

AMERICAN INSURED MORTGAGE INVESTORS SERIES 85 L P

Form 10-Q

May 10, 2002

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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, 2002

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 [X] No []

As of March 31, 2002, 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 MARCH 31, 2002

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

BALANCE SHEETS

	March 31, 2002	December 31, 2001
	-----	-----
	(Unaudited)	
ASSETS		
Investment in FHA-Insured Certificates and GNMA Mortgage-Backed Securities, at fair value		
Acquired insured mortgages	\$ 41,844,999	\$ 45,845,197
Originated insured mortgages	15,594,550	15,734,485
	-----	-----

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	57,439,549	61,579,682
Investment in FHA-Insured Loans, at amortized cost, net of unamortized discount and premium:		
Acquired insured mortgages	8,881,718	8,914,573
Originated insured mortgages	9,396,153	12,430,002
	-----	-----
	18,277,871	21,344,575
Cash and cash equivalents	16,392,855	4,366,085
Receivables and other assets	4,358,126	8,394,392
Investment in FHA debenture	-	2,385,233
	-----	-----
Total assets	\$ 96,468,401	\$ 98,069,967
	=====	=====

LIABILITIES AND PARTNERS' EQUITY

Distributions payable	\$ 16,654,897	\$ 1,885,460
Accounts payable and accrued expenses	137,709	121,659
Due to affiliate	-	1,235,104
	-----	-----
Total liabilities	16,792,606	3,242,223
	-----	-----
Partners' equity:		
Limited partners' equity, 15,000,000 Units authorized, 12,079,514 Units issued and outstanding	86,301,852	99,801,805
General partners' deficit	(6,328,986)	(5,781,121)
Accumulated other comprehensive (loss) income	(297,071)	807,060
	-----	-----
Total partners' equity	79,675,795	94,827,744
	-----	-----
Total liabilities and partners' equity	\$ 96,468,401	\$ 98,069,967
	=====	=====

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
March 31,
2002 2001
----- -----

Income:

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Mortgage investment income	\$ 1,620,471	\$ 2,147,699
Interest and other income	106,204	147,362
	-----	-----
	1,726,675	2,295,061
	-----	-----
Expenses:		
Asset management fee to related parties	189,781	260,415
General and administrative	98,974	101,101
	-----	-----
	288,755	361,516
	-----	-----
Net earnings before gains on mortgage dispositions	1,437,920	1,933,545
Gains on mortgage dispositions	1,169,159	262,286
	-----	-----
Net earnings	\$ 2,607,079	\$ 2,195,831
	=====	=====
Other comprehensive (loss) income - adjustment to unrealized (losses) gains on investments in insured mortgages	(1,104,131)	575,549
	-----	-----
Comprehensive income	\$ 1,502,948	\$ 2,771,380
	=====	=====
Net earnings allocated to:		
Limited partners - 96.1%	\$ 2,505,403	\$ 2,110,194
General Partner - 3.9%	101,676	85,637
	-----	-----
	\$ 2,607,079	\$ 2,195,831
	=====	=====
Net earnings per Unit of limited partnership interest - basic	\$ 0.21	\$ 0.17
	=====	=====

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, 2002

(Unaudited)

General Partner	Limited Partner	Accumulated Other Comprehensive Income (Loss)
-----	-----	-----

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Balance, December 31, 2001	\$ (5,781,121)	\$ 99,801,805	\$ 807,06
Net Earnings	101,676	2,505,403	
Adjustment to unrealized gains (losses) on investments in insured mortgages	-	-	(1,104,13
Distributions paid or accrued of \$1.325 per Unit, including return of capital of \$1.115 per Unit	(649,541)	(16,005,356)	
Balance, March 31, 2002	\$ (6,328,986)	\$ 86,301,852	\$ (297,07
Limited Partnership Units outstanding - basic, as of March 31, 2002		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
	20

Cash flows from operating activities:	
Net earnings	\$ 2,6
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Net gain on mortgage dispositions	(1,1
Changes in assets and liabilities:	
Decrease (increase) in receivables and other assets	7
Increase (decrease) in accounts payable and accrued expenses	(
Decrease in due to affiliate	(

Net cash provided by operating activities	2,1

Cash flows from investing activities:	
Proceeds from disposition of mortgages	3,6
Proceeds received from Midland	6,7
Proceeds from redemption of debenture	2,3
Debenture proceeds paid to affiliate	(1,1
Receipt of mortgage principal from scheduled payments	1

Net cash provided by investing activities	11,7

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Cash flows used in financing activities:

Distributions paid to partners	(1,8

Net increase in cash and cash equivalents	12,0
Cash and cash equivalents, beginning of period	4,3

Cash and cash equivalents, end of period	\$ 16,3
	=====

Non-cash investing activity:

Portion of HUD debentures due from Midland in exchange for the mortgages on Country Club Terrace Apartments, Nevada Hills Apartments and Dunhaven Apartments	\$ 3,4
--	--------

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 terminated earlier under the provisions of the Partnership Agreement.

