

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: June 30, 2019

Commission File Number: 000-51823

AEI INCOME & GROWTH FUND 26 LLC  
(Exact name of registrant as specified in its charter)

State of Delaware  
(State or other jurisdiction of  
incorporation or organization)

30 East 7<sup>th</sup> Street, Suite 1300  
St. Paul, Minnesota 55101  
(Address of principal executive offices)

41-2173048  
(I.R.S. Employer  
Identification No.)

(651) 227-7333  
(Registrant's telephone number)

Not Applicable

(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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

- Large accelerated filer  
 Non-accelerated filer  
 Emerging growth company
- Accelerated filer  
 Smaller reporting company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

# AEI INCOME & GROWTH FUND 26 LLC

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**AEI INCOME & GROWTH FUND 26 LLC  
BALANCE SHEETS**

**ASSETS**

	<b>June 30, 2019</b>	<b>December 31, 2018</b>
	<u>(unaudited)</u>	
<b>Current Assets:</b>		
Cash	\$ 666,457	\$ 460,280
<b>Real Estate Investments:</b>		
Land	3,513,023	3,666,185
Buildings	8,812,341	8,697,341
Acquired Intangible Lease Assets	<u>775,392</u>	<u>706,318</u>
Real Estate Held for Investment, at cost	13,100,756	13,069,844
Accumulated Depreciation and Amortization	<u>(3,759,112)</u>	<u>(3,560,175)</u>
Real Estate Held for Investment, Net	9,341,644	9,509,669
Real Estate Held for Sale	<u>0</u>	<u>805,570</u>
Total Real Estate Investments	<u>9,341,644</u>	<u>10,315,239</u>
Total Assets	<u>\$ 10,008,101</u>	<u>\$ 10,775,519</u>

**LIABILITIES AND MEMBERS' EQUITY**

<b>Current Liabilities:</b>		
Payable to AEI Fund Management, Inc.	\$ 56,593	\$ 45,278
Distributions Payable	<u>94,575</u>	<u>170,104</u>
Total Current Liabilities	<u>151,168</u>	<u>215,382</u>
<b>Long-term Liabilities:</b>		
Acquired Below-Market Lease Intangibles, Net	184,883	199,675
<b>Members' Equity (Deficit):</b>		
Managing Members	(66,788)	(45,998)
Limited Members – 10,000,000 Units authorized; 1,738,006 Units issued and outstanding as of 6/30/2019 and 12/31/2018	<u>9,738,838</u>	<u>10,406,460</u>
Total Members' Equity	<u>9,672,050</u>	<u>10,360,462</u>
Total Liabilities and Members' Equity	<u>\$ 10,008,101</u>	<u>\$ 10,775,519</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

**AEI INCOME & GROWTH FUND 26 LLC**  
**STATEMENTS OF OPERATIONS**  
(unaudited)

	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Rental Income</b>	\$ 169,032	\$ 236,725	\$ 375,462	\$ 471,987
<b>Expenses:</b>				
LLC Administration – Affiliates	35,659	32,087	72,875	67,781
LLC Administration and Property Management – Unrelated Parties	38,971	82,130	71,067	107,584
Depreciation and Amortization	96,273	114,579	195,149	228,932
Real Estate Impairment	367,315	0	978,938	0
Total Expenses	<u>538,218</u>	<u>228,796</u>	<u>1,318,029</u>	<u>404,297</u>
<b>Operating Income (Loss)</b>	(369,186)	7,929	(942,567)	67,690
<b>Other Income:</b>				
Gain on Sale of Real Estate	436,887	0	436,887	0
Interest Income	4,782	751	6,275	1,068
Total Other Income	<u>441,669</u>	<u>751</u>	<u>443,162</u>	<u>1,068</u>
<b>Net Income (Loss)</b>	<u>\$ 72,483</u>	<u>\$ 8,680</u>	<u>\$ (499,405)</u>	<u>\$ 68,758</u>
<b>Net Income (Loss) Allocated:</b>				
Managing Members	\$ (10,058)	\$ 261	\$ (14,982)	\$ 2,063
Limited Members	82,541	8,419	(484,423)	66,695
Total	<u>\$ 72,483</u>	<u>\$ 8,680</u>	<u>\$ (499,405)</u>	<u>\$ 68,758</u>
<b>Net Income (Loss) per LLC Unit</b>	<u>\$ .05</u>	<u>\$ .00</u>	<u>\$ (.28)</u>	<u>\$ .04</u>
Weighted Average Units Outstanding – Basic and Diluted	<u>1,738,006</u>	<u>1,738,006</u>	<u>1,738,006</u>	<u>1,738,006</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

