

AMERICAN INSURED MORTGAGE INVESTORS SERIES 85 L P

Form 10-Q

November 09, 2001

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FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

For the quarter ended September 30, 2001

Commission file number 1-11059

AMERICAN INSURED MORTGAGE INVESTORS - SERIES 85, L.P.

(Exact name of registrant as specified in charter)

California 13-3257662

(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

11200 Rockville Pike, Rockville, Maryland 20852

(Address of principal executive offices) (Zip Code)

(301) 816-2300

(Registrant's telephone number, including area code)

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 and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No []

As of September 30, 2001, 12,079,514 depositary units of limited partnership interest were outstanding.

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AMERICAN INSURED MORTGAGE INVESTORS - SERIES 85, L.P.

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FOR THE QUARTER ENDED SEPTEMBER 30, 2001

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AMERICAN INSURED MORTGAGE INVESTORS - SERIES 85, L.P.

BALANCE SHEETS

	September 30, 2001	December 31, 2000
	-----	-----
	(Unaudited)	
ASSETS		
Investment in FHA-Insured Certificates and GNMA Mortgage-Backed Securities, at fair value		
Acquired insured mortgages	\$ 54,073,196	\$ 70,770,317
Originated insured mortgages	16,229,467	15,927,124
	-----	-----

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	70,302,663	86,697,441
Investment in FHA-Insured Loans, at amortized cost, net of unamortized discount and premium:		
Acquired insured mortgages	8,946,627	10,041,697
Originated insured mortgages	12,466,072	12,570,037
	-----	-----
	21,412,699	22,611,734
Cash and cash equivalents	8,602,024	5,631,117
Receivables and other assets	4,299,883	1,319,714
Investment in FHA debenture	2,385,233	2,361,381
	-----	-----
Total assets	\$ 107,002,502	\$ 118,621,387
	=====	=====
LIABILITIES AND PARTNERS' EQUITY		
Distributions payable	\$ 8,924,511	\$ 6,284,867
Accounts payable and accrued expenses	115,555	112,864
Due to affiliate	1,213,860	1,242,107
	-----	-----
Total liabilities	10,253,926	7,639,838
	-----	-----
Partners' equity:		
Limited partners' equity, 15,000,000 Units authorized, 12,079,514 Units issued and outstanding	99,466,914	114,254,731
General partners' deficit	(5,794,712)	(5,194,582)
Accumulated other comprehensive income	3,076,374	1,921,400
	-----	-----
Total Partners' equity	96,748,576	110,981,549
	-----	-----
Total liabilities and partners' equity	\$ 107,002,502	\$ 118,621,387
	=====	=====

The accompanying notes are an integral part
of these financial statements.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

AMERICAN INSURED MORTGAGE INVESTORS - SERIES 85, L.P.

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Unaudited)

For the three months ended September 30,		For the Se
-----		-----
2001	2000	2001

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	-----	-----	-----
Income:			
Mortgage investment income	\$ 1,910,137	\$ 2,284,389	\$ 6,153,488
Interest and other income	133,511	45,210	401,390
	-----	-----	-----
	2,043,648	2,329,599	6,554,888
	-----	-----	-----
Expenses:			
Asset management fee to related parties	228,466	283,440	734,960
General and administrative	95,203	98,217	289,800
	-----	-----	-----
	323,669	381,657	1,024,760
	-----	-----	-----
Net earnings before gains on mortgage dispositions	1,719,979	1,947,942	5,530,128
Gains on mortgage dispositions	219,547	-	1,204,660
	-----	-----	-----
Net earnings	\$ 1,939,526	\$ 1,947,942	\$ 6,734,788
	=====	=====	=====
Other comprehensive income	2,255,338	1,116,357	1,154,970
Comprehensive income	\$ 4,194,864	\$ 3,064,299	\$ 7,889,758
	-----	-----	-----
Net earnings allocated to:			
Limited partners - 96.1%	\$ 1,863,884	\$ 1,871,972	\$ 6,472,128
General Partner - 3.9%	75,642	75,970	262,630
	-----	-----	-----
	\$ 1,939,526	\$ 1,947,942	\$ 6,734,788
	=====	=====	=====
Net earnings per Unit of limited partnership interest - basic	\$ 0.15	\$ 0.15	\$ 0.50
	=====	=====	=====

The accompanying notes are an integral part of these financial statements.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

AMERICAN INSURED MORTGAGE INVESTORS - SERIES 85, L.P.

