BERKSHIRE INCOME REALTY, INC.
Form 10-Q
November 14, 2013

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

Form 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2013
or
o TRANSITION REPORT PURSUANT TO THE SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 001-31659
BERKSHIRE INCOME REALTY, INC.

Maryland	32-0024337
(State or other jurisdiction of incorporation or organization)	(I. R. S. Employer Identification No.)
One Beacon Street, Boston, Massachusetts	02108
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 ý No o

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 o	Accelerated Filer o
Non-accelerated Filer ý (Do not check if a smaller reporting company)	Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No ý

There were 1,406,196 shares of Class B common stock outstanding as of November 13, 2013.

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BERKSHIRE INCOME REALTY, INC.

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Part I FINANCIAL INFORMATION

Item 1. CONSOLIDATED FINANCIAL STATEMENTS

BERKSHIRE INCOME REALTY, INC.
CONSOLIDATED BALANCE SHEETS

	September 30, 2013 (unaudited)	December 31, 2012 (audited)
ASSETS		
Multifamily apartment communities, net of accumulated depreciation of $235,968,144 and $235,825,752, respectively	$379,127,145	$402,999,104
Cash and cash equivalents	9,312,414	12,224,361
Cash restricted for tenant security deposits	1,267,396	1,332,178
Replacement reserve escrow	1,086,540	986,790
Prepaid expenses and other assets	8,275,848	9,545,966
Investments in unconsolidated multifamily entities	14,655,404	16,873,924
Acquired in-place leases and tenant relationships, net of accumulated amortization of $0 and $599,702, respectively	—	5,377
Deferred expenses, net of accumulated amortization of $3,252,650 and $3,096,284, respectively	2,838,489	3,210,510
Total assets	$416,563,236	$447,178,210
LIABILITIES AND DEFICIT		
Liabilities:		
Mortgage notes payable	$461,726,623	$478,185,998
Note payable - other	1,250,000	1,250,000
Due to affiliates, net	2,051,898	3,446,460
Due to affiliate, incentive advisory fees	7,592,536	6,634,261
Dividend and distributions payable	3,637,607	1,137,607
Accrued expenses and other liabilities	9,882,792	15,081,550
Tenant security deposits	1,549,398	1,475,298
Total liabilities	487,690,854	507,211,174
Commitments and contingencies (Note 9)	—	—
Deficit:		
Noncontrolling interest in properties	1,046,067	1,527,431
Noncontrolling interest in Operating Partnership (Note 10)	(100,096,200)	(89,708,267)
Series A 9% Cumulative Redeemable Preferred Stock, no par value, $25 stated value, 5,000,000 shares authorized, 2,978,110 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively	70,210,830	70,210,830
Class A common stock, $.01 par value, 5,000,000 shares authorized, 0 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively	—	—
Class B common stock, $.01 par value, 5,000,000 shares authorized, 1,406,196 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively	14,062	14,062

Excess stock, \$.01 par value, 15,000,000 shares authorized, 0 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively	—	—
Accumulated deficit	(42,302,377)	(42,077,020)
Total deficit	(71,127,618)	(60,032,964)
Total liabilities and deficit	\$416,563,236	\$447,178,210

