

# INREIT

— REAL ESTATE INVESTMENT TRUST —

4TH ANNUAL REPORT TO SHAREHOLDERS  
2005





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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 —

March 31, 2006

## INREIT Shareholders:

INREIT Real Estate Investment Trust has completed its third full year of operations and we continue to experience growth and profitability. Our assets grew from \$28 million to over \$40 million. Our acquisitions in 2005 included the Chandler Apartments in Grand Forks, ND, the Great American Insurance Building in Fargo, ND, Colonial Plaza Retail Center in Norfolk, NE, and Edgewood Vista Alzheimer care units in Columbus, NE, Grand Island, NE and Belgrade, MT. Other activities included continued remodeling of Midtown Plaza in Minot, ND, which serves as our headquarters, start of construction of West Pointe Centre retail strip center in Fargo, ND and completion of Autumn Ridge Apartments in Grand Forks, ND. We also increased our ownership of the Edgewood Vista Senior Living Center in Minot, ND, from 50% to 100% and we increased our ownership of the Grand Forks Marketplace from 33.3% to 50% in 2005. We continue to search for properties that add value to our portfolio, either through acquisition or development.

Shareholder Equity rose almost \$2 million, from \$10 million to \$12 million in 2005. The growth comes from sales of our stock, contributions of our partnership units, and results of operations. Our second stock offering was approved on July 21, 2005 for one million shares @ \$11 per share.

Our Funds from Operations increased to over \$1.1 million in 2005 from \$640,000 in 2004. These earnings provide stability for dividend payment to our shareholders and are the foundation for future capital appreciation.

2005 was a good year for INREIT and its shareholders. I believe 2006 will be even better. Thank you for your continued support and confidence in INREIT.

Respectfully,



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





*Grand Forks Marketplace*



*Grand Forks Marketplace*



*Grand Forks Marketplace*



*Edgewood Vista, Minot*



*Golden Estates, Williston*



*Ellingson Apts., Carrington*



*Bank of the West, Fargo*



*Great American Insurance Building, Fargo*



*Grand Forks Marketplace*



*Great American Ins., Fargo*



*Midtown Plaza Bldg., Minot*



## 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 recognition of gain by the owners. All of our properties are held by INREIT Properties, LLLP, for which INREIT acts as the General Partner.

## THE BOARD OF TRUSTEES

INREIT is governed by a Board of Trustees which makes all final decisions regarding real estate acquisitions, property dispositions and other important matters pertaining to the Company. Our Board is now comprised of eleven trustees, as introduced to you below.

**EARL STRINDEN** is a current resident of Grand Forks, ND. He received a B.A. from Concordia College and an M.A. from UND. Earl Strinden has become a prominent part of North Dakota's history. He spent twenty-six years in elected office, starting with the Grand Forks City Council from 1962-1970 and twenty-two years in the North Dakota House of Representatives. Earl served as House Majority Leader longer than anyone in North Dakota's history.



Earl is a veteran of the U.S. Marine Corps. He was a faculty member at Lincoln High School, Thief River Falls, MN, and was part owner and manager of Strinden Hardware in Grand Forks from 1959-1969. He was one of the founding board members of Community National Bank, Grand Forks, ND and a member of the board of directors from 1964 to 2000.

In 1969, Earl joined the staff of the Alumni Association of UND. In 1974, he became CEO of the Association, a non-profit corporation with a nationwide membership of over 90,000. In 1978, Earl was a founder of the UND Foundation and served as the CEO of the Foundation and the Alumni Association, two separate organizations, until he retired in 2000. Under his leadership, the Foundation grew in assets from \$1,000,000 to over \$130,000,000. Earl is the

recipient of the Greater North Dakotan Award, the Sioux Award from the UND Alumni Association, and the Alumni Award from Concordia College.

Earl currently serves as Chairman of INREIT's Board.

**RANDY I. WESTBY** is a Certified Public Accountant. Randy was raised in Rolette, ND, and graduated from Rolette High School in 1976. He graduated from the University of North Dakota, Grand Forks, ND, in 1980 with a BSBA in accounting, followed by two semesters of graduate school. He has worked as an accountant with Zine, Hoover & Voeller, CPAs, and Dresser Atlas, both in Williston, ND.



In July of 1983, he established Randy I. Westby, CPA, PC in Rugby, ND. Randy assisted in a \$3.5 million real estate development project with Pamida. He is general partner in the following groups: Pierce Inv. Ltd. Partnership, Mercer Inv. Ltd. Partnership and Langdon Inv. Ltd. Partnership. He is the current president of Kresda, Inc., a real estate development company, and also serves as Vice-President of the North Dakota Golf Association. Since its inception in November of 2002, he has acted as Chief Operating Officer of INREIT and is currently Vice Chairman of the Board.

Randy resides in Minot with his wife, Debora and their two children.

**LAWRENCE R. (LARRY) O'CALLAGHAN** has been a resident of Fargo, ND, for the past ten years and is the owner of O'Callaghan & Associates, Inc. As an investment broker, he is actively raising new investment capital for INREIT.



Reared in the south central part of North Dakota near Hazelton, Larry spent his youth working on the family farm. After graduating from Hazelton High School, he moved to Bismarck and earned an associate of arts degree in computer programming and systems analyst from Bismarck State College in 1970.

Larry has been a licensed life and health agent since 1974. From 1979 to 1984, he was co-owner of an insurance agency in Bismarck, ND. Being responsible for training, sales and marketing support for fourteen agents, Larry has a history of positive experiences in administration of staff and operations.

Larry's history as an investment consultant



includes work experiences with EF Hutton, AG Edwards, Securities America, Huntingdon Securites and currently is a financial consultant with Fintegra Financial Solutions.

Larry has held his Series 6 and 63 Security Licenses since 1983 and Series 7 since 1985. Larry was awarded the CSA (Certified Senior Advisor) certification in 2001. Larry passed his ND Real Estate Salesperson examination in April, 2005. His work experience includes raising millions of new investment capital dollars for real estate investment trusts since 1994. Larry served as INREIT's first Chairman of the Board.

