

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**  
SEC Accession No. **0000796333-96-000017**

(HTML Version on [secdatabase.com](http://secdatabase.com))

FILER

**BROWN FLOURNOY EQUITY INCOME FUND LTD  
PARTNERSHIP**

CIK: **796333** | IRS No.: **581688140** | State of Incorporation: **DE** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **000-15747** | Film No.: **96663397**  
SIC: **6500** Real estate

Mailing Address

225 EAST REDWOOD STREET  
BALTIMORE MD 21202

Business Address

225 E REDWOOD ST  
BALTIMORE MD 21202  
4107274083

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

(Mark One)

{ X } QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1996

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

For the transition period from to

For Quarter Ended September 30, 1996 Commission file number 0-15747

Brown-Flournoy Equity Income Fund Limited Partnership  
(Exact Name of Registrant as Specified in its Charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

58-1688140  
(I.R.S. Employer  
Identification Number)

225 East Redwood Street, Baltimore, Maryland  
(Address of Principal Executive Offices)

21202  
(Zip Code)

Registrant's Telephone Number, Including Area Code: (410) 727-4083

N/A  
(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

BROWN-FLOURNOY EQUITY INCOME FUND LIMITED PARTNERSHIP

INDEX

Page No.

Part I. Financial Information

Item 1. Financial Statements

Balance Sheets	1
Statements of Operations	2
Statements of Partners' Capital	3
Statements of Cash Flows	4
Notes to Financial Statements	5-6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	7-8
-----------------------------------------------------------------------------------------------	-----

Part II. Other Information

Item 1. through Item 6.	9
-------------------------	---

Signatures	10
------------	----

BROWN-FLOURNOY EQUITY INCOME FUND LIMITED PARTNERSHIP

Balance Sheets

(Unaudited)

<TABLE>

<CAPTION>

	September 30, 1996	December 31, 1995
<b>Assets</b>		
<S>	<C>	<C>
Investment in real estate	\$ 14,515,244	\$ 15,200,825
Cash and cash equivalents	1,830,412	1,447,679
Other assets		
Accounts receivable, including \$5,992 due affiliates as of September 30, 1996	23,263	22,624
Prepaid expenses	12,203	65,417
Loan fees, less accumulated amortization of \$540,886 and \$469,856, respectively	90,108	49,459
Total other assets	125,574	137,500
Total assets	\$ 16,471,230	\$ 16,786,004
<b>Liabilities and Partners' Capital</b>		
Accounts payable and accrued expenses including \$29,952 and \$27,523 due to affiliates, respectively	\$ 636,164	\$ 453,493
Tenant security deposits	124,072	130,542
Mortgage loans payable	20,400,000	20,200,950
Total liabilities	21,160,236	20,784,985
Partners' Capital		
General Partners	(248,323)	(234,522)
Limited Partners		
Class A - \$1,000 stated value per unit; 27,000 units outstanding	(4,440,783)	(3,764,559)
Class B	100	100
Total partners' capital	(4,689,006)	(3,998,981)
Total liabilities and partners' capital	\$ 16,471,230	\$ 16,786,004

</TABLE>

See accompanying notes to financial statements

-1-

BROWN-FLOURNOY EQUITY INCOME FUND LIMITED PARTNERSHIP

Statements of Operations  
(Unaudited)

<TABLE>  
<CAPTION>

	Three Months Ended		Nine Months Ended	
	September 30, 1996	September 30, 1995	September 30, 1996	September 30, 1995
<b>Revenues</b>				
<S>	<C>	<C>	<C>	<C>
Rental income	\$ 1,242,376	\$ 1,180,371	\$ 3,585,281	\$ 3,447,855
Interest income	16,019	18,101	44,308	51,631
	1,258,395	1,198,472	3,629,589	3,499,486
<b>Expenses</b>				
Compensation and related benefits	128,949	115,906	380,193	332,764
Utilities	75,295	69,969	213,089	191,671
Property taxes	90,084	87,007	273,580	266,833
Insurance	17,897	18,329	53,745	54,623
Advertising	19,885	25,934	81,154	59,979
Maintenance and repairs	120,271	210,704	336,579	417,810
Property management fee	62,119	59,019	179,264	172,393
Other	9,099	9,113	25,788	25,661
Administrative and professional fees	18,531	22,490	57,828	64,957
Interest expense	483,783	484,182	1,451,548	1,459,844
Depreciation of property and equipment	260,514	254,405	782,551	765,737
Amortization of loan fees	33,936	18,547	71,030	55,641
	1,320,363	1,375,605	3,906,349	3,867,913
Net loss	\$ (61,968)	\$ (177,133)	\$ (276,760)	\$ (368,427)
Net loss per unit of Class A limited partnership interest	\$ (2.25)	\$ (6.43)	\$ (10.05)	\$ (13.37)

