

AMERICAN INSURED MORTGAGE INVESTORS SERIES 85 L P

Form 10-Q

November 13, 2003

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

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

For the quarter ended September 30, 2003

Commission file number 1-11059

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

(Exact name of registrant as specified in charter)

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

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

(301) 816-2300  
-----  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes  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 September 30, 2003, 12,079,514 depository units of limited partnership interest were outstanding.

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

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

BALANCE SHEETS

September 30, 2003	December 31, 2002
-----	-----
(Unaudited)	

ASSETS

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

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Acquired insured mortgages	\$ 30,187,602	\$ 33,849,089
Originated insured mortgages	15,954,586	15,986,295
	-----	-----
	46,142,188	49,835,384
Investment in FHA-Insured Loans, at amortized cost, net of unamortized discount and premium:		
Acquired insured mortgages	1,442,836	7,176,274
Originated insured mortgages	9,222,443	9,311,907
	-----	-----
	10,665,279	16,488,181
Investment in debentures, at fair value	10,335,670	-
Cash and cash equivalents	1,807,560	10,448,516
Receivables and other assets	1,662,494	1,465,453
	-----	-----
Total assets	\$ 70,613,191	\$ 78,237,534
	=====	=====
LIABILITIES AND PARTNERS' EQUITY		
Distributions payable	\$ 1,634,066	\$ 10,181,484
Accounts payable and accrued expenses	127,663	115,799
Due to affiliate	5,409,105	-
	-----	-----
Total liabilities	7,170,834	10,297,283
	-----	-----
Partners' equity:		
Limited partners' equity, 15,000,000 Units authorized, 12,079,514 Units issued and outstanding	69,274,899	73,382,252
General partner's deficit	(7,019,986)	(6,853,298)
Accumulated other comprehensive income	1,187,444	1,411,297
	-----	-----
Total partners' equity	63,442,357	67,940,251
	-----	-----
Total liabilities and partners' equity	\$ 70,613,191	\$ 78,237,534
	=====	=====

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

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

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Unaudited)

	For the three months ended	For
	September 30,	
	2003	2002
	-----	-----
	2003	2002
	-----	-----

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Income:			
Mortgage investment income	\$ 1,161,982	\$ 1,556,263	\$ 3,74
Interest and other income	77,349	34,691	14
	-----	-----	-----
	1,239,331	1,590,954	3,88
	-----	-----	-----
Expenses:			
Asset management fee to related parties	148,703	189,662	46
General and administrative	106,163	98,586	32
	-----	-----	-----
	254,866	288,248	79
	-----	-----	-----
Net earnings before gains on mortgage dispositions	984,465	1,302,706	3,08
Gains on mortgage dispositions	627,469	86,839	1,37
	-----	-----	-----
Net earnings	\$ 1,611,934	\$ 1,389,545	\$ 4,46
	=====	=====	=====
Other comprehensive income (loss) - adjustment to unrealized gains and losses on investments in insured mortgages	244,552	(222,429)	(22
	-----	-----	-----
Comprehensive income	\$ 1,856,486	\$ 1,167,116	\$ 4,23
	=====	=====	=====
Net earnings allocated to:			
Limited partners - 96.1%	\$ 1,549,069	\$ 1,335,353	\$ 4,28
General Partner - 3.9%	62,865	54,192	17
	-----	-----	-----
	\$ 1,611,934	\$ 1,389,545	\$ 4,46
	=====	=====	=====
Net earnings per Unit of limited partnership interest - basic	\$ 0.13	\$ 0.11	\$
	=====	=====	=====

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

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

STATEMENT OF CHANGES IN PARTNERS' EQUITY

For the nine months ended September 30, 2003

(Unaudited)

	General Partner	Limited Partners	Accumulated Other Comprehensive Income
	-----	-----	-----

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Balance, December 31, 2002	\$ (6,853,298)	\$ 73,382,252	\$ 1,411,2
Net earnings	174,015	4,287,915	
Adjustment to unrealized gains and losses on investments in insured mortgages	-	-	(223,8
Distributions paid or accrued of \$0.695 per Unit, including return of capital of \$0.345 per Unit	(340,703)	(8,395,268)	
Balance, September 30, 2003	\$ (7,019,986)	\$ 69,274,899	\$ 1,187,4
Limited Partnership Units outstanding - basic, as of September 30, 2003		12,079,514	

