

AMERICAN INSURED MORTGAGE INVESTORS SERIES 85 L P

Form 10-Q

May 13, 2003

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 March 31, 2003

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
incorporation or organization)

(I.R.S. Employer Identification No.)

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 No

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

As of March 31, 2003, 12,079,514 depository units of limited partnership interest were outstanding.

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

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

BALANCE SHEETS

	March 31, 2003	December 31, 2002

	(Unaudited)	

ASSETS

Investment in FHA-Insured Certificates and GNMA
Mortgage-Backed Securities, at fair value

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Acquired insured mortgages	\$ 32,589,641	\$ 33,849,089
Originated insured mortgages	15,945,207	15,986,295
	-----	-----
	48,534,848	49,835,384
Investment in FHA-Insured Loans, at amortized cost, net of unamortized discount and premium:		
Acquired insured mortgages	5,007,528	7,176,274
Originated insured mortgages	9,282,681	9,311,907
	-----	-----
	14,290,209	16,488,181
Cash and cash equivalents	4,946,952	10,448,516
Receivables and other assets	779,485	1,465,453
Investment in debenture, at fair value	1,812,914	-
	-----	-----
Total assets	\$ 70,364,408	\$ 78,237,534
	=====	=====
LIABILITIES AND PARTNERS' EQUITY		
Distributions payable	\$ 3,896,617	\$ 10,181,484
Accounts payable and accrued expenses	285,033	115,799
Due to affiliate	920,903	-
	-----	-----
Total liabilities	5,102,553	10,297,283
	-----	-----
Partners' equity:		
Limited partners' equity, 15,000,000 Units authorized, 12,079,514 Units issued and outstanding	71,105,562	73,382,252
General partner's deficit	(6,945,692)	(6,853,298)
Accumulated other comprehensive income	1,101,985	1,411,297
	-----	-----
Total partners' equity	65,261,855	67,940,251
	-----	-----
Total liabilities and partners' equity	\$ 70,364,408	\$ 78,237,534
	=====	=====

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

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	March 31,	
	2003	2002
	-----	-----
Income:		
Mortgage investment income	\$ 1,321,225	\$ 1,620,471
Interest and other income	24,024	106,204
	-----	-----
	1,345,249	1,726,675
	-----	-----
Expenses:		
Asset management fee to related parties	163,451	189,781
General and administrative	107,091	98,974
	-----	-----
	270,542	288,755
	-----	-----
Net earnings before gains on mortgage dispositions	1,074,707	1,437,920
Gains on mortgage dispositions	452,826	1,169,159
	-----	-----
Net earnings	\$ 1,527,533	\$ 2,607,079
	=====	=====
Other comprehensive loss - adjustment to unrealized gains on investments in insured mortgages	(309,312)	(1,104,131)
	-----	-----
Comprehensive income	\$ 1,218,221	\$ 1,502,948
	=====	=====
Net earnings allocated to:		
Limited partners - 96.1%	\$ 1,467,959	\$ 2,505,403
General Partner - 3.9%	59,574	101,676
	-----	-----
	\$ 1,527,533	\$ 2,607,079
	=====	=====
Net earnings per Unit of limited partnership interest - basic	\$ 0.12	\$ 0.21
	=====	=====

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 three months ended March 31, 2003

(Unaudited)

General	Limited	Accumul Othe Comprehe
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	Partner -----	Partners -----	Inco -----
Balance, December 31, 2002	\$ (6,853,298)	\$ 73,382,252	\$ 1,41
Net earnings	59,574	1,467,959	
Adjustment to unrealized gains on investments in insured mortgages	-	-	(30
Distributions paid or accrued of \$0.310 per Unit, including return of capital of \$0.190 per Unit	(151,968)	(3,744,649)	
Balance, March 31, 2003	<u>\$ (6,945,692)</u>	<u>\$ 71,105,562</u>	<u>\$ 1,10</u>
Limited Partnership Units outstanding - basic, as of March 31, 2003		<u>12,079,514</u>	

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 CASH FLOWS

(Unaudited)

	For the thr Ma
	2003 -----
Cash flows from operating activities:	
Net earnings	\$ 1,527,533
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Gains on mortgage dispositions	(452,826)
Changes in assets and liabilities:	
Net decrease in receivables and other assets	91,375
Increase in accounts payable and accrued expenses	169,234
Increase (decrease) in due to affiliate	14,447