</TABLE>

See accompanying notes to financial statements

-2-

BROWN-FLOURNOY EQUITY INCOME FUND LIMITED PARTNERSHIP

Statements of Partners' Capital  
For the nine months ended September 30,  
(Unaudited)

<TABLE>  
<CAPTION>

	General Partners	Class A Limited Partner	Class B Limited Partners	Total
<S>	<C>	<C>	<C>	<C>
Balance at December 31, 1995	\$ (234,522)	\$ (3,764,559)	100	\$ (3,998,981)

Net loss	(5,535)	(271,225)	-	(276,760)
Distributions to partners	(8,265)	(405,000)	-	(413,265)
Balance at September 30, 1996	\$ (248,322)	\$ (4,440,784)	100	\$ (4,689,006)
Balance at December 31, 1994	\$ (215,657)	\$ (2,840,151)	100	\$ (3,055,708)
Net loss	(7,369)	(361,058)	-	(368,427)
Distributions to partners	(13,776)	(675,000)	-	(688,776)
Balance at September 30, 1995	\$ (236,802)	\$ (3,876,209)	100	\$ (4,112,911)

</TABLE>

See accompanying notes to financial statements

-3-

BROWN-FLOURNOY EQUITY INCOME FUND LIMITED PARTNERSHIP

Statements of Cash Flows For the nine months ended September 30, (Unaudited)

<TABLE>

<CAPTION>

	1996	1995
Cash flow from operating activities		
<S>	<C>	<C>
Net loss	\$ (276,760)	\$ (368,427)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation of property and equipment	782,551	765,737
Amortization of loan fees	71,030	55,641
Changes in assets and liabilities		
(Increase) decrease in accounts receivable	(639)	(127,999)
Decrease in prepaid expenses	53,214	54,131
Increase in accounts payable and accrued expenses	182,671	170,750
(Decrease) increase in tenant security deposits	(6,470)	14,636
Net cash provided by operating activities	805,597	564,469
Cash flows from investing activities-		
additions to investment in real estate	(96,970)	(63,678)
Cash flows from financing activities		
Decrease in mortgage loans payable	(90,080)	(93,313)
Proceeds from mortgage refinancing	20,400,000	-
Repayment of mortgage loans	(20,110,870)	-
Financing costs	(111,679)	-
Distributions to investors	(413,265)	(688,775)
Net cash used in financing activities	(325,894)	(782,088)
Net increase (decrease) in cash and cash equivalents	382,733	(281,297)
Cash and cash equivalents		
Beginning of period	1,447,679	1,738,073
End of period	\$ 1,830,412	\$ 1,456,776

</TABLE>

BROWN-FLOURNOY EQUITY INCOME FUND LIMITED PARTNERSHIP

Notes to Financial Statements  
September 30, 1996  
(Unaudited)

(1) The Fund and Basis of Preparation

The accompanying financial statements of Brown-Flournoy Equity Income Fund Limited Partnership (the "Fund") do not include all of the information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles. The unaudited interim financial statements reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented. All such adjustments are of a normal recurring nature. The unaudited interim financial information should be read in conjunction with the financial statements contained in the 1995 Annual Report.

(2) Investment in Real Estate

Investment in real estate is stated at the lower of net realizable value or cost, net of accumulated depreciation, and is summarized as follows:

<TABLE>  
<CAPTION>

	September 30, 1996	December 31, 1995
Land	\$ 1,205,950	\$ 1,205,950
Buildings	20,417,743	20,417,743
Furniture, fixtures and equipment	2,299,242	2,202,272
	-----	-----
	23,922,935	23,825,965
Less: accumulated depreciation	9,407,691	8,625,140
	-----	-----
Total	\$14,515,244	\$15,200,825
	=====	=====

</TABLE>

(3) Cash and Cash Equivalents

The Fund considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents consist of the following, stated at cost, which approximates market value.

<TABLE>  
<CAPTION>

	September 30, 1996	December 31, 1995
Cash and money market	\$ 907,486	\$ 428,716
Certificates of deposit with interest rates ranging from 5.0% to 5.6% in 1996 and 4.25% to 5.9% in 1995	922,926	1,018,963
	-----	-----
	\$1,830,412	\$1,447,679
	=====	=====

</TABLE>

(4) Related Party Transactions

Brown Equity Income Properties, Inc., the Administrative General Partner, billed the Fund \$9,964 and \$6,490 in the quarters ended September 30, 1996 and 1995, respectively, for reimbursement of the cost of administrative services and expenses made on behalf of the Fund. Flournoy Properties, Inc., an affiliate of the Development General Partner, is the managing agent for the properties and earned a management fee of \$62,119 and \$59,019 representing 5% of gross monthly operating revenues from the properties during the quarters ended September 30, 1996 and 1995, respectively.

