

NOTES TO THE FINANCIAL STATEMENTS**NOTE 5: CAPITAL ASSETS**

Primary Government A summary of changes in capital assets for the year ended June 30, 2023 is presented below (dollars in thousands).

Governmental Activities	Balance July 1, 2022 (as restated)	Increases	Decreases	Balance June 30, 2023
Capital Assets, nondepreciable				
Land and permanent easements	\$ 21,478,222	\$ 887,134	\$ (36,434)	\$ 22,328,922
Art, literature, and other artifacts	150,492	37,450	(488)	187,454
Construction in progress	3,038,804	3,292,965	(2,699,354)	3,632,415
Computer software in development	903,675	106,841	-	1,010,516
Total Capital Assets-nondepreciable	<u>25,571,193</u>	<u>4,324,390</u>	<u>(2,736,276)</u>	<u>27,159,307</u>
Capital Assets, depreciable				
Buildings	4,698,948	25,851	(5,925)	4,718,874
Machinery and equipment	2,122,875	207,302	(141,383)	2,188,794
General infrastructure	384,594	4,559	(819)	388,334
State highway system	46,952,576	2,673,818	(186,612)	49,439,782
Computer software	433,470	-	(529)	432,941
Subscription asset	189,976	118,122	-	308,098
Right to use lease assets, depreciable				
Land and permanent easements	542	2	(30)	514
Buildings	460,277	52,465	(36,570)	476,172
Machinery and equipment	3,762	988	(292)	4,458
General infrastructure	1,632	4	(2)	1,634
Total Capital Assets-depreciable	<u>55,248,652</u>	<u>3,083,111</u>	<u>(372,162)</u>	<u>57,959,601</u>
Less accumulated depreciation for				
Capital assets, depreciable				
Buildings	(1,618,106)	(81,171)	2,825	(1,696,452)
Machinery and equipment	(1,322,144)	(113,808)	119,278	(1,316,674)
General infrastructure	(150,558)	(8,229)	694	(158,093)
State highway system	(14,522,082)	(988,795)	182,879	(15,327,998)
Computer software	(130,194)	(17,106)	223	(147,077)
Subscription asset	-	(61,956)	-	(61,956)
Right to use lease assets, depreciable				
Land and permanent easements	(41)	(16)	3	(54)
Buildings	(49,204)	(47,472)	6,397	(90,279)
Machinery and equipment	(2,100)	(1,707)	803	(3,004)
General infrastructure	(267)	(278)	1	(544)
Total accumulated depreciation	<u>(17,794,696)</u>	<u>(1,320,538)</u>	<u>313,103</u>	<u>(18,802,131)</u>
Total Capital Assets-depreciable, net	<u>37,453,956</u>	<u>1,762,573</u>	<u>(59,059)</u>	<u>39,157,470</u>
Governmental activities				
Capital Assets, net	<u>\$ 63,025,149</u>	<u>\$ 6,086,963</u>	<u>\$ (2,795,335)</u>	<u>\$ 66,316,777</u>

NOTES TO THE FINANCIAL STATEMENTS**Business-type Activities**

	Balance July 1, 2022 (as restated)	Increases	Decreases	Balance June 30, 2023
Capital Assets, nondepreciable				
Land and permanent easements	\$ 569,389	\$ 34,713	\$ -	\$ 604,102
Art, literature, and other artifacts	1,293	-	-	1,293
Construction in progress	698,766	212,384	-	911,150
Total Capital Assets-nondepreciable	<u>1,269,448</u>	<u>247,097</u>	<u>-</u>	<u>1,516,545</u>
Capital Assets, depreciable				
Buildings	114,529	100	(1)	114,628
Machinery and equipment	26,151	1,872	(962)	27,061
General infrastructure	20,240	-	-	20,240
NC toll road system	1,534,469	-	-	1,534,469
Computer software	1,835	56	-	1,891
Subscription asset	-	3,395	-	3,395
Right to use lease assets, depreciable				
Buildings	9,537	-	(70)	9,467
Machinery and equipment	729	164	(276)	617
Total Capital Assets-depreciable	<u>1,707,490</u>	<u>5,587</u>	<u>(1,309)</u>	<u>1,711,768</u>
Less accumulated depreciation for				
Capital Assets, depreciable				
Buildings	(53,887)	(3,770)	1	(57,656)
Machinery and equipment	(18,621)	(1,856)	760	(19,717)
General infrastructure	(14,066)	(330)	-	(14,396)
NC toll road system	(205,516)	(29,684)	-	(235,200)
Computer software	(1,314)	(197)	-	(1,511)
Subscription asset	-	(704)	-	(704)
Right to use lease assets, depreciable				
Buildings	(1,952)	(1,660)	70	(3,542)
Machinery and equipment	(350)	(228)	262	(316)
Total accumulated depreciation	<u>(295,706)</u>	<u>(38,429)</u>	<u>1,093</u>	<u>(333,042)</u>
Total Capital Assets-depreciable, net	<u>1,411,784</u>	<u>(32,842)</u>	<u>(216)</u>	<u>1,378,726</u>
Business-type activities				
Capital Assets, net	<u>\$ 2,681,232</u>	<u>\$ 214,255</u>	<u>\$ (216)</u>	<u>\$ 2,895,271</u>