Net cash provided by operating activities	1,349,763 -----
Cash flows from investing activities:	
Proceeds from mortgage prepayments	949,721
Proceeds from mortgage assignments	1,469,078
Proceeds from redemption of debenture	744,159

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Debtore proceeds paid to affiliate	-
Receipt of mortgage principal from scheduled payments	167,199

Net cash provided by investing activities	3,330,157

Cash flows used in financing activities:	
Distributions paid to partners	(10,181,484)

Net (decrease) increase in cash and cash equivalents	(5,501,564)
Cash and cash equivalents, beginning of period	10,448,516

Cash and cash equivalents, end of period	\$ 4,946,952
	=====
Non-cash investing activity:	
Portion of 7.125% - 7.5% debentures due from a third party in exchange for the mortgages on Country Club Terrace Apartments, Nevada Hills Apartments and Dunhaven Apartments	\$ -
6.375% debenture received from HUD in exchange for the mortgage on Baypoint Shoreline Apartments	1,812,914
Portion of 6.375% debenture due to affiliate in exchange for the mortgage on Baypoint Shoreline Apartments	(906,456)
9% of proceeds due from HUD for the mortgage on Westbrook Apartments	149,566

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 pursuant to a limited partnership agreement, as amended, ("Partnership Agreement") under the Uniform Limited Partnership Act of the state of California on June 26, 1984. During the period from March 8, 1985 (the initial closing date of the Partnership's public offering) through January 27, 1986 (the termination date of the offering), the Partnership, pursuant to its public offering of 12,079,389 Depository Units of limited partnership interest ("Units") raised a total of \$241,587,780 in gross proceeds. In addition, the initial limited partner contributed \$2,500 to the capital of the Partnership and received 125 units of limited partnership interest in exchange therefor.

CRIIMI, Inc., a wholly-owned subsidiary of CRIIMI MAE Inc. ("CRIIMI MAE"), acts as the General Partner (the "General Partner") for the Partnership and holds a partnership interest of 3.9%. The General Partner provides management and administrative services on behalf of the Partnership. AIM Acquisition Partners L.P. serves as the advisor (the "Advisor") to the Partnership. The

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general partner of the Advisor is AIM Acquisition Corporation ("AIM Acquisition") and the limited partners include, but are not limited to, The Goldman Sachs Group, L.P., Sun America Investments, Inc. (successor to Broad, Inc.) and CRI/AIM Investment, L.P., a subsidiary of CRIIMI MAE, over which CRIIMI MAE exercises 100% voting control. AIM Acquisition is a Delaware corporation that is primarily owned by Sun America Investments, Inc. and The Goldman Sachs Group, L.P.

Pursuant to the terms of certain origination and acquisition services, management services and disposition services agreements between the Advisor and the Partnership (collectively the "Advisory Agreements"), the Advisor renders 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 are 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 (collectively the "Consent Rights"). The Advisor is permitted and has delegated the performance of services to CRIIMI MAE Services Limited Partnership ("CMSLP"), a subsidiary of CRIIMI MAE, pursuant to a sub-management agreement (the "Sub-Advisory Agreement"). The general partner and limited partner of CMSLP are wholly-owned subsidiaries of CRIIMI MAE. The delegation of such services by the Advisor to CMSLP does not relieve the Advisor of its obligation to perform such services. Furthermore the Advisor has retained its Consent Rights.

The General Partner also serves as the General Partner for American Insured Mortgage Investors ("AIM 84"), American Insured Mortgage Investors L.P. - Series 86 ("AIM 86") and American Insured Mortgage Investors L.P. - Series 88 ("AIM 88") and owns general partner interests therein of 2.9%, 4.9% and 4.9%, respectively. The Partnership, AIM 84, AIM 86 and AIM 88 are collectively referred to as the "AIM Limited Partnerships".

Prior to December 1993, the Partnership was engaged in the business of originating government insured mortgage loans ("Originated Insured Mortgages") and acquiring government insured mortgage loans ("Acquired Insured Mortgages" and, together with Originated Insured Mortgages, referred to herein as "Insured Mortgages"). In accordance with the terms of the Partnership Agreement, the Partnership is no longer authorized to originate or acquire Insured Mortgages and, consequently, its primary objective is to manage its portfolio of mortgage investments, all of which are insured under Section 221(d)(4) or Section 231 of the National Housing Act of 1937, as amended (the "National Housing Act"). The Partnership Agreement states that the Partnership will terminate on December 31, 2009, unless terminated earlier under the provisions thereof. The Partnership is

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required, pursuant to the Partnership Agreement, to dispose of its assets prior to this date.

