

AMERICAN INSURED MORTGAGE INVESTORS SERIES 85 L P

Form 10-Q

May 06, 2005

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2005  
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Commission file number 1-11059  
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AMERICAN INSURED MORTGAGE INVESTORS - SERIES 85, L.P.  
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(Exact name of registrant as specified in its charter)

California 13-3257662  
-----  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

11200 Rockville Pike, Rockville, Maryland 20852  
-----  
(Address of principal executive offices) (Zip Code)

(301) 255-4700  
-----  
(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, 2005, 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, 2005

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PART I.	FINANCIAL INFORMATION
ITEM 1.	FINANCIAL STATEMENTS

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

BALANCE SHEETS

	March 31, 2005	December 31, 2004
	-----	-----
ASSETS	(Unaudited)	

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Investment in FHA-Insured Certificates and GNMA Mortgage-Backed Securities, at fair value	\$ 14,235,448	\$ 14,299,980
Investment in debenture, at fair value	1,741,873	1,741,873
Cash and cash equivalents	518,635	619,856
Receivables and other assets	146,124	140,559
Total assets	<u>\$ 16,642,080</u>	<u>\$ 16,802,268</u>
LIABILITIES AND PARTNERS' EQUITY		
Distributions payable	\$ 251,395	\$ 377,092
Accounts payable and accrued expenses	107,371	83,241
Total liabilities	<u>358,766</u>	<u>460,333</u>
Partners' equity:		
Limited partners' equity, 15,000,000 Units authorized, 12,079,514 Units issued and outstanding	24,976,727	25,012,435
General partner's deficit	(8,817,725)	(8,816,275)
Accumulated other comprehensive income	124,312	145,775
Total partners' equity	<u>16,283,314</u>	<u>16,341,935</u>
Total liabilities and partners' equity	<u>\$ 16,642,080</u>	<u>\$ 16,802,268</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 INCOME AND COMPREHENSIVE INCOME

(Unaudited)

	For the three months ended March 31,	
	2005	2004
	-----	-----
Income:		
Mortgage investment income	\$ 320,181	\$ 804,511
Interest and other income	27,408	64,782
	<u>347,589</u>	<u>869,293</u>

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Expenses:		
Asset management fee to related parties	36,405	106,629
General and administrative	96,947	88,288
	-----	-----
	133,352	194,917
	-----	-----
Net earnings before gains on mortgage dispositions	214,237	674,376
Gains on mortgage dispositions	-	632,327
	-----	-----
Net earnings	\$ 214,237	\$ 1,306,703
	=====	=====
Other comprehensive loss - adjustment to unrealized gains on investments in insured mortgages	(21,463)	(40,628)
	-----	-----
Comprehensive income	\$ 192,774	\$ 1,266,075
	=====	=====
Net earnings allocated to:		
Limited partners - 96.1%	\$ 205,882	\$ 1,255,742
General Partner - 3.9%	8,355	50,961
	-----	-----
	\$ 214,237	\$ 1,306,703
	=====	=====
Net earnings per Unit of limited partnership interest - basic and diluted	\$ 0.02	\$ 0.10
	=====	=====

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, 2005

(Unaudited)

General Partner	Limited Partners	Accumulate Other Comprehensi Income
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Balance, December 31, 2004	\$ (8,816,275)	\$ 25,012,435	\$ 145,7
Net earnings	8,355	205,882	
Adjustment to unrealized gains on investments in insured mortgages	-	-	(21,4
Distributions paid or accrued of \$0.02 per Unit	(9,805)	(241,590)	
Balance, March 31, 2005	\$ (8,817,725) =====	\$ 24,976,727 =====	\$ 124,3 =====
Limited Partnership Units outstanding - basic and diluted, as of and for the three months ended March 31, 2005 and 2004		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
		2005
		-----
Cash flows from operating activities:		
Net earnings		\$ 214,23
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Gains on mortgage dispositions		
Changes in assets and liabilities:		
(Increase) decrease in receivables and other assets		(5,56
Increase in accounts payable and accrued expenses		24,13
Decrease in due to affiliate		
		-----
Net cash provided by operating activities		232,80
		-----
Cash flows from investing activities:		
Proceeds from mortgage prepayments and sales		
Receipt of mortgage principal from scheduled payments		43,06
Proceeds from redemption of debentures		
Debenture proceeds paid to affiliate		

Net cash provided by investing activities	43,06
Cash flows used in financing activities:	
Distributions paid to partners	(377,09
Net (decrease) increase in cash and cash equivalents	(101,22
Cash and cash equivalents, beginning of period	619,85
Cash and cash equivalents, end of period	\$ 518,63
Non-cash investing activity:	
Debentures received from HUD in exchange for assigned mortgages	\$

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 in exchange for 125 Units.