**VERNON OWAN** was educated locally for twelve years and then attended UND in Grand Forks for a year. He has been active in farming, real estate, and both commercial and residential construction most of his adult life. His most recent accomplishments were fourteen duplexes, a sixteen-unit independent living facility for senior citizens (Golden Estates), which was opened in October of 1999, and the Marquis Plaza & Suites motel located in Williston, North Dakota.



**TIM HUNT** is currently the CEO for a thirty-six physician hospital in Alexandria, MN. He obtained his Masters in Health Care Administration from the University of Minnesota, is a Diplomat in The American College of Healthcare Administrators and has spent twenty-eight years in healthcare administration. Tim is a past board member of the MN Medical Group Management Association (an association of 700 clinic managers).



Tim currently holds board positions with the following groups: Board member of Bremer Trust; Board Member and Treasurer of Luthercrest Bible Camp; and Board Member and President of Alexandria Imaging.

Tim is a past board member of the Alexandria Chamber of Commerce, past board member and president of Calvary Lutheran Church, and past board member of the United Way. He and his wife, Pamela, and children make their home in Alexandria, Minnesota.

**PEGGY J. BECKER** was raised on a ranch at Beulah, ND, attended school at Beulah High and has worked in the restaurant business in Bismarck since 1970. She purchased the Little Cottage Café in 1985, which she managed and owned until 1997. Peggy purchased Armstrong Sanitation Plus in 1993 and Dakota Sanitation Plus & Roll-Off, Inc. in 1997, which she still owns and manages today.



**PHILIP GISI** is a shareholder and the Secretary/Treasurer and CFO of Edgewood Vista Senior Living, Inc., which was founded in Minot, North Dakota in 1992. The Corporation owns and operates independent living, assisted living and Alzheimer's care facilities in 20 locations covering a 5-state region.



Phil was raised in New Rockford, ND, and graduated from the University of North Dakota in 1982 with a BSBA in accounting, and attended graduate school in Health Care Administration. He was the CFO for Custom Contractors, Inc., an oil field service and construction company in Dickinson, ND, from 1982 to 1986. In 1986, Phil joined St. Joseph's/UniMed Medical Center, a 200-bed hospital in Minot, ND, as Controller, and was named Vice President/CFO in 1988 and President/CEO in 1995. Phil became a shareholder of Edgewood Vista Senior Living, Inc. in 1994 and joined the company as Vice President/CFO in April, 1996. He moved Edgewood's corporate offices to Grand Forks in 1998.

Phil also owns EMG Investment Group, LLC, which owns real estate and operates retail businesses in North Dakota and Minnesota. He is a past Chair of the East Grand Forks Chamber of Commerce. He and his wife, Trish, have two children and live in Grand Forks.

**DR. THOMAS I. STRINDEN** obtained his B.A. in biology from Concordia College in Moorhead, MN. He attended the University of North Dakota School of Medicine. After a transitional internship year at St. Lukes Hospital in Fargo, he completed his ophthalmology training at the University of Wisconsin, Madison. He began his career with River Valley





Clinic in the Twin Cities area from 1992-1995 and is currently the managing physician partner for eye services with the Meritcare Medical Group in Fargo, ND.

Dr. Strinden was awarded Fargo-Moorhead's "Top Doc" designation in 2002. He is married and has four children.

Dr. Strinden maintains several professional organization memberships as follows:

- Councilor to the American Academy of Ophthalmology
- Fellow American Academy of Ophthalmology
- North Dakota First District Medical Society
- Member American Medical Association
- North Dakota Society of Eye Physicians and Surgeons
- Associates Clinical Professor UNDSM
- Alpha Omega Alpha Honor Society.

**CLIFFORD P. FEARING** was born on August 24, 1943, in Hibbing, MN. He graduated from Hibbing High School in 1961 and from the University of Minnesota, Duluth campus, in 1965 with a B.A. in Accounting/Finance, and a minor in International Law. Cliff began his accounting career with Lybrand, Ross Brothers and Montgomery, Inc. in Chicago, IL, in 1965. In 1967, he moved to the accounting firm of Boulay, Heutmarker and Zibell, Inc. in Minneapolis. In 1969, he took a position with the University of Minnesota Hospitals in Minneapolis, and eventually became CFO in charge of the Hospital's Finance Department, and retired from that position in 1999.

Cliff was a member of the Dellwood Hills Country Club board and president of the board in 1999. He resides in Stillwater with his wife, Donna, and has two adult children.

**REX CARLSON** serves as a personal and business advisor to Ronald D. Offutt, Jr. and R.D. Offutt Company. He provides business succession planning and executive-level management support to a variety of businesses connected with the Company. In addition, Mr. Carlson provides business strategy, tax and succession planning services to a variety of other high-wealth individuals and family-owned businesses throughout the region and the U.S.



A native North Dakotan, Mr. Carlson holds a bachelor of business administration degree in accounting from the University of North Dakota and a master of business taxation degree from the University of Minnesota Carlson School of Management. He is a certified public accountant and holds licenses in North Dakota and Minnesota.

Rex has broad experience serving on various non-profit boards including Make-A-Wish of North Dakota (1999 to present) where he has served as treasurer; St. Mary's Home, a nursing and long-term care facility located in St. Paul, MN; Northern Lights Council of the Boy Scouts of America (current); the Northern Plains Ethics Institute (2000-present); the National Tax Committee of the National Society of Accountants for Cooperatives (1994-1998); and Ducks Unlimited Fargo (1993 to present), where he has served as area chairman. He is an active member and past president (2003-2004) of the Fargo Rotary. In his spare time, Rex enjoys hunting, playing guitar and coaching youth hockey.

**DAVID A. LASKE** has owned an accounting and tax practice for the past twenty years in Fargo, ND. He has been in the public accounting profession since 1969, including twelve years as a tax manager at then Eide Helmeke & Co., a large regional accounting firm in Fargo, ND. David practices in North Dakota as a Licensed Public Accountant (LPA), and holds the designation of Accredited Tax Advisor from the Accreditation Council of Accounting and Taxation.