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 March 31, 2003 and the results of its operations and its cash flows for the three months ended March 31, 2003 and 2002.

These unaudited financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain

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information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles ("GAAP") 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 on Form 10-K for the year ended December 31, 2002.

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

Listed below is the Partnership's aggregate investment in GNMA Mortgage-Backed Securities and FHA-Insured Certificates:

	March 31, 2003	December 2002
	-----	-----
Acquired Mortgages:		
Number of:		
GNMA Mortgage-Backed Securities	2	
FHA-Insured Certificates (1)	16	
Amortized Cost	\$ 31,499,950	\$ 32,449,
Face Value	32,017,495	33,076,
Fair Value	32,589,641	33,849,
Originated Mortgages:		
Number of:		
GNMA Mortgage-Backed Securities	1	
FHA-Insured Certificates	1	
Amortized Cost	\$ 15,932,912	\$ 15,974,
Face Value	15,932,911	15,974,
Fair Value	15,945,207	15,986,

- (1) In March 2003, the mortgage on Stonebridge Apartments was prepaid. The Partnership received net proceeds of approximately \$950,000 and recognized a gain of approximately \$93,000 during the three months ended March 31, 2003. A distribution of approximately \$0.075 per Unit related to the prepayment of this mortgage was declared in April and is expected to be paid to Unitholders in August 2003.

As of May 1, 2003, all of the GNMA Mortgage-Backed Securities and FHA-Insured Certificates are current with respect to the payment of principal and interest except for the mortgage on Magnolia Place Apartments, which is delinquent with respect to the April 2003 payment of principal and interest.

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The Section 221 Program

There are five Insured Mortgages held by the Partnership, as discussed in this Note 3 and in Note 4, that have been assigned to HUD under the Section 221(g)(4) program of the National Housing Act (the "Section 221 Program.") A mortgagee has the right to assign a mortgage ("put") to the United States Department of Housing and Urban Development ("HUD") at the expiration of 20 years from the date of final endorsement ("Anniversary Date") if the mortgage is not in default at such time. The mortgagee may exercise its option to put the

mortgage to HUD during the one year period subsequent to the Anniversary Date. This assignment procedure is applicable to an Insured Mortgage, which had a firm or conditional commitment for HUD insurance benefits on or before November 30, 1983. Any mortgagee electing to assign an Insured Mortgage to HUD receives, in exchange therefor, debentures having a total face value equal to (i) the then outstanding principal balance of the Insured Mortgage (ii) plus accrued interest on the mortgage to the date of assignment ("Debenture Issuance Date"). These debentures generally mature 10 years from the date of assignment and bear interest at a rate announced semi-annually by HUD in the Federal Register ("going Federal rate") at such date. Generally, the Partnership is not the named mortgagee for the FHA-Insured Certificates. In this case, the HUD debentures are generally issued to an unrelated third party that is the named mortgagee. The servicer of the applicable mortgage is responsible for delivering to the Partnership all HUD insurance claim proceeds. The debenture interest is paid to the Partnership in the month it is received by the servicer. The debenture proceeds are paid to the Partnership in the month the debenture is redeemed by HUD or sold by the servicer. Based on the recommendation of CMSLP, the sub-advisor, and the consent of the Advisor, the General Partner may elect to put Insured Mortgages to HUD, based upon, in general, but not limited to, (i) the interest rates on mortgages, (ii) the interest rates on debentures issued by HUD and (iii) the costs and risks associated with continuing to hold the Insured Mortgages.