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 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

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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.

Prior to December 1993, the Partnership was engaged in the business of originating and acquiring government insured mortgage loans ("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 required, pursuant to the Partnership Agreement, to dispose of its assets prior to this date.

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. Based upon the current level of interest rates, the trend in mortgage prepayments and other dispositions over the past year is likely to continue. Such mortgage prepayments and other dispositions, if continued at the trend over the past year, will likely result in a termination and liquidation of the Partnership significantly earlier than the December 2009 stated termination date. Upon

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

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

the termination and liquidation of the Partnership, distributions to Unitholders will be made in accordance with the terms of the Partnership Agreement. A final distribution will be based on the Unitholders' and the General Partner's pro-rata share of the Partnership's remaining net assets after deducting and setting aside amounts required to satisfy and discharge any existing Partnership obligations and expenses, as stated in the Partnership Agreement. Such distribution to Unitholders will be substantially less than the amount of limited partners' equity shown on the Partnership's financial statements, because that amount is calculated in accordance with GAAP but does not reflect the actual amount distributable to limited partners. The terms of

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the Partnership Agreement do not require the General Partner to contribute an amount equal to the General Partner's deficit to the Partnership as shown on the Partnership's financial statements prior to the time the Partnership makes a final distribution. Therefore, the amount of that deficit is excluded from the amount distributable to limited partners.

### 2. BASIS OF PRESENTATION

The Partnership's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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, 2005, and the results of its operations and its cash flows for the three months ended March 31, 2005 and 2004.

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 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, 2004.

### 3. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following estimated fair values of the Partnership's financial instruments are presented in accordance with GAAP which define fair value as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. These estimated fair values, however, do not represent the liquidation value or the market value of the Partnership.

	As of March 31, 2005		As of December 31,	
	Amortized Cost	Fair Value	Amortized Cost	
	-----	-----	-----	-----
Investment in FHA-Insured Certificates and GNMA Mortgage-Backed Security (1)	\$ 14,111,137 =====	\$ 14,235,448 =====	\$ 14,154,205 =====	\$ =====
Cash and cash equivalents	\$ 518,635 =====	\$ 518,635 =====	\$ 619,856 =====	\$ =====
Investment in Debentures	\$ 1,741,873 =====	\$ 1,741,873 =====	\$ 1,741,873 =====	\$ =====



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

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

(1) Carried at fair value on the Partnership's balance sheet.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Investment in FHA-Insured Certificates, GNMA Mortgage-Backed Securities and  
-----  
Debenture  
-----

There is an active market for new issuances of FHA-Insured Certificates and GNMA Mortgage-Backed Securities. However, the Partnership's Insured Mortgages are not comparable to such new issuances due to their age and characteristics of their prepayment penalties. Accordingly, the Partnership internally develops fair value estimates for these securities, as described below.

The Partnership's fair value estimates for its Insured Mortgages are based on available market information, certain third party information and management's estimates. The Partnership compares the interest rates on each of its Insured Mortgages to the applicable U.S. Treasury rate for a security with a comparable maturity plus a spread to determine an approximate market level interest rate relative to each of its Insured Mortgages and considers prepayment lockouts and penalties in determining the fair value of its Insured Mortgages. In general, the Partnership's Insured Mortgages have relatively high coupon rates compared to current U.S. Treasury rates and low, if any, prepayment penalties. Accordingly, most of the Partnership's Insured Mortgages are valued close to par. Insured Mortgages that have some remaining prepayment penalties are valued to include the prepayment penalty likely to be paid in the event of prepayment. These assumptions are similar to information provided by a third party and provide prices that are consistent with prices received in sales of certain of the Partnership's Insured Mortgages. The Partnership believes that its valuation methodology is reasonable for determining estimated fair values of the Partnership's Insured Mortgages and, due to the nature of these Insured Mortgages, another valuation methodology would not result in values materially different from the values utilized by the Partnership which generally approximate their par values.