STATEMENT OF CHANGES IN PARTNERS' EQUITY

For the nine months ended September 30, 2001

(Unaudited)

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	General Partner	Limited Partner	Compre Inc
	-----	-----	-----
Balance, December 31, 2000	\$ (5,194,582)	\$ 114,254,731	\$ 1,
Net Earnings	262,657	6,472,127	
Adjustment to unrealized gains on investments in insured mortgages	-	-	1,
Distributions paid or accrued of \$1.76 per Unit, including return of capital of \$1.22 per Unit	(862,787)	(21,259,944)	
	-----	-----	-----
Balance, September 30, 2001	\$ (5,794,712)	\$ 99,466,914	\$ 3,
	=====	=====	=====
Limited Partnership Units outstanding - basic, as of September 30, 2001		12,079,514	
		=====	

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

AMERICAN INSURED MORTGAGE INVESTORS - SERIES 85, L.P.

STATEMENTS OF CASH FLOWS

(Unaudited)

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Cash flows from operating activities:	
Net earnings	\$ 6,73
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Net gain on mortgage dispositions	(1,20
Changes in assets and liabilities:	
(Increase) decrease in receivables and other assets	(31
Increase (decrease) in accounts payable and accrued expenses	(2
Decrease in due to affiliate	-----
Net cash provided by operating activities	5,19

Cash flows from investing activities:	
Proceeds from disposition of mortgages	16,47
Receipt of mortgage principal from scheduled payments	78

Net cash provided by investing activities	17,26

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Cash flows used in financing activities:

Distributions paid to partners	(19,48)
Net increase (decrease) in cash and cash equivalents	2,97
Cash and cash equivalents, beginning of period	5,63
Cash and cash equivalents, end of period	\$ 8,60
Non-cash investing activity:	
Portion of HUD debentures due from Midland in exchange for the Mortgages on Summit Square Manor and Park Place Apartments	\$ 2,66

The accompanying notes are an integral part of these financial statements.

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AMERICAN INSURED MORTGAGE INVESTORS - SERIES 85, L.P.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

1. ORGANIZATION

American Insured Mortgage Investors - Series 85, L.P. (the Partnership) was formed under the Uniform Limited Partnership Act of the state of California on June 26, 1984. The Partnership Agreement ("Partnership Agreement") states that the Partnership will terminate on December 31, 2009, unless previously terminated under the provisions of the Partnership Agreement.

CRIIMI, Inc. (the "General Partner") holds a partnership interest of 3.9% and is a wholly owned subsidiary of CRIIMI MAE Inc. ("CRIIMI MAE"). AIM Acquisition Partners L.P. (the "Advisor") serves as the advisor to the Partnership. The general partner of the Advisor is AIM Acquisition Corporation ("AIM Acquisition") and the limited partners include, but are not limited to, AIM Acquisition, The Goldman Sachs Group, L.P., Sun America Investments, Inc. (successor to Broad, Inc.) and CRI/AIM Investment, L.P., an affiliate of CRIIMI MAE. AIM Acquisition is a Delaware corporation that is primarily owned by Sun America Investments, Inc. and The Goldman Sachs Group, L.P.

Under the Advisory Agreement, the Advisor will render services to the Partnership, including but not limited to, the management of the Partnership's portfolio of mortgages and the disposition of the Partnership's mortgages. Such services will be subject to the review and ultimate authority of the General Partner. However, the General Partner is required to receive the consent of the Advisor prior to taking certain significant actions, including but not limited to the disposition of mortgages, any transaction or agreement with the General Partner, or its affiliates, or any material change as to policies regarding distributions or reserves of the Partnership. The Advisor is permitted to delegate the performance of services pursuant to a sub-advisory agreement (the "Sub-Advisory Agreement"). The delegation of such services will not relieve the

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Advisor of its obligation to perform such services. CRIIMI MAE Services Limited Partnership ("CMSLP"), an affiliate of CRIIMI MAE, manages the Partnership's portfolio, pursuant to the Sub-Advisory Agreement. The general partner of CMSLP is CMSLP Management Company, Inc., an affiliate of CRIIMI MAE.

