,445
Depreciation	-	-	4,181,183
Interest, inclusive of deferred financing fees	-	-	3,986,525
Loss on extinguishment of debt	-	-	1,257,346
Total expenses	-	185,939	15,359,747
Loss from discontinued operations	\$ -	\$ (175,072)	\$ (2,308,279)

4. INVESTMENT IN MEZZANINE LOAN LIMITED LIABILITY COMPANY

On June 19, 2008, the Company through a wholly owned subsidiary BIR Blackrock, L.L.C., entered into a subscription agreement to invest in the Leggat McCall Hingham Mezzanine Loan LLC, a Massachusetts limited liability company (the “Mezzanine Loan LLC”). Under the terms of the agreement, the Company agreed to invest up to \$1,425,000, or approximately 41%, of the total capital of the investment in order to subscribe for 14.25 units of the Mezzanine Loan LLC. The Company has funded \$855,000, or 60%, of its commitment as of December 30, 2009.

The Company has evaluated its investment in the Mezzanine Loan LLC and concluded that the investment, although subject to the requirements of ASC 810-10, would not require the Company to consolidate the activity of the Mezzanine Loan LLC as the Company has determined that it is not the primary beneficiary of the venture as defined in ASC 810-10. The Company accounted for its investment in the Mezzanine Loan LLC under the equity method of accounting in accordance with the provisions of ASC 325-20.

During the year ended December 31, 2009, the developer of the property securing the Mezzanine Loan LLC’s investment suffered financial problems related to other projects it is working on. As a result of these issues, the managing member of the Mezzanine Loan LLC (the “Managing Member”) negotiated with another developer to take over the project. The Managing Member also attempted to extend the maturity date of the underlying first mortgage on the real estate in conjunction with the hiring of the new developer. Neither of the strategies of the Managing Member were successful and as a result the lender required the replacement of the Managing Member. Due to the ongoing uncertainty of the investment and changes in the structure of the investment resulting from the actions of the lender, the Company decided to distribute its interest in the investment to the common interest holder of the Operating Partnership.

During the year ended December 31, 2009 and prior to the Company deciding to distribute its interest in the investment to the common interest holder of the Operating Partnership, the Company recognized income related to its investment in the Mezzanine Loan LLC. The income represents interest accrued on the Company’s investment and totaled \$170,531. The income increased the Company’s carrying value of the investment prior to the write-down. Additionally, the Company recognized impairment charges which represented the other-than-temporary decline in the fair value below the carrying value of the Company’s investment in the Mezzanine Loan LLC. In accordance with ASC 325-20, a loss in value of an investment under the equity method of accounting, which is other than a temporary decline, must be recognized. Unlike ASC 360-10, potential impairments under ASC 325-20 result from fair values derived based on discounted cash flows and other valuation techniques which are more sensitive to current market conditions. As a result, the Company recognized non-cash impairment charges of \$1,117,825 on its investment in the Mezzanine Loan LLC in 2009.

On December 30, 2009, as part of a special distribution to the common stockholders, the Company distributed its interest in the Mezzanine Loan LLC. The interests were valued at \$1,000 at the time of distribution. Prior to the distribution, the Company had been required to recognized impairment charges on the investment which represented other-than-temporary declines in the fair value of the investment below the carrying value. The carrying value of the investment prior to distribution was \$0.

5. INVESTMENT IN MULTIFAMILY VENTURE LIMITED PARTNERSHIP

On August 12, 2005, the Company, together with affiliates and other unaffiliated parties, entered into a subscription agreement to invest in the Berkshire Multifamily Value Fund, L.P. (“BVF”), an affiliate of Berkshire Property Advisors, L.L.C. (“Berkshire Advisor” or the “Advisor”). Under the terms of the agreement and the related limited partnership agreement, the Company and its affiliates agreed to invest up to \$25,000,000, or approximately 7%, of the total capital of the partnership. The Company’s final commitment under the subscription agreement with BVF totals

\$23,400,000. BVF's investment strategy is to acquire middle-market properties where there is an opportunity to add value through repositioning or rehabilitation.

In accordance with ASC 810-10 issued by the Financial Accounting Standards Board ("FASB") related to the consolidation of variable interest entities, the Company has performed an analysis of its investment in BVF to determine whether it would qualify as a variable interest entity ("VIE") and whether it should be consolidated or accounted for as an equity investment in

an unconsolidated joint venture. As a result of the Company's qualitative assessment to determine whether its investment in BVF is a VIE, the Company determined that the investment is a VIE based upon the holders of the equity investment at risk lacking the power, through voting rights or similar rights to direct the activities of BVF that most significantly impact BVF's economic performance. Under the terms of the limited partnership agreement of BVF, the general partner of BVF has the full, exclusive and complete right, power, authority, discretion, obligation and responsibility to make all decisions affecting the business of BVF.

After making the determination that its investment in BVF was a variable interest entity, the Company performed an assessment of which partner would be considered the primary beneficiary of BVF and therefore would be required to consolidate BVF's balance sheets and result of operations. This assessment was based upon which entity (1) had the power to direct matters that most significantly impact the activities of BVF, and (2) had the obligation to absorb losses or the right to receive benefits of BVF that could potentially be significant to the entity based upon the terms of the partnership and management agreements of BVF. As a result of fees paid to the general partner of BVF for asset management and other services, the Company has determined that the general partner of BVF has the obligation to absorb the losses or the right to receive benefits of BVF while retaining the power to make significant decisions for BVF. Based upon this understanding, the Company concluded that the general partner of BVF should consolidate BVF and as such, the Company accounts for its investment in BVF as an equity investment in an unconsolidated joint venture.

In relation to its investment in BVF, the Company had elected to adopt a three-month lag period in which it recognizes its share of the equity earnings of BVF in arrears. The lag period was allowed under the provisions of ASC 810-10 and was necessary in order for the Company to consistently meet its regulatory filing deadlines. Effective December 31, 2010, the Company has ceased its use of the three-month lag period in recognizing its share of the equity earnings of BVF and has accounted for its share of the equity in BVF operating activity through December 31, 2010. The Company believes that the change in accounting principle related to the elimination of the three-month reporting lag for its share of the equity earnings of BVF is preferable because it will result in more contemporaneous reporting of events and results related to BVF. In accordance with ASC 810-10, a change in reporting lag is treated as a change in accounting principle and requires retrospective application. Accordingly, the Company has accounted for the elimination of the three-month lag as a change in accounting principle and retrospectively adjusted previously reported financial statements. The following tables reflect the effects of the change on the affected financial line items and any affected per-share amounts for the current period and periods retrospectively adjusted.

