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Monthly Financial Reporting

Monthly Reporting Checklist
The monthly reporting requirements are listed in the Monthly Reporting Checklist. In order to minimize the number of reports submitted by the Property Manager, IIT will pull information directly from Yardi whenever possible. Therefore, the Property Manager will maintain budget to actual variance comments for income, expense and capital items, as well as AR collection notes, directly in Yardi.

However, some Yardi reports are dynamic and must be run by the Property Manager. Others, such as balance sheet support schedules and bank reconciliations, are maintained outside of Yardi. The Monthly Reporting Checklist designates the reports that are to be submitted electronically to the IIT Senior Accountant on a monthly or as requested basis.

The checklist cover sheet is to be approved by the Property Manager and Property Accountant. An electronic version is included in the Forms section.

Balance Sheet Support Schedules
Standardized schedules are provided in the Forms section.
Monthly Reporting Checklist

Industrial Income Trust

MONTHLY REPORTING CHECKLIST

ENTITY #: ____________________________

PROPERTY: ____________________________

MONTH UNDER REVIEW: August, 2012

All items below must be checked upon completion
Submit items to IT as noted

- [ ] In Year Monthly Property Review Checklist
- [ ] In Year Building Level Income Statement & Capital Expenditures Actual vs. Budget Variance
  - Budget Narrative Report (Monthly Reporting section of Yardi Manual)
  - Yardi Basics: Actual
  - Yardi Account Tree: ye, M
  - Variance Threshold: $5,000 and 5%
- [ ] In Year Balance Sheet review
  - 12 Month Balance Sheet (Monthly Reporting section of Yardi Manual)
  - Accounts performed/true-up
  - Prepaid amortization recorded
  - Supporting schedules tie to Balance Sheet?
  - Yardi Security Deposit Summary report ties to GL?
- [ ] In Year Balance Sheet Support Schedules
- [ ] In Year Review Rent Roll and verify that total monthly rent ties to the Income Statement
- [ ] In Year Review Bank Statements and Bank Reconciliations
  - Submit bank reconciliation, statement, and GL to IT
- [ ] In Year Review Check registers for correct coding, potential cap items, etc.
- [ ] In Year Review Capital Items
  - Attach capital invoices in Yardi through the AP module
  - Submit a schedule detailing all CP expenses and % of completion to IT
  - Ensure completed projects are reflected in CP and the appropriate capital account
- [ ] In Year Management Fee Summary & Detail Register Reports
  - Submit to IT for review (Monthly Reporting section of Yardi Manual)
- [ ] In Year Review of AP Aging including:
  - Analysis on aging. Include delinquency memo on items over 60 days.
  - Does aging tie to Balance Sheet, including any prepayments?
  - Write-offs should be submitted to IT. Attach the IT Write Off item and Aging report (including delinquency memo narrative)

PROPERTY MANAGER: ____________________________

PROPERTY ACCOUNTANT: ____________________________

REVIEWED BY: ____________________________

IT
Lease Routing Process

IIT requires that all documents related to leasing adhere to the following steps in order to maintain consistent approval and recording of such documents. These could include, but are not limited to leases, amendments, assignments, guarantees, lender approvals, commencement letters, notices etc.

- The Property Manager or Leasing Broker will send IIT Asset Management at least 3 partially executed documents. For leases and amendments, copies of the tenant’s insurance certificate, first and last month’s rent, the security deposit and the Letter of Credit (if applicable) need to be included.

- Upon lease execution, IIT asset management will send a copy of the fully negotiated document to the Property Manager along with the Lease Processing Workbook (sample attached to this correspondence).

- The Lease Processing Workbook contains the following items:
  - Lease routing control sheet
  - Commission calculator
  - PM checklist
  - Asset Manager checklist

- IIT Asset Management will complete the following items prior to sending the Lease Processing Workbook:
  - Lease routing control sheet
  - Commission calculator
  - Asset manager checklist

- Property Manager will complete the PM Checklist in the Lease Processing Workbook. Once completed, the PM will sign the Lease Routing Control Sheet and send the entire Lease Processing Workbook back to IIT Asset Management.

- Once the Workbook is received from the PM, the Lease Profile is reviewed by IIT Asset Management and Accounting and any necessary changes are made.

- The entire package including lease documents, processing workbook, and lease profile are reviewed by IIT asset management and approved if complete.
- Once approved by IIT AM, a signed copy of the Lease Processing Workbook will be sent to the PM for their records and IIT Lease Administrator will activate the lease/amendment in Yardi.
Tenant Move-in / Move-out Policy

**Tenant Move-In Inspection**
Prior to the tenant moving in, the Property Manager will accompany a representative of the tenant on a walk-through of the suite. During this walk-through a Move-In inspection form (form attached to this document) will be completed and associated photographs will be taken. Photographs should generally be taken of each individual space in the building and along the exterior. Any pre-existing conditions that the Property Manager and tenant would like documented will also be photographed. Photographs (on CD) and inspection form will be delivered to tenant for acceptance and should be signed by both Property Manager and tenant. The signed form should be emailed to IIT Asset Management and filed.

**Tenant Move-Out Inspection**
At least 30 days prior to a move-out the Property Manager will accompany a representative of the tenant on a walk-through of the suite. During this walk-through, a Move-Out inspection form (form attached to this document) will be completed and associated photographs will be taken. Once the tenant has removed all their items from the space, the PM will accompany the tenant on another walk-through to note any additional items that were not seen during the initial walk-through. (See General Tenant Move-Out Requirements)
The PM should have a contractor present at the inspection to provide a written proposal for any work that the tenant is expected to complete by the time the lease expires. It’s important that the Tenant receives a copy of this proposal accompanied by written correspondence from the Landlord outlining the expectations so it’s clear to all parties that there’s work to be done. Any work not completed will be deducted from the security deposit and/or billed back to tenant.

Photographs should generally be taken of each individual space in the building and along the exterior. Any conditions that the Property Manager and tenant would like documented will also be photographed. Photographs (on CD) and inspection form will be delivered to tenant for acceptance and should be signed by the tenant. The signed form should be emailed to IIT Asset Management and filed.

**Security Deposit Refund Policy**
Upon move-out, deductions from the security deposit should include:
- Unpaid monthly charges (CAM, TAX, Rent, etc)
- CAM Reconciliation charges
- Repairs

The tenant should not be billed for any of the above, unless the security deposit has been exhausted and there is still a balance remaining.

To accompany the Security Deposit Application/Refund Form, the Property Manager is also required to calculate a CAM reconciliation and maintain sufficient support by use of a Support Documentation list. This list can be found as a supplemental document with the Security Deposit Application/Refund Form. In order to aid the Property Accountant with the review process, a CAM invoice and
CAM support should include the Tenant’s Ledger billed charges as compared to their prorated share of operating expenses, as well as, an operating expense detail report for actual expenses. These items can be compared to determine whether or not the tenant owes or is due a refund on CAM charges. To verify higher risk expenses, it will be important to ensure property taxes are updated and charged appropriately.

The PM will need to obtain a final recoverable capital summary to ensure any recoverable capital items the tenant is responsible for have been included in the final reconciliation as well.

Once the CAM reconciliations have been completed and the Security Deposit Application/Refund Form is filled out, the package should be sent to IIT Asset Management for review. The form needs to be signed-off by the Property Manager, IIT Accounting and IIT Asset Management before any funds can be released to the tenant.

A letter to the tenant should be drafted and sent with the Security Deposit refund. Include a copy of the signed Security Deposit Application/Refund Form, Move-Out Inspection Form, and any other backup documentation.

