

INREIT

— REAL ESTATE INVESTMENT TRUST —

2010 Annual Report



OUR PROPERTIES

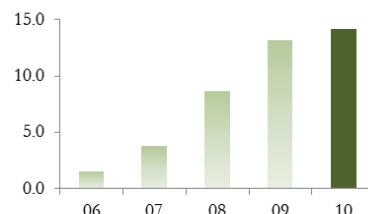


INREIT Consolidated YTD Financial Highlights:

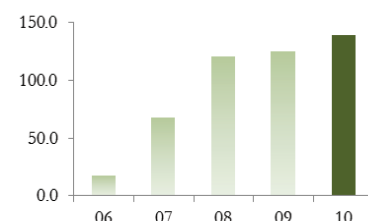
The following table sets forth summary financial data as of and for each of INREIT's twelve months ending December 31, 2009 through 2010.

	2010	2009	Increases
Income Statement Data			
Rental Revenues	\$44,543,732	\$39,417,597	13.0%
Net Income	\$7,612,582	\$6,350,999	19.9%
Funds From Operations (FFO)	\$14,215,675	\$12,678,298	12.1%
Balance Sheet Data			
Total Real Estate Investments	\$336,681,188	\$317,284,874	6.1%
Total Assets	\$343,982,183	\$326,149,522	5.5%
Shareholder Equity	\$139,663,175	\$125,849,388	11.0%
Per Share Data			
UPREIT Units Outstanding	10,389,178	9,883,009	5.1%
Cash Shares Outstanding	3,602,853	2,859,038	26.0%
Weighted Shares Outstanding *	13,110,324	12,431,066	5.5%
Dividend Data			
Net Income - Weighted Share	\$0.58	\$0.51	13.7%
MFFO/FFO - Weighted Share	\$1.12/\$1.08	\$1.06/\$1.02	5.9%
Dividends Per Share	\$0.77	\$0.75	2.7%

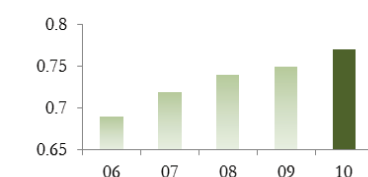
Funds From Operations
(In Millions \$)



Shareholder Equity
(In Million \$)

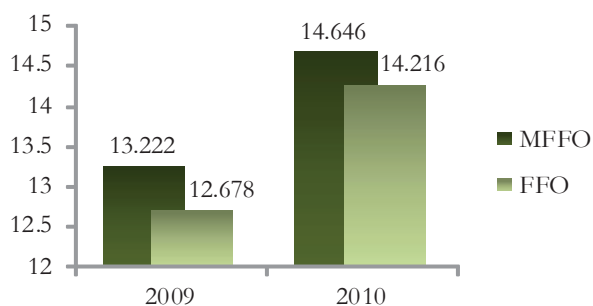


Distribution History
(\$ Per Share)



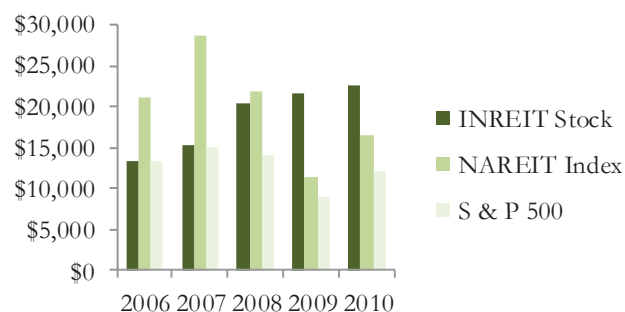
*Includes Cash Shares & UPREIT Operating Partnership Units (OPUs)

Modified Funds From Operations



Above chart is demonstrated in Millions \$. MFFO starts with FFO and adds back acquisition-related expenses from property transactions. In general, MFFO is considered to be a more accurate measure of residual cash flow for shareholders than simple FFO as it provides for a better predictor of the REIT's future ability to pay dividends.

Total Shareholder Returns



For Illustrative Purposes: \$10,000 invested in INREIT stock on November 1, 2002, with dividends reinvested, would be worth \$22,843 as of January 15, 2011. This value excludes the effect of brokerage commissions and income taxes.



*Earl Strinden
Chairman of the Board*

Dear Fellow Investors,

2010 was a good year for INREIT and its investors. As we look back on the “Great Recession,” it is clear we excelled during an extremely challenging time in our country’s economic

history and continue to be positioned to profitably grow in the years ahead. The Board is pleased with the success we had in 2010 and the continuing solid performance for our investors.

Amid the challenges of the most difficult economic environment in decades, we again delivered strong operating performance, increased our dividends, and maintained our strong dividend coverage. INREIT operates from a position of financial strength; a position deeply rooted in our solid values, conservative operating approach and disciplined investment strategy. During the recent volatile economic times, we are all rewarded by the benefits of this approach and appreciate our core values more than ever.

Our Portfolio

Today, our portfolio contains some of the most reliable multifamily properties in strong midwest markets including: Fargo, Bismarck, Grand Forks, Omaha, and Minneapolis. We believe that these markets, with their diversified and growing economies, will continue to expand as the demographics of our nation and our region continue to shift.

Over the past three years our portfolio has transitioned from 19% to a 50% concentration in multifamily properties. This concentration is purposeful because we

believe there is a significant shift from ownership to renting across our nation and that this shift will continue for several years to come. The increase in rental activity over the past years has also resulted in upward pressure on rents.

The renting trend is driven by the foreclosure crisis, the tightening of lending standards (which tightens access to home ownership), high unemployment, and the general drop in net income and/or net worth of current renters. New construction has also been slow due to the tougher financing environment and high cost of materials. The combination of supply and demand drivers supports our concentration in this very positive sector of the real estate marketplace.

Our Approach

With all of our properties, our goal is to balance occupancy and rental rates to maximize revenue. We are deeply committed to disciplined cost control to generate the highest possible return on revenues to maximize investor value. In addition, our commitment to continuous improvement drives us to find new ways to more effectively manage the properties in our portfolio, leverage economies of scale, increase our visibility into real time decisions, and refine our operating processes.

Our Financial Condition

As fellow investors, we are keenly interested in our investor’s equity, earnings per share, dividends paid and the Trust’s ability to cover those dividends. We are pleased to report that, in each case, 2010 was an excellent year. Below are a few significant highlights:

- Investor’s equity grew 11.0% from \$125,849,388 in 2009 to \$139,663,175 in 2010. In simple terms, our investor’s net worth grew by \$13,813,787.
- Earnings per share increased 15.7% during 2010 from \$0.51/share to \$0.59/share.



- Dividend Coverage increased from 136.2% in 2009 to 143.9% in 2010. This is critical, as unlike some of our peers, we are *not* borrowing to pay investor dividends. Our Funds from Operations “cover” the dividends paid to investors by a substantial margin.
- INREIT repurchased \$2,519,778 in shares and paid out \$10,132,080 in dividends in 2010 affirming our commitment to returning capital to our investors.

Looking Ahead: Public Reporting

We begin 2011 with great optimism and confidence in our ability to continue our strong performance. A major undertaking in 2011 will be our transition to become a public reporting company. The change, driven by our growth and success, is embraced by your Board of Trustees and is the next logical step in INREIT’s evolution.

With this change will come greater independence, greater transparency, new accounting requirements and practices, and regular (10-Q/10-K) reporting. You may have already noticed one such change in our 2009 Funds from Operations (“FFO”) calculation. This number has been updated to reflect new accounting standards for recording “acquisition” expenses. While this change was immaterial to our 2009 year-end financials, it did impact our 2009 FFO calculation by \$0.04. We are now incorporating this new standard going forward and it is reflected in the 2010 FFO calculation of \$1.08 per weighted share.

REITs employ a number of metrics to help investors assess their operating performance. FFO, for example, starts with Net Income and excludes gains and/or losses from property sales and then adds back real estate depreciation and amortization expenses. However, as mentioned above, accounting standards now require REITs to include an expense deduction to Net Income for “acquisition” expenses.

Therefore, comparing FFO from 2009 and beyond to prior periods (2008 and before) is no longer an “apples-to-apples” comparison. A new metric called, “Modified Funds from Operations” (MFFO) attempts to address this comparative issue. MFFO starts with FFO and adds back acquisition-related expenses from property transactions. The result is a post-2008 metric that is comparable to prior reported FFO results. We believe MFFO is a valuable and necessary tool to help assess INREIT’s operating performance. We have included a MFFO calculation for you on the first page of this Annual Report.



Kenneth P. Regan
Chief Executive Officer

With Thanks

INREIT’s future is very bright. We are well positioned to capitalize on attractive real estate investment opportunities as they unfold in the future. We will continue to refine our operating model to maximize returns, and embrace the change to public reporting. We have a great story to tell and are very proud of our success. Finally, we greatly appreciate having you as our valued investor and client. Your confidence and trust in the Board of Trustees and our Advisor, INREIT Management, LLC, is something we will continue to work very hard to earn every day.

Thank you again for your continued support and investment.

Earl Stinson *Kenneth P. Regan*



Our Business

The REIT Structure

A REIT is an investment vehicle that was originally created by the United States Congress in 1960 with the introduction of the Real Estate Investment Trust Act. This Act authorized a real estate ownership structure with tax treatment similar to that of mutual funds; a tax-exempt pass-through entity with broad based ownership that distributes most of its earnings and capital gains to investors.

Investment in a REIT offers immediate diversification benefits that can be tailored to a specific investor needs, since REITs often offer differing investment strategies in terms of property type and geographic focus.

INREIT Real Estate Investment Trust

INREIT Real Estate Investment Trust (“INREIT”) is a registered, but unincorporated business trust formed in North Dakota on December 3, 2002 to invest in a diversified portfolio primarily of commercial properties (such as retail, office and medical) and multi-family dwellings (such as apartment buildings and senior assisted or independent living centers).

INREIT elected to be taxed as a Real Estate Investment Trust (“REIT”) under Sections 856-860 of the Internal Revenue Code, which requires that 75% of the REIT assets must consist of real estate assets and that 75 % 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 Properties, LLLP

INREIT operates as an Umbrella Partnership Real Estate Investment Trust, which is a REIT that holds all or substantially all of its assets through a partnership which the REIT controls as general partner. INREIT Properties, LLLP, the operating partnership, was formed as a North Dakota Limited Liability Limited Partnership on April 25, 2003 to acquire, own and operate properties on behalf of INREIT.

INREIT uses this Umbrella Partnership Real Estate Investment Trust structure to facilitate acquisitions. A sale of property directly to a REIT is generally a taxable transaction to the property seller. However, in an Umbrella Partnership Real Estate Investment Trust structure, if a property seller exchanges the property with the operating partnership in exchange for limited partnership interests, the seller may defer taxation of gain in such exchange until the seller resells its limited partnership interests or exchanges its limited partnership interests for INREIT common stock.

By offering the ability to defer taxation, INREIT gains a competitive advantage in acquiring desired properties over other buyers who cannot offer this benefit. In addition, investing in the operating partnership, rather than directly in the trust, may be more attractive to certain institutional or other investors due to their business or tax structure. If an investor is interested in making a substantial investment in our operating partnership, INREIT’s structure provides the flexibility to accommodate different terms for each investment, while applicable tax laws generally restrict a REIT from charging different fee rates among its shareholders.

Today, the operating partnership holds a diversified portfolio of commercial properties and multifamily dwellings located principally in the upper and central United States. For purposes of satisfying the asset and income tests for qualification as a REIT for tax purposes, INREIT’s proportionate shares of the assets and income from the operating partnership are deemed to be assets and income of the Trust.

INREIT Management, LLC

INREIT operates under the direction of the Board of Trustees, the members of which are accountable to the Trust and its shareholders as fiduciaries. INREIT has no paid employees and retains an “Advisor” to manage its day-to-day affairs. For the period 2003 – 2010, INREIT has retained INREIT Management, LLC, a North Dakota limited liability company to serve as its Advisor.



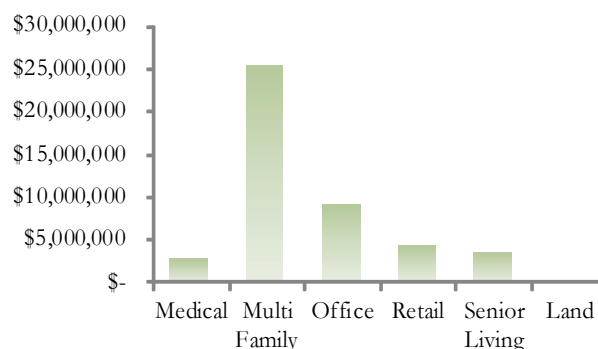
Our Portfolio

INREIT expanded its portfolio in 2010 with the addition of nine properties. The retail segment experienced the largest increase with the addition of seven, single-tenant triple net leased properties. These properties include three Applebee's, a Buffalo Wild Wings, a Walgreens, a Family Dollar and an O'Reilly Auto Parts. The average lease term on these acquisitions is 15 years with the majority of the leases scheduled to renew in June 2028.

