

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**
SEC Accession No. **0000771677-95-000004**

([HTML Version](#) on [secdatabase.com](#))

FILER

AEI REAL ESTATE FUND 85-A LTD PARTNERSHIP

CIK: **759641** | IRS No.: **411511293** | State of Incorpor.: **MN** | Fiscal Year End: **1231**
Type: **10QSB** | Act: **34** | File No.: **000-14263** | Film No.: **95536130**
SIC: **6500** Real estate

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

Business Address
*1300 MINNESOTA WORLD
TRADE CENTER
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: 0-14263

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

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

41-1511293
(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-A LIMITED PARTNERSHIP

INDEX

	Page
PART I. Financial Information	
Item 1. Balance Sheet as of March 31, 1995 and December 31, 1994	3
Statements for the Periods ended March 31, 1995 and 1994:	
Income	4
Cash Flows	5
Changes in Partners' Capital	6
Notes to Financial Statements	7-9
Item 2. Management's Discussion and Analysis	9-11
PART II. Other Information	
Item 1. Legal Proceedings	11
Item 2. Changes in Securities	11
Item 3. Defaults Upon Senior Securities	11
Item 4. Submission of Matters to a Vote of Security Holders	11
Item 5. Other Information	11
Item 6. Exhibits and Reports on Form 8-K	12

<TABLE>

AEI REAL ESTATE FUND 85-A LIMITED PARTNERSHIP

BALANCE SHEET

MARCH 31, 1995 AND DECEMBER 31, 1994

(Unaudited)

ASSETS

<CAPTION>

<u><S></u>	1995	1994
	<u><C></u>	<u><C></u>
CURRENT ASSETS:		
Cash	\$1,713,635	\$1,431,971
Receivables	16,032	6,490
	-----	-----
Total Current Assets	1,729,667	1,438,461
	-----	-----
INVESTMENTS IN REAL ESTATE:		
Land	1,481,586	1,668,370
Buildings and Equipment	2,092,312	2,319,578
Accumulated Depreciation	(909,529)	(999,232)
	-----	-----
Net Investments in Real Estate	2,664,369	2,988,716
	-----	-----
Total Assets	\$4,394,036	\$4,427,177
	=====	=====

LIABILITIES AND PARTNERS' CAPITAL

CURRENT LIABILITIES:		
Payable to AEI Fund Management, Inc.	\$ 66,983	\$ 24,292
Distributions Payable	83,757	83,757
Unearned Rent	7,841	0
	-----	-----
Total Current Liabilities	158,581	108,049
	-----	-----
PARTNERS' CAPITAL (DEFICIT):		
General Partners	(35,744)	(34,908)
Limited Partners, \$1,000 Unit value; 7,500 Units authorized and issued; 7,125 Units outstanding	4,271,199	4,354,036
	-----	-----
Total Partners' Capital	4,235,455	4,319,128
	-----	-----
Total Liabilities and Partners' Capital	\$4,394,036	\$4,427,177
	=====	=====

<FN>

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

</TABLE>

<TABLE>

AEI REAL ESTATE FUND 85-A LIMITED PARTNERSHIP

STATEMENT OF INCOME

FOR THE PERIODS ENDED MARCH 31

(Unaudited)

<CAPTION>

1995

1994

<u><S></u>	<u><C></u>	<u><C></u>
INCOME:		
Rent	\$ 99,514	\$ 129,389
Investment Income	22,320	2,022
	-----	-----
Total Income	121,834	131,411
	-----	-----
EXPENSES:		
Partnership Administration - Affiliates	28,828	23,594
Partnership Administration and Property Management - Unrelated Parties	54,411	12,672
Depreciation	28,327	34,161
	-----	-----
Total Expenses	111,566	70,427
	-----	-----
NET OPERATING INCOME	10,268	60,984
GAIN ON SALE OF REAL ESTATE	0	5,641
	-----	-----
NET INCOME	\$ 10,268	\$ 66,625
	=====	=====
NET INCOME ALLOCATED:		
General Partners	\$ 103	\$ 666
Limited Partners	10,165	65,959
	-----	-----
	\$ 10,268	\$ 66,625
	=====	=====
NET INCOME PER LIMITED PARTNERSHIP UNIT (7,125 and 7,134 weighted average Units outstanding in 1995 and 1994, respectively)	\$ 1.43	\$ 9.25
	=====	=====

