

AMERICAN INSURED MORTGAGE INVESTORS SERIES 85 L P

Form 10-K

March 29, 2001

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, 2000 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:

Title of each class	Name of each exchange on which registered
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 12, 2001, 12,079,514 depository units of limited partnership interest were outstanding and the aggregate market value of such units held by non-affiliates of the Registrant on such date was \$95,275,805.

Documents incorporated by Reference

None

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

2000 ANNUAL REPORT ON FORM 10-K

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PART I

ITEM 1. BUSINESS

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 Insured Mortgages (as defined below) invested in by the Partnership as of December 31, 2000, 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 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

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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 CRIIMI MAE Services, Inc., an affiliate 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, REITs 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 the security holders to be voted on during the fourth quarter of 2000.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S SECURITIES AND RELATED SECURITY HOLDER MATTERS

Principal Market and Market Price for Units and Distributions

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Since April 8, 1992, the Limited Partnership Units ("Units") have traded on the American Stock Exchange ("AMEX") with a 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 2000 and 1999 were as follows:

Quarter Ended -----	2000		Amount Distrib Per -----
	High -----	Low -----	
March 31	\$ 8.7500	\$ 8.0000	\$
June 30	8.8750	7.8125	
September 30	8.3750	7.8750	
December 31	8.4375	7.7500	
			-----
			\$
			=====

  

Quarter Ended -----	1999		Amount Distribu Per U -----
	High -----	Low -----	
March 31	\$ 12.6250	\$ 11.3750	\$ 0
June 30	11.7500	10.5625	0
September 30	11.0000	10.4375	0
December 31	10.8750	8.0000	1
			-----
			\$ 3
			=====

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

Complex Name(s) -----	Date Proceeds Received -----	Type of Dispositi -----
(1) Northwood Apartments	December 1999	Prepayment
(2) Turtle Creek Apartments	January 2000	Prepayment
(3) Woodland Hills Apartments and New Castle Apartments	May 2000	Prepayment
(4) Colony West Apartments	May 2000	Prepayment
(5) Independence Park	October 2000	Prepayment
(6) Gamel & Gamel Apartments	December 1998	Prepayment
(7) Debenture from Portervillage I Apartments *	January 1999	Assignment
(8) Nassau Apartments, Walnut Apartments and Kings Villa/Discovery Commons	April 1999	Prepayment
(9) Quail Creek Apartments	May 1999	Prepayment
(10) Huntington Apartments	September 1999	Prepayment
(11) Bowling Brook, Section 1	October 1999	Prepayment
(12) Lincoln Green, Ridgecrest Timbers, Holden Court Apartments, and Lakeside Apartments	November 1999	Prepayment

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\* 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 an affiliate of the Partnership, American Insured Mortgage Investors ("AIM 84"), approximately \$1.1 million of the debenture proceeds was paid to AIM 84.

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 -----	Approximate Number of Unitholders as of December 31, 2000 -----
Depository Units of Limited Partnership Interest	10,300

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

	For the Years Ended December 31,			
	2000 ----	1999 ----	1998 ----	1997 ----
Income	\$ 9,979	\$12,230	\$ 14,744	\$ 16,761
Net gains on mortgage dispositions/modifications	428	857	1,403	908
Net earnings	8,866	11,225	13,893	15,137
Net earnings per Limited Partnership Unit - Basic (1)	\$ 0.71	\$ 0.89	\$ 1.11	\$ 1.20
Distributions per Limited Partnership Unit (1)(2)	\$ 1.61	\$ 3.09	\$ 3.45	\$ 2.76

	As of December 31,			
	2000 ----	1999 ----	1998 ----	1997 ----
Total assets	\$ 118,621	\$143,470	\$ 170,970	\$ 203,450
Partners' equity	110,982	120,445	153,543	187,682

- (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, 2000, 1999, 1998, 1997 and 1996, which were paid subsequent to year end. See Notes 7 and 8 of the Notes to Financial Statements.

The selected income data presented above for the years ended December 31, 2000, 1999 and 1998, and the balance sheet data as of December 31, 2000 and 1999, are derived from and are qualified by reference to the Partnership's

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financial statements which have been included elsewhere in this Form 10-K. The income data for the years ended December 31, 1997 and 1996 and the balance sheet data as of December 31, 1998, 1997 and 1996 are derived from audited financial statements not included in this Form 10-K. This data should be read in conjunction with the Financial Statements and the Notes thereto.

### 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 CRIIMI MAE Services, Inc., an affiliate of CRIIMI MAE.

#### Mortgage Investments

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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

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("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, 2000, the Partnership had invested in 52 Insured Mortgages, with an aggregate amortized cost of approximately \$107 million, a face value of approximately \$112 million and a fair value of approximately \$111 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 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 fully Insured Mortgages:

	December 31,	
	2000	1999
	----	----
<b>Fully Insured Acquired Mortgages:</b>		
Number of		
GNMA Mortgage-Backed Securities(5)	4	
FHA-Insured Certificates		
(1) (2) (3) (4) (6)	35	
Amortized Cost	\$ 68,440,285	\$ 77,969,
Face Value	71,404,632	81,218,
Fair Value	70,770,317	79,052,
<b>Fully Insured Originated Mortgages:</b>		
Number of		
GNMA Mortgage-Backed Securities	1	
FHA-Insured Certificates	1	
Amortized Cost	\$ 16,311,904	\$ 16,772,
Face Value	16,279,536	16,416,
Fair Value	15,927,124	15,703,



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

Complex Name -----	Net Proceeds -----	Date Proceeds Received -----	Gain/ (Loss) -----	Dist./ Unit -----	Decla Da -----
(1) Turtle Creek Apartments	\$ 1,660,000	Jan. 2000	\$ 44,023	\$ 0.13	Jan.
(2) Woodland Hills Apartments	693,000	April 2000	93,811	0.06	May
(3) New Castle Apartments	1,988,000	May 2000	8,158	0.16	May
(4) Colony West Apartments	646,000	May 2000	132,967	0.05	June
(5) Independence Park Apartments	3,997,000	Oct. 2000	(39,819)	0.32	Oct.
(6) The Meadows of Livonia *	6,653,000	Jan. 2001	253,434	0.53	Jan.

