

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

Primary Government A summary of changes in capital assets for the year ended June 30, 2024 is presented below (dollars in thousands).

Governmental Activities	Balance July 1, 2023 (as restated)	Increases	Decreases	Balance June 30, 2024
Capital Assets, nondepreciable				
Land and permanent easements	\$ 22,416,748	\$ 1,092,025	\$ (14,658)	\$ 23,494,115
Art, literature, and other artifacts	187,454	2,847	(5)	190,296
Construction in progress	3,533,054	3,360,995	(3,146,278)	3,747,771
Computer software in development	1,010,515	79,261	(36,483)	1,053,293
Total Capital Assets-nondepreciable	<u>27,147,771</u>	<u>4,535,128</u>	<u>(3,197,424)</u>	<u>28,485,475</u>
Capital Assets, depreciable				
Buildings	4,692,207	26,565	(240,109)	4,478,663
Machinery and equipment	2,352,043	481,193	(95,895)	2,737,341
General infrastructure	390,620	7,510	(11,573)	386,557
State highway system	49,439,782	3,076,144	(164,345)	52,351,581
Computer software	433,247	52,741	(331)	485,657
Subscription asset	256,501	93,195	(14,240)	335,456
Right to use lease assets, depreciable				
Land and permanent easements	514	109	-	623
Buildings	473,096	73,724	(11,577)	535,243
Machinery and equipment	4,486	342	(642)	4,186
General infrastructure	1,634	-	-	1,634
Total Capital Assets-depreciable	<u>58,044,130</u>	<u>3,811,523</u>	<u>(538,712)</u>	<u>61,316,941</u>
Less accumulated depreciation for				
Capital assets, depreciable				
Buildings	(1,696,644)	(94,873)	94,205	(1,697,312)
Machinery and equipment	(1,335,988)	(131,889)	59,676	(1,408,201)
General infrastructure	(158,126)	(8,476)	7,098	(159,504)
State highway system	(15,327,998)	(1,047,032)	161,058	(16,213,972)
Computer software	(147,180)	(26,545)	6	(173,719)
Subscription asset	(48,485)	(92,474)	4	(140,955)
Right to use lease assets, depreciable				
Land and permanent easements	(72)	(44)	-	(116)
Buildings	(92,359)	(40,669)	5,751	(127,277)
Machinery and equipment	(2,703)	(984)	400	(3,287)
General infrastructure	(544)	(277)	346	(475)
Total accumulated depreciation	<u>(18,810,099)</u>	<u>(1,443,263)</u>	<u>328,544</u>	<u>(19,924,818)</u>
Total Capital Assets-depreciable, net	<u>39,234,031</u>	<u>2,368,260</u>	<u>(210,168)</u>	<u>41,392,123</u>
Governmental activities				
Capital Assets, net	<u>\$ 66,381,802</u>	<u>\$ 6,903,388</u>	<u>\$ (3,407,592)</u>	<u>\$ 69,877,598</u>

