

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

Primary Government A summary of changes in capital assets for the year ended June 30, 2022 is presented below (dollars in thousands).

Governmental Activities	Balance July 1, 2021 (as restated)	Increases	Decreases	Balance June 30, 2022
Capital Assets, nondepreciable				
Land and permanent easements	\$ 20,652,733	\$ 895,287	\$ (23,882)	\$ 21,524,138
Art, literature, and other artifacts	147,576	2,427	(1,131)	148,872
Construction in progress	2,735,268	3,156,731	(2,418,028)	3,473,971
Computer software in development	791,903	116,298	(4,526)	903,675
Total Capital Assets-nondepreciable	<u>24,327,480</u>	<u>4,170,743</u>	<u>(2,447,567)</u>	<u>26,050,656</u>
Capital Assets, depreciable				
Buildings	4,432,797	195,003	(22,373)	4,605,427
Machinery and equipment	2,064,148	102,749	(61,841)	2,105,056
General infrastructure	376,249	5,027	(429)	380,847
State highway system	44,864,399	2,269,894	(181,717)	46,952,576
Computer software	428,711	5,003	(244)	433,470
Right to use lease assets, depreciable				
Land and permanent easements	464	78	-	542
Buildings	413,343	40,058	(4,002)	449,399
Machinery and equipment	2,066	163	-	2,229
General infrastructure	1,425	-	-	1,425
Total Capital Assets-depreciable	<u>52,583,602</u>	<u>2,617,975</u>	<u>(270,606)</u>	<u>54,930,971</u>
Less accumulated depreciation for				
Capital assets, depreciable				
Buildings	(1,555,603)	(117,705)	18,495	(1,654,813)
Machinery and equipment	(1,259,686)	(106,141)	44,252	(1,321,575)
General infrastructure	(142,378)	(8,327)	213	(150,492)
State highway system	(13,761,114)	(939,055)	178,083	(14,522,086)
Computer software	(113,228)	(17,030)	64	(130,194)
Right to use lease assets, depreciable				
Land and permanent easements	-	(41)	-	(41)
Buildings	-	(47,508)	110	(47,398)
Machinery and equipment	-	(691)	-	(691)
General infrastructure	-	(250)	-	(250)
Total accumulated depreciation	<u>(16,832,009)</u>	<u>(1,236,748)</u>	<u>241,217</u>	<u>(17,827,540)</u>
Total Capital Assets-depreciable, net	<u>35,751,593</u>	<u>1,381,227</u>	<u>(29,389)</u>	<u>37,103,431</u>
Governmental activities				
Capital Assets, net	<u>\$ 60,079,073</u>	<u>\$ 5,551,970</u>	<u>\$ (2,476,956)</u>	<u>\$ 63,154,087</u>

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

	<u>Balance July 1, 2021 (as restated)</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2022</u>
Capital Assets, nondepreciable				
Land and permanent easements	\$ 549,128	\$ 20,438	\$ (177)	\$ 569,389
Art, literature, and other artifacts	1,290	3	-	1,293
Construction in progress	460,856	248,985	(11,075)	698,766
Total Capital Assets-nondepreciable	<u>1,011,274</u>	<u>269,426</u>	<u>(11,252)</u>	<u>1,269,448</u>
Capital Assets, depreciable				
Buildings	105,913	11,018	(2,402)	114,529
Machinery and equipment	26,421	2,140	(2,271)	26,290
General infrastructure	20,240	-	-	20,240
NC toll road system	1,534,469	-	-	1,534,469
Computer software	1,758	82	(5)	1,835
Right to use lease assets, depreciable				
Buildings	3,443	-	-	3,443
Total Capital Assets-depreciable	<u>1,692,244</u>	<u>13,240</u>	<u>(4,678)</u>	<u>1,700,806</u>
Less accumulated depreciation for				
Capital Assets, depreciable				
Buildings	(52,611)	(2,728)	1,452	(53,887)
Machinery and equipment	(18,028)	(1,739)	1,464	(18,303)
General infrastructure	(13,716)	(350)	-	(14,066)
NC toll road system	(175,832)	(29,684)	-	(205,516)
Computer software	(1,114)	(206)	6	(1,314)
Right to use lease assets, depreciable				
Buildings	-	(702)	-	(702)
Total accumulated depreciation	<u>(261,301)</u>	<u>(35,409)</u>	<u>2,922</u>	<u>(293,788)</u>
Total Capital Assets-depreciable, net	<u>1,430,943</u>	<u>(22,169)</u>	<u>(1,756)</u>	<u>1,407,018</u>
Business-type activities				
Capital Assets, net	<u>\$ 2,442,217</u>	<u>\$ 247,257</u>	<u>\$ (13,008)</u>	<u>\$ 2,676,466</u>

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

General government	\$ 37,112
Primary and secondary education	2,661
Higher education	171
Health and human services	54,049
Economic development	5,050
Environment and natural resources	24,247
Public safety, corrections, and regulation	110,612
Transportation	994,148
Agriculture	8,698
Total depreciation expense	<u>\$ 1,236,748</u>

Business-type activities

N.C. State Lottery	\$ 461
N.C. Turnpike Authority	29,684
Regulatory programs	3,343
North Carolina State Fair	1,020
Other business-type activities	901
Total depreciation expense	<u>\$ 35,409</u>

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, 2022, was as follows (dollars in thousands):

