

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: **1995-05-10** | Period of Report: **1995-03-31**  
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### FILER

#### **AEI REAL ESTATE FUND 85-B LTD PARTNERSHIP**

CIK: **771677** | IRS No.: **411525197** | State of Incorpor.: **MN** | Fiscal Year End: **1231**  
Type: **10QSB** | Act: **34** | File No.: **000-14264** | Film No.: **95536124**  
SIC: **6500** Real estate

Mailing Address  
*1300 MINNESOTA WORLD  
TRADE CENTER  
ST PAUL MN 55101*

Business Address  
*1300 MINNESOTA WORLD  
TRADE CTR  
ST PAUL MN 55101  
6122277333*

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

Quarterly Report Under Section 13 or 15(d)  
of The Securities Exchange Act of 1934

For the Quarter Ended: March 31, 1995

Commission file number: 0-14264

AEI REAL ESTATE FUND 85-B LIMITED PARTNERSHIP  
(Exact Name of Small Business Issuer as Specified in its  
Charter)

State of Minnesota  
(State or other Jurisdiction of  
Incorporation or Organization)

41-1525197  
(I.R.S. Employer  
Identification No.)

1300 Minnesota World Trade Center, St. Paul, Minnesota 55101  
(Address of Principal Executive Offices)

(612) 227-7333  
(Issuer's telephone number)

Not Applicable  
(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 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

Transitional Small Business Disclosure Format:

Yes No X

AEI REAL ESTATE FUND 85-B LIMITED PARTNERSHIP

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AEI REAL ESTATE FUND 85-B LIMITED PARTNERSHIP

BALANCE SHEET

MARCH 31, 1995 AND DECEMBER 31, 1994

(Unaudited)

ASSETS

<CAPTION>

1995

1994

<S>	<C>	<C>
CURRENT ASSETS:		
Cash	\$ 254,164	\$ 268,922
Receivables	1,426	0
	-----	-----
Total Current Assets	255,590	268,922
	-----	-----
INVESTMENTS IN REAL ESTATE:		
Land	1,783,745	1,783,745
Buildings and Equipment	3,000,246	3,000,246
Accumulated Depreciation	(1,173,877)	(1,138,636)
	-----	-----
Net Investments in Real Estate	3,610,114	3,645,355
	-----	-----
Total Assets	\$3,865,704	\$3,914,277
	=====	=====

<CAPTION>

LIABILITIES AND PARTNERS' CAPITAL

CURRENT LIABILITIES:		
Payable to AEI Fund Management, Inc.	\$ 24,108	\$ 9,953
Distributions Payable	87,579	120,864
Unearned Rent	9,616	0
	-----	-----
Total Current Liabilities	121,303	130,817
	-----	-----
PARTNERS' CAPITAL (DEFICIT):		
General Partners	(27,153)	(26,763)
Limited Partners, \$1,000 Unit value; 7,500 Units authorized and issued; 6,844 Units outstanding	3,771,554	3,810,223
	-----	-----
Total Partners' Capital	3,744,401	3,783,460
	-----	-----
Total Liabilities and Partners' Capital	\$3,865,704	\$3,914,277
	=====	=====

<FN>

The accompanying Notes to Financial Statements are an integral part of this statement.

</TABLE>

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AEI REAL ESTATE FUND 85-B LIMITED PARTNERSHIP

STATEMENT OF INCOME

FOR THE PERIODS ENDED MARCH 31

(Unaudited)

<CAPTION>

	1995	1994
<S>	<C>	<C>
INCOME:		
Rent	\$ 139,875	\$ 136,037
Investment Income	3,603	2,227
	-----	-----
Total Income	143,478	138,264
	-----	-----
EXPENSES:		
Partnership Administration - Affiliates	28,961	21,679
Partnership Administration and Property Management - Unrelated Parties	21,823	20,411
Depreciation	35,241	35,241
	-----	-----
Total Expenses	86,025	77,331
	-----	-----
NET INCOME	\$ 57,453	\$ 60,933
	=====	=====
NET INCOME ALLOCATED:		
General Partners	\$ 575	\$ 609
Limited Partners	56,878	60,324
	-----	-----
	\$57,453	\$60,933
	=====	=====
NET INCOME PER LIMITED PARTNERSHIP UNIT (6,844 and 6,867 weighted average Units outstanding in 1995 and 1994, respectively)	\$ 8.31	\$ 8.78
	=====	=====

<FN>

The accompanying Notes to Financial Statements are an integral part of this statement.