The Partnership's investment in mortgages consists of participation certificates evidencing a 100% undivided beneficial interest in government insured multifamily mortgages issued or sold pursuant to Federal Housing Administration (FHA) programs (FHA-Insured Certificates), mortgage-backed securities guaranteed by the Government National Mortgage Association (GNMA) (GNMA Mortgage-Backed Securities) and FHA-insured mortgage loans (FHA-Insured Loans and together with FHA-Insured Certificates and GNMA Mortgage-Backed Securities referred to herein as Insured Mortgages). The mortgages underlying the FHA-Insured Certificates, GNMA Mortgage-Backed Securities and FHA-Insured Loans are non-recourse first liens on multifamily residential developments or retirement homes.

On October 5, 1998, CRIIMI MAE, the parent of the General Partner, and CRIIMI MAE Management, Inc., an affiliate of CRIIMI MAE and provider of personnel and administrative services to the Partnership, filed voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"). On November 22, 2000, the United States Bankruptcy Court for the District of Maryland, in Greenbelt, Maryland (the "Bankruptcy Court") confirmed CRIIMI MAE's and CRIIMI MAE Management, Inc.'s Third Amended Joint Plan of Reorganization (as amended and supplemented by praecipes filed with the Bankruptcy Court on July 13, 14 and 21, and November 22, 2000). On April 17, 2001, CRIIMI MAE and CRIIMI MAE Management, Inc. announced the completion of their confirmed joint plan of reorganization and emerged from bankruptcy. This marks the conclusion of CRIIMI MAE's and CRIIMI MAE Management, Inc.'s financial reorganization.

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2. BASIS OF PRESENTATION

In the opinion of the General Partner, the accompanying unaudited financial statements contain all adjustments of a normal recurring nature necessary to present fairly the financial position of the Partnership as of September 30, 2001 and December 31, 2000 and the results of its operations for the three and nine months ended September 30, 2001 and 2000 and its cash flows for the nine months ended September 30, 2001 and 2000.

These unaudited financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. While the General Partner believes that the disclosures presented are adequate to make the information not misleading, these financial statements should be read in conjunction with the financial statements and the notes to the financial statements included in the Partnership's Annual Report filed on Form 10-K for the year ended December 31, 2000.

Comprehensive Income

Comprehensive income is the change in Partners' equity during a period from transactions from nonowner sources. This includes net income as currently reported by the Partnership adjusted for unrealized gains and losses related to the Partnership's mortgages accounted for as available for sale. Unrealized gains and losses are reported in the equity section of the Balance Sheet as

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Accumulated Other Comprehensive Income.

3. INVESTMENT IN FHA-INSURED CERTIFICATES AND GNMA MORTGAGE-BACKED SECURITIES

Fully Insured Mortgage Investments

Listed below is the Partnership's aggregate investment in Fully Insured Mortgages:

	September 30, 2001 -----	December 2000 -----
Fully Insured Acquired Mortgages:		
Number of		
GNMA Mortgage-Backed Securities (5) (7)	2	
FHA-Insured Certificates (1) (2) (3) (4) (6)	30	
Amortized Cost	\$ 51,055,962	\$ 68,440
Face Value	53,198,007	71,404
Fair Value	54,073,196	70,770
Fully Insured Originated Mortgages:		
Number of		
GNMA Mortgage-Backed Securities	1	
FHA-Insured Certificates	1	
Amortized Cost	\$ 16,170,328	\$ 16,311
Face Value	16,170,327	16,279
Fair Value	16,229,467	15,927

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Listed below is a summary of prepayments on fully Insured Mortgages as of November 1, 2001:

Complex name -----	Net Proceeds -----	Date Proceeds Received -----	Gain -----	Dist./ Unit -----	Declaration Date -----
(1) The Meadows of Livonia	\$ 6,653,000	Jan. 2001	\$ 253,434	\$ 0.53	Jan. 2001
(2) Gold Key Village Apartments	2,827,000	Mar. 2001	8,852	0.22	Apr. 2001
(3) Summit Square Manor	1,883,000	May 2001	235,496	*	
(4) Park Place Apartments	746,000	May 2001	94,435	*	
(5) Carlisle Apartments	2,120,000	Jun. 2001	46,704	0.17	Jul. 2001
(6) Cedar Ridge Apartments	2,637,000	Jun. 2001	346,198	0.21	Jul. 2001
(7) Afton Square Apartments	1,061,000	Jul. 2001	29,341	0.08	Jul. 2001

* In May 2001, HUD issued assignment proceeds in the form of two 7.125% debentures for the mortgages on Summit Square Manor and Park Place Apartments. The debentures, with face values of \$2,715,930 and \$1,075,951, for the mortgages on Summit Square Manor and Park Place Apartments, respectively, were issued to Firststar Trust Company, with interest payable semi-annually on January 1 and July 1. Firststar Trust Company, the initial mortgagee, signed the debentures over to Midland Loan Services, Inc.

