Property Management Policies & Procedures Guide

Version: 2016.02.08

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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, IPT 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 IPT 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 can be found on our Property Management Resource Center.

Balance Sheet Support Schedules

Standardized schedules are provided on our Property Management Resource Center.

Monthly Reporting Checklist

Industrial Property Trust

MONTHLY REPORTING CHECK-LIST

ENTITY #: ______________________

PROPERTY: ______________________

MONTH UNDER REVIEW: August, 2012

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

Reviewed:	Submit to IPT/Yardi:	
☐	Monthly	Monthly Property Review Checklist
☐	In Yardi	Building Level Income Statement & Capital Expenditures Actual vs. Budget Variance
		Budget Narratives Report (Monthly Reporting section of Yardi Manual)
		Yardi Books: Accrual
		Yardi Account Tree: ysi_bf
		Variance Threshold: $5,000 and 5%
☐	In Yardi	Balance Sheet review
		12 Month Balance Sheet (Monthly Reporting section of Yardi Manual)
		- Accruals performed/trued up?
		- Prepaid amortizations recorded?
		- Supporting schedules tie to Balance Sheet?
		- Yardi Security Deposit Summary report ties to GL?
☐	Upon request	Balance Sheet Support Schedules
☐	In Yardi	Review Rent Roll and verify that total monthly rent ties to the Income Statement
☐	Monthly	Review Bank Statements and Bank Reconciliations
		- Submit bank reconciliation, statement, and GL to IPT
☐	Monthly	Review open AP invoices and ensure balances tie to Balance Sheet
		- Submit AP Aging Report to IPT (Monthly Reporting section of Yardi Manual)
☐	Monthly	Review Check registers for correct coding, potential capex items, etc.
		- Submit Check Register (Monthly Reporting section of Yardi Manual)
☐	In Yardi	Review Capital items
		- Attach capital invoices in Yardi through the AP module
		- Submit a schedule detailing all CIP work and % of completion to IPT
		- Ensure completed projects are reclassed from CIP to the appropriate capital account
☐	Monthly	Management Fee Summary & Detail Register Reports
		- Submit to IPT for review (Monthly Reporting section of Yardi Manual)
☐	In Yardi	Review of AR Aging including:
		- Analysis on aging. Include delinquency memos on items over 60 days.
		- Does aging tie to Balance Sheet, including any prepayments?
		- Write offs should be submitted to IPT - attach the IPT Write Off form and Aging report (including delinquency memo narratives)

PROPERTY MANAGER: ______________________

PROPERTY ACCOUNTANT: ______________________

REVIEWED BY: ______________________
IPT

Lease Routing Process

IPT 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 IPT 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, IPT's Regional Operations Coordinator will send a copy of the fully negotiated document to the Property Manager, copying IPT Lease Administration, along with the Lease Processing Workbook (sample attached to this correspondence) containing:
  - Lease Routing Control sheet
  - Commission calculator
  - PM checklist

- IPT Regional Operations Coordinator will complete the following items prior to sending the Lease Processing Workbook:
  - Lease routing control sheet
  - Commission calculator

- Property Manager will complete the PM Checklist in the Lease Processing Workbook, sign the Lease Routing Control Sheet and send the entire Lease Processing Workbook to IPT Lease Administration with a copy to IPT's Regional Operations Coordinator.

- Once the Workbook is received from the PM, the Lease Abstract is reviewed by IPT Lease Administration. Changes, if necessary, to the Lease Abstract will be coordinated between the PM and IPT Lease Administration.

- Once approved by IPT Lease Administration, the lease/amendment will be activated in Yardi.

- Following activation, the Lease Abstract is reviewed by IPT Asset Management.

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 (the form can be found on our Property Management Resource Center) 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 IPT Asset Management and filed.

Tenant Move-Out Inspection

Prior to Move-Out:

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 (the form can be found on our Property Management Resource Center) 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 IPT Asset Management and filed.

After Move-Out:

This process should be completed **no later than 60 days** after the tenant moves out.