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

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BERKSHIRE INCOME REALTY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Revenue:				
Rental	$18,468,549	$17,303,581	$54,397,584	$51,217,005
Utility reimbursement	866,346	722,752	2,556,845	2,176,382
Other	867,340	768,984	2,518,973	2,285,058
Total revenue	20,202,235	18,795,317	59,473,402	55,678,445
Expenses:				
Operating	4,587,613	4,473,126	13,662,836	13,034,206
Maintenance	1,384,633	1,321,345	3,497,705	3,556,043
Real estate taxes	1,770,935	1,694,010	5,606,147	5,119,712
General and administrative	505,702	554,381	1,743,601	1,878,723
Management fees	1,208,938	1,170,760	3,605,724	3,458,423
Incentive advisory fees	423,153	173,217	1,796,933	1,973,195
Depreciation	6,397,609	5,984,472	19,157,233	18,483,621
Interest, inclusive of amortization of deferred financing fees	6,784,545	5,680,646	19,841,847	17,986,913
Amortization of acquired in-place leases and tenant relationships	—	16,104	5,377	52,176
Total expenses	23,063,128	21,068,061	68,917,403	65,543,012
Loss before equity in loss of unconsolidated multifamily entities	(2,860,893)	(2,272,744)	(9,444,001)	(9,864,567)
Equity in loss of unconsolidated multifamily entities	(24,499)	(653,110)	(1,655,602)	(245,871)
Loss from continuing operations	(2,885,392)	(2,925,854)	(11,099,603)	(10,110,438)
Discontinued operations:				
Income (loss) from discontinued operations	(12,444)	223,502	47,336	(484,772)
Gain on disposition of real estate assets	—	—	18,689,058	6,622,210
Net income (loss) from discontinued operations	(12,444)	223,502	18,736,394	6,137,438
Net income (loss)	(2,897,836)	(2,702,352)	7,636,791	(3,973,000)
Net income attributable to noncontrolling interest in properties	(25,553)	(127,684)	(40,361)	(345,990)
Net (income) loss attributable to noncontrolling interest in Operating Partnership (Note 10)	4,488,677	4,397,555	(2,509,405)	9,121,238
Net income attributable to the Company	1,565,288	1,567,519	5,087,025	4,802,248
Preferred dividend	(1,675,194)	(1,675,194)	(5,025,582)	(5,025,583)
Net income (loss) available to common shareholders	$(109,906)	$(107,675)	$61,443	$(223,335)
Net loss from continuing operations attributable to the Company per common share, basic and diluted	$(0.07)	$(0.24)	$(13.28)	$(4.52)
Net income (loss) from discontinued operations attributable to the Company per common share, basic and diluted	$(0.01)	$0.16	$13.32	$4.36
Net income (loss) available to common shareholders per common share, basic and diluted	$(0.08)	$(0.08)	$0.04	$(0.16)
Weighted average number of common shares outstanding, basic and diluted	1,406,196	1,406,196	1,406,196	1,406,196

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

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BERKSHIRE INCOME REALTY, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN DEFICIT
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012
(unaudited)

	Company Shareholders							
	Series A Preferred Stock		Class B Common Stock		Accumulated Deficit	Noncontrolling Interests –Properties	Noncontrolling Interests – Operating Partnership	Total Deficit
	Shares	Amount	Shares	Amount				
Balance at January 1, 2012	2,978,110	$70,210,830	1,406,196	$14,062	$(41,802,722)	$346,524	$(76,785,818)	$(48,017,124)
Net income (loss)	—	—	—	—	4,802,248	345,990	(9,121,238)	(3,973,000)
Contributions	—	—	—	—	—	291,701	—	291,701
Distributions	—	—	—	—	—	(1,295,182)	(1,685,796)	(2,980,978)
Distributions to preferred shareholders	—	—	—	—	(5,025,583)	—	—	(5,025,583)
Balance at September 30, 2012	2,978,110	$70,210,830	1,406,196	$14,062	$(42,026,057)	$(310,967)	$(87,592,852)	$(59,704,984)

	Company Shareholders							
	Series A Preferred Stock		Class B Common Stock		Accumulated Deficit	Noncontrolling Interests –Properties	Noncontrolling Interests – Operating Partnership	Total Deficit
	Shares	Amount	Shares	Amount				
Balance at January 1, 2013	2,978,110	$70,210,830	1,406,196	$14,062	$(42,077,020)	$1,527,431	$(89,708,267)	$(60,032,964)
Net income	—	—	—	—	5,087,025	40,361	2,509,405	7,636,791
Contributions	—	—	—	—	—	399,718	—	399,718
Distributions	—	—	—	—	(286,800)	(921,443)	(12,897,338)	(14,105,581)
Distributions to preferred shareholders	—	—	—	—	(5,025,582)	—	—	(5,025,582)
Balance at September 30, 2013	2,978,110	$70,210,830	1,406,196	$14,062	$(42,302,377)	$1,046,067	$(100,096,200)	$(71,127,618)