Once the servicer of an Insured Mortgage has filed an application for insurance benefits ("HUD put date") under the Section 221 program on behalf of the Partnership, the Partnership will no longer receive the monthly principal and interest on the applicable mortgage, and instead, HUD will begin receiving the monthly principal and interest. HUD issues debentures at the time the mortgage is assigned to HUD (approximately 30 days after the HUD put date); however, the debentures are not transferred to the mortgagee until HUD completes its assignment process of the Insured Mortgage. Based on the General Partner's experience, HUD's assignment process is generally six to eighteen months. After HUD completes its assignment process for the Insured Mortgage, HUD transfers to the mortgagee (i) HUD debentures, as discussed above, (ii) plus cash for accrued interest on the debentures at the going Federal rate, from the Debenture Issuance Date to the most current interest payment date. Thereafter, the mortgagee receives interest on the debentures on the semi-annual payment dates of January 1 and July 1. The going Federal rate for HUD debentures issued under the Section 221 Program for the period January 1 through June 30, 2002 was 6.375%; for the period July 1 through December 31, 2002 it was 6.625%; and for the period January 1 through June 30, 2003 it is 5.75%. The Partnership will recognize a gain on a mortgage assignment at the time it receives notification that the assignment has been approved. HUD assignment approval generally occurs when HUD transfers the debentures to the mortgagee and/or when the Partnership receives cash for the accrued interest on the debentures. The Partnership recognizes a loss on a mortgage assignment when it becomes probable that a loss will be incurred. The gain or loss recognized is generally equal to proceeds received from HUD, as discussed above, less the amortized cost of the Insured Mortgage.

Mortgages in the Section 221 HUD assignment process

The Mortgage on Executive House was put to HUD under the Section 221 Program by the servicer in April 2002. The face value of this mortgage was approximately \$805,000 as of the HUD put date. The Partnership no longer

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receives monthly principal and interest from mortgages that are put to HUD under the Section 221 Program. HUD receives the monthly principal and interest and the Partnership earns semi-annual interest on debentures issued by HUD, as discussed

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above. The Partnership has not received approval for this assignment as of May 1, 2003, and will continue to accrue interest on the mortgage until the debenture is transferred to the Partnership and it begins receiving the debenture interest. The fair value of this mortgage is included in Investment in FHA-Insured Certificates and GNMA Mortgage-Backed Securities on the Partnership's balance sheet as of March 31, 2003 and December 31, 2002.

Redemption of debenture

In January 2003, HUD redeemed the 7.5% debenture of approximately \$758,000, issued in July 2002 for the mortgage on Fairlawn II. A distribution of approximately \$0.06 per Unit related to the debenture proceeds was declared in February 2003 and was paid to Unitholders in May 2003. The accrued interest of approximately \$28,000 related to this debenture was also received in January 2003 and is being distributed through regular cash flow distributions.

4. INVESTMENT IN FHA-INSURED LOANS

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

	March 31, 2003	December 2002
	-----	-----
Acquired Loans:		
Number of Loans (1) (2)	4	
Amortized Cost	\$ 5,007,528	\$ 7,176,
Face Value	5,951,947	8,519,
Fair Value	5,962,878	8,513,
Originated Loans:		
Number of Loans	2	
Amortized Cost	\$ 9,282,681	\$ 9,311,
Face Value	9,033,218	9,059,
Fair Value	9,349,550	9,470,

- (1) In January 2003, the Partnership received assignment proceeds from HUD for the mortgage on Westbrook Apartments. The servicer of this mortgage filed a Notice of Election to Assign in November 2002 as a result of principal and interest payments being over 60 days delinquent. The Partnership received net proceeds of approximately \$1.5 million, which included 90% of the unpaid principal balance of this mortgage, plus interest at the debenture rate of 9.875% from September 2002 through January 2003. The remaining amount due from HUD is approximately \$150,000 (representing 9% of the unpaid principal balance) and is included in Receivables and other assets on the Partnership's balance sheet as of March 31, 2003. The Partnership recognized a gain of approximately \$228,000 during the three months ended March 31, 2003. A distribution of approximately \$0.12 per Unit related to the assignment of this mortgage was declared in February 2003 and was paid to Unitholders in May 2003.
- (2) In February 2003, HUD transferred assignment proceeds to the Partnership in the form of a 6.375% debenture in exchange for the mortgage on Baypoint Shoreline Apartments. Since the mortgage on Baypoint Shoreline Apartments was owned 50% by the Partnership and 50% by AIM 84, approximately \$906,000 of the debenture face is due to AIM 84. See further discussion in Note 5.

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As of May 1, 2003, all of the Partnership's FHA-Insured Loans were current with respect to the payment of principal and interest.

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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 months ended March 31, 2003 and 2002, the Partnership received additional interest of \$0 and \$3,228, respectively, from the Participations. These amounts, if any, are included in mortgage investment income on the accompanying Statements of Income and Comprehensive Income.