1. Notify IPT Lease Administration when the tenant moves out so that the tenant status can be updated in Yardi.
2. Run the CAM Reconciliation process in Yardi through move-out month (be sure to include the Recovery Book).
3. Fill out the SD Application/Refund form and sent to Asset Manager for approval.
4. Post CAM reconciliation and damages charges to tenant ledger.
5. Bill or refund tenant per the SD Application/Refund form.

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.

Midyear CAM reconciliations are billed using the CY Recon billing codes.

Once the CAM reconciliations have been completed and the Security Deposit Application/Refund Form is filled out, the package should be sent to IPT Asset Management for review. The form needs to be signed-off by the Property Manager, IPT Accounting and IPT 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 IPT's Vacancy Standard checklist are addressed. For any additional items (i.e. removing walls, adding offices, replacing carpet, fixtures, etc), please check with IPT Asset Management for approval. Upon approval from Asset Management, see IPT's Tenant Finish Building Standards for specific finishes and materials.

Tenant Insurance Requirements

IPT requires the Property Manager to obtain a COI from each tenant to insure

- The tenant is meeting the insurance thresholds per their lease
- IPT 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 IPT'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 IPT Asset Management if needed.

Loss Notice Form

For all incidents that occur at the property, the Property Manager must submit a Loss Notice Form (the form can be found on our Property Management Resource Center) to IPT Asset Management and copy Katie Pierson at kpierson@industrialpropertytrust.com. The form must be submitted within 24 hours of the incident. Make sure to include pictures of the damage, if applicable, with the form.

Recording Landlord Insurance Loss

Claim amounts exceeding the deductible that will be reimbursed from the insurance company is recorded to account 12320-000 Receivable Other.
Claims up to the deductible amount are coded to the appropriate Non-Recoverable Expense account.

Gross Up & Direct Bill Insurance Premiums

Insurance premiums are typically recovered as part of tenant's monthly billing. In some cases, the tenant lease requires the entire premium to be paid annually, in that case the following treatment is applied.

Tenant Ledger
Bill insurance as a direct bill (der), the following entry is generated in Yardi:
DR 12105-000 A/R – Tenant Control
CR 43140-000 Direct Billable Rev.

PM enters a one-time JE to setup Gross-Up Liability:
DR 64190-000 Direct Billable Exp
CR 22128-000 Gross-Up Liability

Monthly, PM enters a JE to recognize revenue & reduce Gross-Up Liability:
DR 22128-000 Gross-Up Liability
CR 43115-000 Recoverable Estimates – Insurance

Tenant self-paid insurance premiums can take many forms; if you need help setting up the accounting, please contact your Senior Property Accountant for assistance.

Property Tax Consulting Procedures

Marvin F. Poer & Company has been selected as IPT'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 IPT. The first service will be an assessment review for a determination of value at each of the IPT 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.

Recording Real Estate Taxes

Payments

Property taxes are to be paid no earlier than within two weeks of the due date or discount date. In states such as Florida, Oregon, and Pennsylvania, maximum advantage should be taken of discounts offered by the taxing authority for early payment or for payment of the annual tax year in full.

All tax disbursements, whether paid by check or electronic transfer, are recorded in the Accounts Payable system in Yardi. Tax bills must be attached in Yardi when the invoice is processed. At least five business days before payment is made, the Property Manager will notify the IPT Senior Operations Accountant that the invoices have been entered in Yardi with the tax bills attached.

Taxes are generally paid by checks that are issued by the Property Manager. If the taxing authority requires payment by ACH, the Property Manager initiates the transaction, but must notify their IPT Senior Operations Accountant in advance. For payment by wire, IPT will initiate the transfer after the IPT Senior Operations Accountant receives the request from the Property Manager.

After taxes are paid, proof of payment documentation from the taxing authority must also be attached in Yardi.

