

U. S. Securities and Exchange Commission

Washington, DC 20549

FORM 10-QSB

(Mark One)

☒ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2001

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 01-14453

National Real Estate Limited Partnership Income Properties

(Exact name of small business issuer as specified in its charter)

Wisconsin

(State or other jurisdiction of  
incorporation or organization)

39-1503893

(I.R.S. Employer  
Identification Number)

1155 Quail Court, Pewaukee, Wisconsin 53702-3703

(Address of principal executive offices)

(262) 695-1400

(Issuer's telephone number, including area code)

----- N/A -----

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Sections 13 or 15(d) of the Exchange Act during the past 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 X No \_\_\_\_\_

# NATIONAL REAL ESTATE LIMITED PARTNERSHIP INCOME PROPERTIES

## INDEX

### Page

#### PART I. FINANCIAL INFORMATION

Balance Sheet (Unaudited) - June 30, 2001, and December 31, 2000.....	2
Statement of Operations (Unaudited) - Three and six months ended June 30, 2001, and 2000 .....	3
Statement of Changes in Partners' Capital (Deficit)(Unaudited) - Six months ended June 30, 2001, and 2000 .....	4
Statement of Cash Flows (Unaudited) - Six months ended June 30, 2001, and 2000 .....	5
Notes to Financial Statements (Unaudited).....	6-7
Management's Discussion and Analysis of Financial Condition and Results of Operations .....	8-9

#### PART II. OTHER INFORMATION AND SIGNATURES

Item 1. Legal Proceedings .....	9-11
Item 2. Changes in Securities and Use of Proceeds .....	12
Item 3. Defaults Upon Senior Securities .....	12
Item 4. Submission of Matters to a Vote of Security Holders.....	12
Item 5. Other Information.....	12
Item 6. Exhibits and Reports on Form 8-K .....	12

**PART I. FINANCIAL INFORMATION****NATIONAL REAL ESTATE LIMITED PARTNERSHIP INCOME PROPERTIES***(A Wisconsin Limited Partnership)***BALANCE SHEET***(Unaudited)*

	<b><u>June 30,</u></b> <b><u>2001</u></b>	<b><u>December 31,</u></b> <b><u>2000</u></b>
<b>ASSETS</b>		
Cash and cash equivalents	\$200,817	\$245,403
Escrow deposits and other assets	69,656	91,248
Investment properties, at cost		
Land	568,848	568,848
Buildings and improvements	<u>4,324,905</u>	<u>4,324,905</u>
	4,893,753	4,893,753
Less accumulated depreciation	<u>2,209,611</u>	<u>2,137,780</u>
	<u>2,684,142</u>	<u>2,755,973</u>
	<u>\$2,954,615</u>	<u>\$3,092,624</u>
 <b>LIABILITIES AND PARTNERS' CAPITAL</b>		
<i><b>Liabilities:</b></i>		
Accrued expenses and other liabilities	\$56,994	\$101,996
Tenant security deposits	5,346	4,823
Deferred rent	35,091	31,963
Accrued interest payable to individual General Partner	93,649	75,650
Note payable to individual General Partner (Note 5)	<u>271,020</u>	<u>271,020</u>
	462,100	485,452
 <i><b>Partners' Capital (Deficit):</b></i>		
General Partners	(165,359)	(161,919)
Limited Partners	2,679,545	2,790,762
(authorized - 10,000 Interests; issued - 9,034.01 Interests)		
Less cost of 29.86 Limited Partner Interests held in Treasury	<u>(21,671)</u>	<u>(21,671)</u>
	<u>2,492,515</u>	<u>2,607,172</u>
	<u>\$2,954,615</u>	<u>\$3,092,624</u>
 <i>See notes to financial statements.</i>		

**NATIONAL REAL ESTATE LIMITED PARTNERSHIP INCOME PROPERTIES***(A Wisconsin Limited Partnership)***Statement of Operations***(Unaudited)*