The following table shows the effects of the Company's Balance Sheet:

	December 31, 2009		
	As Previously Reported	As Adjusted	Effect of Change
Investment in Multifamily Venture Limited Partnership	\$ 11,201,249	\$ 10,128,083	\$ (1,073,166)
Noncontrolling interest in Operating Partnership	\$ (34,251,501)	\$ (34,172,349)	\$ 79,152

The following tables show the effects on the Company's Statement of Income (Loss):

	Year Ended December 31, 2009			Year Ended December 31, 2008		
	As Previously Reported	As Adjusted	Effect of Change	As Previously Reported	As Adjusted	Effect of Change
Equity in loss of Multifamily Venture Limited Partnership	\$ (4,224,160)	\$ (4,143,070)	\$ 81,090	\$ (3,696,790)	\$ (4,321,483)	\$ (624,693)
Loss from continuing operations	(28,591,252)	(28,510,162)	81,090	(22,555,279)	(23,179,972)	(624,693)
Net income (loss)	(28,766,324)	(28,685,234)	81,090	54,623,929	53,999,236	(624,693)
Net income (loss) attributable to noncontrolling interest in Operating Partnership	34,251,501	34,172,349	(79,152)	(12,689,300)	(12,689,300)	-
Net income (loss) attributable to Parent Company	5,862,132	5,864,070	1,938	36,406,148	35,781,455	(624,693)
Net income (loss) available to common shareholders	(838,653)	(836,715)	1,938	29,705,466	29,080,773	(624,693)
Net loss from continuing operations attributable to Parent	\$ (0.48)	\$ (0.48)	\$ -	\$ (33.77)	\$ (34.21)	\$ (0.44)

Company per common share, basic and diluted						
Net income (loss) available to common shareholders per common share, basic and diluted	\$ (0.60)	\$ (0.60)	\$ -	\$ 21.12	\$ 20.68	\$ (0.44)

The following tables show the effects of the Company's Statement of Cash Flows:

	Year Ended December 31, 2009			Year Ended December 31, 2008		
	As Previously Reported	As Adjusted	Effect of Change	As Previously Reported	As Adjusted	Effect of Change
Net income (loss)	\$ (28,766,324)	\$ (28,685,234)	\$ 81,090	\$ 54,623,929	\$ 53,999,236	\$ (624,693)
Equity in loss of Multifamily Venture Limited Partnership	(4,224,160)	(4,143,070)	81,090	(3,696,790)	(4,321,483)	(624,693)

The summarized statement of assets, liabilities and partners' capital of BVF is as follows:

	December 31, 2010 (unaudited)	December 31, 2009 (unaudited)
ASSETS		
Multifamily apartment communities, net	\$ 1,026,752,247	\$ 1,145,336,926
Cash and cash equivalents	17,404,768	22,192,792
Other assets	23,147,278	25,581,592
Total assets	\$ 1,067,304,293	\$ 1,193,111,310
LIABILITIES AND PARTNERS' CAPITAL		
Mortgage notes payable	\$ 933,888,123	\$ 971,989,388
Revolving credit facility	22,400,000	38,400,000
Other liabilities	29,278,903	23,570,065
Noncontrolling interest	3,981,824	23,113,674
Partners' capital	77,755,443	136,038,183
Total liabilities and partners' capital	\$ 1,067,304,293	\$ 1,193,111,310
Company's share of partners' capital	\$ 5,443,463	\$ 9,523,688
Basis differential (1)	604,395	604,395
Carrying value of the Company's investment in Multifamily Venture Limited Partnership (2)	\$ 6,047,858	\$ 10,128,083

- (1) This amount represents the difference between the Company's investment in BVF and its share of the underlying equity in the net assets of BVF (adjusted to conform with GAAP) including the timing of the lag period, as described above. At December 31, 2010 and December 31, 2009, the differential related mainly to the \$583,240 which represents the Company's share of syndication costs incurred by BVF of which the Company was not required to fund via a separate capital call.
- (2) Per the partnership agreement of BVF, the Company's liability is limited to its investment in BVF. The Company does not guarantee any third-party debt held by BVF. The Company has fully funded its obligations under the partnership agreement and as of December 31, 2010, has no commitment to make additional contributions to BVF.

The Company evaluates the carrying value of its investment in BVF for impairment periodically and records impairment charges when events or circumstances change indicating that a decline in the estimated fair values below the carrying values has occurred and such decline is other-than-temporary. No such other-than-temporary impairment charges have been recognized as of December 31, 2010 and 2009.

The summarized statements of operations of the BVF for the years ended December 31, 2010, 2009 and 2008 are as follows:

	Twelve Months Ended December 31,		
	2010	2009	2008
Revenue	\$ 144,259,830	\$ 146,283,102	\$ 141,114,972
Expenses	(229,114,505)	(216,808,873)	(214,436,196)

Gain/(loss) on sale of real estate assets	7,105,709	-	(397,446)
Net income (loss)	(77,748,966)	(70,525,771)	(73,718,670)
Noncontrolling interest	19,466,226	11,345,359	11,989,780
Net income (loss) attributable to investment	\$ (58,282,740)	\$ (59,180,412)	\$ (61,728,890)
Equity in loss of Multifamily Venture Limited Partnership (1)	\$ (4,080,225)	\$ (4,143,070)	\$ (4,321,483)

- (1) BVF recorded an impairment charge on their real estate in accordance with ASC 360-10 in the amount of \$16,813,090, which is included in Expenses on the summarized statement of operations of BVF. During 2010, the Company identified that the real estate impairment charge recorded at BVF related to prior periods and should have been reflected in previously reported consolidated financial statements of the Company. The Company had concluded that the impact of this error to the prior periods and to the year ended December 31, 2010 is not material to the Company's consolidated financial statements and has recorded the additional equity in loss expense in 2010. Had this error been recorded in the proper periods, the impact on the adjustment on 2010 would have been a decrease in equity in loss of Multifamily Venture Limited Partnership and net loss of approximately \$590,000.

6. MORTGAGE NOTES PAYABLE

Mortgage notes payable consists of the following at December 31, 2010 and 2009:

Collateralized Property	Original Principal Balance	Principal December 31, 2010	Annual Interest Rate at December 31, 2010 (2)	Final Maturity Date	Monthly Payment	Principal December 31, 2009
Berkshires of Columbia	\$ 26,600,000	\$ 24,870,602	4.86 %	2013	\$ 104,235	\$ 25,319,532
Berkshires of Columbia (2nd note)	4,563,000	4,269,952	6.12 %	2013	22,530	4,335,354
Berkshires of Columbia (3rd note)	5,181,000	5,072,334	6.37 %	2014	27,848	5,130,411
Seasons of Laurel	99,200,000	99,200,000	6.10 %	2021	521,076	99,200,000
Laurel Woods	4,100,000	3,914,035	5.17 %	2015	17,425	3,976,346
Laurel Woods (2nd note)	1,900,000	1,870,213	7.14 %	2015	11,499	1,887,966
Bear Creek	3,825,000	3,825,000	5.83 %	2016	19,203	3,825,000
Walden Pond	12,675,000	11,102,129	4.86 %	2013	46,548	11,351,981
Gables of Texas	5,325,000	4,664,207	4.86 %	2013	19,556	4,769,175
Bridgewater	14,212,500	13,369,070	5.11 %	2013	58,828	13,597,052
Silver Hill (1)	4,010,241	3,316,336	5.37 %	2026	15,335	3,446,752
Arboretum (1)	6,894,193	5,676,859	5.37 %	2026	26,251	5,905,650
Reserves at Arboretum (3)	12,950,000	12,950,000	6.20 %	2015	66,908	12,434,751
Arrowhead	5,510,000	5,176,267	5.00 %	2014	22,287	5,266,324
Arrowhead (2nd note)	3,107,305	2,961,106	6.45 %	2014	16,446	3,001,444
Moorings	5,775,000	5,425,216	5.00 %	2014	23,359	5,519,605
Moorings (2nd note)	3,266,654	3,112,958	6.45 %	2014	17,290	3,155,365
Country Place I & II	15,520,000	14,581,713	5.01 %	2015	62,908	14,834,949
Country Place (2nd note)	9,676,278	9,219,153	6.43 %	2015	51,046	9,345,242
Yorktowne	16,125,000	15,212,273	5.13 %	2015	67,200	15,467,993
Yorktowne (2nd note)	7,050,000	6,739,026	6.12 %	2015	35,515	6,831,515
Brompton	18,600,000	18,600,000	5.71 %	2014	91,455	18,600,000
Riverbirch	5,750,000	5,601,867	5.57 %	2015	26,898	5,678,020
Lakeridge	13,130,000	12,488,402	5.07 %	2014	54,522	12,693,293