Accruals

Real estate tax expense is accrued monthly:

DR 61105-000 Property Taxes Building
  CR 21505-000 Accrued Property Taxes
  CR 11405-000 Prepaid – Property Tax (if applicable)*

*If the tax bill has been paid in advance

When tax bills are paid, the disbursement will debit the liability account, and depending on the period covered, may also debit the prepaid account:

DR 21505-000 Accrued Property Taxes
DR 11405-000 Prepaid – Property Tax (if applicable)*
  CR 11105-000 Operating Cash

*Prepaid balance is amortized over appropriate time period

Gross Up & Direct Bill Property Taxes

Real estate taxes that are paid directly by the tenant or paid by IPT and reimbursed immediately by tenant should be recorded monthly:

DR 61105-000 Property Taxes Building
  CR 22128-000 Gross-Up Liability

DR 12128-000 Gross-Up Asset
  CR 43110-001 Recoverable Estimates - Gross Up RE Tax

When the tenant provides proof of payment (if paid directly by tenant):
DR 22128-000   Gross-Up Liability
  CR 12128-000   A/R Gross-Up PTX

Gross-Up Asset & Liability should have the remaining balance needed for the reminder of year's monthly expense/revenue amounts. Tenant self-paid taxes can take many forms; if you need help setting up the accounting, please contact your Senior Property Accountant for assistance.

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.

For tax exempt sales tax tenants, a tax exempt certificate needs to be obtained and attached in Yardi. No sales tax is charged to the tenant and no sales tax is paid.

The accrued sales tax account should be reconciled monthly. Due to the IPT early cash cutoff preventing ACH transactions after the 20th of the month, this process should be scheduled to be completed no later than the 15th of the month.
Sales Tax Calculation (monthly)

1. Run a Charge Register (Analytics-Charge Register)
    a. Parameters
        i. Tran Type: Charge
        ii. Property:
        iii. Account: leave blank
        iv. Period: From MM/01/YYYY To MM/31/YYYY
        v. Choose to export to Excel
2. Verify that all charges (especially manual charges) include applicable sales taxes, i.e., late fees, direct expense reimbursement, TI reimbursements.
3. Run the Receipt register for the month taxes are being calculated (Analytics-Transaction Register)
    a. Parameters
        i. Tran Type: Receipt
        ii. Property: Property Taxes are Being Filed For
        iii. Account: Select all revenue accounts subject to sales taxes (insert list here)
        iv. Period: From MM/01/YYYY To MM/31/YYYY
        v. Make sure the DETAIL box is checked
        vi. Choose to export to Excel

4. Run the Cash Income Statement (Analytics-Financial-Financial)
    a. Parameters
        i. Property ID: Property Taxes are being files for
        ii. Book: Cash
        iii. Account Tree: ysi_is
        iv. Report Type: Income Statement
        v. Period: From MM/01/YYYY To MM/31/YYYY
        vi. Choose to export to Excel
5. Receipt Register should be equal to the Total Revenue and Income less Tenant Prepaid Rents and Other Miscellaneous Income.
    a. If these two figures agree, calculate sales tax for your return and file.
        i. Along with a copy of the return, please include all three above reports as attachments for the sales tax A/P entry.
        ii. If we receive a discount for filing on-line or any other reason, please code this discount to Other Miscellaneous Income.
    b. If these figures DO NOT agree, check to see that no manual journal entries were posted on a cash basis or if incorrect charge codes were used to charge the tenant. These are the two main reasons the two report would not agree to each other. If you run out of ideas for figuring out the difference, please contact your Senior Accountant for assistance.
6. Review and reconcile Accrued Sales Tax Liability
    a. Use IPT Sales Tax Support Schedule template (instructions on how to use the template are included on the first tab).
    b. This report should be included in your monthly reporting package.

For write off of sales tax please refer to the Write Off section.

Franchise Taxes

All journal entries for Franchise Taxes are done by IPT and expensed to 61120-000 Franchise Taxes. Various states impose certain taxes that may be recoverable under a tenant's lease. The recoverability is determined on a lease by lease basis. 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).

Actual to Budget Narratives

Comments should be included for all items +/- $5,000 and +/- 5%.

The following are examples of good variance explanations:
Please avoid stating the obvious, i.e, “under budget because no money was spent” or “not anticipated per budget”.

Revenue
“Budget assumed a [date] lease start, however, unit actually leased in [date].”