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b><u>2001</u></b>	<b><u>2000</u></b>	<b><u>2001</u></b>	<b><u>2000</u></b>
<b>INCOME</b>				
Operating income	<u>\$203,225</u>	<u>\$199,983</u>	<u>\$404,157</u>	<u>\$405,186</u>
Total income	203,225	199,983	404,157	405,186
<b>OPERATING EXPENSES</b>				
Operating expenses	112,124	86,400	189,838	162,413
Administrative expense	66,353	52,730	107,205	105,071
Depreciation	35,916	35,450	71,831	71,908
Interest expense	<u>8,525</u>	<u>8,840</u>	<u>17,999</u>	<u>17,250</u>
Total expenses	<u>222,918</u>	<u>183,420</u>	<u>386,873</u>	<u>356,642</u>
<b>Income (Loss) from Operations</b>	<u>(19,693)</u>	<u>16,563</u>	<u>17,284</u>	<u>48,544</u>
<b>Other Income:</b>				
Interest income	<u>3,109</u>	<u>6,929</u>	<u>7,298</u>	<u>17,372</u>
<b>Net Income (Loss)</b>	<u><del>\$(16,584)</del></u>	<u><del>\$23,492</del></u>	<u><del>\$24,582</del></u>	<u><del>\$65,916</del></u>
Net Income (Loss) attributable to General Partners (3%)	\$(498)	\$704	\$737	\$1,977
Net Income (Loss) attributable to Limited Partners (97%)	\$(16,086)	\$22,788	\$23,845	\$63,939
Per Limited Partnership	<u><del>\$(1.79)</del></u>	<u><del>\$2.53</del></u>	<u><del>\$2.65</del></u>	<u><del>\$7.10</del></u>
\$ Interests outstanding--9,004.15				

*See notes to financial statements.*

# NATIONAL REAL ESTATE LIMITED PARTNERSHIP INCOME PROPERTIES

## (A Wisconsin Limited Partnership) Statement of Changes in Partners' Capital (Deficit) (Unaudited) Six Months Ended June 30,

	<u>Limited Partners</u>	<u>General Partners</u>	<u>Interests Held in Treasury</u>	<u>Total</u>
<u>June 30, 2001</u>				
Partners' Capital (Deficit), beginning of period	\$2,790,762	\$(161,919)	(\$21,671)	\$2,607,172
Distributions	(135,062)	(4,177)		(139,239)
Net Income for the period	<u>23,845</u>	<u>737</u>		<u>24,582</u>
Partners' Capital (Deficit), end of period	<u>\$2,679,545</u>	<u>\$(165,359)</u>	<u>\$(21,671)</u>	<u>\$2,492,515</u>
 <u>June 30, 2000</u>				
Partners' Capital (Deficit), beginning of period	\$3,472,815	\$(140,824)	\$(21,671)	\$3,310,320
Distributions	(531,245)	(16,431)		(547,676)
Net Income for the period	<u>63,939</u>	<u>1,977</u>		<u>65,916</u>
Partners' Capital (Deficit), end of period	<u>\$3,005,509</u>	<u>\$(155,278)</u>	<u>\$(21,671)</u>	<u>\$2,828,560</u>

*See notes to financial statements.*

**NATIONAL REAL ESTATE LIMITED PARTNERSHIP**

**INCOME PROPERTIES**

*(A Wisconsin Limited Partnership)*

**Statement of Cash Flows**

*(Unaudited)*

**Six Months Ended June 30**

	<b><u>2001</u></b>	<b><u>2000</u></b>
<b>Operating Activities</b>		
Net income for the period	\$24,582	\$65,916
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
Depreciation	71,831	71,908
<i>Changes in operating assets and liabilities:</i>		
Escrow deposits and other assets	21,592	(76,312)
Deferred rent	3,128	7,577
Accrued expenses, other liabilities, and accrued interest	(27,003)	8,617
Tenant security deposits	<u>523</u>	<u>420</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	94,653	78,126
<b>Investing Activity:</b>	0	0
<b>Financing Activities:</b>		
Distributions to partners	<u>(139,239)</u>	<u>(547,676)</u>
<b>DECREASE IN CASH</b>	<u>(44,586)</u>	<u>(469,550)</u>
<b>Cash and cash equivalents at beginning of period</b>	<u>245,403</u>	<u>806,382</u>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<u>\$200,817</u>	<u>\$336,832</u>