Mortgages in the Section 221 HUD assignment process

The mortgages on Brougham Estates and College Green Apartments were put to HUD under the Section 221 Program by the respective servicers in February 2003. The mortgages on Town Park Apartments and Kaynorth Apartments were put to HUD under the Section 221 Program by the respective servicers in March and April 2003, respectively. The aggregate face value of these mortgages was approximately \$6.0 million as of the HUD put dates. The Partnership no longer receives monthly principal and interest from mortgages that are put to HUD under the Section 221 Program. HUD receives the monthly principal and interest and the Partnership earns semi-annual interest on debentures issued by HUD, as discussed above. The Partnership has not received approval for these assignments as of May 1, 2003, and will continue to accrue interest on the mortgages until the debentures are transferred to the Partnership and it begins receiving the debenture interest. The amortized cost of these mortgages is included in Investment in FHA-Insured Loans on the Partnership's balance sheet as of March 31, 2003.

5. INVESTMENT IN DEBENTURE AND DUE TO AFFILIATE

In February 2003, HUD transferred assignment proceeds to the Partnership in the form of a 6.375% debenture in exchange for the mortgage on Baypoint Shoreline Apartments. The servicer of this mortgage filed an application for insurance benefits under the Section 221 Program in June 2002. The debenture, with a face value of approximately \$1.8 million, pays interest semi-annually on January 1 and July 1 with a maturity date of June 27, 2012. The debenture may be called by HUD prior to its maturity date. A distribution will be declared after the debenture proceeds are received by the Partnership. Since the mortgage on Baypoint Shoreline Apartments was owned 50% by the Partnership and 50% by AIM 84, approximately \$906,000 of the debenture face is due to AIM 84. In February 2003, the Partnership received approximately \$59,000 in cash of accrued interest on this debenture. Approximately \$29,000 of this accrued interest was transferred to AIM 84 and the remaining amount will be distributed to the Partnership's Unitholders through regular cash flow distributions. The Partnership recognized a gain of approximately \$131,000 during the three months ended March 31, 2003. The fair values of this debenture and the portion due to AIM 84 are included in Investment in debenture and Due to affiliate, respectively, on the Partnerships' balance sheet as of March 31, 2003.

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6. DISTRIBUTIONS TO UNITHOLDERS

The distributions paid or accrued to Unitholders on a per Unit basis for the three months ended March 31, 2003 and 2002 are as follows:

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	2003 ----	2002 ----
Quarter ended March 31,	\$0.31 (1) -----	\$1.325 (2) -----
	\$0.31 =====	\$1.325 =====

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

Complex Name(s) -----	Date Proceeds Received -----	Type of Disposition -----
(1) Quarter ended March 31, 2003:		
Walnut Hills	Dec 2002	Prepayment
Westbrook Apartments	Jan 2003	Assignment
Fairlawn II (redemption of 7.5% debenture)	Jan 2003	Assignment
(2) Quarter ended March 31, 2002:		
The Gate House Apartments	Dec 2001	Prepayment
Longleaf Lodge	Jan 2002	Prepayment
Fox Run Apartments (redemption of 7.125% debenture)	Jan 2002	Assignment
Interest on debentures related to mortgages on Summit Square Manor, Park Place, Park Hill Apts, Fairfax House, Woodland Villas, Country Club Terrace Apts, Dunhaven Apts and Nevada Hills Apts	Jan - Feb 2002	Assignment
Summit Square Manor (redemption of 7.125% debenture)	Jan 2002	Assignment
Park Place (redemption of 7.125% debenture)	Jan 2002	Assignment
Park Hill Apartments (redemption of 7.5% debenture)	Jan 2002	Assignment
Fairfax House (redemption of 7.5% debenture)	Jan 2002	Assignment
Woodland Villas (redemption of 7.125% debenture)	Jan 2002	Assignment

The basis for paying distributions to Unitholders is net proceeds from mortgage and/or debenture dispositions, if any, and cash flow from operations, which includes regular interest income and principal from Insured Mortgages and interest on debentures. Although the Insured Mortgages pay a fixed monthly mortgage payment and the debentures have a fixed semi-monthly interest payment, 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 and debenture interest 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 and debenture 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 Unitholders receive distributions of return of capital and taxable gains, Unitholders should expect a reduction in earnings and distributions due to the decreasing mortgage base.