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

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

STATEMENTS OF CASH FLOWS

(Unaudited)

	For the S 2003
Cash flows from operating activities:	
Net earnings	\$ 4,461,
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Gains on mortgage dispositions	(1,373,
Changes in assets and liabilities:	
Net decrease in receivables and other assets	37,
Increase in accounts payables and accrued expenses	11,
Increase (decrease) in due to affiliate	91,
Net cash provided by operating activities	3,229,
Cash flows from investing activities:	
Proceeds from mortgage prepayments	2,674,
Proceeds from mortgage assignments	1,528,
Proceeds from redemption of debenture	744,
Debenture proceeds paid to affiliate	
Receipt of mortgage principal from scheduled payments	465,
Net cash provided by investing activities	5,412,

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## Cash flows used in financing activities:

Distributions paid to partners	(17,283,
	-----
Net (decrease) increase in cash and cash equivalents	(8,640,
Cash and cash equivalents, beginning of period	10,448,
	-----
Cash and cash equivalents, end of period	\$ 1,807,
	=====

## Non-cash investing activity:

Portion of 7.5% debenture due from a third party in exchange for the mortgage on Fairlawn II	\$
Portion of 6.375% debenture due from a third party in exchange for the mortgage on The Executive House	810,
Debentures received from HUD in exchange for assigned mortgages	10,335,
Portion of debentures due to affiliate	(5,167,

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 of limited partnership interest.

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 Goldman Sachs Group, L.P.

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Pursuant to the terms of certain origination and acquisition services, management services and disposition services agreements between the Advisor and the Partnership (collectively the "Advisory Agreements"), the Advisor renders services to the Partnership, including but not limited to, the management of the Partnership's portfolio of mortgages and the disposition of the Partnership's mortgages. Such services are subject to the review and ultimate authority of the General Partner. However, the General Partner is required to receive the consent of the Advisor prior to taking certain significant actions, including but not limited to the disposition of mortgages, any transaction or agreement with the General Partner or its affiliates, or any material change as to policies regarding distributions or reserves of the Partnership (collectively the "Consent Rights"). The Advisor is permitted and has delegated the performance of services to CRIIMI MAE Services Limited Partnership ("CMSLP"), a subsidiary of CRIIMI MAE, pursuant to a sub-management agreement (the "Sub-Advisory Agreement"). The general partner and limited partner of CMSLP are wholly-owned subsidiaries of CRIIMI MAE. The delegation of such services by the Advisor to CMSLP does not relieve the Advisor of its obligation to perform such services. Furthermore the Advisor has retained its Consent Rights.

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

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

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the provisions thereof. The Partnership is required, pursuant to the Partnership Agreement, to dispose of its assets prior to this date.

## 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 September 30, 2003, the results of its operations for the three and nine months ended September 30, 2003 and 2002, and its cash flows for the nine months ended September 30, 2003 and 2002.

These unaudited financial statements have been prepared pursuant to the

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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, 2002.

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

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

	September 30, 2003 -----	December 2002 -----
Acquired Mortgages:		
Number of:		
GNMA Mortgage-Backed Securities	2	
FHA-Insured Certificates (1) through (5)	12	
Amortized Cost	\$29,106,992	\$32,449,
Face Value	29,300,978	33,076,
Fair Value	30,187,602	33,849,
Originated Mortgages:		
Number of:		
GNMA Mortgage-Backed Securities	1	
FHA-Insured Certificates	1	
Amortized Cost	\$15,847,752	\$15,974,
Face Value	15,847,750	15,974,
Fair Value	15,954,586	15,986,

