

NOTE 9. LEASE COMMITMENTS

PRIMARY GOVERNMENT

The State has entered into various property and equipment operating leases (terms in excess of one year) with aggregate future rentals approximating \$150.9 million, of which \$121.4 million relates to property leases and \$29.5 million relates to equipment leases. Operating leases contain various renewal options. Any escalation clauses, sublease rentals and contingent rents are considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures of the related fund when paid. Appropriations of approximately \$23.9 million were made by the General Assembly to meet the rental payments in fiscal 2002, of which \$14.6 million was for office space and \$9.3 million was for equipment consisting mainly of computers, data processing equipment and fleet vehicles.

Significant annual equipment rentals include \$4.6 million for computers and data processing equipment for the Executive Department and \$3.0 million for fleet vehicles with the Department of Administrative Services. Significant annual real estate rentals include \$3.7 million for leases for Health and Social Services facilities,

\$2.3 million for the Department of Labor and \$1.7 million for office space of the Department of Services for Children, Youth and Their Families.

Future minimum lease commitments for operating leases as of June 30, 2002 are shown in the following table.

State of Delaware Lease Commitments
(Expressed in Thousands)

Year Ending June 30	Operating Leases
2003	\$ 24,606
2004	22,121
2005	18,253
2006	13,426
2007	11,150
2008-2012	34,821
2013-2017	6,286
2018-2022	4,691
Thereafter	15,569
	<u>\$ 150,923</u>

COMPONENT UNIT

Diamond State Port Corporation (DSPC)

The DSPC leases high-speed freezer doors under capital leases expiring in 2006. Depreciation of assets under capital leases is included in depreciation expense. The cost of assets under capital leases was \$142,389 at June 30, 2002. Accumulated depreciation at June 30, 2002 amounted to \$9,493. Future minimum capital lease commitments as of June 30, 2002 amounted to \$143,840.

The DSPC leases forty forklifts and a number of other vehicles under five year operating leases expiring between 2005 and 2007. Minimum monthly rental payments for 2002 were \$22,562. The following table details future obligations.

Year Ending June 30	Operating Leases
2003	\$ 271
2004	271
2005	264
2006	263
2007	109
	<u>\$ 1,178</u>

The DSPC also leases various equipment on a short-term basis for its operations. Rental expense was \$601,980 for 2002.

Riverfront Development Corporation (RDC)

The RDC has entered into a lease for real property that houses the First USA Riverfront Arts Center. This lease is for a term of 15 years, expiring May 31, 2013. Minimum annual rent of \$763,364 is based on the lessor's debt service on a \$6 million loan, amortized over fifteen years, at 7.4% interest plus \$100,000. Rent expense was \$748,192 for the years ended June 30, 2002. As additional rent, RDC is required to pay a percentage of the gross revenue generated from the facility in excess of the base rent plus operating costs. There was no additional rent due for the year ended June 30, 2002. Total remaining annual rent payments for the lease are \$8,333,388 at June 30, 2002.

Delaware State University

The University has entered into capital leases for certain telephone equipment. The economic substance of the leases is that the University is financing the acquisition of the assets through the leases, and accordingly, they are recorded in the University's assets and liabilities. Future minimum payments under capital leases and the asset purchase agreement are as follows:

(Expressed in Thousands)	
Year Ending June 30	Capital Leases
2003	\$ 177
2004	179
2005	179
2006	56
Total Future Payments	<u>591</u>
Less: Interest	<u>45</u>
Present Value of Future Payments	<u><u>\$ 546</u></u>

The University has also entered into various non-cancelable operating leases for copying and residence hall equipment. During the year ended June 30, 2002, related rental expense amounted to \$439,028. At June 30, 2002, future minimum rents due under these leases amount to \$414,245 and \$143,469 for fiscal years 2003 and 2004, respectively.