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<TABLE>

AEI REAL ESTATE FUND 85-B LIMITED PARTNERSHIP

STATEMENT OF CASH FLOWS

FOR THE PERIODS ENDED MARCH 31

(Unaudited)

<CAPTION>

	1995	1994
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 57,453	\$ 60,933

Adjustments to Reconcile Net Income to Net Cash  
 Provided by Operating Activities:

Depreciation	35,241	35,241
(Increase) Decrease in Receivables	(1,426)	21,191
Increase (Decrease) in Payable to AEI Fund Management, Inc.	14,155	(9,521)
Increase in Unearned Rent	9,616	9,576
	-----	-----
Total Adjustments	57,586	56,487
	-----	-----
Net Cash Provided by Operating Activities	115,039	117,420
	-----	-----

CASH FLOWS FROM FINANCING ACTIVITIES:

Increase (Decrease) in Distributions Payable	(33,285)	20,662
Distributions to Partners	(96,512)	(119,641)
	-----	-----
Net Cash Used for Financing Activities	(129,797)	(98,979)
	-----	-----

NET INCREASE (DECREASE) IN CASH	(14,758)	18,441
CASH, beginning of period	268,922	206,767
	-----	-----
CASH, end of period	\$ 254,164	\$ 225,208
	=====	=====

<FN>

The accompanying Notes to Financial Statements are an  
 integral part of this statement.

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AEI REAL ESTATE FUND 85-B LIMITED PARTNERSHIP

STATEMENT OF CHANGES IN PARTNERS' CAPITAL

FOR THE PERIODS ENDED MARCH 31

(Unaudited)

<CAPTION>

	General Partners	Limited Partners	Total
<S> BALANCE, December 31, 1993	<C> \$ (25,229)	<C> \$ 3,962,017	<C> \$ 3,936,788
Distributions	(1,196)	(118,445)	(119,641)

Net Income	609	60,324	60,933
	-----	-----	-----
BALANCE, March 31, 1994	\$ (25,816)	\$ 3,903,896	\$ 3,878,080
	=====	=====	=====
BALANCE, December 31, 1994	\$ (26,763)	\$ 3,810,223	\$ 3,783,460
Distributions	(965)	(95,547)	(96,512)
Net Income	575	56,878	57,453
	-----	-----	-----
BALANCE, March 31, 1995	\$ (27,153)	\$ 3,771,554	\$ 3,744,401
	=====	=====	=====

<FN>

The accompanying Notes to Financial Statements are an integral part of this statement.

</TABLE>

AEI REAL ESTATE FUND 85-B LIMITED PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 1995

(Unaudited)

(1) The condensed statements included herein have been prepared by the Partnership, without audit, and reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results of operations for the interim period, on a basis consistent with the annual audited statements. The adjustments made to these condensed statements consist only of normal recurring adjustments. Certain information, accounting policies, and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Partnership believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these condensed financial statements be read in conjunction with the financial statements and the summary of significant accounting policies and notes thereto included in the Partnership's latest annual report on Form 10-KSB.

(2) Organization -

AEI Real Estate Fund 85-B Limited Partnership (Partnership) was formed to acquire and lease commercial properties to operating tenants. The Partnership's operations are managed by Net Lease Management 85-B, Inc. (NLM), the Managing General Partner of the Partnership. Robert P. Johnson, the President and sole shareholder of NLM, serves as the Individual General Partner of the Partnership. An affiliate of NLM, AEI Fund Management, Inc., performs the administrative and operating functions for the Partnership.

The terms of the Partnership offering call for a subscription price of \$1,000 per Limited Partnership Unit, payable on acceptance of the offer. The Partnership commenced operations on September 17, 1985 when minimum subscriptions of 1,300 Limited Partnership Units (\$1,300,000) were accepted. The Partnership's offering terminated on February 4, 1986 when the maximum subscription limit of 7,500 Limited Partnership Units (\$7,500,000) was reached.

Under the terms of the Limited Partnership Agreement, the Limited Partners and General Partners contributed funds of \$7,500,000 and \$1,000, respectively. During the operation of the Partnership, any Net Cash Flow, as defined, which the General Partners determine to distribute will be distributed 90% to the Limited Partners and 10% to the General Partners; provided, however, that such distributions to the General Partners will be subordinated to the Limited Partners first receiving an annual, noncumulative distribution of Net Cash Flow equal to 10% of their Adjusted Capital Contribution, as defined, and, provided further, that in no event will the General Partners receive less than 1% of such Net Cash Flow per annum. Distributions to Limited Partners will be made pro rata by Units.

#### AEI REAL ESTATE FUND 85-B LIMITED PARTNERSHIP

#### NOTES TO FINANCIAL STATEMENTS

(Continued)

#### (2) Organization - (Continued)

Any Net Proceeds of Sale, as defined, from the sale or financing of the Partnership's properties which the General Partners determine to distribute will, after provisions for debts and reserves, be paid in the following manner: (i) first, 99% to the Limited Partners and 1% to the General Partners until the Limited Partners receive an amount equal to: (a) their Adjusted Capital Contribution plus (b) an amount equal to 6% of their Adjusted Capital Contribution per annum,



cumulative but not compounded, to the extent not previously distributed from Net Cash Flow; (ii) next, 99% to the Limited Partners and 1% to the General Partners until the Limited Partners receive an amount equal to 14% of their Adjusted Capital Contribution per annum, cumulative but not compounded, to the extent not previously distributed; (iii) next, to the General Partners until cumulative distributions to the General Partners under Items (ii) and (iii) equal 15% of cumulative distributions to all Partners under Items (ii) and (iii). Any remaining balance will be distributed 85% to the Limited Partners and 15% to the General Partners. Distributions to the Limited Partners will be made pro rata by Units.

