

Furthermore, NNN determined in the year ended December 31, 2012 that its available sources of income supported realizability of all of its gross deferred tax assets. In 2012, NNN reversed the remaining valuation allowance and recorded an income tax benefit of \$1,178,000.

During the year ended December 31, 2013, NNN identified an immaterial error related to its statement of cash flows for the year ended December 31, 2011. The Company previously classified its payment for the termination of interest rate hedges of \$5,218,000 in financing activities. These instruments were hedging the risk of changes in the interest-related cash outflows associated with the potential issuance of long-term debt. This amount has been presented in operating activities in the 2013 consolidated financial statements.

Reclassification – Certain items in the prior year’s consolidated financial statements and notes to consolidated financial statements have been reclassified to conform to the 2013 presentation.

Note 2 – Real Estate:

Real Estate – Portfolio

Leases – The following outlines key information for NNN’s leases at December 31, 2013:

Lease classification:	
Operating	1,888
Direct financing	12
Building portion – direct financing / land portion – operating	1
Weighted average remaining lease term	12 years

The leases generally provide for limited increases in rent as a result of fixed increases, increases in the consumer price index, and/or increases in the tenant’s sales volume. Generally, the tenant is also required to pay all property taxes and assessments, substantially maintain the interior and exterior of the building and carry property and liability insurance coverage. Certain of NNN’s Properties are subject to leases under which NNN retains responsibility for specific costs and expenses of the property. Generally, the leases of the Properties provide the tenant with one or more multi-year renewal options subject to generally the same terms and conditions, including rent increases, consistent with the initial lease term.

Real Estate Portfolio – Accounted for Using the Operating Method – Real estate subject to operating leases consisted of the following as of December 31 (dollars in thousands):

	2013	2012
Land and improvements	\$ 1,650,651	\$ 1,474,299
Buildings and improvements	2,957,218	2,564,104
Leasehold interests	1,290	1,290
	4,609,159	4,039,693
Less accumulated depreciation and amortization	(416,477)	(332,156)
	4,192,682	3,707,537
Work in progress	60,682	86,507
	<u>\$ 4,253,364</u>	<u>\$ 3,794,044</u>

Some leases provide for scheduled rent increases throughout the lease term. Such amounts are recognized on a straight-line basis over the terms of the leases. For the years ended December 31, 2013, 2012 and 2011, NNN recognized collectively in continuing and discontinued operations, (\$338,000), \$487,000 and (\$222,000), respectively, of such income, net of reserves. At December 31, 2013 and 2012, the balance of accrued rental income, net of allowances of \$3,181,000 and \$3,270,000, respectively, was \$24,797,000 and \$25,458,000, respectively.