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- (1) In March 2003, the mortgage on Stonebridge Apartments was prepaid. The Partnership received net proceeds of approximately \$950,000 and recognized a gain of approximately \$93,000 during the nine months ended September 30, 2003. A distribution of approximately \$0.075 per Unit related to the prepayment of this mortgage was declared in April and paid to Unitholders in August 2003.
- (2) In May 2003, the mortgage on Willow Dayton was prepaid. The Partnership received net proceeds of approximately \$929,000 and recognized a gain of approximately \$107,000 during the nine months ended September 30, 2003. A distribution of approximately \$0.07 per Unit related to the prepayment of this mortgage was declared in June and paid to Unitholders in August 2003.
- (3) In May 2003, the mortgage on Magnolia Place Apartments was prepaid. The Partnership received net proceeds of approximately \$295,000 and recognized a gain of approximately \$29,000 during the nine months ended September 30, 2003. A distribution of approximately \$0.02 per Unit related to the prepayment of this mortgage was declared in June and paid to Unitholders in August 2003.
- (4) In May 2003, HUD issued assignment proceeds in the form of a 6.375% debenture in exchange for the mortgage on The Executive House. Since the mortgage on The Executive House was beneficially owned 70.39% by the Partnership and the remainder by unrelated third parties, the debenture is



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held by an unrelated third party and the face amount due to the Partnership is included in Receivables and other assets on the Partnership's balance sheet. See further discussion in Note 5.

- (5) In June 2003, the mortgage on Ashley Oaks Apartments was prepaid. The Partnership received net proceeds of approximately \$525,000 and recognized a gain of approximately \$60,000 during the nine months ended September 30, 2003. A distribution of approximately \$0.04 per Unit related to the prepayment of this mortgage was declared in July and paid to Unitholders in November 2003.

As of November 1, 2003, all of the GNMA Mortgage-Backed Securities and FHA-Insured Certificates are current with respect to the payment of principal and interest.

#### 4. INVESTMENT IN FHA-INSURED LOANS

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

	September 30, 2003 -----	December 2002 -----
Acquired Loans:		
Number of Loans (1) through (5)	1	
Amortized Cost	\$ 1,442,836	\$ 7,176,
Face Value	1,711,751	8,519,
Fair Value	1,714,975	8,513,
Originated Loans:		
Number of Loans	2	
Amortized Cost	\$ 9,222,443	\$ 9,311,
Face Value	8,978,496	9,059,
Fair Value	9,437,102	9,470,

- (1) In January 2003, the Partnership received assignment proceeds from HUD for the mortgage on Westbrook Apartments. The servicer of this mortgage filed a Notice of Election to Assign in November 2002 as a result of principal and interest payments being over 60 days delinquent. The Partnership received net proceeds of approximately \$1.5 million, which included 90% of the unpaid principal balance of this mortgage, plus interest at the debenture rate of 9.875% from September 2002 through January 2003. The Partnership recognized a gain of approximately \$228,000 during the nine months ended September 30, 2003. A distribution of approximately \$0.12 per Unit related to the assignment of this mortgage was declared in February 2003 and was paid to Unitholders in May 2003. As of November 1, 2003, the Partnership has received the remaining amount due of approximately \$330,000, which includes the remaining principal balance plus accrued interest. The Partnership has paid the amount due to AIM 84 for its 50% portion of this amount (approximately \$165,000) and expects to announce a distribution in November 2003 for the net amount received of \$165,000.

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- (2) In February 2003, HUD transferred assignment proceeds to the Partnership in the form of a 6.375% debenture, with a face value of approximately \$1.8 million, in exchange for the mortgage on Baypoint Shoreline Apartments.