-5-

BROWN-FLOURNOY EQUITY INCOME FUND LIMITED PARTNERSHIP

Notes to Financial Statements  
September 30, 1996  
(Unaudited)

(5) Mortgage Loans Payable

The first mortgage loans are secured by the land, apartment units and all other improvements on the four apartment properties. These loans are for an original term of 7 years with interest only payments at 9.6%. Since October, 1994, monthly payments have been based on a 30-year amortization schedule with a balloon payment due at the end of the 7 year term. Interest expense of \$461,390 and \$484,685 was paid during the quarters ended September 30, 1996 and 1995, respectively.

The mortgage loans matured on September 1, 1996. The Fund refinanced these loans with Columbus Bank & Trust. The terms of the commitment provide for interest only payments of prime plus 1% in monthly installments. The new loans total \$20,400,000 and provided proceeds sufficient to satisfy the repayment of the old mortgage loans, as well as all costs of the refinancing. The commitment provides for repayment of the new loans at the end of 12 months. The Fund is required to pay a commitment fee of one point payable in advance in quarterly installments.

(6) Net Loss per Unit of Class A Limited Partnership Interest

Net loss per Class A Limited Partnership interest is disclosed on the Statements of Operations and is based upon 27,000 units outstanding.

-6-

BROWN-FLOURNOY EQUITY INCOME FUND LIMITED PARTNERSHIP

Management's Discussion and Analysis of Financial  
Condition and Results of Operations

Liquidity and Capital Resources

At September 30, 1996, the Fund had a working capital position of unrestricted cash and cash equivalents of \$1,706,340 and accounts payable and accrued expenses of \$636,164. Restricted cash represents amounts retained from tenants for security deposits and totaled \$124,072 at September 30, 1996. The working capital balance represents reserves for future contingencies that were established from mortgage loan proceeds and are deemed sufficient to meet the Fund's liquidity requirements even under very pessimistic operating scenarios. Reserves may be distributed as the General Partners deem appropriate.

Cash and cash equivalents increased \$325,910 during the third quarter of 1996. This increase represents the net effect of \$334,257 in cash provided by operating activities, \$25,592 utilized for capital expenditures, pay down of

first mortgage balances of \$22,451, proceeds of \$177,451 from the refinancing of the existing debt and distributions to investors of \$137,755.

In November 1996 the Fund made a cash distribution to its investors of \$137,755. This distribution was derived from unrestricted cash available at the end of the third quarter.

On August 27, 1996, the Fund closed on interim one year, interest only loans payable in September 1997. This loan will serve the financial needs of the Fund until it selects a permanent financial solution for the repayment of its debt. The terms of the interim financing provide for interest only payments of prime (8.25% at September 30, 1996) plus 1% in monthly installments. The new loans total \$20,400,000 and provided proceeds sufficient to satisfy the repayment of the existing mortgage loans, as well as all costs of the refinancing.

#### Results of Operations

Rental revenues for both the third quarter and first nine months of 1996 were 5% and 4% higher, respectively, than the same periods in 1995. These increases were the result of rental rate increases implemented at the properties over the last twelve months. Additional revenue increases were related to management's increased focus on corporate rental units. For the first nine months of 1996, revenue from corporate rental units totaled approximately \$28,000.

Total expenses during the third quarter of 1996 were down 4% as compared to the same period in 1995. This decrease was largely due to a reduction in maintenance and repairs needed at the properties. The 1995 maintenance and repairs expenditures reflected exterior painting on two of the Fund's four properties. For the first nine months of 1996 expenses were marginally higher than during the same period in 1995.

Overall occupancy for the Fund's properties averaged 93% during the third quarter of 1996. For the first nine months of 1996, the Fund had a total occupancy level of 91%. These percentages represent decreases of 1% and 2%, respectively, from the same periods in 1995 and are primarily the result of lower occupancies at the Southland Station and Park Place properties. Occupancy at Park Place averaged 89% during the first nine months of 1996, a 7% decrease over the same period in 1995. Southland Station's occupancy averaged 87% for the first nine months of 1996, a 1% decrease over the same period in 1995.

The Hidden Lake property, located in Union City, Georgia, had an average occupancy rate of 96% during the third quarter of 1996. This occupancy was equal to the rate recorded during the same period of 1995. This stabilized occupancy rate has allowed management to increase rental rates for all unit types.