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("Midland"), the third party servicer. Midland will sell the debentures and distribute the proceeds as soon as practical. A distribution will be declared at that time. The mortgages on Summit Square Manor and Park Place Apartments were owned approximately 70% by the Partnership. The Partnership expects to receive net proceeds of approximately \$1.9 million and \$746,000 for the mortgages on Summit Square Manor and Park Place Apartments, respectively. The net proceeds due the Partnership are included on the balance sheet in Receivables and other assets. The servicer of these mortgages filed an application for insurance benefits under the Section 221 program of the National Housing Act of 1937 in June 2000.

As of November 1, 2001, all of the fully insured FHA-Insured Certificates and GNMA Mortgage-Backed Securities are current with respect to the payment of principal and interest. In addition, the Partnership no longer receives monthly principal and interest from the mortgages that are in the HUD assignment process under Section 221, as discussed below.

As of November 1, 2001, the Partnership has received notification from the respective servicers that HUD applications for insurance benefits have been filed for the following mortgages:

Property Name -----	Date last principal and interest payment received -----	Outstanding Principal Balance -----
Park Hill Apartments	Sept. 2000	\$ 1,737,000
Fairfax House	Sept. 2000	2,128,000
Country Club Terrace Apts.	Sept. 2000	1,439,000
Fairlawn II	Sept. 2000	755,000
Nevada Hills Apts.	Dec. 2000	1,146,000
Dunhaven Apartments, Section I	Jan. 2001	884,000
Woodland Villas	April 2001	303,000

Under the Section 221 program, a mortgagee has the right to assign a mortgage ("put") to FHA at the expiration of 20 years from the date of final endorsement if the mortgage is not in default at such time. Any mortgagee electing to assign an FHA-insured mortgage to FHA will receive, in exchange therefor, HUD debentures having a total face value equal to the then outstanding principal balance of the FHA-insured mortgage plus accrued interest to the date of assignment. These HUD debentures will mature 10 years from the date of assignment and will bear interest at a rate announced semi-annually by HUD in the Federal Register ("going Federal rate") at such date. This assignment

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procedure is applicable to an insured mortgage, which had a firm or conditional FHA commitment for insurance on or before November 30, 1983. Once the servicer of a mortgage has filed an application for insurance benefits under Section 221, the Partnership will no longer receive the monthly principal and interest on the applicable mortgage. The Partnership expects to receive HUD debentures, as discussed above, plus accrued interest at the "going Federal rate", from date of assignment of the mortgage to the date of issuance of the debenture. The Partnership will recognize a gain on these assignments upon receipt of HUD debentures or a loss when it becomes probable that a loss will be incurred. In general, the Partnership plans to hold the debentures until called or date of maturity, whichever comes first. At that time debenture proceeds will be distributed to Unitholders.

4. INVESTMENT IN FHA-INSURED LOANS

Fully Insured FHA-Insured Loans

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 Listed below is the Partnership's aggregate investment in FHA-Insured Loans:

	September 30, 2001 -----	December 31, 2000 -----
Fully Insured Acquired Loans:		
Number of Loans (1)	7	
Amortized Cost	\$ 8,946,627	\$ 10,041,600
Face Value	10,686,599	12,040,500
Fair Value	10,913,704	12,023,400
Fully Insured Originated Loans:		
Number of Loans	3	
Amortized Cost	\$ 12,466,072	\$ 12,570,000
Face Value	12,165,849	12,261,300
Fair Value	12,509,638	12,192,600

(1) In September 2001, the mortgage on Berryhill Apartments was prepaid. The Partnership received net proceeds of approximately \$1.2 million and recognized a gain of approximately \$190,000 for the nine months ended September 30, 2001. A distribution of approximately \$0.10 per Unit related to the prepayment of this mortgage was declared in September and paid to Unitholders in November 2001.