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

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

	For the nine months ended September 30, 2013	2012
Cash flows from operating activities:		
Net income (loss)	$7,636,791	$(3,973,000)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of deferred financing costs	433,159	448,287
Amortization of acquired in-place leases and tenant relationships	5,377	52,176
Loss on extinguishment of debt	3,807	40,812
Depreciation	19,762,355	20,993,891
Equity in loss of unconsolidated multifamily entities	1,655,602	245,871
Gain on disposition of real estate assets	(18,689,058)	(6,622,210)
Increase (decrease) in cash attributable to changes in assets and liabilities:		
Tenant security deposits, net	138,882	127,615
Prepaid expenses and other assets	1,270,118	1,422,614
Due to/from affiliates	(1,394,562)	1,534,662
Due to affiliate - incentive advisory fees	958,275	1,590,076
Accrued expenses and other liabilities	(1,053,427)	1,220,523
Net cash provided by operating activities	10,727,319	17,081,317
Cash flows from investing activities:		
Capital improvements	(12,308,567)	(33,065,794)
Proceeds from sale of multifamily apartment communities	30,958,927	13,929,990
Investments in unconsolidated multifamily entities	(305,175)	(581,030)
Distributions from investment in unconsolidated multifamily entities	868,093	700,075
Interest earned on replacement reserve deposits	(446)	(2,219)
Deposits to replacement reserve escrow	(140,785)	(131,985)
Withdrawal from replacement reserve escrow	41,481	—
Net cash provided by (used in) investing activities	19,113,528	(19,150,963)
Cash flows from financing activities:		
Borrowings from mortgage notes payable	2,770,663	22,645,466
Principal payments on mortgage notes payable	(4,396,752)	(4,047,055)
Prepayments of mortgage notes payable	(14,833,286)	(5,506,728)
Borrowings from revolving credit facility - affiliate	1,627,000	1,691,000
Principal payments on revolving credit facility - affiliate	(1,627,000)	(7,349,422)
Deferred financing costs	(61,974)	(226,989)
Contributions from noncontrolling interest holders in properties	399,718	291,701
Distributions to noncontrolling interest holders in properties	(1,221,443)	(1,295,182)
Distributions to noncontrolling interest partners in Operating Partnership	(10,164,258)	(1,685,796)
Distributions to common shareholders	(219,880)	—
Distributions to preferred shareholders	(5,025,582)	(5,025,583)
Net cash used in financing activities	(32,752,794)	(508,588)

Net decrease in cash and cash equivalents	(2,911,947)	(2,578,234)
Cash and cash equivalents at beginning of period	12,224,361	9,645,420
Cash and cash equivalents at end of period	$9,312,414	$7,067,186

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

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

	For the nine months ended September 30,	
	2013	2012
Supplemental disclosure:		
Cash paid for interest, net of capitalized interest	$20,622,669	$19,434,715
Capitalization of interest	425,271	1,814,313
Supplemental disclosure of non-cash investing and financing activities:		
Capital improvements included in accrued expenses and other liabilities	120,308	2,465,914
Dividends declared and payable to preferred shareholders	837,607	837,607
Dividends declared and payable to common stockholders	66,920	—
Distributions payable	2,733,080	—
Write-off of fully amortized acquired in-place leases and tenant relationships	605,079	—
Sale of real estate:		
Gross selling price	$31,500,000	$14,200,000
Cost of sale	(541,073)	(270,010)
Cash flows from sale of multifamily apartment communities	$30,958,927	$13,929,990

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

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BERKSHIRE INCOME REALTY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

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, developing and rehabilitating multifamily apartment communities. As of September 30, 2013, the Company owned, or had an interest in, 20 multifamily apartment communities consisting of 5,499 total apartment units, one multifamily development project and two unconsolidated multifamily entities. The Company conducts its business through Berkshire Income Realty-OP, L.P. (the "Operating Partnership").

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 shareholders. 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 nine months ended September 30, 2013 and 2012, 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.

Discussion of acquisitions for the nine months ended September 30, 2013

The Company did not acquire any properties during the nine-month period ended September 30, 2013.

