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**NOTES TO THE FINANCIAL STATEMENTS**


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**NOTE 8: LEASE OBLIGATIONS—OPERATING AND CAPITAL**


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The State and its component units have entered into various operating and capital leases for office space and for office, communications, computer and other equipment. Any operating leases with scheduled rent increases are considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures or expenses of the related funds when paid or incurred. For the year ended June 30, 2003, total operating lease expenditures were \$65.6 million for Primary Government, \$28.8 million for Universities, and \$5.2 million for Community Colleges. Future minimum lease commitments for noncancelable operating leases and capital leases as of June 30, 2003 are (dollars in thousands):

Fiscal Year	Operating Leases			Capital Leases		
	Primary Government	Component Units		Governmental Activities	Component Units	
		University of North Carolina System	Community Colleges		University of North Carolina System	Community Colleges
2004	\$ 46,730	\$ 18,124	\$ 4,110	\$ 205	\$ 988	\$ 401
2005	37,276	13,834	3,222	93	923	325
2006	30,308	8,632	1,594	85	173	315
2007	20,309	4,999	1,010	53	16	309
2008	15,142	2,958	493	14	—	292
2009 - 2013	21,415	6,983	604	—	—	1,453
2014 - 2018	11,017	79	—	—	—	—
2019 - 2023	10,306	39	—	—	—	—
2024 - 2028	9,832	23	—	—	—	—
2029 - 2033	8,082	—	—	—	—	—
2034 - 2038	8,082	—	—	—	—	—
2039 - 2043	8,082	—	—	—	—	—
2044 - 2048	8,082	—	—	—	—	—
2049 - 2053	6,466	—	—	—	—	—
<b>Total Future Minimum Lease Payments.....</b>	<b>\$ 241,129</b>	<b>\$ 55,671</b>	<b>\$ 11,033</b>	450	2,100	3,095
Less: Amounts Representing Interest				128	157	771
<b>Present Value of Future Minimum Lease Payments</b>				<b>\$ 322</b>	<b>\$ 1,943</b>	<b>\$ 2,324</b>

At June 30, 2003, fixed assets acquired under capital leases are as follows (dollars in thousands):

	Primary Government	Component Units	
	Governmental Activities	University of North Carolina System	Community Colleges
Machinery and Equipment.....	\$ 296	\$ 4,320	\$ 2,954
Other.....	—	874	—
Less: Accumulated Depreciation.....	—	(1,949)	(439)
<b>Total Fixed Assets.....</b>	<b>\$ 296</b>	<b>\$ 3,245</b>	<b>\$ 2,515</b>

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