

AMERICAN INSURED MORTGAGE INVESTORS SERIES 85 L P

Form 10-K

March 22, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2001 Commission file number 1-11059

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

(Exact name of registrant as specified in it's charter)

California
(State or other jurisdiction of
Incorporation or organization)

13-3257662
(I.R.S. Employer
Identification No.)

11200 Rockville Pike
Rockville, Maryland 20852
(301) 816-2300

(Address, including zip code, and telephone number,
including area code, of registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Table with 2 columns: Title of each class, Name of each exchange on which registered. Row 1: Depository Units of Limited Partnership Interest, American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

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 (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

As of February 19, 2002, 12,079,514 depository units of limited partnership interest were outstanding and the aggregate market value of such units held by

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non-affiliates of the Registrant on such date was \$87,426,721.

Documents incorporated by Reference

None

2

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

2001 ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

PART I

Item 1. Business.....

Item 2. Properties.....

Item 3. Legal Proceedings.....

Item 4. Submission of Matters to a Vote of Security Holders.....

PART II

Item 5. Market for Registrant's Securities and Related Security Holder Matters.....

Item 6. Selected Financial Data.....

Item 7. Management's Discussion and Analysis of Financial Condition and  
Results of Operations.....

Item 7A. Qualitative and Quantitative Disclosures about Market Risk.....

Item 8. Financial Statements and Supplementary Data.....

Item 9. Changes in and Disagreements with Accountants on Accounting and  
Financial Disclosure.....

PART III

Item 10. Directors and Executive Officers of the Registrant.....

Item 11. Executive Compensation.....

Item 12. Security Ownership of Certain Beneficial Owners and Management.....

Item 13. Certain Relationships and Related Transactions.....

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.....

Signatures .....

3

PART I

ITEM 1. BUSINESS

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FORWARD-LOOKING STATEMENTS. When used in this Annual Report on Form 10-K, the words "believes," "anticipates," "expects," "contemplates," and similar expressions are intended to identify forward-looking statements. Statements looking forward in time are included in this Annual Report on Form 10-K 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 Annual Report on Form 10-K, including, without limitation, statements made under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, (2) information included or incorporated by reference in future filings by the Partnership with the Securities and Exchange Commission including, without limitation, statements with respect to growth, projected revenues, earnings, returns and yields on its portfolio of mortgage assets, the impact of interest rates, costs and business strategies and plans and (3) information contained in written material, releases and oral statements issued by or on behalf of, the Partnership, including, without limitation, statements with respect to growth, projected revenues, earnings, returns and yields on its portfolio of mortgage assets, the impact of interest rates, costs and business strategies and plans. Factors which may cause actual results to differ materially from those contained in the forward-looking statements identified above include, but are not limited to (i) regulatory and litigation matters, (ii) interest rates, (iii) trends in the economy, (iv) prepayment of mortgages and (v) defaulted mortgages. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only of the date hereof. The Partnership undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events.

### Development and Description of Business

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Information concerning the business of American Insured Mortgage Investors - Series 85, L.P. (the "Partnership") is contained in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and in Notes 1, 5, 6, 7 and 8 of the Notes to Financial Statements of the Partnership (filed in response to Item 8 hereof), all of which are incorporated by reference herein. See also Schedule IV-Mortgage Loans on Real Estate, for the table of the Partnership's Insured Mortgages (as defined below) as of December 31, 2001, which is hereby incorporated by reference herein.

### Employees

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The Partnership has no employees. The business of the Partnership is managed by CRIIMI, Inc. (the "General Partner"), while its portfolio of mortgages is managed by AIM Acquisition Partners, L.P. (the "Advisor") pursuant to an advisory agreement (the "Advisory Agreement"). The General Partner is a wholly-owned subsidiary of CRIIMI MAE Inc. ("CRIIMI MAE").

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

Under the Advisory Agreement, the Advisor will render services to the

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Partnership, including but not limited to, the management of the Partnership's portfolio of mortgages and the disposition of the Partnership's mortgages. Such services will be subject to the review and ultimate authority of the General Partner. However, the General Partner is required to receive the consent of the Advisor prior to taking certain significant actions, including but not limited to the disposition of mortgages, any transaction or agreement with the General Partner or its affiliates, or any material change as to policies regarding distributions or reserves of the Partnership. The Advisor is permitted to delegate the performance of services pursuant to a sub-advisory agreement (the "Sub-Advisory Agreement"). The delegation of such services will not relieve the Advisor of its obligation to perform such services. CRIIMI MAE Services Limited Partnership ("CMSLP"), an affiliate of CRIIMI MAE, manages the Partnership's portfolio, pursuant to the Sub-Advisory Agreement. The general partner of CMSLP is CMSLP Management Company, Inc., a wholly-owned subsidiary of CRIIMI MAE.

### Competition

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In disposing of mortgage investments, the Partnership competes with private investors, mortgage banking companies, mortgage brokers, state and local government agencies, lending institutions, trust funds, pension funds, and other entities, some with similar objectives to those of the Partnership and some of which are or may be affiliates of the Partnership, its General Partner, the Advisor, CMSLP or their respective affiliates. Some of these entities may have substantially greater capital resources and experience in disposing of Federal Housing Administration ("FHA") insured mortgages than the Partnership.

CRIIMI MAE and its affiliates also may serve as general partners, sponsors or managers of real estate limited partnerships, Real Estate Investment Trusts ("REIT") or other entities in the future. The Partnership may attempt to dispose of mortgages at or about the same time that CRIIMI MAE, one or more of the other "AIM Funds" (defined as the Partnership, 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/or other entities sponsored or managed by CRIIMI MAE or its affiliates, are attempting to dispose of mortgages. As a result of market conditions that could limit dispositions, CMSLP and its affiliates could be faced with conflicts of interest in determining which mortgages would be disposed of. Both CMSLP and the General Partner, however, are subject to their fiduciary duties in evaluating the appropriate action to be taken when faced with such conflicts.

### ITEM 2. PROPERTIES

Although the Partnership does not own the underlying real estate, the mortgages underlying the Partnership's mortgage investments are non-recourse first liens on the respective multifamily residential developments or retirement homes.

### ITEM 3. LEGAL PROCEEDINGS

There are no material legal proceedings to which the Partnership is a party.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 2001.

## PART II

ITEM 5. MARKET FOR REGISTRANT'S SECURITIES AND RELATED SECURITY  
HOLDER MATTERSPrincipal Market and Market Price for Units and Distributions  
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The Limited Partnership Units ("Units") are traded on the American Stock Exchange ("AMEX") under the trading symbol of "AII." The high and low trade prices for the Units as reported on AMEX and the distributions, as applicable, for each quarterly period in 2001 and 2000 were as follows:

| Quarter Ended<br>----- | High<br>---- | 2001<br>Low<br>--- | Amount of<br>Distribution<br>Per Unit<br>----- |
|------------------------|--------------|--------------------|--|
| March 31               | \$ 8.3125    | \$ 7.6500          | \$ 0.68 (1)                                    |
| June 30                | 7.9000       | 7.5000             | 0.37 (2)                                       |
| September 30           | 7.9800       | 7.3500             | 0.71 (3) (4) (5)                               |
| December 31            | 8.1000       | 7.5100             | 0.15   |
|                        |              |                    | -----  |
|                        |              |                    | \$ 1.91  |
|                        |              |                    | =====  |

| Quarter Ended<br>----- | High<br>---- | 2000<br>Low<br>--- | Amount of<br>Distribution<br>Per Unit<br>----- |
|------------------------|--------------|--------------------|--|
| March 31               | \$ 8.7500    | \$ 8.0000          | \$ 0.47 (7) (8)                                |
| June 30                | 8.8750       | 7.8125             | 0.46 (9) (10) (11)                             |
| September 30           | 8.3750       | 7.8750             | 0.18   |
| December 31            | 8.4375       | 7.7500             | 0.50 (12)                                      |
|                        |              |                    | -----  |
|                        |              |                    | \$ 1.61  |
|                        |              |                    | =====  |

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

| Complex Name(s)<br>-----        | Date<br>Proceeds<br>Received<br>----- | Type of<br>Disposition<br>----- | Net<br>Proceeds<br>Per Unit<br>----- |
|---------------------------------|---------------------------------------|---------------------------------|--------------------------------------|
| (1) The Meadows of Livonia      | Jan 2001                              | Prepayment                      | \$0.53                               |
| (2) Gold Key Village Apartments | Mar 2001                              | Prepayment                      | 0.22                                 |
| (3) Cedar Ridge Apartments      | Jun 2001                              | Prepayment                      | 0.21                                 |
| (4) Carlisle Apartments         | Jun 2001                              | Prepayment                      | 0.17                                 |
| (5) Afton Square Apartments     | Jul 2001                              | Prepayment                      | 0.08                                 |
| (6) Berryhill Apartments        | Sep 2001                              | Prepayment                      | 0.10                                 |
| (7) Northwood Apartments        | Dec 1999                              | Prepayment                      | 0.13                                 |
| (8) Turtle Creek Apartments     | Jan 2000                              | Prepayment                      | 0.13                                 |
| (9) Woodland Hills Apartments   | Apr 2000                              | Prepayment                      | 0.06                                 |
| (10) New Castle Apartments      | May 2000                              | Prepayment                      | 0.16                                 |

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|                             |          |            |      |
|-----------------------------|----------|------------|------|
| (11) Colony West Apartments | May 2000 | Prepayment | 0.05 |
| (12) Independence Park      | Oct 2000 | Prepayment | 0.32 |

There are no material legal restrictions upon the Partnership's present or future ability to make distributions in accordance with the provisions of the Partnership Agreement.

| Title of Class<br>-----                             | Approximate Number of Unitholders<br>as of December 31, 2001<br>----- |
|---|---|
| Depository Units of Limited<br>Partnership Interest | 9,700   |

6

ITEM 6. SELECTED FINANCIAL DATA  
(Dollars in thousands, except per Unit amounts)

|  | 2001<br>---- | For the Years Ended December 31, |              |              |
|--|--------------|----------------------------------|--------------|--------------|
|  |              | 2000<br>----                     | 1999<br>---- | 1998<br>---- |
| Income   | \$ 8,526     | \$ 9,979                         | \$ 12,230    | \$ 14,744    |
| Net gains on mortgage<br>dispositions/modifications      | 1,785        | 428                              | 857          | 1,403        |
| Net earnings   | 8,969        | 8,866                            | 11,225       | 13,893       |
| Net earnings per Limited<br>Partnership Unit - Basic (1) | \$ 0.71      | \$ 0.71                          | \$ 0.89      | \$ 1.11      |
| Distributions per Limited<br>Partnership Unit (1) (2)    | \$ 1.91      | \$ 1.61                          | \$ 3.09      | \$ 3.45      |

|                  | 2001<br>---- | As of December 31, |              |              |
|------------------|--------------|--------------------|--------------|--------------|
|                  |              | 2000<br>----       | 1999<br>---- | 1998<br>---- |
| Total assets     | \$ 98,070    | \$118,621          | \$143,470    | \$170,970    |
| Partners' equity | 94,828       | 110,982            | 120,445      | 153,543      |

- (1) Calculated based upon the weighted average number of Units outstanding.  
(2) Includes distributions due the Unitholders for the Partnership's fiscal years ended December 31, 2001, 2000, 1999, 1998 and 1997, which were paid subsequent to year end. See Notes 8 and 9 of the Notes to Financial Statements.

The selected income statement data presented above for the years ended December 31, 2001, 2000 and 1999, and the selected balance sheet data as of December 31, 2001 and 2000, are derived from, and are qualified by, reference to the Partnership's financial statements, which are included elsewhere in this Form 10-K. The selected income statement data for the years ended December 31,

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1998 and 1997, and the selected balance sheet data as of December 31, 1999, 1998 and 1997 are derived from audited financial statements not included as part of this Annual Report on Form 10-K. This data should be read in conjunction with the financial statements and the notes thereto.

7

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### General

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The following discussion and analysis contains statements that may be considered forward looking. These statements contain a number of risks and uncertainties as discussed herein and in Item 1 of this Form 10-K that could cause actual results to differ materially.

American Insured Mortgage Investors - Series 85, L.P. (the "Partnership") was formed under the Uniform Limited Partnership Act of the State of California on June 26, 1984. During the period from March 8, 1985 (the initial closing date of the Partnership's public offering) through January 27, 1986 (the termination date of the offering), the Partnership, pursuant to its public offering of 12,079,389 Depository Units of limited partnership interest ("Units") raised a total of \$241,587,780 in gross proceeds. In addition, the initial limited partner contributed \$2,500 to the capital of the Partnership and received 125 units of limited partnership interest in exchange therefor.