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7. TRANSACTIONS WITH RELATED PARTIES

The General Partner and certain affiliated entities earned or received

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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 -----	2003 ----
CRIIMI, Inc. (1)	General Partner/Distribution	\$ 151,968
AIM Acquisition Partners, L.P.(2)	Advisor/Asset Management Fee	163,451
CRIIMI MAE Management, Inc.(3)	Affiliate of General Partner/Expense Reimbursement	18,235

- (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 (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, pursuant to the Sub-Advisory Agreement, 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 \$48,172 and \$55,945 for the three months ended March 31, 2003 and 2002, respectively. The general partner and limited partner of CMSLP are wholly owned subsidiaries of CRIIMI MAE.
- (3) CRIIMI MAE Management, Inc., an affiliate of the General Partner, is reimbursed for personnel and administrative services on an actual cost basis.

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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 "believe," "anticipate," "expect," "contemplate," "may," "will," 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 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 prior and future filings by the Partnership with the Securities and Exchange Commission ("SEC") 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, (v) defaulted mortgages, (vi) errors in servicing defaulted mortgages and (vii) sales of mortgage investments below fair market value. 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.

Mortgage Investments

As of March 31, 2003, the Partnership had invested in 26 Insured Mortgages and one debenture with an aggregate amortized cost of approximately \$62.6 million, an aggregate face value of approximately \$63.8 million and an aggregate fair value of approximately \$64.8 million. Five of these mortgages are in the Section 221 HUD assignment process as discussed in the Notes to Financial Statements. During the first quarter of 2003, two mortgages were assigned to HUD and one prepaid as discussed in "Results of Operations."

In January 2003, HUD redeemed the 7.5% debenture of approximately \$758,000, issued in July 2002 for the mortgage on Fairlawn II. A distribution of approximately \$0.06 per Unit related to the debenture proceeds was declared in February 2003 and was paid to Unitholders in May 2003. The accrued interest of approximately \$28,000 related to this debenture was also received in January 2003 and is being distributed through regular cash flow distributions.

As of May 1, 2003, all of the Insured Mortgages are current with respect to the payment of principal and interest, except for the mortgage on Magnolia Place Apartments, which is delinquent with respect to the April 2003 payment of principal and interest.

Results of Operations

Net earnings decreased by approximately \$1.1 million for the three months ended March 31, 2003, as compared to the corresponding period in 2002, primarily due to a decrease in gains on mortgage dispositions and mortgage investment income, as discussed below.

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Mortgage investment income decreased by approximately \$299,000 for the three months ended March 31, 2003, as compared to the corresponding period in 2002, primarily due to a reduction in the mortgage base. The mortgage base decreased as a result of ten mortgage dispositions with an aggregate principal balance of approximately \$14.8 million, representing an approximate 19% decrease in the aggregate principal balance of the total mortgage portfolio since April 2002.

Interest and other income decreased by approximately \$82,000 for the three months ended March 31, 2003, as compared to the corresponding period in 2002, primarily due to a decrease in debenture interest and due to variations in the amounts and the timing of the temporary investment of mortgage disposition

proceeds prior to distribution.

Asset management fees decreased by approximately \$26,000 for the three months ended March 31, 2003, as compared to the corresponding period in 2002, primarily due to the reduction in the mortgage base, as previously discussed.

General and administrative expenses increased by approximately \$8,000 for the three months ended March 31, 2003, as compared to the corresponding period in 2002, primarily due to an increase in professional fees.

Gains on mortgage dispositions decreased by approximately \$716,000 for the three months ended March 31, 2003, as compared to the corresponding period in 2002. During the first three months of 2003, the Partnership recognized a gain of approximately \$93,000 from the prepayment of the mortgage on Stonebridge Apartments and gains of approximately \$359,000 from the assignment of the mortgages on Westbrook Apartments and Baypoint Shoreline Apartments. During the first three months of 2002, the Partnership recognized a gain of approximately \$672,000 from the prepayment of the mortgage on Longleaf Lodge and gains of approximately \$497,000 from the assignment of the mortgages on Country Club Terrace Apartments, Dunhaven Apartments and Nevada Hills Apartments.