**Vacancy Standards**

Upon tenant move-out or for any vacant suites within the building, ensure the items found on IIT’s Vacancy Standard checklist are addressed. For any additional items (i.e. removing walls, adding offices, replacing carpet, fixtures, etc), please check with IIT Asset Management for approval. Upon approval from Asset Management, see IIT’s Tenant Finish Building Standards for specific finishes and materials.
Tenant Insurance Requirements

IIT requires the Property Manager to obtain a COI from each tenant to insure
- The tenant is meeting the insurance thresholds per their lease
- IIT is named as additional insured
- The COI has not expired

Once everything is verified, the Property Manager should enter the specifics into Yardi and upload a copy of the COI.

Below is IIT’s standard insurance requirements (from our Standard Lease Form); however, these may have changed during lease negotiations so be sure to verify with the actual lease.

Tenant, at its sole cost and expense, shall procure and maintain throughout the Lease Term the following policies of insurance:

- property insurance causing Tenant's leasehold improvements and business personal property (sometimes also referred to as "fixtures and contents") in the Premises to be insured under the broadest available special form of property coverage, sometimes referred to as "all-risk" coverage (such as the form identified as CP 10 30, and any successor form, published by Insurance Services Office, Inc.), with provisions and/or endorsements assuring both mold coverage and terrorism coverage, such insurance coverage (i) to be in the full amount of the replacement cost of all insured property, (ii) to include coverage for the loss of business income, in an amount not less than 75% of Tenant's estimated gross annual income at the Premises, (iii) to contain no deductible or self-insured retention in excess of $5,000.00, and (iv) to contain no coinsurance penalty clause; and
- combination of commercial general liability and umbrella insurance insuring both Landlord and Tenant against all claims, demands or actions for bodily injury, property damage, personal and advertising injury, and medical payments arising out of or in connection with Tenant's use or occupancy of the Premises, or by the condition of the Premises, including environmental coverage, with a limit of not less than $10,000,000 per occurrence and aggregate (and no offset for occurrences on property other than the Premises), and with coverage for contractual liability; and
- worker's compensation insurance insuring against and satisfying Tenant's obligations and liabilities under the worker's compensation laws of the state where the Premises is located, together with employer's liability insurance in an amount not less than $1,000,000.00; the full limits of insurance are to apply per location; and
- automobile liability insurance covering all owned, non-owned, and hired vehicles with a $1,000,000 per accident limit for bodily injury and property damage; and
- during any period when construction work is being done in or on the Premises, such additional insurance as Landlord may require pursuant of this Lease.

If, in the opinion of Landlord's insurance advisor, the amount or scope of such coverage is deemed inadequate at any time during the Lease Term, Tenant shall increase such coverage to such reasonable amounts or scope as Landlord's advisor deems adequate. All insurance procured and maintained by Tenant shall be written by insurance companies satisfactory to Landlord which are licensed to do business.
in the state in which the Project is located with a general policyholder's rating of not less than A and a financial rating of not less than Class VIII, as rated in the most current edition of Best's Key Rating Guide. With the exception of the insurance prescribed in subsection (c) above, Landlord and Landlord's lender(s), ground lessor (if any) and property manager shall be named as additional insured under all insurance maintained by Tenant, and Tenant shall obtain waivers of subrogation in favor of Landlord as its interests may appear, as specified in Section 17.3 below; moreover, Tenant shall obtain a written obligation on the part of each insurance company to notify Landlord at least thirty (30) days prior to cancellation of such insurance. The required insurance policies, or in the alternative duly executed certificates of insurance on ACORD Form 28, with specific notice of cancellation endorsement language, or any successor to such form. 

**NOTE:** ACORD Form 28 can be modified to include liability coverage as well as property coverage; ACORD Form 25 will not be acceptable. shall be promptly delivered to Landlord, and renewals thereof as required shall be delivered to Landlord at least thirty (30) days prior to the expiration of the respective policy terms. If Tenant should fail to comply with the foregoing requirements relating to insurance, Landlord may obtain such insurance and Tenant shall pay to Landlord on demand as Additional Rent hereunder the premium cost thereof plus interest as provided in Section XX. Tenant hereby acknowledges and agrees that any such payment and interest shall be payable immediately on demand as Additional Rent and that the same are cumulative with, and do not supersede or reduce in any way, Landlord's rights as specified in of this Lease.

**Landlord Insurance**

A copy of the landlord's insurance certificate can be requested from IIT Asset Management if needed.

**Loss Notice Form**

The Property Manager must submit a Loss Notice Form (form attached to this document) to IIT Asset Management for all incidents that occur at the property. The form must be submitted within 24 hours of the incident. Make sure to include pictures of the damage, if applicable, with the form.
Property Tax Consulting Procedures

Marvin F. Poer & Company has been selected as IIT’s Property Tax Consultants. The goal is to create value through efficiency and processes, provide property tax valuation expertise, determine the best tax minimization strategies, appeal property taxes timely and provide property tax data for budgeting purposes.

Local Market Presence and Expertise
The Property Manager will work with the local Poer representative on all aspects of the property tax process. This will include information requests and data collection requirements as applicable. In addition, the Property Manager will use Poer as a resource for yearly budgeting of property taxes and additional supplemental taxes.

Services Provided
Poer will perform 3 services for IIT. The first service will be an assessment review for a determination of value at each of the IIT locations. The cost has been waived. The other property taxes account should be charged. The second service will be the real property assessment appeals. This will require Poer to perform appeals on properties where prior or current tax liabilities can be lowered. The charge for this will be a contingency fee of 20% of the first year’s tax savings. The contingency fee will be paid as soon as a letter of reduction of taxes or actual tax refund has been received. The fee will reduce the net tax benefit, with the remainder being refunded to the tenant if the tenant was in the property during the tax period. The final service is the secure/audit/transmit tax bills service. This service is $250.00 per location and can be recovered by the tenant. The service will allow Poer to manage the flow of the property tax payments and audit each tax bill as it becomes due. The Property Manager will still have the responsibility of the paying the actual tax bill, however this service will ensure accurate tax bills and timely payments.

Payment Process
All property tax bills will be sent from the taxing authority directly to Poer for securing, auditing, and transmitting. In addition to the tax bills, all other relevant information from the taxing authority will also need to be sent directly to Poer. Once Poer receives a tax bill, it will be secured, audited, and transmitted to the Property Manager for payment. The Property Manager will need to sign off on the information provided by Poer and make the payment. All property tax questions should be directed to the Poer local representatives.

Client Connect v2
Client Connect v2 is a web based reporting tool that each Property Manager can access to aid in managing values, filing deadlines, appeals, Property characteristics, tax authority profiles and calendars. This will allow us to make better informed business decisions regarding property taxes.
Sales Tax

The cash and rental revenue received at properties in Arizona and Florida are subject to sales tax. Both sales tax revenue and expense will be recorded to GL account 21507-000 Accrued Sales Tax. Sales tax charged in Yardi via charge code “stx” is directly mapped to the accrued sales tax account.

The state of Florida offers a 2.5% or $30 maximum discount for completing a sales tax return. This discount should be recorded to 44020-000 Other Miscellaneous Income.

The accrued sales tax account should be reconciled monthly.

Franchise Taxes

Various states impose certain taxes that may be recoverable under a tenant’s lease. Texas and Tennessee franchise taxes are the most prevalent of these state taxes, but the recoverability is determined on a lease by lease basis. These taxes should be expensed to 61120-000 Franchise Taxes if they are recoverable, and 68187-000 NR Franchise Tax if non-recoverable. Since this expense can vary significantly among the tenants within a single building, it is essential that the leases are set up in Yardi accordingly to exclude or include the tax expense (see Yardi Recovery section). Also, at CAM reconciliation, an expense adjustment may be necessary to adjust the amount to be recovered from a tenant (refer to Yardi Recovery section for expense adjustments).