**AEI INCOME & GROWTH FUND 26 LLC**  
**STATEMENTS OF CASH FLOWS**  
(unaudited)

	<b>Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash Flows from Operating Activities:</b>		
Net Income (Loss)	\$ (499,405)	\$ 68,758
Adjustments to Reconcile Net Income		
To Net Cash Provided by Operating Activities:		
Depreciation and Amortization	184,145	217,928
Real Estate Impairment	978,938	0
Gain on Sale of Real Estate	(436,887)	0
Increase (Decrease) in Payable to AEI Fund Management, Inc.	11,315	45,318
Increase (Decrease) in Unearned Rent	0	50,162
Total Adjustments	737,511	313,408
Net Cash Provided By (Used For) Operating Activities	238,106	382,166
<b>Cash Flows from Investing Activities:</b>		
Investments in Real Estate	(1,009,850)	0
Proceeds from Sale of Real Estate	1,242,457	0
Net Cash Provided By (Used For) Investing Activities	232,607	0
<b>Cash Flows from Financing Activities:</b>		
Distributions Paid to Members	(264,536)	(340,208)
<b>Net Increase (Decrease) in Cash</b>	206,177	41,958
<b>Cash, beginning of period</b>	460,280	491,448
<b>Cash, end of period</b>	\$ 666,457	\$ 533,406

The accompanying Notes to Financial Statements are an integral part of these statements.

**AEI INCOME & GROWTH FUND 26 LLC**  
**STATEMENTS OF CHANGES IN MEMBERS' EQUITY (DEFICIT)**  
(unaudited)

	<u>Managing Members</u>	<u>Limited Members</u>	<u>Total</u>	<u>Limited Member Units Outstanding</u>
<b>Balance, December 31, 2017</b>	\$ (24,569)	\$ 11,680,243	\$ 11,655,674	1,738,006.0
Distributions Declared	(5,103)	(165,001)	(170,104)	
Net Income	<u>1,802</u>	<u>58,276</u>	<u>60,078</u>	
<b>Balance, March 31, 2018</b>	(27,870)	11,573,518	11,545,648	1,738,006.0
Distributions Declared	(5,103)	(165,001)	(170,104)	
Net Income	<u>261</u>	<u>8,419</u>	<u>8,680</u>	
<b>Balance, June 30, 2018</b>	<u>\$ (32,712)</u>	<u>\$ 11,416,936</u>	<u>\$ 11,384,224</u>	<u>1,738,006.0</u>
<b>Balance, December 31, 2018</b>	\$ (45,998)	\$ 10,406,460	\$ 10,360,462	1,738,006.0
Distributions Declared	(2,833)	(91,599)	(94,432)	
Net Loss	<u>(4,924)</u>	<u>(566,964)</u>	<u>(571,888)</u>	
<b>Balance, March 31, 2019</b>	(53,755)	9,747,897	9,694,142	1,738,006.0
Distributions Declared	(2,975)	(91,600)	(94,575)	
Net Income (Loss)	<u>(10,058)</u>	<u>82,541</u>	<u>72,483</u>	
<b>Balance, June 30, 2019</b>	<u>\$ (66,788)</u>	<u>\$ 9,738,838</u>	<u>\$ 9,672,050</u>	<u>1,738,006.0</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

**AEI INCOME & GROWTH FUND 26 LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**  
(unaudited)

(1) The condensed statements included herein have been prepared by the registrant, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, 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 United States Generally Accepted Accounting Principles (US GAAP) have been condensed or omitted pursuant to such rules and regulations, although the registrant 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 registrant's latest annual report on Form 10-K.

**(2) Organization –**

AEI Income & Growth Fund 26 LLC ("Company"), a Limited Liability Company, was formed on March 14, 2005 to acquire and lease commercial properties to operating tenants. The Company's operations are managed by AEI Fund Management XXI, Inc. ("AFM"), the Managing Member. Robert P. Johnson, the President and sole director of AFM, serves as the Special Managing Member. AFM is a wholly owned subsidiary of AEI Capital Corporation of which Mr. Johnson is the majority shareholder. AEI Fund Management, Inc. ("AEI"), an affiliate of AFM, performs the administrative and operating functions for the Company.

The terms of the offering called for a subscription price of \$10 per LLC Unit, payable on acceptance of the offer. The Company commenced operations on April 3, 2006 when minimum subscriptions of 150,000 LLC Units (\$1,500,000) were accepted. The offering terminated October 19, 2007, when the extended offering period ended. The Company received subscriptions for 1,832,736 Units. Under the terms of the Operating Agreement, the Limited Members and Managing Members contributed funds of \$18,327,360 and \$1,000, respectively. The Company shall continue until December 31, 2055, unless dissolved, terminated and liquidated prior to that date.

During operations, any Net Cash Flow, as defined, which the Managing Members determine to distribute will be distributed 97% to the Limited Members and 3% to the Managing Members. Distributions to Limited Members will be made pro rata by Units.