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Lakeridge (2nd note)	12,520,000	11,909,372	5.08 %	2014	52,097	12,104,399
Savannah at Citrus Park	16,428,100	16,315,054	5.00 %	2045	61,923	-
Briarwood	13,200,000	13,178,098	6.43 %	2018	73,021	13,200,000
Chisholm	6,953,000	6,953,000	6.25 %	2016	37,421	6,953,000
Standard at Lenox	35,000,000	35,000,000	5.80 %	2016	169,167	35,000,000
Berkshires at Town Center	20,000,000	20,000,000	5.77 %	2017	99,372	20,000,000
Sunfield Lakes	19,440,000	19,440,000	6.29 %	2017	105,378	19,440,000
Executive House	27,000,000	26,394,623	5.52 %	2016	125,482	26,750,776
Executive House (2nd note)	3,700,000	3,557,252	5.99 %	2012	18,368	3,605,560
Glo (1)	29,993,273	30,420,862	1.59 %	2037	12,455	29,993,273
Glo (2nd note)	-	-	-	2010	-	9,500,000
Glo (3rd note)	-	-	-	2010	-	2,710,000
	\$ 489,180,544	\$ 476,386,979				\$ 474,830,728

- (1) Represents assumed balance of the mortgage note payable as adjusted to its fair value as required by ASC 805-10. Annual interest rate at December 31, 2010 reflects interest rate used to calculate fair value of the debt when assumed.
- (2) All interest rates are fixed as of December 31, 2010 with the exception of the variable rate debt on the Glo property that was assumed at acquisition.
- (3) December 31, 2009 balance represents amounts drawn on construction loan as of December 31, 2009. Total final loan amount available is \$12,950,000. Conversion of the construction loan to permanent financing was completed on April 23, 2010.

All mortgage notes are collateralized by the referenced property, which are all multifamily residential apartment communities. All payments on the outstanding mortgage notes have been made timely and all mortgage loans were current as of December 31, 2010 and 2009. Also, there were no amounts of principal on the notes that were subject to delinquent principal or interest as of December 31, 2010.

Combined aggregate principal maturities of mortgage notes payable at December 31, 2010 are as follows:

2011	\$4,033,830
2012	9,251,274
2013	61,379,687
2014	66,591,051
2015	63,630,104
Thereafter	271,501,033
	\$476,386,979

The Company determines the fair value of the mortgage notes payable based on the discounted future cash flows at a discount rate that approximates the Company's current effective borrowing rate for comparable loans. For purposes of determining fair value the Company groups its debt by similar maturity date for purposes of obtaining comparable loan information in order to determine fair values. In addition, the Company also considers the loan-to-value percentage of individual loans to determine if further stratification of the loans is appropriate in the valuation model. If the loan-to-value percentage for any particular loan is in excess of the majority of the debt pool, debt in excess of 80% loan-to-value will be treated as mezzanine debt and valued using a larger interest spread than the average debt pool. Based on this analysis, the Company has determined that the fair value of the mortgage notes payable approximates \$494,836,000 and \$477,547,000 at December 31, 2010 and 2009, respectively

On February 24, 2009, the Company, through its joint venture, BIR Holland JV LLC, in connection with the acquisition of Glo, assumed a mortgage note payable with outstanding balances of \$47,500,000, which is collateralized by the related property. The note has a variable interest rate. As of December 31, 2010, the weighted-average variable interest rate is 1.59%. In accordance with ASC 805-10, the Company recorded this mortgage at fair value, which was determined by calculating the present value of the future payments at current interest rates. The fair market value at the acquisition date for the debt assumed on Glo was \$42,203,273. The mortgage note originally required two principal reductions during 2009 and 2010 in the amount of \$9,500,000 and \$2,710,000, respectively. On July 27, 2009, Fannie Mae granted a six-month extension for the amount originally due in 2009 of \$9,500,000 to March 15, 2010. On March 15, 2010, the supplemental mortgages outstanding and secured by Glo in the amount of \$12,210,000 matured. As a requirement of the financing, the amounts maturing on March 15, 2010 were backed by irrevocable letters of credit which were used to retire the matured debt. Additionally, as a requirement of the bank that issued the irrevocable letters of credit, the Company was required to segregate cash in an amount sufficient to back the letters of credit. On March 15, 2010, the segregated cash was used to settle the letters of credit. Because the assumed mortgage was originally recorded at fair value, the Company is required to amortize the difference between the fair value and the face value of the mortgage over the life of the mortgage. During the year ended December 31, 2010, the Company recorded \$427,589 of amortization of the fair value adjustment, resulting in an increase in the recorded mortgage balance and a charge to interest expense. During the year ended December 31, 2010, the Company identified an error in the calculation of amortization of the loan fair value adjustment relating to the Glo loan, which was understated by \$196,522. The Company has concluded that the impact of this error to the prior periods and to the year ended December 31, 2010 is not material to the Company's consolidated financial statements and has recorded the additional amortization in 2010. Had this error been recorded in the proper periods, the impact on the adjustment on 2010 would have been a decrease in interest expense and net loss of \$196,552.

7. REVOLVING CREDIT FACILITY - AFFILIATE

On June 30, 2005, the Company obtained new financing in the form of a revolving credit facility. The revolving credit facility in the amount of \$20,000,000 was provided by an affiliate of the Company. The facility provides for interest on borrowings at a rate of 5% above the 30 day LIBOR rate, as announced by Reuter's, and fees based on borrowings under the facility and various operational and financial covenants, including a maximum leverage ratio and a maximum debt service ratio. The agreement has a maturity date of December 31, 2006, with a one-time

six-month extension available at the option of the Company. The terms of the facility were agreed upon through negotiations and were approved by the Audit Committee of the Board of Directors of the Company (the "Board"), which is comprised solely of directors who are independent under applicable rules and regulations of the Securities and Exchange Commission and the NYSE Amex. On October 30, 2006, the Company exercised its contractual option to extend the maturity date on the revolving credit facility available from the affiliate. The Company sent notice to the affiliate of its intent, pursuant to the credit agreement, to extend the maturity date of the revolving credit facility by six months, until June 30, 2007. On May 31, 2007, the Company executed an amendment to the Agreement. The amendment provides for an extension of the maturity date by replacing the current maturity date of

June 30, 2007 with a 60-day notice of termination provision by which the lender can affect a termination of the commitment under the Agreement and render all outstanding amounts due and payable. The amendment also adds a clean-up requirement to the Agreement, which requires the borrower to repay in full all outstanding loans and have no outstanding obligations under the Agreement for a 14 consecutive day period during each 365-day period. The clean-up requirement has been satisfied for the initial 365-day period starting on June 1, 2007.

During the year ended December 31, 2010, the Company did not borrow under the revolving credit facility. During the year ended December 31, 2009, the Company borrowed a total of \$15,720,000 pursuant to one advance related to the pay off of a matured mortgage in 2009. The Company repaid total advances of \$15,720,000 and \$0, respectively, during the years ended December 31, 2010 and 2009. There were \$0 and \$15,720,000 borrowings outstanding as of December 31, 2010 and 2009, respectively. The Company repaid the outstanding advance with proceeds from replacement debt on the Berkshires at Citrus Park property in May 2010. The Company incurred interest and fees of \$321,212, \$121,503 and \$122,648 related to the facility during the years ended December 31, 2010, 2009 and 2008, respectively.