As a general rule, if the taxes can be recovered by one or more tenants within a building the tax expense should be recorded to the recoverable account, and adjusted as needed via the expense adjustment function. Expenses coded to the non-recoverable account should consist entirely of non-reimbursable amounts.
Budget Process

A budget must be created for each building upon acquisition and annually. IIT prefers to have a budget for each building even if it is within a park. Contact IIT Asset Management if you have questions on whether a budget should be created by building or by park.

Budget Timing:

New Acquisitions:
- Preliminary budgets must be created no later than ten days following the close date.
- Final budgets must be approved and finalized no later than thirty days following the close date.

Annual Budgets:
- By approximately August 15th
  - IIT AM and the leasing brokers will determine the Leasing Assumptions for the budget
  - IIT AM and the property managers will determine the Capital Projects for the budget
  - Once finalized, IIT will upload the Leasing and Capital Assumptions into Yardi
- By approximately September 15th
  - Preliminary budgets are due
  - Property Managers should enter all expenses, run recoveries and include their comments in Yardi
  - The PM should notify IIT AM and Accounting when the budget is ready to be reviewed and provide any additional back-up not already in Yardi
- Between September 15th – October 31st
  - Budgets will be reviewed by IIT AM & Accounting and comments/questions will be entered into Yardi
- By approximately October 31st
  - Final budget are due
  - Budgets must be signed off by PM, IIT AM and IIT Accounting

- See IIT Budget Workflow
Operating Revenue and Expenses, Lease Assumptions, Capital Projects

IIT policy requires adequate support for revenue, expenses, capital projects, and non-recoverable costs. The Property Manager will ensure the following revenue categories are entered as applicable: Base Rent, Other Base Rent, Recoverable CAM, Recoverable Insurance, Recoverable Real Estate Tax, Recoverable Management Fee, and Other Revenue. In addition, the following expenses will also need to be entered: Property taxes, Insurance, Utilities, Recoverable/Non-recoverable CAM, Capital costs, Tenant Improvements, and Leasing costs.

IIT is responsible for entering the following categories into the budget as applicable: Straight Line Rent, Above/Below Market Rent, Interest Expense, Depreciation and Amortization.

Comments pertaining to budgeted line items can be entered in Yardi by the Property Manager. This report can provide valuable information related to the income and expenses of a building.

Budget Review and Approval

Once the budget is complete and ready for final review, please notify IIT Accounting and the Asset Manager for sign off. Please include in your correspondence additional notes or spreadsheets. IIT will review the budget paying particular attention to the recoverable revenue versus the recoverable expenses for accuracy and general likeliness. In addition, IIT will ensure the capital expenditures are fully recoverable from the tenant based on the lease abstracts. Once the Property Accountant signs off on the budget, the Asset Manager will also review for any additional items before final VP approval.

Once the budget is marked final, it will be locked in Yardi where changes can no longer be made.
**Direct Bills**

Direct billable items are typically a one-time or non-recurring, direct pass through of expenses. These expenses are paid by IIT, but billed to the tenant for immediate reimbursement. Examples include initial utility payments, one-time repairs, move-out repairs, or other payments as specified by the lease.

Direct billable income should always have a corresponding direct billable expense in the same period. The direct billable income and expense accounts should be reconciled monthly as part of the close process. Any outstanding items identified within the close process should be accrued as expense or income. It is assumed the expense will be paid or the customer will be billed in the following month, therefore, the journal entry should be reversing in order to avoid recording the expense or income twice. Additionally, the Property Accountant should follow up on any outstanding invoices.

To charge a tenant for a direct billable item, create a charge to “der” in Yardi. Charge code “der” is mapped directly to GL account 43140-000 Direct Billable Revenue.

To accrue direct billable income if the direct billable expense exists:

<table>
<thead>
<tr>
<th>Entity</th>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>5XXXXX</td>
<td>12127-000 A/R - Other Tenant</td>
<td>XXX</td>
<td></td>
</tr>
<tr>
<td>5XXXXX</td>
<td>43140-000 Direct Billable Revenue</td>
<td></td>
<td>XXX</td>
</tr>
</tbody>
</table>

Direct billable invoices should be coded to 64190-000 Direct Billable Expense.

To accrue for direct billable expense:

<table>
<thead>
<tr>
<th>Entity</th>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>5XXXXX</td>
<td>64190-000 Direct Billable Expense</td>
<td>XXX</td>
<td></td>
</tr>
<tr>
<td>5XXXXX</td>
<td>21215-000 Accrued Other Operating Exp</td>
<td></td>
<td>XXX</td>
</tr>
</tbody>
</table>
IIT Banking and Cash Management Policies

**Check Signors**
Electronic signatures for checks less than $5,000 may be used. Checks that are in excess of $5,000 must have a manual signature. Checks that are greater than $15,000 require two manual signatures. If the Property Management Company maintains different check signing policies, IIT will allow the policy if it is more restrictive (I.E. The Property Management Company requires two manual signatures for checks greater than $5,000).
Please utilize the Property Manager Personnel Template that was provided with the Welcome Letter to identify authorized check signors. Please fill in the template and return to the Property Accounting Department for processing.

**Wire Transfers**
Wire transfers access will not be available to the Property Management Company.

**ACH Payments/Electronic Checks**
ACH payments and electronic checks are allowed by the Property Management Company. When paying by ACH or electronic check, please notify the IIT Accounting Department to ensure the ACH or electronic check vendor is properly set up with the Bank. An ACH company ID number, which generally is a 10 numeric or alpha numeric digits, is required by the Bank, to set up an authorized vendor for these payments. If an ACH company ID is not easily identifiable, contact the IIT Accountant to ensure the transaction is released for payment.

**Online Bank Access**
Online access to view lockbox and banking activity for the property accounts will be provided. Please utilize the Property Manager Personnel Template provided with the Welcome Letter to identify the individuals needing access to online banking. Please fill in the template and return to the IIT Property Accounting Department for processing.

**Zero Balance Accounts**
All property bank accounts operate as zero balances (ZBA), unless otherwise noted. These accounts are attached to IIT operating accounts and will fund to and be funded from the corporate operating accounts each day.

**Bank Statement Cutoff**
In order to facilitate the monthly property cut-off process, bank statements will cut-off on the 25th of each month for reconciliation and reporting purposes. If the 25th falls on a weekend or holiday, the cut-off will be the first business day immediately following the 25th of the month.
Accounts Receivable Collection Policy

Unless the tenant’s lease stipulates otherwise, rent is due either to the lockbox or via wire or ACH to the property’s operating account on the first of each month. If payment is not received on the due date, the following action items should be taken until rent or resolution is achieved.