“Base rent revenue higher for [tenant name] lease starting [date], [$xxx/mo], not budgeted.”

[Base rent, Recoveries, etc,] less than budgeted due to [tenant name] [early termination, contraction, etc] [date], [$xxx/mo] less than original lease.”

Expense
“Budget assumed [type of work] for $ [amount] however, ______________.”

“Work needed to be completed earlier than budgeted. Final cost is as budgeted.”

“Work was postponed because [explanation]. Work will take place [when] and will cost $ [amount}.”

“Expense of work was less than anticipated and final amount is $ [amount].”

“Budgeted [repairs] of $ [amount] were not needed.”

“Expense of work is more than anticipated because [explanation] and the final amount is or will be $ [amount].”

“Water expense higher than budgeted in July due to drought.”

Capital
“Budget does not assume any capital work for [type of work] in [year]; however, work was necessary for explanation]. Work will be completed [date] and final amount will be $ [amount].”

“Budget assumed a [date] lease start, however unit actually leased is [date].”

“Budget assumed a [___] year lease, however the lease was [___] years, therefore LC’s are [under or over] budget.”

Budget assumed a $ [amount] psf TI allowance, however actual lease made included a $ [amount] psf allowance.”

Expense Recovery Analysis

To ensure that year-to-date Operating Expense, Real Estate Tax and Insurance recovery revenue is aligned with actual expenses and tenant occupancy, an audit by the Property Manager is performed in Q2, Q3, and at year end using the Yardi Recovery Module according to the following timetable:

General Ledger Period	Due Date
May	July 1
August	October 1
December	January 1

The Property Manager will run the following reports, converted to Excel, for each building and will perform a review using the checklist found on our Property Management Resource Center:

- Recovery Recon Audit
- Estimate Charge Detail
- Year-to-date Income Statement through review month
- Lease Ledger (per tenant preferred)
- Summary of any caps or expense adjustments
- Completed Recovery Review Checklist

The Property Manager will make sure leases have been set up properly with respect to occupancy, expense pools, caps and base years, etc. The Excel reports listed above will be sent to the IPT Senior Operations Accountant with the monthly financial package.

IPT will determine if an accrual is needed to adjust the revenue based on the materiality of the variance between the accrued revenue and estimates billed to the tenants year-to-date. IPT will record the accrual adjustment, if necessary.

If the Property Manager finds that recovery billings have been significantly under or overestimated, the Property Manager should discuss their recommendations to change the monthly impounds being charged to the tenants. Revisions to the estimate billings should only be implemented if there is a permanent variance between the overall actual versus budgeted expenses. Examples of permanent variances include property tax reductions or removal of major repairs from the current year.

Budget Process

A budget must be created for each building upon acquisition and annually.

Budget Timing

New Acquisitions:

- Preliminary budgets should be created within two weeks following the close date.
- Final budgets must be approved and finalized by Asset Management & Operations Accounting no later than thirty days following the acquisition date.

Annual Budgets:

- By approximately August 1st
    - IPT AM and the leasing brokers will determine the Leasing Assumptions for the budget
    - IPT AM and the property managers will determine the Capital Projects for the budget
    - Once finalized, IPT will upload the Leasing and Capital Assumptions into Yardi

- By approximately August 15th
    - Preliminary budgets are due
    - Property Managers should enter all expenses, run recoveries and include their comments in Yardi
    - The PM should notify IPT AM and Accounting when the budget is ready to be reviewed and provide any additional back-up not already in Yardi

- Between August 16th – September 30th
    - Budgets will be reviewed by IPT AM & Accounting and comments/questions will be entered into Yardi

- By approximately October 15th
    - Final budget are due from Property Managers
    - Budgets must be signed off by PM, IPT AM and IPT Accounting

- *See IPT Budget Workflow*

Operating Revenue and Expenses, Lease Assumptions, Capital Projects

IPT 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.

IPT is responsible the 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 IPT Accounting and the Asset Manager for sign off. Please include in your correspondence additional notes or spreadsheets. IPT will review the budget paying particular attention to the recoverable revenue versus the recoverable expenses for accuracy and general likeliness. In addition, IPT 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.