On February 17, 2011, the Company executed an amendment to the facility (the "Credit Facility Amendment") which provides for a temporary modification of certain provisions of the facility during a period commencing with the date of execution and ending on July 31, 2012 (the "Amendment Period"), subject to extension. During the Amendment Period, certain provisions of the facility are modified and include: an increase in the amount of the commitment from \$20,000,000 to \$40,000,000; elimination of the leverage ratio covenant and clean-up requirement (each as defined in the revolving credit facility agreement) and computation and payment of interest on a quarterly basis. At the conclusion of the Amendment Period, including extensions, the provisions modified pursuant to the Credit Facility Amendment will revert back to the provisions of the revolving credit facility agreement prior to the Amendment Period.

8. DECLARATION OF DIVIDEND AND DISTRIBUTIONS

On March 25, 2003, the Board declared a dividend at an annual rate of 9%, on the stated liquidation preference of \$25 per share of the outstanding Preferred Shares which is payable quarterly in arrears, on February 15, May 15, August 15, and November 15 of each year to shareholders of record in the amount of \$0.5625 per share per quarter. For the years ended December 31, 2010 and 2009, the Company's aggregate dividends totaled \$6,700,765 and \$6,700,785, respectively, of which \$837,607 were payable and included on the balance sheet in Dividends and Distributions Payable as of December 31, 2010 and 2009, respectively.

On May 6, 2008, the Board authorized the general partner of the Operating Partnership to distribute quarterly distributions of \$1,000,000 each, in the aggregate, from its operating cash flows to common general and common limited partners, payable on August 15, 2008 and November 15, 2008. On the same day, the Board also declared a common dividend of \$0.016996 per share on the Company's Class B common stock payable concurrently with the Operating Partnership distributions. Also on May 6, 2008, the Board authorized the general partner of the Operating Partnership to distribute a special distribution of \$10,000,000 from its operating cash flows to common general and common limited partners, payable on May 15, 2008. On the same day, the Board also declared a common dividend of \$0.169963 per share on the Company's Class B common stock payable concurrently with the Operating Partnership distribution.

On December 30, 2009, the Board authorized the general partner of the Operating Partnership to distribute a special distribution of \$1,025. \$1,000 of the total distribution was an in-kind distribution of the Company's investment in the Mezzanine Loan LLC to KRF Company LLC, an affiliate of the company and majority holder of the Class B common stock. The remaining \$25 balance of the special distribution was paid to the two remaining holders in cash from its operating cash flows to common general and common limited partners, payable on December 30, 2009. On the same

day, the Board also declared a common dividend of \$0.000017 per share on the Company's Class B common stock payable concurrently with the Operating Partnership distribution.

For the year ended December 31, 2010 and 2009, the Company declared a total of \$0 and \$1,025 respectively, of distributions to common shareholders. There was no dividend payable outstanding at December 31, 2010 or December 31, 2009. The Company's policy is to provide for common distributions is based on available cash and Board approval.

Holders of the Company's stock receiving distributions are subject to tax on the dividends received and must report those dividends as either ordinary income, capital gains, or non-taxable return of capital.

The Company paid \$2.25 of distributions per preferred share (CUSIP 84690205) and no distributions to Class B common share, which is not publicly traded, during the year ended December 31, 2010. Pursuant to Internal Revenue Code Section 857 (b) (3) (C), for the years ended December 31, 2010, 2009 and 2008, the Company determined the taxable composition of the following cash distributions as set forth in the following table:

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	Tax Year Ended December 31,					
	Dividend 2010	% 2010	Dividend 2009	% 2009	Dividend 2008	% 2008
Preferred Stock:						
Taxable ordinary dividend paid per share	\$ 2.17	96.3 %	\$ 2.24	99.7 %	\$ -	0.0 %
Taxable capital gain dividend paid per share	-	0.0 %	-	0.0 %	2.25	100.0 %
Non-taxable distributions paid per share	0.08	3.7 %	0.01	0.3 %	-	0.0 %
Total	\$ 2.25	100.0 %	\$ 2.25	100.0 %	\$ 2.25	100.0 %
Common Stock:						
Taxable ordinary dividend paid per share	\$ -	-	\$ -	0.0 %	\$ -	0.0 %
Taxable capital gain dividend paid per share	-	-	-	0.0 %	0.237948	100.0 %
Non-taxable distributions paid per share	-	-	0.000017	100.0 %	-	0.0 %
Total	\$ -	-	\$ 0.000017	100.0 %	\$ 0.237948	100.0 %

Refer to note 2 for additional information regarding the tax status of the Company.

9. EARNINGS PER SHARE

Net income (loss) per common share, basic and diluted, is computed as net income (loss) available to common shareholders divided by the weighted average number of common shares outstanding during the applicable period, basic and diluted.

The reconciliation of the basic and diluted earnings per common share for the year ended December 31, 2010, 2009 and 2008 follows:

	2010	Year Ended 2009 Adjusted*	2008 Adjusted*
Net loss from continuing operations	\$ (25,726,511)	\$ (28,510,162)	\$ (23,179,972)
Add: Loss attributable to noncontrolling	18,981	376,955	-

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interest in properties			
Loss attributable to noncontrolling interest in Operating Partnership	31,633,734	34,172,349	-
Less: Preferred dividends	(6,700,765)	(6,700,785)	(6,700,682)
Income attributable to noncontrolling interest in properties	-	-	(5,528,481)
Income attributable to noncontrolling interest in Operating Partnership	-	-	(12,689,300)
Net loss from continuing operations available to common shareholders	\$ (774,561)	\$ (661,643)	\$ (48,098,435)
Discontinued operations	\$ -	\$ (175,072)	\$ 77,179,208
Net income (loss) available to common shareholders	\$ (774,561)	\$ (836,715)	\$ 29,080,773
Net loss from continuing operations attributable to Parent Company per common share available to common shareholders, basic and diluted	\$ (0.55)	\$ (0.48)	\$ (34.21)
Net income (loss) from discontinued operations attributable to Parent Company per common share available to common shareholders, basic and diluted	0.00	(0.12)	54.89
Net income (loss) available to common shareholders per common share, basic and diluted	\$ (0.55)	\$ (0.60)	\$ 20.68
Weighted average number of common shares outstanding, basic and diluted	1,406,196	1,406,196	1,406,196

* See Note 5

For the years ended December 31, 2010, 2009 and 2008, the Company did not have any common stock equivalents; therefore basic and dilutive earnings per share were the same.

10. COMMITMENTS AND CONTINGENCIES

The Company is party to certain legal actions arising in the ordinary course of its business, such as those relating to tenant issues. All such proceedings taken together are not expected to have a material adverse effect on the Company. While the resolution of these matters cannot be predicted with certainty, management believes that the final outcome of such legal proceedings and claims will not have a material adverse effect on the Company's liquidity, financial position or results of operations.

The Company entered into two irrevocable letters of credit arrangements with a bank in relation to the JV BIR/Holland transaction. The irrevocable letters of credit were a requirement of the lender, who issued the debt secured by the property substantially owned by JV BIR/Holland, in order for the new ownership structure contemplated by the transaction to move forward. The irrevocable letters of credit were in place as a guarantee for two separate principal reduction payments of \$9,500,000 originally due in 2009 and \$2,710,000 due in 2010. On July 27, 2009, Fannie Mae granted a six-month extension for the amounts due in 2009 of \$9,500,000 to March 15, 2010. On March 15, 2010, the supplemental mortgages outstanding and secured by the Glo property in the amount of \$12,210,000 matured. As a requirement of the financing, the amounts maturing on March 15, 2010 were backed by irrevocable letters of credit which were used to retire the matured debt. Additionally, as a requirement of the bank that issued the irrevocable letters of credit, the Company was required to segregate cash in an amount sufficient to back the letters of credit. On March 15, 2010, the segregated cash was used to settle the letters of credit.

