

Update



National Association of Real Estate Investment Trusts®

FASB Modifies Guidance on Allocation of Interest Expense to Discontinued Operations

At its June 19-20, 2002 meeting, the Financial Accounting Standards Board's (FASB) Emerging Issues Task Force (EITF) modified its consensus with respect to Issue 87-24, *Allocation of Interest to Discontinued Operations*. The EITF decided to **require** the allocation to discontinued operations of interest on debt to be assumed by a buyer and/or debt that is required to be repaid as a result of a disposal transaction. Allocation to discontinued operations of other consolidated interest that is not directly attributable to or related to other operations of the entity will continue to be permitted based on the guidance in the original consensus. The original consensus in Issue 87-24 permitted, but did not require, the allocation of interest expense to discontinued operations and limited the maximum amount of that allocation to interest on debt to be assumed by a buyer and an allocation of other consolidated interest expense.

The consensus reached by the EITF at the June 2002 meeting should be applied to disposal transactions initiated after June 20, 2002. Previously reported operating results within an

entity's current fiscal year may be reclassified to reflect the consensus.

This modification follows the FASB's issuance of Statement of Financial Accounting Standards No.144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Statement 144, which applies to all industries and took effect on January 1, 2002 for calendar-year companies, expands the definition of "discontinued operations" to include the disposition of a component of an entity that "comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of an entity." As a result, both the results of operations for all periods presented and the gains/losses from most property dispositions must be reclassified from continuing operations to discontinued operations. As indicated above, the modified EITF consensus requires that certain interest be allocated to discontinued operations.

This modification will have no effect on the calculation of Funds From Operations (FFO), as FFO includes operating revenues and expenses reported in results of discontinued operations. Further, FFO continues to exclude gains/losses from dispositions.

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