SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2002-05-14** | Period of Report: **2002-03-31**
SEC Accession No. 0000931763-02-001769

(HTML Version on secdatabase.com)

FILER

WELLS REAL ESTATE FUND XI L P

CIK:**1018216**| IRS No.: **582250094** | State of Incorp.:**GA** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-25731** | Film No.: **02645732**
SIC: **6532** Real estate dealers (for their own account)

Business Address
3885 HOLCOMB BRIDGE RD
NORCROSS GA 30092
7704497800

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2002 or

[_] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ____________________ to _____________________

Commission file number 0-25731

WELLS REAL ESTATE FUND XI, L.P.

(Exact name of registrant as specified in its charter)

Georgia	58-2250094
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
6200 The Corners Pkwy., Norcross, Georgia	30092
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (770) 449-7800

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

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 X No ___

FORM 10-Q

WELLS REAL ESTATE FUND XI, L.P.

(A Georgia Public Limited Partnership)

INDEX

<TABLE>
<CAPTION>

</TABLE>

WELLS REAL ESTATE FUND XI, L.P.

(A Georgia Public Limited Partnership)

BALANCE SHEETS

<TABLE>
<CAPTION>

<S>	March 31, 2002 <C>	December 31, 2001 <C>
ASSETS:		
Investments in joint ventures	$13,169,960	$13,276,778
Cash and cash equivalents	15,284	17,542
Due from affiliates	329,346	348,632
Accounts receivable	1,047	1,278
Total assets	$13,515,637	$13,644,230
LIABILITIES AND PARTNERS' CAPITAL:		
Liabilities:		
Due to affiliates	$ 15,000	$ 15,000
Partnership distributions payable	318,548	328,151
Total liabilities	333,548	343,151
Partners' capital:		
Limited partners:		
Class A--1,341,256 units and 1,346,256 units outstanding as of March 31, 2002 and December 31, 2001, respectively	12,004,919	12,070,817
Class B--312,024 units and 307,024 units outstanding as of March 31, 2002 and December 31, 2001, respectively	1,177,170	1,230,262
Total partners' capital	13,182,089	13,301,079
Total liabilities and partners' capital	$13,515,637	$13,644,230

</TABLE>

The accompanying notes are an integral part of these balance sheets.

WELLS REAL ESTATE FUND XI, L.P.

(A Georgia Public Limited Partnership)

STATEMENTS OF INCOME

<TABLE>
<CAPTION>

	Three Months Ended	
	March 31,	March 31,
<S>	2002 <C>	2001 <C>
REVENUES:		

Equity in income of joint ventures	$ 222,528	$ 236,220
Interest income	628	1,635
	223,156	237,855
EXPENSES:		
Partnership administration	13,487	9,895
Accounting and legal	8,286	9,780
Computer costs	1,824	1,200
	23,597	20,875
NET INCOME	$ 199,559	$ 216,980
NET INCOME ALLOCATED TO CLASS A LIMITED PARTNERS	$ 322,278	$ 339,634
NET LOSS ALLOCATED TO CLASS B LIMITED PARTNERS	$(122,719)	$(122,654)
NET INCOME PER WEIGHTED AVERAGE CLASS A LIMITED PARTNER UNIT	$ 0.24	$ 0.25
NET LOSS PER WEIGHTED AVERAGE CLASS B LIMITED PARTNER UNIT	$ (0.39)	$ (0.39)
CASH DISTRIBUTION PER CLASS A LIMITED PARTNER UNIT	$ 0.24	$ 0.24

</TABLE>

The accompanying notes are an integral part of these statements.

WELLS REAL ESTATE FUND XI, L.P.