Active in the accounting profession, David has held the offices of president, vice president and secretary/treasurer of the North Dakota Society of Public Accountants and CPE committee chair of NDSPA for approximately ten years. He was also involved with a seminar presentation business for accountants.

In addition, David is currently on the board of directors of Fraser, Ltd., in Fargo, North Dakota, an organization serving the needs of the disabled population. He has been treasurer of Fraser, Ltd. for the past twelve years and serves on various board committees, including executive, finance and insurance, and personnel.





## THE ADVISOR

INREIT Management, LLC, is the Advisor to INREIT (the "Trust") and, under the direction of the Trustees, manages its day-to-day operations. The Advisor provides office facilities and equipment, supplies and staff required to conduct the operations of INREIT. It is also responsible for preparation of reports to both the Trustees and shareholders, and advises the Board with regard to investment decisions.

The management team consists of:



Randy I. Westby



Dr. Thomas Strinden



Roger W. Domres



Michael L. Vipond

Roger Domres is head of marketing for INREIT.



Darla Iverson is INREIT's Corporate Secretary & handles investor relations services.



*Grand Forks Marketplace Retail Center*

## REAL ESTATE INVESTMENTS

### 2002

Nov. 1, 2002 Golden Estates independent living facility, Williston, ND	\$ 1,350,000
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### 2003

July 1, 2003 Grand Forks Marketplace retail center, Grand Forks	\$ 6,040,000
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Sept. 30, 2003 Ellingson Apts., Carrington	\$ 590,000
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Sept. 30, 2003 The Villages housing developments, eight locations in ND & SD	\$ 2,410,000
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### 2004

Jan. 31, 2004 Midtown Plaza office/professional building, Minot	\$ 300,000
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Mar. 16, 2004 Bank of the West (formerly Community First Bank) building, Fargo	\$ 3,800,000
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Aug. 16, 2004 Autumn Ridge Apts., Grand Forks (Building I & land)	\$ 3,000,000
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Sept. 15, 2004 Edgewood Vista assisted living facility, Minot	\$ 7,830,000
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Dec. 31, 2004 Autumn Ridge Apts., Grand Forks (Building II)	\$ 2,075,000
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**REAL ESTATE INVESTMENTS (Cont'd.)**

2005

Feb. 1, 2005 Great American Insurance building, Fargo	\$	1,725,000
Jan. 13, 2005 Chandler Apts., Grand Forks	\$	310,000
June 1, 2005 Edgewood Vista assisted living facility, Minot (remaining 1/2 interest)	\$	1,070,000
July 1, 2005 Colonial Plaza retail complex, Norfolk, NE	\$	2,860,000
Oct. 4, 2005 Edgewood Vista Alzheimer's facility, Grand Island, NE	\$	1,075,000
Oct. 4, 2005 Edgewood Vista Alzheimer's facility, Columbus, NE	\$	1,075,000
Oct. 7, 2005 Grand Forks Marketplace, add'l. 16.67% interest, Grand Forks, ND	\$	3,600,000
Sept. 30, 2005 West Pointe Centre (land), Fargo	\$	695,000
Dec. 31, 2005 Edgewood Vista Alzheimer's facility, Belgrade, MT	\$	1,075,000

INREIT Real Estate Investment Trust has received property and capital through UPREIT - 1031 Exchanges - totaling in excess of \$6,000,000. These transactions allow for tax-deferred exchanges of real estate in exchange for partnership units in INREIT Properties.



The above photos are of the Banner Health Building located in Fargo, North Dakota. This property was purchased in 2006 and is featured on the cover of the Annual Report.



## INDEPENDENT AND ASSISTED LIVING FACILITIES



GOLDEN ESTATES,  
WILLISTON, ND



EDGEWOOD VISTA,  
MINOT, ND



EDGEWOOD VISTA,  
GRAND ISLAND, NE



EDGEWOOD VISTA,  
COLUMBUS, NE



EDGEWOOD VISTA,  
BELGRADE, MT





## *RESIDENTIAL PROPERTIES*



ELLINGSON APTS.  
CARRINGTON, ND



THE VILLAGES,  
8 LOCATIONS IN  
ND & SD



AUTUMN RIDGE  
APTS.,  
GRAND FORKS



CHANDLER APTS.  
GRAND FORKS





**COMMERCIAL/RETAIL PROPERTIES**

GRAND FORKS  
MARKETPLACE  
RETAIL CENTER,  
GRAND FORKS,  
ND



COLONIAL PLAZA  
RETAIL CENTER,  
NORFOLK, NE





**COMMERCIAL/RETAIL PROPERTIES**

MIDTOWN PLAZA,  
MINOT, ND



BANK OF THE WEST  
(formerly Community  
First Financial Center),  
FARGO, ND





## COMMERCIAL/RETAIL PROPERTIES



GREAT AMERICAN  
INSURANCE  
BUILDING,  
FARGO, ND



WEST POINTE  
CENTRE,  
FARGO, ND





## Real Estate Portfolio Mix

December 31, 2005



### OPERATIONS

Our properties continue to perform well. All our existing properties from past years remain profitable and our new acquisitions in 2005 are also doing well.

We have completed our first development (Autumn Ridge Apartments) and are under construction with West Pointe Centre in Fargo, ND. We have expanded our holdings in 2005 to two additional states (Nebraska and Montana).

We continue to search for properties that create value for our shareholders through either acquisition or development.