\* First Quarter 2001 transaction

As of March 1, 2001, all of the fully insured GNMA Mortgage-Backed Securities and FHA-Insured Certificates are current with respect to the payment of principal and interest, except for the mortgages on Gold Key Village Apartments, Dunhaven Apartments, Section I and Rainbow Terrace Apartments, which are delinquent with respect to the February payment of principal and interest. In addition, the Partnership no longer receives monthly principal and interest from the mortgages that are in the HUD assignment process under Section 221, as discussed below.

As of March 1, 2001, the Partnership has received notification from the respective servicers that HUD applications for insurance benefits have been filed for the following mortgages:

Property Name -----	Application Date -----	Outstanding Principal Balance -----	Assignment Date -----
Park Place Apartments	June 2000	\$ 754,000	N/A
Summit Square Manor	June 2000	1,903,000	N/A
Park Hill Apartments	Sept. 2000	1,737,000	N/A
Fairfax House	Sept. 2000	2,128,000	N/A
Country Club Terrace Apts.	Sept. 2000	1,439,000	N/A
Fairlawn II	Sept. 2000	755,000	N/A
Nevada Hills Apts.	Dec. 2000	1,146,000	N/A

Under the Section 221 program of the National Housing Act of 1937, as amended, 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

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when it becomes probable that a loss will be incurred. In general, the Partnership plans to hold the debentures until called or date of maturity, whichever comes first. At that time debenture proceeds will be distributed to Unitholders.

In 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, 2000, 1999 and 1998, the Partnership received \$0, \$0, and \$76,991, 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 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

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

	December 31,	
	2000	1999
	----	----
Fully Insured Acquired Loans:		
Number of Loans (1)	8	
Amortized Cost	\$10,041,697	\$11,167,
Face Value	12,040,599	13,453,
Fair Value	12,023,455	13,203,
Fully Insured Originated Loans:		
Number of Loans	3	
Amortized Cost	\$12,570,037	\$12,699,
Face Value	12,261,397	12,379,
Fair Value	12,192,633	12,017,

- (1) In December 2000, HUD issued assignment proceeds in the form of a 7.125% debenture for the mortgage on Fox Run Apartments. The debenture, with a face value of \$2,385,233 and a fair value of \$2,361,381, was issued to the Partnership, with interest payable semi-annually on January 1 and July 1. The mortgage on Fox Run Apartments was owned 50% by the Partnership and 50% by an affiliate of the Partnership, American Insured Mortgage Investors ("AIM 84"). Upon disposition of the debenture 50% of the proceeds will be payable to AIM 84. The Partnership expects to receive net proceeds of approximately \$1.2 million and has recognized a gain of approximately \$188,000 for the year ended December 31, 2000. The net proceeds due AIM 84 are included on the balance sheet in Due to affiliate. In general, the Partnership will hold the debenture until its maturity date of June 1, 2010 or when called, whichever comes first. A distribution will be declared at that time. The servicer of this mortgage filed an application for insurance benefits under the Section 221 program of the National Housing Act of 1937 in May 2000.

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As of March 1, 2001, all of the fully insured FHA-Insured Loans were current with respect to the payment of principal and interest.

In addition to base interest payments under Originated Insured Mortgages, the Partnership is entitled to additional interest based on a percentage of the net cash flow from the underlying development (referred to as "Participations"). During the years ended December 31, 2000, 1999 and 1998, the Partnership received \$21,566, \$45,164, and \$34,553, respectively, from the Participations. These amounts, if any, are included in mortgage investment income on the accompanying statements of income and comprehensive income.

### Results of Operations

#### 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, versus gains recognized on seven mortgage prepayments in 1999. Losses were recognized on one mortgage prepayment in 2000, as discussed above, versus losses recognized on four mortgage prepayments in 1999.

#### 1999 versus 1998

Net earnings decreased for 1999 as compared to 1998, 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 1999 as compared to 1998, primarily due to the reduction in mortgage base from 11 dispositions during 1999 with an aggregate cost balance of approximately \$26.0 million.

Interest and other income decreased for 1999 as compared to 1998, primarily due to the timing of temporary investment of mortgage disposition proceeds prior to distribution to Unitholders.

Asset management fees decreased for 1999 as compared to 1998, primarily due to the reduction in the mortgage base.

Interest expense to affiliate decreased for 1999 as compared to 1998, as a result of a decrease in interest payable to an affiliate of the Partnership, American Insured Mortgage Investors ("AIM 84"), on the 9.5% debenture, as discussed below. In 1998, interest was due to AIM 84 for nine months. In 1999, no interest was due. The debenture was redeemed on January 4, 1999.

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Gains on mortgage dispositions decreased for 1999 as compared to 1998 as a result of gains recognized on seven mortgage prepayments in 1999 versus gains recognized on ten mortgage prepayments and one assignment, as discussed below, in 1998. Losses were recognized on four mortgage prepayments in 1999 versus a loss recognized on one mortgage prepayment in 1998.

During 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.

### Liquidity and Capital Resources

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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"). Such bankruptcy filings could result in certain adverse effects to the Partnership. For example, as a debtor-in-possession, CRIIMI MAE will not be permitted to provide any available capital to the General Partner or to the general partner of CMSLP, the Partnership's sub-advisor, without approval from the Bankruptcy Court. Even though this restriction or potential loss of the availability of a potential capital resource could adversely affect the General Partner and the Partnership, CRIIMI MAE has not historically represented a significant source of capital for the General Partner or the Partnership. Such bankruptcy filings could also result in the potential need to replace CRIIMI MAE Management, Inc. as a provider of personnel and administrative services to the Partnership.

On November 22, 2000, the United States Bankruptcy Court for the District of Maryland, in Greenbelt, Maryland (the "Bankruptcy Court") confirmed CRIIMI MAE's and CRIIMI MAE Management, Inc.'s Third Amended Joint Plan of Reorganization (as amended and supplemented by praecipes filed with the Bankruptcy Court on July 13, 14 and 21, and November 22, 2000, the "Plan"). CRIIMI MAE is working to complete the debt documentation, evidencing the secured financings to be provided by (1) the unsecured creditors, and (2) Merrill Lynch Mortgage Capital, Inc. and German American Capital Corporation (collectively the "New Debt Documents"). On March 9, 2001, the Bankruptcy Court approved an extension of the date by which the Plan must be effective to April 13, 2001. The Official Committee of Unsecured Creditors had previously filed its own plan of reorganization and proposed disclosure statement, but has asked the Bankruptcy Court, subject to completion of mutually acceptable debt documentation, to defer consideration of its plan and proposed disclosure statement. There can be no assurance at this time that CRIIMI MAE will be able to complete the New Debt Documents and effectuate the Plan by April 13, 2001.