CRIIMI, Inc. (the "General Partner"), a wholly owned subsidiary of CRIIMI MAE Inc. ("CRIIMI MAE"), holds a partnership interest of 3.9%. AIM Acquisition Partners L.P. (the "Advisor") serves as the advisor to the Partnership pursuant to an advisory agreement between the Advisor and 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 renders services to the Partnership, including but not limited to, the management and disposition of the Partnership's portfolio of 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. 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 does 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 portfolio pursuant to the

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Sub-Advisory Agreement. The general partner of CMSLP is CMSLP Management Company, Inc., a wholly owned subsidiary 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.

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, 2002 and December 31, 2001 and the results of its operations and its cash flows for the three months ended March 31, 2002 and 2001.

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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 ("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, 2001.

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, 2002 -----	December 2001 -----
Fully Insured Acquired Mortgages:		
Number of:		
GNMA Mortgage-Backed Securities	2	
FHA-Insured Certificates (1) through (4)	23	
Amortized Cost	\$41,642,529	\$44,640,
Face Value	42,701,741	46,215,
Fair Value	41,844,999	45,845,
Fully Insured Originated Mortgages:		
Number of:		
GNMA Mortgage-Backed Securities	1	
FHA-Insured Certificates	1	

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Amortized Cost	\$16,094,091	\$16,132,
Face Value	16,094,090	16,132,
Fair Value	15,594,550	15,734,

(1) In April 2002, the mortgage on Garden Court Apartments was prepaid. The Partnership received net proceeds of approximately \$1.2 million and expects to recognize a gain of approximately \$9,000. A distribution of approximately \$0.09 per Unit related to the prepayment of this mortgage was declared in April and is expected to be paid to Unitholders in August 2002.

In addition to footnote (1) above, footnotes (2) through (4) referred to in the table above correspond to the numbers of the items listed in the table that follows.

The list below summarizes debentures issued by the United States Department of Housing and Urban Development ("HUD") in January 2002 for mortgages assigned to HUD under Section 221 of the National Housing Act (the "Section 221 program"). Interest is payable on the debentures semi-annually on January 1 and July 1. The debentures were issued to Firststar Trust Company, the initial mortgagee, and transferred to Midland Loan Services, Inc. ("Midland"), the servicer. The Partnership anticipates the debentures will be redeemed prior to the maturity date. The net proceed amounts listed below are included in receivables and other assets in the Partnership's balance sheet as of March 31, 2002.

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(Dollars in thousands, except per unit amounts)

Complex Name	Debenture Interest Rate	Net Proceeds	Application Date	Date of Response from HUD	Ga
-----	----	-----	----	-----	---
(2) Country Club Terrace Apts.	7.500%	\$ 1,425	Sep 2000	Jan 2002	\$ 1
(3) Nevada Hills Apartments	7.500%	1,134	Dec 2000	Jan 2002	1
(4) Dunhaven Apartments	7.125%	872	Jan 2001	Jan 2002	1

Total included in receivables and other assets as of March 31, 2002		\$ 3,431			
		=====			

As of May 1, 2002, 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 The Executive House, which is delinquent with respect to the April 2002 payment of principal and interest. The Partnership no longer receives monthly principal and interest from mortgages that are in the HUD assignment process under the Section 221 program. The servicer of the mortgage on Fairlawn II filed an application for insurance benefits under section 221 in September 2000. The face value of this mortgage was approximately \$755,000 as of the insurance application date. The Partnership has not received approval for the assignment of this mortgage as of May 1, 2002.

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 Insured Mortgage to FHA receives, in exchange therefor, HUD debentures having a total face value equal to the then outstanding principal

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balance of the Insured Mortgage plus accrued interest to the date of assignment. These HUD 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. 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.

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4. INVESTMENT IN FHA-INSURED LOANS

Fully Insured FHA-Insured Loans

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

	March 31, 2002 -----	December 31, 2001 -----
Fully Insured Acquired Loans:		
Number of Loans	7	
Amortized Cost	\$ 8,881,718	\$ 8,914,577
Face Value	10,578,264	10,632,937
Fair Value	10,462,428	10,451,177
Fully Insured Originated Loans:		
Number of Loans (1)	2	
Amortized Cost	\$ 9,396,153	\$12,430,000
Face Value	9,136,039	12,132,657
Fair Value	8,976,421	12,122,227

(1) In January 2002, the mortgage on Longleaf Lodge was prepaid. The Partnership received net proceeds of approximately \$3.7 million and recognized a gain of approximately \$672,000 for the three months ended March 31, 2002. A distribution of approximately \$0.29 per Unit related to the prepayment of this mortgage was declared in January and paid to Unitholders in May 2002.

