

INREIT

~ REAL ESTATE INVESTMENT TRUST ~

## 2nd Annual Report to Shareholders

A photograph of a Bed Bath & Beyond store at night. The store's name is displayed in large, red, 3D block letters on a light-colored facade. Below the sign is a large glass entrance. In the foreground, a silver sedan and a white sedan are parked in a parking lot. The sky is dark, and the store's interior lights are visible through the glass.

**BED BATH &  
BEYOND**





*Grand Forks Marketplace, Grand Forks, North Dakota*

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*This material is not an offer to sell nor a solicitation of an offer to buy any security. Any offer is made by prospectus only.*





# INREIT Real Estate Investment Trust

## THE COMPANY

INREIT was officially formed on November 1, 2002. At that point, the Golden Estates independent living facility in Williston, ND, was purchased with funds from the original ten shareholders. We first sold shares to the public in January, 2003, as part of our \$2 million offering. That offering was expanded to \$5 million later in the year.

INREIT Properties, LLLP, was formed during 2003, to act as our operating partnership and to allow the Company to acquire appreciated real property and to provide non-recognition of gain by the owners. All our properties are held by INREIT Properties, LLLP, and INREIT acts as the General Partner.

INREIT also offers Investment Certificates in 12-, 36- or 60-month maturities.

## ADVISOR'S REPORT

INREIT Real Estate Investment Trust has completed its first full year of operations and we are very proud of our accomplishments. During the year, INREIT purchased over \$9 million of real estate and our total assets grew from \$1.4 million to over \$11 million. Shareholder equity grew from \$474,000 to over \$4 million.

## REAL ESTATE INVESTMENTS

During 2003, INREIT purchased the following properties:

7/01/03	Grand Forks Marketplace, Grand Forks, ND	\$	6,040,415
9/30/03	Ellingson Apartments, Carrington, ND		588,492
9/30/03	The Villages housing developments, 8 locations in North Dakota & South Dakota		<u>2,409,664</u>
		\$	<u>9,038,571</u>

No properties were sold or liquidated in 2003.

Ellingson 4-plex Apts., Carrington,  
North Dakota



# INREIT Real Estate Investment Trust

## INVESTMENT PORTFOLIO

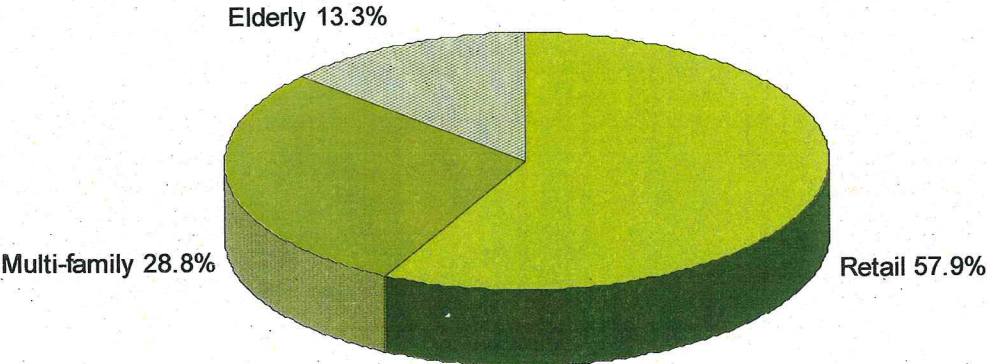
*Golden Estates, a 16-unit independent living facility in Williston, ND, was purchased on November 1, 2002. The facility was opened in 1999, and is occupied by private-pay individuals who are 55 years of age or older. The units are 858 square feet in size, with garages available on a monthly rental basis.*

*Grand Forks Marketplace National Retail Center in Grand Forks, ND, has 183,147 square feet leased and occupied by several national chains, such as Best Buy, Old Navy, Catherine's, Gordman's, Michaels, Hallmark, Famous Footwear, Bed Bath & Beyond, Lane Bryant, Check & Go, Great Clips, Foxy Nails and Starbucks. INREIT purchased a one-third interest in this \$19 million complex in July of 2003.*

*Ellingson Apartments, Carrington, ND, were purchased in September, 2003. These higher-end apartments consist of 20 units, each with its own central vacuum system & washer & dryer. Garages are also available.*

*The Villages consists of 220 units of government subsidized housing in Harvey, Hettinger, Lamoure, McVile, and Rugby, ND, and Groton, Redfield and Leola, SD. These apartments were also purchased in September, 2003.*

**Real Estate Portfolio Mix**  
December 31, 2003





# INREIT Real Estate Investment Trust

## OPERATIONS

All our properties are performing well. Golden Estates, our 16-unit independent living development in Williston has been full most of the year. No less than 15 units were occupied at any time during the year. Grand Forks Marketplace is 98% occupied and tenants have been signed to fill the remaining space by summer 2004. The Villages had an occupancy rate of 63% when purchased. By the end of 2003, the occupancy rate had been raised to 68%. We have a goal of 80% occupancy by the end of 2004. The Ellingson Apartments are full and have a waiting list. Long-term financing has been or is being arranged on all properties, with interest rates from 5.25% to 5.75%.