In addition, INREIT expanded its investment in the multifamily segment in North Dakota and Minnesota with the purchase of three multifamily properties totaling 302 units. The Eagle Run apartment complex in West Fargo, ND was the main driver of the increase consisting of 144 units.

We continuously focus on acquiring quality real estate properties that provide stable cash flow for distribution to our investors.

Revenues By Sector



Our current portfolio mix drives our strength through diversification among the various property sectors. This diversification helps us manage risk, increase cash flow and protects us from market and economic fluctuations.

Our new acquisitions increased our investment portfolio allocations in the Multi-Family sectors to 50.5% and 15.0% in the Retail sector. This is up from 48.9% and 11.4%, respectively, in 2009. To offset these increases in our portfolio, our Office, Medical, Senior Living and Land sectors decreased in 2010 to 19.9%, 7.2%, 7.1% and 0.4%, respectively.

Real Estate Portfolio



The "Revenues by Sector" graph reiterates our preference for Multi-Family properties as the driver for the majority of our revenues. Currently, the revenues from our Multi-Family sector accounts for 56.6% of total revenues, down slightly from 59.5% in 2009. The decrease from 2009 is attributable to the purchases noted above (Retail & Restaurants) and the divestitures of the Edgewood Vista Senior Living property in Minot, ND and the Westbrook Multi-Family property in Fargo, ND.

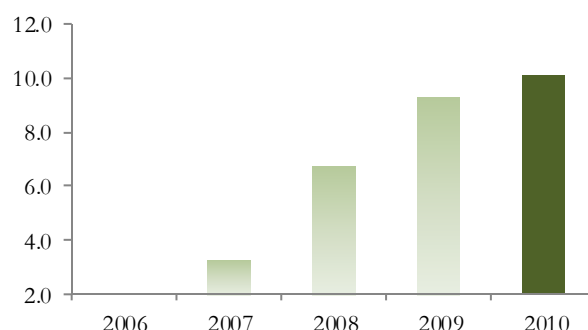


Our Dividends

In 2010, INREIT paid its investors dividend distributions equal to \$0.77 per share for a total of \$10,132,080. These total dividend distributions, paid in quarterly installments, represented an increase of \$820,869 (8.8%) over 2009. In total, INREIT paid out more than \$11,000,000 in dividends and share liquidations in 2010, affirming our strong commitment to returning capital to our shareholders.

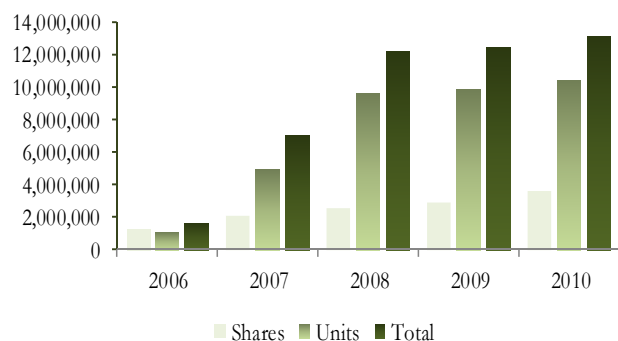
Since 2003, INREIT's dividend has consistently increased on an annual basis, growing 28.3% from inception of the REIT. 2010 was no exception, with the dividend increasing from \$0.745 to \$0.77 per share or 3.4%. Looking ahead, the INREIT Board of Trustees has already voted to increase its annual dividend again in 2011 to \$0.805 per share, an increase of \$0.035 per share over 2010. Likewise, INREIT's stock price has continued to increase, going from \$8.00 in 2003 to its current price of \$14.00, a 75% increase from inception.

Total Dividends (In Millions \$)



Significantly of our investors choose to reinvest their dividends in additional shares of INREIT stock, increasing their position in the REIT. In 2010, more than 78.8% of our shareholders regularly reinvested their quarterly dividends, representing a \$1.5 million reinvestment into the Trust. In total our shareholders have reinvested more than \$5.2 million into INREIT over the past 5 years.

Total Weighted Shares



The number of shares in the Trust and its operating partnership as well continue to grow. In 2010, the number of shares grew by 26.0% and the number of partnership units grew by 5.1%. Collectively, this represents a growth in total weighted shares of 679,258, a 5.5% increase over 2009 and a 35.9% increase over inception in 2003. We are extremely grateful for our growing investor base, the fact that an overwhelming majority of those investors choose to reinvest their dividends, and the increasing size of our investor's long-term holdings. Each of these facts demonstrate and reflect our investor's confidence in INREIT's direction and overall performance.



13000
BLDG-4


BUFFALO WILD WINGS
GRILL & BAR

Handicapped
Parking

Handicapped
Parking

Our Strategy

Investment Objectives

Our primary investment objectives are to:

- Acquire quality real estate properties that will provide a stable cash flow for distribution to our investors, preserve capital and realize long-term capital appreciation upon the sale of such properties;
- Offer an investment option in which the value of the common shares is correlated to commercial/multifamily real estate as an asset class rather than traditional asset classes such as stocks and bonds; and
- Provide a hedge against inflation through use of short-term and long-term lease arrangements with tenants of our rental properties (where possible and appropriate we work to achieve scheduled rental increases throughout the term of the lease).

Investment Strategy

Our investment strategy is to primarily acquire and hold a diverse portfolio of:

- Commercial real estate properties in various sectors, including multi-family residential, senior housing, retail, office, medical and restaurants, primarily located in North Dakota and other states located in the United States; and
- Ownership interests in real estate properties in various sectors, including multi-family residential, senior housing, retail, office, medical and restaurants or other commercial properties located in these markets.

We anticipate that the majority of our acquisitions will be located in or near metropolitan areas. However, there is no limitation on the geographic areas in which we may acquire targeted investments.

Investment Acquisitions

Our Advisor, INREIT Management, LLC has the authority, on our behalf, to acquire commercial real estate property and interests in real estate properties that meet our investment objectives, strategy and guidelines. The Advisor may not make an acquisition without the prior approval of our Board or its Executive Committee.

The Board, in its investment decisions, will take into consideration certain factors regarding each investment and its financial condition, including the following:

- existing investments in our portfolio to achieve and maintain diversity by property type, geography and industry of the tenants;
- existing cash flow and expense schedules and/or income-producing capacity;
- credit quality of existing tenants and the potential for future rent increases;
- competition for quality tenants from similar properties in the geographical area;
- opportunities for capital appreciation based on operating expense reductions, improvements to the property and other factors;
- expected return upon future sale of the property;
- REIT qualification requirements;
- liquidity and tax considerations; and
- additional factors considered important to meeting our investment objectives.

Although the number and mix of properties and asset types acquired and maintained will depend upon many factors, including: a) the amount of financing we obtain from lenders on favorable terms, b) real estate and market conditions, the Advisor will attempt to identify and the Board will attempt to acquire and maintain a diversified portfolio of real estate properties and real estate related assets in terms of type of property, industry of tenants and location.



Due Diligence

Prior to acquiring a real estate property or real estate related asset, the Advisor will conduct extensive due diligence on the property or asset, including taking the following actions or obtaining the following reports as the Advisor deems advisable:

- Conduct a long-term viability and fair value analysis;
- Conduct an inspection of the property and surrounding area;
- Obtain an assessment of market area demographics;
- Obtain surveys of the property;
- Obtain evidence of marketable or infeasible title subject to such liens and encumbrances as are acceptable to our Advisor;
- Obtain financial statements covering recent operations of properties with operating histories;
- Obtain title and liability insurance policies;
- Obtain an independent engineering report of the property's mechanical, electrical and structural integrity;
- Evaluate the existing property leases relating to the property;
- Evaluate both the current and potential alternative uses of the property; and
- Obtain an independent Phase I environmental site assessment.

Investment Guidance

The Board directs that the Trust invest primarily in existing or newly constructed real estate properties in multiple sectors, including multi-family residential and senior housing, retail, office, medical, and restaurant properties by acquiring direct ownership or ownership interests through equity interests or other joint venture structures.

INREIT REAL ESTATE INVESTMENT TRUST

*is focused on the acquisition and
management of quality multifamily and
commercial properties in growing midwest
markets.*

The Board anticipates investing primarily in real estate properties with existing rent and expense schedules or newly constructed properties with predictable cash flows or in which a seller agrees to provide certain minimum income levels. Geographically our focus continues to be on real estate properties located primarily in North Dakota and in or near metropolitan areas in the United States.



Our Board has, at all times, ultimate oversight over the Trust's mix of acquisition and disposition transactions. To this end, the Board currently intends our real estate investments to be allocated approximately as follows:

- up to 50% in multifamily and apartment properties;
- up to 20% in commercial office properties;
- up to 10% in retail properties;
- up to 10% in medical properties;
- up to 10% in industrial properties;
- up to 5% in restaurant properties.

AS OF DECEMBER 31, 2010

INREIT OWNED:

- **81** *properties, including*
- **3,756** *apartment units,*
- **209** *assisted living units*
- **1,098,150** *square feet*
of leasable commercial space,
located across **9** *states.*

Despite the Board's goals for portfolio mix, the actual percentage of our portfolio that is invested in each investment type may fluctuate above or below such levels due to factors such as a large inflow of capital, lack of attractive investment opportunities in an investment type or an increase in anticipated cash requirements.

Multifamily Properties

Specifically, with regard to multifamily and apartment properties, INREIT looks to invest in high quality multifamily and apartment properties that produce rental income and are expected to appreciate in value. These properties are identified on the basis of property-specific characteristics, market characteristics or the potential for establishing entry points for future investment in attractive markets. These properties include conventional multifamily and apartment communities, such as mid-rise, high-rise and garden-style properties. Location, condition, design and amenities are key characteristics for apartment communities.

Other Commercial Properties

Specifically, with regard to other commercial properties, INREIT looks to invest in high quality retail, medical, and office properties that produce rental income and are expected to appreciate in value. These properties are identified on the basis of property-specific characteristics, market characteristics, lease rates and terms, or the potential for establishing entry points for future investment in attractive markets. Location, condition, design and amenities are key characteristics for such property types.



Board of Trustees

The INREIT Real Estate Investment Trust Board of Trustees met four times in 2010 and held six interim committee meetings. Board members focus on areas of importance to our investors — strategy, risk management, and regulatory matters. In 2010, they received briefings on a variety of issues including: trust financial performance, the acquisition and disposition of assets, state and federal tax issues, regulatory and compliance matters, litigation, emerging SEC rules, and managing the transition from a private to public company.