As of May 1, 2002, all of the Partnership's FHA-Insured Loans 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 April 2002 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 months ended March 31, 2002 and 2001, the Partnership received additional interest of \$3,228 and \$0, 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% FHA debenture for the mortgage on Fox Run Apartments. The debenture, with a face value as of December 31, 2001, 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 beneficially owned 50% by the Partnership and 50% by an affiliate, American Insured Mortgage Investors ("AIM 84"). In January 2002, net proceeds of approximately \$2.4 million were received upon redemption of this debenture. Since the Partnership was the record owner and AIM 84 was the 50% beneficial owner of the mortgage on Fox Run Apartments, approximately \$1.2 million of the debenture proceeds was paid to AIM 84. A distribution of approximately \$0.09 per Unit related to the redemption of this debenture was declared in January 2002 and paid in May 2002.

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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, 2002 and 2001 are as follows:

	2002 -----	2001 -----
Quarter ended March 31,	\$1.325 (1)	\$0.680 (2)
	-----	-----
	\$1.325	\$0.680
	=====	=====

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

Complex Name(s) -----	Date Proceeds Received -----	Type of Disposition -----	Net Proce Per U -----
(1) Quarter ended March 31, 2002:			
The Gate House Apartments	Dec 2001	Prepayment	\$0.2
Longleaf Lodge	Jan 2002	Prepayment	0.2
Fox Run Apartments	Jan 2002	Assignment	0.0
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	0.0
Summit Square Manor	Jan 2002	Assignment	0.1
Park Place	Jan 2002	Assignment	0.0
Park Hill Apartments	Jan 2002	Assignment	0.1
Fairfax House	Jan 2002	Assignment	0.1
Woodland Villas	Jan 2002	Assignment	0.0
(2) Quarter ended March 31, 2001:			
The Meadows of Livonia	Jan 2001	Prepayment	\$0.5

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 pay a fixed monthly mortgage 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 payment

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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 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 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 ended March 31,	
-----	-----	2002	2001
CRIIMI, Inc. (1)	General Partner/Distribution	\$ 649,541	\$ 3,000
AIM Acquisition Partners, L.P. (2)	Advisor/Asset Management Fee	189,781	2,000
CRIIMI MAE Management, Inc.	Affiliate of General Partner/Expense Reimbursement	15,342	

(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, 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 \$55,945 and \$76,759 for the three months ended March 31, 2002 and 2001, respectively. The general partner and limited partner of CMSLP are wholly owned subsidiaries of CRIIMI MAE.

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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 prior and 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, 2002, the Partnership had invested in 36 Insured Mortgages with an aggregate amortized cost of approximately \$76.0 million, an aggregate face value of approximately \$78.5 million and an aggregate fair value of approximately \$76.9 million, as discussed below.

In April 2002, the mortgage on Garden Court Apartments was prepaid. The Partnership received net proceeds of approximately \$1.2 million and expects to recognize a gain of approximately \$9,000. A distribution of approximately \$0.09 per Unit related to the prepayment of this mortgage was declared in April and is expected to be paid to Unitholders in August 2002.

As of May 1, 2002, 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 mortgages on Westbrook Apartments and The Executive House, which are delinquent with respect to the April 2002 payment of principal and interest. The Partnership no longer receives monthly principal and interest from mortgages that are in the HUD assignment process under the Section 221 program. The servicer of the mortgage on Fairlawn II filed an application for insurance benefits under section 221 in September 2000. The face value of this mortgage was approximately \$755,000 as of the insurance application date. The Partnership has not received approval for the assignment of this mortgage as of May 1, 2002.

Under the Section 221 program, a mortgagee has the right to put a mortgage 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 Insured Mortgage to FHA receives, in exchange therefor, HUD debentures having a total face value equal to the then outstanding principal balance of the Insured Mortgage plus accrued interest to the date of assignment. These HUD debentures generally mature 10 years from the date of assignment and bear interest at the 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 the Section 221 program, the

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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.

The list below summarizes debentures issued in January 2002 for mortgages assigned to HUD under the Section 221 program. Interest is payable on the debentures semi-annually on January 1 and July 1. The debentures were issued to Firststar Trust Company, the initial mortgagee, and transferred to Midland Loan Services, Inc. ("Midland"), the servicer. The Partnership anticipates the debentures will be redeemed prior to the maturity date. The net proceed amounts listed below are included in receivables and other assets in the Partnership's balance sheet as of March 31, 2002.