Since the Partnership's debenture may be redeemed by HUD, at any time, the face value of the debenture is equivalent to the fair value of the debenture.

Cash and cash equivalents  
-----

The carrying amount approximates fair value because of the short maturity of these instruments.

4. 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, 2005	December 2004
	-----	-----
Number of:		
GNMA Mortgage-Backed Securities	1	
FHA-Insured Certificates (1) (2) (3)	7	
Amortized Cost	\$14,111,137	\$14,154,
Face Value	14,215,881	14,260,
Fair Value	14,235,448	14,299,

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

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

- (1) In April 2005, the mortgage on Bradley Road Nursing was prepaid. The Partnership received net proceeds of approximately \$2.5 million and expects to recognize a gain of approximately \$64,000 during the second quarter of 2005. The Partnership expects to distribute approximately \$0.195 per Unit related to the prepayment of this mortgage and expects to include such amount in the second quarter distribution expected to be paid to Unitholders in August 2005.
- (2) In April 2005, the mortgage on Sangnok Villa was prepaid. The Partnership received net proceeds of approximately \$876,000 and expects to recognize a gain of approximately \$4,700 during the second quarter of 2005. The Partnership expects to distribute approximately \$0.07 per Unit related to the prepayment of this mortgage and expects to include such amount in the second quarter distribution expected to be paid to Unitholders in August 2005.
- (3) In May 2005, the FHA-Insured Certificate backed by the mortgage on Eaglewood Villa Apartments was sold, in the ordinary course of business, with the consent of the Advisor. The Partnership received net proceeds of approximately \$2.6 million and expects to recognize a gain of approximately \$92,000 during the second quarter of 2005. The Partnership expects to distribute approximately \$0.21 per Unit related to the sale of this FHA-Insured Certificate and expects to include such amount in the second quarter distribution expected to be paid to Unitholders in August 2005.

As of May 3, 2005, all of the GNMA Mortgage-Backed Securities and FHA-Insured Certificates are current with respect to the payment of principal and interest.

5. INVESTMENT IN DEBENTURE

Listed below is the Partnership's investment in a debenture issued by HUD:

March 31, 2005	December 2004
-----	-----

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Amortized Cost	\$1,741,873	\$1,741,
Face Value	1,741,873	1,741,
Fair Value	1,741,873	1,741,

Interest on this 5.75% debenture is payable semi-annually on January 1 and July 1. The maturity date of this debenture is June 10, 2013, however it may be redeemed by HUD at any time.

6. DISTRIBUTIONS TO UNITHOLDERS

The distributions paid or accrued to Unitholders on a per Unit basis for the three months ended March 31, 2005 and 2004 are as follows:

	2005	2004
	-----	-----
Quarter ended March 31	\$0.02	\$2.01
	-----	-----
	\$0.02	\$2.01
	=====	=====

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 Partnership's 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 in which the monthly mortgage payment receipts are temporarily invested prior to the payment of quarterly distributions, (2) the reduction in the asset base resulting from monthly mortgage payments received or mortgage dispositions, (3) variations in the cash flow attributable to the delinquency or default of Insured Mortgages, the timing of receipt of debentures, the interest rate on debentures and debenture redemptions, and (4) changes 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

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

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

mortgage base. Based upon the current level of interest rates, the trend in mortgage prepayments and other dispositions over the past year is likely to continue. Such mortgage prepayments and other dispositions, if continued at the trend over the past year, will likely result in a termination and liquidation of the Partnership significantly earlier than the December 2009 stated termination date. Upon the termination and liquidation of the Partnership, distributions to Unitholders will be made in accordance with the terms of the Partnership Agreement. A final distribution will be based on the Unitholders' and the General Partner's pro-rata share of the Partnership's remaining net assets after deducting and setting aside amounts required to satisfy and discharge any

existing Partnership obligations and expenses, as stated in the Partnership Agreement. Such distribution to Unitholders will be substantially less than the amount of limited partners' equity shown on the Partnership's financial statements, because that amount is calculated in accordance with GAAP but does not reflect the actual amount distributable to limited partners. The terms of the Partnership Agreement do not require the General Partner to contribute an amount equal to the General Partner's deficit to the Partnership as shown on the Partnership's financial statements prior to the time the Partnership makes a final distribution. Therefore, the amount of that deficit is excluded from the amount distributable to limited partners.