Journal Entries

Manual journal entries are a means to record general ledger activity outside of system-generated entries. As with system-generated activity, controls must be in place to ensure manual journal entries are reviewed and accurate before they are posted to the general ledger.
All manual journal entries must have supporting documents attached in Yardi within the entry itself. This will provide an audit trail and will substantiate the purpose of the entry.

- For recurring entries, the support is attached in the first journal entry of the series and whenever subsequent changes are made.
- For reversing entries, the support is attached to the initial journal entry. The attachment is not needed for the automatic reversal entry posted the following month.

Examples of manual journal entries prepared and posted by the Property Manager include:

- Monthly accruals for taxes
- Accruals for monthly contracts and utilities incurred but not yet paid over $1,000
- Accruals for completed but not yet paid expenses that are at least $1,000, such as utilities or landscaping. Prepaid expenses that are at least $1,000 and are for a period of at least 3 months.
- Accruals for completed but not yet paid capital work $25,000 or higher, construction management fees should not be accrued.
- Accruals to match direct billable income and expense
- Accruals for debt service interest expense
- Debt service entries for payments initiated by the Property Manager
- Recoverable capital amounts in "Recovery" book

Some manual or system-generated journal entries are posted by IPT and not the Property Manager. These include:

- Acquisition opening balance sheet entries
- Income and expense accruals for the month of acquisition
- Straight line rent
- Above/below market rent amortization and adjustments
- ZBA cash transfers – record *gross* credits and debits
- Monthly accruals for insurance
- Reserves for bad debt
- Expense recovery accruals
- Depreciation and amortization of fixed assets
- Amortization of recoverable capital
- Bank fees and accounting fees for Yardi licenses
- Debt service entries for payments initiated by IPT

Direct Bills

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

Entity	Account	Debit	Credit
5XXXXX	12127-000 A/R - Other Tenant	XXX	
5XXXXX	43140-000 Direct Billable Revenue		XXX

Direct billable invoices should be coded to 64190-00 Direct Billable Expense.

To accrue for direct billable expense:

Entity	Account	Debit	Credit
5XXXXX	64190-000 Direct Billable Expense	XXX	
5XXXXX	21215-000 Accrued Other Operating Exp		XXX

Accounts Payable & Vendor Setup

All new vendors must have a W-9 on file before setting in Yardi. Each PM office is responsible for 1099 processing. Separate directions are sent annually.

All invoices that are entered into Yardi must have a copy of the invoice attached to the voucher.

Print checks once a week on Wednesday; the process of printing the checks creates the positive pay file.

BTC weekly check run must be approved by IPT before checks can be printed. Each month a 60 day cash flow projection must be sent to IPT.

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 $50,000 require two manual signatures. If the Property Management Company maintains different check signing policies, IPT 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).

To summarize, if utilizing electronic signatures, the new limits are as follows:

- $0-$4999.99 – One electronic signature
- $5000.00 – $49,999.99 - One manual signature + electronic signature
- $50,000.00 – Infinite – Two manual signatures

If not utilizing electronic signatures, the following limits apply:

- One manual signature for all checks $0-$4,999.99
- Two manual signature for all checks $5,000+

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 IPT 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 IPT 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 IPT 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 IPT operating accounts and will fund to and be funded from the corporate operating accounts each day.

Cash Cutoff

The cash cut-off is the 25th of the month. To ensure all activity for the current month is included in the bank reconciliation:

- Do not post tenant payments received after the 25th to the current month, and do not apply cash receipts to future period charges. Ensure AR reports tie to the general ledger balance in 12105-000 A/R – Tenant Control.

- Do not issue checks between the 26th and the last day of the month. Checks disbursed after the 25th should be dated and released in the following month. If you have an emergency payment between the 26th and the last day of the month, please alert your IPT/IPT Senior Operations Accountant.

Do not issue checks between the 26th and the last day of the month. Checks disbursed after the 25th should be dated and released in the following month. If you have an emergency payment between the 26th and the last day of the month, please alert your IPT/IPT Senior Operations Accountant.

