

AMERICAN INSURED MORTGAGE INVESTORS SERIES 85 L P  
Form 10-Q  
May 15, 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 March 31, 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  
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

As of March 31, 2001, 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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FOR THE QUARTER ENDED MARCH 31, 2001

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PART I.	FINANCIAL INFORMATION
ITEM 1.	FINANCIAL STATEMENTS

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

BALANCE SHEETS

	March 31, 2001	December 31, 2000
	-----	-----
	(Unaudited)	
ASSETS		

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Investment in FHA-Insured Certificates and GNMA

Mortgage-Backed Securities, at fair value

Acquired insured mortgages	\$ 61,841,908	\$ 70,770,317
Originated insured mortgages	15,995,735	15,927,124
	-----	-----
	77,837,643	86,697,441

Investment in FHA-Insured Loans, at amortized cost,  
net of unamortized discount and premium:

Acquired insured mortgages	10,007,914	10,041,697
Originated insured mortgages	12,536,075	12,570,037
	-----	-----
	22,543,989	22,611,734

Cash and cash equivalents	10,953,604	5,631,117
Receivables and other assets	1,373,495	1,319,714
Investment in FHA debenture	2,361,381	2,361,381
	-----	-----
Total assets	\$ 115,070,112	\$ 118,621,387
	=====	=====

LIABILITIES AND PARTNERS' EQUITY

Distributions payable	\$ 8,547,419	\$ 6,284,867
Accounts payable and accrued expenses	103,323	112,864
Due to affiliate	1,213,860	1,242,107
	-----	-----
Total liabilities	9,864,602	7,639,838
	-----	-----

Partners' equity:

Limited partners' equity, 15,000,000 Units authorized, 12,079,514 Units issued and outstanding	108,150,856	114,254,731
General partners' deficit	(5,442,295)	(5,194,582)
Accumulated other comprehensive income	2,496,949	1,921,400
	-----	-----
Total Partners' equity	105,205,510	110,981,549
	-----	-----
Total liabilities and partners' equity	\$ 115,070,112	\$ 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

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	March 31,	
	2001	2000
Income:		
Mortgage investment income	\$ 2,147,699	\$ 2,520,344
Interest and other income	147,362	155,694
	-----	-----
	2,295,061	2,676,038
	-----	-----
Expenses:		
Asset management fee to related parties	260,415	293,517
General and administrative	101,101	106,053
	-----	-----
	361,516	399,570
	-----	-----
Net earnings before gains on mortgage dispositions	1,933,545	2,276,468
Gains on mortgage dispositions	262,286	44,023
	-----	-----
Net earnings	\$ 2,195,831	\$ 2,320,491
	=====	=====
Other comprehensive income	575,549	47,673
	-----	-----
Comprehensive income	\$ 2,771,380	\$ 2,368,164
	-----	-----
Net earnings allocated to:		
Limited partners - 96.1%	\$ 2,110,194	\$ 2,229,992
General Partner - 3.9%	85,637	90,499
	-----	-----
	\$ 2,195,831	\$ 2,320,491
	=====	=====
Net earnings per Unit of limited partnership interest - basic	\$ 0.17	\$ 0.18
	=====	=====

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, 2001

(Unaudited)

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	General Partner	Limited Partner	Other Comprehens Income
	-----	-----	-----
Balance, December 31, 2000	\$ (5,194,582)	\$ 114,254,731	\$ 1,921,
Net Earnings	85,637	2,110,194	
Adjustment to unrealized gains on investments in insured mortgages	--	--	575,
Distributions paid or accrued of \$0.68 per Unit, including return of capital of \$0.51 per Unit	(333,350)	(8,214,069)	-
	-----	-----	-----
Balance, March 31, 2001	\$ (5,442,295)	\$ 108,150,856	\$ 2,496,
	=====	=====	=====
Limited Partnership Units outstanding - basic, as of March 31, 2001		12,079,514	
		=====	

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
	2001
	-----
Cash flows from operating activities:	
Net earnings	\$ 2,195
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Net gain on mortgage dispositions	(262)
Changes in assets and liabilities:	
(Increase) decrease in receivables and other assets	(53)
Decrease in accounts payable and accrued expenses	(9)
Decrease in due to affiliate	(28)
	-----
Net cash provided by operating activities	1,841
	-----
Cash flows from investing activities:	
Proceeds from disposition of mortgages	9,479
Receipt of mortgage principal from scheduled payments	285

Net cash provided by investing activities	9,765
Cash flows used in financing activities:	
Distributions paid to partners	(6,284)
Net increase (decrease) in cash and cash equivalents	5,322
Cash and cash equivalents, beginning of period	5,631
Cash and cash equivalents, end of period	\$ 10,953

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 Advisor of its obligation to perform such services. CRIIMI MAE Services Limited Partnership ("CMSLP"), an affiliate of CRIIMI MAE, manages the Partnership's

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portfolio, pursuant to the Sub-Advisory Agreement. The general partner of CMSLP is CRIIMI MAE Services, 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 March 31, 2001 and December 31, 2000 and the results of its operations for the three months ended March 31, 2001 and 2000 and its cash flows for the three months ended March 31, 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 Accumulated Other Comprehensive Income.