From left:

Timothy Hunt
Chief Executive Officer
Alexandria Clinic, PA
Trustee since 2003

James Wieland
Vice President and Co-Owner
Goldmark Property Management
Trustee since 2007

Lawrence R. O'Callaghan
Investment and Securities Advisor
Financial Advantage Wealth
Management
Trustee since 2003

Earl Strinden
Chairman of the Board
INREIT Real Estate
Investment Trust
Trustee since 2003

Rex Carlson
Consultant and Former
Vice President
R.D. Offutt Company
Trustee since 2005

Peggy Becker
Owner and Manager
Armstrong Sanitation Plus
Trustee since 2003

Bruce Furness
Former Mayor
City of Fargo, ND
Trustee since 2008

Clifford Fearing
Former Financial Officer
Fairview Health Services
Trustee since 2005

Richard Savageau
Former President
Butler Machinery Company
Trustee since 2009

Lance Wolf
Executive Vice President and
Director of Retail Banking
Gate City Bank
Trustee since 2010

James Hansen
Owner and Manager
Hansen Investments, Inc.
Trustee since 2010

Kenneth P. Regan
Chief Executive Officer
INREIT Real Estate
Investment Trust
Trustee since 2007



PHARMACY

2964

Quality
Photos
Fast

RESERVED
PARKING


RESERVED
PARKING


**CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

**INREIT REAL ESTATE INVESTMENT TRUST
AND SUBSIDIARIES**

INREIT REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

Table of Contents

	<u>Page</u>
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM REPORT	1
FINANCIAL STATEMENTS	
Consolidated Balance Sheets	2
Consolidated Statements of Operations	3
Consolidated Statements of Shareholders' Equity	4
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	8



Harris W. Widmer
Charles E. Nord
Stanley N. Sandvik
Terrence P. Delaney
Robert D. Dale
Michael T. Schmitz
Tracee S. Buethner

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
INREIT Real Estate Investment Trust
Minot, North Dakota

We have audited the accompanying consolidated balance sheets of **INREIT Real Estate Investment Trust** as of December 31, 2010 and 2009, and the related statements of operations, shareholders' equity and comprehensive income and cash flows for the years ended December 31, 2010, 2009 and 2008. INREIT Real Estate Investment Trust's management is responsible for these statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included 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 Company's internal control over financial reporting. Accordingly, we express no such 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**, as of December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

Widmer Roel PC

Fargo, North Dakota
April 22, 2011



4334 18th Avenue S., Suite 101 • Fargo, ND 58103-7414
Phone: (701) 237-6022 • (888) 237-6022 • Fax: (701) 280-1495 • www.widmerroelcpa.com

INREIT REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
PROPERTY AND EQUIPMENT, less accumulated depreciation	\$ 312,567,343	\$ 301,223,457
CASH AND CASH EQUIVALENTS	10,010,564	8,702,274
RESTRICTED DEPOSITS AND FUNDED RESERVES	5,814,623	4,351,520
DUE FROM RELATED PARTY	306,951	879,002
RECEIVABLES	2,241,896	1,620,903
PREPAID EXPENSES	474,602	441,608
NOTES RECEIVABLE	1,917,573	1,966,396
FINANCING COSTS, less accumulated amortization of \$559,017 in 2010 and \$352,427 in 2009	1,713,903	1,332,162
ASSETS HELD FOR SALE	1,115,618	-
RENT INCENTIVE, less accumulated amortization of \$116,667 in 2010 and \$16,667 in 2009	1,383,333	1,483,333
INTANGIBLE ASSETS, less accumulated amortization of \$953,481 in 2010 and \$351,724 in 2009	6,290,576	4,063,891
OTHER ASSETS	<u>145,201</u>	<u>84,976</u>
	<u><u>\$ 343,982,183</u></u>	<u><u>\$ 326,149,522</u></u>

See Notes to Consolidated Financial Statements

	<u>2010</u>	<u>2009</u>
LIABILITIES		
MORTGAGE NOTES PAYABLE	\$ 192,171,523	\$ 190,964,710
SPECIAL ASSESSMENTS PAYABLE	1,582,610	1,565,683
DIVIDENDS PAYABLE	2,606,033	2,373,207
DUE TO RELATED PARTY	544,988	60,435
TENANT SECURITY DEPOSITS PAYABLE	1,213,102	1,094,283
INVESTMENT CERTIFICATES	2,455,534	468,078
UNFAVORABLE LEASES, net	583,350	457,505
ACCOUNTS PAYABLE - TRADE	152,833	12,772
ACCOUNTS PAYABLE - CONSTRUCTION	-	332,116
LIABILITIES RELATED TO ASSETS HELD FOR SALE	48,062	
FAIR VALUE OF INTEREST RATE SWAP	194,499	168,332
DEFERRED INSURANCE PROCEEDS	6,816	148,880
ACCRUED EXPENSES	2,759,658	2,654,133
Total liabilities	<u>204,319,008</u>	<u>200,300,134</u>
COMMITMENTS - Note 20		
SHAREHOLDERS' EQUITY		
NONCONTROLLING INTEREST IN OPERATING PARTNERSHIP	105,012,439	100,046,173
BENEFICIAL INTEREST	34,845,235	25,971,547
ACCUMULATED COMPREHENSIVE LOSS	<u>(194,499)</u> <u>139,663,175</u>	<u>(168,332)</u> <u>125,849,388</u>
	<u><u>\$ 343,982,183</u></u>	<u><u>\$ 326,149,522</u></u>

INREIT REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008

	2010	2009	2008
INCOME FROM RENTAL OPERATIONS	\$ 43,437,785	\$ 39,417,597	\$ 26,440,252
EXPENSES			
Expenses from rental operations			
Interest	11,628,388	10,353,901	7,255,723
Depreciation and amortization	9,013,681	7,717,817	5,021,384
Real estate taxes	4,822,036	4,399,957	3,102,639
Property management fees	3,344,295	3,235,665	1,879,146
Utilities	2,961,726	2,831,072	1,895,546
Repairs and maintenance	4,147,014	3,970,801	2,661,428
Insurance	668,317	670,863	368,705
Salary and wages	-	36,173	34,486
Food costs for residents	-	22,759	26,156
Administrative	88,768	70,115	63,207
	<u>36,674,225</u>	<u>33,309,123</u>	<u>22,308,420</u>
Administration of REIT			
Administrative expenses	49,294	50,529	57,192
Advisory fees	683,840	649,824	610,686
Acquisition expenses	430,402	543,874	-
Director fees	41,600	38,300	37,650
Rent	1,200	300	1,800
Legal and accounting	333,458	162,561	142,422
Loss on impairment of property	363,000	311,807	-
	<u>1,902,794</u>	<u>1,757,195</u>	<u>849,750</u>
Total expenses	<u>38,577,019</u>	<u>35,066,318</u>	<u>23,158,170</u>
INCOME FROM OPERATIONS	4,860,766	4,351,279	3,282,082
OTHER INCOME			
Interest income	250,058	609,202	416,065
Gain on disposal of property and equipment	-	319,237	-
Insurance proceeds	38,900	199,546	-
Gain on bargain purchase - Note 21	608,500	871,735	-
	<u>897,458</u>	<u>1,999,720</u>	<u>416,065</u>
INCOME FROM CONTINUING OPERATIONS	5,758,224	6,350,999	3,698,147
DISCONTINUED OPERATIONS			
Income from discontinued operations, including gain on sale on disposal of \$1,992,816 and depreciation expense of \$187,630 in 2010	1,854,351	-	344,646
NET INCOME	7,612,575	6,350,999	4,042,793
NET INCOME ATTRIBUTABLE TO THE NONCONTROLLING INTEREST	<u>5,740,308</u>	<u>4,992,712</u>	<u>2,991,080</u>
NET INCOME ATTRIBUTABLE TO INREIT REAL ESTATE INVESTMENT TRUST	<u>\$ 1,872,267</u>	<u>\$ 1,358,287</u>	<u>\$ 1,051,713</u>
NET INCOME PER COMMON SHARE			
Basic and diluted	<u>\$ 0.59</u>	<u>\$ 0.51</u>	<u>\$ 0.45</u>

INREIT REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008

	Common Shares	Common Shares Amount	Accumulated Earnings (Deficit)	Total Beneficial Interest	Noncontrolling Interest	Accumulated Comprehensive Loss	Total
BALANCE,							
DECEMBER 31, 2007	2,146,916	\$ 22,373,666	\$ (4,138,304)	\$ 18,235,362	\$ 50,053,278	\$ -	\$ 68,288,640
Issuance of common shares	315,799	4,163,459		4,163,459			4,163,459
Contribution of assets in exchange for the issuance of noncontrolling interest shares					54,925,817		54,925,817
Repurchase of shares	(80,969)	(1,002,228)		(1,002,228)			(1,002,228)
Dividends			(1,278,596)	(1,278,596)	(3,424,199)		(4,702,795)
Dividends declared			(462,593)	(462,593)	(1,548,231)		(2,010,824)
Dividends reinvested	87,787	1,183,543		1,183,543			1,183,543
UPREIT units converted to REIT common shares	47,978	580,499		580,499	(580,499)		-
Syndication costs			(301,865)	(301,865)	(2,883,811)		(3,185,676)
Decrease in fair value of interest rate swap						(285,850)	(285,850)
Net income			1,051,713	1,051,713	2,991,080		4,042,793
BALANCE,							
DECEMBER 31, 2008	2,517,511	\$ 27,298,939	\$ (5,129,645)	\$ 22,169,294	\$ 99,533,435	\$ (285,850)	\$ 121,416,879
Issuance of common shares	275,220	3,906,520		3,906,520			3,906,520
Contribution of assets in exchange for the issuance of noncontrolling interest shares					5,522,930		5,522,930
Repurchase of shares	(243,891)	(2,928,404)		(2,928,404)			(2,928,404)
Dividends			(1,477,139)	(1,477,139)	(5,425,130)		(6,902,269)
Dividends declared			(532,496)	(532,496)	(1,840,711)		(2,373,207)
Dividends reinvested	97,733	1,300,741		1,300,741			1,300,741
UPREIT units converted to REIT common shares	212,466	2,461,120		2,461,120	(2,461,120)		-
Syndication costs			(286,376)	(286,376)	(275,943)		(562,319)
Increase in fair value of interest rate swap						117,518	117,518
Net income			1,358,287	1,358,287	4,992,712		6,350,999
BALANCE,							
DECEMBER 31, 2009	2,859,039	\$ 32,038,916	\$ (6,067,369)	\$ 25,971,547	\$ 100,046,173	\$ (168,332)	\$ 125,849,388

(continued on next page)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY – page 2

	Common Shares	Common Shares Amount	Accumulated Earnings (Deficit)	Total Beneficial Interest	Noncontrolling Interest	Accumulated Comprehensive Loss	Total
BALANCE, DECEMBER 31, 2009	2,859,039	\$ 32,038,916	\$ (6,067,369)	\$ 25,971,547	\$ 100,046,173	\$ (168,332)	\$ 125,849,388
Issuance of common shares	777,996	10,685,427		10,685,427			10,685,427
REIT common shares converted to UPREIT units	(50,395)	(705,525)		(705,525)	705,525		-
Contribution of assets in exchange for the issuance of noncontrolling interest shares					7,830,176		7,830,176
Repurchase of shares	(195,166)	(2,519,778)		(2,519,778)			(2,519,778)
Dividends			(1,817,152)	(1,817,152)	(5,753,384)		(7,570,536)
Dividends declared			(693,549)	(693,549)	(1,912,483)		(2,606,032)
Dividends reinvested	109,320	1,453,955		1,453,955			1,453,955
UPREIT units converted to REIT common shares	102,059	1,331,489		1,331,489	(1,331,489)		-
Syndication costs			(733,446)	(733,446)	(312,387)		(1,045,833)
Decrease in fair value of interest rate swap						(26,167)	(26,167)
Net income			1,872,267	1,872,267	5,740,308		7,612,575
BALANCE, DECEMBER 31, 2010	3,602,853	\$ 42,284,484	\$ (7,439,249)	\$ 34,845,235	\$ 105,012,439	\$ (194,499)	\$ 139,663,175

INREIT REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008

	2010	2009	2008
OPERATING ACTIVITIES			
Net income	\$ 7,612,575	\$ 6,350,999	\$ 4,042,793
Adjustments to reconcile net income to net cash from operating activities			
Gain on sale of property and equipment	(1,992,816)	(319,237)	(344,646)
Gain due to insurance proceeds	(38,900)	-	-
Bargain purchase on business combinations	(608,500)	(871,735)	-
Loss on impairment of property	363,000	311,807	-
Depreciation	8,335,599	7,189,549	4,918,909
Amortization	907,711	506,099	102,475
Effects on operating cash flows due to changes in			
Tenant security deposits	(155,092)	(243,621)	(851,490)
Due from related party	572,051	(434,643)	240,353
Receivables	(620,993)	(310,381)	(1,064,374)
Prepaid expenses	(32,994)	(48,420)	(278,941)
Rent incentive	-	(1,500,000)	-
Other assets	(60,225)	194,468	(52,444)
Due to related party for accrued management fees	5,699	(10,963)	(36,291)
Tenant security deposits payable	142,328	220,060	540,324
Accounts payable	140,061	(29,185)	29,551
Accrued expenses	130,078	268,831	1,407,048
NET CASH FROM OPERATING ACTIVITIES	14,699,582	11,273,628	8,653,267
INVESTING ACTIVITIES			
Purchase of property and equipment	(18,999,425)	(30,190,983)	(27,601,867)
Purchase of intangible assets	(2,642,286)	(4,463,148)	-
Due to related party for acquisition fees	172,537	(528,300)	528,300
Cash received during purchase of property	-	-	3,615,812
Proceeds from sale of property and equipment	4,620,940	2,417,935	4,604,530
Insurance proceeds received	414,463	-	-
Proceeds from lease buyout	410,000	-	-
Real estate tax and insurance escrows	20,036	(580,979)	978,331
Purchase of securities	-	-	(400,000)
Notes receivable issued	-	(1,590,114)	(430,028)
Notes receivable payments received	48,823	47,803	5,943
Proceeds from sale of securities	-	1,267,222	912,528
Deferred insurance proceeds	(142,064)	(142,272)	291,152
Net deposits to replacement reserve	308,329	(524,821)	(115,795)
Net deposits to exchange escrow	(1,659,885)	(653,043)	-
NET CASH USED FOR INVESTING ACTIVITIES	(17,448,532)	(34,940,700)	(17,611,094)