NOTES TO THE FINANCIAL STATEMENTS**Depreciation expense was charged to functions/programs of the primary government as follows (dollars in thousands):****Governmental activities**

General government	\$	57,159
Primary and secondary education		16,708
Higher education		1,498
Health and human services		72,415
Economic development		3,542
Environment and natural resources		28,522
Public safety, corrections, and regulation		80,847
Transportation		1,049,264
Agriculture		10,583
Total depreciation expense	\$	<u>1,320,538</u>

Business-type activities

N.C. State Lottery	\$	1,173
N.C. Turnpike Authority		29,684
Regulatory programs		4,782
North Carolina State Fair		1,010
Other business-type activities		1,780
Total depreciation expense	\$	<u>38,429</u>

Public-Private Partnership Arrangements for the North Carolina Department of Transportation

In June 2014, the North Carolina Department of Transportation (NCDOT) entered into a public-private partnership (PPP) arrangement with I-77 Mobility Partners LLC (MP LLC) to design, build, finance and operate the I-77 High Occupancy Toll (HOT) Lanes Project. During fiscal year 2020, improvements were completed along approximately 26 miles of the I-77 corridor, in Mecklenburg and Iredell Counties. This included the conversion of HOV (high occupancy vehicles) lanes to express lanes or high occupancy toll (HOT) lanes and the construction of new HOT lanes and two major interchanges. Under the arrangement, MP LLC will operate the HOT lanes for 50 years and have the exclusive right to impose tolls and incidental charges to express lane users. NCDOT maintains title of the real property underlying the I-77 toll lanes and reports the I-77 HOT lanes as a capital asset with a carrying value of \$189.19 million at fiscal year-end and a related deferred inflow of resources of \$68.73 million that is amortized using the straight-line method over the term of the PPP agreement. NCDOT recognized \$1.48 million in revenue during the fiscal year related to the amortization of the deferred inflow of resources.

Public-Private Partnership Arrangements for the North Carolina Department of Natural and Cultural Resources

In May 2007, the Department of Natural and Cultural Resources (DNCR) entered in to a public-private partnership arrangement with Chimney Rock Management, LLC (CRM LLC) in which DNCR conveyed control of the right to operate public facilities within the Chimney Rock Section of Chimney Rock State Park (the Park). Since 2007, this agreement has been amended and extended, and the most recent amendment term is set to expire on December 31, 2023.

In the arrangement, CRM LLC is given exclusive use of the existing buildings, trails, furnishings, vehicles and equipment for the operation of the Park. While the operating plan is subject to the approval of the DNCR, CRM LLC makes all employment and business decisions as it relates to the operations of the park and is responsible for collecting fees from Park visitors, including fees collected for various Park services and use of facilities. DNCR receives a certain percentage of Park revenues, with no minimum payment requirements. The percentage received is based on annual gross sales and a fee schedule outlined in the arrangement as amended. DNCR received and recognized \$798 thousand in sales and services related to Park revenues in fiscal year 2023. DNCR reported capital assets for the park and the associated public facilities with a carrying value of \$1.25 million at the fiscal year-end.