Any Net Proceeds of Sale, as defined, from the sale or financing of properties which the Managing Members determine to distribute will, after provisions for debts and reserves, be paid in the following manner: (i) first, 99% to the Limited Members and 1% to the Managing Members until the Limited Members receive an amount equal to: (a) their Adjusted Capital Contribution plus (b) an amount equal to 6.5% of their Adjusted Capital Contribution per annum, cumulative but not compounded, to the extent not previously distributed from Net Cash Flow; (ii) any remaining balance will be distributed 90% to the Limited Members and 10% to the Managing Members. Distributions to the Limited Members will be made pro rata by Units.

**AEI INCOME & GROWTH FUND 26 LLC**  
**NOTES TO FINANCIAL STATEMENTS**

**(2) Organization – (Continued)**

For tax purposes, profits from operations, other than profits attributable to the sale, exchange, financing, refinancing or other disposition of property, will be allocated 97% to the Limited Members and 3% to the Managing Members. Net losses from operations will be allocated 99% to the Limited Members and 1% to the Managing Members.

For tax purposes, profits arising from the sale, financing, or other disposition of property will be allocated in accordance with the Operating Agreement as follows: (i) first, to those Members with deficit balances in their capital accounts in an amount equal to the sum of such deficit balances; (ii) second, 99% to the Limited Members and 1% to the Managing Members until the aggregate balance in the Limited Members' capital accounts equals the sum of the Limited Members' Adjusted Capital Contributions plus an amount equal to 6.5% of their Adjusted Capital Contributions per annum, cumulative but not compounded, to the extent not previously allocated; (iii) third, the balance of any remaining gain will then be allocated 90% to the Limited Members and 10% to the Managing Members. Losses will be allocated 99% to the Limited Members and 1% to the Managing Members.

The Managing Members are not required to currently fund a deficit capital balance. Upon liquidation of the Company or withdrawal by a Managing Member, the Managing Members will contribute to the Company an amount equal to the lesser of the deficit balances in their capital accounts or 1.01% of the total capital contributions of the Limited Members over the amount previously contributed by the Managing Members.

**(3) Recently Adopted Accounting Pronouncements –**

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, Disclosure Update and Simplification, amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements for the analysis of members' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of members' equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of income is required to be filed. The Company's first presentation of year-to-date quarterly changes in members' equity was included in its Form 10-Q for the quarter ended March 31, 2019.

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, which provides guidance for accounting for leases. The new guidance requires companies to recognize the assets and liabilities for the rights and obligations created by leased assets, initially measured at the present value of the lease payments. The accounting guidance for lessors is largely unchanged. The ASU is effective for annual and interim periods beginning after December 15, 2018. It is to be adopted using a modified retrospective approach. The Company has adopted the accounting pronouncement effective January 1, 2019 and the adoption of the standard did not have a material impact on the Company's financial statements.

**AEI INCOME & GROWTH FUND 26 LLC**  
**NOTES TO FINANCIAL STATEMENTS**

**(4) Real Estate Investments –**

The Company owns a 40% interest in a former Sports Authority store in Wichita, Kansas. On March 2, 2016, the tenant, TSA Stores, Inc., and its parent company, The Sports Authority, Inc., the guarantor of the lease, filed for Chapter 11 bankruptcy reorganization. In June 2016, the tenant filed a motion with the bankruptcy court to reject the lease for this store effective June 30, 2016, at which time the tenant returned possession of the property to the owners. As of June 30, 2019, the tenant owed \$19,366 of past due rent, which was not accrued for financial reporting purposes. The owners listed the property for lease with a real estate broker in the Wichita area. While the property is vacant, the Company is responsible for its 40% share of real estate taxes and other costs associated with maintaining the property.

On September 21, 2017, the Company entered into a lease agreement with a primary term of 10 years with Biomat USA, Inc. (“Biomat”) as a replacement tenant for 28% of the square footage of the property. The tenant will operate a Biomat USA Plasma Center in the space. The Company’s 40% share of annual rent, which commenced on June 18, 2018, is \$37,071. Biomat agreed to pay for the costs to divide the building into two separate spaces, the costs of tenant improvements to remodel the Biomat space and 28% of the cost to replace the roof. In the second quarter of 2018, the Company recorded \$54,219 as a property expense for its 40% share of the remaining cost to replace the roof. At December 31, 2017, the Company accrued its 40% share of lease commissions due to real estate brokers totaling \$54,293 that were owed as part of the lease transaction. This amount was capitalized and will be amortized over the term of the lease. The Company is continuing to pursue additional tenants for the remaining space.

The Company owns a 27% interest in a Dick’s Sporting Goods store in Fredericksburg, Virginia. The remaining interests in the property are owned by three affiliates of the Company. On January 31, 2019, the lease term ended, and the tenant returned possession of the property to the owners. While the property is vacant, the Company is responsible for its 27% share of real estate taxes and other costs associated with maintaining the property. The owners have listed the property for lease with a real estate broker in the Fredericksburg area. The annual rent from this property represented approximately 24% of the total annual rent of the Company’s property portfolio. The loss of rent and increased expenses related to this property decreased the Company’s cash flow. Consequently, beginning with the first quarter of 2019, the Company reduced its regular quarterly cash distribution rate from \$0.0949 per Unit to \$0.0527 per Unit.