<table>
<thead>
<tr>
<th>Day</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>5th</td>
<td>1st call to tenant</td>
</tr>
<tr>
<td>10th</td>
<td>2nd call to tenant</td>
</tr>
<tr>
<td></td>
<td>* Property Manager to inform IIT at this time of outstanding payment</td>
</tr>
<tr>
<td>15th</td>
<td>Tenant is notified via fax and U.S. Mail that rent has not been received and that if payment is not received by the 20th of the month, action will be taken (including legal) to protect the asset of the Landlord (demand letter is below and attached to this document).</td>
</tr>
<tr>
<td>20th</td>
<td>Upon approval of IIT Asset Management, Property Manager to notify Tenant that payment has not been received and a Notice to Pay or Quit (or jurisdictional equivalent) will be served on the next day.</td>
</tr>
<tr>
<td>21st</td>
<td>Notice to Pay or Quit (or jurisdictional equivalent) delivered to tenant.</td>
</tr>
<tr>
<td>Unlawful Detainer Action:</td>
<td>If payment not received from tenant in the given time frame (i.e., 3 days), package sent to IIT in house counsel for direction Unlawful Detainer Action. Note: Property Manager must notify IIT Asset Management that lockout date is provided.</td>
</tr>
<tr>
<td>Collection:</td>
<td>Depending on financial condition of tenant, account may be sent to Collections. IIT Accounting Department will follow internal policy for establishing or writing off of account balance.</td>
</tr>
</tbody>
</table>
DEMAND LETTER TEMPLATE

SENT VIA:
CERTIFIED MAIL - RETURN RECEIPT REQUESTED
OVERNIGHT SERVICE, US MAIL

NOTE: CONFIRM NOTICE REQUIREMENTS UNDER LEASE

INSERT DATE

INSERT TENANT ADDRESS

NOTE: CONFIRM NOTICE REQUIREMENTS UNDER LEASE

NOTICE OF DEMAND FOR PAYMENT

RE: Lease dated ______________ (as amended, the “Lease”) by and between ________________, a Delaware limited liability company (“Landlord”), as successor in interest to __________, and _______________, a ______________ (“Tenant”), as amended by that certain ________________ on ______________, by and between _______________, a _______________, and _______________, for the leased property (the “Premises”) located at ________________, which Lease was personally guaranteed by ________________ pursuant to that certain ________________ dated ________________ (the “Guaranty”).

Dear ____________:
Please be advised that Tenant has not timely paid base rent and expenses for ______________, which was due ________________ as obligated under the Lease. Demand is hereby made for immediate payment of the sum of ________________ (the “Past Due Amount”) to Landlord, which amount includes ________________ in base rent and expenses, ____________ in late fees and ____________ in interest.
Non-payment of the Past Due Amount within ____ days after receipt/delivery of this notice shall constitute a Default/an Event of Default under the Lease. Additionally, Landlord can and will assess any applicable late fees, penalties, and interest if the Past Due Amount is not received with in such ____ day period.
Further, Tenant is hereby reminded of its payment, performance and other obligations under the terms and conditions of the Lease, and Landlord hereby reserves all of its rights to enforce any and all such obligations under the Lease and the Guaranty and all of Landlord’s rights at law or in equity with respect thereto. This letter shall not constitute a waiver of any such rights in any respect or a consent to any default by Tenant under Lease.
We encourage you to make every effort to comply with the terms of your Lease.
Regards,
INSERT IIT ENTITY
By: INSERT PROPERTY MANAGER ENTITY
A ______________, its authorized agent

INSERT NAME, TITLE
Cc: ASSET MANAGEMENT, LEGAL, ACCOUNTING
Allowance for Bad Debts

ESTABLISHING AN ALLOWANCE FOR BAD DEBT

We have established an allowance for bad debt policy for tenant receivables which are deemed uncollectible. The criteria for establishing an allowance for bad debt is as follows:

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Policy</th>
</tr>
</thead>
</table>
| Accounts receivable balances for Tenants with amounts > 90 days excluding CAM reconciliation billings | • Apply deposit to receivable  
• Reserve 100% of remaining balance |
| The following has happened or is imminent:  
  • The tenant has declared bankruptcy;  
  • The tenant has vacated the space early; or  
  • The tenant has been evicted. | • Apply deposit to receivable  
• Reserve 100% of remaining balance |

Each month the Aged Delinquencies report will be reviewed to identify tenants with balances that meet the criteria.

Upon determining that an allowance should be created for a tenant’s receivable, an allowance is recorded for the amount assumed to be uncollectible less any security deposit held and any TI work or other non-income charges. IIT will record the journal entry as follows:

Debit account 68120, Bad Debt Expense  
Credit account 12130, Allowance for Doubtful Accounts

Lines of Credit are not applicable in determining an allowance for Uncollectible AR.

If the tenant has a straight line rent balance, then the entire balance should be reserved each month as well. IIT will record a journal entry as follows:

Debit account 42115-002, Straight Line Rent adjustments  
Credit account 12130, Allowance for Doubtful Accounts

The Property Manager should continue to bill the customer and continue straight line rents until the space is vacated or conditions described under “Cease Revenue Recognition” below are met. To postpone the recognition of additional revenue from a tenant after their entire account has been deemed uncollectible, additional income associated with that tenant in the month the income is generated should also still be reserved.

The only exceptions to this policy would be in the event a signed check is received in hand or the bank has an ACH wire pending. In addition, an allowance on the
general ledger would not applicable for any balances over 90 days for a Government entity.

**Cease Revenue Recognition:**
Pursuant to SAB Topic 13.A, we will cease recognizing revenue for leases once events occur that cause us to determine that the collection of amounts receivable is not “reasonably assured.” However, we must exercise professional judgment in accordance with the factors and considerations discussed above, as these guidelines will inevitably fail to sufficiently address all facts and circumstances.

Billing of the tenants from an accounting perspective shall cease and all receivable / intangible balances shall be written-off when the following condition(s) is met:

1. The tenant has been evicted/locked out;
2. The tenant has vacated the space early;
3. The tenant has declared bankruptcy; or
4. The tenant has not made a substantive payment within the last 180 days (excluding CAM receivables).

**Write off of Uncollectible Receivables:**
Once we cease recognizing further revenue from a specific tenant, we shall write-off from an accounting perspective all amounts fully reserved for in accordance with the allowance for bad debt policy.

After all collection efforts have been exhausted and a recovery is not eminent, a write-off of the accounts receivable balance is appropriate. An A/R Authorization Write-Off Form should be completed by the Property Manager. The Property Manager’s signature is sufficient approval if the balance does not exceed $1,000.00. For an amount over $1,000.00 but less than $25,000.00, the signature of the Asset Manager is also required before the write off can be performed. For amounts over $25,000, a signature from the SVP of Asset Management is required.

To write off bad debts, Property Manager should enter a charge to the GL to record the bad debt for the entire amount that is to be written off. For bankruptcy related write offs, enter a charge to the GL to record the bad debt for the entire amount that is to be written off. Since, bad debt accruals are set up as reversing journal entries, the Property Manager will need to notify the property accountant to reverse any outstanding journal entries related to the write off.

The Property Accountant should ensure that any security deposits that have been re-billed and are still outstanding are reversed prior to the customer’s account being written off. Any damages that are not going to be repaired and have been billed directly to the customer should be reversed prior to the customer’s account being written off and the offsetting invoices should be reclassed to non-recoverable.

Prepetition receivables (amounts due before the customer filed for bankruptcy) should be written down to $1 until the bankruptcy case has closed. This allows a
red flag as to a pending bankruptcy and allows amounts written off due to the bankruptcy to be tracked separately.

**Payment of Receivables that have been Written Off**
If a payment is received on a receivable that has been written off, the Property Manager should bill the amount of the payment on the tenant ledger to a bad debt recovery account or bad debt bankruptcies account and have the AR applied accordingly.
Cost Capitalization Policy

**Purpose**
The following memo sets forth our policy for the recognition and measurement of deferred costs (i.e. capitalized costs) incurred related to our operating real properties. This memo does not include our policy regarding purchase price accounting as prescribed by Accounting Standards Codification ("ASC") Topic 805, *Business Combinations*, nor does it contemplate “ground-up” construction and development projects. However, this memo would apply to “value-add” and “redevelopment” properties whereby we may engage in significant renovation or leasing activities that may cause us to incur significant capitalized costs.