NOTES TO THE FINANCIAL STATEMENTS

Component Units (University of North Carolina System and community colleges). Capital asset activity for the University of North Carolina System and community colleges for the fiscal year ended June 30, 2023, was as follows (dollars in thousands):

University of North Carolina System

	Balance July 1, 2022 (as restated)	Increases	Decreases	Balance June 30, 2023
Capital Assets, nondepreciable				
Land and permanent easements	\$ 522,015	\$ 22,909	\$ (113)	\$ 544,811
Art, literature, and other artifacts	249,376	10,184	(105)	259,455
Construction in progress	989,438	503,906	(478,473)	1,014,871
Computer software in development	845	8,813	(2,593)	7,065
Other intangible assets	9,917	-	-	9,917
Total Capital Assets-nondepreciable	<u>1,771,591</u>	<u>545,812</u>	<u>(481,284)</u>	<u>1,836,119</u>
Capital Assets, depreciable				
Buildings	17,184,901	395,821	(41,054)	17,539,668
Machinery and equipment	3,099,403	314,731	(92,923)	3,321,211
Art, literature, and artifacts	202	-	-	202
General infrastructure	2,360,682	97,588	(6,077)	2,452,193
Computer software	433,603	21,295	(10)	454,888
Subscription asset	267,977	40,743	-	308,720
Other intangible assets	1,371	-	-	1,371
Right to use lease assets, depreciable				
Land and permanent easements	833	9,732	(15)	10,550
Buildings	711,766	80,333	(22,497)	769,602
Machinery and equipment	34,640	1,344	(1,713)	34,271
General infrastructure	6,573	-	-	6,573
Total Capital Assets-depreciable	<u>24,101,951</u>	<u>961,587</u>	<u>(164,289)</u>	<u>24,899,249</u>
Less accumulated depreciation for				
Capital Assets, depreciable				
Buildings	(5,840,748)	(405,141)	17,389	(6,228,500)
Machinery and equipment	(2,006,213)	(180,237)	79,339	(2,107,111)
Art, literature, and other artifacts	(196)	(1)	-	(197)
General infrastructure	(1,055,092)	(63,965)	1,071	(1,117,986)
Computer software	(335,311)	(40,967)	10	(376,268)
Subscription asset	-	(87,723)	-	(87,723)
Other intangible assets	(2,325)	(234)	-	(2,559)
Right to use lease assets, depreciable				
Land and permanent easements	(116)	(156)	15	(257)
Buildings	(151,475)	(108,693)	3,443	(256,725)
Machinery and equipment	(7,618)	(6,468)	1,106	(12,980)
General infrastructure	(766)	(766)	-	(1,532)
Total accumulated depreciation	<u>(9,399,860)</u>	<u>(894,351)</u>	<u>102,373</u>	<u>(10,191,838)</u>
Total Capital Assets-depreciable, net	<u>14,702,091</u>	<u>67,236</u>	<u>(61,916)</u>	<u>14,707,411</u>
University of North Carolina System				
Capital Assets, net	<u>\$ 16,473,682</u>	<u>\$ 613,048</u>	<u>\$ (543,200)</u>	<u>\$ 16,543,530</u>

Capital assets of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At June 30, 2023, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had nondepreciable capital assets of \$65.421 million and net depreciable capital assets of \$131.029 million.

NOTES TO THE FINANCIAL STATEMENTS**Public-Private Partnership Arrangements for Noble Hall at Western Carolina University**

In August 2016, construction was completed on Noble Hall pursuant to a public-private partnership agreement between Western Carolina University (University) and a third party developer, Collegiate Housing Foundation (Foundation), under which the Foundation designed and built a mixed use facility that includes residential units, commercial, and dining establishments. The building is on land owned by the Board of Trustees of the University's Endowment Fund, a body established under the State of North Carolina, and leased to the Foundation for 40 years. The student housing facility is managed by the University under the terms of the management agreement. The University is operating the facility with budgetary oversight from the Foundation. At the end of the arrangement, the Foundation will transfer its interest in the facility at no cost to the University or, if directed by the University, to the Board of Trustees of the University's Endowment Fund.

In order to promote economic, cultural, and community development opportunities, including the creation of employment, and the stimulation of economic activity, the University entered into this agreement with the Foundation to construct the facility. Under this arrangement, the University is responsible for providing electricity to the facility over the course of the 40-year lease agreement. The University reports the facility as a capital asset with a carrying amount of \$23.9 million at year-end and a related deferred inflow of resources of \$21.2 million that is amortized using the straight-line method over the terms of the lease agreement.