(A Georgia Public Limited Partnership)

STATEMENTS OF PARTNERS' CAPITAL

FOR THE YEAR ENDED DECEMBER 31, 2001

AND THE THREE MONTHS ENDED MARCH 31, 2002

<TABLE>
<CAPTION>

	Limited Partners				
	Class A		Class B		
	Units	Amounts	Units	Amounts	Capital
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE, December 31, 2000	1,341,356	$11,993,987	311,924	$1,745,547	$13,739,534
Net income (loss)	0	1,361,828	0	(491,478)	870,350
Partnership distributions	0	(1,308,805)	0	0	(1,308,805)
Class B conversions	4,900	23,807	(4,900)	(23,807)	0
BALANCE, December 31, 2001	1,346,256	12,070,817	307,024	1,230,262	13,301,079
Net income (loss)	0	322,278	0	(122,719)	199,559
Partnership distributions	0	(318,549)	0	0	(318,549)
Class A conversions	(5,000)	(69,627)	5,000	69,627	0
BALANCE, March 31, 2002	1,341,256	$12,004,919	312,024	$1,177,170	$13,182,089

</TABLE>

The accompanying notes are an integral part of these statements.

WELLS REAL ESTATE FUND XI, L.P.

(A Georgia Public Limited Partnership)

STATEMENTS OF CASH FLOWS

	Three Months Ended	
	March 31, 2002	March 31, 2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 199,559	$ 216,980
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in income of joint ventures	(222,528)	(236,220)
Changes in assets and liabilities:		
Accounts payable	0	970
Accounts receivable	231	(48)
Net cash used in operating activities	(22,738)	(18,318)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Distributions received from joint ventures	348,632	343,843
CASH FLOWS FROM FINANCING ACTIVITIES:		
Distributions to partners	(328,152)	(326,955)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,258)	(1,430)
CASH AND CASH EQUIVALENTS, beginning of year	17,542	77,460
CASH AND CASH EQUIVALENTS, end of period	$ 15,284	$ 76,030

The accompanying notes are an integral part of these statements.

WELLS REAL ESTATE FUND XI, L.P.

(A Georgia Public Limited Partnership)

CONDENSED NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Organization and Business

Wells Real Estate Fund XI, L.P. (the "Partnership") is a Georgia public limited partnership with Leo F. Wells, III and Wells Partners, L.P. ("Wells Partners"), a Georgia nonpublic limited partnership, serving as its General Partners. The Partnership was formed on June 20, 1996 for the purpose of acquiring, developing, owning, operating, improving, leasing, and otherwise managing income producing commercial properties for investment purposes. Limited partners have the right to change their prior elections to have some or all of their units treated as Class A Units or Class B Units one time during each quarterly accounting period. Limited partners may vote to, among other things, (a) amend the partnership agreement, subject to certain limitations, (b) change the business purpose or investment objectives of the Partnership, and (c) add or remove a general partner. A majority vote on any of the above-described matters will bind the Partnership without the concurrence of the general partners. Each limited partnership unit has equal voting rights, regardless of class.

On December 31, 1997, the Partnership commenced a public offering of up to $35,000,000 of limited partnership units pursuant to a Registration Statement filed on Form S-11 under the Securities Act of 1933. The Partnership commenced active operations on March 3, 1998 upon receiving and accepting subscriptions for 125,000 units. The offer terminated on December 30, 1998 at which time approximately 1,302,942 and 350,338 units had been sold to 1,250 and 95 Class A and Class B Limited Partners, respectively, for total limited partner capital contributions of $16,532,802. As of March 31, 2002, the Partnership had paid a total of $578,648 in acquisition and advisory fees and acquisition expenses and $2,066,600 in selling commissions and organization and offering expenses and invested $3,357,436 in Fund IX-X-XI-REIT Associates, $2,398,767 in Fund X-XI Associates, and $8,131,351 in Fund XI-XII-REIT Associates.

(THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK)

The Partnership owns interests in all of its real estate assets through joint ventures with other Wells Real Estate Funds. As of March 31, 2002, the Partnership owned interests in the following 11 properties through the affiliated joint ventures listed below:

<TABLE>
<CAPTION>

Joint Venture	Joint Venture Partners	Properties
<S>	<C>	<C>
Fund IX-X-XI-REIT Associates	- Wells Real Estate Fund IX, L.P. - Wells Real Estate Fund X, L.P. - Wells Real Estate Fund XI, L.P. - Wells Operating Partnership, L.P.*	1. Alstom Power-Knoxville Building A three-story office building located in Knoxville, Tennessee 2. 360 Interlocken Building A three-story office building located in Boulder County, Colorado 3. Avaya Building A one-story office building located in Oklahoma City, Oklahoma 4. Iomega Building A single-story warehouse and office building located in Ogden, Weber County, Utah 5. Ohmeda Building A two-story office building located in Louisville, Boulder County, Colorado
Fund X-XI Associates - Orange County	- Wells Real Estate Fund X, L.P. - Wells Real Estate Fund XI, L.P.	6. Cort Building A one-story office and warehouse building located in Fountain Valley, California
Fund X-XI Associates - Freemont	- Wells Real Estate Fund X, L.P. - Wells Real Estate Fund XI, L.P.	7. Fairchild Building A two-story warehouse and office building located in Fremont, California
Fund XI-XII-REIT Associates	- Wells Real Estate Fund XI, L.P. - Wells Real Estate Fund XII, L.P. - Wells Operating Partnership, L.P.*	8. Eybl Cartex Building A two-story manufacturing and office building located in Fountain Inn, South Carolina 9. Sprint Building A three-story office building located in Leadwood, Johnson County, Kansas 10. Johnson Matthey Building A one-story office building and warehouse located in Tredyffin Township, Chester County, Pennsylvania 11. Gartner Building A three-story office building located in Ft. Myers, Lee County, Florida

</TABLE>

* Wells Operating Partnership, L.P ("Wells OP") is a Delaware limited partnership with Wells Real Estate Investment Trust, Inc. serving as its general partner; Wells REIT is a Maryland corporation that qualifies as

a real estate investment trust.

Each of the aforementioned properties was acquired on an all cash basis. For further information regarding the foregoing joint ventures and properties, refer to the report filed for the Partnership Form 10-K for the year ended December 31, 2001.

(b) Basis of Presentation

The financial statements of the Partnership have been prepared in accordance with the instructions for Form 10-Q and do not include all of the information and footnotes required by generally accepted accounting principles ("GAAP") for complete financial statements. The quarterly statements included herein have not been examined by independent accountants. However, in the opinion of the General Partners, the statements for the unaudited interim periods presented include all adjustments that are of a normal and recurring nature and necessary to fairly present the results for such periods. Interim results for 2002 are not necessarily indicative of results for the year. For further information, refer to the financial statements and footnotes included in the report filed for the Partnership on Form 10-K for the year ended December 31, 2001.

(c) Distributions of Net Cash From Operations

As defined by the partnership agreement, cash available for distributions is distributed quarterly on a cumulative non-compounded basis to the limited partners as follows:

- First, to all Class A limited partners until such limited partners have received distributions equal to a 10% per annum return on their respective adjusted capital contributions, as defined.
- Second, to the General Partners until each general partner has received distributions equal to 10% of total distributions declared by the Partnership per annum.
- Third, to the Class A limited partners and the General Partners allocated on a basis of 90% and 10%, respectively.

No distributions will be made to the limited partners holding Class B units.

2. INVESTMENTS IN JOINT VENTURES

(a) Basis of Presentation

The Partnership owned interests in eleven properties as of March 31, 2002 through its ownership in the joint ventures described in Note 1. The Partnership does not have control over the operations of these joint ventures; however, it does exercise significant influence. Accordingly, investments in joint ventures are recorded using the equity method of accounting. For further information regarding investments in joint ventures, see the report filed for the Partnership on Form 10-K for the year ended December 31, 2001.

(b) Summary of Operations

The following information summarizes the operations of the unconsolidated joint ventures in which the Partnership held ownership interests as of March 31, 2002 and 2001, respectively.