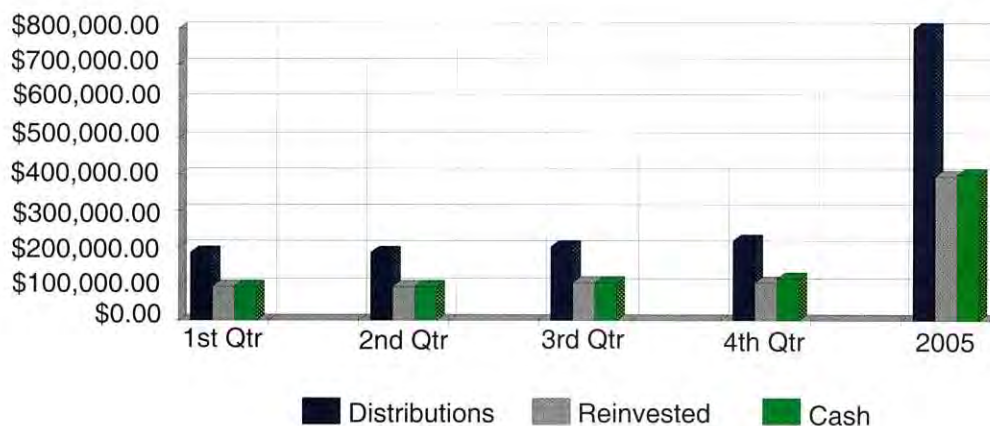
### EARNINGS & DIVIDENDS

Our earnings for 2005 were \$421,982. Adding back depreciation of \$766,524, our funds from operations were \$1,188,506.

Dividends and distributions paid for the first three quarters were \$578,219, and \$219,619 for the fourth quarter which was paid in January, 2006, for a total of \$797,838. Our dividends were 1.5% each quarter, for an annualized rate of 6%.

Dividends declared each quarter during Fiscal 2005 were at a rate of \$.165 per share.

### 2005 DISTRIBUTIONS



*The graph shown above depicts the dividends and distributions paid by INREIT for each quarter, and the total paid for the year 2005.*



*Midtown Plaza Building  
Minot, ND*



*Preliminary Drawing*



*Artist's Rendition*



*Completed Exterior*



**CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004**

**INREIT REAL ESTATE INVESTMENT TRUST  
AND SUBSIDIARIES**



## **INREIT REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES**

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## INDEPENDENT AUDITOR'S REPORT

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Board of Trustees  
**INREIT Real Estate Investment Trust**  
Minot, North Dakota

We have audited the accompanying consolidated balance sheets of **INREIT Real Estate Investment Trust and Subsidiaries** as of December 31, 2005 and 2004, and the related consolidated statements of operations, beneficial interest, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of **INREIT Real Estate Investment Trust and Subsidiaries** as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads 'Eide Bailly LLP'.

Bismarck, North Dakota  
March 17, 2006

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**INREIT REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	\$ 40,132,532	\$ 27,332,026
CASH	153,369	341,990
RESTRICTED DEPOSITS AND FUNDED RESERVES	361,998	256,451
NOTE RECEIVABLE - RELATED PARTY	-	10,000
PREPAID EXPENSES	29,769	26,045
FINANCING COSTS, less accumulated amortization of \$11,590 in 2005 and \$3,794 in 2004	118,303	56,495
	<u>\$ 40,795,971</u>	<u>\$ 28,023,007</u>
<b>LIABILITIES</b>		
MORTGAGE NOTES PAYABLE	\$ 26,427,544	\$ 16,741,027
SPECIAL ASSESSMENTS PAYABLE	352,282	191,376
NOTES PAYABLE	1,330,543	125,000
DUE TO RELATED PARTY	85,081	81,050
TENANT SECURITY DEPOSITS PAYABLE	49,461	50,624
INVESTMENT CERTIFICATES	233,563	142,465
ACCOUNTS PAYABLE	110,342	532,760
ACCRUED EXPENSES	352,244	275,403
Total liabilities	28,941,060	18,139,705
MINORITY INTEREST OF UNITHOLDERS IN OPERATING PARTNERSHIP	5,977,055	4,702,780
<b>BENEFICIAL INTEREST</b>	5,877,856	5,180,522
	<u>\$ 40,795,971</u>	<u>\$ 28,023,007</u>



**INREIT REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>INCOME</b>		
Income from rental operations	\$ 4,187,442	\$ 2,562,867
Interest income	419	2,289
Gain on disposal of property and equipment	115,561	-
Other income	59,706	18,649
	<u>4,363,128</u>	<u>2,583,805</u>
<b>EXPENSES</b>		
Expenses from rental operations		
Interest	1,417,095	729,366
Depreciation and amortization	766,524	383,227
Real estate taxes	350,244	178,083
Property management fees	241,788	140,712
Utilities	363,780	261,139
Repairs and maintenance	432,755	347,916
Insurance	113,442	65,024
Salary and wages	27,144	44,730
Food costs for residents	15,736	12,752
Administrative	18,933	55,053
	<u>3,747,441</u>	<u>2,218,002</u>
Administration of REIT		
Administrative expenses	11,276	11,768
Advisory fees	137,432	67,325
Director fees	13,328	8,176
Legal and accounting	31,669	21,577
	<u>193,705</u>	<u>108,846</u>
Total expenses	<u>3,941,146</u>	<u>2,326,848</u>
<b>INCOME BEFORE MINORITY INTEREST</b>	<b>421,982</b>	<b>256,957</b>
<b>MINORITY INTEREST</b>	<u><b>197,058</b></u>	<u><b>122,015</b></u>
<b>NET INCOME</b>	<u><b>\$ 224,924</b></u>	<u><b>\$ 134,942</b></u>



**INREIT REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF BENEFICIAL INTEREST**  
**YEARS ENDED DECEMBER 31, 2005 AND 2004**

	Shares	Amount	Accumulated Earnings (Deficit)	Syndication Costs	Total
BALANCE, DECEMBER 31, 2003	255,168	\$ 2,281,229	\$ 46,428	\$ (258,029)	\$ 2,069,628
Issuance of common shares	361,253	3,464,467			3,464,467
Redemption of shares	(2,790)	(25,666)			(25,666)
Dividends			(293,467)		(293,467)
Dividends reinvested	17,519	169,492			169,492
Syndication costs				(338,874)	(338,874)
Net income			134,942		134,942
BALANCE, DECEMBER 31, 2004	631,150	5,889,522	(112,097)	(596,903)	5,180,522
Issuance of common shares	88,985	981,794			981,794
Redemption of shares	(20,093)	(202,995)			(202,995)
Dividends			(428,425)		(428,425)
Dividends reinvested	38,252	363,395			363,395
Syndication costs				(241,359)	(241,359)
Net income			224,924		224,924
BALANCE, DECEMBER 31, 2005	<u>738,294</u>	<u>\$ 7,031,716</u>	<u>\$ (315,598)</u>	<u>\$ (838,262)</u>	<u>\$ 5,877,856</u>