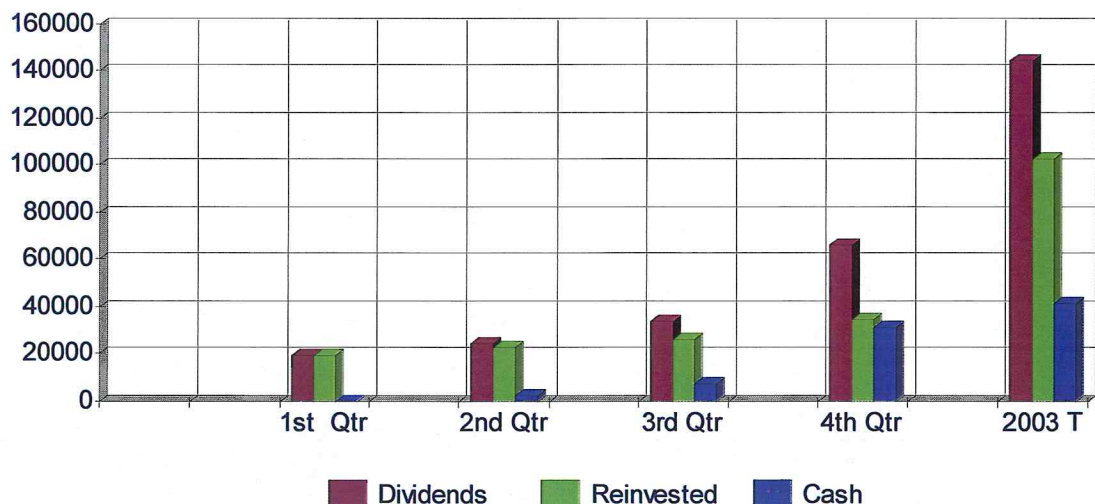
## EARNINGS & DIVIDENDS

Our earnings for 2003 were \$135,207. Adding back depreciation of \$115,486, our funds from operations were \$250,693.

Dividends paid for the first three quarters were \$78,179. Dividends paid in January 2004 for the fourth quarter were \$66,574, for a total dividend of \$144,750. Our dividends were 1.5% each quarter, for an annualized rate of 6%.

Dividends declared each quarter during Fiscal 2003, were at a rate of \$.15 per share.

### 2003 DIVIDENDS



# INREIT Real Estate Investment Trust

## FEES AND COMPENSATION

*INREIT Management, LLC, the Advisor to INREIT (the "Trust"), was paid a total of \$11,685 in management fees and \$12,663 in advisory fees during Fiscal Year 2003. Acquisition fees in the amount of \$75,000 for the purchase of Grand Forks Marketplace Retail Center and \$30,500 in acquisition fees for Golden Estates, a senior independent living facility, were also paid to the advisory company during the year.*

*All non-affiliated Trustees were paid \$250 plus travel expenses each quarter, which totaled \$2,932.50 for Fiscal Year 2003.*

## THE FUTURE

*We feel the future looks bright for INREIT. We are actively looking for quality properties to purchase in 2004. A purchase agreement has been signed on a \$4 million office property in Fargo, ND, in the first quarter of 2004. We believe our goal of reaching \$30-\$35 million in assets in 2004 is realistic. However, you can be assured that the quality of our real estate portfolio will not decrease as our growth increases.*

*Respectfully,*

*Randy I. Westby, CPA  
INREIT Management, LLC*





# BALANCE SHEET

December 31, 2003

## ASSETS

Current Assets		
Checking/Savings	\$	417,553
Savings Deposit Reserve		19,921
Savings Repair Reserve		12,714
Savings Tax & Ins. Reserve		16,178
Total Checking/Savings	\$	466,366
Other Current Assets		
Earnest Money Deposit	\$	212,000
GF Marketplace Escrow		28,744
The Villages Escrow		12,883
Prepaid Insurance		30,709
Other Current Assets		15,000
Total Other Current Assets	\$	299,336
Total Current Assets	\$	765,702
Fixed Assets		
Buildings	\$	8,746,409
Depreciation-Building		-108,807
Furniture & Fixtures		140,000
Depreciation-Furn. & Fixtures		-13,333
Land		1,548,333
Total Fixed Assets	\$	10,312,602
Other Assets		
Subscription Costs	\$	19,799
Total Other Assets	\$	19,799
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>11,098,103</b>