Public-Private Partnership Arrangements for Student Housing

The University of North Carolina at Wilmington, Appalachian State University, and North Carolina Central University (collectively "the universities") completed construction on student housing facilities pursuant to separate agreements with third-party developers, under which such developers will construct and operate the facilities for 50 years, in certain cases with the budgetary oversight of the developer. Each student housing facility is located on property either owned or leased by each individual university. Residence life programming will be managed by each individual university under the terms of the management agreements and operating agreements established with each third-party developer. At the end of each arrangement, the third-party developers will transfer interest in the facilities at no cost to the universities. North Carolina Central University retains the right to buy out its ground lease prior to the expiration of its lease.

The universities entered into these agreements to address shortages in student housing caused by enrollment growth as well as increased demand for updated on-campus housing, while avoiding the issuance of debt. Under its specific arrangement, Appalachian State University is required to provide certain services related to the facility under the agreement, including facility management, maintenance, and security. Collectively, the universities report the facilities as capital assets with an aggregate carrying amount of \$324.92 million at year-end and a related deferred inflow of resources of \$313.05 million.

NOTES TO THE FINANCIAL STATEMENTS**Community Colleges**

	Balance July 1, 2022 (as restated)	Increases	Decreases	Balance June 30, 2023
Capital Assets, nondepreciable				
Land and permanent easements	\$ 223,525	\$ 9,099	\$ (3,952)	\$ 228,672
Art, literature, and other artifacts	984	176	-	1,160
Construction in progress	223,052	230,719	(141,627)	312,144
Other intangible assets	1,134	2,292	(1,135)	2,291
Total Capital Assets-nondepreciable	<u>448,695</u>	<u>242,286</u>	<u>(146,714)</u>	<u>544,267</u>
Capital Assets, depreciable				
Buildings	4,206,148	140,141	(1,097)	4,345,192
Machinery and equipment	641,511	67,938	(19,324)	690,125
Art, literature, and artifacts	771	-	-	771
General infrastructure	276,899	5,022	(922)	280,999
Computer software	-	60	-	60
Subscription asset	5,835	21,841	(403)	27,273
Right to use lease assets, depreciable				
Land and permanent easements	592	1,211	(143)	1,660
Buildings	59,736	736	(4,128)	56,344
Machinery and equipment	10,159	3,228	(1,823)	11,564
General infrastructure	9,464	-	-	9,464
Total Capital Assets-depreciable	<u>5,211,115</u>	<u>240,177</u>	<u>(27,840)</u>	<u>5,423,452</u>
Less accumulated depreciation for				
Capital Assets, depreciable				
Buildings	(1,205,040)	(83,601)	643	(1,287,998)
Machinery and equipment	(295,132)	(35,551)	15,336	(315,347)
Art, literature, and other artifacts	(277)	(20)	-	(297)
General infrastructure	(84,527)	(7,512)	401	(91,638)
Computer software	-	(7)	-	(7)
Subscription asset	-	(8,420)	403	(8,017)
Right to use lease assets, depreciable				
Land and permanent easements	(50)	(797)	3	(844)
Buildings	(10,831)	(4,831)	5,085	(10,577)
Machinery and equipment	(3,504)	(2,678)	863	(5,319)
General infrastructure	(1,603)	(531)	-	(2,134)
Total accumulated depreciation	<u>(1,600,964)</u>	<u>(143,948)</u>	<u>22,734</u>	<u>(1,722,178)</u>
Total Capital Assets-depreciable, net	<u>3,610,151</u>	<u>96,229</u>	<u>(5,106)</u>	<u>3,701,274</u>
Community Colleges				
Capital Assets, net	<u>\$ 4,058,846</u>	<u>\$ 338,515</u>	<u>\$ (151,820)</u>	<u>\$ 4,245,541</u>

Capital assets of nongovernmental component units of community colleges are excluded from the above amounts. At June 30, 2023, nongovernmental component unit foundations and similarly affiliated organizations of community colleges had nondepreciable capital assets of \$12.273 million and net depreciable capital assets of \$6.795 million.