(Dollars in thousands, except per unit amounts)

Complex Name -----	Debenture Interest Rate ----	Net Proceeds -----	Application Date ----	Date of Response from HUD -----	Gain 2002 ----
(2) Country Club Terrace Apts.	7.500%	\$ 1,425	Sep 2000	Jan 2002	\$ 178
(3) Nevada Hills Apartments	7.500%	1,134	Dec 2000	Jan 2002	154
(4) Dunhaven Apartments	7.125%	872	Jan 2001	Jan 2002	165

Total included in receivables and other assets as of March 31, 2002		\$ 3,431 =====			

Results of Operations

Net earnings increased by approximately \$411,000 for the three months ended March 31, 2002, as compared to the corresponding period in 2001, primarily due to an increase in gains on mortgage dispositions, partially offset by a decrease in mortgage investment income, as discussed below.

Mortgage investment income decreased by approximately \$527,000 for the three months ended March 31, 2002, as compared to the corresponding period in 2001, primarily due to a reduction in the mortgage base. The mortgage base decreased as a result of fifteen mortgage dispositions with an aggregate principal balance of approximately \$26 million, representing an approximate 24% decrease in the aggregate principal balance of the total mortgage portfolio since March 2001 as compared to March 2002.

Interest and other income decreased by approximately \$41,000 for the three months ended March 31, 2002, as compared to the corresponding period in 2001, primarily due to the timing of temporary investment of mortgage disposition proceeds prior to distribution.

Asset management fees decreased by approximately \$71,000 for the three months ended March 31, 2002, as compared to the corresponding period in 2001, primarily due to the reduction in the mortgage asset base.

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General and administrative expenses decreased slightly by approximately \$2,000 for the three months ended March 31, 2002, as compared to the corresponding period in 2001.

Gains on mortgage dispositions increased by approximately \$907,000 for the three months ended March 31, 2002, as compared to the corresponding period in 2001. 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

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Apartments. 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.

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 three months of 2002 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 received from Insured Mortgages. Although the Insured Mortgages pay a fixed monthly mortgage 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 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 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 increased by approximately \$278,000 for the three months ended March 31, 2002, as compared to the corresponding period in 2001, primarily due to a decrease in receivables and other assets, partially offset by lower mortgage investment income due to a reduction in the mortgage base. The decrease in receivables and other assets is primarily due to the receipt of principal and interest previously accrued on the mortgages awaiting assignment from HUD under the Section 221 program, as previously discussed.

Net cash provided by investing activities increased by approximately \$2.0 million for the three months ended March 31, 2002, as compared to the corresponding period in 2001. This increase is primarily due to proceeds received from Midland, as discussed below, and proceeds received from the redemption of a debenture, as discussed below. These increases were partially offset by a decrease in proceeds received from the prepayment of mortgages and debenture proceeds paid to an affiliate, as discussed below.

During 2001, HUD issued assignment proceeds in the form of FHA debentures in exchange for mortgages put to HUD under the Section 221 program. The debentures were issued to Firststar Trust Company, the initial mortgagee, and were subsequently transferred to Midland for each of the mortgages on Summit Square Manor, Park Place, Park Hill Apartments, Fairfax House and Woodland Villas. In

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January 2002, the Partnership received aggregate net proceeds of approximately \$6.8 million from Midland for the redemption of the FHA debentures that were previously issued by HUD. A distribution of approximately \$0.545 per Unit related to the redemption of these debentures was declared in February and paid in May 2002.

In December 2000, HUD issued assignment proceeds in the form of a 7.125% FHA debenture for the mortgage on Fox Run Apartments. The debenture, with a face value of approximately \$2.4 million as of December 31, 2001, 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"). In January 2002, net proceeds of approximately \$2.4 million were received upon redemption of this debenture. Since the mortgage on Fox Run Apartments was beneficially owned 50% by the Partnership and 50% by AIM 84, approximately \$1.2 million of the debenture proceeds was paid to AIM 84. A distribution of approximately \$0.09 per Unit related to the redemption of this debenture was declared in January 2002 and paid in May 2002.

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Net cash used in financing activities decreased by approximately \$4.4 million for the three months ended March 31, 2002, as compared to the corresponding period in 2001, due to a decrease in the amount of distributions paid to partners in the first three months of 2002 compared to the same period in 2001.

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PART I. FINANCIAL INFORMATION

ITEM 3. 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 securities 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 March 31, 2002, the average U.S. Treasury rate used to price the Partnership's Insured Mortgages had increased by approximately 35 to 54 basis points compared to December 31, 2001.

Management has determined that there has not been a material change as of March 31, 2002, in market risk from December 31, 2001 as reported in the Partnership's Annual Report on Form 10-K as of December 31, 2001.

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PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

None.

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PART II. OTHER INFORMATION

SIGNATURE

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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 10, 2002

DATE

/s/ Cynthia O. Azzara

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