## LIABILITIES & EQUITY

Liabilities		
Current Liabilities		
Real Estate Tax Payable	\$	45,847
Due Management Company		86,100
Investment Certificates		50,000
Notes Payable-Current Portion		135,722
Payroll Tax Payable		1,519
Total Current Liabilities	\$	319,188
Long Term Liabilities		
Notes Payable	\$	6,723,888
Security Deposits Payable		19,921
Total Long Term Liabilities	\$	6,743,809
Total Liabilities	\$	7,062,997
Equity		
Investment-INREIT		
Total Investment-INREIT	\$	3,895,071
Retained Earnings-INREIT		4,828
Net Income		135,207
Total Equity	\$	4,035,106
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$</b>	<b>11,098,103</b>



**PROFIT & LOSS**  
January 1 – December 31, 2003

**Ordinary Income/Expense**

Income	
Rental Income	\$ 682,417
CAM Income	50,981
Other Income	1,965
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Total Income	\$ 735,363
Expense	
Directors' Fees	\$ 2,933
Accounting	3,795
Advertising	1,027
Advisory Fees	12,663
Bank Charges	604
CAM Expenses	34,505
Depreciation	115,486
Food	11,307
Insurance	28,113
Interest	181,933
Legal	11,862
Management Fees	43,260
Meetings	3,506
Office Supplies	272
Payroll	22,453
Payroll Taxes	2,298
Real Estate Taxes	53,548
Repairs & Maintenance	29,736
Supplies	1,393
Taxes-Federal Income Tax	724
Taxes-State Income Tax	140
Utilities	42,117
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Total Expense	\$ 603,675
Net Ordinary Income	\$ 131,688

**Other Income/Expense**

Other Income	
Interest Income	\$ 3,519
<hr/>	
Total Other Income	\$ 3,519
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Net Other Income	\$ 3,519

**Net Income** \$ 135,207

*Grand Forks Marketplace, Grand Forks*





# STATEMENT OF CASH FLOWS

January 1 – December 31, 2003

## OPERATING ACTIVITIES

Net Income	\$	135,207
Adjustments to reconcile Net Income to net cash provided by operations:		
Prepaid Insurance		-30,709
Earnest Money Deposit		-212,000
Grand Forks Marketplace Escrow		-28,744
The Villages Escrow		-12,883
Notes Receivable-Gateway		10,000
Due Management Company		55,600
Notes Payable		63,762
Payroll Tax Payable		1,519
Real Estate Taxes Payable		45,847
Net cash provided by Operating Activities	\$	27,599

## INVESTING ACTIVITIES

Buildings	\$	-7,505,909
Depreciation-Building		104,930
Furniture & Fixtures		-90,000
Depreciation-Furniture & Fixtures		10,556
Land		-1,448,333
Subscription Costs		-18,424
Net cash provided by Investing Activities	\$	-8,947,180

## FINANCING ACTIVITIES

Investment Certificates	\$	50,000
Notes Payable		5,847,681
Security Deposits Payable		4,358
Investment-INREIT		3,425,070
Net cash provided by Financing Activities	\$	9,327,109
Net cash increase for period		407,528
Cash at beginning of period		58,838

**Cash at end of Period** **\$ 466,366**



*Ellingson 12-plex Apartments, Carrington, North Dakota*



*Golden Estates, Williston, North Dakota*







*We would like to take this opportunity to again thank our shareholders for their trust and confidence in our ability to make sound investment decisions, thereby increasing the value and solidity of their investment and the growth of INREIT.*

*We want our shareholders to know that their needs and financial goals are important to us. We welcome input from our investors and will take the time to listen to your thoughts and opinions with regard to the Company. We are here to address your concerns and answer any questions you may have.*

*We at INREIT feel that we have made huge strides since our humble beginnings in November of 2002. We look forward to a bright future filled with continued growth and success for INREIT and its shareholders!*



*Gordman's & Best Buy, Grand Forks Marketplace Retail Center  
Grand Forks, ND*

*Community First Bank, Fargo, ND (purchased 1<sup>st</sup> quarter of 2004)*





*Artist's Rendition, Midtown Plaza Building remodel  
Minot, North Dakota*

# INREIT

~ REAL ESTATE INVESTMENT TRUST ~

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