*See notes to financial statements.*

**NATIONAL REAL ESTATE LIMITED PARTNERSHIP INCOME PROPERTIES**  
**(A Wisconsin Limited Partnership)**  
**Notes to Financial Statements**  
**(Unaudited)**  
**June 30, 2001**

1. In the opinion of the General Partners, the accompanying unaudited financial statements contain all adjustments (consisting of normal recurring accruals) which are necessary for a fair presentation. These statements, which do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements, should be read in conjunction with the National Real Estate Limited Partnership Income Properties annual report for the year ended December 31, 2000 (refer to the footnotes of those statements for additional details of the Partnership's financial condition). The operating results for the period ended June 30, 2001 may not be indicative of the operating results for the entire year.
2. National Real Estate Limited Partnership Income Properties (the "Partnership") was organized under the Wisconsin Uniform Limited Partnership Act pursuant to a Certificate of Limited Partnership dated December 18, 1984, for the purpose of investing in residential, commercial, and industrial real properties. John Vishnevsky and National Development and Investment, Inc., contributed the sum of \$6,000 to the Partnership as General Partners. The Limited Partnership Agreement authorized the issuance of 10,000 Limited Partnership Interests (the "Interests") at \$1,000 per Interest with the offering period commencing January 31, 1985. Upon conclusion of the offering in December 1986, the Partnership had raised \$9,024,556 in capital representing 9,034.01 Interests.
3. **National Realty Management, Inc. (NRMI)**: The Partnership incurred property management fees of \$24,639 under an agreement with NRMI for the six month period ended June 30, 2001. The Partnership also incurred \$16,684 in the first six months of 2001 for the reimbursement of accounting and administrative expenses incurred by NRMI on behalf of the Partnership.

The Partnership subleases a portion of common area office space from NRMI under terms of a lease which expires on August 31, 2002. During the first six months of 2001, the Partnership incurred lease fees totaling \$5,537, which represents the Partnership's prorated portion, based upon space occupied, of NRMI's monthly rental obligation.
4. **National Development and Investment, Inc. (NDII)**: The Partnership incurred \$77,626 for the reimbursement of administrative expenses incurred by NDII on behalf of the Partnership for the first six months of 2001.
5. As outlined in the prospectus, the General Partners agreed to make loans to the Partnership up to an aggregate of 3% of the gross proceeds of the offering to the extent necessary to provide distributions to the limited partners at annualized rates equal to 8% in 1985, 8.25% in 1986, and 8.5% in 1987. The loan will be repaid solely from sales proceeds, with compounding interest equal to the cost of funds or 12%, whichever is lower. As of June 30, 2001, interest totaling \$93,649 had accrued.

**NATIONAL REAL ESTATE LIMITED PARTNERSHIP INCOME PROPERTIES**  
**(A Wisconsin Limited Partnership)**  
**Management's Discussion and Analysis of**  
**Financial Condition and Results of Operations**  
**June 30, 2001**

The Partnership currently owns and operates three investment properties; Tucson Lock-It Lockers, a 49,865 net rentable square foot mini warehouse complex in Tucson, Arizona; Phoenix Lock-It Lockers, a 62,016 net rentable square foot mini warehouse complex in Phoenix, Arizona; and a portion of Cave Creek Lock-It Lockers containing 7,604 of 46,283 net rentable square feet in Phoenix, Arizona.

National Real Estate Limited Partnership Income Properties II ("NRELPIP-II") owns the remaining portion of Cave Creek Lock-It Lockers. NRELPIP II is a Wisconsin limited partnership, affiliated with the General Partners.

Occupancy based upon net rentable square feet for the first six months of 2001 averaged 91.80% for Tucson Lock-It Lockers; 90.38% for Phoenix Lock-It Lockers; and 89.77% for Cave Creek Lock-It Lockers. This compares to an average of 89.60% for Tucson Lock-It Lockers; 90.79% for Phoenix Lock-It Lockers; and 91.36% for Cave Creek Lock-It Lockers during the same period in 2000.

**Six Months Ended June 30, 2001 and 2000**

Net income decreased \$41,334 from \$65,916 for the six months ended June 30, 2000 to \$24,582 for the six months ended June 30, 2001, due to, in part, a \$27,425 increase in operating expenses, and a \$10,074 decrease in interest income.