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- Since the mortgage on Baypoint Shoreline Apartments was beneficially owned 50% by the Partnership and 50% by AIM 84, approximately \$906,000 of the debenture face is due to AIM 84. See further discussion in Note 5.
- (3) In July 2003, HUD transferred assignment proceeds to the Partnership in the form of a 5.75% debenture, with a face value of approximately \$2.6 million, in exchange for the mortgage on College Green Apartments. Since the mortgage on College Green Apartments was beneficially owned 50% by the Partnership and 50% by AIM 84, approximately \$1.3 million of the debenture face is due to AIM 84. See further discussion in Note 5.
  - (4) In August 2003, HUD transferred assignment proceeds to the Partnership in the form of a 5.75% debenture, with a face value of approximately \$4.8 million, in exchange for the mortgage on Brougham Estates II. Since the mortgage on Brougham Estates II was beneficially owned 50% by the Partnership and 50% by AIM 84, approximately \$2.4 million of the debenture face is due to AIM 84. See further discussion in Note 5.
  - (5) In August 2003, HUD transferred assignment proceeds to the Partnership in the form of a 5.75% debenture, with a face value of approximately \$1.2 million, in exchange for the mortgage on Town Park Apartments. Since the mortgage on Town Park Apartments was beneficially owned 50% by the Partnership and 50% by AIM 84, approximately \$589,000 of the debenture face is due to AIM 84. See further discussion in Note 5.

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

In addition to base interest payments under Originated Insured Mortgages, the Partnership is entitled to additional interest based on a percentage of the net cash flow from the underlying development (referred to as "Participations"). During the three and nine months ended September 30, 2003, the Partnership did not receive additional interest from the Participations. During the three and nine months ended September 30, 2002, the Partnership received additional interest of \$0 and \$8,396, respectively, from the Participations. These amounts, if any, are included in mortgage investment income on the accompanying Statements of Income and Comprehensive Income.

### The Section 221 Program

-----

As of November 1, 2003, there is only one Insured Mortgage held by the Partnership, as discussed below, which has been assigned to HUD under the Section 221(g)(4) program of the National Housing Act (the "Section 221 Program.") A mortgagee has the right to assign a mortgage ("put") to the United States Department of Housing and Urban Development ("HUD") at the expiration of 20 years from the date of final endorsement ("Anniversary Date") if the mortgage is not in default at such time. The mortgagee may exercise its option to put the mortgage to HUD during the one year period subsequent to the Anniversary Date. This assignment procedure is applicable to an Insured Mortgage, which had a firm or conditional commitment for HUD insurance benefits on or before November 30, 1983. Any mortgagee electing to assign an Insured Mortgage to HUD receives, in exchange therefor, a debenture having a total face value equal to (i) the then outstanding principal balance of the Insured Mortgage (ii) plus accrued interest on the mortgage to the date of assignment ("Debenture Issuance Date"). The debenture generally matures 10 years from the date of assignment and bears interest at a rate announced semi-annually by HUD in the Federal Register ("going Federal rate") at such date. In some cases, the Partnership is not the named mortgagee for the FHA-Insured Certificate. In this case, the debenture is generally issued to an unrelated third party that is the named mortgagee. The servicer of the applicable mortgage is responsible for delivering to the Partnership all HUD insurance claim proceeds. The debenture interest is paid to the Partnership in the month it is received by the servicer. The debenture proceeds are paid to the Partnership in the month the debenture is redeemed by HUD, sold by the servicer or sold by the General Partner. Debentures sold by the

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General Partner are based on the recommendation of CMSLP, the sub-advisor, and the consent of the Advisor, based upon, in general, but not limited to, the interest rates on debentures issued by HUD and the costs and risks associated with continuing to hold the debentures.

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

### Mortgage in the Section 221 HUD assignment process

-----

In April 2003, the servicer of the mortgage on Kaynorth Apartments filed an application to put this mortgage to HUD under the Section 221 Program. The face value of this mortgage was approximately \$1.7 million as of the application date. The Partnership no longer receives monthly principal and interest from a mortgage that is put to HUD under the Section 221 Program. HUD receives the monthly principal and interest and the Partnership earns semi-annual interest on a debenture issued by HUD, as discussed above. The Partnership has not received approval for this assignment as of November 1, 2003, and will continue to accrue interest on the mortgage until the debenture is transferred to the Partnership and it begins receiving the debenture interest. The amortized cost of this mortgage is included in Investment in FHA-Insured Loans on the Partnership's balance sheet as of September 30, 2003.