Commencing in the first quarter of 2005, the General Partner declares distributions of regular cash flow and mortgage proceeds, if any, once each quarter. The General Partner made the decision to declare distributions quarterly instead of monthly to reduce expenses associated with monthly declarations. The distributions are to be declared in March, June, September and December and are to be paid approximately 30 days after the end of each calendar quarter.

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 three mo Marc 2005 -----
CRIIMI, Inc. (1)	General Partner/Distribution	\$ 9,805
AIM Acquisition Partners, L.P. (2)	Advisor/Asset Management Fee	36,405
CRIIMI MAE Management, Inc.(3)	Affiliate of General Partner/Expense Reimbursement	14,827

- (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 is entitled to an asset management fee equal to 0.95% of total invested assets (as defined in the Partnership Agreement). CMSLP 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 \$10,728 and \$31,424 for the three months ended March 31, 2005 and 2004, 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.

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 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 (defined below) with the Securities and Exchange Commission ("SEC") including, without limitation, statements with respect to growth, projected revenues, earnings, returns, distributions 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 disposition of investments, 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 matters, (ii) interest rates, (iii) prepayment of mortgages, (iv) defaulted mortgages, (v) errors in servicing defaulted mortgages and (vi) sales of mortgage investments at other than 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.

General

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The Partnership's business consists of holding government insured mortgage investments ("Insured Mortgages") primarily on multifamily housing properties, and distributing the payments of principal and interest on such mortgage investments, including debentures issued by the United States Department of Housing and Urban Development ("HUD") in exchange for such mortgages, to the holders of its depository units of limited partnership interests ("Unitholders"). 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 Partnership's primary source of revenue and cash is mortgage interest income from its Insured Mortgages.

The General Partner is required to receive the consent of AIM Acquisition Partners L.P., the advisor (the "Advisor") to the Partnership, 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").

As the Partnership continues to liquidate its mortgage investments and Unitholders receive distributions of return of capital and taxable gains,

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Unitholders should expect a reduction in earnings and distributions due to the decreasing mortgage base. Based upon the current level of interest rates, the trend in mortgage prepayments and other dispositions over the past year is likely to continue. Such mortgage prepayments and other dispositions, if continued at the trend over the past year, will likely result in a termination and liquidation of the Partnership significantly earlier than the December 2009 stated termination date.

### Mortgage Investments

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As of March 31, 2005, the Partnership had investments in 8 Insured Mortgages and one debenture with

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### PART I. FINANCIAL INFORMATION

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

an aggregate amortized cost of approximately \$15.9 million, an aggregate face value of approximately \$16.0 million and an aggregate fair value of approximately \$16.0 million, as compared to March 31, 2004, when the Partnership had investments in 12 Insured Mortgages and one debenture with an aggregate amortized cost of approximately \$36.5 million, an aggregate face value of approximately \$36.6 million and an aggregate fair value of approximately \$36.8 million.

In April 2005, the mortgages on Bradley Road Nursing and Sangnok Villa prepaid. The Partnership received aggregate net proceeds of approximately \$3.3 million and expects to recognize gains of approximately \$68,000 during the second quarter of 2005. The Partnership expects to distribute approximately \$0.265 per Unit related to the prepayment of these mortgages and expects to include such amount in the second quarter distribution expected to be paid to Unitholders in August 2005.

In May 2005, the FHA-Insured Certificate backed by the mortgage on Eaglewood Villa Apartments was sold, in the ordinary course of business, with the consent of the Advisor. The Partnership received net proceeds of approximately \$2.6 million and expects to recognize a gain of approximately \$92,000 during the second quarter of 2005. The Partnership expects to distribute approximately \$0.21 per Unit related to the sale of this FHA-Insured Certificate and expects to include such amount in the second quarter distribution expected to be paid to Unitholders in August 2005.