CRIIMI, Inc. (the "General Partner") holds a partnership interest of 3.9% and is a wholly-owned subsidiary of CRIIMI MAE Inc. ("CRIIMI MAE"). AIM Acquisition Partners, L.P. (the "Advisor") serves as the advisor to the Partnership pursuant to an advisory agreement (the "Advisory Agreement").

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

Under the Advisory Agreement, the Advisor will render services to the Partnership, including but not limited to, the management of the Partnership's portfolio of mortgages and the disposition of the Partnership's mortgages. Such services will be subject to the review and ultimate authority of the General Partner. However, the General Partner is required to receive the consent of the Advisor prior to taking certain significant actions, including but not limited to the disposition of mortgages, any transaction or agreement with the General Partner or its affiliates, or any material change as to policies regarding distributions or reserves of the Partnership. The Advisor is permitted to delegate the performance of services pursuant to a sub-advisory agreement (the "Sub-Advisory Agreement"). The delegation of such services will not relieve the Advisor of its obligation to perform such services. CRIIMI MAE Services Limited Partnership ("CMSLP"), an affiliate of CRIIMI MAE, manages the Partnership's portfolio, pursuant to the Sub-Advisory Agreement. The general partner of CMSLP is CMSLP Management Company, a wholly-owned subsidiary of CRIIMI MAE.

8

#### Mortgage Investments

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Prior to the expiration of the Partnership's reinvestment period in

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December 1993, the Partnership was engaged in the business of originating mortgage loans ("Originated Insured Mortgages") and acquiring 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 (as discussed below) under Section 221(d)(4) or Section 231 of the National Housing Act of 1937, as amended (the "National Housing Act"). The Partnership is a liquidating partnership and as it continues to liquidate its mortgage investments and investors receive distributions of return of capital and taxable gains, investors should expect a reduction in earnings and distributions due to the decreasing mortgage base. The partnership agreement states that the Partnership will terminate on December 31, 2009, unless previously terminated under the provisions of the partnership agreement.

As of December 31, 2001, the Partnership had invested in 40 Insured Mortgages, with an aggregate amortized cost of approximately \$82 million, a face value of approximately \$85 million and a fair value of approximately \$84 million, as discussed below.

### Investment in Insured Mortgages

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The Partnership's investment in Insured Mortgages is comprised of participation certificates evidencing a 100% undivided beneficial interest in government insured multifamily mortgages issued or sold pursuant to FHA programs ("FHA-Insured Certificates"), mortgage-backed securities guaranteed by the Government National Mortgage Association ("GNMA") ("GNMA Mortgage-Backed Securities") and FHA-insured mortgage loans ("FHA-Insured Loans"). The mortgages underlying the FHA-Insured Certificates, GNMA Mortgage-Backed Securities and FHA-Insured Loans are non-recourse first liens on multifamily residential developments or retirement homes.

The following is a discussion of the types of the Partnership's mortgage investments, along with the risks related to each type of investment:

### Fully Insured GNMA Mortgage-Backed Securities and FHA-Insured Certificates

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

|   | December 31,  |               |
|---|---------------|---------------|
|   | 2001          | 2000          |
|   | ----          | ----          |
| Fully Insured Acquired Mortgages:       |               |               |
| Number of                               |               |               |
| GNMA Mortgage-Backed Securities (3) (5) | 2             | 4             |
| FHA-Insured Certificates                |               |               |
| (1) (2) (4) and (6) through (14)        | 26            | 35            |
| Amortized Cost                          | \$ 44,640,062 | \$ 68,440,285 |
| Face Value                              | 46,215,896    | 71,404,632    |
| Fair Value                              | 45,845,197    | 70,770,317    |



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|                                     | December 31,  |               |
|-------------------------------------|---------------|---------------|
|                                     | 2001          | 2000          |
|                                     | ----          | ----          |
| Fully Insured Originated Mortgages: |               |               |
| Number of                           |               |               |
| GNMA Mortgage-Backed Securities     | 1             | 1             |
| FHA-Insured Certificates            | 1             | 1             |
| Amortized Cost                      | \$ 16,132,560 | \$ 16,311,904 |
| Face Value                          | 16,132,560    | 16,279,536    |
| Fair Value                          | 15,734,485    | 15,927,124    |

The footnotes referred to in the table above correspond to the numbers of the items listed in the three tables that follow.

Listed below is a summary of prepayments on fully Insured Mortgages:

(Dollars in thousands, except per unit amounts)

| Complex Name                    | Net<br>Proceeds | Date<br>Proceeds<br>Received | Gain  | Dist./<br>Unit | Declaration<br>Date | Dist<br>P |
|---------------------------------|-----------------|------------------------------|-------|----------------|---------------------|-----------|
| -----                           | -----           | -----                        | ----  | ----           | ----                |           |
| (1) The Meadows of Livonia      | \$6,653         | Jan 2001                     | \$253 | \$0.53         | Jan 2001            | Ma        |
| (2) Gold Key Village Apartments | 2,827           | Mar 2001                     | 9     | 0.22           | Apr 2001            | Au        |
| (3) Carlisle Apartments         | 2,120           | Jun 2001                     | 47    | 0.17           | Jul 2001            | No        |
| (4) Cedar Ridge Apartments      | 2,637           | Jun 2001                     | 346   | 0.21           | Jul 2001            | No        |
| (5) Afton Square Apartments     | 1,061           | Jul 2001                     | 29    | 0.08           | Jul 2001            | No        |
| (6) The Gatehouse Apartments    | 2,802           | Dec 2001                     | 48    | 0.22           | Jan 2002            | Ma        |

The two lists below summarize debentures issued for mortgages assigned to the United States Department of Housing and Urban Development ("HUD") under Section 221 of the National Housing Act. Interest is payable on the debentures semi-annually on January 1 and July 1.

The following list represents debentures redeemed, subsequent to December 31, 2001, in January 2002. These debentures were issued to Firststar Trust Company, the initial mortgagee and subsequently transferred to Midland Loan Services, Inc. ("Midland"), the servicer, in 2001. The net proceed amounts, which were received in January 2002, listed below are included in receivables and other assets in the Partnership's balance sheet as of December 31, 2001.

(Dollars in thousands, except per unit amounts)

| Complex Name             | Debenture<br>Interest<br>Rate | Net<br>Proceeds | Application<br>Date | Date of<br>Response<br>from HUD | Gain<br>2001 | Dist./<br>Unit |
|--------------------------|-------------------------------|-----------------|---------------------|---------------------------------|--------------|----------------|
| -----                    | ----                          | -----           | ----                | -----                           | ----         | ----           |
| (7) Summit Square Manor  | 7.125%                        | \$ 1,883        | Jun 2000            | May 2001                        | \$ 235       | \$ 0.150       |
| (8) Park Place           | 7.125%                        | 746             | Jun 2000            | May 2001                        | 94           | 0.060          |
| (9) Park Hill Apartments | 7.500%                        | 1,721           | Sep 2000            | Nov 2001                        | 208          | 0.140          |
| (10) Fairfax House       | 7.500%                        | 2,109           | Sep 2000            | Nov 2001                        | 268          | 0.170          |
| (11) Woodland Villas     | 7.125%                        | 300             | Apr 2001            | Nov 2001                        | 56           | 0.025          |
|                          |                               | -----           |                     |                                 |              | -----          |

Total included in receivables and other assets as of December 31,

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2001

\$ 6,759

\$ 0.545

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10

In addition, the Partnership received interest on debentures in 2002: (1) a distribution of approximately \$0.02 per unit of interest related to HUD debentures issued in exchange for the mortgages on Park Hill Apartments, Fairfax House and Woodland Villas was declared in January 2002, and (2) a distribution of \$0.02 per unit of interest related to HUD debentures issued in exchange for the mortgages on Summit Square Manor, Park Place, Park Hill Apartments, Fairfax House and Woodland Villas was declared in February 2002. These distributions are expected to be paid in May 2002.

The following list represents debentures that were issued, subsequent to December 31, 2001, in January 2002, to Firststar Trust Company, the initial mortgagee, and transferred to Midland. The Partnership anticipates the debentures will be redeemed prior to maturity date. The fair value of these FHA-Insured Certificates are included in investment in FHA-Insured Certificates in the Partnership's balance sheet as of December 31, 2001.

(Dollars in thousands, except per unit amounts)

| Complex Name<br>-----              | Debenture<br>Interest<br>Rate<br>---- | Net<br>Proceeds<br>----- | Application<br>Date<br>---- | Date of<br>Response<br>from HUD<br>----- | Approximate<br>Gain<br>2002<br>---- |
|------------------------------------|---------------------------------------|--------------------------|-----------------------------|--|-------------------------------------|
| (12) Country Club Terrace<br>Apts. | 7.500%                                | \$ 1,425                 | Sep 2000                    | Jan 2002                                 | \$ 178                              |
| (13) Nevada Hills Apartments       | 7.500%                                | 1,133                    | Dec 2000                    | Jan 2002                                 | 154                                 |
| (14) Dunhaven Apartments           | 7.125%                                | 872                      | Jan 2001                    | Jan 2002                                 | 165                                 |

As of March 1, 2002, all of the fully insured GNMA Mortgage-Backed Securities and FHA-Insured Certificates are current with respect to the payment of principal and interest. The Partnership no longer receives monthly principal and interest from mortgages that are in the HUD assignment process under the Section 221 program. The servicer of the mortgage on Fairlawn II filed an application for insurance benefits under section 221 in September 2000. The face value of this mortgage was approximately \$755,000 as of the insurance application date. The Partnership has not received approval for the assignment of this mortgage as of March 1, 2002.

Under Section 221 of the National Housing Act, a mortgagee has the right to assign a mortgage ("put") to FHA at the expiration of 20 years from the date of final endorsement if the mortgage is not in default at such time. Any mortgagee electing to assign an FHA-insured mortgage to FHA will receive, in exchange therefor, HUD debentures having a total face value equal to the then outstanding principal balance of the FHA-insured mortgage plus accrued interest to the date of assignment. These HUD debentures will mature 10 years from the date of assignment and will bear interest at a rate announced semi-annually by HUD in the Federal Register ("going Federal rate") at such date. This assignment procedure is applicable to an insured mortgage, which had a firm or conditional FHA commitment for insurance on or before November 30, 1983. Once the servicer of a mortgage has filed an application for insurance benefits under Section 221, the Partnership will no longer receive the monthly principal and interest on the applicable mortgage. The Partnership expects to receive HUD debentures, as discussed above, plus accrued interest at the "going Federal rate", from date of assignment of the mortgage to the date of issuance of the debenture. The

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Partnership will recognize a gain on these assignments upon receipt of HUD debentures or a loss when it becomes probable that a loss will be incurred. In general, the Partnership plans to sell the debentures if not called prior to the Partnership's termination date, December 31, 2009. At that time debenture proceeds will be distributed to Unitholders.

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 years ended December 31, 2001, 2000 and 1999, the Partnership received \$0, \$0, and \$0, respectively, from the Participations. These amounts,

11

if any, are included in mortgage investment income on the accompanying statements of income and comprehensive income.

In the case of fully insured Originated Insured Mortgages and Acquired Insured Mortgages, the Partnership's maximum exposure for purposes of determining loan losses would generally be approximately 1% of the unpaid principal balance of the Originated Insured Mortgage or Acquired Insured Mortgage (an assignment fee charged by FHA) at the date of default, plus the unamortized balance of acquisition fees and closing costs of the Insured Mortgage and the loss of approximately 30 days accrued interest.

### Fully Insured FHA-Insured Loans

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

|                                 | 2001<br>---- | December 31,<br>2000<br>---- |
|---------------------------------|--------------|------------------------------|
| Fully Insured Acquired Loans:   |              |                              |
| Number of Loans (1)             | 7            | 8                            |
| Amortized Cost                  | \$ 8,914,573 | \$10,041,697                 |
| Face Value                      | 10,632,937   | 12,040,599                   |
| Fair Value                      | 10,451,178   | 12,023,455                   |
| Fully Insured Originated Loans: |              |                              |
| Number of Loans (2)             | 3            | 3                            |
| Amortized Cost                  | \$12,430,002 | \$12,570,037                 |
| Face Value                      | 12,132,653   | 12,261,397                   |
| Fair Value                      | 12,122,221   | 12,192,633                   |

- (1) In September 2001, the mortgage on Berryhill Apartments was prepaid. The Partnership received net proceeds of approximately \$1.2 million and recognized a gain of approximately \$190,000 for the year ended December 31, 2001. A distribution of approximately \$0.10 per Unit related to the prepayment of this mortgage was declared in September and paid to Unitholders in November 2001.
- (2) In January 2002, the mortgage on Longleaf Lodge was prepaid. The Partnership received net proceeds of approximately \$3.7 million and expects to recognize a gain of approximately \$672,000 in 2002. A distribution of approximately \$0.29 per Unit related to the prepayment of this mortgage was declared in January 2002 and is expected to be paid in May 2002.