(continued on next page)

CONSOLIDATED STATEMENTS OF CASH FLOWS – page 2

	2010	2009	2008
FINANCING ACTIVITIES			
Payments for financing costs	(667,025)	(184,491)	(222,455)
Proceeds from investment certificates issued	2,241,955	333,240	190,798
Payments on investment certificates	(254,499)	(243,199)	(43,188)
Principal payments on special assessments payable	(205,535)	(216,108)	(177,826)
Proceeds from issuance of mortgage notes payable	21,718,060	34,115,955	22,568,698
Principal payments on mortgage notes payable	(17,379,946)	(3,760,345)	(2,482,731)
Net change in notes payable	-	-	(200,309)
Payments on construction payable	(332,116)	(1,561,050)	-
Proceeds from issuance of shares	10,685,427	3,906,520	4,163,459
Repurchase of shares	(2,519,778)	(2,928,404)	(1,002,228)
Distributions paid	(8,489,787)	(7,612,352)	(4,650,649)
Payment of syndication costs	(739,516)	(1,566,164)	(2,625,920)
NET CASH FLOWS FROM FINANCING ACTIVITIES	4,057,240	20,283,602	15,517,649
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,308,290	(3,383,470)	6,559,822
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8,702,274	12,085,744	5,525,922
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 10,010,564	\$ 8,702,274	\$ 12,085,744
SCHEDULE OF CASH FLOW INFORMATION			
Cash paid during the year for interest, net of capitalized interest of \$423,207 and \$2,662 in 2009 and 2008, respectively	\$ 11,998,754	\$ 10,121,642	\$ 6,980,373
SUPPLEMENTARY SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Distributions reinvested	\$ 1,453,955	\$ 1,300,741	\$ 1,183,543
Distributions declared and not paid	\$ 693,549	\$ 532,496	\$ 462,593
UPREIT distributions declared and not paid	\$ 1,912,483	\$ 1,840,711	\$ 1,548,231
UPREIT units converted to REIT common shares	\$ 625,964	\$ 2,461,120	\$ 580,499
Acquisition of assets in exchange for the issuance of noncontrolling interest shares in UPREIT	\$ 7,830,176	\$ 5,522,930	\$ 54,925,817
Mortgage assumed on sale of property	\$ 5,607,368	\$ -	\$ -
Acquisition of assets through assumption of debt and property purchased with financing	\$ 2,477,849	\$ 19,078,678	\$ 44,630,407
Acquisition of assets included in payables	\$ -	\$ 332,116	\$ 1,561,050
Increase in land improvements due to increase in special assessments payable	\$ 240,531	\$ 246,691	\$ 863,345
Unrealized (gain) loss on interest rate swap	\$ 26,167	\$ (117,518)	\$ 285,850

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2010 and 2009, INREIT had an ownership percentage of approximately 21 percent. INREIT Properties, LLLP is the 100% owner of Grand Forks Inreit, LLC, Minot Vista Properties, LLC, Autumn Ridge Inreit, LLC, Bismarck Interstate INREIT, LLC, 32nd Avenue Inreit, LLC, INREIT BL Mankato, LLC, INREIT BL Janesville, LLC, INREIT BL Eau Claire, LLC, INREIT BL Stevens Point, LLC, INREIT BL Sheboygan, LLC, INREIT BL Oshkosh, LLC, INREIT BL Onalaska, LLC, INREIT BL Grand Forks, LLC, INREIT BL Marquette, LLC, INREIT BL Bismarck, LLC, INREIT Stonybrook, LLC, INREIT Alexandria, LLC, INREIT Batesville, LLC, INREIT Fayetteville, LLC, INREIT Laurel, LLC, and a 50% owner of Marketplace Investors, 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; Bismarck Interstate INREIT, LLC; 32nd Avenue Inreit, LLC; INREIT BL Mankato, LLC; INREIT BL Janesville, LLC; INREIT BL Eau Claire, LLC; INREIT BL Stevens Point, LLC; INREIT BL Sheboygan, LLC; INREIT BL Oshkosh, LLC; INREIT BL Onalaska, LLC; INREIT BL Grand Forks, LLC; INREIT BL Marquette, LLC; INREIT BL Bismarck, LLC; INREIT Stonybrook, LLC; INREIT Alexandria, LLC; INREIT Batesville, LLC; INREIT Fayetteville, LLC; and Marketplace Investors, LLC. All significant intercompany transactions and balances have been eliminated in consolidation.

Principal Business Activity

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

Residential Property

- 2,219 and 204 units, respectively in Fargo and West Fargo, North Dakota.
- 533 units in Grand Forks, North Dakota.
- 470 units in Bismarck, North Dakota.
- 316 units in Omaha, Nebraska.
- 14 units in Hawley, Minnesota.
- 16 unit assisted living facility in Williston, North Dakota.
- 193 unit assisted living facility in Bismarck, North Dakota.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Commercial Property

- 15,010 square foot office building in Minot, North Dakota.
- 38,300 square foot retail complex in Norfolk, Nebraska.
- 15,000 square foot office and retail complex in Fargo, North Dakota.
- 28,500 square foot office and retail complex in Fargo, North Dakota.
- 30,200 square foot retail facility in Waite Park, Minnesota.
- 17,000 square foot office building in Fargo, North Dakota.
- 124,306 square foot office complex in Fargo, North Dakota.
- 10,810 square foot office building in St. Cloud, Minnesota.
- 95,961 square foot office building in Duluth, MN.
- 11,973 square foot office building in Fargo, North Dakota.
- 21,492 square foot office building and 1,625 square foot storage area in Grand Forks, North Dakota.
- 102,448 square foot office building in Edina, Minnesota.
- 5,043 square foot restaurant in Bloomington, Minnesota.
- 5,568 square foot restaurant in Coon Rapids, Minnesota.
- 4,936 square foot restaurant in Savage, Minnesota.
- 7,296 square foot restaurant in Austin, Texas.
- 15,400 square foot commercial building in Mandan, North Dakota.

INREIT Properties, LLLP is the 100% owner of Grand Forks INREIT, LLC, which owns a 1/3 interest as a tenant in common of Grand Forks Marketplace Retail Center. INREIT Properties, LLLP is also the 50% owner of Marketplace Investors, LLC, which owns a 1/3 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.

INREIT Properties, LLLP is the owner of INREIT 32nd, LLC, which owns and leases a commercial building with approximately 31,000 square feet of rental space in Fargo, North Dakota.

INREIT Properties, LLLP is the owner of Autumn Ridge INREIT, LLC which owns and leases two 36 unit residential apartment buildings in Grand Forks, North Dakota.

INREIT Properties, LLLP owns a 34.67% interest as a tenant in common of a 136 unit apartment complex located in Bismarck, North Dakota.

INREIT Properties, LLLP owns a 2/3 interest as a tenant in common of a commercial building with approximately 75,000 square feet of rental space in Fargo, North Dakota.

INREIT Properties, LLLP is the owner of Bismarck Interstate INREIT, LLC, which owns and leases two commercial buildings with approximately 75,000 square feet of rental space in Bismarck, North Dakota.

INREIT Properties, LLLP is the owner of INREIT Somerset, LLC, which owns and leases a 75 unit residential apartment complex in Fargo, North Dakota.

INREIT Properties, LLLP is the owner of INREIT Stonybrook, LLC, which owns and leases a 142 unit residential apartment complex in Omaha, Nebraska.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

INREIT Properties, LLLP is the owner of INREIT Alexandria, LLC, INREIT Batesville, LLC, INREIT Fayetteville, LLC, and INREIT Laurel, LLC which own a total of three separate commercial properties totaling 58,750 square feet. These properties are located in Alexandria, Louisiana, Batesville, Arkansas, Fayetteville, Arkansas, and Laurel, Mississippi.

INREIT Properties, LLLP is the owner of INREIT BL Mankato, LLC, INREIT BL Janesville, LLC, INREIT BL Eau Claire, LLC, INREIT BL Stevens Point, LLC, INREIT BL Sheboygan, LLC, INREIT BL Oshkosh, LLC, INREIT BL Onalaska, LLC, INREIT BL Grand Forks, LLC, INREIT BL Marquette, LLC, and INREIT BL Bismarck, LLC, which own a total of ten separate commercial properties totaling 124,686 square feet. These properties are located in Mankato, Minnesota; Janesville, Wisconsin; Eau Claire, Wisconsin; Stevens Point, Wisconsin; Sheboygan, Wisconsin; Oshkosh, Wisconsin; Onalaska, Wisconsin; Grand Forks, North Dakota; Marquette, Michigan; and Bismarck, North Dakota.

INREIT Properties, LLLP is the 81.25% owner of Eagle Run Partnership, which owns and leases a 144 unit residential apartment complex in West Fargo, North Dakota. The non controlling interest of 18.75% in this partnership is included in the “noncontrolling interest in operating partnership” on the balance sheet and the income attributable to the non-controlling interest in the “net income attributable to the noncontrolling interest” line of the statement of operations.

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, including interest, are capitalized as costs of the property until a certificate of occupancy is received for the developed property. Capitalized interest costs are computed using the Company's effective rate during the development period.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Depreciation expense for the years ended December 31, 2010, 2009, and 2008, totaled \$8,335,599, \$7,189,549, and \$4,918,909, respectively.

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.

Receivables

Receivables consist primarily of amounts due for rent and real estate taxes. The receivables are non-interest bearing. The carrying amount of receivables is reduced by an amount that reflects management's best estimates of the amounts that will not be collected. As of December 31, 2010 and 2009, management determined that no allowance was necessary for uncollectible receivables.

Securities

INREIT's securities are all classified and accounted for as held to maturity. Securities classified as held to maturity are those securities that INREIT has the ability and intent to hold to maturity. Securities held to maturity are recorded at amortized cost.

Purchase premiums and discounts are recognized in interest income using the effective interest method over the terms of the securities. Declines in the fair value of securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Other assets

Lease intangibles represent the allocation of a portion of the purchase price of a property acquisition representing the estimated value of in-place leases and above-market lease terms. Intangible assets are comprised of finite-lived and indefinite-lived assets. Indefinite-lived assets are not amortized. Finite-lived intangibles are amortized over their expected useful lives.

Other intangible assets that are not deemed to have an indefinite useful life are amortized over their estimated useful lives. The carrying amount of intangible assets that are not deemed to have an indefinite useful life is regularly reviewed for indicators of impairments in value. Impairment is recognized only if the carrying amount of the intangible asset is considered to be unrecoverable from its undiscounted cash flows and is measured as the difference between the carrying amount and the estimated fair value of the asset. Based on the review, no impairment was deemed necessary at December 31, 2010 or 2009.

Rental Incentives

Rental incentives consist of up-front cash payments to lessees to sign the lease. Rental incentives are amortized against rental income over the term of the lease.

Noncontrolling 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, syndication costs, and profits and losses are allocated to noncontrolling interests in accordance with the terms of the operating partnership agreement.

Financing Costs

Financing costs incurred in connection with financing have been capitalized and are being amortized over the life of the financing using the straight-line method.

Syndication Costs

Syndication costs consist of costs paid to attorneys, accountants, and selling agents related to the raising of capital. These fees are paid based on management's discretion. Syndication costs are recorded as a reduction to equity and noncontrolling interest.

Federal Income Taxes

INREIT has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010, 2009, and 2008 our distributions have been determined to be treated as the following for income taxes:

Tax status of distributions	2010	2009	2008
Ordinary income	68.59%	72.05%	63.29%
Return of capital	31.41%	27.95%	36.71%
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

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 liability partnership. Income or loss is allocated to the partners in accordance with the provisions of the Internal Revenue Code 704(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.

INREIT has adopted the provisions of FASB Accounting Standards Codification Topic ASC 740-10, on January 1, 2009. The implementation of this standard had no impact on the financial statements. As of both the date of adoption, and as of December 31, 2010 and 2009, the unrecognized tax benefit accrual was zero. The Company is no longer subject to Federal tax examinations by tax authorities for years before 2007 and state examinations for years before 2007.

Recent Accounting Pronouncements

In December 2007, the FASB issued Accounting Standards Codification Topic ASC 810-10. ASC 810-10 changes the accounting and reporting for minority interests. Minority interests will be re-characterized as noncontrolling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. Effective January 1, 2009, INREIT adopted ASC 810-10.