**INREIT REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 224,924	\$ 134,942
Adjustments to reconcile net income to net cash from operating activities		
Gain on sale of property and equipment	(115,561)	-
Depreciation	758,728	379,433
Amortization	7,796	3,794
Minority interest	197,058	122,015
Effects on operating cash flows due to changes in		
Tenant security deposits	1,163	(3,777)
Real estate tax and insurance escrows	(56,430)	(84,263)
Prepaid expenses	(3,724)	4,664
Tenant security deposits payable	(1,163)	3,777
Due to management company	4,031	(5,050)
Accounts payable	(422,418)	532,760
Accrued expenses	76,841	169,632
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<u>671,245</u>	<u>1,257,927</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(8,516,943)	(14,510,734)
Net deposits to replacement reserve	(50,280)	7,360
Real estate deposits	-	212,000
Payments received on related party note receivable	10,000	5,000
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>	<u>(8,557,223)</u>	<u>(14,286,374)</u>
<b>FINANCING ACTIVITIES</b>		
Payments for financing costs	(69,604)	(60,289)
Proceeds from investment certificates issued	181,098	142,465
Payments on investment certificates	(90,000)	(50,000)
Principal payments on special assessments payable	(41,776)	(6,744)
Proceeds from issuance of mortgage notes payable	11,201,600	10,912,767
Principal payments on mortgage notes payable	(3,755,391)	(1,031,350)
Net change in notes payable	1,205,543	125,000
Proceeds from issuance of shares	981,794	3,464,467
Purchase of remaining minority interest in subsidiary	(1,108,202)	-
Redemption of shares	(202,995)	(25,666)
Distributions paid to shareholders	(65,030)	(123,975)
Distributions paid to minority partners	(298,321)	(54,917)
Payment of syndication costs	(241,359)	(338,874)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<u>7,697,357</u>	<u>12,952,884</u>

(continued on next page)



## CONSOLIDATED STATEMENTS OF CASH FLOWS – page 2

	<u>2005</u>	<u>2004</u>
NET CHANGE IN CASH	(188,621)	(75,563)
CASH AT BEGINNING OF YEAR	<u>341,990</u>	<u>417,553</u>
CASH AT END OF YEAR	<u><u>\$ 153,369</u></u>	<u><u>\$ 341,990</u></u>
 SCHEDULE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u><u>\$ 1,394,104</u></u>	<u><u>\$ 665,888</u></u>
 SUPPLEMENTARY SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Distributions reinvested	<u><u>\$ 363,395</u></u>	<u><u>\$ 169,492</u></u>
Acquisition of assets in exchange for the issuance of minority interest shares in UPREIT	<u><u>\$ 2,483,740</u></u>	<u><u>\$ 1,660,004</u></u>
Acquisition of assets through assumption of debt	<u><u>\$ 2,240,308</u></u>	<u><u>\$ -</u></u>
Increase in assets due to consolidation of partially-owned subsidiary	<u><u>\$ -</u></u>	<u><u>\$ 1,030,000</u></u>
Increase in land improvements due to increase in special assessments payable	<u><u>\$ 202,682</u></u>	<u><u>\$ 104,968</u></u>

**INREIT REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005 AND 2004**

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**NOTE 1 - ORGANIZATION**

The INREIT Real Estate Investment Trust ("INREIT") is a registered, but unincorporated business trust organized in North Dakota in November 2002. INREIT has elected to be taxed as a Real Estate Investment Trust ("REIT") under Sections 856-860 of the Internal Revenue Code, which requires that 75 percent of the assets of a REIT must consist of real estate assets and that 75 percent of its gross income must be derived from real estate. The net income of the REIT is allocated in accordance with the stock ownership in the same fashion as a regular corporation.

INREIT previously established an operating partnership (INREIT Properties, LLLP) and transferred all of its assets and liabilities to the operating partnership in exchange for general partnership units. The general partner has management responsibility for all activities of the operating partnership. As of December 31, 2005 and 2004, INREIT had an ownership percentage of approximately 59 and 64 percent, respectively. INREIT Properties, LLLP is the 100% owner of Grand Forks Inreit, LLC, Minot Vista Properties, LLC, Autumn Ridge Inreit, LLC, and 32rd Avenue Inreit, LLC.

**NOTE 2 - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES**

*Principles of Consolidation*

The consolidated financial statements include the accounts of INREIT; INREIT Properties, LLLP; Grand Forks Inreit, LLC; Minot Vista Properties, LLC; Autumn Ridge Inreit, LLC; and 32rd Avenue Inreit, LLC. All significant intercompany transactions and balances have been eliminated in consolidation.

*Principal Business Activity*

INREIT has a general partner interest in INREIT Properties, LLLP, which owns and operates the following property:

Residential Property

- 16 unit assisted living facility in Williston, North Dakota.
- Two 4-plex and one 12-plex apartment buildings in Carrington, North Dakota.
- 220 units of government subsidized housing (Note 10) for elderly persons of low and moderate income in eight communities in North Dakota and South Dakota.
- 72 unit apartment building located in Grand Forks, North Dakota.
- 12-plex apartment building in Grand Forks, North Dakota.

Commercial Property

- 31,000 square foot office building in Fargo, North Dakota.
- 20,000 square foot office building in Minot, North Dakota.
- 45,000 square foot retail complex in Norfolk, Nebraska.
- 15,000 square foot office and retail complex in Fargo, North Dakota.
- 29,000 square foot office and retail complex in Fargo, North Dakota.

