

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

Primary Government A summary of changes in capital assets for the year ended June 30, 2021 is presented below (dollars in thousands).

| Governmental Activities | Balance July 1, 2020 (as restated) | Increases | Decreases | Balance June 30, 2021 |
|--|---|------------------|------------------|----------------------------------|
| Capital Assets, nondepreciable | | | | |
| Land and permanent easements | \$ 20,083,620 | \$ 585,358 | \$ (25,575) | \$ 20,643,403 |
| Art, literature, and other artifacts | 147,082 | 2,534 | (2,175) | 147,441 |
| Construction in progress | 3,138,670 | 2,411,805 | (2,794,761) | 2,755,714 |
| Computer software in development | 712,600 | 91,632 | (12,329) | 791,903 |
| Total Capital Assets-nondepreciable | 24,081,972 | 3,091,329 | (2,834,840) | 24,338,461 |
| Capital Assets, depreciable | | | | |
| Buildings | 4,343,390 | 78,941 | (10,172) | 4,412,159 |
| Machinery and equipment | 2,056,658 | 89,166 | (86,930) | 2,058,894 |
| General infrastructure | 369,390 | 4,337 | (1,447) | 372,280 |
| State highway system | 42,297,684 | 2,737,186 | (170,471) | 44,864,399 |
| Computer software | 370,822 | 30,276 | - | 401,098 |
| Total Capital Assets-depreciable | 49,437,944 | 2,939,906 | (269,020) | 52,108,830 |
| Less accumulated depreciation for | | | | |
| Buildings | (1,477,529) | (79,518) | 1,881 | (1,555,166) |
| Machinery and equipment | (1,220,493) | (103,361) | 64,378 | (1,259,476) |
| General infrastructure | (134,897) | (4,751) | 449 | (139,199) |
| State highway system | (13,030,887) | (897,288) | 167,061 | (13,761,114) |
| Computer software | (96,309) | (16,229) | - | (112,538) |
| Total accumulated depreciation | (15,960,115) | (1,101,147) | 233,769 | (16,827,493) |
| Total Capital Assets-depreciable, net | 33,477,829 | 1,838,759 | (35,251) | 35,281,337 |
| Governmental activities | | | | |
| Capital Assets, net | \$ 57,559,801 | \$ 4,930,088 | \$ (2,870,091) | \$ 59,619,798 |

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

| | Balance July 1, 2020 | Increases | Decreases | Balance June 30, 2021 |
|--|-------------------------|------------|-----------|--------------------------|
| Capital Assets, nondepreciable | | | | |
| Land and permanent easements | \$ 474,653 | \$ 74,492 | \$ (17) | \$ 549,128 |
| Art, literature, and other artifacts | 1,286 | 4 | - | 1,290 |
| Construction in progress | 307,561 | 153,629 | (334) | 460,856 |
| Total Capital Assets-nondepreciable | 783,500 | 228,125 | (351) | 1,011,274 |
| Capital Assets, depreciable | | | | |
| Buildings | 105,512 | 402 | (1) | 105,913 |
| Machinery and equipment | 27,687 | 1,879 | (3,427) | 26,139 |
| General infrastructure | 19,907 | 333 | - | 20,240 |
| NC toll road system | 1,534,469 | - | - | 1,534,469 |
| Computer software | 1,745 | 20 | (7) | 1,758 |
| Total Capital Assets-depreciable | 1,689,320 | 2,634 | (3,435) | 1,688,519 |
| Less accumulated depreciation for | | | | |
| Buildings | (49,071) | (2,730) | 1 | (51,800) |
| Machinery and equipment | (18,749) | (1,764) | 3,032 | (17,481) |
| General infrastructure | (13,311) | (345) | - | (13,656) |
| NC toll road system | (146,150) | (29,682) | - | (175,832) |
| Computer software | (914) | (207) | 7 | (1,114) |
| Total accumulated depreciation | (228,195) | (34,728) | 3,040 | (259,883) |
| Total Capital Assets-depreciable, net | 1,461,125 | (32,094) | (395) | 1,428,636 |
| Business-type activities | | | | |
| Capital Assets, net | \$ 2,244,625 | \$ 196,031 | \$ (746) | \$ 2,439,910 |

Depreciation expense was charged to functions/programs of the primary government as follows (dollars in thousands):

Governmental activities

| | |
|--|--------------|
| General government | \$ 30,532 |
| Primary and secondary education | 1,612 |
| Higher education | 85 |
| Health and human services | 36,171 |
| Economic development | 1,398 |
| Environment and natural resources | 17,237 |
| Public safety, corrections, and regulation | 64,029 |
| Transportation | 942,603 |
| Agriculture | 7,480 |
| Total depreciation expense | \$ 1,101,147 |

Business-type activities

| | |
|--------------------------------|-----------|
| N.C. State Lottery | \$ 529 |
| N.C. Turnpike Authority | 29,684 |
| Regulatory programs | 2,549 |
| North Carolina State Fair | 1,033 |
| Other business-type activities | 933 |
| Total depreciation expense | \$ 34,728 |

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, 2021, was as follows (dollars in thousands):