During the third quarter of 1996, the High Ridge property, located in Athens, Georgia, achieved an average occupancy of 92%, a 4% decrease from the same period in 1995. The propensity of renters to purchase or build houses has been a major factor in this decreased occupancy. Over the past few months, rental rates have increased and led to a 6% increase in revenue for the first nine months of 1996, as compared to the same period in 1995. A recently implemented corporate rental program has met great success and has increased revenue by approximately \$15,000 during the first nine months of 1996.

-7-

#### BROWN-FLOURNOY EQUITY INCOME FUND LIMITED PARTNERSHIP

#### Management's Discussion and Analysis of Financial Condition and Results of Operations

#### Results of Operations (continued)

Occupancy at Park Place averaged 93% for third quarter of 1996, a 3% drop from the 96% occupancy attained during the third quarter of 1995. Total revenues increased 7% during the first nine months of 1996, as compared to the



same period in 1995. This increase is attributed to rental rate increases that have been implemented during the first nine months of the year.

During the third quarter of 1996, Southland Station had an average occupancy rate of 91%, a 3% increase over the same period in 1995. For the first nine months of 1996, occupancy averaged 87%, a slight decrease from the same period of 1995. Total revenues during the first nine months of 1996 decreased 3% when compared to the same period in 1995. The decision by would-be renters to purchase or build a house has challenged the property's operations. A comprehensive marketing program that includes an emphasis on corporate rental units was recently implemented, and should return the property to its historically strong, stabilized occupancy levels.

#### Flournoy Development Company

Flournoy Development Company, an affiliate of the Fund's Development General Partner, John F. Flournoy, has been evaluating the feasibility of reorganizing its operations into a Real Estate Investment Trust. It appears that the REIT could be formed as early as the first quarter of 1997, at which time Flournoy Development Company would hope to acquire the four properties owned by the Fund. If this process continues to advance, Flournoy Development Company's proposal, along with a consent form, will be distributed to each of the Fund's investors.

-8-

### BROWN-FLOURNOY EQUITY INCOME FUND LIMITED PARTNERSHIP

#### PART II. OTHER INFORMATION

- Item 1. Legal Proceedings  
Inapplicable
- Item 2. Changes in Securities  
Inapplicable
- Item 3. Defaults upon Senior Securities  
Inapplicable
- Item 4. Submission of Matters to a Vote of Security Holders  
Inapplicable
- Item 5. Other Information  
Inapplicable
- Item 6. Exhibits and Reports on Form 8-K
  - a) Exhibits: None.
  - b) Reports on Form 8-K: None.

-9-

BROWN-FLOURNOY EQUITY INCOME FUND LIMITED PARTNERSHIP

SIGNATURES

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

BROWN-FLOURNOY EQUITY INCOME FUND  
LIMITED PARTNERSHIP

DATE: 11/11/96 By: /s/ John M. Prugh  
John M. Prugh  
President and Director  
Brown Equity Income Properties, Inc.  
Administrative General Partner

DATE: 11/11/96 By: /s/ Timothy M. Gisriel  
Timothy M. Gisriel  
Treasurer  
Brown Equity Income Properties, Inc.  
Administrative General Partner

<TABLE> <S> <C>

<ARTICLE> 5

<LEGEND>

(Replace this text with legend, if applicable)

</LEGEND>

<CIK> 0000796333

<NAME> Brown Flournoy Equity Income Fund

<MULTIPLIER> 1

<CURRENCY> U.S. DOLLARS

<S> <C>

<PERIOD-TYPE> 9-MOS

<FISCAL-YEAR-END> DEC-31-1996

<PERIOD-START> JAN-1-1996

<PERIOD-END> SEP-30-1996

<EXCHANGE-RATE> 1

<CASH> 1,830,412

<SECURITIES> 0

<RECEIVABLES> 23,263

<ALLOWANCES> 0

<INVENTORY> 0

<CURRENT-ASSETS> 1,865,878

<PP&E> 0

<DEPRECIATION> 0

<TOTAL-ASSETS> 16,471,230

<CURRENT-LIABILITIES> 636,164

<BONDS> 20,400,000

<PREFERRED-MANDATORY> 0

<PREFERRED> 0

<COMMON> 0

<OTHER-SE> 0

<TOTAL-LIABILITY-AND-EQUITY> 16,471,230

<SALES> 0

<TOTAL-REVENUES> 3,629,589

<CGS> 0

<TOTAL-COSTS> 0

<OTHER-EXPENSES> 2,454,801

<LOSS-PROVISION> 0

<INTEREST-EXPENSE> 1,451,548

<INCOME-PRETAX> (276,760)

<INCOME-TAX> 0

<INCOME-CONTINUING> (276,760)

<DISCONTINUED> 0

<EXTRAORDINARY> 0

<CHANGES> 0

<NET-INCOME> (276,760)

<EPS-PRIMARY> 0.000

<EPS-DILUTED> 0.000

</TABLE>