**Capitalize versus Expense Decision**

**General Concept**
Costs incurred during operation consist of additions, improvements, alterations, rehabilitations, replacements, repairs, etc. Pursuant to ASC Topic 970-360, *Real Estate—Property, Plant, Equipment*, such costs should be capitalized when they appreciably extend the life, increase the capacity or improve the efficiency or safety of the property and should be expensed when they do not. In addition, direct costs incurred to rent operating property shall be deferred and amortized over the life of the related lease.

**Consideration of Repair and Maintenance Activities**
Repair and maintenance activities shall be expensed as incurred. It is imperative that discretion be exercised to appropriately recognize the distinction between repair and maintenance activities and activities that qualify for capitalization. Repair and maintenance activities serve to maintain the value and life expectancy of an asset and do not directly improve the value or extend the life of an asset.

Often in practice, commercial real estate professionals may erroneously refer to expenditures as “capex” or “repairs” without regard to the true accounting definition of the expenditure. It is critical that the decision to capitalize or expense expenditures be based on the facts and circumstance surrounding that expenditure and not necessarily on the description ascribed to the expenditure by a project manager. For example, an asset manager may commonly refer to the replacement of HVAC system as a “repair” when, in fact, that kind of expenditure would represent a capitalizable cost. Conversely, an asset manager may refer to a larger repair activity as “capex” when the expenditure would be truly repair and maintenance expense.

In addition to applying the above concepts that underlie the determination to capitalize costs, we also apply the amount of the expenditure.

**Minimum Cost Threshold:**
According to paragraph 63 of FASB Concepts Statement No. 5, **Recognition is also subject to a materiality threshold: an item and information about it need not be recognized in a set of financial statements if the item is not large enough to be material and the**
aggregate of individually immaterial items is not large enough to be material to those financial statements. In accordance with this statement and for purposes of expediency we base the capitalization decision on the amount the expenditure.

For this purpose, we have established $1,000 as the minimum cost that expenditures must have before we capitalize it. We must critically review expenditures to ensure that this policy is appropriate, given specific circumstances. For instance, if a series of similar costs are incurred for a single project or capitalizable purpose, then it may be appropriate to aggregate these costs into a single pool for capitalization purposes. (See the below example for an illustration of this concept.)

We do not believe that the application of this convention, even when aggregated over our entire portfolio, would result in an amount that is material to our financial statements.

**Example of Series of Similar Costs**

If we undertook a window replacement project to improve energy efficiency of a property, we would aggregate all related costs and capitalize the entire project cost. For example, if the window replacement project required us to purchase ten individual windows that each cost $800; we would capitalize the total cost of $8,000 since the aggregate expenditure for the project exceeds $1,000. Conversely, if we were simply replacing one broken window for $800, we would expense that cost since it was not related to a larger project or purpose. See below under the “Construction-in-Process” section for further details of aggregating costs associated with specific projects.

**I. Common Deferred Cost Categories**

**A. Land Improvements:**

Land improvements are expenditures to prepare the land for development or redevelopment only.

**B. Building Improvements:**

Building improvements are expenditures undertaken that generally improve the value or extend the life of a building. The following table provides a sample of common building improvement categories and examples of situations where capitalization would be appropriate and where expensing the expenditure would be appropriate. General ledger sub-accounts to categorize Building Improvements include: Asphalt, Roof, Interior/Exterior Building Improvement, Paint, HVAC, Seismic, Environmental, and Other.
<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Common Capital Examples</th>
<th>Common Expense Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure</td>
<td>Replacement, implementation of plumbing, electrical, sewage or HVAC systems / equipment.</td>
<td>Scheduled maintenance or ad-hoc repair to maintain quality and original life expectancy of improvements.</td>
</tr>
<tr>
<td>Structural Renovation / Replacement</td>
<td>Installation or replacement of roofing, ceilings, walls, floors, etc.</td>
<td>Scheduled maintenance or ad-hoc repair to maintain quality and original life expectancy of improvements.</td>
</tr>
<tr>
<td>Fixtures</td>
<td>Installation or replacement of lighting, carpet, paint, office, etc.</td>
<td>Scheduled maintenance and cleaning or ad-hoc repair to maintain quality and original life expectancy of improvements. This may include minor replacement of components of fixtures (such as light bulbs in fixtures).</td>
</tr>
<tr>
<td>Property Exterior</td>
<td>Items such as repainting/resurfacing the exterior of a property or adding or replacement of property signage (not tenant-specific signage).</td>
<td>Touch up painting and resurfacing and schedule maintenance and ad-hoc repairs that serve to maintain quality and original life expectancy of improvements.</td>
</tr>
<tr>
<td>Parking Lot</td>
<td>Complete resurfacing or restriping of a parking lot, addition of easements and installation or replacement of parking lot lighting.</td>
<td>Scheduled maintenance or ad-hoc repair to maintain quality and original life expectancy of improvements, such as pothole repair, isolated lighting repair/replacement.</td>
</tr>
<tr>
<td>Landscape</td>
<td>Installation or replacement of non-seasonal landscaping (trees, sod, soil), retaining walls, sprinkler systems, etc.</td>
<td>Scheduled maintenance or ad-hoc repair to maintain quality and original life expectancy of improvements, such as seasonal activities, planting in the spring or winterizing in the fall would be expensed.</td>
</tr>
<tr>
<td>Sidewalks</td>
<td>Installation or replacement of sidewalks.</td>
<td>Scheduled maintenance and cleaning or ad-hoc repair to maintain quality and original life expectancy of sidewalks, such as repairing cracks or sealing concrete.</td>
</tr>
<tr>
<td>Drainage/Ponding</td>
<td>Installation or replacement of drainage or ponding structures.</td>
<td>Scheduled maintenance or ad-hoc repair to maintain quality and original life expectancy of improvements.</td>
</tr>
</tbody>
</table>

Depreciation of building improvements is calculated on a straight-line basis based on the improvement's estimated useful life and recorded as real property depreciation expense.
C. Tenant Improvements:

Fundamentally, tenant improvements represent capitalizable expenditures made to meet the demands of tenant use. Tenant improvements only benefit the tenant through their intangible right to use such improvements during their lease with ownership of tenant improvements remaining with the lessor upon the expiration or termination of a lease. Tenant improvements are general in nature and thus, theoretically, transferable to other potential tenants. We classify tenant improvement into three separate categories:

i. Shell Build-Out Tenant Improvements:

Shell build-out tenant improvements consist of major, one-time installations and alterations made to a tenant suite to complete a suite for general occupancy. Such expenditures may include the installation of items such as ceilings, walls, paint, flooring, and basic fixtures that would make a suite generally available for occupancy. Shell build-out tenant improvements will have a life that is equal to the life of the renovated property itself, since the shell build-out tenant improvements are integral to the property’s final intended use. We expect shell build-out tenant improvements to be one-time items that coincide with major renovation and conversion projects.

ii. Make-Ready Tenant Improvements:

Make-ready tenant improvements consist of alterations made to a suite to meet the demands of general tenant use. Such improvements may include expenditures for items such as ceilings, paint, flooring, and basic fixtures that would make a suite generally available for use by unspecified tenants. Due to the generic nature of make-ready tenant improvements and the fact that they are generally a composite of several categories of general improvements, the life of the tenant’s lease should not impact the determination of the life of a make-ready tenant improvement and we believe that a ten-year life appropriately approximates our general expectation for the beneficial life of such improvements. In general, we would expect these expenditures to occur when a vacancy requires general improvements to a space to make it suitable for presentation to the general market of potential tenants.

iii. Above Standard Tenant Improvements:

Tenant-specific tenant improvements consist of alterations made to a tenant suite to meet the demands of an identified, specific tenant’s use. Such improvements may include the same categories of items noted as make-ready tenant improvements. However, the rationale for their expenditure would be based on improving a tenant suite to accommodate the identified tenant’s specific use or needs. For example, a tenant may require specific upgrades that would make a suite suitable to them, such as enhanced flooring, reconfiguration
of workspaces, enhanced lighting fixtures, etc. All such improvements would be made to make a suite specifically suited for a tenant. However, the lessor would retain ownership of such improvements upon the expiration of the related tenant’s lease.