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. When running your Bank Reconciliation in Yardi, be sure to use the bank statement date as the "GL Cut-off Date."

Cash Management Procedures

Cash Flow Estimates

The Property Management Company submits a cash flow estimate by the 15th of every month for each of the properties in the IPT and BTC portfolios. If the 15th falls on a weekend or holiday, the estimate is due the business day preceding the 15th.

The email notice will consist of the estimated cash outflow for the next 60 days, as follows:

Property Name: ABC Distribution Center

	5/15-6/15	6/15-7/15	Total
Total Operating Expenses:	$15,000	$15,000	$30,000
Total Capital Expenditures:	$240,000	$100,000	$340,000
Total Taxes:	$90,000	$0	$90,000
Total:	$345,000	$115,000	$460,000

Check Run Notifications

No later than the day before checks are disbursed, the Property Management Company informs IPT of the total amount of *ALL* check runs in a simple email with the property name and check run total. Checks may be released to the vendors the next day unless IPT contacts the Property Management Company with other instructions.

Income Changes

If there are changes to income such as a tenant default or bankruptcy that will significantly alter the projected cash flow, the Property Management Company is to inform IPT immediately.

The above communications are to be sent to:

- IPT Senior Operations Accountant and
- Patrick Medlin at pmedlin@industrialincome.com

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.

5th Day:	1st call to tenant
10th Day:	2nd call to tenant * Property Manager to inform IPT at this time of outstanding payment
15th Day:	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).
20th Day:	Upon approval of IPT 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.
21st Day:	Notice to Pay or Quit (or jurisdictional equivalent) delivered to tenant.
Unlawful Detainer Action:	If payment not received from tenant in the given time frame (i.e., 3 days), package sent to IPT in house counsel for direction Unlawful Detainer Action. **Note: Property Manager must notify IPT Asset Management that lockout date is provided.**
Collection:	Depending on financial condition of tenant, account may be sent to Collections. IPT Accounting Department will follow internal policy for establishing or writing off of account balance.

DEMAND LETTER TEMPLATE
SENT VIA:
CERTIFIED MAIL - RETURN RECEIPT REQUESTED
OVERNIGHT SERVICE, US MAIL
NOTE: CONFIRM NOTICE REQUIRMENTS UNDER LEASE

INSERT DATE

INSERT TENANT ADDRESS

NOTE: CONFIRM NOTICE REQUIRMENTS 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 _________________ 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 IPT ENTITY

By: INSERT PROPERTY MANAGEMER 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:

Criteria	Policy
Accounts receivable balances for Tenants with amounts > 90 days & over $1,000 excluding CAM reconciliation billings	• Reserve 100% of remaining balance
The following has happened or is imminent: • The tenant has declared bankruptcy; • The tenant has vacated the space • The tenant has been evicted.	• 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. IPT 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 may be reserved each month as well. IPT 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.

Property Manager should enter a charge to the tenant ledger to charge code "wro" Write Off Revenue" to record the bad debt for the entire amount that is to be written off. For Florida & Arizona write offs with sales tax, use charge code "stx" for the sales tax portion of the write off. IPT will reverse the outstanding reserve with the review of monthly bad debt accruals.

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.

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 charge code "wro" Write Off Revenue 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.

Capital Expenditure Timing

Capital projects are to be accrued when completed. Accrual entries debit the appropriate capital account and credit general ledger 21535-000 Accrued Capital.
If the timing of completion or the dollar amount will vary from the budget, the Property Manager will note the new projected timing and amount in the monthly variance comments of the financial package.

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.