As of November 1, 2001, all of the Partnership's FHA-Insured Loans, recorded at amortized cost, were current with respect to the payment of principal and interest, except for the mortgage on Westbrook Apartments, which is delinquent with respect to the October payment of principal and interest.

In addition to base interest payments under Originated Insured Mortgages, the Partnership is entitled to additional interest based on a percentage of the net cash flow from the underlying development (referred to as Participations). During the three and nine months ended September 30, 2001, the Partnership received additional interest of \$0 and \$53,423, respectively, from the Participations. During the three and nine months ended September 30, 2000, the Partnership received additional interest of \$0 and \$21,566, respectively, from the Participations. These amounts, if any, are included in mortgage investment income on the accompanying Statements of Income and Comprehensive Income.

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5. INVESTMENT IN DEBENTURE AND DUE TO AFFILIATE

In December 2000, HUD issued assignment proceeds in the form of a 7.125% debenture for the mortgage on Fox Run Apartments. The debenture, with a face value of \$2,385,233 was issued to the Partnership, with interest payable semi-annually on January 1 and July 1. The mortgage on Fox Run Apartments was owned 50% by the Partnership and 50% by an affiliate of the Partnership, American Insured Mortgage Investors ("AIM 84"). Upon disposition of the debenture 50% of the proceeds will be payable to AIM 84. The Partnership expects to receive net proceeds of approximately \$1.2 million. The net proceeds due AIM 84 are included on the balance sheet in due to affiliate. In August 2001, HUD issued a call notice for redemption of this debenture, at par, plus accrued interest, on January 1, 2002. A distribution will be declared at that time. The servicer of this mortgage filed an application for insurance benefits under the Section 221 program of the National Housing Act of 1937 in May 2000.

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6. DISTRIBUTIONS TO UNITHOLDERS

The distributions paid or accrued to Unitholders on a per Unit basis for the nine months ended September 30, 2001 and 2000 are as follows:

	2001 -----	2000 -----
Quarter ended March 31,	\$ 0.68 (1)	\$ 0.47 (6) (7)
Quarter ended June 30,	0.37 (2)	0.46 (8) (9)
Quarter ended September 30,	0.71 (3) (4) (5)	0.18
	-----	-----
	\$ 1.76	\$ 1.11
	=====	=====

The following disposition proceeds are included in the distributions listed above:

Complex Name(s) -----	Declaration Date -----	Type of Disposition -----	Net Proceeds Per Unit -----
(1) The Meadows of Livonia	Jan. 2001	Prepayment	\$ 0.53
(2) Gold Key Village Apartments	Apr. 2001	Prepayment	0.22
(3) Cedar Ridge Apartments and Carlisle Apartments	July 2001	Prepayment	0.38
(4) Afton Square Apartments	July 2001	Prepayment	0.08
(5) Berryhill Apartments	Sept. 2001	Prepayment	0.10
(6) Northwood Apartments	Jan. 2000	Prepayment	0.13
(7) Turtle Creek Apartments	Jan. 2000	Prepayment	0.13
(8) Woodland Hills Apartments and New Castle Apartments	May 2000	Prepayment	0.22
(9) Colony West Apartments	Jun. 2000	Prepayment	0.05

The basis for paying distributions to Unitholders is net proceeds from mortgage dispositions, if any, and cash flow from operations, which includes regular interest income and principal from Insured Mortgages. Although the Insured Mortgages yield a fixed monthly mortgage payment once purchased, the cash distributions paid to the Unitholders will vary during each quarter due to (1) the fluctuating yields in the short-term money market where the monthly mortgage payment receipts are temporarily invested prior to the payment of quarterly distributions, (2) the reduction in the asset base and monthly mortgage payments resulting from monthly mortgage payments received or mortgage dispositions, (3) variations in the cash flow attributable to the delinquency or default of Insured Mortgages and professional fees and foreclosure costs incurred in connection with those Insured Mortgages and (4) variations in the Partnership's operating expenses. As the Partnership continues to liquidate its

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mortgage investments and investors receive distributions of return of capital and taxable gains, investors should expect a reduction in earnings and distributions due to the decreasing mortgage base.