On November 12, 2009, the Audit Committee of the Company (which committee is comprised of the three directors who are independent under applicable rules and regulations of the SEC and the American Stock Exchange) and the Board approved an amendment to the Advisory Services Agreement (the "Amendment") with Berkshire Advisor, an affiliate of the Company. The amendment includes a variable incentive fee component to the existing asset management fees paid to the Advisor (the "Incentive Advisory Fee"), which is based on the increase in value of the Company over a base value established as of December 31, 2009 ("Base Value"). The Amendment is effective as of January 1, 2010 and requires the Company to accrue Incentive Advisory Fees payable to the Advisor up to 12% of the increase in value of the Company above the established Base Value. Refer to Related Party Transactions on page 77 for further discussion. As of December 31, 2010, the liability pursuant to the Amendment was \$2,207,795 and is included in Due to affiliates, net on the Consolidated Balance Sheets.

Business Risks and Uncertainties

While economists declared the worst recession to hit the United States since the 1930s was over in late 2009, with policymakers' efforts to stabilize the banking system and provide a fiscal stimulus to the economy, the high national unemployment rate have started to stabilize and, in some markets, begun to improve. While there continue to be indications of stabilization during 2010 in both domestic and foreign economies, the signs of a strong and sustained expansion are not yet evident. A leading indicator of stabilization and expansion includes the recovery in the labor markets, which tend to recover with some lag. It is only when the labor markets stabilize that there will be an increase in household formation, which represents the greatest driver for rental apartments.

The Company both believes and recognizes that real estate goes through cycles and while the drivers of these cycles can vary greatly from cycle to cycle, the outcome is generally the same with periods of improving values and profit growth followed by periods of stagnant or declining values and profit stagnation. The Company recognizes, however, that real estate investing requires a long-term perspective and, as history suggests, a company's ability to remain resilient during tough economic times will often lead to opportunities. In general, multifamily real estate fundamentals of well located quality real estate remained relatively steady during the recent economic

downturn. Occupancy rates continue to hover in the low to mid-90% range for well located, well managed properties though continued weakness in the economy and/or a lack of improvement in employment rates could have a negative impact on both occupancy and rent levels. Credit worthy borrowers in the multifamily sector continue to be able to access capital through Fannie Mae and Freddie Mac, and other sources, at historically attractive rates. Though there is no assurance that under existing or future regulatory restrictions this source of capital, unique to multifamily borrowers, will continue to be available.

The Company continues to believe that projected demographic trends will favor the multifamily sector, driven primarily by the continued flow of echo boomers (children of baby boomers, age 20 to 29), the fastest growing segment of the population, and an increasing number of immigrants who are often renters by necessity. In many cases, the current economic climate has delayed many would be residents from entering the rental market and instead choosing to remain at home or to share rental units instead of renting their own space. This

trend may be creating a backlog of potential residents who will enter the market as the economy begins to rebound and unemployment rates begin to trend back to historical norms. The Company's properties are generally located in markets where zoning restrictions, scarcity of land and high construction costs create significant barriers to new development. The Company believes it is well positioned to manage its portfolio through the remainder of this economic downturn and is prepared to take advantage of opportunities that present themselves during such times.

11. DERIVATIVE FINANCIAL INSTRUMENTS

ASC 815-10 amends and expands the disclosure requirements of ASC 815-10 with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under ASC 815-10 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. ASC 815-10 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments. ASC 815-10, as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. As required by ASC 815-10, derivatives are recorded on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings) and subsequently reclassified to earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. Hedge ineffectiveness is measured by comparing the changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or transaction. For derivatives not designated as hedges, changes in fair value are recognized in earnings.

We do not use derivatives for trading or speculative purposes. When viewed in conjunction with the underlying and offsetting exposure that the derivatives are designed to hedge, we have not sustained a material loss from these hedges. We have utilized interest rate caps to add stability to interest expense, to manage our exposure to interest rate movements and as required by our lenders when entering into variable interest mortgage debt. Interest rate caps designated as cash flow hedges involve the receipt of variable-rate amounts if interest rates rise above a certain level in exchange for an up front premium.

During the year ended December 31, 2009, we acquired an interest rate cap through our investment in JV BIR/Holland. The derivative instrument was obtained as a requirement by the lender under the terms of the financing and limits increases in interest costs of the variable rate debt. The Company assessed the fair value of the derivative instrument, which reflects the estimated amount the Company would receive, or pay, for the same instrument in a current exchange at the reporting date. The valuation considers, among other things, interest rates at the time of the valuation, credit worthiness and risk of non performance of the counterparties considered in the valuation transaction. The resulting fair value of the derivative interest rate cap contract was deemed to be immaterial and no adjustment was made to reflect the fair value of the derivative instrument at December 31, 2010 and 2009.

12. NONCONTROLLING INTERESTS IN OPERATING PARTNERSHIP

The following table sets forth the calculation of noncontrolling common interest in the Operating Partnership at December 31, 2010, 2009 and 2008:

	2010	2009 Adjusted*	2008 Adjusted*
Net income (loss)	\$ (25,726,511)	\$ (28,685,234)	\$ 53,999,236
Adjust: Noncontrolling common interest in properties	18,981	376,955	(5,528,481)
Income (loss) before noncontrolling interest in Operating Partnership	(25,707,530)	(28,308,279)	48,470,755
Preferred dividend	(6,700,765)	(6,700,785)	(6,700,682)
Income (loss) available to common equity	(32,408,295)	(35,009,064)	13,000,000
Common Operating Partnership units of noncontrolling interest	97.61 %	97.61 %	97.61 %
Noncontrolling common interest in Operating Partnership	\$ (31,633,734)	\$ (34,172,349)	\$ 12,689,300

* See Note 5

The following table sets forth a summary of the items affecting the noncontrolling common interest in the Operating Partnership:

	For the year ended December 31,	
	2010	2009 Adjusted*
Balance at beginning of period (1)	\$ (34,172,349)	\$ -
Noncontrolling common interest in Operating Partnership	(31,633,734)	(34,172,349)
Balance at end of period	\$ (65,806,083)	\$ (34,172,349)

* See Note 5

(1) Prior to adoption of ASC 810-10 by the Company on January 1, 2009, non-controlling common interest in the Operating Partnership was carried at zero on the balance sheet due to the non-controlling interest having no obligation to fund losses/deficits.

As of December 31, 2010 and 2009, the noncontrolling interest in the Operating Partnership consisted of 5,242,223 Operating Partnership units held by parties other than the Company.

13. RELATED PARTY TRANSACTIONS

The Company generally pays property management fees to an affiliate for property management services. The fees are payable at a rate of 4% of gross income.