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, 2000, 1999 and 1998 to meet operating requirements. The Partnership anticipates its cash flows to be sufficient to meet operating expense requirements for 2001.

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

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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 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 - 2000 versus 1999

-----

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

Net cash provided by investing activities decreased for 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 for 2000 as compared to 1999 due to an increase in the amount of distributions paid to partners in 2000 versus 1999.

### Cash flow - 1999 versus 1998

-----

Net cash provided by operating activities decreased for 1999 as compared to 1998, primarily due to the reduction in mortgage investment income, as discussed above.

Net cash provided by investing activities decreased in 1999 as compared to 1998. This decrease is primarily due to a reduction in proceeds received from the disposition of mortgages, as discussed previously.

Net cash used in financing activities decreased for 1999 as compared to 1998 due to a decrease in the amount of distributions paid to partners.

## 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.

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	2001	2002	2003	2004	2005	Thereafter
	----	----	----	----	----	-----
Insured Mortgages (in millions)	\$20.6	\$18.6	\$17.0	\$16.6	\$14.8	\$84.1
Average Interest Rate	7.89%	7.89%	7.90%	7.90%	7.89%	8.16%

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 18.

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

None.

PART III

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. 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 CRIIMI MAE Services, Inc., an affiliate 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 20, 2001:

Name	Age	Position
----	---	-----
William B. Dockser	63	Chairman of the Board

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H. William Willoughby	54	President, Secretary and
David B. Iannarone	40	Executive Vice President
Cynthia O. Azzara	41	Senior Vice President, Chief Financial Officer, Treasurer
Brian L. Hanson	39	Senior Vice President
Garrett G. Carlson, Sr.	63	Director
G. Richard Dunnells	63	Director
Robert Merrick	55	Director
Robert E. Woods	53	Director

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 of CRIIMI MAE from March 1998 to December 2000; and General Counsel of CRIIMI MAE from July 1996 to December 2000. He served as Counsel-Securities and Finance for Federal Deposit Insurance Corporation/Resolution Trust Corporation from 1991 to July 1996.

Cynthia O. Azzara has served as Chief Financial Officer of the 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, and in the Accounting and Finance Departments of CRI from 1985 to June 1995.

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; Group Vice President of CRIIMI MAE from March 1996 to March 1998; and Chief Operating Officer, Director of Asset Operations and Portfolio Director of JCF Partners from 1991 to March 1996.

Garrett G. Carlson, Sr. has served as Director of the General Partner since 1989. Mr. Carlson has served as Director of CRIIMI MAE since 1989; President of Can-American Realty Corp. and Canadian Financial Corp. since 1979 and 1974, respectively; President of Garrett Real Estate Development since 1982; President of the Satellite Broadcasting Corporation since 1996; Chairman of the Board of SCA Realty Holdings Inc. from 1985 to 1995; and Vice Chairman of Shelter Development Corporation Ltd. from 1983 to 1995.

G. Richard Dunnells has served as Director of the General Partner since 1991. Mr. Dunnells has served as Director of CRIIMI MAE since 1991; Hiring Partner of the law firm of Holland & Knight since January 1995; and Chairman of

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the Washington, D.C. law firm of Dunnells & Duvall from 1989 to 1993; Senior Partner of such law firm from 1973 to 1993.

Robert J. Merrick has served as Director of the General Partner since 1997. 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, Head of Citicorp's syndications, private placements, money markets and asset-backed businesses from 1985 to 1990.

(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, 2000.

### 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 herein by reference herein to Note 7 of the Notes to Financial Statements of the Partnership.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

(a) As of December 31, 2000, 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 16, 2001 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.

Amount and Nature



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Name	of Units Beneficially Owned	Percentage of Units Outstanding
----	-----	-----
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.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

(a) Transactions with management and others.

Note 7 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 report 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.

PART IV

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

(a) (1) Financial Statements:

Description

-----

Balance Sheets as of December 31, 2000 and 1999.....

Statements of Income and Comprehensive Income for the years ended December 31, 2000, 1999, and 1998.....

Statements of Changes in Partners' Equity for the years ended December 31, 2000, 1999 and 1998.....

Statements of Cash Flows for the years ended December 31, 2000, 1999 and 1998.....

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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 inapplicable, 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.
- 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

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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.
  - 10.12 Expense Reimbursement Agreement by and among Integrated Funding Inc. and the Partnership, American Insured Mortgage Investors L.P. - Series 86, and American Insured Mortgage Investors L.P. - Series 88, effective December 31, 1992, incorporated by reference to Exhibit 28(g) to the Partnership's Quarterly Report on Form 10-Q for the quarter ended June 30, 1991.
  - 10.13 Non-negotiable promissory note to American Insured Mortgage Investors L.P. - Series 88 in the amount of \$319,074.67 dated April 1, 1994, incorporated by reference to Exhibit 10(q) to the Partnership's Annual Report on Form 10-K for the year ended December 31, 1994.
  - 10.14 Amendment No. 1 to Reimbursement Agreement by and among Integrated Funding Inc. and the Partnership, American Insured Mortgage Investors L.P. - Series 86, and American Insured Mortgage Investors L.P. - Series 88, effective April 1, 1994, incorporated by reference to Exhibit 10(r) to the Partnership's Annual Report on Form 10-K for the year ended December 31, 1994.
  - 10.15 Amendment No. 2 to Reimbursement Agreement by Integrated Funding, Inc., and American Insured Mortgage Investors L.P.-Series 86, and American Insured Mortgage Investors L.P.-Series 88, effective April 1, 1997, incorporated by reference to Exhibit 10.15 to the Partnership's Annual Report on Form 10-K for the year ended December 31, 1997.
- (b) Reports on Form 8-K filed during the last quarter of the fiscal year: None.