As of March 1, 2002, all of the fully insured FHA-Insured Loans were

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current with respect to the payment of principal and interest, except for the mortgage on Westbrook Apartments, which is delinquent with respect to the February 2002 payment of principal and interest.

In addition to base interest payments under Originated Insured Mortgages, the Partnership is entitled to additional interest based on a percentage of the net cash flow from the underlying development (referred to as "Participations"). During the years ended December 31, 2001, 2000 and 1999, the Partnership received \$53,424, \$21,566, and \$45,164, respectively, from the Participations. These amounts, if any, are included in mortgage investment income on the accompanying statements of income and comprehensive income.

### Investment in FHA Debenture

-----

In December 2000, HUD issued assignment proceeds in the form of a 7.125% FHA debenture for the mortgage on Fox Run Apartments. The debenture, with a face value and fair value, as of December 31, 2001, of \$2,385,233, was issued to the Partnership, with interest payable semi-annually on January 1 and July 1. The mortgage on Fox Run Apartments was owned 50% by the Partnership and 50% by an affiliate of the Partnership, American Insured Mortgage Investors ("AIM 84"). In January 2002, net proceeds of approximately \$2.4 million were received upon redemption of this debenture. Since the mortgage on Fox Run Apartments was owned 50% by the Partnership and 50% by AIM 84, approximately \$1.2 million of the debenture proceeds was paid to AIM 84. A distribution of approximately \$0.09 per

12

Unit related to the redemption of this debenture was declared in January 2002 and is expected to be paid in May 2002.

### Results of Operations

-----

#### 2001 versus 2000

-----

Net earnings increased slightly for 2001 as compared to 2000, primarily due an increase in net gains from mortgage dispositions, partially offset by a decrease in mortgage investment income primarily due to the reduction in the mortgage base. The mortgage base decreased as a result of 17 mortgage dispositions with an aggregate principal balance of approximately \$34 million, representing an approximate 28% decrease in the aggregate principal balance of the total mortgage portfolio since March 2000.

Interest and other income increased for 2001 as compared to 2000, primarily due to the timing of the investment of mortgage proceeds prior to the distribution to Unitholders.

Asset management fees decreased for 2001 as compared to 2000, primarily due to the reduction in the mortgage base.

Gains on mortgage dispositions increased for 2001 as compared to 2000 as a result of gains recognized on seven mortgage prepayments and five mortgage assignments in 2001, as discussed above, compared to gains recognized on four mortgage prepayments and one assignment in 2000. No losses were recognized in 2001 compared to loss recognized on one mortgage prepayment in 2000.

#### 2000 versus 1999

-----

Net earnings decreased for 2000 as compared to 1999, primarily due to a decrease in mortgage investment income and a decrease in net gains from mortgage

dispositions, as discussed below.

Mortgage investment income decreased for 2000 as compared to 1999, primarily due to the reduction in the mortgage base. The mortgage base decreased as a result of 17 mortgage dispositions with an aggregate principal balance of approximately \$37 million, representing an approximate 24% decrease in the aggregate principal balance of the total mortgage portfolio since March 1999.

Asset management fees decreased for 2000 as compared to 1999, primarily due to the reduction in the mortgage base.

General and administration expense decreased for 2000 as compared to 1999, primarily due to a decrease in temporary employment costs and a decrease in mortgage service fees.

Gains on mortgage dispositions decreased for 2000 as compared to 1999 as a result of gains recognized on four mortgage prepayments and one assignment in 2000, as discussed above, compared to gains recognized on seven mortgage prepayments in 1999. Losses were recognized on one mortgage prepayment in 2000, as discussed above, compared to losses recognized on four mortgage prepayments in 1999.

#### Liquidity and Capital Resources

-----

On October 5, 1998, CRIIMI MAE, the parent of the General Partner, and CRIIMI MAE Management, Inc., an affiliate of CRIIMI MAE and provider of personnel and administrative services to the Partnership, filed voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"). On November 22, 2000, the United States Bankruptcy Court for

13

the District of Maryland, in Greenbelt, Maryland (the "Bankruptcy Court") confirmed CRIIMI MAE's and CRIIMI MAE Management, Inc.'s reorganization plan. On April 17, 2001, CRIIMI MAE and CRIIMI MAE Management, Inc. emerged from bankruptcy.

The Partnership's operating cash receipts, derived from payments of principal and interest on Insured Mortgages plus cash receipts from interest on short-term investments, are the Partnership's principal sources of cash flows, and were sufficient for the years ended December 31, 2001, 2000 and 1999 to meet operating expense requirements. The Partnership anticipates its cash flows to be sufficient to meet operating expense requirements for 2002.

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 after paying all expenses of the Partnership. Although the Insured Mortgages yield a fixed monthly mortgage payment once purchased, the cash distributions paid to the Unitholders will vary during each quarter due to (1) the fluctuating yields in the short-term money market where the monthly mortgage payment receipts are temporarily invested prior to the payment of quarterly distributions, (2) the reduction in the asset base resulting from monthly mortgage payment receipts or mortgage dispositions, (3) variations in the cash flow attributable to the delinquency or default of Insured Mortgages and professional fees and foreclosure costs incurred in connection with those Insured Mortgages and (4) variations in the Partnership's operating expenses.

Since the Partnership is obligated to distribute the proceeds of mortgage prepayments, sales and insurance on Insured Mortgages (as defined in the partnership agreement) to its Unitholders, the size of the Partnership's

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portfolio will continue to decrease. The magnitude of the decrease will depend upon the size of the Insured Mortgages which are prepaid, sold or assigned for insurance proceeds.

### Cash flow - 2001 versus 2000

-----

Net cash provided by operating activities decreased in 2001 compared to 2000, primarily due to the reduction in mortgage investment income, as discussed above.

Net cash provided by investing activities increased in 2001 compared to 2000. This increase is primarily due to an increase in proceeds received from the disposition of mortgages.

Net cash used in financing activities decreased in 2001 compared to 2000 due to a reduction in the amount of distributions paid to partners in 2001 compared to 2000.

### Cash flow - 2000 versus 1999

-----

Net cash provided by operating activities decreased in 2000 as compared to 1999, primarily due to the reduction in mortgage investment income, as discussed above.

Net cash provided by investing activities decreased in 2000 as compared to 1999. This decrease is primarily due to a reduction in proceeds received from the disposition of mortgages, a decrease in net debenture proceeds, as discussed previously, and a decrease in the receipt of mortgage principal from scheduled payments.

Net cash used in financing activities increased in 2000 as compared to 1999 due to an increase in the amount of distributions paid to partners in 2000 compared to 1999.

14

### ITEM 7A. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

The Partnership's principal market risk is exposure to changes in interest rates in the U.S. Treasury market, which coupled with the related spread to treasury investors required for the Partnership's Insured Mortgages, will cause fluctuations in the market value of the Partnership's assets.

The table below provides information about the Partnership's Insured Mortgages, all of which were entered into for purposes other than trading. The table presents anticipated principal and interest cash flows based upon the assumptions used in determining the fair value of these securities and the related weighted average interest rates by expected maturity.

|                                    | 2002   | 2003   | 2004   | 2005   | 2006   | Thereafter | T   |
|------------------------------------|--------|--------|--------|--------|--------|------------|-----|
|                                    | ----   | ----   | ----   | ----   | ----   | -----      | --- |
| Insured Mortgages<br>(in millions) | \$16.2 | \$14.5 | \$13.7 | \$12.4 | \$11.4 | \$62.0     | \$  |
| Average Interest Rate              | 7.87%  | 7.87%  | 7.86%  | 7.82%  | 7.81%  | 7.99%      |     |

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## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item is set forth in this Annual Report on Form 10-K commencing on page 22.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

15

## ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

(a), (b), (c), (e)

The Partnership has no officers or directors. CRIIMI, Inc. holds a general partnership interest of 3.9%. The affairs of the Partnership are managed by the General Partner, which is wholly-owned by CRIIMI MAE, a corporation whose shares are listed on the New York Stock Exchange.

The general partner of the Advisor is AIM Acquisition and the limited partners include, but are not limited to, AIM Acquisition, The Goldman Sachs Group, L.P., Sun America Investments, Inc. (successor to Broad, Inc.) and CRI/AIM Investment, L.P., an affiliate of CRIIMI MAE. AIM Acquisition is a Delaware corporation that is primarily owned by Sun America Investments, Inc. and The Goldman Sachs Group, L.P. Pursuant to the terms of certain amendments to the partnership agreement, 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. CMSLP, an affiliate of CRIIMI MAE, manages the Partnership's portfolio, pursuant to the Sub-Advisory Agreement. The general partner of CMSLP is CMSLP Management Company, Inc., a wholly-owned subsidiary of CRIIMI MAE.

The General Partner is also the general partner of AIM 84, AIM 86 and AIM 88, limited partnerships with investment objectives similar to those of the Partnership.

The following table sets forth information concerning the executive officers and directors of CRIIMI MAE, the sole shareholder of the General Partner, as of February 19, 2002:

| Name<br>----          | Age<br>--- | Position<br>-----  |
|-----------------------|------------|--|
| William B. Dockser    | 64         | Chairman of the Board  |
| H. William Willoughby | 55         | President, Secretary and Director                                  |
| David B. Iannarone    | 41         | Executive Vice President   |
| Cynthia O. Azzara     | 42         | Senior Vice President,<br>Chief Financial Officer and<br>Treasurer |

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|                   |    |                       |
|-------------------|----|-----------------------|
| Brian L. Hanson   | 40 | Senior Vice President |
| John R. Cooper    | 54 | Director              |
| Alan M. Jacobs    | 53 | Director              |
| Robert J. Merrick | 56 | Director              |
| Robert E. Woods   | 54 | Director              |

16

William B. Dockser has served as Chairman of the Board of the General Partner since 1991. Mr. Dockser has been Chairman of the Board of CRIIMI MAE since 1989. Mr. Dockser is also the founder of C.R.I., Inc. ("CRI"), serving as its Chairman of the Board since 1974.

H. William Willoughby has served as President and Secretary of the General Partner since 1991. Mr. Willoughby has been President of CRIIMI MAE since 1990 and a Director and Secretary of CRIIMI MAE since 1989. Mr. Willoughby has been a director of CRI since 1974, Secretary of CRI from 1974 to 1990 and President of CRI since 1990.

David B. Iannarone has served as Executive Vice President of the General Partner since December 2000. Mr. Iannarone has served as Executive Vice President CRIIMI MAE since December 2000; as Senior Vice President and General Counsel of CRIIMI MAE from March 1998 to December 2000; and as Vice President and General Counsel of CRIIMI MAE from July 1996 to March 1998.

Cynthia O. Azzara has served as Chief Financial Officer of the General Partner since 1994. Ms. Azzara has served as Chief Financial Officer of CRIIMI MAE since 1994. She has also served as Senior Vice President of CRIIMI MAE since 1995 and Treasurer of CRIIMI MAE since 1997.

Brian L. Hanson has served as Senior Vice President of the General Partner since March 1998. Mr. Hanson has served as Senior Vice President of CRIIMI MAE since March 1998; and as Group Vice President of CRIIMI MAE from March 1996 to March 1998.

John R. Cooper has served as Director of the General Partner since April 2001. Mr. Cooper has served as Director of CRIIMI MAE since April 2001. Mr. Cooper is Senior Vice President, Finance, of PG&E National Energy Group, Inc. He has been with PG&E National Energy Group, Inc. and its predecessor, U.S. Generating Company, since its inception in 1989.

Alan M. Jacobs has served as Director of the General Partner since April 2001. Mr. Jacobs has served as Director of CRIIMI MAE since April 2001; President of AMJ Advisors LLC, since September 1999; and founding member and Senior Partner of Ernst and Young LLP's restructuring and reorganization practice through September 1999. Mr. Jacobs is the Plan Administrator and Litigation Trust Trustee for T&W Financial Corporation, the Chapter 11 Trustee for Apponline.com, Inc., the Chapter 11 Trustee for Sharp International Corp., the Chapter 7 Trustee for Edison Brothers Stores, Inc. and was formerly the co-chairman and co-chief executive officer of West Coast Entertainment Corporation. Mr. Jacobs serves as a director of The Singer Sewing Company. Mr. Jacobs was an executive officer of West Coast Entertainment Corporation at the time such corporation filed a petition under the federal bankruptcy laws in March 2000.