7. TRANSACTIONS WITH RELATED PARTIES

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The General Partner and certain affiliated entities, during the three and nine months ended September 30, 2001 and 2000, earned or received compensation or payments for services from the Partnership as follows:

COMPENSATION PAID OR ACCRUED TO RELATED PARTIES

Name of Recipient -----	Capacity in Which Served/Item -----	For the three months e September 3	
		2001 -----	2000 -----
CRIIMI, Inc. (1)	General Partner/Distribution	\$ 348,056	\$
AIM Acquisition Partners, L.P. (2)	Advisor/Asset Management Fee	228,466	
CRIIMI MAE Management, Inc.	Affiliate of General Partner/Expense Reimbursement	10,118	
American Insured Mortgage Investors (3)	Affiliate of Partnership/ Share of FHA Debenture and interest	21,243	

- (1) The General Partner, pursuant to the Partnership Agreement, is entitled to receive 3.9% of the Partnership's income, loss, capital and distributions, including, without limitation, the Partnership's adjusted cash from operations and proceeds of mortgage prepayments, sales or insurance (both as defined in the Partnership Agreement).
- (2) The Advisor, pursuant to the Partnership Agreement, is entitled to an Asset Management Fee equal to 0.95% of Total Invested Assets (as defined in the Partnership Agreement). CMSLP, the sub-advisor to the Partnership, is entitled to a fee of 0.28% of Total Invested Assets from the Advisor's Asset Management Fee. Of the amounts paid to the Advisor, CMSLP earned a fee equal to \$67,340 and \$216,634 for the three and nine months ended September 30, 2001, respectively, and \$83,544 and \$255,003 for the three and nine months ended September 30, 2000, respectively. The limited partner of CMSLP is a wholly owned subsidiary of CRIIMI MAE Inc.
- (3) In December 2000, HUD issued assignment proceeds in the form of a 7.125% debenture for the mortgage on Fox Run Apartments. The debenture, with a face value of \$2,385,233, was issued to the Partnership, with interest payable semi-annually on January 1 and July 1. The mortgage on Fox Run Apartments was owned 50% by the Partnership and 50% by an affiliate of the Partnership, American Insured Mortgage Investors ("AIM 84"). Upon disposition of the debenture 50% of the proceeds will be payable to AIM 84.

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PART I. FINANCIAL INFORMATION

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

FORWARD-LOOKING STATEMENTS. When used in this Quarterly Report on Form 10-Q, the words "believes," "anticipates," "expects," "contemplates," and similar expressions are intended to identify forward-looking statements. Statements looking forward in time are included in this Quarterly Report on Form 10-Q pursuant to the "safe harbor" provision of the Private Securities Litigation

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Reform Act of 1995. Such statements are subject to certain risks and uncertainties, which could cause actual results to differ materially. Accordingly, the following information contains or may contain forward-looking statements: (1) information included or incorporated by reference in this Quarterly Report on Form 10-Q, including, without limitation, statements made under Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, (2) information included or incorporated by reference in future filings by the Partnership with the Securities and Exchange Commission including, without limitation, statements with respect to growth, projected revenues, earnings, returns and yields on its portfolio of mortgage assets, the impact of interest rates, costs and business strategies and plans and (3) information contained in written material, releases and oral statements issued by or on behalf of, the Partnership, including, without limitation, statements with respect to growth, projected revenues, earnings, returns and yields on its portfolio of mortgage assets, the impact of interest rates, costs and business strategies and plans. Factors which may cause actual results to differ materially from those contained in the forward-looking statements identified above include, but are not limited to (i) regulatory and litigation matters, (ii) interest rates, (iii) trends in the economy, (iv) prepayment of mortgages and (v) defaulted mortgages. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only of the date hereof. The Partnership undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events.

General -----

As of September 30, 2001, the Partnership had invested in 44 Insured Mortgages with an aggregate amortized cost of approximately \$89 million, an aggregate face value of approximately \$92 million and an aggregate fair value of approximately \$94 million, as discussed below.

As of November 1, 2001, all of the fully insured FHA-Insured Certificates and GNMA Mortgage-Backed Securities are current with respect to the payment of principal and interest, except for the mortgage on Westbrook Apartments, which is delinquent with respect to the October payment of principal and interest. In addition, the Partnership no longer receives monthly principal and interest from the mortgages that are in the HUD assignment process under Section 221, as discussed below.