In December 2007, the FASB issued an update to its guidance on accounting for business combinations. The amended guidance significantly changes the accounting for and reporting of business combination transactions in consolidated financial statements. The amended guidance requires an acquiring entity to recognize acquired assets and liabilities assumed in a transaction at fair value as of the acquisition date, changes the disclosure requirements for business combination transactions and changes the accounting treatment for certain items, including contingent consideration agreements which are required to be recorded at acquisition date fair value and acquisition costs which are required to be expensed as incurred. The Company adopted this guidance on January 1, 2009. The Company believes that such adoption could materially impact its future financial results to the extent that it acquires significant amounts of real estate, as related acquisition costs will be expensed as incurred compared to the Company's former practice of capitalizing such costs and amortizing them over the estimated useful life of the assets acquired.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In December 2009, the FASB issued ASU 2009-17, Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. This update clarifies and improves financial reporting by entities involved with variable interest entities. This update is effective as of the beginning of the annual period beginning after November 15, 2009. The adoption of this standard is not anticipated to have a material effect on our financial position or results of operations.

In December 2010, the FASB (Financial Accounting Standards Board) issued Accounting Standards Update 2010-29 (ASU 2010-29), Business Combinations (Topic 805) - Disclosure of Supplementary Pro Forma Information for Business Combinations. This Accounting Standards Update requires a public entity to disclose pro forma information for business combinations that occurred in the current reporting period. The disclosures include pro forma revenue and earnings of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. If comparative financial statements are presented, the pro forma revenue and earnings of the combined entity for the comparable prior reporting period should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. The amendments in this Update affect any public entity as defined by Topic 805 that enters into business combinations that are material on an individual or aggregate basis. The amendments in this Update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The Company does not expect the provisions of ASU 2010-29 to have a material effect on its financial position, results of operations or cash flows.

Revenue Recognition

Housing units are rented under short-term lease agreements. Commercial space is rented under long-term lease agreements.

INREIT derives over 95% of its revenues from tenant rents and other tenant-related activities. Tenant rents include base rents, expense reimbursements (such as common area maintenance, real estate taxes and utilities), and straight-line rents. INREIT records base rents on a straight-line basis, which means that the monthly base rent income according to the terms of INREIT's leases with its tenants is adjusted so that an average monthly rent is recorded for each tenant over the term of its lease. The straight-line rent adjustment increased revenue by \$509,699, \$389,036, and \$489,060 in 2010, 2009, and 2008. The straight-line receivable balance included in receivables on the consolidated balance sheet as of December 31, 2010 and 2009 was \$1,410,063 and \$900,364, respectively. 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.

Advertising and Marketing

Costs incurred for advertising and marketing are expensed as incurred. Advertising and marketing expense for the years ended December 31, 2010, 2009, and 2008 was \$58,713, \$31,800, and \$12,840, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Capitalized Interest

Interest of \$423,207 and \$2,662 has been capitalized to property and equipment for the years ended December 31, 2009 and 2008, respectively. No interest was capitalized for the year ended December 31, 2010.

Earnings per Common Share

Basic earnings per common share ("Basic EPS") is computed by dividing net income available to common shareholders (the "numerator") by the weighted average number of common shares outstanding (the "denominator") during the period. The Company had no dilutive potential common shares as of December 31, 2010 or 2009, and therefore, basic earnings per common share was equal to diluted earnings per common share for both periods.

For the year ended December 31, 2010 and 2009, the Company's weighted average number of shares outstanding for the year and denominator of the basic and diluted earnings per common share were 3,190,716 and 2,659,825 shares respectively.

Reclassifications

Certain amounts have been reclassified in the December 31, 2009 and 2008 financial statements to facilitate consistent presentation with amounts as of December 31, 2010. The reclassifications had no impact on the statement of operations.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Land and land improvements	\$ 42,021,838	\$ 36,320,188
Building and improvements	281,669,671	267,492,134
Furniture and fixtures	12,989,679	11,833,702
Construction in progress (Note 18)	-	1,638,850
	<u>336,681,188</u>	<u>317,284,874</u>
Less accumulated depreciation	<u>(23,021,736)</u>	<u>(16,061,417)</u>
	\$ 313,659,452	\$ 301,223,457
Less: property and equipment included in assets held for sale	<u>(1,092,109)</u>	<u>-</u>
	<u>\$ 312,567,343</u>	<u>\$ 301,223,457</u>

During 2010, INREIT recorded an impairment loss of \$363,000 on one property due to the net book value of the property and equipment exceeding its fair market value. The impairment of the property and equipment was as a result of incurring recurring losses, vacancies, and negative cash flows. INREIT estimated the undiscounted cash flows from the property and compared them to the carrying value resulting in the impairment loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During 2009, INREIT recorded an impairment loss of \$311,807 on one property due to the net book value of the property and equipment exceeding its fair market value. The impairment of the property and equipment was as a result of incurring recurring losses, vacancies, and negative cash flows. INREIT used the appraised value from an independent appraisal, in measuring the impairment loss.

During 2010, INREIT received insurance proceeds in the amount of \$414,463 for damages caused by a storm on twenty properties. INREIT reduced the book value of the property and equipment by \$375,563 and recorded income in the amount of \$38,900.

During 2009, INREIT received insurance proceeds in the amount of \$749,098 for damages caused by a storm on two properties. INREIT reduced the book value of the property and equipment by \$549,552 and recorded income in the amount of \$199,546.

NOTE 4 - RESTRICTED DEPOSITS AND FUNDED RESERVES

	2010	2009
Tenant security deposits	\$ 1,250,555	\$ 1,118,972
Real estate tax and insurance escrows	1,555,391	1,575,427
Replacement reserves	695,749	1,004,078
Exchange escrow	2,312,928	653,043
	<u>\$ 5,814,623</u>	<u>\$ 4,351,520</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.

Exchange Escrow

INREIT established an exchange escrow account in order to facilitate a Section 1031 exchange upon the sale of qualifying properties. The cash proceeds from the property sales are held in escrow until qualifying properties are purchased at which time, the cash necessary to purchase the replacement property is transferred to the seller. The balance in the exchange escrow will be used in 2011 to purchase qualifying like-kind properties.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - NOTES RECEIVABLE

Notes receivable at December 31, 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
Tenant improvement notes	\$ 327,459	\$ 376,282
Minot land sale	<u>1,590,114</u>	<u>1,590,114</u>
	<u>\$ 1,917,573</u>	<u>\$ 1,966,396</u>

The tenant improvement notes are for repairs which were financed by INREIT and made on commercial buildings which the tenants are responsible for paying.

The note receivable for the Minot land sale is a 7% note due in monthly installments of principal and interest amortized over a twenty-five year period and accruing interest at the rate of 7% payable on a quarterly basis. Installments of principal and interest are due once the premise achieves stabilization which is defined as having a certificate of occupancy issued and having a vacancy rate not in excess of 5%.

NOTE 6 - SECURITIES

Debt securities have been classified in the balance sheet according to management's intent. INREIT did not have any debt securities at December 31, 2010 and 2009. Proceeds from the sales of securities during the year ended December 31, 2009 were approximately \$1,267,000 resulting in no gross realized or unrealized gains or losses.

NOTE 7 - HEDGING ACTIVITIES

As part of INREIT's interest rate risk management strategy, INREIT uses a derivative instrument to minimize significant unanticipated earnings fluctuations that may arise from rising variable interest rate costs associated with existing borrowings. To meet these objectives the Company entered into an interest rate swap in the amount of \$1,293,900 to provide a fixed rate of 7.25%, which matures on April 15, 2020. The swap was issued at approximate market terms and thus no fair value adjustment was recorded at its inception. The carrying amount of the swap has been adjusted to its fair value at the end of the year, which because of changes in forecasted levels of LIBOR resulted in reporting a liability for the fair value of the future net payments forecasted under the swap. This interest rate swap is accounted for as an effective hedge in accordance with ASC 815-20 whereby it is recorded at fair value and changes in fair value are recorded to comprehensive income. As of December 31, 2010 and 2009, INREIT has recorded a liability and other comprehensive loss of \$194,499 and \$168,332, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - LEASE INTANGIBLES

The following table summarizes the net value of other intangible assets and the accumulated amortization for each class of intangible asset:

	December 31, 2010		
	Lease Intangibles	Accumulated Amortization	Lease Intangibles, net
In-place leases	\$ 6,116,650	\$ (902,685)	\$ 5,213,965
Above-market leases	1,127,407	(50,796)	1,076,611
Below-market leases	(682,497)	99,147	(583,350)
	<u>\$ 6,561,560</u>	<u>\$ (854,334)</u>	<u>\$ 5,707,226</u>
	December 31, 2009		
	Lease Intangibles	Accumulated Amortization	Lease Intangibles, net
In-place leases	\$ 4,359,580	\$ (350,588)	\$ 4,008,992
Above-market leases	56,035	(1,136)	54,899
Below-market leases	(496,341)	38,836	(457,505)
	<u>\$ 3,919,274</u>	<u>\$ (312,888)</u>	<u>\$ 3,606,386</u>

The estimated aggregate amortization expense for each of the five succeeding fiscal years and thereafter is as follows:

Years ending December 31,	Amount
2011	\$ 571,049
2012	571,049
2013	571,049
2014	571,049
2015	571,049
Thereafter	<u>2,851,981</u>
	<u>\$ 5,707,226</u>

The weighted average amortization period for the intangible assets, in-place leases, above-market leases, and below-market leases acquired as of December 31, 2010 was 11.5 years.

NOTE 9 - SHORT TERM NOTES PAYABLE

The Company has a \$5,000,000 variable rate (1-month LIBOR plus 1.85%) line of credit agreement with Wells Fargo Bank, which expires in March 2012. At December 31, 2010, there was no outstanding balance on the line of credit and \$5,000,000 remained available for borrowings. The note is secured by a property.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - MORTGAGE NOTES PAYABLE

Mortgage notes payable consist of:

	<u>2010</u>	<u>2009</u>
5.26% mortgage note payable, due in monthly installments of \$38,283, including interest until July 2013, secured by a mortgage on property, security agreement, and an assignment of rents (Note 17)	\$ 6,111,450	\$ 6,241,156
6.55% mortgage note payable, due in monthly installments of \$3,869, including interest until February 2014, secured by a mortgage on property and equipment	-	301,932
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	-	2,305,858
7.15% mortgage note payable, due in monthly installments of \$5,439, including interest, unpaid principal and interest due March 2011, secured by a mortgage on property and a security interest in cash or investment accounts with the lender	722,603	737,947
7.25% mortgage note payable, 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 (Note 8)	1,165,072	1,191,772
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	-	928,387
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	1,763,803	1,836,178
5.74% mortgage note payable, due in monthly installments of \$18,945, including interest, until January 2016, secured by a mortgage on property, security agreement, and an assignment of rents	3,033,277	3,082,535
6.66% mortgage note payable, due in monthly installments of \$41,114, including interest, until December 2021, secured by a mortgage on property	-	5,708,690

(continued on next page)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2010	2009
5.92% mortgage note payable, due in monthly installments of \$22,291, including interest, until November 2019, secured by a mortgage on property and guaranty of owners (Note 17)	1,183,348	1,201,857
5.46% mortgage note payable, due in monthly installments of \$5,842, including interest, until August 2019, secured by a mortgage on property (Note 17)	948,892	966,647
7.00% mortgage note payable, due in monthly installments of \$35,628, including interest, until May 2022, secured by a mortgage on property (Note 17)	5,121,897	5,186,346
5.93% mortgage note payable, due in monthly installments of \$45,224, including interest, until August 2017, secured by a mortgage on property and assignment of rents and leases	7,286,288	7,387,593
6.65% mortgage note payable, due in monthly installments of \$9,798, including interest, until May 2014, remainder due at that time, secured by a mortgage on property	1,330,240	1,357,124
5.33% mortgage note payable, due in monthly installments of \$68,688, including interest, until September 2020, secured by a mortgage on property	6,256,916	6,733,795
5.96% mortgage note payable, due in monthly installments of \$20,297, including interest, until July 2021, secured by a mortgage on property, security agreement, and an assignment of rents	3,193,791	3,245,330
6.67% mortgage note payable, due in monthly installments of \$21,872, including interest, until December 2013, secured by a mortgage on property, security agreement, and an assignment of rents	2,746,540	2,823,017
7.18% mortgage note payable, due in monthly installments of \$16,258, including interest, until January 2013, secured by a mortgage on property, security agreement, and an assignment of rents	1,917,407	1,972,666
6.30% mortgage note payable, due in monthly installments of \$4,224, including interest, until October 2017, remainder due at that time, secured by a mortgage on property and business assets	655,605	664,466
6.30% mortgage note payable, due in monthly installments of \$2,032, including interest, until October 2017, remainder due at that time, secured by a mortgage on property and business assets	315,315	319,576