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All other items are not applicable.

PART IV

SIGNATURES

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

/s/ March 12, 2001  
-----

DATE

/s/ William B. Dockser  
-----

William B. Dockser  
Chairman of the Board

/s/ March 08, 2001  
-----

DATE

/s/ H. William Willoughby  
-----

H. William Willoughby  
President and Secretary

/s/ March 29, 2001  
-----

DATE

/s/ Cynthia O. Azzara  
-----

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

/s/ March 07, 2001  
-----

DATE

/s/ Garrett G. Carlson, Sr.  
-----

Garrett G. Carlson, Sr.  
Director

/s/ March 12, 2001  
-----

DATE

/s/ G. Richard Dunnells  
-----

G. Richard Dunnells  
Director

/s/ March 08, 2001  
-----

DATE

/s/ Robert J. Merrick  
-----

Robert J. Merrick  
Director

/s/ March 09, 2001  
-----

DATE

/s/ Robert E. Woods  
-----

Robert E. Woods  
Director

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

Financial Statements

as of December 31, 2000 and 1999

and for the Years Ended

December 31, 2000, 1999, and 1998

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, 2000 and 1999, and the related statements of income and comprehensive income, changes in partners' equity and cash flows for the years ended December 31, 2000, 1999 and 1998. 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, 2000 and 1999, and the results of its operations and its cash flows for the years ended December 31, 2000, 1999 and 1998 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, 2000 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.

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Arthur Andersen LLP  
 Vienna, Virginia  
 March 15, 2001

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

BALANCE SHEETS

	December 31, 2000	December 31, 1999
	-----	-----
ASSETS		
Investment in FHA-Insured Certificates and GNMA Mortgage-Backed Securities, at fair value:		
Acquired insured mortgages	\$ 70,770,317	\$ 79,052,484
Originated insured mortgages	15,927,124	15,703,179
	-----	-----
	86,697,441	94,755,663
Investment in FHA-Insured Loans, at amortized cost, net of unamortized discount and premium:		
Acquired insured mortgages	10,041,697	11,167,461
Originated insured mortgages	12,570,037	12,699,265
	-----	-----
	22,611,734	23,866,726
Cash and cash equivalents	5,631,117	23,723,644
Receivables and other assets	1,319,714	1,123,472
Investment in FHA debenture	2,361,381	-
	-----	-----
Total assets	\$ 118,621,387	\$ 143,469,505
	=====	=====
LIABILITIES AND PARTNERS' EQUITY		
Distributions payable	\$ 6,284,867	\$ 22,876,915
Accounts payable and accrued expenses	112,864	147,473
Due to affiliate	1,242,107	-
	-----	-----
Total liabilities	7,639,838	23,024,388
	-----	-----
Partners' equity:		
Limited partners' equity, 15,000,000 Units authorized, 12,079,514 Units issued and outstanding	114,254,731	125,182,237
General partner's deficit	(5,194,582)	(4,751,114)
Accumulated other comprehensive income	1,921,400	13,994
	-----	-----
Total partners' equity	110,981,549	120,445,117
	-----	-----
Total liabilities and partners' equity	\$ 118,621,387	\$ 143,469,505

=====

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

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

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	For the years ended December 31,		
	2000	1999	1998
	-----	-----	-----
Income:			
Mortgage investment income	\$ 9,597,605	\$11,846,964	\$14,067,956
Interest and other income	380,932	382,860	675,768
	-----	-----	-----
	9,978,537	12,229,824	14,743,724
	-----	-----	-----
Expenses:			
Asset management fee to related parties	1,142,121	1,382,904	1,617,625
General and administrative	397,713	479,113	550,640
Interest expense to affiliate	-	-	85,565
	-----	-----	-----
	1,539,834	1,862,017	2,253,830
	-----	-----	-----
Earnings before gains (losses) on mortgage dispositions	8,438,703	10,367,807	12,489,894
Mortgage dispositions			
Gains	467,414	956,150	1,499,412
Losses	(39,819)	(99,399)	(96,262)
	-----	-----	-----
Net earnings	\$ 8,866,298	\$11,224,558	\$13,893,044
	=====	=====	=====
Other comprehensive income (loss)	1,907,406	(5,482,391)	(4,666,238)
	-----	-----	-----
Comprehensive income	\$10,773,704	\$ 5,742,167	\$ 9,226,806
	-----	-----	-----
Net earnings allocated to:			
Limited partners - 96.1%	\$ 8,520,512	\$10,786,800	\$13,351,215
General partner - 3.9%	345,786	437,758	541,829
	-----	-----	-----
	\$ 8,866,298	\$11,224,558	\$13,893,044
	=====	=====	=====

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Net earnings per Limited Partnership Unit - Basic	\$ 0.71 =====	\$ 0.89 =====	\$ 1.11 =====
---	------------------	------------------	------------------

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

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

STATEMENTS OF CHANGES IN PARTNERS' EQUITY

For the years ended December 31, 2000, 1999, 1998

	General Partner	Limited Partners	Accumulated Other Comprehensive Income
	-----	-----	-----
Balance, January 1, 1998	\$ (2,524,665)	\$ 180,044,243	\$ 10,000,000
Net Earnings	541,829	13,351,215	
Adjustment to unrealized gains (losses) on investments in insured mortgages	-	-	(4,000,000)
Distributions paid or accrued of \$3.45 per Unit, including return of capital of \$2.34 per Unit	(1,691,257)	(41,674,322)	
	-----	-----	-----
Balance, December 31, 1998	(3,674,093)	151,721,136	5,000,000
Net Earnings	437,758	10,786,800	
Adjustment to unrealized gains (losses) on investments in insured mortgages	-	-	(5,000,000)
Distributions paid or accrued of \$3.09 per Unit, 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	
Net Earnings	345,786	8,520,512	
Adjustment to unrealized gains (losses) on investments in insured mortgages	-	-	1,000,000
Distributions paid or accrued of \$1.61 per Unit, including return of capital of \$0.90 per Unit	(789,254)	(19,448,018)	
	-----	-----	-----
Balance, December 31, 2000	\$ (5,194,582) =====	\$ 114,254,731 =====	\$ 1,000,000 =====
Limited Partnership Units outstanding - Basic, as of December 31, 2000, 1999 and 1998		12,079,514 =====	