Discussion of dispositions for the nine months ended September 30, 2013

On June 25, 2013, the Company completed the sale of Walden Pond and Gables of Texas, both located in Houston, Texas, to an unaffiliated buyer. The combined sale price was $31,500,000 and was subject to normal operating prorations and adjustments as provided for in the purchase and sale agreement.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standard Board ("FASB") issued Accounting Standards Update ("ASU") 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. ASU 2011-04 clarifies some existing concepts, eliminates wording differences between accounting principles generally accepted in the United States of America ("GAAP") and International Financial Reporting Standards ("IFRS"), and in some limited cases, changes some principles to achieve convergence between GAAP and IFRS. ASU 2011-04 results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between GAAP and IFRS. ASU 2011-04 also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. ASU 2011-04 became effective for the Company on January 1, 2012. The adoption of ASU 2011-04 did not have a material effect on the Company's operating results, financial position, or disclosures.

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income, which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income, or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of equity. In December 2011, the FASB issued ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05, which deferred the new requirement to present components of reclassifications of other comprehensive income on the face of the income statement. Both ASU 2011-05 and ASU 2011-12 became effective for the Company on January 1, 2012. The adoption of ASU 2011-05 and ASU 2011-12 did not have any effect on the Company's operating results, financial position, or disclosures.

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Unaudited interim consolidated financial statements

The accompanying interim consolidated financial statements of the Company are unaudited; however, the consolidated financial statements have been prepared in accordance with GAAP for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with GAAP are omitted. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair statement for the interim periods have been included. The results of operations for the interim periods are not necessarily indicative of the results to be obtained for other interim periods or for the full fiscal year. The interim financial statements and notes thereto should be read in conjunction with the Company's financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

Consolidated Statements of Comprehensive Income (Loss)

For the nine months ended September 30, 2013 and 2012, 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.

Reclassifications

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

Out of period adjustments

During the third quarter of fiscal 2012, the Company recorded out of period adjustments that (i) decreased interest expense by an aggregate of $341,368 to reflect additional capitalization of interest relating to the three month periods ended March 31, 2012 and June 30, 2012 of $154,356 and $187,012, respectively, and (ii) reduced incentive advisory fees expense by $90,235 relating to an over accrual for such expenses during the three month period ended June 30, 2012. The cumulative effect of out of period adjustments for the year ended December 31, 2012 was a $431,603 decrease in the net loss. The Company has determined that these adjustments did not have an impact on any other prior annual period and were not material to any other prior interim periods, and the resulting correction is not material.

Distributions of $1,685,796 have been adjusted from Accumulated Deficit to Noncontrolling Interest-Operating Partnership to properly reflect such amounts within the Consolidated Statement of Changes in Deficit for the nine months ended September 30, 2012. Management has determined such adjustment to be immaterial to the overall financial statements.

2. MULTIFAMILY APARTMENT COMMUNITIES

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

	September 30, 2013	December 31, 2012
Land	$60,871,969	$63,749,991
Buildings, improvement and personal property	554,223,320	575,074,865
Multifamily apartment communities	615,095,289	638,824,856
Accumulated depreciation	(235,968,144)	(235,825,752)
Multifamily apartment communities, net	$379,127,145	$402,999,104

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 the value of other tenant relationships, based in each case on their fair values. The value of in-place leases and tenant relationships is determined based on the specific expiration dates of the in-place leases and amortized 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 during the nine months ended September 30, 2013 or twelve months ended December 31, 2012.

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Discontinued Operations

On March 23, 2012, the Company completed the sale of Riverbirch, a 210-unit multifamily apartment community located in Charlotte, North Carolina, to an unaffiliated buyer. The sale price of Riverbirch was $14,200,000 and was subject to normal operating prorations and adjustments as provided for in the purchase and sale agreement.

On November 5, 2012, the Company completed the sale of Silver Hill and Arboretum, both located in Newport News, Virginia, to an unaffiliated buyer. The combined sale price was $25,425,000 and was subject to normal operating prorations and adjustments as provided for in the purchase and sale agreement.