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2010	2009
6.10% mortgage note payable, due in monthly installments of \$13,862, including interest, until December 2017, remainder due at that time, secured by a mortgage on property and business assets	2,199,492	2,230,629
6.10% mortgage note payable, due in monthly installments of \$12,680, including interest, until December 2017, remainder due at that time, secured by a mortgage on property and business assets	2,011,994	2,040,477
6.59% mortgage note payable, due in monthly installments of \$6,700, including interest, until December 2012, remainder due at that time, secured by a mortgage on property	924,753	942,865
6.23% mortgage note payable, due in monthly installments of \$13,642, including interest, until January 2013, remainder due at that time, secured by mortgage on property	1,942,926	1,982,545
6.73% mortgage note payable, due in monthly installments of \$17,314, including interest, until December 2013, remainder due at that time, secured by mortgage on property, security agreement, and an assignment of rents	2,164,828	2,224,703
5.03% mortgage note payable, due in monthly installments of \$19,122, including interest, until September 2019, remainder due at that time, secured by mortgage on property, security agreement, and an assignment of rents	3,250,378	3,314,589
6.01% mortgage note payable, due in monthly payments of \$8,716, including interest, unpaid principal and interest due January 2010, secured by a mortgage on property and an assignment of leases	-	5,784,216
7.06% - 7.65% mortgage notes payable, due in various monthly installments of principals and interest, until March 2016, remainder due at that time, secured by mortgage on property and assignment of rents	13,519,564	14,397,577
5.72% mortgage note payable, due in monthly installments of \$17,683, including interest, until January 2013, remainder due at that time, secured by mortgage on property, deed to secure debt or deed of trust	2,657,576	2,715,931
5.50% mortgage note payable, due in monthly installments of \$3,735, including interest, until June 2013, remainder due at that time, secured by mortgage on property	577,634	590,300

(continued on next page)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2010	2009
5.98% mortgage note payable, due in monthly installments of \$11,965, including interest, until September 2017, remainder due at that time, secured by mortgage on property, deed to secure debt or deed of trust	1,946,227	1,970,994
5.93% mortgage note payable, due in monthly installments of \$15,174, including interest, until September 2017, remainder due at that time, secured by mortgage on property, deed to secure debt or deed of trust	2,480,731	2,512,627
6.15% mortgage note payable, due in monthly installments of \$6,862, including interest, until July 2016, remainder due at that time, secured by mortgage on property	960,104	982,642
6.15% mortgage note payable, due in monthly installments of \$35,057, including interest, until June 2015, remainder due at that time, secured by mortgage on property and an assignment of rents	5,526,684	5,601,233
6.00% mortgage note payable, due in monthly installments of \$13,084, including interest, until May 2015, remainder due at that time, secured by mortgage on property and an assignment of rents	2,092,259	2,120,727
6.83% mortgage note payable, due in monthly installments of \$2,800, including interest, until June 2018, remainder due at that time, secured by mortgage on property and an assignment of rents	392,490	398,677
6.83% mortgage note payable, due in monthly installments of \$12,500, including interest, until June 2018, remainder due at that time, secured by mortgage on property and an assignment of rents	1,707,794	1,738,377
Variable rate mortgage note payable (5.95% at December 31, 2010 and 2009), adjusted every three years, due in monthly installments of \$7,700, including interest, until April 2018, remainder due at that time, secured by mortgage on property and an assignment of rents	1,139,135	1,162,062
6.83% mortgage note payable, due in monthly installments of \$5,100, including interest, until June 2018, remainder due at that time, secured by mortgage on property and an assignment of rents	706,255	718,100
6.83% mortgage note payable, due in monthly installments of \$2,500, including interest, until June 2018, remainder due at that time, secured by mortgage on property and an assignment of rents	345,354	351,218

(continued on next page)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2010	2009
5.60% mortgage note payable, due in monthly installments of \$12,658, including interest, until December 2012, remainder due at that time, secured by mortgage on property and an assignment of rents	1,932,446	1,973,363
6.25% mortgage note payable, due in monthly installments of \$25,200, including interest, until August 2015, remainder due at that time, secured by mortgage on property and an assignment of rents	3,638,170	3,707,627
5.96% mortgage note payable, due in monthly installments of \$6,727, including interest, until October 2015, remainder due at that time, secured by mortgage on property	998,908	1,018,639
5.96% mortgage note payable, due in monthly installments of \$11,488, including interest, until October 2015, remainder due at that time, secured by mortgage on property	1,705,818	1,739,517
5.96% mortgage note payable, due in monthly installments of \$5,045, including interest, until October 2015, remainder due at that time, secured by mortgage on property	-	763,983
6.96% mortgage note payable, due in monthly installments of \$16,897, including interest, until June 2013, remainder due at that time, secured by mortgage on property, deed to secure debt or deed of trust	2,048,400	2,106,383
7.80% mortgage note payable, due in monthly installments of \$12,914, including interest, until September 2014, remainder due at that time, secured by mortgage on property, deed to secure debt or deed of trust	1,524,394	1,558,986
Variable rate mortgage note payable (4.00% at December 31, 2010 and 2009), adjusted every three years, due in monthly installments of \$31,300, including interest, until December 2013, remainder due at that time, secured by mortgage on property and an assignment of rents	5,610,116	5,754,992
5.50% mortgage note payable, due in monthly installments of \$16,024, including interest, until December 2013, remainder due at that time, secured by mortgage on property and an assignment of rents	2,488,100	2,540,063
5.60% mortgage note payable, due in monthly installments of \$14,905, including interest, until December 2013, remainder due at that time, secured by mortgage on property and an assignment of rents	2,291,940	2,340,404
6.96% mortgage note payable, due in monthly installments of \$24,848, including interest, until June 2013, remainder due at that time, secured by mortgage on property and an assignment of rents	3,012,356	3,097,625

(continued on next page)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2010	2009
6.96% mortgage note payable, due in monthly installments of \$22,198, including interest, until July 2013, remainder due at that time, secured by mortgage on property and an assignment of rents	2,697,589	2,773,324
5.64% construction note payable, due in monthly installments of \$116,225, including interest, until June 2015, remainder due at that time, secured by mortgage on property and an assignment of the executed lease	15,670,622	15,993,433
5.96% mortgage note payable, due in monthly installments of \$5,955, including interest, until January 2016, remainder due at that time, secured by mortgage on property and an assignment of rents	887,416	904,823
5.50% mortgage note payable, due in monthly installments of \$7,492, including interest, until July 2014, remainder due at that time, secured by mortgage on property and an assignment of rents	1,186,677	1,210,605
5.40% mortgage note payable, due in monthly installments of \$34,815, including interest, until April 2015, remainder due at that time, secured by mortgage on property and an assignment of rents	5,884,498	5,977,338
5.75% mortgage note payable, due in monthly installments of \$8,551, including interest, until May 2019, remainder due at that time, secured by mortgage on property and an assignment of rents	1,317,330	1,344,250
5.75% mortgage note payable, due in monthly installments of \$12,742, including interest, until March 2014, remainder due at that time, secured by mortgage on property and corporate guaranty	1,714,798	1,766,080
5.75% mortgage note payable, due in monthly installments of \$7,545, including interest, until May 2019, remainder due at that time, secured by mortgage on property and an assignment of rents	1,162,319	1,186,103
5.68% mortgage note payable, due in monthly installments of \$63,989, including interest, until October 2015, remainder due at that time, secured by mortgage on property, security agreement, and assignment of rents and leases	10,128,451	10,307,428
5.69% mortgage note payable, due in monthly installments of \$20,960, including interest, until April 2025 remainder due at that time, secured by mortgage on property, security agreement and assignment of rents and leases	2,461,070	2,569,193

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2010	2009
6.85% mortgage note payable, due in monthly installments of \$49,216, including interest, until March 2034 remainder due at that time, secured by mortgage on property, security agreement and assignment of rents and leases	6,860,254	6,976,561
6.85% mortgage note payable, due in monthly installments of \$38,325, including interest, until August 2033, remainder due at that time, secured by mortgage on property, security agreement and assignment of rents and leases	5,286,382	5,380,629
5.40% mortgage note payable, due in monthly installments of \$19,682, including interest, until March 2015, remainder due at that time, secured by mortgage on property, security agreement and assignment of rents and leases	3,435,885	-
6.07% mortgage note payable, due in monthly installments of \$21,542, including interest, until October 2024, remainder due at that time, secured by mortgage on property, security agreement and assignment of rents and leases	2,433,614	-
4.25% mortgage note payable, due in monthly installments of \$38,325, including interest, until August 2011, remainder due at that time, secured by mortgage on property, security agreement and assignment of rents and leases	6,549,223	-
4.95% mortgage note payable, due in monthly installments of \$5,989, including interest, until August 2015, remainder due at that time, secured by mortgage on property, security agreement and assignment of rents and leases	1,015,327	-
5.55% mortgage note payable, due in monthly installments of \$4,159, including interest, until December 2017, remainder due at that time, secured by mortgage on property, security agreement and assignment of rents and leases	675,340	-
4.00% mortgage note payable, due in monthly installments of \$12,932, including interest, until December 2013, remainder due at that time, secured by mortgage on property, security agreement and assignment of rents and leases	2,450,000	-
5.25% mortgage note payable, due in monthly installments of \$7,569, including interest, until January 2016, remainder due at that time, secured by mortgage on property, security agreement and assignment of rents and leases	1,114,500	-
4.25% mortgage note payable, due in monthly installments of \$20,900, including interest, until December 2013, remainder due at that time, secured by mortgage on property, security agreement and assignment of rents and leases	3,690,958	-
	<u>\$ 192,171,523</u>	<u>\$ 190,964,710</u>

(continued on next page)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The mortgage notes agreements include covenants that, in part, impose maintenance of certain debt service coverage and debt to worth ratios. As of December 31, 2010, the Company was in compliance with all covenants with exception of one loan on a retail property in Fargo, North Dakota for which it has received a one year waiver from the lender.

Long-term debt maturities are as follows:

<u>Years ending December 31,</u>	<u>Amount</u>
2011	\$ 12,377,017
2012	8,267,471
2013	44,706,036
2014	10,082,801
2015	49,888,283
Thereafter	66,849,915
	<u>\$ 192,171,523</u>

NOTE 11 - 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 2010, INREIT issued investment certificates ranging from 5.00 to 5.75 percent totaling \$2,241,955. During 2009, INREIT issued investment certificates ranging from 4 to 5.75 percent totaling \$333,240. At December 31, 2010 and 2009, INREIT had outstanding investment certificates totaling \$2,455,534 and \$468,078, respectively.

Maturities of investment certificates are as follows: 2011 - \$1,090,538; 2012 - \$86,302; 2013 - \$968,450; 2014 - \$51,194; 2015 - \$259,050.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - FAIR VALUE MEASUREMENT

In September 2006 the FASB issued ASC 820-10 and in February 2007 issued ASC 825-10. Both standards address the aspects of the expanding application of fair value accounting. Effective January 1, 2008, INREIT adopted ASC 820-10 and ASC 825-10. There were no adjustments to accumulated deficit as a result of the adoption of ASC 820-10. ASC 825-10 permits a company to measure certain financial assets and financial liabilities at fair value that were not previously required to be measured at fair value. INREIT has elected not to measure any financial assets or financial liabilities at fair value which were not previously required to be measured at fair value.

ASC 820-10 established a three-level valuation hierarchy for fair value measurement. Management uses these valuation techniques to establish the fair value of the assets and liabilities at the measurement date. These valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect management's assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1 – Quoted prices for identical instruments in active markets;
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose significant inputs are observable;
- Level 3 – Instruments whose significant inputs are unobservable.