Based on its long-lived asset valuation analysis, the Company determined the Dick’s Sporting Goods store was impaired. As a result, in the fourth quarter of 2018, a charge to operations for real estate impairment of \$830,973 was recognized, which was the difference between the carrying value at December 31, 2018 of \$2,423,973 and the estimated fair value of \$-----1,593,000. Based on its long-lived asset valuation analysis, in the first quarter of 2019, the Company recognized an additional real estate impairment of \$611,623 to decrease the carrying value to the estimated fair value of \$972,000. The charges were recorded against the cost of the land and building.

**AEI INCOME & GROWTH FUND 26 LLC**  
**NOTES TO FINANCIAL STATEMENTS**

**(4) Real Estate Investments – (Continued)**

In December 2018, the Company decided to sell the Applebee’s restaurant in Crawfordsville, Indiana. In January 2019, the Company entered into an agreement to sell the property to an unrelated third party. On April 8, 2019, the sale closed with the Company receiving net proceeds of \$1,242,457, which resulted in a net gain of \$436,887. At the time of sale, the cost and related accumulated depreciation was \$1,237,771 and \$432,201, respectively. At December 31, 2018, the property was classified as Real Estate Held for Sale with a carrying value of \$805,570.

On June 6, 2019, the Company purchased an additional 16% joint-venture interest in the Best Buy store in Eau Claire, Wisconsin for \$1,009,850 from AEI Income & Growth Fund 23 LLC (“Fund 23”), an affiliate of the Company. The purchase price of the property interest was based upon the property’s fair market value as determined by an independent, third-party, commercial property appraiser. The property interest became available because Fund 23 is in the process of liquidating its property portfolio. The Company now owns a 46% interest in the Best Buy property. The Company allocated \$69,074 of the purchase price to Acquired Intangible Lease Assets, representing in-place lease intangibles. The annual rent for the additional 16% interest that was purchased is \$83,627.

The Company owns a 55% interest in an Advance Auto Parts store in Middletown, Ohio. The remaining interest in the property is owned by an affiliate of the Company. On July 31, 2019, the lease term ended, and the tenant returned possession of the property to the owners. While the property is vacant, the Company is responsible for its 55% share of real estate taxes and other costs associated with maintaining the property. The owners have listed the property for sale or lease with a real estate broker in the Middletown area. The annual rent from this property represented approximately 11% of the total annual rent of the Company’s property portfolio. The loss of rent and increased expenses related to this property will decrease the Company’s cash flow. However, at this time, the Company does not anticipate the need to further reduce its regular quarterly cash distribution rate.

Based on its long-lived asset valuation analysis, the Company determined the Advance Auto store was impaired. As a result, in the second quarter of 2019, a charge to operations for real estate impairment of \$367,315 was recognized, which was the difference between the carrying value at June 30, 2019 of \$546,065 and the estimated fair value of \$178,750. The charge was recorded against the cost of the land and building.

**(5) Payable to AEI Fund Management, Inc. –**

AEI Fund Management, Inc. performs the administrative and operating functions for the Company. 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.

**AEI INCOME & GROWTH FUND 26 LLC**  
**NOTES TO FINANCIAL STATEMENTS**

**(6) Members' Equity –**

For the six months ended June 30, 2019 and 2018, the Company declared distributions of \$189,007 and \$340,208, respectively. The Limited Members received distributions of \$183,199 and \$330,002 and the Managing Members received distributions of \$5,808 and \$10,206 for the periods, respectively. The Limited Members' distributions represented \$0.11 and \$0.19 per LLC Unit outstanding using 1,738,006 weighted average Units in both years. The distributions represented \$0.00 and \$0.04 per Unit of Net Income and \$0.11 and \$0.15 per Unit of return of contributed capital in 2019 and 2018, respectively.

**(7) Fair Value Measurements –**

Fair value, as defined by US GAAP, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market. US GAAP establishes a hierarchy in determining the fair value of an asset or liability. The fair value hierarchy has three levels of inputs, both observable and unobservable. US GAAP requires the utilization of the lowest possible level of input to determine fair value. Level 1 inputs include quoted market prices in an active market for identical assets or liabilities. Level 2 inputs are market data, other than Level 1 inputs, that are observable either directly or indirectly. Level 2 inputs include quoted market prices for similar assets or liabilities, quoted market prices in an inactive market, and other observable information that can be corroborated by market data. Level 3 inputs are unobservable and corroborated by little or no market data.

At June 30, 2019 and December 31, 2018, the Company had no financial assets or liabilities measured at fair value on a recurring basis or nonrecurring basis that would require disclosure. The Company had the following nonfinancial assets measured on a nonrecurring basis that were recorded at fair value during 2019 and 2018.