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

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

STATEMENTS OF CASH FLOWS

	For the years en 2000	199
	-----	-----
Cash flows from operating activities:		
Net earnings	\$ 8,866,298	\$11,22
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Losses on mortgage dispositions	39,819	9
Gains on mortgage dispositions	(467,414)	(95
Changes in assets and liabilities:		
(Increase) decrease in receivables and other assets	(196,242)	32
Decrease in accounts payable and accrued expenses	(34,609)	(3
(Decrease) increase in due to affiliate	-	(13
	-----	-----
Net cash provided by operating activities	8,207,852	10,52
	-----	-----
Cash flows from investing activities:		
Proceeds from disposition of mortgages	9,346,682	26,87
Receipt of mortgage principal from scheduled payments	1,182,259	1,30
Proceeds from redemption of debenture	-	2,29
Debenture proceeds due to affiliate	-	(1,14
	-----	-----
Net cash provided by investing activities	10,528,941	29,32
	-----	-----
Cash flows from financing activities:		
Distributions paid to partners	(36,829,320)	(31,92
	-----	-----
Net (decrease) increase in cash and cash equivalents	(18,092,527)	7,92
Cash and cash equivalents, beginning of year	23,723,644	15,79
	-----	-----
Cash and cash equivalents, end of year	\$ 5,631,117	\$23,72
	=====	=====
Non-cash investing activity:		
9.5% debenture received from HUD in exchange for the mortgage on Portervillage I Apartments	\$ -	\$
7.125% debenture received from HUD in exchange for the mortgage on Fox Run Apartments	2,385,233	
Portion of debenture due to affiliate, AIM 84	(1,242,107)	

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

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

### NOTES TO FINANCIAL STATEMENTS

#### 1. ORGANIZATION

American Insured Mortgage Investors - Series 85, L.P. (the "Partnership") was formed under the Uniform Limited Partnership Act of the state of California on June 26, 1984.

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 CRIIMI MAE Services, Inc., an affiliate 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. 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"). Such bankruptcy filings could result in certain adverse effects to the Partnership. For example, as a debtor-in-possession, CRIIMI MAE will not be permitted to provide any available capital to the General Partner or to the general partner of CMSLP, the Partnership's sub-advisor, without approval from the Bankruptcy Court. Even though this restriction or potential loss of the

availability of a potential capital resource could adversely affect the General Partner and the Partnership, CRIIMI MAE has not historically represented a significant source of capital for the General Partner or the Partnership. Such bankruptcy filings could also result in the potential need to replace CRIIMI MAE Management, Inc. as a provider of personnel and administrative services to the Partnership.

On November 22, 2000, the United States Bankruptcy Court for the District of Maryland, in Greenbelt, Maryland (the "Bankruptcy Court") confirmed CRIIMI MAE's and CRIIMI MAE Management, Inc.'s Third Amended Joint Plan of Reorganization (as amended and supplemented by praecipes filed with the Bankruptcy Court on July 13, 14 and 21, and November 22, 2000, the "Plan"). CRIIMI MAE is working to complete the debt documentation, evidencing the secured financings to be provided by (1) the unsecured creditors, and (2) Merrill Lynch Mortgage Capital, Inc. and German American Capital Corporation (collectively the "New Debt Documents"). On March 9, 2001, the Bankruptcy Court approved an extension of the date by which the Plan must be effective to April 13, 2001. The Official Committee of Unsecured Creditors had previously filed its own plan of reorganization and proposed disclosure statement, but has asked the Bankruptcy Court, subject to completion of mutually acceptable debt documentation, to defer consideration of its plan and proposed disclosure statement. There can be no assurance at this time that CRIIMI MAE will be able to complete the New Debt Documents and effectuate the Plan by April 13, 2001.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Method of Accounting

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

### 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 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, 2000, the weighted average remaining term of the Partnership's investments in GNMA Mortgage-Backed Securities and FHA-Insured Certificates is approximately 27 years. However, the partnership agreement states that the Partnership will terminate in approximately 9 years, on December 31, 2009, unless previously terminated under the provisions of the partnership agreement. As the Partnership is anticipated to terminate prior to the weighted

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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 program of the National Housing Act of 1937, as amended (the "Section 221 program"), as discussed in Note 5.

In connection with this classification, as of December 31, 2000 and 1999, 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. The amortized cost of the investments in GNMA Mortgage-Backed Securities and FHA-Insured Certificates in this category is adjusted for amortization of discounts and premiums to maturity. Such amortization is included in mortgage investment income.

As of December 31, 2000 and 1999, Investment in FHA-Insured Loans is recorded at amortized cost.

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 ever is greater. AIM 85 classifies its Investment in FHA Debentures as available for sale debt securities with changes in fair value recorded as an adjustment to equity and other comprehensive income.

### Cash and Cash Equivalents

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Cash and cash equivalents consist of money market funds, time and demand

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deposits, commercial paper and repurchase agreements with original maturities of three months or less.

### Income Taxes

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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

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No cash payments were made for interest expense during the years ended December 31, 2000, 1999 and 1998. 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.

### 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 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, 2000		As of December 31,	
	Amortized	Fair	Amortized	F
	Cost	Value	Cost	V
	-----	-----	-----	-----
Investment in FHA-Insured Certificates and GNMA Mortgage-Backed Securities:				
Acquired insured mortgages	\$ 68,440,285	\$ 70,770,317	\$ 77,969,011	\$ 7
Originated insured mortgages	16,311,904	15,927,124	16,772,658	1
	-----	-----	-----	-----
	\$ 84,752,189	\$ 86,697,441	\$ 94,741,669	\$ 9
	=====	=====	=====	=====
Investment in FHA-Insured Loans:				
Acquired insured mortgages	\$ 10,041,697	\$ 12,023,455	\$ 11,167,461	\$ 1
Originated insured mortgages	12,570,037	12,192,633	12,699,265	1
	-----	-----	-----	-----
	\$ 22,611,734	\$ 24,216,088	\$ 23,866,726	\$ 2
	=====	=====	=====	=====
Cash and cash equivalents	\$ 5,631,117	\$ 5,631,117	\$ 23,723,644	\$ 2
	=====	=====	=====	=====
Accrued interest receivable	\$ 1,067,139	\$ 1,067,139	\$ 853,861	\$
	=====	=====	=====	=====
Investment in FHA Debenture	\$ 2,385,233	\$ 2,361,381	\$ --	\$
	=====	=====	=====	=====

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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

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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, (ii) a relative comparison of dealer provided quotes from the previous year to those disclosed in recent research reports and incorporating adjustments to reflect changes in the market, and (iii) 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.