The \$27,425 increase in operating expenses is due to increased site personnel costs, increased real estate taxes for Phoenix Lock-it Lockers, and the timing of payments for advertising and insurance expenses.

The \$10,074 decrease in interest income is due to a decrease in interest earned on the money market account, attributable to reduced interest rates and large cash distributions paid which reduced the account balance.

The decrease in cash during the first six months of 2001 totaled \$44,586, compared to the decrease in cash during the first six months of 2000 of \$469,550. This variance was due to a decrease of \$408,437 in cash distributed in 2001 as compared to 2000, and a \$97,904 increase in cash provided by escrow deposits and other assets, netted with a \$35,620 decrease in cash provided by accrued expenses, other liabilities and accrued interest, and a \$41,334 decrease in net income from 2000 to 2001.

The \$97,904 increase in cash provided by escrow deposits and other assets is due to reductions in the salary escrow account for severance salaries paid in 2001 and funds subsequently released from escrow.

The \$35,620 decrease in cash provided by accrued expenses, other liabilities and accrued interest is due to accrued accounts payable existing at December 31, 2000, paid in 2001.



### **Three Months Ended June 30, 2001 and 2000**

Net income decreased \$40,076 from \$23,492 for the three months ended June 30, 2000 to \$(16,584) for the three months ended June 30, 2001, due to, in part, a \$25,724 increase in operating expenses, and a \$13,623 increase in administrative expenses.

The \$25,724 increase in operating expenses is due to increased site personnel costs, increased real estate taxes for Phoenix Lock-it-Lockers, and the timing of insurance expense payments.

The \$13,623 increase in administrative expenses is attributable to increased personnel costs, and increased fees for legal services.

## **PART II. OTHER INFORMATION AND SIGNATURES**

### **Item 1. Legal Proceedings**

On May 25, 1999, the general partners for National Real Estate Investments 78-II Limited Partnership, National Real Estate Investments 78-IV Limited Partnership, National Real Estate Investments 79-I Limited Partnership, National Real Estate Investments 79-II Limited Partnership, National Real Estate Investments 79-III Limited Partnership, National Real Estate Investments 81-I Limited Partnership, National Real Estate Investments 82-I Limited Partnership, National Real Estate Investments 16 Limited Partnership, National Real Estate Investments 17 Limited Partnership, National Real Estate Limited Partnership Income Properties, National Real Estate Limited Partnership Income Properties-II, National Select Placement - XVI Limited Partnership, National Select Placement - XVIII Limited Partnership and National Select Placement - XX Limited Partnership (the “General Partners”), NDII, NRMI, EC, and other entities and individuals were named as defendants in a lawsuit in Waukesha County Circuit Court captioned as Paustenbach, et al. v. Vishnevsky, et al., Case No. 99-CV-1034 (the “Lawsuit”). The partnerships listed above in this paragraph (the “Partnerships”) were not included in the original Lawsuit but were later added to the action as nominal defendants. The plaintiffs sought to have this action certified as a class action lawsuit. In the complaint, the plaintiffs alleged wrongdoing against the General Partners and their affiliates including NDII, NRMI and EC in connection with two basic areas. First, allegations involving various vote solicitations alleged by the plaintiffs to be an effort to perpetuate the Partnerships and avoid liquidation. Second, allegations involving the taking and use of Partnership funds and property, including excessive fees and unauthorized expenses. On March 14, 2000, the parties to the litigation, with the exception of the defendant Wolf & Company, entered into a Stipulation of Settlement.

Based upon the Stipulation, on April 27, 2000, the Circuit Court of Waukesha County held a hearing which certified the case as a class action and approved terms of a settlement. The more significant terms of the Stipulation of Settlement are as follows:

An independent marketing agent (the “Partnerships’ Representative”) was appointed to market and sell the Partnerships’ investment properties (the “Properties”). However, no offer to purchase any of the Properties will be accepted without first obtaining approval from a majority interest of the limited partners of the selling Partnership. Final distributions of the net proceeds received from sales of the Properties will be made in accordance with the terms of the limited partnership agreements and prospectuses, and

upon providing 20-day notice to the plaintiffs' attorney. Net proceeds will first be applied to pay plaintiffs' counsels' legal fees, expenses and costs, with interest thereon. The Partnerships' Representative prepared Offering Memorandums for marketing the Properties. Letters of Intent have been signed by potential buyers on all of the Properties. In some cases, Purchase and Sale Agreements have been executed.