Robert J. Merrick has served as Director of the General Partner since 1997.



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Mr. Merrick has served as Director of CRIIMI MAE since 1997; Chief Credit Officer and Director of MCG Capital Corporation since February 1998; Executive Vice President from 1985 and Chief Credit Officer of Signet Banking Corporation through 1997, also served as Chairman of the Credit Policy Committee and member of the Asset and Liability Committee and Management Committee.

Robert E. Woods has served as Director of the General Partner since 1998. Mr. Woods has served as Director of CRIIMI MAE since 1998; Managing Director and Head of Loan Syndications for the Americas at Societe Generale, New York since 1997; Managing Director, Head of Real Estate Capital Markets and Mortgage-Backed Securities division, Citicorp from 1991 to 1997.

17

(d) There is no family relationship between any of the officers and directors of the General Partner.

(f) Involvement in certain legal proceedings.

None.

(g) Promoters and control persons.

Not applicable.

(h) Section 16(a) Beneficial Ownership Reporting Compliance - Based solely on its review of Forms 3, 4 and 5 and amendments thereto furnished to the Partnership, and written representations from certain reporting persons that no Form 5s were required for those persons, the Partnership believes that all reporting persons have filed on a timely basis Forms 3, 4 and 5 as required in the fiscal year ended December 31, 2001.

ITEM 11. EXECUTIVE COMPENSATION

The Partnership does not have any directors or officers. None of the directors or officers of the General Partner received compensation from the Partnership, and the General Partner does not receive reimbursement from the Partnership for any portion of their salaries. Other information required by Item 11 is hereby incorporated by reference herein to Note 8 of the Notes to Financial Statements of the Partnership.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

(a) As of February 19, 2002, no person was known by the Partnership to be the beneficial owner of more than five percent (5%) of the outstanding Units of the Partnership.

(b) The following table sets forth certain information regarding the beneficial ownership of the Partnership's Units as of February 19, 2002 by each director of the General Partner, each named executive officer of the General Partner, and by affiliates of the Partnership. Unless otherwise indicated, each Unitholder has sole voting and investment power with respect to the Units beneficially owned.

| Name | Amount and Nature<br>of Units<br>Beneficially Owned | Percentage of Units<br>Outstanding |
|------|---|------------------------------------|
| ---- | -----   | -----                              |

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|                    |            |   |
|--------------------|------------|---|
| William B. Dockser | 11,000 (1) | * |
| CRIIMI MAE         | 4,000      | * |

(1) Includes 4,000 Units held by Mr. Dockser's wife

\* Less than 1%

(c) There are no arrangements known to the Partnership, the operation of which may at any subsequent date result in a change in control of the Partnership.

18

PART III

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

(a) Transactions with management and others.

Note 8 of the Notes to Financial Statements of the Partnership contains a discussion of the amounts, fees and other compensation paid or accrued by the Partnership to the directors and executive officers of the General Partner and their affiliates, and is hereby incorporated by reference herein.

(b) Certain business relationships.

Other than as set forth in Item 11 of this Annual Report on Form 10-K which is hereby incorporated by reference herein, the Partnership has no business relationship with entities of which the current General Partner of the Partnership are officers, directors or equity owners.

(c) Indebtedness of management.

None.

(d) Transactions with promoters.

Not applicable.

19

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) (1) Financial Statements:

Description

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Balance Sheets as of December 31, 2001 and 2000.....

Statements of Income and Comprehensive Income for the years ended December 31, 2001, 2000, and 1999 .....

Statements of Changes in Partners' Equity for the years ended December 31, 2001, 2000 and 1999.....

Statements of Cash Flows for the years ended December 31, 2001, 2000 and 1999.....

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Notes to Financial Statements.....

(a) (2) Financial Statement Schedules:

IV - Mortgage Loans on Real Estate.....

All other schedules have been omitted because they are not applicable, not required, or the information is included in the Financial Statements or Notes thereto.

(a) (3) Exhibits:

- 4.0 Amended and Restated Certificates of Limited Partnership are incorporated by reference to Exhibit 4(a) to the Registration Statement on Form S-11 (No. 2-93294) dated January 28, 1985 (such Registration Statement, as amended, is referred to herein as the "Registration Statement").
- 4.1 Second Amended and Restated Partnership Agreement is incorporated by reference to Exhibit 3 to the Registration Statement.
- 4.2 Amendment No. 1 to the Second Amended and Restated Partnership Agreement is incorporated by reference to Exhibit 4(a) to the Partnership's Annual Report on Form 10-K for the year ended December 31, 1986.
- 4.3 Amendment No. 2 to the Second Amended and Restated Partnership Agreement is incorporated by reference to exhibit 4(b) to the Partnership's Annual Report on Form 10-K for the year ended December 31, 1986.
- 4.4 Amendment No. 3 dated February 12, 1990, to the Second Amended and Restated Agreement of Limited Partnership of the Partnership incorporated by reference to Exhibit 4(c) to the Partnership's Annual Report on Form 10-K for the year ended December 31, 1989.
- 10.0 Escrow Agreement, dated January 14, 1985, among the Partnership, the Managing General Partner and Integrated Resources Marketing, Inc., incorporated by reference to Exhibit 10(a) to the Registration Statement.
- 20
- 10.1 Amended and Restated Origination and Acquisition Services Agreement, dated as of January 8, 1985, between the Partnership and IFI, incorporated by reference to Exhibit 10(b) to the Registration Statement.
- 10.2 Amended and Restated Management Services Agreement, dated as of January 8, 1985, between the Partnership and IFI, incorporated by reference to Exhibit 10(c) to the Registration Statement.
- 10.3 Amended and Restated Disposition Services Agreement, dated as of January 8, 1985, between the Partnership and IFI, incorporated by reference to Exhibit 10(d) to the Registration Statement.
- 10.4 Agreement, dated as of January 8, 1985, among the former managing general partner, the former associate general partner and Integrated Resources, Inc., incorporated by reference to Exhibit 10(e) to the Registration Statement.

- 10.5 Reinvestment Plan, incorporated by reference to the Prospectus contained in the Registration Statement.
- 10.6 Declaration of Trust and Pooling Servicing Agreement dated as of July 1, 1982 as to Pass-Through Certificates, is incorporated by reference to Exhibit 10(h) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1986.
- 10.7 Pages A-1 - A-5 of the Partnership Agreement of Registrant, incorporated by reference to Exhibit 28 to the Partnership's Annual Report on Form 10-K for the year ended December 31, 1990.
- 10.8 Purchase Agreement among AIM Acquisition, the former managing general partner, the former corporate general partner, IFI and Integrated dated as of December 13, 1990, as amended January 9, 1991, incorporated by reference Exhibit 28(a) to the Partnership's Annual Report on Form 10-K for the year ended December 31, 1990.
- 10.9 Purchase Agreement among CRIIMI, Inc., AIM Acquisition, the former managing general partner, the former corporate general partner, IFI and Integrated dated as of December 13, 1990 and executed as of March 1, 1991, incorporated by reference to Exhibit 28(b) to the Partnership's Annual Report on Form 10-K for the year ended December 31, 1990.
- 10.10 Amendment to Partnership Agreement dated September 4, 1991, incorporated by reference to Exhibit 28(c), to the Partnership's Annual Report on Form 10-K for the year ended December 31, 1991.
- 10.11 Sub-Management Agreement by and between AIM Acquisition and CRI/AIM Management, Inc., dated as of March 1, 1991, incorporated by reference to Exhibit 28(f) to the Partnership's Annual Report on Form 10-K for the year ended December 31, 1992.
- 99.0 Letter to Securities and Exchange Commission from the Partnership dated March 22, 2002 regarding the representations received from Arthur Andersen LLP in performing the audit of the December 31, 2001 financial statements (filed herewith).

(b) Reports on Form 8-K filed during the last quarter of the fiscal year: None.

All other items are not applicable.

21

PART IV

SIGNATURES

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints William B. Dockser and H. William Willoughby, jointly and severally, his attorney-in-fact, each with the power of substitution for him in any and all capacities, to sign any amendments to this Annual Report on Form 10-K and to file the same with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each said attorney-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

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

By: CRIIMI, Inc.  
General Partner

March 12, 2002

-----  
DATE

/s/ William B. Dockser

-----  
William B. Dockser  
Chairman of the Board

March 12, 2002

-----  
DATE

/s/ H. William Willoughby

-----  
H. William Willoughby  
President, Secretary and Director

March 22, 2002

-----  
DATE

/s/ Cynthia O. Azzara

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

March 12, 2002

-----  
DATE

/s/ John R. Cooper

-----  
John R. Cooper  
Director

March 12, 2002

-----  
DATE

/s/ Alan M. Jacobs

-----  
Alan M. Jacobs  
Director

March 14, 2002

-----  
DATE

/s/ Robert J. Merrick

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Robert J. Merrick  
Director

March 11, 2002

-----  
DATE

/s/ Robert E. Woods

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Robert E. Woods  
Director

22

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

Financial Statements

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as of December 31, 2001 and 2000

and for the Years Ended

December 31, 2001, 2000, and 1999

23

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Partners of American Insured Mortgage Investors - Series 85, L.P.:

We have audited the accompanying balance sheets of American Insured Mortgage Investors - Series 85, L.P. (the "Partnership") as of December 31, 2001 and 2000, and the related statements of income and comprehensive income, changes in partners' equity and cash flows for the years ended December 31, 2001, 2000 and 1999. These financial statements and the schedule referred to below are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements and the schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Partnership as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years ended December 31, 2001, 2000 and 1999 in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule IV-Mortgage Loans on Real Estate as of December 31, 2001 is presented for purposes of complying with the Securities and Exchange Commission's rules and regulations and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/Arthur Andersen LLP  
Vienna, Virginia  
March 4, 2002

24

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

BALANCE SHEETS

December 31,

December 31,

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|   | 2001<br>----- | 2000<br>----- |
|---|---------------|---------------|
| ASSETS  |               |               |
| Investment in FHA-Insured Certificates and GNMA<br>Mortgage-Backed Securities, at fair value:     |               |               |
| Acquired insured mortgages  | \$ 45,845,197 | \$ 70,770,317 |
| Originated insured mortgages  | 15,734,485    | 15,927,124    |
|   | -----         | -----         |
|   | 61,579,682    | 86,697,441    |
| Investment in FHA-Insured Loans, at amortized cost,<br>net of unamortized discount and premium:   |               |               |
| Acquired insured mortgages  | 8,914,573     | 10,041,697    |
| Originated insured mortgages  | 12,430,002    | 12,570,037    |
|   | -----         | -----         |
|   | 21,344,575    | 22,611,734    |
| Cash and cash equivalents   | 4,366,085     | 5,631,117     |
| Receivables and other assets  | 8,394,392     | 1,319,714     |
| Investment in FHA debenture   | 2,385,233     | 2,361,381     |
|   | -----         | -----         |
| Total assets  | \$ 98,069,967 | \$118,621,387 |
|   | =====         | =====         |
| LIABILITIES AND PARTNERS' EQUITY  |               |               |
| Distributions payable   | \$ 1,885,460  | \$ 6,284,867  |
| Accounts payable and accrued expenses   | 121,659       | 112,864       |
| Due to affiliate  | 1,235,104     | 1,242,107     |
|   | -----         | -----         |
| Total liabilities   | 3,242,223     | 7,639,838     |
|   | -----         | -----         |
| Partners' equity:   |               |               |
| Limited partners' equity, 15,000,000 Units<br>authorized, 12,079,514 Units issued and outstanding | 99,801,805    | 114,254,731   |
| General partner's deficit   | (5,781,121)   | (5,194,582)   |
| Accumulated other comprehensive income  | 807,060       | 1,921,400     |
|   | -----         | -----         |
| Total partners' equity  | 94,827,744    | 110,981,549   |
|   | -----         | -----         |
| Total liabilities and partners' equity  | \$ 98,069,967 | \$118,621,387 |
|   | =====         | =====         |