On November 30, 2012, the Company completed the sale of Arrowhead and Moorings, both located in Chicago, Illinois, to an unaffiliated buyer. The combined total sale price was $37,000,000 and was subject to normal operating prorations and adjustments as provided for in the purchase and sale agreement.

On June 25, 2013, the Company completed the sale of Walden Pond and Gables of Texas, both located in Houston, Texas, to an unaffiliated buyer. The combined sale price was $31,500,000 and was subject to normal operating prorations and adjustments as provided for in the purchase and sale agreement.

The results of operations for Arboretum, Arrowhead, Gables of Texas, Moorings, Riverbirch, Silver Hill and Walden Pond have been restated and are presented as results from discontinued operations in the Consolidated Statement of Operations for the three and nine months ended September 30, 2013 and 2012, respectively, pursuant to ASC 205-20.

The operating results of discontinued operations for the three and nine months ended September 30, 2013 and 2012 are presented in the following table.

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Revenue:				
Rental	$5,203	$2,902,238	$2,020,361	$9,063,449
Utility reimbursement	—	157,046	230,542	473,964
Other	52,604	140,063	297,838	438,933
Total revenue	57,807	3,199,347	2,548,741	9,976,346
Expenses:				
Operating	37,440	937,408	810,822	3,053,481
Maintenance	7,697	266,331	136,819	719,375
Real estate taxes	23,097	292,105	288,619	1,009,645
General and administrative	—	17,394	31,663	37,529
Management fees	2,017	127,948	96,567	390,992
Depreciation	—	784,645	605,122	2,510,270
Interest, inclusive of amortization of deferred financing fees	—	550,014	527,986	2,699,013
Loss on extinguishment of debt	—	—	3,807	40,813
Total expenses	70,251	2,975,845	2,501,405	10,461,118
Income (loss) from discontinued operations	$(12,444)	$223,502	$47,336	$(484,772)

3. INVESTMENTS IN UNCONSOLIDATED MULTIFAMILY ENTITIES

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

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In accordance with ASC 810-10 issued by FASB, as amended by ASU 2009-17, 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 fact that the holders of the equity investment at risk lack the power, through voting 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 VIE, 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 an affiliate of 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.

As of September 30, 2013, the Company had invested 100% of its total committed capital amount of $23,400,000 in BVF for an ownership interest of approximately 7% and had received distributions from BVF of $2,268,243, or approximately 9.7%, of its committed capital. On October 8, 2013, the Company received $1,715,183 of distribution from BVF for total distributions of $3,983,426, or approximately 17%, of its committed capital.

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

	September 30, 2013 (unaudited)	December 31, 2012 (audited)
ASSETS		
Multifamily apartment communities, net	$751,632,874	$807,747,897
Cash and cash equivalents	17,657,099	16,851,009
Other assets	19,309,148	16,927,659
Total assets	$788,599,121	$841,526,565
LIABILITIES AND PARTNERS' CAPITAL		
Mortgage notes payable	$768,087,440	$800,968,937
Revolving credit facility	16,300,000	16,300,000
Other liabilities	24,733,784	22,050,147
Noncontrolling interest	(13,302,467)	(9,478,084)
Partners' capital (deficit)	(7,219,636)	11,685,565
Total liabilities and partners' capital (deficit)	$788,599,121	$841,526,565
Company's share of partners' capital (deficit)	$(505,428)	$818,078
Basis differential (1)	604,395	604,395
Carrying value of the Company's investment in unconsolidated limited partnership (2)	$98,967	$1,422,473

(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). At September 30, 2013 and December 31, 2012, the differential related mainly to $583,240 which represents the Company’s share of syndication costs incurred by BVF, which was not an item required to be funded via a capital investment by the Company.

(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 as of September 30, 2013 and has no commitment to make additional contributions to BVF.

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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 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 during the nine months ended September 30, 2013 or twelve months ended December 31, 2012.

The summarized statements of operations of BVF for the three and nine months ended September 30, 2013 and 2012 are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Revenue	$34,116,230	$32,825,227		