<FN>

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

</TABLE>

<TABLE>

AEI REAL ESTATE FUND 85-A 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	\$ 10,268	\$ 66,625
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	28,327	34,161
Gain on Sale of Real Estate	0	(5,641)
(Increase) Decrease in Receivables	(9,542)	(5,605)
Increase in Payable to AEI Fund Management, Inc.	42,691	16,329
Increase in Unearned Rent	7,841	11,166
	-----	-----
Total Adjustments	69,317	50,410
	-----	-----
Net Cash Provided by Operating Activities	79,585	117,035
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sale of Real Estate	296,020	36,605
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in Distributions Payable	0	(28,665)
Distributions to Partners	(93,941)	(72,728)
	-----	-----
Net Cash Used for Financing Activities	(93,941)	(101,393)
	-----	-----
NET INCREASE IN CASH	281,664	52,247
CASH, beginning of period	1,431,971	99,378
	-----	-----
CASH, end of period	\$ 1,713,635	\$ 151,625
	=====	=====

<FN>

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

</TABLE>

<TABLE>

AEI REAL ESTATE FUND 85-A LIMITED PARTNERSHIP

STATEMENT OF CHANGES IN PARTNERS' CAPITAL

FOR THE PERIODS ENDED MARCH 31

(Unaudited)

<CAPTION>

General

Limited

	Partners	Partners	Total
<S>	<C>	<C>	<C>
BALANCE, December 31, 1993	\$ (38,414)	\$4,006,945	\$3,968,531
Distributions	(727)	(72,001)	(72,728)
Net Income	666	65,959	66,625
	-----	-----	-----
BALANCE, March 31, 1994	\$ (38,475)	\$4,000,903	\$3,962,428
	=====	=====	=====
BALANCE, December 31, 1994	\$ (34,908)	\$4,354,036	\$4,319,128
Distributions	(939)	(93,002)	(93,941)
Net Income	103	10,165	10,268
	-----	-----	-----
BALANCE, March 31, 1995	\$ (35,744)	\$4,271,199	\$4,235,455
	=====	=====	=====

<FN>

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

</TABLE>

AEI REAL ESTATE FUND 85-A 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

(2) Organization -

AEI Real Estate Fund 85-A 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-A, 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 April 15, 1985 when minimum subscriptions of 1,300 Limited Partnership Units (\$1,300,000) were accepted. The Partnership's offering terminated on June 20, 1985 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-A 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-A LIMITED PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS
(Continued)

(3) Investments in Real Estate -

In February, 1994, the Partnership sold 4,899 square feet of land from the Perkins' property in Bozeman, Montana pursuant to a Right of Way Agreement with the State of Montana Department of Transportation. The Partnership received net sale proceeds of \$36,605 which resulted in a net gain of \$5,641. The original cost of the parcel of land was \$30,964.

On September 19, 1994, the Partnership sold the remainder of the Perkins' property to the lessee. The Partnership received net sale proceeds of \$1,227,101 which resulted in a net gain of \$632,338. At the time of sale, the cost and related accumulated depreciation of the property was \$796,901 and \$202,138, respectively. In February, 1995, the Managing General Partner filed a proxy statement to propose an Amendment to the Limited Partnership Agreement that would allow the Partnership to reinvest the net proceeds in additional properties. The Amendment passed with a majority of Units voting in favor of the Amendment.

In the first quarter of 1995, the Partnership distributed \$51,602 of the net sale proceeds to the Partners as part of their regular quarterly distributions, which represented a return of capital of \$7.17 per Limited Partnership Unit. The majority of the remaining net proceeds will be reinvested in additional properties.