The Company pays asset management fees to an affiliate, Berkshire Advisor, for asset management services. These fees are payable quarterly, in arrears, and may be paid only after all distributions currently payable on the Company's Preferred Shares have been paid. Effective April 4, 2003, under the advisory services agreement, the Company will pay Berkshire Advisor an annual asset management fee equal to 0.40%, up to a maximum of \$1,600,000 in any calendar year, as per an amendment to management agreement, of the purchase price of real estate properties owned by the Company, as adjusted from time to time to reflect the then current fair market value of the properties. The purchase price is defined as the capitalized basis of an asset under GAAP, including renovation or new construction costs, or other items paid or received that would be considered an adjustment to basis. Annual asset management fees earned by the affiliate in excess of the \$1,600,000 maximum payable by the Company represent fees incurred and paid by the noncontrolling partners in the properties. In addition to the fixed fee, effective January 1, 2010, the Company may also pay Berkshire Property Advisor an Incentive Advisory Fee based on increases in value of the Company, as explained below, that would not be subject to the \$1,600,000 maximum. The Company also reimburses affiliates for certain expenses incurred in connection with the operation of the properties, including administrative expenses and salary reimbursements.

On November 12, 2009, the Audit Committee of the Company (which committee is comprised of the three directors who are independent under applicable rules and regulations of the SEC and the American Stock Exchange) and the Board approved the Amendment to the Advisory Services Agreement with Berkshire Advisor, an affiliate of the Company. The Amendment includes an Incentive Advisory Fee component to the existing asset management fees paid to the Advisor, which is based on the increase in value of the Company over the Base Value established as of December 31, 2009. The Amendment is effective as of January 1, 2010 and requires the Company to accrue Incentive Advisory Fees payable to the Advisor

up to 12% of the increase in value of the Company above the established Base Value. The Incentive Advisory Fee is variable and generally to the extent the value of the Company decreases, the accrued Incentive Advisory Fee would be reduced accordingly. Like the Asset Management Fee, the Incentive Advisory Fee requires that all distributions currently payable on the Series A 9% Cumulative Redeemable Preferred Stock be paid prior to the payment of any Incentive Advisory Fee due. As of December 31, 2010, the liability pursuant to the Amendment was \$2,207,795 and is included in Due to affiliates, incentive advisory fees on the consolidated balance sheets, which was incurred in year ended December 31, 2010. Any future liability will be based upon any increase in value of the Company over the Base Value. Payments from the plan will approximate the amounts the Advisor pay to its employee. Additional limits have been placed on the total amount of payments that can be made by the Company in any given year, with interest accruing at the rate of 7% on any payments due but not yet paid. The Company has not made any Incentive Advisory Fee payments as of December 31, 2010.

The Company pays acquisition fees to an affiliate, Berkshire Advisor, for acquisition services. These fees are payable upon the closing of an acquisition of real property. The fee is equal to 1% of the purchase price of any new property acquired directly or indirectly by the Company. The purchase price is defined as the capitalized basis of an asset under GAAP, including renovations or new construction costs, or other items paid or received that would be considered an adjustment to basis. The purchase price does not include acquisition fees and capital costs of a recurring nature. The Company paid a fee on the acquisition of the Glo property. Pursuant to the Company's adoption of ASC 805-10 as of January 1, 2009, the acquisition fee was charged to operating expenses for the year ended December 31, 2009. All acquisition fees paid in 2008 and prior years have been capitalized and are included in the caption "Multifamily apartment communities" in the accompanying balance sheet.

During the years ended December 31, 2010, 2009 and 2008, the Company incurred fees on the following acquisitions:

Acquisition	Acquisition	Acquisition	Acquisition
	Fee	Fee	Fee
	2010	2009	2008
GLO	\$ -	\$ 427,500	\$ -
Executive House	-	-	500,000
	\$ -	\$ 427,500	\$ 500,000

The Company pays a construction management fee to an affiliate, Berkshire Advisor, for services related to the management and oversight of renovation and rehabilitation projects at its properties. The Company paid or accrued \$253,845 and \$438,965 in construction management fees for the year ended December 31, 2010 and 2009, respectively. The fees are capitalized as part of the project cost in the year they are incurred.

The Company pays development fees to an affiliate, Berkshire Residential Development, for property development services. As of December 31, 2009, the Company has completed the development of the Arboretum Land development project and has incurred fees totaling \$902,500 for the project, of which of \$202,500 were incurred during the year ended December 31, 2009. The Company incurred \$300,000 and \$400,000 of development fees on the same project in the years ended December 31, 2008 and 2007, respectively. The fees, of which \$270,750 is related to predevelopment activities and \$631,750 is related to the development phase, are based on the project's development/construction costs. As of December 31, 2010 and 2009, \$0 and \$202,500, remained payable related to the project respectively.

Amounts accrued or paid to the Company's affiliates for the year ended December 31, 2010, 2009 and 2008 are as follows:

2010	2009	2008
------	------	------

Property management fees	\$ 3,052,447	\$ 3,041,240	\$ 3,335,681
Expense reimbursements	210,000	200,900	195,900
Salary reimbursements	9,700,806	9,243,927	8,795,648
Asset management fees	1,649,259	1,649,256	1,673,441
Incentive advisory fees	2,207,795	-	-
Acquisition fees	-	427,500	500,000
Construction management fees	253,845	438,965	612,312
Development fees	-	202,500	300,000
Interest on revolving credit facility	321,212	121,503	122,648
Total	\$ 17,395,364	\$ 15,325,791	\$ 15,535,630

Expense reimbursements due to affiliates of \$7,796,806 and \$5,540,487 are included in “Due to affiliates, net” at December 31, 2010 and 2009, respectively.

Expense reimbursements due from affiliates of \$5,975,979 and \$3,390,859 are included in “Due to affiliates, net” at December 31, 2010 and 2009, respectively.

Amounts due to affiliates of \$1,820,827 and \$2,149,628 are included in “Due to affiliates, net” at December 31, 2010 and 2009, respectively, represent intercompany development fees, expense reimbursements, asset management fees and shared services.

During 2010, the Company identified an error in its previously reported consolidated financial statements related to its 2009 accrual of the bonus expense which was understated by \$205,983. The Company has concluded that the impact of this error to the prior periods and to the year ended December 31, 2010 is not material to the Company’s consolidated financial statements and has recorded the additional bonus expense in 2010. Had this error been recorded in the proper periods, the impact of the adjustment on 2010 would have been a decrease in operating expenses and net loss of \$205,983.

During the year ended December 31, 2010, the Company did not borrow under the revolving credit facility. During the year ended December 31, 2009, the Company borrowed a total of \$15,720,000 pursuant to one advance related to the pay off of a matured mortgage in 2009. The Company repaid total advances of \$15,720,000 and \$0, respectively, during the years ended December 31, 2010 and 2009. There were \$0 and \$15,720,000 borrowings outstanding as of December 31, 2010 and 2009, respectively. The Company repaid the outstanding advance with proceeds from replacement debt on the Berkshires at Citrus Park property in May 2010. The Company incurred interest and fees of \$321,212, \$121,503 and \$122,648 related to the facility during the years ended December 31, 2010, 2009 and 2008, respectively.

In addition to the fees listed above, the Multifamily Venture Limited Partnership paid or accrued construction management fees of \$525,252, \$570,602 and \$3,118,380, property management fees of \$5,764,238, \$5,841,648 and \$5,637,868 and asset management fees of \$4,480,969, \$4,763,937 and \$3,282,256 to Berkshire Advisor during 2010, 2009 and 2008, respectively.

Related party arrangements are approved by the independent directors of the Company and are evidenced by a written agreement between the Company and the affiliated entity providing the services.