INREIT Properties, LLLP is the 100% owner of Grand Forks Inreit, LLC, which owns a 1/2 interest as a tenant in common of Grand Forks Marketplace Retail Center. Grand Forks Marketplace Retail Center has approximately 183,000 square feet of commercial space in Grand Forks, North Dakota.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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INREIT Properties, LLLP is the owner of Minot Vista Properties, LLC, which owns and leases property to a 168 unit assisted living facility in Minot, North Dakota.

INREIT Properties, LLLP is the owner of three 12 unit facilities for Alzheimer’s care located in Grand Island, Nebraska; Columbus, Nebraska; and Belgrade, Montana.

*Concentration of Credit Risk*

INREIT's cash balances are maintained in various bank deposit accounts. The bank deposit accounts may exceed federally insured limits at various times throughout the year.

*Use of Estimates*

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 and disclosure of contingent 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.

*Property and Equipment*

Property and equipment is stated at cost. All costs associated with the development and construction of real estate investments are capitalized as a cost of the property. Expenditures for renewals and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for routine maintenance and repairs, which do not add to the value or extend useful lives, are charged to expense as incurred.

Depreciation is provided for over the estimated useful lives of the individual assets using the straight-line method over the following estimated useful lives:

Buildings and improvements	40 years
Furniture and fixtures	9 years

Annually, INREIT evaluates its real estate investments for significant changes in the operations to assess whether any impairment indications are present, including recurring operating losses and significant adverse changes in legal factors or business climate that affect the recovery of the recorded value. If any real estate investment is considered impaired, a loss is provided to reduce the carrying value of the property to its estimated fair value.

*Cash and Cash Equivalents*

Highly liquid investments with a maturity of three months or less when purchased are classified as cash equivalents.

*Minority Interest*

Interests in the operating partnership held by limited partners are represented by operating partnership units. The operating partnerships’ income is allocated to holders of units based upon the ratio of their holdings to the total units outstanding during the period. Capital contributions, distributions, and profits and losses are allocated to minority interests in accordance with the terms of the operating partnership agreement.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### *Federal Income Taxes*

INREIT has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue. A REIT calculates taxable income similar to other domestic corporations, with the major difference being that a REIT is entitled to a deduction for dividends paid. A REIT is generally required to distribute each year at least 90 percent of its taxable income. If it chooses to retain the remaining 10 percent of taxable income, it may do so, but it will be subject to a corporate tax on such income. REIT shareholders are taxed on REIT distributions of ordinary income in the same manner as they are taxed on other corporate distributions.

INREIT intends to continue to qualify as a real estate investment trust as defined by the Internal Revenue Code and, as such, will not be taxed on the portion of the income that is distributed to the shareholders. In addition, INREIT intends to distribute all of its taxable income, therefore, no provision or liability for income taxes have been recorded in the financial statements.

INREIT Properties, LLLP is organized as a limited partnership. Income or loss is allocated to the partners in accordance with the provisions of the Internal Revenue Code 701(b) and 704(c). UPREIT status allows non-recognition of gain by an owner of appreciated real estate if that owner contributes the real estate to a partnership in exchange for partnership interest. The conversion of partnership interest to shares of beneficial interest in the REIT will be a taxable event to the limited partner.

### *Revenue Recognition*

Housing units are rented under short-term lease agreements. Commercial space is rented under long-term lease agreements. Rent income from tenants is recognized in the month in which it is earned rather than received.

Reimbursements from commercial tenants for real estate taxes and other recoverable operating expenses are recognized as revenue in the period the applicable expenditures are incurred. INREIT receives payments for these reimbursements from substantially all its multi-tenant commercial tenants throughout the year based on estimates. Differences between estimated recoveries and the final billed amounts, which are immaterial, are recognized in the subsequent year.

## **NOTE 3 - PROPERTY AND EQUIPMENT**

Property and equipment as of December 31, 2005 is as follows:

	<u>Residential</u>	<u>Commercial</u>	<u>Total</u>
Land and land improvements	\$ 742,054	\$ 4,742,288	\$ 5,484,342
Building and improvements	8,503,363	27,058,765	35,562,128
Furniture and fixtures	346,363	-	346,363
	<u>9,591,780</u>	<u>31,801,053</u>	<u>41,392,833</u>
Less accumulated depreciation	<u>(456,857)</u>	<u>(803,444)</u>	<u>(1,260,301)</u>
	<u>\$ 9,134,923</u>	<u>\$ 30,997,609</u>	<u>\$ 40,132,532</u>



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Property and equipment as of December 31, 2004 is as follows:

	Residential	Commercial	Total
Land and land improvements	\$ 1,128,247	\$ 2,157,187	\$ 3,285,434
Building and improvements	6,076,598	16,139,357	22,215,955
Furniture and fixtures	230,000	-	230,000
Construction in progress	2,024,500	77,711	2,102,211
	9,459,345	18,374,255	27,833,600
Less accumulated depreciation	(260,056)	(241,518)	(501,574)
	<u>\$ 9,199,289</u>	<u>\$ 18,132,737</u>	<u>\$ 27,332,026</u>

### NOTE 4 - RESTRICTED DEPOSITS

	2005	2004
Tenant security deposits	\$ 49,461	\$ 50,624
Real estate tax and insurance escrows	243,223	186,793
Replacement reserves	69,314	19,034
	<u>\$ 361,998</u>	<u>\$ 256,451</u>

#### *Tenant Security Deposits*

Pursuant to management policy, INREIT has set aside funds to repay tenant security deposits upon tenant move-out.

#### *Real Estate Tax and Insurance Escrows*

Pursuant to the terms of certain mortgages and management policy, INREIT established and maintains real estate tax escrows and insurance escrows to pay real estate taxes and insurance. INREIT is to contribute to the account monthly an amount equal to 1/12 of the estimated real estate taxes and insurance premiums.