In December, 1987, the lessee of the Hardee's restaurant in Sierra Vista, Arizona subleased the property to Western Investors Company (Western). In October, 1990, Western notified the lessee that it would no longer make rental payments and returned the operations to the lessee. In July, 1991, the store was closed and listed for sale or lease. On March 20, 1995, the Partnership sold the property to an unrelated third party. The Partnership received net sale proceeds of \$296,020, which resulted in a net loss of \$166,000, which was recognized in the fourth quarter of

1994.

(4) 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 \$7,981 from the lessee of the Fair Muffler in Ashwaubenon, Wisconsin, as a result of an increase in sales for the lease year ended December 31, 1994. Rental income decreased in the first quarter of 1995, when compared to the same period in 1994, by \$29,875. The decrease is due to the sale of the Bozeman Perkins' property discussed below.

ITEM 2.MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

In February, 1994, the Partnership sold 4,899 square feet of land from the Perkins property in Bozeman, Montana pursuant to a Right of Way Agreement with the State of Montana Department of Transportation. The Partnership received net sale proceeds of \$36,605 which resulted in a net gain of \$5,641. The original cost of the parcel of land was \$30,964.

On September 19, 1994, the Partnership sold the remainder of the Perkins' property to the lessee. The Partnership received net sale proceeds of \$1,227,101 which resulted in a net gain of \$632,338. At the time of sale, the cost and related accumulated depreciation of the property was \$796,901 and \$202,138, respectively. In February, 1995, the Managing General Partner filed a proxy statement to propose an Amendment to the Limited Partnership Agreement that would allow the Partnership to reinvest the net proceeds in additional properties. The Amendment passed with a majority of Units voting in favor of the Amendment.

In the first quarter of 1995, the Partnership distributed \$51,602 of the net sale proceeds to the Partners as part of their regular quarterly distributions, which represented a return of capital of \$7.17 per Limited Partnership Unit. The majority of the remaining net proceeds will be reinvested in additional properties.

In December, 1987, the lessee of the Hardee's restaurant in Sierra Vista, Arizona subleased the property to Western Investors Company (Western). In October, 1990, Western notified the lessee that it would no longer make rental payments and returned the operations to the lessee. In July, 1991, the store was closed and listed for sale or lease. On March 20, 1995, the Partnership sold the property to an unrelated third party. The Partnership received net sale proceeds of \$296,020, which resulted in a net loss of \$166,000, which was recognized in the fourth quarter of 1994.

During the first three months of 1995 and 1994, the Partnership incurred Partnership administration and property management expenses from unrelated parties of \$54,411 and \$12,672, 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 increase in these expenses in 1995, when compared to the same period in 1994, is due to a \$45,000 payment made to the original lessee of the Sierra Vista property. The payment was a reimbursement for a portion of the legal fees the lessee incurred in obtaining a judgment of \$390,000 against Western in favor of the Partnership in 1992. The reimbursement was contingent upon the sale of the property which was completed in March, 1995.

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 5.65%, 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.

ITEM 2.MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The Partnership may purchase 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 9.75 Partnership Units for \$5,441 in accordance with the Partnership Agreement. The Partnership acquired these Units

using Net Cash Flow from operations. In prior years, a total of thirty-seven Limited Partners redeemed 366 Partnership Units for \$288,283. 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 term 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

In February, 1995, the Managing General Partner proposed an amendment to the Limited Partnership Agreement. The amendment would allow the Partnership to reinvest the net proceeds from any financing, refinancing, sale or other disposition of the Partnership's properties in additional properties. The Partnership Agreement originally allowed for a twenty-four month reinvestment period, which has expired.

In order for the proposed Amendment to be adopted, a majority of the Units must be voted in favor of the Amendment. Of the 7,125 outstanding Units, 4,652 were voted in favor of the Amendment. As a result, the Amendment passed.

ITEM 5.OTHER INFORMATION

None.

PART II - OTHER INFORMATION
(Continued)

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-A
Limited Partnership
By: Net Lease Management 85-A, 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