The Dick's Sporting Goods store in Fredericksburg, Virginia with a carrying amount of \$2,423,973 at December 31, 2018, was written down to its estimated fair value of \$1,593,000 after completing our long-lived asset valuation analysis. The resulting impairment charge of \$830,973 was included in earnings for the fourth quarter of 2018. The fair value of the property was based upon estimated probability-weighted future undiscounted cash flows expected to result from the property and its eventual disposition. These estimates are considered Level 3 inputs in the valuation hierarchy. At March 31, 2019, the property was written down to its estimated fair value of \$972,000 after completing our long-lived asset valuation analysis. The resulting impairment charge of \$611,623 was included in earnings for the first quarter of 2019. The fair value of the property was based upon an appraisal prepared by an independent commercial property appraiser. The appraisal is considered a Level 3 input in the valuation hierarchy.

The Advance Auto store in Middletown, Ohio with a carrying amount of \$546,065 at June 30, 2019, was written down to its estimated fair value of \$178,750 after completing our long-lived asset valuation analysis. The resulting impairment charge of \$367,315 was included in earnings for the second quarter of 2019. The fair value of the property was based upon comparable sales of similar properties, which are considered Level 2 inputs in the valuation hierarchy.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

This section contains "forward-looking statements" which represent management's expectations or beliefs concerning future events, including statements regarding anticipated application of cash, expected returns from rental income, growth in revenue, the sufficiency of cash to meet operating expenses, rates of distribution, and other matters. These, and other forward-looking statements, should be evaluated in the context of a number of factors that may affect the Company's financial condition and results of operations, including the following:

- Market and economic conditions which affect the value of the properties the Company owns and the cash from rental income such properties generate;
- the federal income tax consequences of rental income, deductions, gain on sales and other items and the effects of these consequences for Members;
- resolution by the Managing Members of conflicts with which they may be confronted;
- the success of the Managing Members of locating properties with favorable risk return characteristics;
- the effect of tenant defaults; and
- the condition of the industries in which the tenants of properties owned by the Company operate.

### **Application of Critical Accounting Policies**

The Company's financial statements have been prepared in accordance with US GAAP. Preparing the financial statements requires management to use judgment in the application of these accounting policies, including making estimates and assumptions. These judgments will affect the reported amounts of the Company's assets and liabilities and the disclosure of contingent assets and liabilities as of the dates of the financial statements and will affect the reported amounts of revenue and expenses during the reporting periods. It is possible that the carrying amount of the Company's assets and liabilities, or the results of reported operations, will be affected if management's estimates or assumptions prove inaccurate.

Management of the Company evaluates the following accounting estimates on an ongoing basis, and has discussed the development and selection of these estimates and the management discussion and analysis disclosures regarding them with the managing member of the Company.

### ***Allocation of Purchase Price of Acquired Properties***

Upon acquisition of real properties, the Company records them in the financial statements at cost. The purchase price is allocated to tangible assets, consisting of land and building, and to identified intangible assets and liabilities, which may include the value of above market and below market leases and the value of in-place leases. The allocation of the purchase price is based upon the fair value of each component of the property. Although independent appraisals may be used to assist in the determination of fair value, in many cases these values will be based upon management's assessment of each property, the selling prices of comparable properties and the discounted value of cash flows from the asset.

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

The fair values of above market and below market in-place leases will be recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) an estimate of fair market lease rates for the corresponding in-place leases measured over a period equal to the non-cancelable term of the lease including any bargain renewal periods. The above market and below market lease values will be capitalized as intangible lease assets or liabilities. Above market lease values will be amortized as an adjustment of rental income over the remaining term of the respective leases. Below market lease values will be amortized as an adjustment of rental income over the remaining term of the respective leases, including any bargain renewal periods. If a lease were to be terminated prior to its stated expiration, all unamortized amounts of above market and below market in-place lease values relating to that lease would be recorded as an adjustment to rental income.

The fair values of in-place leases will include estimated direct costs associated with obtaining a new tenant, and opportunity costs associated with lost rentals which are avoided by acquiring an in-place lease. Direct costs associated with obtaining a new tenant may include commissions, tenant improvements, and other direct costs and are estimated, in part, by management's consideration of current market costs to execute a similar lease. These direct costs will be included in intangible lease assets on the balance sheet and will be amortized to expense over the remaining term of the respective leases. The value of opportunity costs will be calculated using the contractual amounts to be paid pursuant to the in-place leases over a market absorption period for a similar lease. These intangibles will be included in intangible lease assets on the balance sheet and will be amortized to expense over the remaining term of the respective leases. If a lease were to be terminated prior to its stated expiration, all unamortized amounts of in-place lease assets relating to that lease would be expensed.