<TABLE>
<CAPTION>

	Total Revenues		Net Income		Partnership's Share of Net Income	
	Three Months Ended		Three Months Ended		Three Months Ended	
	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Fund IX-X-XI-REIT						

Associates	$1,071,206	$1,073,094	$ 554,268	$ 638,435	$ 49,003	$ 56,444
Fund X-XI Associates - Orange County	198,880	199,586	129,750	133,753	30,534	31,476
Fund X-XI Associates - Freemont	225,161	225,178	135,948	142,612	12,996	13,828
Fund XI-XII-REIT Associates	836,556	832,765	497,149	514,277	129,995	134,472
	$2,331,803	$2,330,623	$1,317,115	$1,429,077	$222,528	$236,220

</TABLE>

3. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, SFAS No. 141, "Business Combinations" (effective beginning July 1, 2001) and SFAS 142, "Goodwill and Other Intangible Assets" (effective beginning January 1, 2002) were issued. SFAS No. 141 prohibits pooling-of-interests accounting for acquisitions. SFAS No. 142 specifies that goodwill and some intangible assets will no longer be amortized and, instead, will be subject to periodic impairment testing. We believe that the adoption of SFAS No. 141 and SFAS No. 142 will not have a significant impact on our financial statements.

In August 2001, SFAS No. 143, "Accounting for Asset Retirement Obligations" (effective beginning January 1, 2003) and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (effective beginning January 1, 2002) were issued. SFAS No. 143 requires that entities recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. SFAS No. 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of and supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". Among other factors, SFAS No. 144 establishes criteria beyond that previously specified in SFAS No. 121 to determine when a long-lived asset is to be considered held for sale. We believe that the adoption of SFAS No. 143 and SFAS No. 144 will not have a significant impact on our financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATION

The following discussion and analysis should be read in conjunction with the accompanying financial statements and notes thereto.

(a) Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and 21E of the Securities Exchange Act of 1934, including discussion and analysis of the financial condition of the Partnership, anticipated capital expenditures required to complete certain projects, amounts of cash distributions anticipated to be distributed to limited partners in the future and certain other matters. Readers of this Report should be aware that there are various

factors that may cause actual results to differ materially from any forward-looking statements made in this report, including construction costs which may exceed estimates, construction delays, lease-up risks, inability to obtain new tenants upon the expiration of existing leases, and the potential need to fund tenant improvements or other capital expenditures out of operating cash flows.

(b) Results of Operations

Gross Revenues

Gross revenues decreased to $223,156 for the three months ended March 31, 2002 from $237,855 for the three months ended March 31, 2001, which is primarily attributable to decreased earnings generated from Fund IX-X-XI-REIT Associates and Fund XI-XII-REIT Associates resulting from (i) decreased common area maintenance reimbursement billings to tenants at the 360 Interlocken Building and the Ohmeda Building and (ii) increased tax expenses for the Gartner Building resulting from the Florida state sales tax audit conducted in 2001. Tenants are billed for common area maintenance reimbursements at estimated amounts, which are reconciled as tenants are billed (credited) for the net annual under (over) billings in the following year.

Expenses

Expenses increased to $23,597 for the three months ended March 31, 2002 from $20,875 for the three months ended March 31, 2001 largely due to increases in administration salary expense allocations. As a result, net income decreased to $199,559 for the three months ended March 31, 2002 from $216,980 for the same period in 2001.

Distributions

The Partnership declared cash distributions of investment income to limited partners holding Class A Units of $0.24 per unit for each of the three months ended March 31, 2002 and 2001. The General Partners anticipate that distributions per unit to limited partners holding Class A Units will continue in 2002 at a level at least comparable with 2001 cash distributions on an annual basis. No cash distributions were declared to limited partners holding Class B Units.

(c) Liquidity and Capital Resources

Net cash used in operating activities increased to $22,738 for the three months ended March 31, 2002 from $18,318 for the three months ended March 31, 2001 due to the increase in expenses and reduction in interest income as described above. Net cash provided by investing activities increased to $348,632 for the three months ended March 31, 2002 from $343,843 for the three months ended March 31, 2001 due to an increase in earnings from joint ventures during the respective immediately preceding quarterly accounting periods, thereby resulting in a greater amount of distributions received from joint ventures in 2002. Net cash used in financing activities increased to $328,152 for the three months ended March 31, 2002 from $326,955 for the three months ended March 31, 2001 due to the corresponding increase in cash available for partnership distributions resulting from the increase in cash provided from financing activities as described above.