14. SELECTED INTERIM FINANCIAL INFORMATION (UNAUDITED)

	2010 Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
Total revenue	\$ 20,153,692	\$ 20,331,385	\$ 20,552,468	\$ 20,645,345
Loss before equity in loss of Multifamily Venture Limited Partnership and Mezzanine Loan Limited Liability Company and loss from discontinued operations	(5,933,215)	(5,134,513)	(5,415,556)	(5,163,002)
	(7,548,105)	(5,866,166)	(6,176,834)	(6,135,406)

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Net loss from continuing operations				
Net loss	(7,548,105)	(5,866,166)	(6,176,834)	(6,135,406)
Preferred dividend	(1,675,196)	(1,675,196)	(1,675,187)	(1,675,186)
Net loss available to common shareholders				
	\$ (217,484)	\$ (180,842)	\$ (188,101)	\$ (188,134)
Basic and diluted earnings per share:				
Net loss from continuing operations attributable to Parent Company				
	\$ (0.15)	\$ (0.13)	\$ (0.13)	\$ (0.13)
Net loss available to common shareholders				
	\$ (0.15)	(0.13)	(0.13)	(0.13)
Weighted average number of common shares outstanding				
	\$ 1,406,196	\$ 1,406,196	\$ 1,406,196	\$ 1,406,196

The operating results have been revised to reflect the sale of Century, St. Marin/Karrington, Westchase and Westchester West in 2008. The operating results for all quarters have been reclassified to discontinued operations to provide comparable information.

	2009 Adjusted Quarter Ended*			
	March 31,	June 30,	September 30,	December 31,
Total revenue	\$ 18,793,361	\$ 19,953,082	\$ 20,490,386	\$ 20,385,684
Loss before equity in loss of Multifamily Venture Limited Partnership and Mezzanine Loan Limited Liability Company and loss from discontinued operations	(6,731,775)	(6,949,127)	(5,099,189)	(4,639,707)
Net income (loss) from continuing operations	(7,961,622)	(8,769,878)	(6,065,788)	(5,712,874)
Discontinued operations:				
Income (loss) from operations	(157,969)	(4,582)	2,097	(14,618)
Net income (loss) from discontinued operations	(157,969)	(4,582)	2,097	(14,618)
Net loss	(8,119,591)	(8,774,460)	(6,063,691)	(5,727,492)
Preferred dividend	(1,675,196)	(1,675,196)	(1,675,197)	(1,675,196)
Net loss available to common shareholders	\$ (229,247)	\$ (248,702)	\$ (184,317)	\$ (174,449)
Basic and diluted earnings per share:				
Net loss from continuing operations attributable to Parent Company	\$ (0.05)	\$ (0.18)	\$ (0.13)	\$ (0.11)
Net income (loss) from discontinued operations attributable	(0.11)	(0.00)	0.00	(0.01)

to Parent Company				
Net loss available to common shareholders	\$ (0.16)	(0.18)	(0.13)	(0.12)
Weighted average number of common shares outstanding	\$ 1,406,196	\$ 1,406,196	\$ 1,406,196	\$ 1,406,196

* See Note 5

15. PROFORMA CONDENSED FINANCIAL INFORMATION (UNAUDITED)

During the years ended December 31, 2010, 2009 and 2008, the Company did not acquire any properties deemed to be individually significant in accordance with Regulation S-X, Rule 3-14 "Special Instructions for Real Estate Operations to be Acquired".

As discussed in Footnotes 1 and 2, the Company and certain of its subsidiaries acquired interests in the Glo property during 2009. The proforma financial information set forth below is based upon the Company's historical Consolidated Statements of Income (Loss) for the year ended 2009, adjusted to give effect to the transaction at the beginning of the year presented.

The pro forma financial information is presented for informational purposes only and may not be indicative of what actual results of operations would have been had the transaction occurred at the beginning of each year, nor does it attempt to represent the results of operations for future periods.

	Year Ended December 31, 2009 Adjusted* (unaudited)
Revenues from rental property	\$ 80,407,174
Net loss	\$ (28,699,846)
Net loss attributable to common shareholders	\$ (772,175)
Net loss attributable to common shareholders, per common share, basic and diluted	\$ (0.55)

* See Note 5

16. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of financial instruments:

Cash and cash equivalents

For those cash equivalents with maturities of three months or less from the date of acquisition, the carrying amount of the investment is a reasonable estimate of fair value.

Mortgage notes payable

Market fixed rate mortgage notes payable – For fixed rate mortgages that have been obtained in the open market, the fair value is based on the borrowing rates currently available to the Company with similar terms and average maturities. The Company’s carrying and estimated fair value amounts of the mortgages are disclosed in Note 6 – Mortgage Notes Payable.

Assumed fixed rate mortgage notes payable – For fixed rate mortgage notes payable that the Company has assumed as part of various property acquisitions, the net present value of future cash flows method was used to determine the fair value of the liabilities when recorded by the Company. At December 31, 2010 and 2009, the carrying amount is the fair value of the assumed mortgage notes payable less any principal amortization, plus amortization of fair value adjustment since assumption.

17. LEGAL PROCEEDINGS

The Company and our properties are not subject to any other material pending legal proceedings and we are not aware of any such proceedings contemplated by governmental authorities.

18. SUBSEQUENT EVENTS

On January 31, 2011, the Operating Partnership, through its subsidiary, BIR Estancia Limited Partnership, completed the acquisition of Estancia Townhomes, a 207-unit townhome style apartment community located in Dallas, Texas. The sellers were unaffiliated third parties. The purchase price for the property was \$42,000,000 and was subject to normal operating prorations as provided for in the purchase and sale agreement. Simultaneously with the acquisition, the Company closed on a \$26,500,000 bridge loan used to acquire the property. The loan has an interest rate of 6.5% and a term of three months with a one month extension available. The Company is pursuing permanent long term debt to replace the bridge loan and currently anticipates closing on the permanent debt in the first quarter of 2011. The Company paid an acquisition fee of \$420,000 to an affiliate, Berkshire Advisor, for services related to the acquisition.

On February 10, 2011, the Operating Partnership, through its subsidiary, BIR 2020 Lawrence, L.L.C., entered into an agreement to acquire approximately 90% of the ownership interests in a development project to build a 201-unit multifamily mid-rise community in Denver, Colorado. The initial contribution of partnership commitment capital totaled \$2,005,162. Additional contributions of capital of \$455,924 and \$2,333,684 were made on February 24, 2011 and March 30, 2011, respectively.

On February 17, 2011, the Operating Partnership executed an amendment to the revolving credit facility (the “Credit Facility Amendment”) which provides for a temporary modification of certain provisions of the revolving credit facility during a period commencing with the date of execution and ending on July 31, 2012 (the “Amendment Period”), subject to extension. During the Amendment Period, certain provisions of the revolving credit facility are modified and include: an increase in the amount of the commitment from \$20,000,000 to \$40,000,000; elimination of the leverage

ratio covenant and clean-up requirement (each as defined in the revolving credit facility agreement) and computation and payment of interest on a quarterly basis. At the conclusion of the Amendment Period, including extensions, the provisions modified pursuant to the Credit Facility Amendment will revert back to the provisions of the revolving credit facility agreement prior to the Amendment Period.

On March 2, 2011, the Operating Partnership executed an agreement with BVF-II, an affiliated entity, to create a joint venture, BIR/BVF-II NoMa JV, L.L.C. (“NoMa JV”), to participate in and take an ownership position in a real estate development project. NoMa JV may engage in any lawful business or trade activity specifically including the ownership of a membership interest in NoMa West Residential I LLC, a Delaware limited liability company. BVF-II is the managing member of NoMa JV and has a percentage ownership interest of approximately 67% while the Operating Partnership will have a percentage ownership interest of approximately 33%.