The determination of the fair values of the assets and liabilities acquired will require the use of significant assumptions with regard to the current market rental rates, rental growth rates, discount and capitalization rates, interest rates and other variables. If management's estimates or assumptions prove inaccurate, the result would be an inaccurate allocation of purchase price, which could impact the amount of reported net income.

### *Carrying Value of Properties*

Properties are carried at original cost, less accumulated depreciation and amortization. The Company tests long-lived assets for recoverability when events or changes in circumstances indicate that the carrying value may not be recoverable. For properties the Company will hold and operate, management determines whether impairment has occurred by comparing the property's probability-weighted future undiscounted cash flows to its current carrying value. For properties held for sale, management determines whether impairment has occurred by comparing the property's estimated fair value less cost to sell to its current carrying value. If the carrying value is greater than the net realizable value, an impairment loss is recorded to reduce the carrying value of the property to its net realizable value. Changes in these assumptions or analysis may cause material changes in the carrying value of the properties.

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

### *Allocation of Expenses*

AEI Fund Management, Inc. allocates expenses to each of the funds they manage primarily on the basis of the number of hours devoted by their employees to each fund's affairs. They also allocate expenses at the end of each month that are not directly related to a fund's operations based upon the number of investors in the fund and the fund's capitalization relative to other funds they manage. The Company reimburses these expenses subject to detailed limitations contained in the Operating Agreement.

### **Results of Operations**

For the six months ended June 30, 2019 and 2018, the Company recognized rental income of \$375,462 and \$471,987, respectively. In 2019, rental income decreased due to the sale of one property in 2019 and the lease term ending for the Dick's Sporting Goods store, as discussed below. These decreases were partially offset by additional rent received from one property acquisition in 2019, rent increases on two properties and rent received from a new tenant in the Wichita property. Based on the scheduled rent for the properties owned as of July 31, 2019, the Company expects to recognize rental income of approximately \$709,000 in 2019.

For the six months ended June 30, 2019 and 2018, the Company incurred LLC administration expenses from affiliated parties of \$72,875 and \$67,781, respectively. These administration expenses include costs associated with the management of the properties, processing distributions, reporting requirements and communicating with the Limited Members. During the same periods, the Company incurred LLC administration and property management expenses from unrelated parties of \$71,067 and \$107,584, respectively. These expenses represent direct payments to third parties for legal and filing fees, direct administrative costs, outside audit costs, taxes, insurance and other property costs. These expenses were higher in 2018, when compared to 2019, due to expenses related to the property in Wichita, Kansas.

The Company owns a 40% interest in a former Sports Authority store in Wichita, Kansas. On March 2, 2016, the tenant, TSA Stores, Inc., and its parent company, The Sports Authority, Inc., the guarantor of the lease, filed for Chapter 11 bankruptcy reorganization. In June 2016, the tenant filed a motion with the bankruptcy court to reject the lease for this store effective June 30, 2016, at which time the tenant returned possession of the property to the owners. As of June 30, 2019, the tenant owed \$19,366 of past due rent, which was not accrued for financial reporting purposes. The owners listed the property for lease with a real estate broker in the Wichita area. While the property is vacant, the Company is responsible for its 40% share of real estate taxes and other costs associated with maintaining the property.

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

On September 21, 2017, the Company entered into a lease agreement with a primary term of 10 years with Biomat USA, Inc. ("Biomat") as a replacement tenant for 28% of the square footage of the property. The tenant will operate a Biomat USA Plasma Center in the space. The Company's 40% share of annual rent, which commenced on June 18, 2018, is \$37,071. Biomat agreed to pay for the costs to divide the building into two separate spaces, the costs of tenant improvements to remodel the Biomat space and 28% of the cost to replace the roof. In the second quarter of 2018, the Company recorded \$54,219 as a property expense for its 40% share of the remaining cost to replace the roof. At December 31, 2017, the Company accrued its 40% share of lease commissions due to real estate brokers totaling \$54,293 that were owed as part of the lease transaction. This amount was capitalized and will be amortized over the term of the lease. The Company is continuing to pursue additional tenants for the remaining space.

The Company owns a 27% interest in a Dick's Sporting Goods store in Fredericksburg, Virginia. The remaining interests in the property are owned by three affiliates of the Company. On January 31, 2019, the lease term ended, and the tenant returned possession of the property to the owners. While the property is vacant, the Company is responsible for its 27% share of real estate taxes and other costs associated with maintaining the property. The owners have listed the property for lease with a real estate broker in the Fredericksburg area. The annual rent from this property represented approximately 24% of the total annual rent of the Company's property portfolio. The loss of rent and increased expenses related to this property decreased the Company's cash flow. Consequently, beginning with the first quarter of 2019, the Company reduced its regular quarterly cash distribution rate from \$0.0949 per Unit to \$0.0527 per Unit.