Because tenant-specific tenant improvements are made for a specific tenant, their life should be the lesser of the improvement’s expected useful life or the expected life of the related lease. We use the lesser of the improvement’s expected useful life or the expected life of the related lease because of the recurring nature of tenant-specific tenant improvements.

Depreciation of tenant improvements is calculated on a straight-line basis and is recorded as real property depreciation and amortization expense.

**D. Tenant Leasing Costs:**

Tenant leasing costs are specific to the tenant for which they were made and are not transferable to other tenants. The following table provides a sample of common tenant leasing cost categories and examples of situations where capitalization would be appropriate and where expensing the expenditure would be appropriate:

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Common Capital Examples</th>
<th>Common Expense Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leasing Commissions</td>
<td>Leasing commissions paid to a third-party broker for an executed lease.</td>
<td>Leasing commissions paid to a third-party that may be more related to day-to-day management should be considered a prepayment of management expenses.</td>
</tr>
<tr>
<td>Marketing Costs</td>
<td>Not capitalized.</td>
<td>Brochures, temporary signage and open house activities.</td>
</tr>
<tr>
<td>Leasing Costs</td>
<td>Legal, due diligence and other administrative fees for successfully executed leases.</td>
<td>All internal payroll and overhead costs should be expensed. Also, legal, due diligence and administrative related to leases that are not successfully executed should be expensed.</td>
</tr>
</tbody>
</table>

Amortization of tenant leasing costs is calculated on a straight-line basis based on the expected life of the lease and is recorded as real property depreciation and amortization expense.

**E. Leasing Incentives:**

Leasing incentives are costs incurred to induce a tenant to lease space at a property. The following table provides a sample of common leasing incentive cost categories
and examples of situations where capitalization would be appropriate and where expensing the expenditure would be appropriate:

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Common Capital Examples</th>
<th>Common Expense Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Leasing Incentive</td>
<td>Cash paid to induce a tenant to enter a lease.</td>
<td>Not applicable.</td>
</tr>
<tr>
<td>Relocation Costs</td>
<td>Costs incurred to relocate a tenant from an unrelated, third-party owned property.</td>
<td>Costs incurred to relocate a tenant within the same property or from a property owned by the lessor, at the request of the lessor.</td>
</tr>
<tr>
<td>Above-Standard Tenant Improvements (“ASTI”)</td>
<td>Improvements made for a specific tenant purpose that either (i) the lessee owns or (ii) do not generally appreciably extend the life, increase the capacity or improve the efficiency or safety of the property. In general, these costs fund the operation of tenant's business and are not integral to the property. Costs may include tenant-specific signage, advertisement or specific retail display build-out.</td>
<td>Scheduled maintenance or ad-hoc repair to maintain quality and original life expectancy of improvements.</td>
</tr>
</tbody>
</table>

Amortization of leasing incentives is calculated on a straight-line basis based on the expected life of the lease and is recorded as a reduction to rental revenue over the life of the related lease.

**F. Early Lease Terminations:**

If a tenant terminates a lease earlier than anticipated, careful consideration should be given to all deferred costs that are related to that tenant. Amortization of leasing costs, leasing incentives and second-generation tenant improvements should be accelerated and the related asset should be written-off to coincide with the termination of the related lease.

**G. Tenant Reimbursement of Improvements**

Situations may arise where a tenant either (i) directly pays for an improvement to the property or (ii) reimburses us for improvements made to a property. In these situations, consideration must be given to the type of improvement and materiality of the improvement to determine the appropriate accounting treatment.

**i. Building, Land and Tenant Improvements:**

When the tenant either pays for or reimburses us for building, land or tenant improvements, as discussed above, if material, we should capitalize the improvement and record revenue in the amount of the improvement. Consistent with the above discussion of improvement categories, discretion must be used to
ensure that (i) we own the improvement or (ii) the improvement generally appreciably extends the life, increases the capacity or improves the efficiency or safety of the property to appropriately apply this kind of accounting treatment. If the tenant improvement is immaterial, it should be expensed and revenue should be recorded in the amount of the improvement.

ii. **ASTI:**

When a tenant reimburses us for ASTI, as discussed above, we would not recognize either the asset or the revenue from these activities, since either (i) we would not ultimately own the improvement or (ii) the improvement would not generally appreciably extend the life, increase the capacity or improve the efficiency or safety of the property. As such, payments made for reimbursable ASTI should be recorded as an account receivable from the tenant.

In general, heightened scrutiny should be exercised when tenants reimburse us for improvements. Consultation with our corporate accounting department should be sought in these situations.

**H. Recoverable Capital Amortization:**

When allowed by the leases, certain costs which are capital in nature may be amortized over more than one year and passed back to tenants. These costs may include, but are not limited to, asphalt, painting, roof, sidewalk, etc. These items will continue to be recorded to the capital account (e.g., Building Improvement – Asphalt) and depreciated in the same manner as a non-recoverable asset.

However, the amortization of the portion recovered by the tenants may not match the life used for GAAP accounting, but rather it is based on the recovery period. Schedules must be included in the monthly reporting package as support for the amount passed through to the tenants.
II. Construction-in-Process

When a project is undertaken that may meet the criteria for capitalization (as outlined above), individual costs, regardless of the amount of each cost, should be deferred as “construction-in-process.” Such costs and related documentation should be recorded in sufficient detail within a subledger (i.e. a fixed asset system or Excel spreadsheet) to adequately support the accumulation of total project cost. When a significant project is undertaken, such as a project that is integral to the renovation or redevelopment of a property, an analysis must be performed to determine whether capitalization of interest expense and overhead expense is warranted.

Upon project completion, the entire cost is to be reclassed from Construction-in-Process to the appropriate capital account.

A. Capitalization of Interest:

Pursuant to ASC Topic 835-20, Capitalization of Interest, capitalization of interest is required when real estate assets are acquired for development or for sale or lease. The capitalization period begins when qualifying expenditures are made, development activities are underway and interest cost is being incurred. Capitalization of interest ends when the asset is substantially complete and ready for its intended use. The basic principle is that the amount of interest cost to be capitalized shall be the amount that theoretically could have been avoided during the development and construction period if expenditures for real estate assets had not been made and if the alternate use of cash had been debt retirement. In circumstances where only a portion of a property may be under renovation or redevelopment and other portions are fully operating, an allocation of such interest expense to be capitalized based on square footage is appropriate.