Assets and liabilities measured at fair value on a recurring basis in accordance with ASC 820-10:

Liability	Total 12/31/10	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Nonobservable Inputs: Level 3
Fair value of interest rate swap	\$ 194,499	\$ -	\$ 194,499	\$ -

Liability	Total 12/31/09	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Nonobservable Inputs: Level 3
Fair value of interest rate swap	\$ 168,332	\$ -	\$ 168,332	\$ -

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - SPECIAL ASSEMENTS PAYABLE

At December 31, 2010 and 2009, special assessments payable totaled \$1,582,610 and \$1,565,683, respectively. Future principal payments related to special assessments payable over the next five years are as follows:

<u>Years ending December 31,</u>	<u>Amount</u>
2011	\$ 156,923
2012	142,269
2013	134,429
2014	112,818
2015	107,168
Thereafter	929,003
	<u>\$ 1,582,610</u>

NOTE 14 - ACCRUED EXPENSES

	<u>2010</u>	<u>2009</u>
Real estate taxes	\$ 1,787,545	\$ 1,743,802
Interest	830,788	816,230
Unearned rent	138,893	91,991
Other	2,432	2,110
	<u>\$ 2,759,658</u>	<u>\$ 2,654,133</u>

NOTE 15 - NON CONTROLLING INTEREST OF UNITHOLDERS IN OPERATING PARTNERSHIPS

As of December 31, 2010 and 2009, noncontrolling shareholders partnership units totaled 10,389,178 and 9,883,009, respectively. During 2010 and 2009 and 2008, INREIT paid distributions of \$7,594,095 and \$6,973,361, and \$4,171,835, respectively, to noncontrolling interest shareholders, which was \$.7700, \$.7450, and \$.735, respectively, per unit. As of December 31, 2010 and 2009, INREIT had declared distributions of \$1,912,483 and \$1,840,711, respectively, to noncontrolling interest shareholders to be paid the following year.

During 2010 and 2009, noncontrolling shareholders converted 102,059 and 212,466 partnership units to INREIT shares, totaling \$1,331,489 and \$2,461,120, respectively.

Limited partners in the operating partnership have the right to require the operating partnership to redeem their limited partnership units for cash after a minimum three-year holding period. Upon a redemption request, INREIT has the right to purchase the partnership units either with cash or INREIT shares, in its discretion, on the basis of one partnership unit for one INREIT share. However, payment will be in cash if the issuance of INREIT shares will cause the shareholder to exceed the ownership limitations, among other reasons. No limited partner will be permitted more than two redemptions during any calendar year, and no redemption may be made for less than 1,000 limited partnership units or, if such limited partner owns less than 1,000 limited partnership units, all of the limited partnership units held by such limited partner.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 - BENEFICIAL INTEREST

The Company is authorized to issue 10,000,000 shares of beneficial interest with \$.01 par value and 50,000,000 preferred shares with \$.01 par value, which collectively represent the beneficial interest of the Company. As of December 31, 2010 and 2009, there were 3,602,853 and 2,859,039, respectively, shares outstanding.

Distributions paid to holders of beneficial interest were \$0.7700, \$0.7450, and \$.735 per unit for the years ending December 31, 2010, 2009 and 2008, respectively.

NOTE 17 - RELATED PARTY TRANSACTIONS

Due from related party as of December 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Goldmark Property Management	\$ 44,601	\$ 127,914
Edgewood Vista Senior Living, Inc.	262,350	751,088
	<u>\$ 306,951</u>	<u>\$ 879,002</u>

Due to related party as of December 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
DL/JKJD, LLC	\$ 200,835	\$ -
INREIT Management, LLC	233,095	54,859
HSC Partner, LLC	111,058	5,576
	<u>\$ 544,988</u>	<u>\$ 60,435</u>

Property Management Fee

During 2010, 2009 and 2008, INREIT paid 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 Kenneth Regan and James Wieland. For the years ended December 31, 2010, 2009, and 2008, INREIT paid management fees of \$13,423, \$18,540, and \$18,022, respectively, to INREIT Management, LLC.

During 2010, 2009 and 2008, INREIT paid property management fees of 5 percent of rents to Goldmark Property Management. The management team of Goldmark Property Management consists of Board of Trustee members Kenneth Regan and James Wieland. For the years ended December 31, 2010, 2009, and 2008, INREIT incurred management fees of \$3,209,325, \$3,048,048, and \$1,690,001, respectively, to Goldmark Property Management.

Director Fees

INREIT paid director fees of \$41,600, \$38,300, and \$37,650 in 2010, 2009 and 2008, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Advisory Management Fees

During 2010, 2009 and 2008, INREIT incurred \$683,839, \$649,824, and \$610,686 to INREIT Management, LLC for advisory management fees. As of December 31, 2010 and 2009, the Company owed INREIT Management, LLC \$60,558 and \$54,859, respectively, for unpaid advisory management fees. These fees cover the office facilities, equipment, supplies, and staff required to manage the day-to-day operations of INREIT, and is paid based on .50% of net invested assets during 2010 and 2009 and .75% of net invested assets during 2008.

Acquisition Fees

During 2010, 2009 and 2008, INREIT incurred \$937,842, \$1,355,848 and \$3,283,900, respectively, to INREIT Management, LLC for acquisition fees. These fees are for performing due diligence on properties acquired in an I.R.C Section 721 exchange, and are paid on 3% of the purchase price up to a maximum of \$300,000 per individual property in 2010 and 2009 and \$150,000 per individual property in 2008. As of December 31, 2010, INREIT owed \$172,537 to INREIT Management, LLC for acquisition fees. During 2010, INREIT paid \$302,718 to INREIT Management, LLC for disposition fees on three properties that we sold during the year. There were no disposition fees paid in 2009.

Commissions

During 2010, 2009 and 2008, INREIT incurred brokerage fees of \$222,783, \$114,378, and \$455,203, respectively, to Roger Domres, or entities owned by Roger Domres, stockholder of INREIT and a shareholder of INREIT Management, LLC. Brokerage fees are paid based on 4% of UPREIT units and 8% of INREIT units sold. During 2010, 2009 and 2008, INREIT incurred marketing fees of \$139,111, \$67,648, and \$591,090, respectively, to HSC Partner, LLC, an entity owned by Roger Domres. As of December 31, 2010 and 2009, INREIT owed \$111,058 and \$5,576, respectively, to HSC Partner, LLC for brokerage and marketing fees.

During 2010, 2009 and 2008, INREIT incurred brokerage fees of \$534,919, \$283,240, and \$1,788,081 to Dale Lian, or entities owned by Dale Lian, stockholder of INREIT and a shareholder of INREIT Management, LLC. Brokerage fees are paid based on 4% of UPREIT units and 8% of INREIT units sold. As of December 31, 2010, INREIT owed \$200,835 to Dale Lian, or entities owned by Dale Lian. As of December 31, 2009, INREIT did not owe any brokerage fees to Dale Lian, or entities owned by Dale Lian.

During 2010 and 2009, INREIT incurred commission fees of \$284,888 and \$272,641 to Goldmark Schlossman Commercial Real Estate Services Inc., which consists of Board of Trustee members Kenneth Regan and James Wieland.

During 2010 and 2009, INREIT incurred brokerage commissions of \$27,824 and \$14,617 to Larry O'Callaghan, a member of the Board of Trustees.

Rental Income

During 2010, 2009 and 2008, INREIT received rental income of \$2,763,863, \$1,123,946 and \$706,893, respectively, under various lease agreements with Edgewood Vista Senior Living, Inc., an entity affiliated with Philip Gisi, a member of the Board of Trustees. As of December 31, 2009, INREIT was owed \$419,192 from Edgewood Vista Senior Living, Inc. for rental income. As of December 31, 2010 and 2009, INREIT was owed \$262,350 and \$284,673, respectively, from Edgewood Vista Senior Living, Inc. for real estate taxes related to the properties.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During 2010 and 2009, INREIT received rental income of \$102,500 under a lease agreement for an office building with EMG Investment Group, an entity affiliated with Philip Gisi, a former member of the Board of Trustees.

During 2010, 2009 and 2008, INREIT received rental income of \$179,052, \$158,489, and \$155,885, respectively, under an operating lease agreement with Goldmark Property Management.

During 2010 and 2009, INREIT received rental income of \$42,427 and \$42,000 respectively, under an operating lease agreement with INREIT Management, LLC.

Rent Incentive

During 2009, INREIT provided a rent incentive of \$1,500,000 to a property owned by Edgewood Development Group, an entity affiliated with Philip Gisi. The rent incentive is being amortized against rental income over the term of the lease. During 2010 and 2009 INREIT amortized \$100,000 and \$16,667 respectively, against income.

CAM Income Receivable

As of December 31, 2009, INREIT was owed \$47,222 from Edgewood Vista Senior Living, Inc. for insurance payments made by INREIT.

Restricted Deposits

As of December 31, 2010 and 2009, INREIT owed \$53,253 and \$47,939, respectively, to Goldmark Property Management for security deposits maintained by INREIT, which were owed to Goldmark Property Management.

Construction Costs / Development Fees

During 2009 and 2008, INREIT incurred construction costs and development fees of \$2,194,519 and \$1,144,453, respectively, to Edgewood Development Group.

During 2010 and 2009, INREIT incurred construction costs of \$3,135,905 and \$1,638,850, respectively, to Goldmark Property Management.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 - 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>
2011	\$ 13,909,662
2012	13,038,060
2013	12,553,835
2014	12,215,987
2015	11,920,113
Thereafter	69,530,022
	<u><u>\$ 133,167,679</u></u>

Residential apartment units are rented to individual tenants with lease terms up to one year. Gross revenues from residential rentals totaled \$27,210,289, \$23,956,098, and \$13,578,743 for the years ended December 31, 2010, 2009, and 2008, respectively.

For the years ended December 31, 2010, 2009, and 2008, gross revenues from commercial property rentals, including CAM (common area maintenance) income of \$4,012,314, \$3,728,311, and \$3,368,908, respectively, totaled \$16,029,874, \$14,238,572, \$12,161,908. Commercial properties are leased to tenants under terms expiring at various dates through 2028. Lease terms often include renewal options.

NOTE 19 - 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 (5%). During 2010, 2009 and 2008, INREIT incurred property management fees of \$150,806, \$187,617 and \$189,145, respectively, to unrelated management companies.

During 2010, 2009 and 2008, INREIT incurred management fees of 5% of rents to INREIT Management, LLC; and Goldmark Property Management, a related party (Note 17).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20 - 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 maintains 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.

Tenant in Common Ownership

As a tenant in common, INREIT owns their respective share of the assets of the properties as well as being liable for their respective share of the debts. INREIT owned the following properties as a tenant in common.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

INREIT Properties, LLLP is the 100% owner of Grand Forks Inreit, LLC, which owns a 1/3 interest as a tenant in common of Grand Forks Marketplace Retail Center. INREIT Properties, LLLP is also the 50% owner of Marketplace Investors, LLC, which owns a 1/3 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. The property is encumbered by a non-recourse first mortgage with Key Bank Real Estate Capital with a balance at December 31, 2010 of \$12,222,900. As of December 31, 2010, INREIT owed \$6,111,450 for their respective share of the balance.

INREIT Properties, LLLP owns a 2/3 interest as a tenant in common of a commercial building with approximately 75,000 square feet of rental space in Fargo, North Dakota. The property is encumbered by a first mortgage with GE Commercial Finance Business Property Corporation with a balance at December 31, 2010 in the amount of \$7,682,846. As of December 31, 2010, INREIT owed \$5,121,897 for its respective share of the balance. INREIT along with the other tenant in common is jointly liable for the entire balance.

INREIT Properties, LLLP owns a 34.67% interest as a tenant in common of a 136 unit apartment complex located in Bismarck, North Dakota. The property is encumbered by Phase I and Phase II first mortgages with NorthMarq Capital with a balance at December 31, 2010 in the amount of \$2,846,676 and \$3,550,044, respectively. As of December 31, 2010, INREIT owed \$948,892 and \$1,183,348, respectively, for its share of the balances. INREIT along with the other tenant in common is jointly liable for the entire balance.

NOTE 21 - BUSINESS COMBINATIONS AND DISPOSALS

The Company continued to implement its strategy of acquiring properties in desired markets. It is impractical for the Company to obtain historical financial information on acquired properties and accordingly, proforma statements have not been presented.

The Company accounts for its property acquisitions by allocating the purchase price of a property to the property's assets based on management's estimates of their fair value. Techniques used to estimate fair value include an appraisal of the property by a certified independent appraiser at the time of acquisition.

The total value allocable to intangible assets acquired, which consists of unamortized lease origination costs, in-place leases and tenant relationships, are allocated based on management's evaluation of the specific characteristics of each tenant's lease and the Company's overall relationship with that respective tenant. Characteristics considered by management in allocating these values include the nature and extent of the existing business relationships with the tenant, growth prospects for developing new business with the tenant, the remaining term of the lease and the tenant's credit quality, among other factors.

The value allocable to above or below market component of an acquired in-place lease is determined based upon the present value (using a market discount rate) of the difference between (i) the contractual rents to be paid pursuant to the lease over its remaining term, and (ii) management's estimate of rents that would be paid using fair market rates over the remaining term of the lease. The amounts allocated to above or below market leases are included in lease intangibles, net in the accompanying balance sheets and are amortized on a straight-line basis as an increase or reduction of rental income over the remaining non-cancelable term of the respective leases.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2010 Purchases

During 2010, INREIT purchased a 14 unit apartment building in Hawley, Minnesota. The approximate purchase price was \$425,000.