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

|  | For the years ended December 31, |               |               |
|--|----------------------------------|---------------|---------------|
|  | 2001                             | 2000          | 1999          |
|  | -----                            | -----         | -----         |
| Income:  |                                  |               |               |
| Mortgage investment income                                 | \$ 7,983,600                     | \$ 9,597,605  | \$ 11,846,964 |
| Interest and other income                                  | 541,979                          | 380,932       | 382,860       |
|  | -----                            | -----         | -----         |
|  | 8,525,579                        | 9,978,537     | 12,229,824    |
| Expenses:  |                                  |               |               |
| Asset management fee to related parties                    | 959,934                          | 1,142,121     | 1,382,904     |
| General and administrative                                 | 382,296                          | 397,713       | 479,113       |
|  | -----                            | -----         | -----         |
|  | 1,342,230                        | 1,539,834     | 1,862,017     |
| Earnings before gains (losses)<br>on mortgage dispositions | 7,183,349                        | 8,438,703     | 10,367,807    |
| Mortgage dispositions                                      |                                  |               |               |
| Gains  | 1,785,376                        | 467,414       | 956,150       |
| Losses   | -                                | (39,819)      | (99,399)      |
|  | -----                            | -----         | -----         |
| Net earnings   | \$ 8,968,725                     | \$ 8,866,298  | \$ 11,224,558 |
|  | =====                            | =====         | =====         |
| Other comprehensive (loss) income                          | (1,114,340)                      | 1,907,406     | (5,482,391)   |
|  | -----                            | -----         | -----         |
| Comprehensive income                                       | \$ 7,854,385                     | \$ 10,773,704 | \$ 5,742,167  |
|  | =====                            | =====         | =====         |
| Net earnings allocated to:                                 |                                  |               |               |
| Limited partners - 96.1%                                   | \$ 8,618,945                     | \$ 8,520,512  | \$ 10,786,800 |
| General partner - 3.9%                                     | 349,780                          | 345,786       | 437,758       |
|  | -----                            | -----         | -----         |
|  | \$ 8,968,725                     | \$ 8,866,298  | \$ 11,224,558 |
|  | =====                            | =====         | =====         |
| Net earnings per Limited<br>Partnership Unit - Basic       | \$ 0.71                          | \$ 0.71       | \$ 0.89       |
|  | =====                            | =====         | =====         |

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



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STATEMENTS OF CHANGES IN PARTNERS' EQUITY

For the years ended December 31, 2001, 2000, 1999

|   | General<br>Partner | Limited<br>Partners | Accumula<br>Other<br>Comprehen<br>Income |
|---|--------------------|---------------------|--|
|   | -----              | -----               | -----                                    |
| Balance, January 1, 1999  | \$ (3,674,093)     | \$151,721,136       | \$ 5,496,                                |
| Net Earnings  | 437,758            | 10,786,800          |  |
| Adjustment to unrealized gains (losses) on<br>investments in insured mortgages                      | -                  | -                   | (5,482,                                  |
| Distributions paid or accrued of \$3.09 per Unit,<br>including return of capital of \$2.20 per Unit | (1,514,779)        | (37,325,699)        |  |
|   | -----              | -----               | -----                                    |
| Balance, December 31, 1999  | (4,751,114)        | 125,182,237         | 13,                                      |
| Net Earnings  | 345,786            | 8,520,512           |  |
| Adjustment to unrealized gains (losses) on<br>investments in insured mortgages                      | -                  | -                   | 1,907,                                   |
| Distributions paid or accrued of \$1.61 per Unit,<br>including return of capital of \$0.90 per Unit | (789,254)          | (19,448,018)        |  |
|   | -----              | -----               | -----                                    |
| Balance, December 31, 2000  | (5,194,582)        | 114,254,731         | 1,921,                                   |
| Net Earnings  | 349,780            | 8,618,945           |  |
| Adjustment to unrealized gains (losses) on<br>investments in insured mortgages                      | -                  | -                   | (1,114,                                  |
| Distributions paid or accrued of \$1.91 per Unit,<br>including return of capital of \$1.20 per Unit | (936,319)          | (23,071,871)        |  |
|   | -----              | -----               | -----                                    |
| Balance, December 31, 2001  | \$ (5,781,121)     | \$ 99,801,805       | \$ 807,                                  |
|   | =====              | =====               | =====                                    |
| Limited Partnership Units outstanding - Basic, as of<br>December 31, 2001, 2000 and 1999            |                    | 12,079,514          |  |
|   |                    | =====               |  |

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

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|   | 2001<br>-----         |
|---|-----------------------|
| Cash flows from operating activities:   |                       |
| Net earnings  | \$ 8,968,725          |
| Adjustments to reconcile net earnings to net cash provided by operating activities:   |                       |
| Losses on mortgage dispositions   | -                     |
| Gains on mortgage dispositions  | (1,785,376)           |
| Changes in assets and liabilities:  |                       |
| (Increase) decrease in receivables and other assets   | (315,436)             |
| Increase (decrease) in accounts payable and accrued expenses  | 8,795                 |
| Decrease in due to affiliate  | (7,003)               |
|   | -----                 |
| Net cash provided by operating activities   | 6,869,705<br>-----    |
| Cash flows from investing activities:   |                       |
| Proceeds from disposition of mortgages  | 19,316,901            |
| Receipt of mortgage principal from scheduled payments   | 955,959               |
| Proceeds from redemption of debenture   | -                     |
| Debenture proceeds due to affiliate   | -                     |
|   | -----                 |
| Net cash provided by investing activities   | 20,272,860<br>-----   |
| Cash flows from financing activities:   |                       |
| Distributions paid to partners  | (28,407,597)          |
|   | -----                 |
| Net (decrease) increase in cash and cash equivalents  | (1,265,032)           |
| Cash and cash equivalents, beginning of year  | 5,631,117<br>-----    |
| Cash and cash equivalents, end of year  | \$ 4,366,085<br>===== |
| Non-cash investing activity:  |                       |
| 7.125% debenture received from HUD in exchange for the mortgage on Fox Run Apartments   | -                     |
| Portion of debenture due to affiliate, AIM 84   | -                     |
| Portion of HUD debentures due from Midland in exchange for the mortgages on Summit Square Manor, Park Place, Park Hill Apartments, Fairfax House, and Woodland Villas | \$ 6,759,242          |

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

28

AMERICAN MORTGAGE INVESTORS - SERIES 85, L.P.

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION

American Insured Mortgage Investors - Series 85, L.P. (the "Partnership")

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was formed under the Uniform Limited Partnership Act of the state of California on June 26, 1984.

CRIIMI, Inc. (the "General Partner") holds a partnership interest of 3.9% and is a wholly-owned subsidiary of CRIIMI MAE Inc. ("CRIIMI MAE"). AIM Acquisition Partners L.P. (the "Advisor") serves as the advisor to the Partnership. The general partner of the Advisor is AIM Acquisition Corporation ("AIM Acquisition") and the limited partners include, but are not limited to, AIM Acquisition, The Goldman Sachs Group, L.P., Sun America Investments, Inc. (successor to Broad, Inc.) and CRI/AIM Investment, L.P., an affiliate of CRIIMI MAE. AIM Acquisition is a Delaware corporation that is primarily owned by Sun America Investments, Inc. and The Goldman Sachs Group, L.P.

Under the Advisory Agreement, the Advisor will render services to the Partnership, including but not limited to, the management of the Partnership's portfolio of mortgages and the disposition of the Partnership's mortgages. Such services will be subject to the review and ultimate authority of the General Partner. However, the General Partner is required to receive the consent of the Advisor prior to taking certain significant actions, including but not limited to the disposition of mortgages, any transaction or agreement with the General Partner or its affiliates, or any material change as to policies regarding distributions or reserves of the Partnership. The Advisor is permitted to delegate the performance of services pursuant to a sub-advisory agreement (the "Sub-Advisory Agreement"). The delegation of such services will not relieve the Advisor of its obligation to perform such services. CRIIMI MAE Services Limited Partnership ("CMSLP"), an affiliate of CRIIMI MAE, manages the Partnership's portfolio, pursuant to the Sub-Advisory Agreement. The general partner of CMSLP is CMSLP Management Company, a wholly-owned subsidiary of CRIIMI MAE.

Prior to the expiration of the Partnership's reinvestment period in December 1993, the Partnership was engaged in the business of originating mortgage loans ("Originated Insured Mortgages") and acquiring 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 previously terminated under the provisions of the partnership agreement.

On October 5, 1998, CRIIMI MAE, the parent of the General Partner, and CRIIMI MAE Management, Inc., an affiliate of CRIIMI MAE and provider of personnel and administrative services to the Partnership, filed voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"). On November 22, 2000, the United States Bankruptcy Court for the District of Maryland, in Greenbelt, Maryland (the "Bankruptcy Court") confirmed CRIIMI MAE's and CRIIMI MAE Management, Inc.'s reorganization plan. On April 17, 2001, CRIIMI MAE and CRIIMI MAE Management, Inc. emerged from bankruptcy.

29

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Method of Accounting

-----

The Partnership's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles ("GAAP"). The preparation of financial statements in conformity with GAAP requires

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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.

### Investment in Insured Mortgages

-----

The Partnership's investment in Insured Mortgages is comprised of participation certificates evidencing a 100% undivided beneficial interest in government insured multifamily mortgages issued or sold pursuant to Federal Housing Administration ("FHA") programs ("FHA-Insured Certificates"), mortgage-backed securities guaranteed by the Government National Mortgage Association ("GNMA") ("GNMA Mortgage-Backed Securities") and FHA-insured mortgage loans ("FHA-Insured Loans"). The mortgages underlying the FHA-Insured Certificates, GNMA Mortgage-Backed Securities and FHA-Insured Loans are non-recourse first liens on multifamily residential developments or retirement homes.

Payments of principal and interest on FHA-Insured Certificates and FHA-Insured Loans are insured by the United States Department of Housing and Urban Development ("HUD") pursuant to Title 2 of the National Housing Act. Payments of principal and interest on GNMA Mortgage-Backed Securities are guaranteed by GNMA pursuant to Title 3 of the National Housing Act.

As of December 31, 2001, the weighted average remaining term of the Partnership's investments in GNMA Mortgage-Backed Securities and FHA-Insured Certificates is approximately 26 years. However, the partnership agreement states that the Partnership will terminate in approximately 8 years on December 31, 2009, unless terminated earlier under the provisions of the partnership agreement. As the Partnership is anticipated to terminate prior to the weighted average remaining term of its investments in GNMA Mortgage-Backed Securities and FHA-Insured Certificates, the Partnership does not have the ability or intent, at this time, to hold these investments to maturity. Consequently, the General Partner believes that the Partnership's investments in GNMA Mortgage-Backed Securities and FHA-Insured Certificates should be included in the available for sale category. Although the Partnership's investments in GNMA Mortgage-Backed Securities and FHA-Insured Certificates are classified as available for sale for financial statement purposes, the General Partner does not intend to voluntarily sell these assets other than those which may be sold as a result of a default or those which are eligible to be put to FHA at the expiration of 20 years from the date of the final endorsement under Section 221 of the National Housing Act (the "Section 221 program"), as discussed in Note 5.

In connection with this classification, as of December 31, 2001 and 2000, all of the Partnership's investments in GNMA Mortgage-Backed Securities and FHA-Insured Certificates are recorded at fair value, with the net unrealized gains and losses on these assets reported as other comprehensive income and as a separate component of partners' equity. Subsequent increases or decreases in the fair value of GNMA Mortgage-Backed Securities and FHA-Insured Certificates, classified as available for sale, will be included as a separate component of partners' equity. Realized gains and losses on GNMA Mortgage-Backed Securities and FHA-Insured Certificates, classified as available for sale, will continue to be reported in earnings.

30

As of December 31, 2001 and 2000, Investment in FHA-Insured Loans is recorded at amortized cost.

The amortized cost of the investments in GNMA Mortgage-Backed Securities, FHA-Insured Certificates and FHA-Insured Loans is adjusted for amortization of

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discounts and premiums to maturity. Such amortization is included in mortgage investment income.

Gains from dispositions of mortgage investments are recognized upon the receipt of cash or HUD debentures.

Losses on dispositions of mortgage investments are recognized when it becomes probable that a mortgage will be disposed of and that the disposition will result in a loss. In the case of Insured Mortgages fully insured by HUD, the Partnership's maximum exposure for purposes of determining the loan losses would generally be an assignment fee charged by HUD representing approximately 1% of the unpaid principal balance of the Insured Mortgage at the date of default, plus the unamortized balance of acquisition fees and closing costs paid in connection with the acquisition of the Insured Mortgage and the loss of approximately 30 days accrued interest.

### Investment in FHA Debenture

-----

From time to time, the Partnership assigns defaulted loans to HUD in order to collect the amount of delinquent principal and interest. In addition, mortgages are assigned to HUD under the Section 221 program, as discussed in Note 5. HUD determines if the claim will be settled in cash or by the issuance of debentures. Debentures are obligations of the mortgage insurance funds and are unconditionally guaranteed by the United States. The term of the debentures are usually more than 9 years and the rate is set based upon the rate in effect at the commitment date to provide insurance or at the final endorsement date, whichever is greater. The Partnership classifies its Investment in FHA Debenture as an available for sale debt security with changes in fair value recorded as an adjustment to equity and other comprehensive income.