Expenditure	Common Capital Examples	Common Expense Examples
Infrastructure	Replacement, implementation of plumbing, electrical, sewage or HVAC systems / equipment.	Scheduled maintenance or ad-hoc repair to maintain quality and original life expectancy of system/equipment.
Structural Renovation / Replacement	Installation or replacement of roofing, ceilings, walls, floors, etc.	Scheduled maintenance or ad-hoc repair to maintain quality and original life expectancy of improvements.
Fixtures	Installation or replacement of lighting, carpet, paint, office, etc.	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).
Property Exterior	Items such as repainting/resurfacing the exterior of a property or adding or replacement of property signage (not tenant-specific signage).	Touch up painting and resurfacing and schedule maintenance and ad-hoc repairs that serve to maintain quality and original life expectancy of improvements.
Parking Lot	Complete resurfacing or restriping of a parking lot, addition of easements and installation or replacement of parking lot lighting.	Scheduled maintenance or ad-hoc repair to maintain quality and original life expectancy of improvements, such as pothole repair, isolated lighting repair/replacement.
Landscape	Installation or replacement of non-seasonal landscaping (trees, sod, soil), retaining walls, sprinkler systems, etc.	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.
Sidewalks	Installation or replacement of sidewalks.	Scheduled maintenance and cleaning or ad-hoc repair to maintain quality and original life expectancy of sidewalk, such as repairing cracks or sealing concrete.
Drainage/Ponding	Installation or replacement of drainage or ponding structures.	Scheduled maintenance or ad-hoc repair to maintain quality and original life expectancy of improvements.

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. 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. Construction Management Fees:

Fees earned by the Property Manager for oversight of building and tenant improvements are recorded separately in general ledger account 15127-001 Third Party CM Fees.

E. ***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:

Expenditure	Common Capital Examples	Common Expense Examples
Leasing Commissions	Leasing commissions paid to a third-party broker for an executed lease.	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.
Marketing Costs	Not capitalized.	Brochures, temporary signage and open house activities.
Leasing Costs	Legal, due diligence and other administrative fees for successfully executed leases.	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.

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.

F. *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:

Expenditure	Common Capital Examples	Common Expense Examples
Cash Leasing Incentive	Cash paid to induce a tenant to enter a lease.	Not applicable.
Relocation Costs	Costs incurred to relocate a tenant from an unrelated, third-party owned property.	Costs incurred to relocate a tenant within the same property or from a property owned by the lessor, at the request of the lessor.

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.

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.

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.

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.

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.

15401-000 CIP TI – Make Ready is for Make Ready projects that do not have a specific tenant.
15402-000 CIP TI – Other is for TI projects that are tenant specific.
15403-000 CIP – BI is for Capital Building Improvements

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

A. 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.

Capital Approval Policy

As part of IPT'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 IPT Asset Manager Approval is required, based on the level of expenditure and whether or not the expense was budgeted.

All capital projects require a Capital Approval Form. Short and long versions of the form can be found on our Property Management Resource Center. The Small Project Capital Close Out (short) Form can be used for all single Vendor/Contractor/Invoice under $100,000 or multi-disciplined Projects under $50,000 with Asset Manager approval. Upon completion of the project, this form must be submitted to the Asset Manager with the Property Manager's approval. The Asset Manager will also approve the form if the total amount exceeds $25,000, or has a Construction Management Fee, or is recoverable.

The Capital Approval (long) Form will need to be utilized upon the direction of the Asset Manager for any multi-discipline Projects over $50,000 and all jobs over $100,000.

No Construction Management Fees shall be paid without the Asset Manager approval on the Small Project Capital Close-out or Capital Approval Form (on the Long form, signature is required on the last worksheet, titled Capital Project Close Out Final Cost Summary).

Refer to the Cost Capitalization Policy provided in this section to determine whether or not the capital expenditure is eligible for capitalization

Threshold	Number of Bids	Asset Manager Approval
Budgeted items less than $20,000	1	No
Budgeted items less than $20,000, but over budget by 10%	2	Yes
Unbudgeted items less than $20,000	2	Yes
Budgeted items between $20,000 and $50,000	2	No
Budgeted items between $20,000 and $50,000, but over budget by 10% or $5k	2	Yes
Unbudgeted items between $20,000 and $50,000	2	Yes
Budgeted items between $50,000 and $100,000	3	No
Budgeted items between $50,000 and $100,000, but over budget by 10% or $5k	3	Yes
Unbudgeted items between $50,000 and $100,000	3	Yes
All capital outlays greater than $100,000	3	Yes

Recoverable Capital Amortization

Some large costs or expenditures that are capital in nature may be passed through to tenants if permissible per their leases. These costs are generally amortized over a period longer than twelve months. The amortization period is most often equal to the useful life of the project, but a shorter period may also be appropriate. The Property Manager and Asset Manager will consider overall CAM costs to determine the recovery period.