As of November 1, 2001, the Partnership has received notification from the respective servicers that HUD applications for insurance benefits have been filed for the following mortgages:

Property Name -----	Date last principal and interest payment received -----	Outstanding Principal Balance -----
Park Hill Apartments	Sept. 2000	\$ 1,737,000
Fairfax House	Sept. 2000	2,128,000
Country Club Terrace Apts.	Sept. 2000	1,439,000
Fairlawn II	Sept. 2000	755,000
Nevada Hills Apts.	Dec. 2000	1,146,000
Dunhaven Apartments, Section I	Jan. 2001	884,000
Woodland Villas	April 2001	303,000

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Under the Section 221 program, a mortgagee has the right to assign a mortgage ("put") to FHA at the expiration of 20 years from the date of final

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endorsement if the mortgage is not in default at such time. Any mortgagee electing to assign an FHA-insured mortgage to FHA will receive, in exchange therefor, HUD debentures having a total face value equal to the then outstanding principal balance of the FHA-insured mortgage plus accrued interest to the date of assignment. These HUD debentures will mature 10 years from the date of assignment and will bear interest at a rate announced semi-annually by HUD in the Federal Register ("going Federal rate") at such date. This assignment procedure is applicable to an insured mortgage, which had a firm or conditional FHA commitment for insurance on or before November 30, 1983. Once the servicer of a mortgage has filed an application for insurance benefits under Section 221, the Partnership will no longer receive the monthly principal and interest on the applicable mortgage. The Partnership expects to receive HUD debentures, as discussed above, plus accrued interest at the "going Federal rate", from date of assignment of the mortgage to the date of issuance of the debenture. The Partnership will recognize a gain on these assignments upon receipt of HUD debentures or a loss when it becomes probable that a loss will be incurred. In general, the Partnership plans to hold the debentures until called or date of maturity, whichever comes first. At that time debenture proceeds will be distributed to Unitholders.

In December 2000, HUD issued assignment proceeds in the form of a 7.125% debenture for the mortgage on Fox Run Apartments. The debenture, with a face value of \$2,385,233 was issued to the Partnership, with interest payable semi-annually on January 1 and July 1. The mortgage on Fox Run Apartments was owned 50% by the Partnership and 50% by an affiliate of the Partnership, American Insured Mortgage Investors ("AIM 84"). Upon disposition of the debenture 50% of the proceeds will be payable to AIM 84. The Partnership expects to receive net proceeds of approximately \$1.2 million. The net proceeds due AIM 84 are included on the balance sheet in due to affiliate. In August 2001, HUD issued a call notice for redemption of this debenture, at par, plus accrued interest, on January 1, 2002. A distribution will be declared at that time. The servicer of this mortgage filed an application for insurance benefits under the Section 221 program of the National Housing Act of 1937 in May 2000.

In May 2001, HUD issued assignment proceeds in the form of two 7.125% debentures for the mortgages on Summit Square Manor and Park Place Apartments. The debentures, with face values of \$2,715,930 and \$1,075,951, for the mortgages on Summit Square Manor and Park Place Apartments, respectively, were issued to Firststar Trust Company, with interest payable semi-annually on January 1 and July 1. Firststar Trust Company, the initial mortgagee, signed the debentures over to Midland Loan Services, Inc. ("Midland"), the third party servicer. Midland will sell the debentures and distribute the proceeds as soon as practical. A distribution will be declared at that time. The mortgages on Summit Square Manor and Park Place Apartments were owned approximately 70% by the Partnership. The Partnership expects to receive net proceeds of approximately \$1.9 million and \$746,000 for the mortgages on Summit Square Manor and Park Place Apartments, respectively. The net proceeds due the Partnership are included on the balance sheet in Receivables and other assets.

Results of Operations

Net earnings did not change significantly for the three and nine months ended September 30, 2001, as compared to the corresponding periods in 2000.

Mortgage investment income decreased for the three and nine months ended September 30, 2001, as compared to the corresponding periods in 2000, primarily due to a reduction in the mortgage base. The mortgage base decreased as a result of eleven mortgage dispositions with an aggregate principal balance of approximately \$23 million, representing an approximate 19% decrease in the aggregate principal balance of the total mortgage portfolio since March 2000.

Interest and other income increased for the three and nine months ended September 30, 2001, as compared to the corresponding periods in 2000, primarily due to the timing of temporary investment of mortgage disposition proceeds prior to distribution and due to the timing of the receipt of interest on debentures.