University of North Carolina System

	Balance July 1, 2021 (as restated)	Increases	Decreases	Balance June 30, 2022
Capital Assets, nondepreciable				
Land and permanent easements	\$ 515,182	\$ 7,258	\$ (425)	\$ 522,015
Art, literature, and other artifacts	241,935	7,453	(12)	249,376
Construction in progress	1,448,646	762,986	(1,225,129)	986,503
Computer software in development	712	3,571	(3,438)	845
Other intangible assets	9,917	-	-	9,917
Total Capital Assets-nondepreciable	<u>2,216,392</u>	<u>781,268</u>	<u>(1,229,004)</u>	<u>1,768,656</u>
Capital Assets, depreciable				
Buildings	15,980,601	1,222,419	(19,443)	17,183,577
Machinery and equipment	2,939,440	269,015	(78,238)	3,130,217
Art, literature, and artifacts	202	-	-	202
General infrastructure	2,285,664	77,694	(3,417)	2,359,941
Computer software	418,771	14,832	-	433,603
Other intangible assets	21,577	1,348	-	22,925
Right to use lease assets, depreciable				
Land and permanent easements	838	-	-	838
Buildings	670,254	25,855	(455)	695,654
Machinery and equipment	33,596	1,034	(197)	34,433
General infrastructure	6,060	-	-	6,060
Total Capital Assets-depreciable	<u>22,357,003</u>	<u>1,612,197</u>	<u>(101,750)</u>	<u>23,867,450</u>
Less accumulated depreciation for				
Capital Assets, depreciable				
Buildings	(5,459,608)	(392,164)	11,658	(5,840,114)
Machinery and equipment	(1,902,964)	(168,804)	65,757	(2,006,011)
Art, literature, and other artifacts	(195)	(1)	-	(196)
General infrastructure	(995,646)	(61,356)	2,090	(1,054,912)
Computer software	(294,509)	(40,802)	-	(335,311)
Other intangible assets	(2,196)	(129)	-	(2,325)
Right to use lease assets, depreciable				
Land and permanent easements	-	(116)	-	(116)
Buildings	(1,498)	(103,816)	2,195	(103,119)
Machinery and equipment	(377)	(6,245)	266	(6,356)
General infrastructure	-	(704)	-	(704)
Total accumulated depreciation	<u>(8,656,993)</u>	<u>(774,137)</u>	<u>81,966</u>	<u>(9,349,164)</u>
Total Capital Assets-depreciable, net	<u>13,700,010</u>	<u>838,060</u>	<u>(19,784)</u>	<u>14,518,286</u>
University of North Carolina System				
Capital Assets, net	<u>\$ 15,916,402</u>	<u>\$ 1,619,328</u>	<u>\$ (1,248,788)</u>	<u>\$ 16,286,942</u>

Capital assets of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At June 30, 2022, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had nondepreciable capital assets of \$55.313 million and net depreciable capital assets of \$112.096 million.

NOTES TO THE FINANCIAL STATEMENTS**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 \$1.80 million, the present value of this obligation. The University also reports the facility as a capital asset with a carrying amount of \$24.15 million at year-end and a related deferred inflow of resources of \$20.07 million that is amortized using the straight-line method over the terms of the lease agreement.

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 \$26.95 million, the present value of this obligation. Collectively, the universities report the facilities as capital assets with an aggregate carrying amount of \$327.89 million at year-end and a related deferred inflow of resources of \$294.45 million.

NOTES TO THE FINANCIAL STATEMENTS**Community Colleges**

	Balance July 1, 2021 (as restated)	Increases	Decreases	Balance June 30, 2022
Capital Assets, nondepreciable				
Land and permanent easements	\$ 222,343	\$ 2,978	\$ (1,279)	\$ 224,042
Art, literature, and other artifacts	878	105	-	983
Construction in progress	317,976	203,556	(298,856)	222,676
Other intangible assets	-	1,134	-	1,134
Total Capital Assets-nondepreciable	<u>541,197</u>	<u>207,773</u>	<u>(300,135)</u>	<u>448,835</u>
Capital Assets, depreciable				
Buildings	3,889,808	292,173	(3,127)	4,178,854
Machinery and equipment	601,310	55,326	(16,243)	640,393
Art, literature, and artifacts	771	-	-	771
General infrastructure	269,567	10,178	(180)	279,565
Right to use lease assets, depreciable				
Land and permanent easements	-	592	-	592
Buildings	79,767	1,028	-	80,795
Machinery and equipment	5,662	4,337	(81)	9,918
General infrastructure	9,494	-	-	9,494
Total Capital Assets-depreciable	<u>4,856,379</u>	<u>363,634</u>	<u>(19,631)</u>	<u>5,200,382</u>
Less accumulated depreciation for				
Capital Assets, depreciable				
Buildings	(1,128,261)	(75,245)	3,091	(1,200,415)
Machinery and equipment	(273,699)	(33,496)	12,179	(295,016)
Art, literature, and other artifacts	(257)	(20)	-	(277)
General infrastructure	(76,652)	(8,238)	99	(84,791)
Right to use lease assets, depreciable				
Land and permanent easements	-	(43)	-	(43)
Buildings	(10,509)	(4,061)	-	(14,570)
Machinery and equipment	(558)	(2,465)	(292)	(3,315)
General infrastructure	(1,280)	(252)	-	(1,532)
Total accumulated depreciation	<u>(1,491,216)</u>	<u>(123,820)</u>	<u>15,077</u>	<u>(1,599,959)</u>
Total Capital Assets-depreciable, net	<u>3,365,163</u>	<u>239,814</u>	<u>(4,554)</u>	<u>3,600,423</u>
Community Colleges				
Capital Assets, net	<u>\$ 3,906,360</u>	<u>\$ 447,587</u>	<u>\$ (304,689)</u>	<u>\$ 4,049,258</u>

Capital assets of nongovernmental component units of community colleges are excluded from the above amounts. At June 30, 2022, nongovernmental component unit foundations and similarly affiliated organizations of community colleges had nondepreciable capital assets of \$12.844 million and net depreciable capital assets of \$7.582 million.