1. For recoverable Building Improvements, the Property Manager will work with the Asset Manager to determine the following:
   a. How much of the capital is considered recoverable
   b. If the recovery will be spread over all allowable tenants in the building or if the recovery will be from only one specific tenant
   c. The period over which the capital will be recovered

2. Recoverable capital projects are paid as usual through the Yardi Accounts Payable module and coded to the appropriate Building Improvement general ledger account with the invoice and Capital Approval Form attached:
   - 15120-001 Asphalt
   - 15120-002 Roof
   - 15120-003 Interior/Exterior BI
   - 15120-004 Paint
   - 15120-005 HVAC
   - 15120-008 BI Other

3. A separate journal entry to record each recoverable item should then be posted by the Property Manager in the **Recovery Book**.

   a. The full amount of the asset will be debited to the same Building Improvement asset account to which the payment was coded in the Accrual Book.
   b. The recoverable amount will be offset by a credit to the contra asset account **15690-000 Recoverable Capital Offset**
   c. Attach the invoice to the journal entry with a note indicating the recoverable amount, recovery period, and participating tenants.

4. The asset will be set up in the Recovery book by IPT in the Fixed Asset System module of Yardi. The Property Manager is not responsible for recording the amortization.

   a. The monthly amortization will:
      i. Debit one of the 81117-XXX Depreciation Exp – Amortized Capital accounts:
         1. 81117-001 Depreciation Exp – Asphalt
         2. 81117-002 Depreciation Exp – Roof
         3. 81117-003 Depreciation Exp – Interior/Exterior BI
         4. 81117-004 Depreciation Exp – Paint
         5. 81117-005 Depreciation Exp – HVAC
         6. 81117-008 Depreciation Exp – BI Other

      ii. Credit 15690-001 Recoverable Capital Accumulated Depreciation
5. The monthly amounts in account 81117-XXX will pull into the budget and recoveries but will not affect the general ledger in the Accrual book

6. A FAS report can be run by the Property Manager from the Recovery book, but changes are made by IPT only

Example

$100,000 is spent on exterior painting in the month of May
The entries to the Accrual and Recovery Books are as follows:

1. Accrual Book

   Exterior painting costs completed and paid in May
   DR 15120-004 Paint $100,000
   CR 11105-000 Cash $100,000

2. Recovery Book
   a. Recoverable capital asset set up by Property Manager
      DR 15120-004 Paint $100,000
      CR 15690-000 Recoverable Capital Offset

Vendor/Service Contracts

Service Contracts should be used for recurring, day-to-day work performed at the property. IPT'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. IPT requires all service contracts to be re-bid every one to two years. All service contracts must be signed by IPT Asset Management.

Purchase Orders

In general, 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 may sign Purchase Orders up to $25,000 under the following conditions:

- Property Managers may sign all Purchase Orders under $2,500.
- Property Managers may sign all Purchase Orders between $2,500 and $25,000 if IPT Asset Management approval is not required.

IPT Asset Management approval (email is sufficient) is required if:

- IPT's bidding process is not followed
- The contract amount is more than $25,000
- If the contract amount is greater than $2,500 and the proposed amount represents more than a 10% variance from budget.

Property Managers must use the correct ownership entity and follow IPT's bidding process (found under Capital Approvals).

IPT's standard Purchase Order can be found on our Property Management Resource Center.

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. IPT's Standard AIA Contract can be found on the Property Management Resource Center. All modifications should be approved by the contractor and then sent to IPT for approval and to finalize the document.

Annual Inspection Policy

Annual Property and Roof Inspections

IPT 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 IPT Asset Management. A property inspection form can be found on our Property Management Resource Center.

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), IPT 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.

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 IPT. 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 IPT 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 IPT'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 IPT Asset Management.