The Partnership expects to continue to meet its short-term liquidity requirements and budget demands generally through net cash provided by operations which the Partnership believes will continue to be adequate to meet both operating requirements and distributions to limited partners. Although there is no assurance, the General Partners anticipate that cash distributions to limited partners holding Class A Units will continue in 2002 at a level at least comparable with 2001 cash distributions on an annual basis. At this time, given the nature of the joint ventures and properties in

which the Partnership has invested, there are no known improvements or renovations to the properties expected to be funded from cash flows from operations.

(d) Inflation

The real estate market has not been affected significantly by inflation in the past three years due to the relatively low inflation rate. There are provisions in the majority of the tenant leases executed by the Partnership to protect the Partnership from the impact of inflation. Most leases contain provisions for common area maintenance, real estate tax and insurance reimbursements from tenants either on a per square foot basis, or above a certain allowance per square foot annually. These provisions should reduce the Partnership's exposure to increases in costs and operating expenses resulting from inflation. There is no assurance, however, that the Partnership would be able to replace existing leases with new leases at higher base rental rates.

(e) Critical Accounting Policies

The Partnership's accounting policies have been established and conformed to in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to use judgments in the application of accounting policies, including making estimates and assumptions. These judgments may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the dates of the financial statements presented and the reported amounts of revenues and expenses during the respective reporting periods. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, it is possible that different accounting policies would have been applied; thus, resulting in a different presentation of our financial statements.

The accounting policies that we consider to be critical, in that they may require complex judgment in their application or require estimates about matters that are inherently uncertain, are discussed below. For further information related to the Partnership's accounting policies, including the critical accounting policies described below, refer to the report filed for the Partnership on Form 10-K for the year ended December 31, 2001.

Straight-Lined Rental Revenues

The Partnership recognizes rental income generated from all leases on real estate assets in which the Partnership has an ownership interest through its investments in joint ventures on a straight-line basis over the terms of the respective leases. Should tenants encounter financial difficulties in future periods, the amounts recorded as receivables may not be fully realized.

Operating Cost Reimbursements

The Partnership generally bills tenants for operating cost reimbursements through its investments in joint ventures on a monthly basis at amounts estimated largely based on actual prior period activity and the respective tenant lease terms. Such billings are generally adjusted on an annual basis to reflect reimbursements owed to the landlord based on the actual costs incurred during the period and the respective tenant lease terms. Should tenants encounter financial difficulties in future periods, the amounts recorded as receivables may not be fully realized.

Real Estate

Management continually monitors events and changes in circumstances indicating that the carrying amounts of the real estate assets in which the Partnership has ownership interests through its investments in joint ventures may not be recoverable. When such events or changes in circumstances are present, management assesses the potential impairment by comparing the fair market value of the underlying assets, estimated at amounts equal to the future undiscounted operating cash flows expected to be generated from tenants over the life of the assets and from their eventual disposition, to the carrying value of the assets. In the event that the carrying amount exceeds the estimated fair market value, the Partnership would recognize an impairment loss in the amount required to adjust the carrying amount of the asset to its estimated fair market value. Neither the Partnership nor its joint ventures have recognized impairment losses on real estate assets in 2002, 2001 or 2000.

(THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK)

PART II. OTHER INFORMATION

ITEM 6 (b.) No reports on Form 8-K were filed during the first quarter of 2002.

SIGNATURES

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

WELLS REAL ESTATE FUND XI, L.P.
(Registrant)

Dated: May 10, 2002 By: /s/ Leo F. Wells, III

Leo F. Wells, III, as Individual
General Partner, and as President,
and Chief Financial Officer
of Wells Capital, Inc., the
General Partner of Wells Partners, L.P.