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

	Balance July 1, 2023 (as restated)	Increases	Decreases	Balance June 30, 2024
Capital Assets, nondepreciable				
Land and permanent easements	\$ 604,102	\$ 46,548	\$ -	\$ 650,650
Art, literature, and other artifacts	1,293	-	-	1,293
Construction in progress	<u>911,150</u>	<u>237,545</u>	<u>-</u>	<u>1,148,695</u>
Total Capital Assets-nondepreciable	<u>1,516,545</u>	<u>284,093</u>	<u>-</u>	<u>1,800,638</u>
Capital Assets, depreciable				
Buildings	114,628	375	(38)	114,965
Machinery and equipment	27,128	1,761	(2,147)	26,742
General infrastructure	20,240	-	-	20,240
NC toll road system	1,534,469	-	-	1,534,469
Computer software	1,891	152	(6)	2,037
Subscription asset	3,617	280	-	3,897
Right to use lease assets, depreciable				
Buildings	9,472	2,547	(2,850)	9,169
Machinery and equipment	<u>617</u>	<u>483</u>	<u>(205)</u>	<u>895</u>
Total Capital Assets-depreciable	<u>1,712,062</u>	<u>5,598</u>	<u>(5,246)</u>	<u>1,712,414</u>
Less accumulated depreciation for				
Capital Assets, depreciable				
Buildings	(57,656)	(2,819)	38	(60,437)
Machinery and equipment	(19,707)	(1,852)	1,566	(19,993)
General infrastructure	(14,406)	(339)	-	(14,745)
NC toll road system	(235,200)	(29,684)	-	(264,884)
Computer software	(1,511)	(77)	6	(1,582)
Subscription asset	(766)	(873)	-	(1,639)
Right to use lease assets, depreciable				
Buildings	(3,542)	(1,752)	1,530	(3,764)
Machinery and equipment	<u>(316)</u>	<u>(214)</u>	<u>197</u>	<u>(333)</u>
Total accumulated depreciation	<u>(333,104)</u>	<u>(37,610)</u>	<u>3,337</u>	<u>(367,377)</u>
Total Capital Assets-depreciable, net	<u>1,378,958</u>	<u>(32,012)</u>	<u>(1,909)</u>	<u>1,345,037</u>
Business-type activities				
Capital Assets, net	<u>\$ 2,895,503</u>	<u>\$ 252,081</u>	<u>\$ (1,909)</u>	<u>\$ 3,145,675</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	\$	71,591
Primary and secondary education		18,918
Higher education		1,316
Health and human services		87,751
Economic development		4,038
Environment and natural resources		28,275
Public safety, corrections, and regulation		91,286
Transportation		1,127,007
Agriculture		13,081
Total depreciation expense	\$	<u>1,443,263</u>

Business-type activities

N.C. State Lottery	\$	950
N.C. Turnpike Authority		29,687
Regulatory programs		4,997
North Carolina State Fair		936
Other business-type activities		1,040
Total depreciation expense	\$	<u>37,610</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 \$67.25 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, 2032.

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 \$911 thousand in sales and services related to Park revenues in fiscal year 2024. DNCR reported capital assets for the park and the associated public facilities with a carrying value of \$1.21 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, 2024, was as follows (dollars in thousands):

University of North Carolina System

	Balance July 1, 2023 (as restated)	Increases	Decreases	Balance June 30, 2024
Capital Assets, nondepreciable				
Land and permanent easements	\$ 544,811	\$ 20,124	\$ (32)	\$ 564,903
Art, literature, and other artifacts	259,455	4,404	(151)	263,708
Construction in progress	1,016,379	635,201	(434,320)	1,217,260
Computer software in development	7,065	12,508	(16,809)	2,764
Other intangible assets	24,436	-	(4,748)	19,688
Total Capital Assets-nondepreciable	<u>1,852,146</u>	<u>672,237</u>	<u>(456,060)</u>	<u>2,068,323</u>
Capital Assets, depreciable				
Buildings	17,539,668	418,844	(44,374)	17,914,138
Machinery and equipment	3,470,751	387,542	(196,203)	3,662,090
Art, literature, and artifacts	202	-	-	202
General infrastructure	2,452,688	67,999	(1,374)	2,519,313
Computer software	459,018	36,018	(2,201)	492,835
Subscription asset	312,024	162,903	(20,061)	454,866
Other intangible assets	1,371	-	(1,371)	-
Right to use lease assets, depreciable				
Land and permanent easements	10,550	825	(58)	11,317
Buildings	771,195	94,562	(44,244)	821,513
Machinery and equipment	34,262	16,964	(2,470)	48,756
General infrastructure	6,573	-	-	6,573
Total Capital Assets-depreciable	<u>25,058,302</u>	<u>1,185,657</u>	<u>(312,356)</u>	<u>25,931,603</u>
Less accumulated depreciation for				
Capital Assets, depreciable				
Buildings	(6,228,567)	(413,655)	21,955	(6,620,267)
Machinery and equipment	(2,163,610)	(208,379)	179,648	(2,192,341)
Art, literature, and other artifacts	(197)	(1)	-	(198)
General infrastructure	(1,117,986)	(67,200)	1,051	(1,184,135)
Computer software	(377,508)	(42,514)	2,049	(417,973)
Subscription asset	(82,183)	(99,526)	6,776	(174,933)
Other intangible assets	(2,559)	-	117	(2,442)
Right to use lease assets, depreciable				
Land and permanent easements	(257)	(326)	30	(553)
Buildings	(257,253)	(90,644)	4,439	(343,458)
Machinery and equipment	(12,980)	(7,768)	1,582	(19,166)
General infrastructure	(1,532)	(766)	-	(2,298)
Total accumulated depreciation	<u>(10,244,632)</u>	<u>(930,779)</u>	<u>217,647</u>	<u>(10,957,764)</u>
Total Capital Assets-depreciable, net	<u>14,813,670</u>	<u>254,878</u>	<u>(94,709)</u>	<u>14,973,839</u>
University of North Carolina System				
Capital Assets, net	<u>\$ 16,665,816</u>	<u>\$ 927,115</u>	<u>\$ (550,769)</u>	<u>\$ 17,042,162</u>