### Cash and Cash Equivalents

-----

Cash and cash equivalents consist of money market funds, time and demand deposits, commercial paper and repurchase agreements with original maturities of three months or less.

### Income Taxes

-----

No provision has been made for Federal, state or local income taxes in the accompanying statements of income and comprehensive income since they are the responsibility of the Unitholders.

### Statements of Cash Flows

-----

No cash payments were made for interest expense during the years ended December 31, 2001, 2000 and 1999. Since the statements of cash flows are intended to reflect only cash receipt and cash payment activity, the statements of cash flows do not reflect all operating activities that affect recognized assets and liabilities while not resulting in cash receipts or cash payments.

31

### 3. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following estimated fair values of the Partnership's financial instruments are presented in accordance with generally accepted accounting principles which define fair value as the amount at which a financial instrument

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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 December 31, 2001 |               | As of December 31, 2000 |               |
|---|-------------------------|---------------|-------------------------|---------------|
|   | Amortized<br>Cost       | Fair<br>Value | Amortized<br>Cost       | Fair<br>Value |
| Investment in FHA-Insured Certificates<br>and GNMA Mortgage-Backed<br>Securities: |                         |               |                         |               |
| Acquired insured mortgages  | \$ 44,640,062           | \$ 45,845,197 | \$ 68,440,285           | \$ 69,440,285 |
| Originated insured mortgages  | 16,132,560              | 15,734,485    | 16,311,904              | 16,311,904    |
|   | -----                   | -----         | -----                   | -----         |
|   | \$ 60,772,622           | \$ 61,579,682 | \$ 84,752,189           | \$ 85,752,189 |
|   | =====                   | =====         | =====                   | =====         |
| Investment in FHA-Insured Loans:  |                         |               |                         |               |
| Acquired insured mortgages  | \$ 8,914,573            | \$ 10,451,178 | \$ 10,041,697           | \$ 10,041,697 |
| Originated insured mortgages  | 12,430,002              | 12,122,221    | 12,570,037              | 12,570,037    |
|   | -----                   | -----         | -----                   | -----         |
|   | \$ 21,344,575           | \$ 22,573,399 | \$ 22,611,734           | \$ 22,611,734 |
|   | =====                   | =====         | =====                   | =====         |
| Cash and cash equivalents   | \$ 4,366,085            | \$ 4,366,085  | \$ 5,631,117            | \$ 5,631,117  |
|   | =====                   | =====         | =====                   | =====         |
| Investment in FHA Debenture   | \$ 2,385,233            | \$ 2,385,233  | \$ 2,385,233            | \$ 2,385,233  |
|   | =====                   | =====         | =====                   | =====         |

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, FHA-Insured Loans and FHA Debenture

-----

The fair value of the FHA-Insured Certificates, GNMA Mortgage-Backed Securities and FHA-Insured Loans is priced internally. The Partnership used a discounted cash flow methodology to estimate the fair value; the cash flows were discounted using a discount rate that, in the Partnership's view, was commensurate with the market's perception of risk and value. The Partnership used a variety of sources to determine its discount rate including: (i) institutionally-available research reports, and (ii) communications with dealers and active insured mortgage security investors regarding the valuation of comparable securities. The fair value of the FHA Debenture is based upon the prices of other comparable securities that trade in the market. The fair value is equal to its face value upon redemption of the debenture.

Cash and cash equivalents

-----

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

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## 4. COMPREHENSIVE INCOME

Comprehensive income includes net earnings as currently reported by the Partnership adjusted for other comprehensive income. Other comprehensive income for the Partnership consists of changes in unrealized gains and losses related to the Partnership's mortgages and debenture accounted for as available for sale. The table below breaks out other comprehensive income for the periods presented into the following two categories: (1) the change to unrealized gains and losses that relate to mortgages which were disposed of during the period with the resulting realized gain or loss reflected in net earnings (reclassification adjustments) and (2) the change in the unrealized gains or losses related to those investments that were not disposed of during the period.

|   | 2001<br>----            | 2000<br>----          | 1999<br>----            |
|---|-------------------------|-----------------------|-------------------------|
| Reclassification adjustment for (gains) losses included in net income | \$ (1,149,729)          | \$ 114,365            | \$ (1,210,000)          |
| Unrealized holding gains (losses) arising during the period           | 35,389                  | 1,793,041             | (4,260,000)             |
|   | -----                   | -----                 | -----                   |
| Net adjustment to unrealized (losses) gains                           | \$ (1,114,340)<br>===== | \$ 1,907,406<br>===== | \$ (5,470,000)<br>===== |

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

### Fully Insured 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:

|  | December 31,  |               |
|--|---------------|---------------|
|  | 2001<br>----  | 2000<br>----  |
| <b>Fully Insured Acquired Mortgages:</b>   |               |               |
| Number of                                  |               |               |
| GNMA Mortgage-Backed Securities (3) (5)    | 2             | 4             |
| FHA-Insured Certificates                   |               |               |
| (1) (2) (4) and (6) through (14)           | 26            | 35            |
| Amortized Cost                             | \$ 44,640,062 | \$ 68,440,285 |
| Face Value                                 | 46,215,896    | 71,404,632    |
| Fair Value                                 | 45,845,197    | 70,770,317    |
| <b>Fully Insured Originated Mortgages:</b> |               |               |
| Number of                                  |               |               |
| GNMA Mortgage-Backed Securities            | 1             | 1             |
| FHA-Insured Certificates                   | 1             | 1             |
| Amortized Cost                             | \$ 16,132,560 | \$ 16,311,904 |
| Face Value                                 | 16,132,560    | 16,279,536    |
| Fair Value                                 | 15,734,485    | 15,927,124    |

The footnotes referred to in the table above correspond to the numbers of the items listed in the three tables that follow.

Listed below is a summary of prepayments on fully Insured Mortgages:

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(Dollars in thousands, except per unit amounts)

| Complex Name<br>-----           | Net<br>Proceeds<br>----- | Date<br>Proceeds<br>Received<br>----- | Gain<br>----- | Dist./<br>Unit<br>----- | Declaration<br>Date<br>----- | Dist<br>P |
|---------------------------------|--------------------------|---------------------------------------|---------------|-------------------------|------------------------------|-----------|
| (1) The Meadows of Livonia      | \$6,653                  | Jan 2001                              | \$253         | \$0.53                  | Jan 2001                     | Ma        |
| (2) Gold Key Village Apartments | 2,827                    | Mar 2001                              | 9             | 0.22                    | Apr 2001                     | Au        |
| (3) Carlisle Apartments         | 2,120                    | Jun 2001                              | 47            | 0.17                    | Jul 2001                     | No        |
| (4) Cedar Ridge Apartments      | 2,637                    | Jun 2001                              | 346           | 0.21                    | Jul 2001                     | No        |
| (5) Afton Square Apartments     | 1,061                    | Jul 2001                              | 29            | 0.08                    | Jul 2001                     | No        |
| (6) The Gatehouse Apartments    | 2,802                    | Dec 2001                              | 48            | 0.22                    | Jan 2002                     | Ma        |

33

The two lists below summarize debentures issued for mortgages assigned to HUD under the Section 221 program. Interest is payable on the debentures semi-annually on January 1 and July 1.

The following list represents debentures redeemed, subsequent to December 31, 2001, in January 2002. These debentures were issued to Firststar Trust Company, the initial mortgagee and subsequently transferred to Midland Loan Services, Inc. ("Midland"), the servicer, in 2001. The net proceed amounts, which were received in January 2002, listed below are included in receivables and other assets in the Partnership's balance sheet as of December 31, 2001.

(Dollars in thousands, except per unit amounts)

| Complex Name<br>-----  | Debenture<br>Interest<br>Rate<br>----- | Net<br>Proceeds<br>----- | Application<br>Date<br>----- | Date of<br>Response<br>from HUD<br>----- | Gain<br>2001<br>----- | Dist./<br>Unit<br>----- |
|--|--|--------------------------|------------------------------|--|-----------------------|-------------------------|
| (7) Summit Square Manor  | 7.125%                                 | \$ 1,883                 | Jun 2000                     | May 2001                                 | \$ 235                | \$ 0.150                |
| (8) Park Place   | 7.125%                                 | 746                      | Jun 2000                     | May 2001                                 | 94                    | 0.060                   |
| (9) Park Hill Apartments   | 7.500%                                 | 1,721                    | Sep 2000                     | Nov 2001                                 | 208                   | 0.140                   |
| (10) Fairfax House   | 7.500%                                 | 2,109                    | Sep 2000                     | Nov 2001                                 | 268                   | 0.170                   |
| (11) Woodland Villas   | 7.125%                                 | 300                      | Apr 2001                     | Nov 2001                                 | 56                    | 0.025                   |
| Total included in receivables and<br>other assets as of December 31,<br>2001 |  | \$ 6,759<br>=====        |                              |  |                       | \$ 0.545<br>=====       |

In addition, the Partnership received interest on debentures in 2002: (1) a distribution of approximately \$0.02 per unit of interest related to HUD debentures issued in exchange for the mortgages on Park Hill Apartments, Fairfax House and Woodland Villas was declared in January 2002, and (2) a distribution of \$0.02 per unit of interest related to HUD debentures issued in exchange for the mortgages on Summit Square Manor, Park Place, Park Hill Apartments, Fairfax House and Woodland Villas was declared in February 2002. These distributions are expected to be paid in May 2002.

The following list represents debentures that were issued, subsequent to December 31, 2001, in January 2002, to Firststar Trust Company, the initial



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mortgagee, and transferred to Midland. The Partnership anticipates the debentures will be redeemed prior to maturity date. The fair value of these FHA-Insured Certificates are included in investment in FHA-Insured Certificates in the Partnership's balance sheet as of December 31, 2001.

(Dollars in thousands, except per unit amounts)

| Complex Name<br>-----              | Debenture<br>Interest<br>Rate<br>---- | Net<br>Proceeds<br>----- | Application<br>Date<br>---- | Date of<br>Response<br>from HUD<br>----- | Approximate<br>Gain<br>2002<br>---- |
|------------------------------------|---------------------------------------|--------------------------|-----------------------------|--|-------------------------------------|
| (12) Country Club Terrace<br>Apts. | 7.500%                                | \$ 1,425                 | Sep 2000                    | Jan 2002                                 | \$ 178                              |
| (13) Nevada Hills Apartments       | 7.500%                                | 1,133                    | Dec 2000                    | Jan 2002                                 | 154                                 |
| (14) Dunhaven Apartments           | 7.125%                                | 872                      | Jan 2001                    | Jan 2002                                 | 165                                 |

As of March 1, 2002, all of the fully insured GNMA Mortgage-Backed Securities and FHA-Insured Certificates are current with respect to the payment of principal and interest. The Partnership no longer receives monthly principal and interest from mortgages that are in the HUD assignment process under the Section 221 program. The servicer of the mortgage on Fairlawn II filed an application for insurance benefits under section 221 in September 2000. The face value of this mortgage was approximately \$755,000 as of the insurance application date. The Partnership has not received approval for the assignment of this mortgage as of March 1, 2002.

34

Under the Section 221 program, a mortgagee has the right to assign a mortgage ("put") to FHA at the expiration of 20 years from the date of final endorsement if the mortgage is not in default at such time. Any mortgagee electing to assign an FHA-insured mortgage to FHA will receive, in exchange therefor, HUD debentures having a total face value equal to the then outstanding principal balance of the FHA-insured mortgage plus accrued interest to the date of assignment. These HUD debentures will mature 10 years from the date of assignment and will bear interest at a rate announced semi-annually by HUD in the Federal Register ("going Federal rate") at such date. This assignment procedure is applicable to an insured mortgage, which had a firm or conditional FHA commitment for insurance on or before November 30, 1983. Once the servicer of a mortgage has filed an application for insurance benefits under Section 221, the Partnership will no longer receive the monthly principal and interest on the applicable mortgage. The Partnership expects to receive HUD debentures, as discussed above, plus accrued interest at the "going Federal rate", from date of assignment of the mortgage to the date of issuance of the debenture. The Partnership will recognize a gain on these assignments upon receipt of HUD debentures or a loss when it becomes probable that a loss will be incurred. In general, the Partnership plans to sell the debentures if not called prior to the Partnerships termination date. At that time debenture proceeds will be distributed to Unitholders.

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 years ended December 31, 2001, 2000 and 1999, the Partnership received \$0, \$0, and \$0, respectively, from the Participations. These amounts, if any, are included in mortgage investment income on the accompanying statements of income and comprehensive income.

In the case of fully insured Originated Insured Mortgages and Acquired

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Insured Mortgages, the Partnership's maximum exposure for purposes of determining loan losses would generally be approximately 1% of the unpaid principal balance of the Originated Insured Mortgage or Acquired Insured Mortgage (an assignment fee charged by FHA) at the date of default, plus the unamortized balance of acquisition fees and closing costs of the Insured Mortgage and the loss of approximately 30 days accrued interest.