## 5. INVESTMENTS IN DEBENTURES AND DUE TO AFFILIATE

Listed below are debentures issued to the Partnership by HUD in exchange for mortgages put to HUD under the Section 221 program. As indicated in the table below, the Partnership's debentures have been called by HUD for redemption on January 1, 2004. The Partnership expects to receive the face value, plus accrued interest on the redemption date. The application date is the date the servicer of the respective mortgage filed an application for insurance benefits under the Section 221 Program. The receipt date is the date the Partnership received the debenture and reported a gain related to the assignment of the respective mortgage. The debentures pay interest semi-annually on January 1 and

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July 1. Since the mortgages listed were beneficially owned 50% by the Partnership and 50% by AIM 84, approximately \$5.2 million of the debenture face plus accrued interest is due to AIM 84 and is included in Due to affiliate on the Partnership's balance sheet at September 30, 2003.

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Debenture for mortgage on:	Redemption Date	Interest Rate	Face Value	Due to Affiliate	Net Amount Due to the Partnership	Appl D
Baypoint Shoreline Apartments	01/01/2004	6.375%	\$ 1,812,914	\$ 906,457	\$ 906,457	Ju
College Green Apartments	01/01/2004	5.750%	2,571,331	1,285,666	1,285,665	Fe
Brougham Estates II	01/01/2004	5.750%	4,773,594	2,386,797	2,386,797	Fe
Town Park Apartments	01/01/2004	5.750%	1,177,831	588,915	588,916	Fe
Total debentures			\$10,335,670	\$5,167,835	\$5,167,835	

In May 2003, HUD issued assignment proceeds in the form of a 6.375% debenture in exchange for the mortgage on The Executive House. The mortgage on The Executive House was put to HUD under the Section 221 Program by the servicer in April 2002. The debenture, with a face value due to the Partnership of approximately \$811,000, pays interest semi-annually on January 1 and July 1. This debenture has been called by HUD for redemption on January 1, 2004, at face amount plus accrued interest. A distribution will be declared after the debenture proceeds are received by the Partnership. The Partnership recognized a gain of approximately \$97,000 during the nine months ended September 30, 2003. Since the Partnership only owned 70.39% of the FHA insured certificate secured by the mortgage on The Executive House and the remainder was held by unrelated third parties, the debenture is held by an unrelated third party and the face amount of approximately \$811,000 due to the Partnership is included in Receivables and other assets on the Partnership's balance sheet as of September 30, 2003.

### Redemption of debenture

In January 2003, HUD redeemed the 7.5% debenture with a face amount of approximately \$758,000, issued in July 2002 in exchange for the mortgage on Fairlawn II. A distribution of approximately \$0.06 per Unit related to the debenture proceeds was declared in February 2003 and was paid to Unitholders in May 2003. The accrued interest of approximately \$28,000 related to this debenture was also received in January 2003 and is being distributed through regular cash flow distributions. This amount was included in Receivables and other Assets on the Partnership's balance sheet at December 31, 2002.

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## 6. DISTRIBUTIONS TO UNITHOLDERS

The distributions paid or accrued to Unitholders on a per Unit basis for

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the nine months ended September 30, 2003 and 2002 are as follows:

	2003	2002
	----	----
Quarter ended March 31	\$0.310 (1)	\$1.325 (4)
Quarter ended June 30	0.255 (2)	0.210 (5)
Quarter ended September 30	0.130 (3)	0.410 (6)
	-----	-----
	\$0.695	\$1.945
	=====	=====