Cash and cash equivalents and accrued interest receivable

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

#### 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 gain or loss related to those investments that were not disposed of during the period.

	2000	1999	
	-----	-----	-----
Reclassification adjustment for losses (gains) included in net income	\$ 114,365	\$ (1,213,550)	\$ (
Unrealized holding gains (losses) arising during the period	1,793,041	(4,268,841)	(
	-----	-----	-----
Net adjustment to unrealized gains (losses)	\$ 1,907,406	\$ (5,482,391)	\$ (
	=====	=====	=====

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

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

Listed below is the Partnership's aggregate investment in fully Insured Mortgages:

	December 31,	
	2000	1999
	----	----
Fully Insured Acquired Mortgages:		
Number of		
GNMA Mortgage-Backed Securities (5)	4	
FHA-Insured Certificates (1) (2) (3) (4) (6)	35	
Amortized Cost	\$ 68,440,285	\$ 77,969,
Face Value	71,404,632	81,218,
Fair Value	70,770,317	79,052,
Fully Insured Originated Mortgages:		
Number of		
GNMA Mortgage-Backed Securities	1	
FHA-Insured Certificates	1	
Amortized Cost	\$ 16,311,904	\$ 16,772,
Face Value	16,279,536	16,416,
Fair Value	15,927,124	15,703,

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

Complex Name	Net Proceeds	Date Proceeds Received	Gain/ (Loss)	Dist./ Unit	Decla Da
-----	-----	-----	-----	-----	-----
(1) Turtle Creek Apartments	\$ 1,660,000	Jan. 2000	\$ 44,023	\$ 0.13	Jan.
(2) Woodland Hills Apartments	693,000	April 2000	93,811	0.06	May
(3) New Castle Apartments	1,988,000	May 2000	8,158	0.16	May
(4) Colony West Apartments	646,000	May 2000	132,967	0.05	June
(5) Independence Park Apartments	3,997,000	Oct. 2000	(39,819)	0.32	Oct.
(6) The Meadows of Livonia *	6,653,000	Jan. 2001	253,434	0.53	Jan.
* First Quarter 2001 transaction					

As of March 1, 2001, all of the fully insured GNMA Mortgage-Backed Securities and FHA-Insured Certificates are current with respect to the payment of principal and interest, except for the mortgages on Gold Key Village Apartments, Dunhaven Apartments, Section I and Rainbow Terrace Apartments, which are delinquent with respect to the February payment of principal and interest. In addition, the Partnership no longer receives monthly principal and interest from the mortgages that are in the HUD assignment process under Section 221, as discussed below.

As of March 1, 2001, the Partnership has received notification from the respective servicers that HUD applications for insurance benefits have been filed for the following mortgages:

Property Name	Application Date	Outstanding Principal Balance	Assignment Date
-----	-----	-----	-----

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Park Place Apartments	June 2000	\$ 754,000	N/A
Summit Square Manor	June 2000	1,903,000	N/A
Park Hill Apartments	Sept. 2000	1,737,000	N/A
Fairfax House	Sept. 2000	2,128,000	N/A
Country Club Terrace Apts.	Sept. 2000	1,439,000	N/A
Fairlawn II	Sept. 2000	755,000	N/A
Nevada Hills Apts.	Dec. 2000	1,146,000	N/A

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

In 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, 2000, 1999 and 1998, the Partnership received \$0, \$0, and \$76,991, 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 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.

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,	
	2000	1999
	----	----
Fully Insured Acquired Loans:		
Number of Loans (1)	8	
Amortized Cost	\$10,041,697	\$11,167,



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Face Value	12,040,599	13,453,
Fair Value	12,023,455	13,203,
Fully Insured Originated Loans:		
Number of Loans	3	
Amortized Cost	\$12,570,037	\$12,699,
Face Value	12,261,397	12,379,
Fair Value	12,192,633	12,017,

(1) In December 2000, HUD issued assignment proceeds in the form of a 7.125% debenture for the mortgage on Fox Run Apartments. The debenture, with a face value of \$2,385,233 and a fair value of \$2,361,381, was issued to the Partnership, with interest payable semi-annually on January 1 and July 1. The mortgage on Fox Run Apartments was owned 50% by the Partnership and 50% by an affiliate of the Partnership, American Insured Mortgage Investors ("AIM 84"). Upon disposition of the debenture 50% of the proceeds will be payable to AIM 84. The Partnership expects to receive net proceeds of approximately \$1.2 million and has recognized a gain of approximately \$188,000 for the year ended December 31, 2000. The net proceeds due AIM 84 are included on the balance sheet in Due to affiliate. In general, the Partnership will hold the debenture until its maturity date of June 1, 2010 or when called, whichever comes first. A distribution will be declared at that time. The servicer of this mortgage filed an application for insurance benefits under the Section 221 program of the National Housing Act of 1937 in May 2000.

As of March 1, 2001, all of the fully insured FHA-Insured Loans were current with respect to the payment of principal and interest.

In addition to base interest payments under Originated Insured Mortgages, the Partnership is entitled to additional interest based on a percentage of the net cash flow from the underlying development (referred to as "Participations"). During the years ended December 31, 2000, 1999 and 1998, the Partnership received \$21,566, \$45,164, and \$34,553, respectively, from the Participations. These amounts, if any, are included in mortgage investment income on the accompanying statements of income and comprehensive income.