Based on its long-lived asset valuation analysis, the Company determined the Dick's Sporting Goods store was impaired. As a result, in the fourth quarter of 2018, a charge to operations for real estate impairment of \$830,973 was recognized, which was the difference between the carrying value at December 31, 2018 of \$2,423,973 and the estimated fair value of \$1,593,000. Based on its long-lived asset valuation analysis, in the first quarter of 2019, the Company recognized an additional real estate impairment of \$611,623 to decrease the carrying value to the estimated fair value of \$972,000. The charges were recorded against the cost of the land and building.

The Company owns a 55% interest in an Advance Auto Parts store in Middletown, Ohio. The remaining interest in the property is owned by an affiliate of the Company. On July 31, 2019, the lease term ended, and the tenant returned possession of the property to the owners. While the property is vacant, the Company is responsible for its 55% share of real estate taxes and other costs associated with maintaining the property. The owners have listed the property for sale or lease with a real estate broker in the Middletown area. The annual rent from this property represented approximately 11% of the total annual rent of the Company's property portfolio. The loss of rent and increased expenses related to this property will decrease the Company's cash flow. However, at this time, the Company does not anticipate the need to further reduce its regular quarterly cash distribution rate.

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

Based on its long-lived asset valuation analysis, the Company determined the Advance Auto store was impaired. As a result, in the second quarter of 2019, a charge to operations for real estate impairment of \$367,315 was recognized, which was the difference between the carrying value at June 30, 2019 of \$546,065 and the estimated fair value of \$178,750. The charge was recorded against the cost of the land and building.

For the six months ended June 30, 2019 and 2018, the Company recognized interest income of \$6,275 and \$1,068, respectively.

Management believes inflation has not significantly affected income from operations. Leases may contain rent increases, based on the increase in the Consumer Price Index over a specified period, which will result in an increase in rental income over the term of the leases. Inflation also may cause the real estate to appreciate in value. However, inflation and changing prices may have an adverse impact on the operating margins of the properties' tenants, which could impair their ability to pay rent and subsequently reduce the Net Cash Flow available for distributions.

### Liquidity and Capital Resources

During the six months ended June 30, 2019, the Company's cash balances increased \$206,177 as a result of cash generated from the sale of property, which was partially offset by cash used to purchase property and distributions paid to the Members in excess of cash generated from operating activities. During the six months ended June 30, 2018, the Company's cash balances increased \$41,958 as a result of cash generated from operating activities in excess of distributions paid to the Members.

Net cash provided by operating activities decreased from \$382,166 in 2018 to \$238,106 in 2019 as a result of a decrease in total rental and interest income in 2019 and net timing differences in the collection of payments from the tenants and the payment of expenses, which were partially offset by a decrease in LLC administration and property management expenses in 2019.

The major components of the Company's cash flow from investing activities are investments in real estate and proceeds from the sale of real estate. During the six months ended June 30, 2019, the Company generated cash flow from the sale of real estate of \$1,242,457. During the same period, the Company expended \$1,009,850 to invest in real properties as the Company reinvested cash generated from property sales.

In December 2018, the Company decided to sell the Applebee's restaurant in Crawfordsville, Indiana. In January 2019, the Company entered into an agreement to sell the property to an unrelated third party. On April 8, 2019, the sale closed with the Company receiving net proceeds of \$1,242,457, which resulted in a net gain of \$436,887. At the time of sale, the cost and related accumulated depreciation was \$1,237,771 and \$432,201, respectively. At December 31, 2018, the property was classified as Real Estate Held for Sale with a carrying value of \$805,570.

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

On June 6, 2019, the Company purchased an additional 16% joint-venture interest in the Best Buy store in Eau Claire, Wisconsin for \$1,009,850 from AEI Income & Growth Fund 23 LLC ("Fund 23"), an affiliate of the Company. The purchase price of the property interest was based upon the property's fair market value as determined by an independent, third-party, commercial property appraiser. The property interest became available because Fund 23 is in the process of liquidating its property portfolio. The Company now owns a 46% interest in the Best Buy property. The Company allocated \$69,074 of the purchase price to Acquired Intangible Lease Assets, representing in-place lease intangibles. The annual rent for the additional 16% interest that was purchased is \$83,627.

The Company's primary use of cash flow, other than investment in real estate, is distribution payments to Members and cash used to repurchase Units. The Company declares its regular quarterly distributions before the end of each quarter and pays the distribution in the first week after the end of each quarter. The Company attempts to maintain a stable distribution rate from quarter to quarter. The Company may repurchase tendered Units on April 1st and October 1st of each year subject to limitations.

For the six months ended June 30, 2019 and 2018, the Company declared distributions of \$189,007 and \$340,208, respectively. Pursuant to the Operating Agreement, distributions of Net Cash Flow were allocated 97% to the Limited Members and 3% to the Managing Members. Distributions of Net Proceeds of Sale were allocated 99% to the Limited Members and 1% to the Managing Members. The Limited Members received distributions of \$183,199 and \$330,002 and the Managing Members received distributions of \$5,808 and \$10,206 for the periods, respectively.