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

Complex Name(s)	Date Proceeds Received	Type of Disposition
-----	-----	-----
(1) Quarter ended March 31, 2003:		
Walnut Hills	Dec 2002	Prepayment
Westbrook Apartments	Jan 2003	Assignment
Fairlawn II (redemption of 7.5% debenture)	Jan 2003	Assignment
(2) Quarter ended June 30, 2003:		
Stonebridge Apartments	Mar 2003	Prepayment
Magnolia Place Apartments	May 2003	Prepayment
Willow Dayton	May 2003	Prepayment
(3) Quarter ended September 30, 2003:		
Ashley Oaks Apartments	Jun 2003	Prepayment
(4) Quarter ended March 31, 2002:		
The Gate House Apartments	Dec 2001	Prepayment
Longleaf Lodge	Jan 2002	Prepayment
Fox Run Apartments (redemption of 7.125% debenture)	Jan 2002	Assignment
Interest on debentures related to mortgages on Summit Square Manor, Park Place, Park Hill Apts, Fairfax House, Woodland Villas, Country Club Terrace Apts, Dunhaven Apts and Nevada Hills Apts	Jan - Feb 2002	Assignment
Summit Square Manor (redemption of 7.125% debenture)	Jan 2002	Assignment
Park Place (redemption of 7.125% debenture)	Jan 2002	Assignment
Park Hill Apartments (redemption of 7.5% debenture)	Jan 2002	Assignment
Fairfax House (redemption of 7.5% debenture)	Jan 2002	Assignment
Woodland Villas (redemption of 7.125% debenture)	Jan 2002	Assignment
(5) Quarter ended June 30, 2002:		
Garden Court Apartments	Apr 2002	Prepayment
(6) Quarter ended September 30, 2002:		
Interest on debenture related to mortgage on Fairlawn II	Jul 2002	Assignment
Country Club Terrace Apartments	Jul 2002	Assignment
Nevada Hills Apartments	Jul 2002	Assignment
Dunhaven Apartments	Jul 2002	Assignment

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The basis for paying distributions to Unitholders is net proceeds from mortgage and/or debenture dispositions, if any, and cash flow from operations, which includes regular interest income and principal from Insured Mortgages and interest on debentures. Although the Insured Mortgages pay a fixed monthly mortgage payment and the debentures have a fixed semi-annual interest payment, the cash distributions paid to the Unitholders will vary during each quarter due

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to (1) the fluctuating yields in the short-term money market where the monthly mortgage payments and debenture interest are temporarily invested prior to the payment of quarterly distributions, (2) the reduction in the asset base and monthly mortgage payments resulting from monthly mortgage payments received or mortgage and debenture dispositions, (3) variations in the cash flow attributable to the delinquency or default of Insured Mortgages and professional fees and foreclosure costs incurred in connection with those Insured Mortgages and (4) variations in the Partnership's operating expenses. As the Partnership continues to liquidate its mortgage investments and Unitholders receive distributions of return of capital and taxable gains, Unitholders should expect a reduction in earnings and distributions due to the decreasing mortgage base. See also the discussion of the redemption of debentures in January 2004 in Note 5. Upon the termination and liquidation of the Partnership, on or before December 31, 2009, distributions to Unitholders will be made in accordance with the terms of the Partnership Agreement, as amended. A final distribution to Unitholders will be based on the Partnership's remaining net assets, and such distribution to Unitholders is likely to be substantially less than the amount referenced in limited partners' equity in the Partnership's financial statements.

### 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 September 30,	
		2003 -----	2002 -----
CRIIMI, Inc. (1)	General Partner/Distribution	\$ 63,729	\$ 200,99
AIM Acquisition Partners, L.P.(2)	Advisor/Asset Management Fee	148,703	189,66
CRIIMI MAE Management, Inc.(3)	Affiliate of General Partner/Expense Reimbursement	14,831	9,76

(1) The General Partner, pursuant to the Partnership Agreement, is entitled to receive 3.9% of the Partnership's income, loss, capital and distributions, including, without limitation, the Partnership's adjusted cash from operations and proceeds of mortgage prepayments, sales or insurance (as defined in the Partnership Agreement).

(2) The Advisor, pursuant to the Partnership Agreement, is entitled to an Asset Management Fee equal to 0.95% of Total Invested Assets (as defined in the Partnership Agreement). CMSLP, pursuant to the Sub-Advisory Agreement, is entitled to a fee of 0.28% of Total Invested Assets from the Advisor's Asset Management Fee. Of the amounts paid to the Advisor, CMSLP earned a fee equal to \$43,823 and \$138,300 for the three and nine months ended

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September 30, 2003, respectively, and \$55,896 and \$168,344 for the three and nine months ended September 30, 2002, respectively. The general partner and limited partner of CMSLP are wholly owned subsidiaries of CRIIMI MAE.

- (3) CRIIMI MAE Management, Inc., an affiliate of the General Partner, is reimbursed for personnel and administrative services on an actual cost basis.