#### *Replacement Reserves*

Pursuant to the terms of certain mortgages and management policy, INREIT established and maintains several replacement reserve accounts. INREIT makes monthly deposits into the replacement reserve accounts to be used for repairs and replacements on the property. Certain replacement reserve accounts require authorization from the mortgage company for withdrawals.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 5 - MORTGAGE NOTES PAYABLE

Mortgage notes payable consists of:

	<u>2005</u>	<u>2004</u>
5.26% mortgage note payable, due in monthly installments of \$25,522, including interest until July 2013, secured by a mortgage on property, security agreement, and an assignment of rents	<b>\$ 6,695,322</b>	\$ 4,529,847
Variable rate mortgage note payable, (5.75% at December 31, 2005) due in monthly installments of \$9,898, adjusted annually, unpaid principal and interest due October 2023, secured by a mortgage on property, security agreement, and an assignment of rents	<b>1,246,957</b>	1,357,445
Variable rate mortgage note payable, (7.21% at December 31, 2005) due in monthly installments of \$32,470, adjusted annually, unpaid principal and interest due September 2011, secured by a mortgage on property and equipment	<b>5,548,364</b>	5,671,450
Variable rate mortgage note payable, (6.0% at December 31, 2005) due in monthly installments of \$3,290, adjusted annually, unpaid principal and interest due February 2014, secured by a mortgage on property and equipment	<b>392,643</b>	412,853
8.3% mortgage note payable, due in monthly installments of \$19,058, unpaid principal and interest due November 2010, secured by a mortgage on property and equipment	<b>2,422,802</b>	2,446,532
Variable rate mortgage note payable, (7.1% at December 31, 2005) due in monthly installments of \$12,361, unpaid principal and interest due December 2015, secured by a mortgage on property and an assignment of rents	<b>1,720,000</b>	-
7.15% mortgage note payable, due in monthly installments of \$5,439, including interest, unpaid principal and interest due January 2011, secured by a mortgage on property and a security interest in cash or investment accounts with the lender	<b>750,000</b>	-
Variable rate mortgage note payable, (6.57% at December 31, 2005) due in varying monthly installments of approximately \$9,500, including interest, unpaid principal and interest due April 2020, secured by a mortgage on property and a security interest in cash or investment accounts held with the lender	<b>1,281,204</b>	-
6.35% mortgage note payable, due in monthly installments of \$7,586, including interest, unpaid principal and interest due June 2010, secured by a mortgage on property and a security interest in cash or investment accounts with the lender	<b>1,038,221</b>	-

(continued on next page)



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Variable rate mortgage note payable, interest fixed at 6.25% through June 2010, thereafter adjusted every 5 years, due in monthly installments of \$15,356 until July 2025, secured by a mortgage on property and an assignment of rents	2,082,031	-
5.74% mortgage note payable, due in monthly installments of \$18,945, including interest, until January 2036, secured by a mortgage on property, security agreement, and an assignment of rents	3,250,000	-
Notes paid in full	-	2,322,900
	<u>\$ 26,427,544</u>	<u>\$ 16,741,027</u>

Long-term debt maturities are as follows:

<u>Years ending December 31,</u>	<u>Amount</u>
2006	\$ 514,257
2007	547,905
2008	580,215
2009	614,500
2010	1,540,919
Thereafter	22,629,748
	<u>\$ 26,427,544</u>

INREIT has a \$2,960,000 variable rate (7.25% at December 31, 2005) line of credit agreement with Bremer Bank, which expires on June 15, 2012. At December 31, 2005, \$130,543 was outstanding on the line of credit.

INREIT has a \$2,500,000 variable rate (7.25% at December 31, 2005) line of credit agreement with Bremer Bank, which expires on June 15, 2006. At December 31, 2005, \$750,000 was outstanding on the line of credit.

INREIT has a \$2,000,000 variable rate (7.5% at December 31, 2005) line of credit agreement with Wells Fargo Bank, which expires on November 15, 2006. At December 31, 2005, \$450,000 was outstanding on the line of credit.

At December 31, 2004, INREIT owed \$125,000 on a line of credit agreement with Bremer Bank. This line of credit was paid and expired in 2005.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 6 - INVESTMENT CERTIFICATES

INREIT periodically issues investment certificates bearing various interest rates in exchange for cash. The interest rate depends upon the maturity of the investment certificate. During 2005, INREIT issued investment certificates ranging from 4.5 to 7 percent totaling \$181,098. During 2004, INREIT issued investment certificates ranging from 4.5 to 6 percent totaling \$142,465. At December 31, 2005 and 2004, INREIT had outstanding investment certificates totaling \$233,563 and \$142,465, respectively.

Maturities of investment certificates are as follows: 2006 - \$145,050; 2007 - \$10,500; 2008 - \$0; 2009 - \$45,013; 2010 - \$33,000.

### NOTE 7 - ACCRUED EXPENSES

	2005	2004
Real estate taxes	\$ 264,043	\$ 210,180
Interest	86,469	63,478
Other	1,732	1,745
	<u>\$ 352,244</u>	<u>\$ 275,403</u>

### NOTE 8 - RELATED PARTY TRANSACTIONS

#### *Property Management Fees*

During 2005 and 2004, INREIT incurred property management fees of 5 percent of rents to INREIT Management, LLC. The management team of INREIT Management, LLC consists of Board of Trustee members, Lawrence R. O'Callaghan, Randy I. Westby, and Thomas I. Strinden. For the years ended December 31, 2005 and 2004, INREIT paid management fees of \$16,747 and \$15,927, respectively.

#### *Advisory Management Fees*

During 2005 and 2004, INREIT paid \$137,432 and \$67,325 to INREIT Management, LLC for advisory management fees. These fees cover the office facilities, equipment, supplies, and staff required to manage the day-to-day operations of INREIT.

#### *Acquisition Fees*

During 2005 and 2004, INREIT incurred \$354,473 and \$156,050, respectively, to INREIT Management, LLC for acquisition fees. These fees are for performing due diligence on properties acquired from unrelated parties. As of December 31, 2005 and 2004, INREIT owed the management company \$85,081 and \$81,050, respectively.