University of North Carolina System

| | Balance July 1, 2020 (as restated) | Increases | Decreases | Balance June 30, 2021 |
|--|--|--------------|--------------|--------------------------|
| Capital Assets, nondepreciable | | | | |
| Land and permanent easements | \$ 511,266 | \$ 7,952 | \$ (4,036) | \$ 515,182 |
| Art, literature, and other artifacts | 239,510 | 2,425 | - | 241,935 |
| Construction in progress | 1,227,750 | 934,759 | (716,335) | 1,446,174 |
| Computer software in development | 545 | 3,490 | (3,323) | 712 |
| Other intangible assets | 9,867 | 50 | - | 9,917 |
| Total Capital Assets-nondepreciable | 1,988,938 | 948,676 | (723,694) | 2,213,920 |
| Capital Assets, depreciable | | | | |
| Buildings | 15,073,681 | 962,634 | (51,557) | 15,984,758 |
| Machinery and equipment | 2,955,450 | 196,185 | (206,173) | 2,945,462 |
| Art, literature, and artifacts | 202 | - | - | 202 |
| General infrastructure | 2,241,623 | 44,034 | (1,951) | 2,283,706 |
| Computer Software | 441,110 | 12,015 | (34,354) | 418,771 |
| Other intangible assets | 18,149 | 3,428 | - | 21,577 |
| Total Capital Assets-depreciable | 20,730,215 | 1,218,296 | (294,035) | 21,654,476 |
| Less accumulated depreciation for | | | | |
| Buildings | (5,115,859) | (375,995) | 30,401 | (5,461,453) |
| Machinery and equipment | (1,932,259) | (167,508) | 193,916 | (1,905,851) |
| Art, literature, and other artifacts | (193) | (2) | - | (195) |
| General infrastructure | (935,825) | (60,608) | 790 | (995,643) |
| Computer software | (286,695) | (41,535) | 33,721 | (294,509) |
| Other intangible assets | (2,077) | (119) | - | (2,196) |
| Total accumulated depreciation | (8,272,908) | (645,767) | 258,828 | (8,659,847) |
| Total Capital Assets-depreciable, net | 12,457,307 | 572,529 | (35,207) | 12,994,629 |
| University of North Carolina System | | | | |
| Capital Assets, net | \$ 14,446,245 | \$ 1,521,205 | \$ (758,901) | \$ 15,208,549 |

Capital assets of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At June 30, 2021, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had nondepreciable capital assets of \$52.463 million and net depreciable capital assets of \$108.849 million.

Service Concession Arrangement for Noble Hall at Western Carolina University

In August 2016, construction was completed on Noble Hall pursuant to an 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 a liability for \$1.90 million, the present value of this obligation. The University also reports

NOTES TO THE FINANCIAL STATEMENTS

the facility as a capital asset with a carrying amount of \$24.41 million at year-end and a related deferred inflow of resources of \$20.58 million.

Service Concession 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. Appalachian State University reports a liability of \$13.14 million, the present value of this obligation. Collectively, the universities report the facilities as capital assets with an aggregate carrying amount of \$179.73 million at year-end and a related deferred inflow of resources of \$164.04 million.

Community Colleges

| | Balance July 1, 2020 (as restated) | Increases | Decreases | Balance June 30, 2021 |
|--|--|------------|--------------|--------------------------|
| Capital Assets, nondepreciable | | | | |
| Land and permanent easements | \$ 207,095 | \$ 15,289 | \$ (322) | \$ 222,062 |
| Art, literature, and other artifacts | 886 | - | (8) | 878 |
| Construction in progress | 317,024 | 229,354 | (224,813) | 321,565 |
| Total Capital Assets-nondepreciable | 525,005 | 244,643 | (225,143) | 544,505 |
| Capital Assets, depreciable | | | | |
| Buildings | 3,687,971 | 223,743 | (312) | 3,911,402 |
| Machinery and equipment | 556,731 | 59,089 | (14,718) | 601,102 |
| Art, literature, and other artifacts | 771 | - | - | 771 |
| General infrastructure | 256,821 | 17,584 | (356) | 274,049 |
| Total Capital Assets-depreciable | 4,502,294 | 300,416 | (15,386) | 4,787,324 |
| Less accumulated depreciation for | | | | |
| Buildings | (1,056,157) | (74,054) | 208 | (1,130,003) |
| Machinery and equipment | (254,194) | (28,879) | 10,316 | (272,757) |
| Art, literature, and other artifacts | (238) | (20) | - | (258) |
| General infrastructure | (73,919) | (6,480) | 600 | (79,799) |
| Total accumulated depreciation | (1,384,508) | (109,433) | 11,124 | (1,482,817) |
| Total Capital Assets-depreciable, net | 3,117,786 | 190,983 | (4,262) | 3,304,507 |
| Community Colleges | | | | |
| Capital Assets, net | \$ 3,642,791 | \$ 435,626 | \$ (229,405) | \$ 3,849,012 |

Capital assets of nongovernmental component units of community colleges are excluded from the above amounts. At June 30, 2021, nongovernmental component unit foundations and similarly affiliated organizations of community colleges had nondepreciable capital assets of \$13.635 million and net depreciable capital assets of \$7.903 million.