### 7. TRANSACTIONS WITH RELATED PARTIES

The principal officers of the General Partner for the years ended December 31, 2000, 1999 and 1998 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, 2000, 1999 and 1998, earned or received compensation or payments for services from the Partnership as follows:

#### COMPENSATION PAID OR ACCRUED TO RELATED PARTIES

Name of Recipient	Capacity in Which Served/Item	For the year ended Dec	
		2000	1999
-----	-----	-----	-----
CRIIMI, Inc.(1)	General Partner/Distribution	\$ 789,254	\$1,514,779
AIM Acquisition Partners, L.P.(2)	Advisor/Asset Management Fee	1,142,121	1,382,904

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CRIIMI MAE Management, Inc.	Affiliate of General Partner/Expense	42,074	43,624
American Insured Mortgage Investors	Affiliate of General Partner/ Share of FHA Debenture	1,242,107	--

- (1) The General Partner, pursuant to amendments to the partnership agreement, effective September 6, 1991, is entitled to receive 3.9% of the Partnership's income, loss, capital and distributions, including, without limitation, the Partnership's adjusted cash from operations and proceeds of mortgage prepayments, sales or insurance (both as defined in the partnership agreement).
- (2) The Advisor, pursuant to the partnership agreement, effective October 1, 1991, 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 Advisors Asset Management Fee. Of the amounts paid to the Advisor, CMSLP earned a fee equal to \$336,565, \$407,699, and \$476,800 for the years ended December 31, 2000, 1999, and 1998, respectively. The limited partner of CMSLP is a wholly owned subsidiary of CRIIMI MAE Inc., which filed for protection under Chapter 11 of the U.S. Bankruptcy Code.

## 8. DISTRIBUTIONS TO UNITHOLDERS

The distributions paid or accrued to Unitholders on a per Unit basis for the years ended December 31, 2000, 1999 and 1998 are as follows:

	2000 -----	1999 -----	1998 -----
Quarter ended March 31,	\$ 0.47 (1) (2)	\$ 0.40 (6) (7)	\$ 1.07 (13)
Quarter ended June 30,	0.46 (3) (4)	0.65 (8) (9)	0.58 (14)
Quarter ended September 30,	0.18	0.22	0.53 (16)
Quarter ended December 31,	0.50 (5)	1.82 (10) (11) (12)	1.27 (18)
	-----	-----	-----
	\$ 1.61	\$ 3.09	\$ 3.45
	=====	=====	=====

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

Complex Name(s) -----	Date Proceeds Received -----
(1) Northwood Apartments	December 1999
(2) Turtle Creek Apartments	January 2000
(3) Woodland Hills Apartments and New Castle Apartments	May 2000
(4) Colony West Apartments	May 2000
(5) Independence Park	October 2000
(6) Gamel & Gamel Apartments	December 1998
(7) Debenture from Portervillage I Apartments *	January 1999
(8) Nassau Apartments, Walnut Apartments and Kings Villa/Discovery Commons	April 1999
(9) Quail Creek Apartments	May 1999
(10) Huntington Apartments	September 1999

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(11) Bowling Brook, Section 1	October 1999
(12) Lincoln Green, Ridgecrest Timbers, Holden Court Apartments, and Lakeside Apartments	November 1999
(13) Spanish Trace Apartments	February 1998
(14) Isle of Pines Village Apartments and Emerald Green Apartments	April 1998
(15) Stoney Brook Apartments	May 1998
(16) Amador Residential	July 1998
(17) Continental Village and Bentgrass Hills Apartments	August 1998
(18) Northdale Commons	October 1998
(19) Cedar Bluff and Wayland Health Center	November 1998

\* 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 an affiliate of the Partnership, American Insured Mortgage Investors ("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 (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.

### 9. 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.

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

The following is a summary of unaudited quarterly results of operations for the years ended December 31, 2000, 1999 and 1998.

(In Thousands, Except Per Unit Data)

	March 31 -----	2000 Quarter ended		December 31 -----
		June 30 -----	September 30 -----	
Income	\$ 2,676	\$ 2,553	\$ 2,330	\$ 2,420
Net gains from				

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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	Quarter ended	Quarter ended	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	0.21	0.26	0.22	0.20

	1998			
	Quarter ended	Quarter ended	Quarter ended	Quarter ended
	March 31	June 30	September 30	December 31
	-----	-----	-----	-----
Income	\$ 3,859	\$ 3,751	\$ 3,521	\$ 3,613
Net gains from mortgage dispositions	104	858	202	239
Net earnings	3,400	4,055	3,236	3,202
Net earnings per Limited Partnership Unit - Basic	0.27	0.32	0.26	0.26

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

SCHEDULE IV - MORTGAGE LOANS ON REAL ESTATE

December 31, 2000

Development Name/Location	Maturity Date	Put Date (1)	Interest Rate on Mortgage (6) (10)	Face Value of Mortgage (4)
-----	-----	-----	-----	-----
ACQUIRED INSURED MORTGAGES				
FHA-Insured Certificates (carried at fair value)				
-----				
The Executive House, Dayton, OH	8/21	12/01	7.5%	\$ 825,76
Fairlawn II, Waterbury, CT (2)	6/20	5/00	7.5%	749,11
Willow Dayton, Chicago, IL	8/19	N/A	7.5%	995,91
Cedar Ridge Apts., Richton Park, IL	4/20	2/01	7.5%	2,672,13
Park Hill Apts., Lexington, KY (2)	3/19	3/00	7.5%	1,721,95
Fairfax House, Buffalo, NY (2)	11/19	5/00	7.5%	2,111,14
Country Club Terrace Apts., Holidaysburg, PA (2)	8/19	6/00	7.5%	1,426,83
Summit Square Manor, Rochester, MN (2)	8/19	5/99	7.5%	1,876,59
Park Place, Rochester, MN (2)	3/20	10/99	7.5%	743,60
Nevada Hills Apts., Reno, NV (2)	2/21	8/00	7.5%	1,143,49
Dunhaven Apts., Section I, Baltimore County, MD	1/20	12/99	7.5%	884,11
Steeplechase Apts., Aiken, SC	9/18	N/A	7.5%	495,47