After the prepayment of the two insured mortgages in April 2005 and the sale of the one FHA-Insured Certificate in May 2005, the Partnership had investments in 5 Insured Mortgages and one debenture with an aggregate face value of approximately \$10.1 million. As of May 3, 2005, all of the GNMA Mortgage-Backed Securities and FHA-Insured Certificates are current with respect to the payment of principal and interest.

### Results of Operations

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Net earnings decreased by approximately \$1.1 million for the three months ended March 31, 2005, as compared to the corresponding period in 2004, primarily due to a decrease in mortgage investment income and a decrease in gains on mortgage dispositions.

Mortgage investment income decreased by approximately \$484,000 for the

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three months ended March 31, 2005, as compared to the corresponding period in 2004, primarily due to a reduction in the mortgage base. The mortgage base decreased as a result of 4 mortgage dispositions with an aggregate principal balance of approximately \$20.4 million, representing an approximate 59% decrease in the aggregate principal balance of the total mortgage portfolio since March 2004.

Interest and other income decreased by approximately \$37,000 for the three months ended March 31, 2005, as compared to the corresponding period in 2004, primarily 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 \$70,000 for the three months ended March 31, 2005, as compared to the corresponding period in 2004, primarily due to the reduction in the mortgage base, as previously discussed.

General and administrative expenses increased by approximately \$9,000 for the three months ended March 31, 2005, as compared to the corresponding period in 2004, primarily related to the Partnership's listing fees on the American Stock Exchange.

Gains on mortgage dispositions decreased by approximately \$632,000 for the three months ended

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### PART I. FINANCIAL INFORMATION

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

March 31, 2005, as compared to the corresponding period in 2004. During the three months ended March 31, 2005, the Partnership recognized no gains or losses. During the first three months 2004, the Partnership recognized a gain of approximately \$246,000 from the assignment of one mortgage and gains of approximately \$386,000 from the sale of two mortgages.

#### Liquidity and Capital Resources

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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 during the three months ended March 31, 2005 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 Partnership's 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 in which the monthly mortgage payment receipts are temporarily invested prior to the payment of quarterly distributions, (2) the reduction in the asset base resulting from monthly mortgage payments received or mortgage dispositions, (3) variations in the cash flow attributable to the delinquency or default of Insured Mortgages, the timing of receipt of debentures, the interest rate on debentures and debenture redemptions, and (4) changes 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. Based upon the current level of interest rates, the trend in mortgage prepayments and other dispositions over the past year is likely to continue. Such mortgage prepayments

and other dispositions, if continued at the trend over the past year, will likely result in a termination and liquidation of the Partnership significantly earlier than the December 2009 stated termination date. Upon the termination and liquidation of the Partnership, distributions to Unitholders will be made in accordance with the terms of the Partnership Agreement. A final distribution will be based on the Unitholders' and the General Partner's pro-rata share of the Partnership's remaining net assets after deducting and setting aside amounts required to satisfy and discharge any existing Partnership obligations and expenses, as stated in the Partnership Agreement. Such distribution to Unitholders will be substantially less than the amount of limited partners' equity shown on the Partnership's financial statements, because that amount is calculated in accordance with GAAP but does not reflect the actual amount distributable to limited partners. The terms of the Partnership Agreement do not require the General Partner to contribute an amount equal to the General Partner's deficit to the Partnership as shown on the Partnership's financial statements prior to the time the Partnership makes a final distribution. Therefore, the amount of that deficit is excluded from the amount distributable to limited partners.

Net cash provided by operating activities decreased by approximately \$787,000 for the three months ended March 31, 2005, as compared to the corresponding period in 2004, primarily due to a decrease in mortgage investment income and a decrease in cash received from interest on debentures.

Net cash provided by investing activities decreased by approximately \$15.5 million for the three months ended March 31, 2005, as compared to the corresponding period in 2004, primarily due a decrease in proceeds received from mortgage prepayments, mortgage sales and redemption of debentures, partially offset by debenture proceeds due to affiliate.

Net cash used in financing activities decreased by approximately \$2.1 million for the three months ended March 31, 2005, as compared to the corresponding period in 2004, due to a decrease in the amount of distributions paid to partners in the first three months of 2005 compared to the same period in 2004.

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PART I. FINANCIAL INFORMATION

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

Critical Accounting Policies  
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The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. The Partnership continually evaluates the estimates used to prepare the financial statements, and updates those estimates as necessary. In general, management's estimates are based on historical experience, on information from third parties, and other various assumptions that are believed to be reasonable under the facts and circumstances. Actual results could differ materially from those estimates.