Asset management fee to related parties decreased for the three and nine months ended September 30, 2001, as compared to the corresponding periods in 2000, primarily due to the reduction in the mortgage asset base, as previously discussed.

General and administrative expenses decreased for the three and nine months ended September 30, 2001, as compared to the corresponding periods in 2000, primarily due to a decrease in mortgage service fees as a result of the decreased mortgage base, as previously discussed.

Gains on mortgage dispositions increased for the three and nine months ended September 30, 2001, as compared to the corresponding periods in 2000. During the nine months ended September 30, 2001, the Partnership recognized gains of approximately \$875,000 from the prepayment of the mortgages on The Meadows of Livonia, Gold Key Village Apartments, Carlisle Apartments, Cedar Ridge Apartments, Afton Square Apartments and Berryhill Apartments. In addition, during the first nine months of 2001, the Partnership recognized gains of approximately \$330,000 from the assignment of the mortgages on Summit Square Manor and Park Place Apartments. During the nine months ended September 30, 2000, the Partnership recognized gains of approximately \$279,000 from the prepayment of the mortgages on Turtle Creek Apartments, Woodland Hills Apartments, New Castle Apartments and Colony West Apartments.

Liquidity and Capital Resources

The Partnership's operating cash receipts, derived from payments of principal and interest on Insured Mortgages, plus cash receipts from interest on short-term investments, were sufficient during the first nine months of 2001 to meet operating requirements. The basis for paying distributions to Unitholders is net proceeds from mortgage dispositions, if any, and cash flow from operations, which includes regular interest income and principal from Insured Mortgages. Although the Insured Mortgages yield a fixed monthly mortgage payment once purchased, the cash distributions paid to the Unitholders will vary during each quarter due to (1) the fluctuating yields in the short-term money market where the monthly mortgage payments received are temporarily invested prior to the payment of quarterly distributions, (2) the reduction in the asset base and monthly mortgage payments due to monthly mortgage payments received or mortgage dispositions, (3) variations in the cash flow attributable to the delinquency or default of Insured Mortgages and professional fees and foreclosure costs incurred in connection with those Insured Mortgages and (4) variations in the Partnership's operating expenses. As the Partnership continues to liquidate its mortgage investments and investors receive distributions of return of capital and taxable gains, investors should expect a reduction in earnings and distributions due to the decreasing mortgage base.

Net cash provided by operating activities decreased for the nine months ended September 30, 2001, as compared to the corresponding period in 2000, primarily due to the reduction in the mortgage base, as previously discussed and due to an increase in the change in receivables and other assets. The increase in receivables and other assets is primarily due to the accrual of principal and interest on the mortgages awaiting assignment proceeds from HUD under the section 221 program, as previously discussed.

Net cash provided by investing activities increased for the nine months

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ended September 30, 2001, as compared to the corresponding period in 2000. This increase is primarily due to an increase in proceeds received from the disposition of mortgages.

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Net cash used in financing activities decreased for the nine months ended September 30, 2001, as compared to the corresponding period in 2000, due to a decrease in the amount of distributions paid to partners in the first nine months of 2001 versus the same period in 2000.

ITEM 2A. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

The Partnership's principal market risk is exposure to changes in interest rates in the U.S. Treasury market. The Partnership will experience fluctuations in the market value of its assets related to changes in the interest rates of U.S. Treasury bonds as well as increases in the spread between U.S. Treasury bonds and the Partnership's Insured Mortgages. As of September 30, 2001, the average treasury rate used to price the Partnership's Insured Mortgages had decreased by approximately 57 basis points compared to December 31, 2000.

Management has determined that there has not been a material change as of September 30, 2001, in market risk from December 31, 2000 as reported in the Partnership's Annual Report on Form 10-K as of December 31, 2000.

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PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

No reports on Form 8-K were filed with the Securities and Exchange Commission during the quarter ended September 30, 2001.

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PART II. OTHER INFORMATION

SIGNATURE

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.

AMERICAN INSURED MORTGAGE
INVESTORS L.P. - SERIES 85
(Registrant)

By: CRIIMI, Inc.
General Partner

November 9, 2001

DATE

/s/ Cynthia O. Azzara

Cynthia O. Azzara
Senior Vice President,
Chief Financial Officer and
Treasurer