B. Capitalization of Overhead:

Pursuant to ASC Topic 970-340, Real Estate—Other Assets and Deferred Costs, costs that are directly attributable to the project should be deferred as construction-in-process. Overhead costs that may be capitalized may include (i) utilities, (ii) insurance, (iii) property taxes and (iv) payroll-related costs. Costs incurred for utilities, insurance and property taxes shall be capitalized only during periods in which activities necessary to get the property ready for its intended use are in progress. In circumstances where only a portion of a property may be under renovation or redevelopment and other portions are fully operating, an allocation of such expenses to be capitalized based on square footage is appropriate.

Direct costs may include the portion of payroll-related costs attributable to personnel working directly on the project if the work is appropriately documented (such as through time reports). Bonuses paid to employees should be included in their total compensation for purposes of allocating payroll-related costs. Full overhead costs should only be capitalized when renovation/redevelopment is a continuous activity.
C. In-Service Date Determination:

Costs deferred to construction-in-process are not depreciated until they are transferred to the appropriate asset account (i.e. land improvements, tenant improvements, leasing costs etc.) once the project is complete and is ready for its intended use. Depreciation shall begin when the space associated with the project is available and ready for use. (In the case of tenant-specific leasing costs, depreciation shall begin with the commencement of the related lease.) If the project is renovated/redeveloped in stages, depreciation of each stage shall begin when that stage is ready for use.

For a renovated or redeveloped building being leased out, depreciation shall begin when a component is substantially complete. A component is substantially completed upon completion of tenant improvements by the developer, but no later than one year from the cessation of major construction activity. As additional components are substantially completed and ready for use, depreciation shall begin on those additional costs whether or not occupancy has occurred through leasing activities.

III. Depreciation and Amortization of Deferred Costs

The depreciable lives used in computing depreciation and amortization are based on estimates of the period over which the assets will be of economic benefit to us. Such lives may be the same as the physical or contractual lives of the assets but frequently are shorter. Estimated lives must be based on informed judgment based on guidelines derived from the following sources: (i) our historical experience, (ii) the historical experience of the real estate industry and (iii) engineering estimates or appraisal evaluations, etc.

A. Factors to Consider in Estimating Depreciable Lives:

In estimating lives, the following factors, in addition to physical deterioration from the passage of time, should be considered.

i. Obsolescence—if obsolescence becomes foreseeable for a specific improvement, then depreciable lives shall reflect such expectations.

ii. Relationship to other assets—lives of improvements shall not extend beyond the expected remaining life of the property itself.

iii. Asset plans—lives of improvements shall not exceed relevant expected plans. For example, if plans were made to convert office space to hotel space, it would be inappropriate to have office-related improvements with lives that extend beyond the planned conversion date.

iv. Environmental factors and laws—the life of parking lot improvements may ordinarily be shorter in a cold climate than in a more temperate one; environmental laws may require replacement of certain infrastructure items.

v. Anticipated use—if furnishings are exposed to unusually frequent or abusive use (exceptionally busy lobbies, etc), then the lives of such fixtures may need to be shortened accordingly.
vi. **Lease term**—costs that are directly attributable to a lease, such as leasing costs, commissions, or tenant-specific improvements, should be amortized over the life of the respective lease.

vii. **Maintenance policies**—an inadequate maintenance program can shorten an improvement’s estimated life; a good program of maintenance may lengthen the life of an improvement but cannot extend its economic life indefinitely.

viii. **Other factors**—economic or legal factors that impose limits on continued use of the improvement.

ix. Unpredictable events such as nonrecurring casualties, "revolutionary" obsolescence and uncertain future government legislation or regulation **should not be considered**.

**B. Review and Revision of Remaining Lives:**

Remaining lives of property should be periodically reviewed and revised to recognize changes in conditions. Revisions of estimated lives should be recognized over current and future periods as discussed in ASC Topic 250, *Accounting Changes and Error Corrections*.

**Depreciable Lives Table:**

In reviewing and considering the above factors, we have determined that, for the year ended December 31, 2010, we will apply the following depreciable lives to certain common capitalized costs that we incur related to our real property portfolio:

<table>
<thead>
<tr>
<th>Category (Subcategory)</th>
<th>GAAP Accounting</th>
<th>Tax Accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Acquisition Allocation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>Not depreciated</td>
<td>Not depreciated</td>
</tr>
<tr>
<td>Building</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Intangible lease asset</td>
<td>Life of related lease</td>
<td>Life of related lease</td>
</tr>
<tr>
<td>Above-market lease asset</td>
<td>Life of related lease</td>
<td>Life of related lease</td>
</tr>
<tr>
<td>Below-market lease liability</td>
<td>Life of related lease</td>
<td>Life of related lease</td>
</tr>
<tr>
<td>Intangible customer relationship value</td>
<td>Life of related lease</td>
<td>Life of related lease</td>
</tr>
<tr>
<td>Other tangible property</td>
<td>Variable</td>
<td>Variable</td>
</tr>
<tr>
<td><strong>Land Improvements</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preparation of land for development</td>
<td>Not depreciated</td>
<td>Not depreciated</td>
</tr>
<tr>
<td><strong>Building Improvements</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asphalt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parking lot major crack seal/seal coat</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Parking lot replacement</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td><strong>Roof</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Roof replacement</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td><strong>Interior/Exterior</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exterior re-sealing/re-caulking control joints</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Wet seal windows</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Overhead/bay door (warehouse) replacement</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Other interior/exterior door/window replacement</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Fire protection sprinkler system; fire alarm control panel</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Lighting fixtures</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Interior paint/carpet</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Item</td>
<td>Cost 1</td>
<td>Cost 2</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td>Signage</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Infrastructure (sewage, plumbing, electrical)</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Elevator/escalator replacement/modernization</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Concrete flooring replacement (warehouse)</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Flooring replacement (not concrete or carpet)</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Paint</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exterior paint</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>HVAC</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HVAC/cooling tower/chiller replacement</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Seismic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seismic retrofit</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Environmental</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental remediation</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Other</td>
<td>Variable</td>
<td>Variable</td>
</tr>
</tbody>
</table>

**Tenant Improvements:**

<table>
<thead>
<tr>
<th>TI Office, TI Office First Generation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shell build-out</td>
</tr>
<tr>
<td>Make-ready tenant improvements</td>
</tr>
<tr>
<td>Tenant-specific improvements</td>
</tr>
</tbody>
</table>

**Tenant Leasing Costs**

<table>
<thead>
<tr>
<th>Cost 1</th>
<th>Cost 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life of related lease</td>
<td></td>
</tr>
<tr>
<td>Life of related lease</td>
<td></td>
</tr>
</tbody>
</table>

**Leasing Commissions**

<table>
<thead>
<tr>
<th>Cost 1</th>
<th>Cost 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life of related lease</td>
<td></td>
</tr>
<tr>
<td>Life of related lease</td>
<td></td>
</tr>
</tbody>
</table>

**First Generation Leasing Commissions**

<table>
<thead>
<tr>
<th>Cost 1</th>
<th>Cost 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life of related lease</td>
<td></td>
</tr>
<tr>
<td>Life of related lease</td>
<td></td>
</tr>
</tbody>
</table>

**Construction in Process:**

<table>
<thead>
<tr>
<th>Cost 1</th>
<th>Cost 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not depreciated</td>
<td></td>
</tr>
<tr>
<td>Not depreciated</td>
<td></td>
</tr>
</tbody>
</table>

**Furniture and Fixtures**

<table>
<thead>
<tr>
<th>Furniture</th>
<th>Electronic kiosks</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

### IV. Fully Depreciated Assets:

Since the gross cost of property shown in the balance sheet is intended to include all property in service, the cost of fully depreciated assets remaining in service and the related accumulated depreciation should not be removed from the accounts until final disposition of the property or, if an asset is lease dependent, the termination of that lease.
Capital Approval Policy

As part of IIT’s internal control process, various levels of approval for capital projects are required. Below is a summary of the number of bids and whether or not IIT Asset Manager Approval is required, based on the level of expenditure and whether or not the expense was budgeted. A Capital Approval Form (attached to this guide) should be completed if Asset Manager approval is required. Refer to the Cost Capitalization Policy provided in this section to determine whether or not the capital expenditure is eligible for capitalization.