Liquidity and Capital Resources

The Partnership's operating cash receipts, derived from payments of principal and interest on Insured Mortgages, interest on debentures and cash receipts from interest on short-term investments, were sufficient for the three months ended March 31, 2003 to meet operating requirements. The basis for paying distributions to Unitholders is net proceeds from mortgage and/or debenture dispositions, if any, and cash flow from operations, which includes regular interest income and principal from Insured Mortgages and interest on debentures. Although the Insured Mortgages pay a fixed monthly mortgage payment and the debentures have a fixed semi-monthly interest payment, 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 and debenture interest 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 and debenture 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 Unitholders receive distributions of return of capital and taxable gains, Unitholders should expect a reduction in earnings and distributions due to the decreasing mortgage base.

Net cash provided by operating activities decreased by approximately \$770,000 for the three months ended March 31, 2003, as compared to the corresponding period in 2002, primarily due to a decrease in the receipt of interest previously accrued on mortgages awaiting assignment from HUD under the Section 221 program and a reduction in mortgage investment income. These decreases are partially offset by an increase in accounts payable and accrued

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expenses. The increase in accounts payable and accrued expenses primarily relates to the timing of the payment of the quarterly asset management fee to the Advisor.

Net cash provided by investing activities decreased by approximately \$8.5 million for the three months ended March 31, 2003, as compared to the corresponding period in 2002, primarily due to decreases in proceeds received

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from mortgage prepayments, mortgage assignments and redemption of debentures. These decreases were partially offset by debenture proceeds paid to an affiliate in 2002.

Net cash used in financing activities increased by approximately \$8.3 million for the three months ended March 31, 2003, as compared to the corresponding period in 2002, due to an increase in the amount of distributions paid to partners in the first three months of 2003 compared to the same period in 2002.

ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Management has determined that there has not been a material change as of March 31, 2003, in market risk from December 31, 2002 as reported in the Partnership's Annual Report on Form 10-K as of December 31, 2002.

ITEM 4. CONTROLS AND PROCEDURES

Within 90 days prior to the date of filing this Quarterly Report on Form 10-Q, the General Partner carried out an evaluation, under the supervision and with the participation of the General Partner's management, including the General Partner's Chairman of the Board and Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based on that evaluation, the General Partner's CEO and CFO concluded that its disclosure controls and procedures are effective and timely in alerting them to material information relating to the Partnership required to be included in the Partnership's periodic SEC filings. There were no significant changes in the General Partner's internal controls or in other factors that could significantly affect these internal controls subsequent to the date of its most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit No. -----	Purpose -----
99.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 from Barry S. Blattman, Chairman of the Board, Chief Executive Officer and President of the General Partner (Filed herewith).
99.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 from Cynthia O. Azzara, Senior Vice President, Chief Financial Officer and Treasurer of the General Partner (Filed herewith).

(b) Reports on Form 8-K

Date

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March 26, 2003

To report (i) a press release issued on March 21, 2003 announcing the March 2003 distribution to the Partnership's Unitholders and (ii) a press release issued on March 25, 2003 announcing the Partnership's fourth quarter and year ended December 31, 2002 financial results.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

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

By: CRIIMI, Inc.
General Partner

May 13, 2003

/s/ Cynthia O. Azzara

DATE

Cynthia O. Azzara
Senior Vice President,
Chief Financial Officer and
Treasurer (Principal Accounting Officer)

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CERTIFICATION

I, Barry Blattman, Chairman of the Board, Chief Executive Officer and President, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Insured Mortgage Investors-Series 85, L.P.;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) Designed such disclosure controls and procedures 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 quarterly report is being prepared;

- b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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

By: CRIIMI, Inc.
General Partner

Date: May 13, 2003

/s/ Barry S. Blattman

Barry S. Blattman
Chairman of the Board,
Chief Executive Officer and President

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CERTIFICATION

I, Cynthia O. Azzara, Senior Vice President, Chief Financial Officer and Treasurer, certify that:

- 1. I have reviewed this quarterly report on Form 10-Q of American Insured Mortgage Investors-Series 85, L.P.;
- 2. Based on my knowledge, this quarterly 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

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under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) Designed such disclosure controls and procedures 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 quarterly report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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

By: CRIIMI, Inc.
General Partner

Date: May 13, 2003

/s/ Cynthia O. Azzara

Cynthia O. Azzara
Senior Vice President, Chief Financial

Officer and Treasurer