During 2010, INREIT purchased a 5,034 square foot restaurant in Bloomington, Minnesota. The approximate purchase price was \$2,150,000.

During 2010, INREIT purchased a 5,068 square foot restaurant in Coon Rapids, Minnesota. The approximate purchase price was \$2,426,000.

During 2010, INREIT purchased a 4,936 square foot restaurant in Savage, Minnesota. The approximate purchase price was \$1,569,000.

During 2010, INREIT purchased a 14,830 square foot retail store in Laurel, Mississippi. The approximate purchase price was \$3,901,500.

During 2010, INREIT purchased a 6,248 square foot restaurant in Austin, Texas. The approximate purchase price was \$2,547,876.

During 2010, INREIT purchased a 144 unit apartment building in West Fargo, North Dakota. The approximate purchase price was \$6,624,000.

During 2010, INREIT purchased an 18 unit apartment building in Fargo, North Dakota. The approximate purchase price was \$844,000.

During 2010, INREIT purchased an additional 1.34% interest in a 172 unit apartment building in Bismarck, North Dakota. The approximate purchase price was \$121,239. INREIT had previously held a 1/3 interest in the property.

During 2010, INREIT purchased a 9,100 square foot commercial property in Mandan, North Dakota. The approximate purchase price was \$1,490,000.

During 2010, INREIT purchased a 24 unit apartment building in Fargo, North Dakota. The approximate purchase price was \$820,000.

During 2010, INREIT purchased an 18 unit apartment building in Fargo, North Dakota. The approximate purchase price was \$665,000.

During 2010, INREIT purchased an 18 unit apartment building in Fargo, North Dakota. The approximate purchase price was \$665,000.

During 2010, INREIT purchased a 16 unit apartment building in Fargo, North Dakota. The approximate purchase price was \$620,000.

During 2010, INREIT purchased a 20 unit apartment building in Fargo, North Dakota. The approximate purchase price was \$780,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During 2010, INREIT purchased a 20 unit apartment building in Fargo, North Dakota. The approximate purchase price was \$780,000.

During 2010, INREIT purchased a 24 unit apartment building in Fargo, North Dakota. The approximate purchase price was \$1,300,000.

Total consideration given for acquisitions in 2010 was primarily given in the form of cash, which totaled approximately \$17,421,000. Acquisitions with total consideration of approximately \$7,830,000 were completed through issuing units in the Company. Units issued in exchanged for property are determined through a value established annually by our Board of Directors, and reflects the fair value at the time of issuance.

The following table summarizes fair value of the assets acquired and liabilities assumed during the year ended December 31, 2010.

	Property and <u>Equipment</u>	In Place <u>Leases</u>	Favorable <u>Lease Terms</u>	Unfavorable <u>Lease Terms</u>	Mortgages <u>Assumed</u>	Consideration <u>Given</u>
Westside Apartments, Hawley, MN	\$ 425,000	\$ -	\$ -	\$ -	\$ -	\$ 425,000
Applebee's, Bloomington, MN	1,426,868	322,368	400,764	-	-	2,150,000
Applebee's, Coon Rapids, MN	1,617,328	326,155	482,517	-	-	2,426,000
Applebee's, Savage, MN	1,165,240	253,324	150,436	-	-	1,569,000
Buffalo Wild Wings, Austin, TX	2,238,329	376,657	-	(67,110)	-	2,547,876
Walgreens, Laurel, MS	3,623,441	335,865	-	(57,806)	(2,477,849)	1,423,651
Eagle Run, West Fargo, ND	6,624,000	-	-	-	-	6,624,000
Sierra Ridge, Bismarck, ND	121,239	-	-	-	-	121,239
Galleria III, Fargo, ND	844,000	-	-	-	-	844,000
Mandan Commercial, Mandan, ND	1,370,884	142,701	37,655	(61,240)	-	1,490,000
Maplewood Bend I, Fargo, ND	820,000	-	-	-	-	820,000
Maplewood Bend III, Fargo, ND	665,000	-	-	-	-	665,000
Maplewood Bend IV, Fargo, ND	665,000	-	-	-	-	665,000
Maplewood Bend VI, Fargo, ND	620,000	-	-	-	-	620,000
Maplewood Bend VII, Fargo, ND	780,000	-	-	-	-	780,000
Maplewood Bend VIII, Fargo, ND	780,000	-	-	-	-	780,000
Maplewood Bend Royal, Fargo, ND	1,300,000	-	-	-	-	1,300,000
	<u>\$ 25,086,329</u>	<u>\$ 1,757,070</u>	<u>\$ 1,071,372</u>	<u>\$ (186,156)</u>	<u>\$ (2,477,849)</u>	<u>\$ 25,250,766</u>

For one acquisition completed during 2010, the fair value of the identifiable assets acquired and liabilities assumed of exceeded the fair value of the purchase price of the business. Consequently, the Company reassessed the recognition and measurement of identifiable assets acquired and liabilities assumed and concluded that the valuation procedures and resulting measures were appropriate. As a result, the Company recognized a gain of \$608,500 associated with these acquisitions. The gain is included in the line item "Other income" in the Consolidated Statements of Operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2010 Divestitures

For the twelve months ended December 31, 2010, INREIT also divested of three properties for consideration received of approximately \$10,090,595 which resulted in a gain on disposal of these properties of approximately \$1,992,816. A summary of the results of operations of the discontinued properties are as follows:

	<u>Year Ended</u> <u>December 31, 2010</u>
Revenue	\$ 846,291
Expenses from rental operations	(721,701)
Administration of REIT	(313,325)
Other Income	784
Gain on disposal of property and equipment	<u>1,992,816</u>
Income from discontinued operations	<u>\$ 1,804,865</u>

Also included in income from discontinued operations was net income of \$49,486 related to assets held for sale as of December 31, 2010. Also see Note 23

2009 Purchases

During 2009, INREIT purchased a 102,448 square foot commercial office building in Edina, Minnesota, from an entity affiliated with James Echtenkamp, Ken Regan, Jim Wieland, and Dale Lian, related parties. The approximate purchase price of the building was \$13,100,000.

During 2009, INREIT purchased a 24 unit apartment building in Fargo, North Dakota, from an entity affiliated with James Wieland, a related party. The approximate purchase price of the building was \$750,000.

During 2009, INREIT purchased a 142 unit apartment building in Omaha, Nebraska. The approximate purchase price of the building was \$9,220,000.

During 2009, INREIT purchased a 14,820 square foot retail building in Batesville, Arkansas. The approximate purchase price was \$7,350,000.

During 2009, INREIT purchased a 14,550 square foot retail building in Fayetteville, Arkansas. The approximate purchase price was \$5,730,000.

During 2009, INREIT purchased an 18 unit apartment building in Fargo, North Dakota. The approximate purchase price of the building was \$681,822.

During 2009, INREIT purchased a 48 unit apartment building in Fargo, North Dakota. The approximate purchase price of the building was \$1,818,178.

During 2009, INREIT purchased a 14,560 square foot retail building in Alexandria, Louisiana. The approximate purchase price was \$3,788,265.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Total consideration given for acquisitions in 2009 was primarily given in the form of cash, which totaled approximately \$18,257,000. Acquisitions with total consideration of approximately \$5,523,000 were completed through issuing units in the Company. Units issued in exchanged for property are determined through a value established annually by our Board of Directors, and reflects the fair value at the time of issuance.

The following table summarizes fair value of the assets acquired and liabilities assumed during the year ended December 31, 2009:

	<u>Property and Equipment</u>	<u>In Place Leases</u>	<u>Favorable Lease Terms</u>	<u>Unfavorable Lease Terms</u>	<u>Mortgages Assumed</u>	<u>Consideration Given</u>
Stonybrook Apartments (Nebraska)	\$ 9,640,000				\$ (6,058,632)	\$ 3,581,368
Regis Building (Minnesota)	10,593,559	2,824,326		(317,885)	(10,450,853)	2,649,147
Walgreens (Arkansas)	6,611,253	682,712	56,035			7,350,000
Walgreens (Arkansas)	5,288,449	539,363		(97,812)		5,730,000
Maplewood Bend Apts. (N. Dakota)	1,431,821					1,431,821
Hunter Apartments (N. Dakota)	1,818,178					1,818,178
Walgreens (Louisiana)	3,555,730	313,179		(80,644)	(2,569,193)	1,219,072
	<u>\$ 38,938,990</u>	<u>\$ 4,359,580</u>	<u>\$ 56,035</u>	<u>\$ (496,341)</u>	<u>\$ (19,078,678)</u>	<u>\$ 23,779,586</u>

For two acquisitions completed during 2009, the fair value of the identifiable assets acquired and liabilities assumed of exceeded the fair value of the purchase price of the business. Consequently, the Company reassessed the recognition and measurement of identifiable assets acquired and liabilities assumed and concluded that the valuation procedures and resulting measures were appropriate. As a result, the Company recognized a gain of \$871,735 associated with these acquisitions. The gain is included in the line item "Other income" in the Consolidated Statements of Operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2009 Divestitures

During 2009 there were no property dispositions.

NOTE 22 - OTHER COMPREHENSIVE LOSS

The details related to other comprehensive loss are as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net income	<u>\$ 7,612,575</u>	<u>\$ 6,350,999</u>	<u>\$ 3,698,147</u>
Other comprehensive income (loss)			
Increase (decrease) in fair value of interest rate swap	<u>(26,167)</u>	<u>117,518</u>	<u>(285,850)</u>
Total other comprehensive income (loss)	<u>(26,167)</u>	<u>117,518</u>	<u>(285,850)</u>
Comprehensive income	<u>7,586,408</u>	<u>6,468,517</u>	<u>3,412,297</u>
Comprehensive income attributable to the noncontrolling interest	<u>5,720,577</u>	<u>5,085,096</u>	<u>2,524,604</u>
Comprehensive income attributable to INREIT Real Estate Investment Trust	<u>\$ 1,865,831</u>	<u>\$ 1,383,421</u>	<u>\$ 887,693</u>

NOTE 23 - SUBSEQUENT EVENTS

Subsequent to year-end, INREIT declared a dividend of \$0.20125 per share to shareholders of record as of March 31, 2011, to be payable in April 2011.

In January and March 2011, the Company also acquired the following properties for which purchase price allocation is not yet finalized. The total consideration is indicated below:

- Applebee's restaurant in Apple Valley, MN for approximately \$2.5 million
- Sierra Ridge apartments in Bismarck, ND for approximately \$6.5 million

In January 2011, the Company entered into an agreement to sell its Golden Estates senior living property in Williston, North Dakota for \$1.45 million and accordingly presented the following items as assets held for sale and related liabilities on assets held for sale. Income from this property of \$49,486 for the year ended December 31, 2010 has been included in income from discontinued operations. The sale of this property was completed on April 1, 2011.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Property and equipment, net	\$ 1,092,109
Restricted deposits and funded reserves	23,509
Assets held for sale	<u>\$ 1,115,618</u>
Real estate taxes payable	\$ 24,553
Security deposits payable	23,509
Liabilities on assets held for sale	<u>\$ 48,062</u>

INREIT has evaluated subsequent events through April 22, 2011, the date which the financial statements were issued.





INREIT Real Estate Investment Trust seeks to consistently increase the value of our diversified investment portfolio through aggressive management, quality, and attractively valued acquisitions.



Front Cover: Applebee's Grill & Bar located in Coon Rapids, MN.

Page 4: Sierra Ridge Apartments located in Bismarck, ND.

Page 8: Buffalo Wild Wings located in Austin, TX. (Acquired July 2010).

Page 12: Foyer of the Regis Building located in Edina, MN.

Page 14: Walgreens located in Laurel, MS. (Acquired July 2010).

Left: Family Dollar Store located in Mandan, ND.

Goldmark Office Building located in Fargo, ND.

Best Buy Store located in Grand Forks, ND.

Bank of the West Building located in Fargo, ND.

INREIT Real Estate Investment Trust. All rights reserved. The tenants and properties pictured have been acquired by INREIT Real Estate Investments. INREIT is not affiliated or associated with, is not endorsed by, does not endorse, and is not sponsored by or a sponsor of the tenants or of their products or services pictured or mentioned. The names, logos and all related products and service names, design marks, and slogans are trademarks or service marks of their respective companies.



1711 Gold Drive South, Suite 220, Fargo, ND 58103 Office 701-478-8110

216 South Broadway, Suite 202, Minot, ND 58701 Office 701-837-1031 Toll Free 1-877-269-1031

www.inreit.com