<table>
<thead>
<tr>
<th>Threshold</th>
<th>Number of Bids</th>
<th>Asset Manager Approval</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budgeted items less than $20,000</td>
<td>1</td>
<td>No</td>
</tr>
<tr>
<td>Budgeted items less than $20,000, but over budget by 10%</td>
<td>2</td>
<td>Yes</td>
</tr>
<tr>
<td>Unbudgeted items less than $20,000</td>
<td>2</td>
<td>Yes</td>
</tr>
<tr>
<td>Budgeted items between $20,000 and $50,000</td>
<td>2</td>
<td>No</td>
</tr>
<tr>
<td>Budgeted items between $20,000 and $50,000, but over budget by 10% or $5k</td>
<td>2</td>
<td>Yes</td>
</tr>
<tr>
<td>Unbudgeted items between $20,000 and $50,000</td>
<td>2</td>
<td>Yes</td>
</tr>
<tr>
<td>Budgeted items between $50,000 and $100,000</td>
<td>3</td>
<td>No</td>
</tr>
<tr>
<td>Budgeted items between $50,000 and $100,000, but over budget by 10% or $5k</td>
<td>3</td>
<td>Yes</td>
</tr>
<tr>
<td>Unbudgeted items between $50,000 and $100,000</td>
<td>3</td>
<td>Yes</td>
</tr>
<tr>
<td>All capital outlays greater than $100,000</td>
<td>3</td>
<td>Yes</td>
</tr>
</tbody>
</table>
Vendor/Service Contracts

Service Contracts should be used for recurring, day-to-day work performed at the property. IIT’s Standard Service Contract is attached and should be used for all these services. Services should be bid out to at least two or three vendors before awarding the work. IIT requires all service contracts to be re-bid every one to two years. All service contracts must be signed by IIT Asset Management.

Purchase Orders

Purchase Orders are to be used for items not covered under Service Contracts and are non-structural/non-roof capital improvements under or equal to $50,000. The Property Manager should follow the bidding process found under ‘Capital Approvals’ for Purchase Orders as well.

Property Managers may sign Purchase Orders unless:
- The property is held in IIT’s Joint Venture fund
- IIT’s bidding process is not followed
- The contract amount is more than $25,000
- The contract amount represents more than a $1,000 or 10% variance from budget

If any of the above is true, the Purchase Orders must be signed by IIT Asset Management.

IIT’s standard Purchase Order is attached.

AIA Contracts

AIA Contracts are to be used for any structural or roof capital improvements under $50,000 and for all capital improvements $50,000 or greater. IIT’s Standard AIA Contract is attached. All modifications should be approved by the contractor and then sent to IIT for approval and to finalize the document.
Annual Inspection Policy

Annual Property and Roof Inspections
IIT requires that all properties receive a property and roof inspection each year. The property inspection should be completed by June 30th of each year. The Property Manager should inspect the building exterior as well as each suite in the building. A copy of the completed property inspection form should be sent to IIT Asset Management. A property inspection form is attached to this manual.

Annual roof inspections are being conducted on a national basis utilizing Roof Management, Inc. Inspections are typically conducted between April and July each year. For newly acquired projects (less than six months), IIT will wait until the following year to conduct the inspection – PM Teams should use the due diligence roof report prepared as part of closing.

Roof Inspection Reports will typically including the following sections:
- Roof System and Components
- Recommendations & Budgets (10 year capital projection and anticipated roof replacement cost)
- Executive Summary
- Warranty Information
- Leak History

Our contact at Roof Management, Inc. is:
Jeff Schultz
JSchultz@roof-management.com
www.roof-management.com
(937) 642.7311

Annual fees are as follows and should be budgeted accordingly:
- 1st inspection - $850/building/year
- 2nd and subsequent inspections - $750/building/year
- Web portal fee/maintenance - $150/building/year

In combination with the roof inspections, Roof Management will be uploading and maintaining a web portal that will contain all of the inspection information. Access to the portal will be forthcoming. For specific building inspection information, contact John Schillingburg (jshillingburg@industrialincome.com).
Internal Audit Review Policy

As part of our internal controls process, we will periodically perform site audits of our properties to ensure compliance with our policies and procedures and to ensure our financial statements are accurate. Each year, we will select the properties that will be part of our internal audit process.

Our internal audit process is as follows:

Audit Announcement and Data Request
Our internal audit department will provide notification to the property manager that their property that has been selected for internal audit and will confirm the timing of fieldwork. A data request list will be provided. The data request may include, but is not limited to, a listing of vendor contracts, bid analyses, disbursement records, insurance documentation, etc.

Audit Fieldwork
The on-site audit of the property typically takes about one week. Property managers should set aside time during this fieldwork to answer questions as they arise. Work papers will be prepared by the internal audit department that documents the results of the audit. At the end of the fieldwork, the internal audit representative will review the results of the test work with the property manager and IIT. Any issues that were identified will be discussed and any necessary resolution or action plans will be formulated.

Final Audit Report
The internal audit department will prepare an audit report that discusses the scope and results of the property audit. It will provide the formal documentation of any issues, recommendations, and action plans that were identified during the audit.

Follow up Processes
The internal audit department will follow up with the property manager or IIT as necessary to ensure any identified action plans are being completed according to plan and all issues have been resolved.
Below is the standard scope for audits of IIT’s property managers. Additional areas may be added to the scope of a particular audit as needs dictate – these areas could include review of lease files; monitoring of environmental issues; document retention and storage practices; or other areas as indicated by IIT Asset Management.

<table>
<thead>
<tr>
<th>Accounts Payable / Disbursements</th>
<th>Insurance</th>
<th>Contracting and Oversight of Service Providers</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review of sample disbursement transactions:</td>
<td>Property Manager’s insurance:</td>
<td>Processes to evaluate and select service providers and other contractors (competitive bidding):</td>
<td>Calculation and payment of property and construction management fees; lease commissions:</td>
</tr>
<tr>
<td>• Documentation to evidence the business propriety of the disbursement</td>
<td>• Evidence of coverage required by the Property Management Agreement</td>
<td>• Review and approval of contracts</td>
<td>• Allocation / charges for salaried employees</td>
</tr>
<tr>
<td>• Expenses / costs that are not reimbursable by IIT per the Property Management Agreement</td>
<td>• Presence of any required endorsements</td>
<td>• Oversight of service providers / monitoring progress of capital projects</td>
<td>• Other cost allocations / reimbursements to the PM</td>
</tr>
<tr>
<td>• Compliance with check signing authority limits</td>
<td>• Contractor / Service Provider &amp; Tenant insurance:</td>
<td>• Review of select contract documents:</td>
<td>• Controls over wire transfers / online banking</td>
</tr>
<tr>
<td>• Controls over wire transfers / online banking</td>
<td>• Processes to verify / maintain proof of insurance for on-site contractors and tenants (where applicable)</td>
<td>• Clarity of contract scope</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Evidence of coverage and endorsements required by the Property Management Agreement</td>
<td>• Key provisions specified in the Property Management Agreement (e.g., assignment and termination clauses)</td>
<td></td>
</tr>
</tbody>
</table>