For tax purposes, profits from operations, other than profits attributable to the sale, exchange, financing, refinancing or other disposition of the Partnership's property, will be allocated first in the same ratio in which, and to the extent, Net Cash Flow is distributed to the Partners for such year. Any additional profits will be allocated 90% to the Limited Partners and 10% to the General Partners. In the event no Net Cash Flow is distributed to the Limited Partners, 90% of each item of Partnership income, gain or credit for each respective year shall be allocated to the Limited Partners, and 10% of each such item shall be allocated to the General Partners. Net losses from operations will be allocated 98% to the Limited Partners and 2% to the General Partners.

For tax purposes, profits arising from the sale, financing, or other disposition of the Partnership's property will be allocated in accordance with the Partnership Agreement as follows: (i) first, to those Partners with deficit balances in their capital accounts in an amount equal to the sum of such deficit balances; (ii) second, 99% to the Limited Partners and 1% to the General Partners until the aggregate balance in the Limited Partners' capital accounts equals the sum of the Limited Partners' Adjusted Capital Contributions plus an amount equal to 14% of their Adjusted Capital Contributions per annum, cumulative but not compounded, to the extent not previously allocated; (iii) third, to the General Partners until cumulative allocations to the General Partners equal 15% of cumulative allocations. Any remaining balance will be allocated 85% to the Limited Partners and 15% to the General Partners. Losses will be allocated 98% to the Limited Partners and 2% to the General Partners.

The General Partners are not required to currently fund a deficit capital balance. Upon liquidation of the Partnership or withdrawal by a General Partner, the

General Partners will contribute to the Partnership an amount equal to the lesser of the deficit balances in their capital accounts or 1% of total Limited Partners' and General Partners' capital contributions.

AEI REAL ESTATE FUND 85-B LIMITED PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS  
(Continued)

(3) Payable to AEI Fund Management -

AEI Fund Management, Inc. performs the administrative and operating functions for the Partnership. The payable to AEI Fund Management represents the balance due for those services. This balance is non-interest bearing and unsecured and is to be paid in the normal course of business.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

The Partnership's rental income is derived from long-term Lease Agreements on the Partnership's properties. In March, 1995, the Partnership recognized approximately \$1,426 of additional rent from the lessee of the Automax in Minneapolis, Minnesota, as a result of an increase in sales for the lease year ended December 31, 1994.

During the first three months of 1995 and 1994, the Partnership incurred Partnership administration and property management expenses from unrelated parties of \$21,823 and \$20,411, respectively. These expenses represent direct payments to third parties for legal and filing fees, direct administrative costs, outside audit and accounting costs, taxes, insurance and other property costs. The Partnership administration expenses incurred from affiliates include costs associated with the management of the properties, processing distributions, reporting requirements and correspondence to the Limited Partners.

As of March 31, 1995, the Partnership's annualized cash distribution rate was 6.0%, based on the Adjusted Capital Contribution. Distributions of Net Cash Flow to the General Partners were subordinated to the Limited Partners as required in the Partnership Agreement. As a result, 99% of distributions and income were allocated to Limited Partners and 1% to the General Partners.

The Partnership may acquire Units from Limited Partners who have tendered their Units to the Partnership. Such Units may be acquired at a discount. The Partnership is not obligated to purchase in any year more than 5% of the total

number of Units originally sold and in no event obligated to purchase Units if such purchase would impair the capital or operation of the Partnership.

During 1994, four Limited Partners redeemed a total of 22.5 Partnership Units for \$14,798 in accordance with the Partnership Agreement. The Partnership acquired these Units using Net Cash Flow from operations. In prior years, a total of sixty Limited Partners redeemed 633 Partnership Units for \$518,898. The redemptions increase the remaining Limited Partners' ownership interest in the Partnership.

Inflation has had a minimal effect on income from operations. It is expected that increases in sales volumes of the tenants, due to inflation and real sales growth, will result in an increase in rental income over the terms of the leases. Inflation also may cause the Partnership's real estate to appreciate in value. However, inflation and changing prices may also have an adverse impact on the operating margins of the properties' tenants which could impair their ability to pay rent and subsequently reduce the Partnership's Net Cash Flow available for distributions.

## PART II - OTHER INFORMATION

### ITEM 1.LEGAL PROCEEDINGS

There are no material pending legal proceedings to which the Partnership is a party or of which the Partnership's property is subject.

### ITEM 2.CHANGES IN SECURITIES

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

- a. Exhibits - None.
- b. Reports filed on Form 8-K - None.

## SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: May 9, 1995

AEI Real Estate Fund 85-B  
Limited Partnership  
By: Net Lease Management 85-B, Inc.  
Its: Managing General Partner

By: /s/ Robert P. Johnson  
Robert P. Johnson  
President

By: /s/ Mark E. Larson  
Mark E. Larson  
Chief Financial Officer