35

### 6. INVESTMENT IN FHA-INSURED LOANS

#### Fully Insured FHA-Insured Loans

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

|                                 | December 31, |              |
|---------------------------------|--------------|--------------|
|                                 | 2001         | 2000         |
|                                 | ----         | ----         |
| Fully Insured Acquired Loans:   |              |              |
| Number of Loans (1)             | 7            | 8            |
| Amortized Cost                  | \$ 8,914,573 | \$10,041,697 |
| Face Value                      | 10,632,937   | 12,040,599   |
| Fair Value                      | 10,451,178   | 12,023,455   |
| Fully Insured Originated Loans: |              |              |
| Number of Loans (2)             | 3            | 3            |
| Amortized Cost                  | \$12,430,002 | \$12,570,037 |
| Face Value                      | 12,132,653   | 12,261,397   |
| Fair Value                      | 12,122,221   | 12,192,633   |

- (1) In September 2001, the mortgage on Berryhill Apartments was prepaid. The Partnership received net proceeds of approximately \$1.2 million and recognized a gain of approximately \$190,000 for the year ended December 31, 2001. A distribution of approximately \$0.10 per Unit related to the prepayment of this mortgage was declared in September and paid to Unitholders in November 2001.
- (2) In January 2002, the mortgage on Longleaf Lodge was prepaid. The Partnership received net proceeds of approximately \$3.7 million and expects to recognize a gain of approximately \$672,000 in 2002. A distribution of approximately \$0.29 per Unit related to the prepayment of this mortgage was declared in January 2002 and is expected to be paid in May 2002.

As of March 1, 2002, all of the fully insured FHA-Insured Loans were current with respect to the payment of principal and interest, except for the mortgage on Westbrook Apartments, which is delinquent with respect to the February 2002 payment of principal and interest.

In addition to base interest payments under Originated Insured Mortgages, the Partnership is entitled to additional interest based on a percentage of the net cash flow from the underlying development (referred to as "Participations"). During the years ended December 31, 2001, 2000 and 1999, the Partnership received \$53,424, \$21,566, and \$45,164, respectively, from the Participations. These amounts, if any, are included in mortgage investment income on the accompanying statements of income and comprehensive income.

36

### 7. INVESTMENT IN FHA DEBENTURE

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In December 2000, HUD issued assignment proceeds in the form of a 7.125% FHA debenture for the mortgage on Fox Run Apartments. The debenture, with a face value and fair value, as of December 31, 2001, of \$2,385,233, was issued to the Partnership, with interest payable semi-annually on January 1 and July 1. The mortgage on Fox Run Apartments was owned 50% by the Partnership and 50% by an affiliate of the Partnership, American Insured Mortgage Investors ("AIM 84"). In January 2002, net proceeds of approximately \$2.4 million were received upon redemption of this debenture. Since the mortgage on Fox Run Apartments was owned 50% by the Partnership and 50% by AIM 84, approximately \$1.2 million of the debenture proceeds was paid to AIM 84. A distribution of approximately \$0.09 per Unit related to the redemption of this debenture was declared in January 2002 and is expected to be paid in May 2002.

### 8. TRANSACTIONS WITH RELATED PARTIES

The principal officers of the General Partner for the years ended December 31, 2001, 2000 and 1999 did not receive fees for serving as officers of the General Partner, nor are any fees expected to be paid to the officers in the future.

The General Partner, CMSLP and certain affiliated entities have, during the years ended December 31, 2001, 2000 and 1999, earned or received compensation or payments for services from the Partnership as follows:

#### COMPENSATION PAID OR ACCRUED TO RELATED PARTIES

| Name of Recipient<br>-----           | Capacity in Which Served/Item<br>-----  | For the year ended December |              |              |
|--------------------------------------|---|-----------------------------|--------------|--------------|
|                                      |   | 2001<br>----                | 2000<br>---- | 1999<br>---- |
| CRIIMI, Inc.(1)                      | General Partner/Distribution            | \$ 936,319                  | \$ 789,254   | \$1,511,111  |
| AIM Acquisition Partners,<br>L.P.(2) | Advisor/Asset Management Fee            | 959,934                     | 1,142,121    | 1,388,889    |
| CRIIMI MAE Management, Inc.          | Affiliate of General<br>Partner/Expense | 44,951                      | 42,074       | 44,951       |

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

(2) The Advisor 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 equal to 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 \$282,943, \$336,565, and \$407,699 for the years ended December 31, 2001, 2000, and 1999, respectively. The general partner and limited partner of CMSLP are wholly-owned subsidiaries of CRIIMI MAE.

37

### 9. DISTRIBUTIONS TO UNITHOLDERS

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

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the years ended December 31, 2001, 2000 and 1999 are as follows:

|                             | 2001<br>----         | 2000<br>----       |    |
|-----------------------------|----------------------|--------------------|----|
| Quarter ended March 31,     | \$ 0.68 (1)          | \$ 0.47 (7) (8)    | \$ |
| Quarter ended June 30,      | 0.37 (2)             | 0.46 (9) (10) (11) |    |
| Quarter ended September 30, | 0.71 (3) (4) (5) (6) | 0.18               |    |
| Quarter ended December 31,  | 0.15                 | 0.50 (12)          |    |
|                             | -----                | -----              | -  |
|                             | \$ 1.91              | \$ 1.61            | \$ |
|                             | =====                | =====              | =  |

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

| Complex Name(s)<br>-----  | Date<br>Proceeds<br>Received<br>----- | Type of<br>Disposition<br>----- | N<br>Pro<br>Per<br>---- |
|---|---------------------------------------|---------------------------------|-------------------------|
| (1) The Meadows of Livonia  | Jan 2001                              | Prepayment                      | \$0                     |
| (2) Gold Key Village Apartments   | Mar 2001                              | Prepayment                      | 0                       |
| (3) Cedar Ridge Apartments  | Jun 2001                              | Prepayment                      | 0                       |
| (4) Carlisle Apartments   | Jun 2001                              | Prepayment                      | 0                       |
| (5) Afton Square Apartments   | Jul 2001                              | Prepayment                      | 0                       |
| (6) Berryhill Apartments  | Sep 2001                              | Prepayment                      | 0                       |
| (7) Northwood Apartments  | Dec 1999                              | Prepayment                      | 0                       |
| (8) Turtle Creek Apartments   | Jan 2000                              | Prepayment                      | 0                       |
| (9) Woodland Hills Apartments   | Apr 2000                              | Prepayment                      | 0                       |
| (10) New Castle Apartments  | May 2000                              | Prepayment                      | 0                       |
| (11) Colony West Apartments   | May 2000                              | Prepayment                      | 0                       |
| (12) Independence Park  | Oct 2000                              | Prepayment                      | 0                       |
| (13) Gamel & Gamel Apartments   | Dec 1998                              | Prepayment                      | 0                       |
| (14) Debenture from Portervillage I Apartments *  | Jan 1999                              | Assignment                      | 0                       |
| (15) Nassau Apartments, Walnut Apartments and<br>Kings Villa/Discovery Commons              | Apr 1999                              | Prepayment                      | 0                       |
| (16) Quail Creek Apartments   | May 1999                              | Prepayment                      | 0                       |
| (17) Huntington Apartments  | Sep 1999                              | Prepayment                      | 0                       |
| (18) Bowling Brook, Section 1   | Oct 1999                              | Prepayment                      | 0                       |
| (19) Lincoln Green, Ridgecrest Timbers, Holden Court<br>Apartments, and Lakeside Apartments | Nov 1999                              | Prepayment                      | 0                       |

\* During the first quarter of 1998, the assignment proceeds of the mortgage on Portervillage I Apartments were received in the form of a 9.5% debenture. The debenture, with a face value of \$2,296,098, was issued to the Partnership, with interest payable semi-annually on January 1 and July 1. In January 1999, net proceeds of approximately \$2.3 million were received upon redemption of these debentures. Since the mortgage on Portervillage I Apartments was owned 50% by the Partnership and 50% by AIM 84, approximately \$1.1 million of the debenture proceeds was paid to AIM 84.

The basis for paying distributions to Unitholders is net proceeds from mortgage dispositions, if any, and cash flow from operations, which includes regular interest income and principal from Insured Mortgages. Although the Insured Mortgages yield a fixed monthly mortgage payment once purchased, the cash distributions paid to the Unitholders will vary during each quarter due to

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(1) the fluctuating yields in the short-term money market where the monthly mortgage payment receipts are temporarily invested prior to the payment of quarterly distributions, (2) the reduction in the asset base resulting from monthly mortgage payments received or mortgage dispositions, (3) variations in the cash flow attributable to the delinquency or default of Insured Mortgages and professional fees and foreclosure costs incurred in connection with those Insured Mortgages and (4) variations in the Partnership's operating expenses.

38

### 10. PARTNERS' EQUITY

Depository Units representing economic rights in limited partnership interests ("Units") were issued at a stated value of \$20. A total of 12,079,389 Units were issued for an aggregate capital contribution of \$241,587,780. In addition, the initial limited partner contributed \$2,500 to the capital of the Partnership and received 125 Units in exchange therefor.

### 11. SUMMARY OF QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of unaudited quarterly results of operations for the years ended December 31, 2001, 2000 and 1999.

(In Thousands, Except Per Unit Data)

|   | 2001          |          |              |             |
|---|---------------|----------|--------------|-------------|
|   | Quarter ended |          |              |             |
|   | March 31      | June 30  | September 30 | December 31 |
|   | -----         | -----    | -----        | -----       |
| Income  | \$ 2,295      | \$ 2,216 | \$ 2,044     | \$ 1,971    |
| Net gains from                                    |               |          |              |             |
| mortgage dispositions                             | 262           | 723      | 219          | 581         |
| Net earnings                                      | 2,196         | 2,599    | 1,940        | 2,234       |
| Net earnings per Limited Partnership Unit - Basic | 0.17          | 0.21     | 0.15         | 0.18        |
|   |               |          |              |             |
|   | 2000          |          |              |             |
|   | Quarter ended |          |              |             |
|   | March 31      | June 30  | September 30 | December 31 |
|   | -----         | -----    | -----        | -----       |
| Income  | \$ 2,676      | \$ 2,553 | \$ 2,330     | \$ 2,420    |
| Net gains from                                    |               |          |              |             |
| mortgage dispositions                             | 44            | 235      | --           | 149         |
| Net earnings                                      | 2,320         | 2,396    | 1,948        | 2,202       |
| Net earnings per Limited Partnership Unit - Basic | 0.18          | 0.19     | 0.15         | 0.19        |
|   |               |          |              |             |
|   | 1999          |          |              |             |
|   | Quarter ended |          |              |             |
|   | March 31      | June 30  | September 30 | December 31 |
|   | -----         | -----    | -----        | -----       |
| Income  | \$ 3,166      | \$ 3,122 | \$ 3,047     | \$ 2,895    |
| Net gains from                                    |               |          |              |             |
| mortgage dispositions                             | --            | 651      | 134          | 72          |
| Net earnings                                      | 2,665         | 3,292    | 2,715        | 2,553       |
| Net earnings per Limited Partnership Unit - Basic | 0.14          | 0.15     | 0.14         | 0.13        |

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Partnership Unit - Basic 0.21 0.26 0.22 0.20