Also on March 2, 2011, the Operating Partnership, through the newly formed NoMa JV, executed an agreement to participate in the development and subsequent operation of a 603-unit multifamily apartment complex in Washington, D.C. (the "Property"). The agreement of the Property owner is between the NoMa JV and MCRT/MA 104 NoMa LLC ("MCRT/Manager"), an unrelated third party Delaware limited liability company. The agreement provides that NoMa JV will make capital contributions of 90% and MCRT/Manager will make capital contributions of 10%. MCRT/Manager will manage the construction and development of, and subsequent to completion, the day-to-day operations of the Property. The agreement also provides for fees for MCRT/Manager, limits the authority of MCRT/Manager and provides for distributions based on percentage interest and thereafter in accordance with achievement or economic hurdles.

On March 25, 2011, the Company closed on \$29,004,000 of first mortgage debt on the Estancia Townhome property. The loan is an unsecured first mortgage note collateralized by the property with a fixed interest rate of 5.15% and a term of 10 years. Proceeds from the loan were used to repay the \$26,500,000 bridge loan used to acquire the property and expenses related to the new loan.

On March 25, 2011, the Company entered into a letter of credit agreement with a bank for the issuance of two irrevocable unconditional letters of credit related to the development project of its BIR 2020 Lawrence, L.L.C. subsidiary. The letters of credit support the working capital and initial operating deficit reserve requirements of the project. The letters amount to \$582,000 and \$1,100,000, respectively.

On January 28, 2011, February 3, 2011, March 1, 2011 and March 22, 2011, the Company borrowed \$15,000,000, \$2,500,000, \$12,000,000 and \$2,600,000, respectively, under the revolving credit facility available from an affiliate of the Company for use in its acquisition and investing activities.

BERKSHIRE INCOME REALTY, INC.
SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 2010

Description	Encumbrances	Initial Costs Buildings and Land	Cost Capitalized Subsequent to Acquisition	Total Costs at December 31, 2010	Accumulated Depreciation	Total Cost Net of Accumulated Depreciation	Year Acquired	Depreciation Life
Berkshires of Columbia	\$34,212,888	\$13,320,965	\$10,106,069	\$23,427,034	\$15,672,572	\$7,754,462	1983	(1)
Seasons of Laurel	99,200,000	63,083,489	27,071,344	90,154,833	60,208,043	29,946,790	1985	(1)
Walden Pond / Gables Laurel Woods	15,766,336	28,357,253	2,565,409	30,922,662	16,560,448	14,362,214	1983/2003	(1)
Bear Creek	5,784,248	5,216,275	1,012,381	6,228,656	1,975,984	4,252,672	2004	(1)
Bridgewater	3,825,000	4,845,550	1,024,167	5,869,717	1,984,098	3,885,619	2004	(1)
Silver Hill	13,369,070	18,922,831	703,157	19,625,988	5,392,977	14,233,011	2004	(1)
Arboretum	3,316,336	4,885,312	634,830	5,520,142	1,651,793	3,868,349	2004	(1)
Reserves at Arboretum	5,676,859	11,460,551	1,233,712	12,694,263	3,639,449	9,054,814	2004	(1)
Arrowhead	12,950,000	1,529,123	17,096,723	18,625,846	1,442,973	17,182,873	2009	(2) (1)
Moorings	8,137,373	8,655,532	1,495,190	10,150,722	3,104,633	7,046,089	2004	(1)
Country Place I	8,538,174	9,147,765	1,463,515	10,611,280	3,169,781	7,441,499	2004	(1)
Country Place II	14,419,971	13,844,787	1,698,873	15,543,660	4,312,238	11,231,422	2004	(1)
Yorktowne	9,380,895	8,657,461	1,109,675	9,767,136	2,800,304	6,966,832	2004	(1)
Berkshires on Brompton	21,951,299	21,616,443	7,274,055	28,890,498	10,430,611	18,459,887	2004	(1)
Riverbirch	18,600,000	14,500,528	7,970,169	22,470,697	9,490,892	12,979,805	2005	(1)
Lakeridge	5,601,867	8,198,193	2,527,883	10,726,076	3,370,111	7,355,965	2005	(1)
Berkshires at Citrus Park	24,397,774	34,411,075	1,616,687	36,027,762	8,753,944	27,273,818	2005	(1)
Briarwood Village	16,315,054	27,601,083	1,388,419	28,989,502	7,119,809	21,869,693	2005	(1)
Chisholm Place	13,178,098	13,929,396	2,312,792	16,242,188	4,085,778	12,156,410	2006	(1)
Berkshires at Lenox Park	6,953,000	9,600,527	2,073,523	11,674,050	3,170,120	8,503,930	2006	(1)
Berkshires at Town Center	35,000,000	47,040,404	6,089,216	53,129,620	12,167,798	40,961,822	2006	(1)
	20,000,000	20,254,316	11,703,277	31,957,593	6,703,560	25,254,033	2007	(1)

Sunfield								
Lakes	19,440,000	23,870,680	2,169,413	26,040,093	4,625,687	21,414,406	2007	(1)
Executive								
House	29,951,875	50,205,199	1,533,153	51,738,352	5,598,519	46,139,833	2008	(1)
Glo	30,420,862	41,602,374	946,603	42,548,977	2,613,365	39,935,612	2009	(1)
Total	\$476,386,979	\$504,757,112	\$114,820,235	\$619,577,347	\$200,045,487	\$419,531,860		

(1) Depreciation of buildings are calculated over useful lives ranging from 25 to 27.5 years and depreciation of improvements are calculated over useful lives ranging from 5 to 20 years.

(2) Property was acquired as raw land in 2004. Development of the multifamily apartment community on the land was completed and fully leased during the year ended December 31, 2009.

A summary of activity for real estate and accumulated depreciation is as follows:

Real Estate	2010	2009	2008
Balance at beginning of year	\$ 610,702,698	\$ 555,681,036	\$ 608,505,122
Acquisitions and improvements	8,993,814	55,396,236	81,198,958
Dispositions	(119,165)	(374,574)	(134,023,044)
Balance at end of year	\$ 619,577,347	\$ 610,702,698	\$ 555,681,036
Accumulated Depreciation	2010	2009	2008
Balance at beginning of year	\$ 168,718,977	\$ 136,678,464	\$ 144,240,061
Depreciation expense	31,326,510	32,136,098	30,171,355
Dispositions	-	(95,585)	(37,732,952)
Balance at end of year	\$ 200,045,487	\$ 168,718,977	\$ 136,678,464

The aggregate cost of the Company's multifamily apartment communities for federal income tax purposes was \$487,726,557, \$478,371,533 and \$459,441,537 as of December 31, 2010, 2009 and 2008, respectively and the aggregate accumulated depreciation for federal income tax purposes was \$131,138,618, \$112,754,107 and \$101,823,733 as of December 31, 2010, 2009 and 2008, respectively.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Berkshire Income Realty, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

March 31, 2011

BERKSHIRE INCOME REALTY, INC.
 BY: /s/ David C. Quade
 NAME: David C. Quade
 TITLE: President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of Berkshire Income Realty, Inc. and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Douglas Krupp Douglas Krupp	Chairman of the Board of Directors	March 31, 2011
/s/ David C. Quade David C. Quade	President and Director (Principal Executive Officer)	March 31, 2011
/s/ Robert M. Kaufman Robert M. Kaufman	Director	March 31, 2011
/s/ Randolph G. Hawthorne Randolph G. Hawthorne	Director	March 31, 2011
/s/ Richard B. Peiser Richard B. Peiser	Director	March 31, 2011
/s/ Christopher M. Nichols Christopher M. Nichols	Senior Vice President and Controller (Principal Financial Officer)	March 31, 2011