Capital assets of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At June 30, 2024, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had nondepreciable capital assets of \$52.468 million and net depreciable capital assets of \$127.538 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 \$23.64 million at year-end and a related deferred inflow of resources of \$20.54 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 \$315.43 million at year-end and a related deferred inflow of resources of \$305.72 million.

NOTES TO THE FINANCIAL STATEMENTS**Community Colleges**

	Balance July 1, 2023 (as restated)	Increases	Decreases	Balance June 30, 2024
Capital Assets, nondepreciable				
Land and permanent easements	\$ 228,843	\$ 7,690	\$ (343)	\$ 236,190
Art, literature, and other artifacts	1,161	-	-	1,161
Construction in progress	307,427	166,984	(299,703)	174,708
Other intangible assets	2,292	-	-	2,292
Total Capital Assets-nondepreciable	<u>539,723</u>	<u>174,674</u>	<u>(300,046)</u>	<u>414,351</u>
Capital Assets, depreciable				
Buildings	4,348,824	296,287	(3,320)	4,641,791
Machinery and equipment	763,115	83,502	(27,078)	819,539
Art, literature, and artifacts	771	290	-	1,061
General infrastructure	283,740	7,611	(327)	291,024
Computer software	60	660	-	720
Subscription asset	27,827	11,628	(1,425)	38,030
Right to use lease assets, depreciable				
Land and permanent easements	2,245	-	-	2,245
Buildings	55,865	933	(872)	55,926
Machinery and equipment	11,888	2,536	(1,207)	13,217
General infrastructure	9,451	-	-	9,451
Total Capital Assets-depreciable	<u>5,503,786</u>	<u>403,447</u>	<u>(34,229)</u>	<u>5,873,004</u>
Less accumulated depreciation for				
Capital Assets, depreciable				
Buildings	(1,288,751)	(86,575)	1,383	(1,373,943)
Machinery and equipment	(336,638)	(49,449)	20,129	(365,958)
Art, literature, and other artifacts	(297)	(24)	-	(321)
General infrastructure	(90,850)	(6,733)	69	(97,514)
Computer software	(7)	(95)	-	(102)
Subscription asset	(8,234)	(9,673)	1,250	(16,657)
Right to use lease assets, depreciable				
Land and permanent easements	(564)	(54)	-	(618)
Buildings	(10,930)	(4,643)	532	(15,041)
Machinery and equipment	(5,555)	(2,871)	887	(7,539)
General infrastructure	(2,120)	(561)	117	(2,564)
Total accumulated depreciation	<u>(1,743,946)</u>	<u>(160,678)</u>	<u>24,367</u>	<u>(1,880,257)</u>
Total Capital Assets-depreciable, net	<u>3,759,840</u>	<u>242,769</u>	<u>(9,862)</u>	<u>3,992,747</u>
Community Colleges				
Capital Assets, net	<u>\$ 4,299,563</u>	<u>\$ 417,443</u>	<u>\$ (309,908)</u>	<u>\$ 4,407,098</u>

Capital assets of nongovernmental component units of community colleges are excluded from the above amounts. At June 30, 2024, nongovernmental component unit foundations and similarly affiliated organizations of community colleges had nondepreciable capital assets of \$12.719 million and net depreciable capital assets of \$7.249 million.