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## 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:

	March 31, 2001	December 2000
<b>Fully Insured Acquired Mortgages:</b>		
Number of		
GNMA Mortgage-Backed Securities	4	
FHA-Insured Certificates (1) (2)	33	
Amortized Cost	\$ 59,040,672	\$ 68,440,
Face Value	61,944,086	71,404,
Fair Value	61,841,908	70,770,
<b>Fully Insured Originated Mortgages:</b>		
Number of		
GNMA Mortgage-Backed Securities	1	
FHA-Insured Certificates	1	
Amortized Cost	\$ 16,276,170	\$ 16,311,
Face Value	16,243,803	16,279,
Fair Value	15,995,735	15,927,

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

Complex name	Net Proceeds	Date Proceeds Received	Gain	Dist./ Unit	Declaratio 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

As of May 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 May 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	Application Date	Outstanding Principal Balance	Assignment Date
Park Place Apartments	June 2000	\$ 754,000	N/A



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Summit Square Manor	June 2000	1,903,000	N/A
Park Hill Apartments	Sept. 2000	1,737,000	N/A
Fairfax House	Sept. 2000	2,128,000	N/A
Country Club Terrace Apts.	Sept. 2000	1,439,000	N/A
Fairlawn II	Sept. 2000	755,000	N/A
Nevada Hills Apts.	Dec. 2000	1,146,000	N/A
Dunhaven Apartments, Section I	Jan. 2001	884,000	N/A

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 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.

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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:

	March 31, 2001 -----	December 2000 -----
Fully Insured Acquired Loans:		
Number of Loans	8	
Amortized Cost	\$10,007,914	\$10,041,
Face Value	11,983,328	12,040,
Fair Value	12,021,885	12,023,
Fully Insured Originated Loans:		
Number of Loans	3	
Amortized Cost	\$12,536,075	\$12,570,
Face Value	12,230,207	12,261,
Fair Value	12,316,262	12,192,

As of May 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.

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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, 2001 and 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.

### 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 and a fair value of \$2,361,381, 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 general, the Partnership will hold the debenture until its maturity date of June 1, 2010 or when called, whichever comes first. 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 three months ended March 31, 2001 and 2000 are as follows:

	2001 ----	2000 ----
Quarter ended March 31,	\$0.68(1)	\$0.47(2) (3)
	-----	-----
	\$0.68	\$0.47
	=====	=====

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

Complex Name(s) -----	Date Proceeds Received -----	Type of Disposition -----	Net Proceeds Per Unit -----
(1) The Meadows of Livonia	January 2001	Prepayment	\$ 0.53
(2) Northwood Apartments	December 1999	Prepayment	0.13
(3) Turtle Creek Apartments	January 2000	Prepayment	0.13

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

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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.

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### 7. TRANSACTIONS WITH RELATED PARTIES

The General Partner and certain affiliated entities, during the three months ended March 31, 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 three mon Marc ----- 2001 -----
CRIIMI, Inc. (1)	General Partner/Distribution	\$ 333,350
AIM Acquisition Partners, L.P. (2)	Advisor/Asset Management Fee	260,415
CRIIMI MAE Management, Inc.	Affiliate of General Partner/ Expense Reimbursement	11,969
American Insured Mortgage Investors (3)	Affiliate of Partnership/ Share of FHA Debenture	1,213,860

(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 \$76,759 and \$86,438 for the three months ended March 31, 2001 and 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 and a fair value of \$2,361,381, 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.

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 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 March 31, 2001, the Partnership had invested in 50 Insured Mortgages with an aggregate amortized cost of approximately \$98 million, an aggregate face value of approximately \$102 million and an aggregate fair value of approximately \$102 million, as discussed below.

As of May 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 May 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	Application Date	Outstanding Principal Balance	Assignment Date
-----	-----	-----	----
Park Place Apartments	June 2000	\$ 754,000	N/A
Summit Square Manor	June 2000	1,903,000	N/A
Park Hill Apartments	Sept. 2000	1,737,000	N/A

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Fairfax House	Sept. 2000	2,128,000	N/A
Country Club Terrace Apts.	Sept. 2000	1,439,000	N/A
Fairlawn II	Sept. 2000	755,000	N/A
Nevada Hills Apts.	Dec. 2000	1,146,000	N/A
Dunhaven Apartments, Section I	Jan. 2001	884,000	N/A

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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 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 and a fair value of \$2,361,381, 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 general, the Partnership will hold the debenture until its maturity date of June 1, 2010 or when called, whichever comes first. 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.