Interim distributions to limited partners will continue to be made in accordance with each of the limited partnership agreements. However, upon final approval of the Settlement, distributions were increased to the extent that sufficient reserves were established to support normal partnership operations and the wind-up of each Partnership's affairs upon the sale of its investment property. Any such additional distributions were made within 30 days of the final approval of the Settlement.

NRMI and the General Partners will continue to provide management and consulting services to the Partnerships and the Properties on the same terms and conditions currently provided under existing contracts until the Properties are sold and the Partnership entities are dissolved. NRMI will also be the listing broker for the sale of the Partnerships' Properties.

The plaintiffs' claims made against NRMI, the General Partners, and other related parties for excessive charging of expenses to the Partnerships will be settled through binding arbitration. Any such expenses disallowed through arbitration will be reimbursed to the Partnerships.

At the April 27, 2000 hearing, the lawsuit was certified as a non-opt out class action, in which all limited partners of the Partnerships (except the defendants) are required to be included in the settlement of this litigation. Furthermore, the Court ruled that plaintiffs' counsels' attorney fees would be equal to one-third of the difference between the secondary market value of the Partnerships interests and the total funds available for distribution to the limited partners after payment of all of the Partnerships' obligations. The Court allowed the defendants sixty days thereafter to present their evidence regarding secondary market value.

On June 20, 2000, the Court entered a judgment based upon its April 27th decision. Thereafter, on July 21, 2000, the Court held a hearing on the plaintiffs' Motion for Enforcement of the Court Approved Settlement and in Support of Sanctions. The outcome of the hearing was that the Court granted sanctions totaling \$437,000.00 against the defendants including NDII, NRMI, EC and their counsel for delaying the appointment of the Partnerships' Representative and the arbitrators. The Court took under advisement the remaining open issue regarding the secondary market value for computing the plaintiffs' counsels' attorney fees until the arbitration proceedings are completed and the Properties are sold. A Motion for Reconsideration of the sanctions was filed with the Court and was denied on September 25, 2000. The defendants filed a motion with the Court to stay payment of the sanctions pending appeal. That motion was also denied.

On August 2, 2000, the defendants, including the Corporation, filed an appeal from that portion of the judgment determining the method for computing the plaintiffs' counsels' attorney fees. On October 10, 2000, the defendants, including the Corporation, filed a second appeal from the order granting the sanctions. A motion to consolidate the two appeals was granted. All briefing has been completed.

The arbitration panel has been selected. The arbitration is tentatively set for hearing the weeks of February 11, and 18, 2002. A scheduling order will be set by the chief arbitrator on August 23, 2001. Based on the events to date, it is not possible to determine the final outcome of the litigation, or the amount of any potential monetary impact on the NDII Affiliates.

**Item 2. Changes in Securities and Use of Proceeds**

None

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Submission of Matters to a Vote of Security Holders**

None

**Item 5. Other Information**

None

**Item 6. Exhibits and Reports on Form 8-K**

None

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

National Real Estate Limited Partnership  
Income Properties  
(Registrant)

Date \_\_\_\_\_

/S/John Vishnevsky

John Vishnevsky  
President and Chief Operating and  
Executive Officer  
National Development and Investment, Inc.  
Corporate General Partner

Date \_\_\_\_\_

/S/John Vishnevsky

John Vishnevsky  
Chief Financial and Accounting Officer

Date \_\_\_\_\_

/S/Stephen P. Kotecki

Stephen P. Kotecki  
President  
EC Corp  
Corporate General Partner

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

National Real Estate Limited Partnership  
Income Properties  
(Registrant)

Date \_\_\_\_\_

\_\_\_\_\_  
John Vishnevsky  
President and Chief Operating and  
Executive Officer  
National Development and Investment, Inc.  
Corporate General Partner

Date \_\_\_\_\_

\_\_\_\_\_  
John Vishnevsky  
Chief Financial and Accounting Officer

Date \_\_\_\_\_

\_\_\_\_\_  
Stephen P. Kotecki  
President  
EC Corp  
Corporate General Partner