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Walnut Hills Apts., Plainfield, IN	9/19	3/00	7.5%	478,40
Woodland Villas, Jasper, AL	8/19	3/00	7.5%	304,99
Ashley Oaks Apts., Carrollton, GA	3/22	4/02	7.5%	553,98
Highland Oaks Apts., Phase III, Wichita Falls, TX	2/21	4/02	7.5%	929,97
Magnolia Place Apts., Franklin, TN	5/20	4/02	7.5%	313,93
Rainbow Terrace Apts., Milwaukee, WI	7/22	4/02	7.5%	315,36
Rock Glen Apts., Baltimore, MD	1/22	4/02	7.5%	1,049,36
Stonebridge Apts., Phase I, Montgomery, AL	4/20	4/02	7.5%	1,008,28
Village Knoll Apts., Harrisburg, PA	4/20	4/02	7.5%	1,046,84
Executive Tower, Toledo, OH	3/27	N/A	8.75%	2,822,36
Sangnok Villa, Los Angeles, CA	1/30	N/A	10.25%	895,67
The Meadows of Livonia, Livonia, MI	9/34	N/A	9.40%	6,393,56
Eaglewood Villa Apts., Springfield, OH	2/27	N/A	8.875%	2,685,48
Gold Key Village Apts., Englewood, OH	6/27	N/A	9.00%	2,840,33
Stafford Towers, Baltimore, MD	8/16	N/A	9.50%	342,60
Garden Court Apts., Lexington, KY	8/27	N/A	8.60%	1,154,86
Northwood Place, Meridian, MS	6/34	N/A	8.75%	4,459,78
Cheswick Apts., Indianapolis, IN	9/27	N/A	8.75%	3,049,30
The Gate House Apts., Lexington, KY	2/28	N/A	8.55%	2,781,40
Bradley Road Nursing, Bay Village, OH	5/34	N/A	8.875%	2,495,15
Franklin Plaza, Cleveland, OH	5/23	N/A	8.175%	5,164,17
Heritage Heights Apts., Harrison, AZ	4/32	N/A	9.50%	412,27
Pleasant View Nursing Home, Union, NJ	6/29	N/A	7.75%	7,376,61
Total FHA-Insured Certificates -				
Acquired Insured Mortgages, carried at fair value				\$ 64,520,89
GNMA Mortgage-Backed Securities (carried at fair value)				
-----				
Pine Tree Lodge, Pasadena, TX	12/33	N/A	9.50%	\$ 2,005,05
Stone Hedge Village Apts., Farmington, NY	11/27	N/A	7.00%	1,766,92
Afton Square Apts., Portsmouth, VA	12/28	N/A	7.25%	1,038,31
Carlisle Apts., Houston, TX	12/28	N/A	7.125%	2,073,45
Total GNMA Mortgage-Backed Securities -				
Acquired Insured Mortgages, carried at fair value				\$ 6,883,74
Total investment in Acquired Insured Mortgages, carried at fair value				\$ 71,404,63
-----				
ORIGINATED INSURED MORTGAGES				
GNMA Mortgage-Backed Security (carried at fair value)				
-----				
Oak Forest Apts. II, Ocoee, FL	12/31	11/09	8.25%	\$ 10,406,04
FHA-Insured Certificate (carried at fair value)				
-----				
Waterford Green Apts., South St. Paul, MN (12)	11/30	12/04	7.25%	5,873,48
Total investment in Originated Insured Mortgages, carried at fair value				\$ 16,279,53
Total investment in FHA-Insured Certificates and				
GNMA Mortgage-Backed Securities, carried at fair value				\$ 87,684,16
-----				
ACQUIRED INSURED MORTGAGES				
FHA-Insured Loans (carried at amortized cost) (3)				
-----				
Bay Pointe Apts., Lafayette, IN	2/23	11/00	7.5%	\$ 1,969,05
Baypoint Shoreline Apts., Duluth, MN	1/22	8/00	7.5%	928,90
Berryhill Apts., Grass Valley, CA	1/21	8/99	7.5%	1,198,90

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Brougham Estates II, Kansas City, KS	11/22	8/00	7.5%	2,476,49
College Green Apts., Wilmington, NC	3/23	6/01	7.5%	1,332,25
Kaynorth Apts., Lansing, MI	4/23	3/01	7.5%	1,808,23
Town Park Apts., Rockingham, NC	10/22	6/01	7.5%	607,46
Westbrook Apts., Kokomo, IN	11/22	12/00	7.5%	1,719,29
Total investment in Acquired Insured Mortgages, FHA-Insured Loans, carried at amortized cost				\$ 12,040,59
ORIGINATED INSURED MORTGAGES				
FHA-Insured Loans (carried at amortized cost) (3)				
-----				
Cobblestone Apts., Fayetteville, NC	3/28	12/02	8.50%	\$ 4,898,35
Lingleaf Lodge, Hoover, AL	7/26	--	8.25%	3,008,33
The Plantation, Greenville, NC	4/28	4/03	8.25%	4,354,70
Total investment in Originated Insured Mortgages, FHA-Insured Loans, carried at amortized cost				\$ 12,261,39
Total investment in FHA-Insured Loans				\$ 24,301,99
TOTAL INVESTMENT IN INSURED MORTGAGES				\$111,986,16

- (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. Certain mortgages that do not qualify under this 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.
- (2) Applications for insurance benefits under the Section 221 program have been filed for these mortgages. The Partnership is currently awaiting approval from HUD for these applications.
- (3) Inclusive of closing costs and acquisition fees.
- (4) 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.
- (5) In April and July 1985, and February 1986, the Partnership purchased

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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.

- (6) 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.
- (7) 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.
- (8) 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.
- (9) 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.
- (10) 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, 2000, 1999 and 1998, the Partnership received additional interest of \$21,566, \$45,164, and \$111,544, respectively, from the Participations.
- (11) Principal and interest are payable at level amounts over the life of the mortgages.
- (12) A reconciliation of the carrying value of Insured Mortgages for the years ended December 31, 2000 and 1999, is as follows:

	2000 -----	1999 -----
Beginning balance	\$118,622,389	\$151,427,095
Principal receipts on mortgages	(1,182,259)	(1,308,678)
Proceeds from disposition of Mortgages	(10,489,808) (a)	(26,870,388)

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Net gains on mortgage dispositions	427,595	856,751
Increase (decrease) to unrealized gains on Investments in Insured Mortgages	1,931,258	(5,482,391)
Ending balance	\$109,309,175	\$118,622,389
	=====	=====

(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).

(13) As of December 31, 2000 and 1999, the tax basis of the Insured Mortgages was approximately \$105.4 million and \$116.3 million, respectively.