### Results of Operations

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Net earnings decreased for the three months ended March 31, 2001, as compared to the corresponding period in 2000, primarily due to a decrease in mortgage investment income. This decrease in earnings was partially offset by an increase in gains on mortgage dispositions.

Mortgage investment income decreased for the three months ended March 31, 2001, as compared to the corresponding period in 2000, primarily due to a reduction in the mortgage base. The mortgage base decreased as a result of five mortgage dispositions with an aggregate principal balance of approximately \$14 million, representing an approximate 11% decrease in the aggregate principal balance of the total mortgage portfolio since March 2000.

Interest and other income decreased for the three months ended March 31, 2001, as compared to the corresponding period in 2000, primarily due to the

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timing of temporary investment of mortgage disposition proceeds prior to distribution.

Asset management fees decreased for the three months ended March 31, 2001, as compared to the corresponding period in 2000, primarily due to the reduction in the mortgage asset base.

General and administrative expenses decreased for the three months ended March 31, 2001, as compared to the corresponding period in 2000, primarily due to a decrease in mortgage service fees as a result of the decreased mortgage base.

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Gains on mortgage dispositions increased for the three months ended March 31, 2001, as compared to the corresponding period in 2000. During the first three months of 2001, the Partnership recognized gains of approximately \$262,000 from the prepayment of the mortgages on The Meadows of Livonia and Gold Key Village Apartments. During the first three months of 2000, the Partnership recognized a gain of approximately \$44,000 from the prepayment of the mortgage on Turtle Creek Apartments.

### Liquidity and Capital Resources

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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 three 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 three months ended March 31, 2001, as compared to the corresponding period in 2000, primarily due to the reduction in the mortgage base 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 from HUD under the section 221 program, as previously discussed.

Net cash provided by investing activities increased for the three months ended March 31, 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.

Net cash used in financing activities decreased for the three months ended March 31, 2001, as compared to the corresponding period in 2000, due to a decrease in the amount of distributions paid to partners in the first three months of 2001 versus the same period in 2000.

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PART I. FINANCIAL INFORMATION

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, which coupled with the related spread to treasury investors required for the Partnership's Insured Mortgages, will cause fluctuations in the market value of Partnership's assets.

Management has determined that there has not been a material change as of March 31, 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 5. OTHER INFORMATION

The following table sets forth information concerning a change in the board of directors of CRIIMI MAE, the sole shareholder of the General Partner, effective April 17, 2001. Under the terms of CRIIMI MAE's reorganization plan, the Board of Directors has expanded from six to nine directors.

The five new Directors are:

- o John R. Cooper, senior vice president, finance, of PG&E National Energy Group, Inc., Bethesda, MD and senior vice president, finance and chief financial officer of PG&E National Energy Group Company, a subsidiary of PG&E Energy Group, Inc.
- o Alan M. Jacobs, president, AMJ Advisors LLC, Woodmere, NY, that provides expertise in business turnarounds, corporate restructuring and reorganization corporate finance and dispute resolution; AMJ was a financial advisor for CRIIMI MAE's Official Committee of Equity Shareholders.
- o Donald J. MacKinnon, chief executive officer and president, REALM, New York, NY, a business-to-business e-commerce hub that combines the resources of several real estate software companies: ARGUS Financial Software, B.J. Murray, CTI Limited, DYNA and NewStar solutions.
- o Donald C. Wood, president and chief operating officer, Federal Realty Investment Trust, Rockville, MD, an owner, manager and developer of high quality retail and mixed-use properties.
- o Michael F. Wurst, principal, Meridian Realty Advisors, Inc., Dallas, TX, a Dallas-based real estate investment firm focusing on out-of-favor or liquidity-challenged sectors and assets.

Directors to remain on the Board are:

- o William B. Dockser, chairman, CRIIMI MAE Inc., Rockville, MD.
- o H. William Willoughby, president, CRIIMI MAE Inc., Rockville, MD.
- o Robert J. Merrick, chief credit officer and director, MCG Capital Corporation, Richmond, VA.
- o Robert E. Woods, managing director and head of loan syndication for the Americas, Societe Generale, New York, NY.

Garrett G. Carlson, Sr. and G. Richard Dunnells resigned as directors in conjunction with the effective date of the reorganization plan.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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No reports on Form 8-K were filed with the Securities and Exchange Commission during the quarter ended March 31, 2001.

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PART II. OTHER INFORMATION

SIGNATURE

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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

May 15, 2001

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DATE

/s/ Cynthia O. Azzara

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