#### *West Pointe Centre*

During 2005, INREIT purchased West Pointe Centre, an office and retail complex in Fargo, North Dakota, from INREIT Management, LLC for a total purchase price of approximately \$690,000.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### *Commissions*

During 2005 and 2004, INREIT paid brokerage fees of \$121,687 and \$127,375, respectively, to Roger Domres, or entities owned by Roger Domres, stockholder of INREIT. During 2005 and 2004, INREIT paid marketing fees of \$38,921 and \$65,082, respectively, to Huntington Securities Corporation, an entity owned by Roger Domres.

### *Notes Receivable*

As of December 31, 2004, INREIT was owed \$10,000 on a note receivable from Roger Domres. This note was paid in 2005.

### *Director Fees*

During 2005 and 2004, INREIT paid board members \$250 per quarter plus travel costs to attend board meetings. INREIT paid director fees of \$13,328 and \$8,176 in 2005 and 2004, respectively.

### *Rental Income*

During 2005 and 2004, INREIT received rental income of \$752,221 and \$199,741 under various lease agreements to Edgewood Vista Senior Living, Inc., an entity owned by Philip Gisi, a member of the Board of Trustees.

### *Purchases*

During 2005, INREIT purchased the remaining ownership interest in Minot Vista Properties, LLC from an entity affiliated with Philip Gisi for approximately \$1,100,000.

During 2005, INREIT purchased three 12-unit facilities for Alzheimer's care from an entity affiliated with Philip Gisi for a total purchase price of \$3,225,000.

## **NOTE 9 - RENTALS UNDER OPERATING LEASES / RENTAL INCOME**

Commercial space is rented under long-term lease agreements. Minimum future rentals on noncancelable operating leases as of December 31 are as follows:

<u>Years ending December 31,</u>	<u>Amount</u>
2006	\$ 2,825,501
2007	2,685,993
2008	2,657,964
2009	2,662,248
2010	2,491,696
Thereafter	6,241,412
	<u>\$ 19,564,814</u>

Residential apartment units are rented to individual tenants with lease terms up to one year. Gross revenues from residential rentals totaled \$1,586,380 and \$1,167,316 for the years ended December 31, 2005 and 2004, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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For the years ended December 31, 2005 and 2004, gross revenues from commercial property rentals, including CAM (common area maintenance) income of \$449,231 and \$298,193, respectively, totaled \$2,601,062 and \$1,097,358. Commercial properties are leased to tenants under terms expiring at various dates through 2016. Lease terms often include renewal options.

### NOTE 10 - RENTAL ASSISTANCE PAYMENTS

As mentioned in Note 1 to the financial statements, INREIT has 220 units of government subsidized housing for elderly persons of low and moderate income in eight communities in North Dakota and South Dakota. In connection therein, INREIT has entered into rental assistance payment contracts with HUD, under the Section 8 Program on 160 of the 220 units. The project is subject to restrictions contained in the contract regarding rental charges and other operating policies with 160 of the units. INREIT has received a waiver from HUD to allow non-elderly individuals to reside in the projects.

The contracts are administered by North Dakota Housing Finance Agency and South Dakota Housing Finance Agency and provide direct assistance payments on behalf of qualified low-income tenants. Various contracts expiring in 2005 were renewed for five year terms during 2005. A portion of the remaining contracts will expire in 2006. The contracts contain the following significant provisions:

- All dwelling units subject to the Section 8 Contracts must be rented to families eligible to receive the benefit of rental assistance payments. Contract rents are established for each unit, with the tenant paying a portion of the contract rent based on the person's income level and the balance paid by HUD.
- If a qualified tenant vacates the dwelling unit for any reason other than the owner's violation of lease terms, HUD will pay the Partnership 80 percent of the contract rent for a period of up to 30 days while the unit remains vacant.

### NOTE 11 - PROPERTY MANAGEMENT FEES

INREIT has entered into various management agreements with unrelated management companies. The agreements provide for INREIT to pay management fees based on a percentage of rental income (4 to 5%), a set fee per month (\$1,000 - \$2,500 per month), or a fee per rented unit (\$32 per rented unit). During 2005 and 2004, INREIT incurred property management fees of \$225,041 and \$124,785, respectively, to unrelated management companies.

During 2005 and 2004, INREIT incurred management fees of 5% of rents to INREIT Management, LLC; a related party (Note 8).



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 12 - COMMITMENTS AND CONTINGENCIES

#### *Environmental Matters*

Federal law (and the laws of some states in which INREIT may acquire properties) imposes liability on a landowner for the presence on the premises of hazardous substances or wastes (as defined by present and future federal and state laws and regulations). This liability is without regard to fault or knowledge of the presence of such substances and may be imposed jointly and severally upon all succeeding landowners. If such hazardous substance is discovered on a property acquired by INREIT, INREIT could incur liability for the removal of the substances and the cleanup of the property. There can be no assurance that INREIT would have effective remedies against prior owners of the property. In addition, INREIT may be liable to tenants and may find it difficult or impossible to sell the property either prior to or following such a cleanup.

#### *Risk of Uninsured Property Losses*

INREIT intends to maintain what it believes to be adequate property damage, fire loss, and liability insurance. However, there are certain types of losses (generally of a catastrophic nature), which may be either uninsurable or not economically insurable. Such excluded risks may include war, earthquakes, tornados, certain environmental hazards, and floods. Should such events occur, (i) the INREIT might suffer a loss of capital invested, (ii) tenants may suffer losses and may be unable to pay rent for the spaces, and (iii) the trust may suffer a loss of profits which might be anticipated from one or more properties.

### NOTE 13 - SUBSEQUENT EVENTS

In March 2006, INREIT purchased a 2/3 interest in the Banner building in Fargo, North Dakota for \$3,000,000. INREIT financed the purchase with cash of \$1,800,000 and a \$1,200,000 loan from Wells Fargo. The loan requires interest-only payments to be made through December 31, 2006.

Subsequent to year-end, INREIT paid a dividend of \$0.165 per share for shareholders of record on December 31, 2005. Declared date of the dividends was January 15, 2006.









# INREIT

— REAL ESTATE INVESTMENT TRUST —

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