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

FORWARD-LOOKING STATEMENTS. When used in this Quarterly Report on Form 10-Q, the words "believe," "anticipate," "expect," "contemplate," "may," "will," and similar expressions are intended to identify forward-looking statements. Statements looking forward in time are included in this Quarterly Report on Form 10-Q pursuant to the "safe harbor" provision of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties, which could cause actual results to differ materially. Accordingly, the following information contains or may contain forward-looking statements: (1) information included or incorporated by reference in this Quarterly Report on Form 10-Q, including, without limitation, statements made under Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, (2) information included or incorporated by reference in prior and future filings by the Partnership with the Securities and Exchange Commission ("SEC") including, without limitation, statements with respect to growth, projected revenues, earnings, returns and yields on its portfolio of mortgage assets, the impact of interest rates, costs and business strategies and plans and (3) information contained in written material, releases and oral statements issued by or on behalf of, the Partnership, including, without limitation, statements with respect to growth, projected revenues, earnings, returns and yields on its portfolio of mortgage assets, the impact of interest rates, costs and business strategies and plans. Factors which may cause actual results to differ materially from those contained in the forward-looking statements identified above include, but are not limited to (i) regulatory and litigation matters, (ii) interest rates, (iii) trends in the economy, (iv) prepayment of mortgages, (v) defaulted mortgages, (vi) errors in servicing defaulted mortgages and (vii) sales of mortgage investments below fair market value. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only of the date hereof. The Partnership undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events.

### Mortgage Investments

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As of September 30, 2003, the Partnership had invested in 19 Insured Mortgages and five debentures with an aggregate amortized cost of approximately \$61.6 million, an aggregate face value of approximately \$61.8 million and an aggregate fair value of approximately \$63.3 million. During the third quarter of 2003, three mortgages were approved for assignment to HUD as discussed in "Results of Operations."

The Partnership's five debentures, with an aggregate face value of approximately \$11.1 million have been called for redemption by HUD on January 1, 2004. Four of the debentures, with an aggregate face value of \$10.3 million, were issued in exchange for mortgages that were held jointly by AIM 84 and AIM 85, therefore 50% of the debenture proceeds are due to AIM 84.

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As of November 1, 2003, all of the Insured Mortgages are current with respect to the payment of principal and interest.

### Results of Operations

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Net earnings increased by approximately \$222,000 for the three months ended September 30, 2003, as compared to the corresponding period in 2002, primarily due to an increase in gains on mortgage dispositions partially offset by a decrease in mortgage investment income. Net earnings decreased by approximately \$896,000 for the nine months ended September 30, 2003, as compared to the corresponding period in 2002, primarily due to a decrease in mortgage investment income partially offset by an increase in gains on mortgage dispositions, as discussed below.

Mortgage investment income decreased by approximately \$394,000 and \$1.0 million for the three and nine months ended September 30, 2003, respectively, as compared to the corresponding periods in 2002, primarily due to a reduction in the mortgage base. The mortgage base decreased as a result of 14 mortgage

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dispositions with an aggregate principal balance of approximately \$14.6 million, representing an approximate 21% decrease in the aggregate principal balance of the total mortgage portfolio since September 2002.

Interest and other income increased by approximately \$43,000 for the three months ended September 30, 2003, primarily due to an increase in debenture interest from debentures received in the third quarter 2003, as discussed below. Interest and other income decreased by approximately \$88,000 for the nine months ended September 30, 2003, as compared to the corresponding periods in 2002, primarily due to a decrease in debenture interest and due to variations in the amounts and the timing of the temporary investment of mortgage disposition proceeds prior to distribution.

Asset management fees decreased by approximately \$41,000 and \$102,000 for the three and nine months ended September 30, 2003, respectively, as compared to the corresponding periods in 2002, primarily due to the reduction in the mortgage base, as previously discussed.

General and administrative expenses increased by approximately \$8,000 for the three and nine months ended September 30, 2003, respectively, as compared to the corresponding periods in 2002, primarily due to an increase in legal and audit fees related to the Partnership's Corporate Governance.