Management considers an accounting estimate to be critical if:

- o it requires assumptions to be made that were uncertain at the time the estimate was made; and
- o changes in the estimate or different estimates that could have been



selected and could have a material impact on the Partnership's results of operations or financial condition.

The Partnership's critical accounting estimates include the determination of the fair values for Insured Mortgages:

Fair Value of Insured Mortgages - The Partnership's fair value estimates for its Insured Mortgages are based on available market information, certain third party information and management's estimates. The Partnership compares the interest rates on each of its Insured Mortgages to the applicable U.S. Treasury rate for a security with a comparable maturity plus a spread to determine an approximate market level interest rate relative to each of its Insured Mortgages and considers prepayment lockouts and penalties in determining the fair value of its Insured Mortgages. In general, the Partnership's Insured Mortgages have relatively high coupon rates compared to current U.S. Treasury rates and low, if any, prepayment penalties. Accordingly, most of the Partnership's Insured Mortgages are valued close to par. Insured Mortgages that have some remaining prepayment penalties are valued to include the prepayment penalty likely to be paid in the event of prepayment. These assumptions are similar to information provided by a third party and provide prices that are consistent with prices received in sales of certain of the Partnership's Insured Mortgages. The Partnership believes that its valuation methodology is reasonable for determining estimated fair values of the Partnership's Insured Mortgages and, due to the nature of these Insured Mortgages, another valuation methodology would not result in values materially different from the values utilized by the Partnership which generally approximate their par values.

The Partnership assesses each Insured Mortgage for other-than-temporary impairment when the fair value of an Insured Mortgage declines below amortized cost. Any such decline is considered other-than-temporary unless the Partnership has the ability and intent to hold the Insured Mortgage for a reasonable period of time sufficient for a forecasted recovery of fair value up to (or beyond) the cost of the investment, and evidence indicating that the cost of the Insured Mortgage is recoverable within a reasonable period of time outweighs evidence to the contrary. If an other-than-temporary impairment is determined to exist, such impairment is measured by comparing the estimated fair value of the related Insured Mortgage to its current amortized cost basis, with the difference recognized as a loss in the income statement. The Partnership did not recognize an impairment loss on its Insured Mortgages during the years ended December 31, 2004, 2003 and 2002.

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PART I. FINANCIAL INFORMATION

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Management has determined that there has not been a material change as of March 31, 2005 in market risk from the information provided as of December 31, 2004 in the Partnership's Annual Report on Form 10-K as of December 31, 2004.

ITEM 4. CONTROLS AND PROCEDURES

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 its Chief Financial Officer (CFO), of the effectiveness of its disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities

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Exchange Act of 1934, as amended (the "Exchange Act"). Based on that evaluation, the General Partner's CEO and CFO concluded that its disclosure controls and procedures were effective as of the end of the period covered by this report. There have been no significant changes in the General Partner's internal controls over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are likely to materially affect, internal controls over financial reporting.

There have been no changes in the General Partner's internal controls over financial reporting in the fiscal quarter ended March 31, 2005 that have materially affected, or is reasonably likely to materially affect, internal controls over financial reporting.

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### PART II. OTHER INFORMATION ITEM 6. EXHIBITS

#### Exhibits

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#### Exhibit No.

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#### Purpose

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31.1	Certification pursuant to the Exchange Act Rule 13a-14(a) from Barry S. Blattman, Chairman of the Board and Chief Executive Officer of the General Partner (Filed herewith).
31.2	Certification pursuant to the Exchange Act Rule 13a-14(a) from Cynthia O. Azzara, Executive Vice President, Chief Financial Officer and Treasurer of the General Partner (Filed herewith).
32.1	Certification pursuant to 18 U.S.C. Section 1350 from Barry S. Blattman, Chairman of the Board and Chief Executive Officer of the General Partner (Furnished herewith).
32.2	Certification pursuant to 18 U.S.C. Section 1350 from Cynthia O. Azzara, Executive Vice President, Chief Financial Officer and Treasurer of the General Partner (Furnished herewith).

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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 6, 2005

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DATE

/s/Cynthia O. Azzara

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