The Company may repurchase Units from Limited Members who have tendered their Units to the Company. Such Units may be acquired at a discount. The Company will not be obligated to purchase in any year more than 2% of the total number of Units outstanding on January 1 of such year. In no event shall the Company be obligated to purchase Units if, in the sole discretion of the Managing Member, such purchase would impair the capital or operation of the Company. During the six months ended June 30, 2019 and 2018, the Company did not repurchase any Units from the Limited Members.

The continuing rent payments from the properties, together with cash generated from property sales, should be adequate to fund continuing distributions and meet other Company obligations on both a short-term and long-term basis.

### **Off-Balance Sheet Arrangements**

As of June 30, 2019 and December 31, 2018, the Company had no material off-balance sheet arrangements that had or are reasonably likely to have current or future effects on its financial condition, results of operations, liquidity or capital resources.

### **ITEM 3. QUANTITATIVE & QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Not required for a smaller reporting company.

### **ITEM 4. CONTROLS AND PROCEDURES.**

#### **(a) Disclosure Controls and Procedures.**

Under the supervision and with the participation of management, including its President and Chief Financial Officer, the Managing Member of the Company evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based upon that evaluation, the President and Chief Financial Officer of the Managing Member concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms and that such information is accumulated and communicated to management, including the President and Chief Financial Officer of the Managing Member, in a manner that allows timely decisions regarding required disclosure.

#### **(b) Changes in Internal Control Over Financial Reporting.**

During the most recent period covered by this report, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II – OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS.**

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

### **ITEM 1A. RISK FACTORS.**

Not required for a smaller reporting company.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES & USE OF PROCEEDS.**

(a) None.

(b) Not applicable.

(c) Pursuant to Section 7.7 of the Operating Agreement, each Limited Member has the right to present Units to the Company for purchase by submitting notice to the Managing Member during January or July of each year. The purchase price of the Units is equal to 85% of the net asset value per Unit, as of the first business day of January or July of each year, as determined by the Managing Member in accordance with the provisions of the Operating Agreement. The purchase price is equal to 100% of the net asset value per Unit in the case of Units of a deceased investor, who purchased the Units in the initial offering and who is a natural person, including Units held by an investor that is an IRA or other qualified plan for which the deceased person was the primary beneficiary, or Units held by an investor that is a grantor trust for which the deceased person was the grantor.

Units tendered to the Company during January and July may be repurchased on April 1<sup>st</sup> and October 1<sup>st</sup>, respectively, of each year subject to the following limitations. The Company will not be obligated to purchase in any year more than 2% of the total number of Units outstanding on January 1 of such year. In no event shall the Company be obligated to purchase Units if, in the sole discretion of the Managing Member, such purchase would impair the capital or operation of the Company. During the period covered by this report, the Company did not purchase any Units.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

None.

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not Applicable.

**ITEM 5. OTHER INFORMATION.**

None.

**ITEM 6. EXHIBITS.**

31.1 Certification of Chief Executive Officer of Managing Member pursuant to Rule 15d-14(a)(17 CFR 240.15d-14(a)) and Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer of Managing Member pursuant to Rule 15d-14(a)(17 CFR 240.15d-14(a)) and Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification of Chief Executive Officer and Chief Financial Officer of Managing Member pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

## 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.

Dated: August 13, 2019

AEI Income & Growth Fund 26 LLC  
By: AEI Fund Management XXI, Inc.  
Its: Managing Member

By: /s/ MARNI J NYGARD  
Marni J. Nygard  
President  
(Principal Executive Officer)

By: /s/ PATRICK W KEENE  
Patrick W. Keene  
Chief Financial Officer  
(Principal Accounting Officer)

**CERTIFICATIONS**

I, Marni J. Nygard, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AEI Income & Growth Fund 26 LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2019

/s/ MARNI J NYGARD

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Marni J. Nygard, President  
AEI Fund Management XXI, Inc.  
Managing General Partner

**CERTIFICATIONS**

I, Patrick W. Keene, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AEI Income & Growth Fund 26 LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2019

/s/ PATRICK W KEENE

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Patrick W. Keene, Chief Financial Officer  
AEI Fund Management XXI, Inc.  
Managing General Partner

**CERTIFICATION PURSUANT TO  
18 U.S.C. §1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of AEI Income & Growth Fund 26 LLC (the "Company") on Form 10-Q for the period ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Marni J. Nygard, President of AEI Fund Management XXI, Inc., the Managing Member of the Company, and Patrick W. Keene, Chief Financial Officer of AEI Fund Management XXI, Inc., each certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ MARNI J NYGARD

Marni J. Nygard, President  
AEI Fund Management XXI, Inc.  
Managing General Partner  
August 13, 2019

/s/ PATRICK W KEENE

Patrick W. Keene, Chief Financial Officer  
AEI Fund Management XXI, Inc.  
Managing General Partner  
August 13, 2019