Gains on mortgage dispositions increased by approximately \$541,000 and \$109,000 for the three and nine months ended September 30, 2003, respectively, as compared to the corresponding periods in 2002. During the three months ended September 30, 2003, the Partnership recognized gains of approximately \$627,000 from the assignment of three mortgages. During the first six months of 2003, the Partnership recognized gains of approximately \$289,000 from the prepayment of four mortgages and gains of approximately \$457,000 from the assignment of three mortgages. During the three months ended September 30, 2002, the Partnership recognized a gain of approximately \$95,000 from the assignment of one mortgage, which was partially offset by a loss of approximately \$8,000 recognized on the prepayment of one mortgage. During the first six months of 2002, the Partnership recognized gains of approximately \$681,000 from the prepayment of two mortgages and gains of approximately \$497,000 from the assignment of three 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 nine months ended September 30, 2003 to meet operating requirements. The basis for paying distributions to Unitholders is net proceeds from mortgage and/or debenture dispositions, if any, and cash flow from operations, which includes regular interest income and principal from Insured Mortgages and interest on debentures. Although the Insured Mortgages pay a fixed monthly mortgage payment and the debentures have a fixed semi-annual interest payment, the cash distributions paid to the Unitholders will vary during each quarter due to (1) the fluctuating yields in the short-term money market where the monthly mortgage payments and debenture interest are temporarily invested prior to the payment of quarterly distributions, (2) the reduction in the asset base and monthly mortgage payments resulting from monthly mortgage payments received or mortgage and debenture dispositions, (3) variations in the cash flow attributable to the delinquency or default of Insured Mortgages and professional fees and foreclosure costs incurred in connection with those Insured Mortgages and (4) variations in the Partnership's operating expenses. As the Partnership continues to liquidate its mortgage investments and Unitholders receive distributions of return of capital and taxable gains, Unitholders should expect a reduction in earnings and distributions due to the decreasing mortgage base. See also the discussion of the redemption of debentures in January 2004 in "Mortgage Investments." Upon the termination and liquidation of the Partnership, on or before December 31, 2009, distributions to Unitholders will be made in accordance with the terms of the

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Partnership Agreement, as amended. A final distribution to Unitholders will be based on the Partnership's remaining net assets, and such distribution to Unitholders is likely to be substantially less than the amount referenced in limited partners' equity in the Partnership's financial statements.

Net cash provided by operating activities decreased by approximately \$1.8 million for the nine months ended September 30, 2003, as compared to the corresponding period in 2002, primarily due to a decrease in the receipt of interest previously accrued on mortgages awaiting assignment from HUD under the Section 221 program and a reduction in mortgage investment income.

Net cash provided by investing activities decreased by approximately \$16.4 million for the nine months ended September 30, 2003, as compared to the corresponding period in 2002, primarily due to decreases in proceeds received from mortgage prepayments, mortgage assignments and redemption of debentures. These decreases were partially offset by debenture proceeds paid to an affiliate in 2002.

Net cash used in financing activities decreased by approximately \$3.9 million for the nine months ended September 30, 2003, as compared to the corresponding period in 2002, due to a decrease in the amount of distributions paid to partners in the first nine months of 2003 compared to the same period in 2002.

ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Management has determined that there has not been a material change as of September 30, 2003, in market risk from December 31, 2002 as reported in the Partnership's Annual Report on Form 10-K as of December 31, 2002.

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## ITEM 4. CONTROLS AND PROCEDURES

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

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## PART II. OTHER INFORMATION

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

#### (a) Exhibits

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

#### (b) Reports on Form 8-K

Date ----	
July 23, 2003	To report a press release issued on July 22, 2003 announcing the July 2003 distribution to the Partnership's

Unitholders.

August 14, 2003	To report a press release issued on August 13, 2003 announcing the Partnership's second quarter financial results.
August 20, 2003	To report a press release issued on August 20, 2003 announcing the August 2003 distribution to the Partnership's Unitholders.
September 24, 2003	To report a press release issued on September 19, 2003 announcing the September 2003 distribution to the Partnership's Unitholders.

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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

November 13 , 2003

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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)