39

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

SCHEDULE IV - MORTGAGE LOANS ON REAL ESTATE

December 31, 2001

| Development Name/Location                         | Maturity Date | Put Date (1) | Interest Rate on Mortgage (7) (11) | Face Value of Mortgage (5) |
|---|---------------|--------------|------------------------------------|----------------------------|
| ACQUIRED INSURED MORTGAGES                        |               |              |                                    |                            |
| FHA-Insured Certificates (carried at fair value)  |               |              |                                    |                            |
| The Executive House, Dayton, OH                   | 8/21          | 12/01        | 7.5%                               | \$ 808,247                 |
| Fairlawn II, Waterbury, CT (2)                    | 6/20          | 5/00         | 7.5%                               | 731,333                    |
| Willow Dayton, Chicago, IL                        | 8/19          | N/A          | 7.5%                               | 970,244                    |
| Country Club Terrace Apts., Holidaysburg, PA      | 8/19          | 6/00         | 7.5%                               | 1,390,067                  |
| Nevada Hills Apts., Reno, NV                      | 2/21          | 8/00         | 7.5%                               | 1,118,050                  |
| Dunhaven Apts., Section I, Baltimore County, MD   | 1/20          | 12/99        | 7.5%                               | 862,253                    |
| Steeplechase Apts., Aiken, SC                     | 9/18          | N/A          | 7.5%                               | 481,226                    |
| Walnut Hills Apts., Plainfield, IN                | 9/19          | N/A          | 7.5%                               | 466,177                    |
| Ashley Oaks Apts., Carrollton, GA                 | 3/22          | 4/02         | 7.5%                               | 542,861                    |
| Highland Oaks Apts., Phase III, Wichita Falls, TX | 2/21          | 4/02         | 7.5%                               | 909,283                    |
| Magnolia Place Apts., Franklin, TN                | 5/20          | 4/02         | 7.5%                               | 306,425                    |
| Rainbow Terrace Apts., Milwaukee, WI              | 7/22          | 4/02         | 7.5%                               | 309,233                    |
| Rock Glen Apts., Baltimore, MD                    | 1/22          | 4/02         | 7.5%                               | 1,027,968                  |
| Stonebridge Apts., Phase I, Montgomery, AL        | 4/20          | 4/02         | 7.5%                               | 983,961                    |
| Village Knoll Apts., Harrisburg, PA               | 4/20          | 4/02         | 7.5%                               | 1,021,586                  |
| Executive Tower, Toledo, OH                       | 3/27          | N/A          | 8.75%                              | 2,792,870                  |
| Sangnok Villa, Los Angeles, CA                    | 1/30          | N/A          | 10.25%                             | 890,415                    |
| Eaglewood Villa Apts., Springfield, OH            | 2/27          | N/A          | 8.875%                             | 2,658,011                  |
| Stafford Towers, Baltimore, MD                    | 8/16          | N/A          | 9.50%                              | 332,087                    |
| Garden Court Apts., Lexington, KY                 | 8/27          | N/A          | 8.60%                              | 1,143,141                  |
| Northwood Place, Meridian, MS                     | 6/34          | N/A          | 8.75%                              | 4,436,462                  |
| Cheswick Apts., Indianapolis, IN                  | 9/27          | N/A          | 8.75%                              | 3,019,197                  |
| Bradley Road Nursing, Bay Village, OH             | 5/34          | N/A          | 8.875%                             | 2,482,378                  |
| Franklin Plaza, Cleveland, OH                     | 5/23          | N/A          | 8.175%                             | 5,080,054                  |
| Heritage Heights Apts., Harrison, AZ              | 4/32          | N/A          | 9.50%                              | 410,031                    |
| Pleasant View Nursing Home, Union, NJ             | 6/29          | N/A          | 7.75%                              | 7,302,391                  |
| Total FHA-Insured Certificates -                  |               |              |                                    |                            |
| Acquired Insured Mortgages, carried at fair value |               |              |                                    | \$ 42,475,951              |

40

| Development Name/Location | Maturity Date | Put Date (1) | Interest Rate on Mortgage (7) (11) | Face Value of Mortgage (5) |
|---------------------------|---------------|--------------|------------------------------------|----------------------------|
|---------------------------|---------------|--------------|------------------------------------|----------------------------|

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| GNMA Mortgage-Backed Securities (carried at fair value)                                      |       |     |       |              |
|--|-------|-----|-------|--------------|
| Pine Tree Lodge, Pasadena, TX  | 12/33 | N/A | 9.50% | \$ 1,995,736 |
| Stone Hedge Village Apts., Farmington, NY  | 11/27 | N/A | 7.00% | 1,744,209    |
| Total GNMA Mortgage-Backed Securities -<br>Acquired Insured Mortgages, carried at fair value |       |     |       | \$ 3,739,945 |

Total investment in Acquired Insured Mortgages, carried at fair value \$ 46,215,896

| ORIGINATED INSURED MORTGAGES  |       |          |       |               |
|---|-------|----------|-------|---------------|
| GNMA Mortgage-Backed Security (carried at fair value)                   |       |          |       |               |
| Oak Forest Apts. II, Ocoee, FL  | 12/31 | 11/09(3) | 8.25% | \$ 10,316,699 |
| FHA-Insured Certificate (carried at fair value)                         |       |          |       |               |
| Waterford Green Apts., South St. Paul, MN (11)                          | 11/30 | 12/04(3) | 7.25% | 5,815,861     |
| Total investment in Originated Insured Mortgages, carried at fair value |       |          |       | \$ 16,132,560 |

Total investment in FHA-Insured Certificates and  
GNMA Mortgage-Backed Securities, carried at fair value \$ 62,348,456

41

| Development Name/Location                         | Maturity Date | Put Date (1) | Interest Rate on Mortgage (7) (11) | Face Value of Mortgage (5) |
|---|---------------|--------------|------------------------------------|----------------------------|
| ACQUIRED INSURED MORTGAGES                        |               |              |                                    |                            |
| FHA-Insured Loans (carried at amortized cost) (4) |               |              |                                    |                            |
| Bay Pointe Apts., Lafayette, IN                   | 2/23          | 10/02        | 7.5%                               | \$ 1,930,145               |
| Baypoint Shoreline Apts., Duluth, MN              | 1/22          | 10/01        | 7.5%                               | 909,960                    |
| Brougham Estates II, Kansas City, KS              | 11/22         | 3/02         | 7.5%                               | 2,429,784                  |
| College Green Apts., Wilmington, NC               | 3/23          | 12/02        | 7.5%                               | 1,307,892                  |
| Kaynorth Apts., Lansing, MI                       | 4/23          | 9/02         | 7.5%                               | 1,775,422                  |
| Town Park Apts., Rockingham, NC                   | 10/22         | 10/02        | 7.5%                               | 595,874                    |
| Westbrook Apts., Kokomo, IN                       | 11/22         | 9/02         | 7.5%                               | 1,683,860                  |

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|   |      |          |       |               |
|---|------|----------|-------|---------------|
| Total investment in Acquired Insured Mortgages,<br>FHA-Insured Loans, carried at amortized cost   |      |          |       | \$ 10,632,937 |
| <hr/>   |      |          |       |               |
| ORIGINATED INSURED MORTGAGES  |      |          |       |               |
| FHA-Insured Loans (carried at amortized cost) (4)   |      |          |       |               |
| <hr/>   |      |          |       |               |
| Cobblestone Apts., Fayetteville, NC (11)  | 3/28 | 12/02(3) | 8.50% | \$ 4,850,163  |
| Longleaf Lodge, Hoover, AL (11)   | 7/26 | --       | 8.25% | 2,972,222     |
| The Plantation, Greenville, NC (11)   | 4/28 | 4/03(3)  | 8.25% | 4,310,268     |
|   |      |          |       | <hr/>         |
| Total investment in Originated Insured Mortgages,<br>FHA-Insured Loans, carried at amortized cost |      |          |       | \$ 12,132,653 |
|   |      |          |       | <hr/>         |
| Total investment in FHA-Insured Loans   |      |          |       | \$ 22,765,590 |
|   |      |          |       | <hr/>         |
| TOTAL INVESTMENT IN INSURED MORTGAGES   |      |          |       | \$ 85,114,046 |
|   |      |          |       | <hr/> <hr/>   |

43

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

NOTES TO SCHEDULE IV - MORTGAGE LOANS ON REAL ESTATE

DECEMBER 31, 2001

- (1) Under the Section 221 program of the National Housing Act of 1937, as amended (the "Section 221 program"), a mortgagee has the right to assign an insured mortgage ("put") to FHA at the expiration of 20 years from the date of final endorsement, if the insured mortgage is not in default at such time. Any mortgagee electing to assign an FHA-insured mortgage to FHA will receive, in exchange therefore, HUD debentures having a total face value equal to the then outstanding principal balance of the FHA-insured mortgage plus accrued interest to the date of assignment. These HUD debentures will mature 10 years from the date of assignment and will bear interest at the "going Federal rate" at such date. This assignment procedure is applicable to an insured mortgage which had a firm or conditional FHA commitment for insurance on or before November 30, 1983 and, in the case of a mortgage sold in a GNMA auction, was sold in an auction prior to February 1984. Certain of the Partnership's Insured Mortgages may have the right of assignment under this program. The Partnership has initiated its request to put these mortgages to FHA as they become due.
- (2) Applications for insurance benefits under the Section 221 program have been filed for this mortgage. The Partnership is currently awaiting approval from HUD for this application.
- (3) Certain mortgages that do not qualify under the Section 221 program possess a special assignment option, in certain Insured Mortgage documents, which allow the Partnership, anytime after this date, the option to require payment by the borrower of the unpaid principal balance of the Insured Mortgages. At such time, the borrowers must make payment to the Partnership, or the Partnership, at its option, may cancel the FHA insurance and institute foreclosure proceedings.



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- (4) Inclusive of closing costs and acquisition fees.
  - (5) The mortgages underlying the Partnership's investments in FHA-Insured Certificates, GNMA Mortgage-Backed Securities and FHA-Insured Loans are non-recourse first liens on multifamily residential developments and retirement homes. Prepayment of these Insured Mortgages would be based upon the unpaid principal balance at the time of prepayment.
  - (6) In April and July 1985, and February 1986, the Partnership purchased pass-through certificates representing undivided fractional interests of 157/537, 69/537 and 259/537, respectively, in a pool of 19 FHA-insured mortgages. In July 1986 and October 1987, the Partnership sold undivided fractional interests of 67/537 and 40/537, respectively, in this pool. Accordingly, the Partnership now owns an undivided fractional interest aggregating 378/537, or approximately 70.4%, in this pool. For purposes of illustration only, the amounts shown in this table represent the Partnership's current share of these items as if an undivided interest in each mortgage was acquired.
  - (7) In addition, the servicer or the sub-servicer of the Insured Mortgage, primarily unaffiliated third parties, is entitled to receive compensation for certain services rendered.
  - (8) In June 1985 and February 1986, the Partnership purchased pass-through certificates representing undivided fractional interests of 317/392 and 11/392, respectively, in a pool of 13 FHA-insured mortgages. In January and February 1988, the Partnership sold undivided fractional interests of 100/392 and 104/392, respectively, in this pool. Accordingly, the Partnership now owns an undivided fractional interest aggregating 124/392, or approximately 31.6%, in this pool. For purposes of illustration only, the amounts shown in this table represent the Partnership's share of these items as if an undivided interest in each mortgage was acquired.
- 42
- (9) In June 1985 and February 1986, the Partnership purchased pass-through certificates representing undivided fractional interests of 200/341 and 101/341, respectively, in a pool of 12 FHA-insured mortgages. In October 1987, the Partnership sold undivided fractional interests of 200/341 in this pool. Accordingly, the Partnership now owns an undivided fractional interest aggregating 101/341, or approximately 29.6%, in this pool. For purposes of illustration only, the amounts shown in this table represent the Partnership's share of these items as if an undivided interest in each mortgage was acquired.
  - (10) These amounts represent the Partnership's 50% interest in these mortgages. The remaining 50% interest was acquired by American Insured Mortgage Investors, an affiliate of the Partnership.
  - (11) This represents the base interest rate during the permanent phase of these Insured Mortgages. Additional interest (referred to as "Participations") measured as a percentage of the net cash flow from the development and the net proceeds from the sale, refinancing or other disposition of the underlying development (as defined in the Participation Agreements), will also be due. During the years ended December 31, 2001, 2000 and 1999, the Partnership received additional interest of \$53,424, \$21,566, and \$45,164, respectively, from the Participations.
  - (12) Principal and interest are payable at level amounts over the life of the mortgages.
  - (13) A reconciliation of the carrying value of Insured Mortgages for the years

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ended December 31, 2001 and 2000, is as follows:

|   | 2001<br>----           | 2000<br>----           |
|---|------------------------|------------------------|
| Beginning balance   | \$109,309,175          | \$118,622,389          |
| Principal receipts on mortgages   | (955,959)              | (1,182,259)            |
| Proceeds from disposition of Mortgages  | (19,316,901)           | (10,489,808)           |
| Net gains on mortgage dispositions  | 1,785,376              | 427,595                |
| Portion of HUD debentures due from Midland in exchange<br>for the Mortgages on Summit Square Manor, Park Place,<br>Park Hill Apartments, Fairfax House, and Woodland Villas | (6,759,242)            | -                      |
| Increase (decrease) to unrealized gains on<br>Investments in Insured Mortgages  | (1,138,192)            | 1,931,258              |
|   | -----                  | -----                  |
| Ending balance  | \$ 82,924,257<br>===== | \$109,309,175<br>===== |

(a) This amount represents cash proceeds of \$9,346,682 and net non-cash proceeds of \$1,143,126 (as reflected in the Statements of Cash Flows).

(14) As of December 31, 2001 and 2000, the tax basis of the Insured Mortgages was approximately \$80.7 million and \$105.4 million, respectively.