

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

**Primary Government** A summary of changes in capital assets for the year ended June 30, 2025 is presented below (dollars in thousands).

<b>Governmental Activities</b>	<b>Balance July 1, 2024 (as restated)</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2025</b>
<b>Capital Assets, nondepreciable</b>				
Land and permanent easements	\$ 23,503,681	\$ 1,020,068	\$ (9,254)	\$ 24,514,495
Art, literature, and other artifacts	190,820	9,376	(7)	200,189
Construction in progress	3,570,212	3,480,904	(3,065,128)	3,985,988
Computer software in development	1,103,201	90,974	-	1,194,175
Total Capital Assets-nondepreciable	28,367,914	4,601,322	(3,074,389)	29,894,847
<b>Capital Assets, depreciable</b>				
Buildings	4,850,218	8,548	(101,291)	4,757,475
Machinery and equipment	2,628,650	161,154	(159,352)	2,630,452
General infrastructure	401,685	9,373	(8,303)	402,755
State highway system	52,351,581	2,996,929	(178,210)	55,170,300
Computer software	454,684	41,064	(360)	495,388
Subscription asset	334,823	174,310	(33,646)	475,487
<b>Right to use lease assets, depreciable</b>				
Land and permanent easements	789	2,292	(290)	2,791
Buildings	536,391	52,451	(37,630)	551,212
Machinery and equipment	6,253	448	(1,249)	5,452
General infrastructure	1,187	3,996	-	5,183
Total Capital Assets-depreciable	61,566,261	3,450,565	(520,331)	64,496,495
<b>Less accumulated depreciation for</b>				
<b>Capital assets, depreciable</b>				
Buildings	(1,799,339)	(41,345)	35,717	(1,804,967)
Machinery and equipment	(1,434,599)	(110,828)	70,377	(1,475,050)
General infrastructure	(168,990)	(8,396)	4,347	(173,039)
State highway system	(16,213,972)	(1,103,406)	174,646	(17,142,732)
Computer software	(165,045)	(17,356)	111	(182,290)
Subscription asset	(142,318)	(98,722)	28,249	(212,791)
<b>Right to use lease assets, depreciable</b>				
Land and permanent easements	(116)	(203)	13	(306)
Buildings	(128,240)	(57,596)	9,192	(176,644)
Machinery and equipment	(2,871)	(2,365)	1,249	(3,987)
General infrastructure	(285)	(230)	-	(515)
Total accumulated depreciation	(20,055,775)	(1,440,447)	323,901	(21,172,321)
Total Capital Assets-depreciable, net	41,510,486	2,010,118	(196,430)	43,324,174
<b>Governmental activities</b>				
Capital Assets, net	\$ 69,878,400	\$ 6,611,440	\$ (3,270,819)	\$ 73,219,021

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

	Balance July 1, 2024 (as restated)	Increases	Decreases	Balance June 30, 2025
<b>Capital Assets, nondepreciable</b>				
Land and permanent easements	\$ 650,650	\$ 72,395	\$ -	\$ 723,045
Art, literature, and other artifacts	1,293	-	-	1,293
Construction in progress	1,148,695	155,521	(828,143)	476,073
Total Capital Assets-nondepreciable	1,800,638	227,916	(828,143)	1,200,411
<b>Capital Assets, depreciable</b>				
Buildings	115,119	350	(176)	115,293
Machinery and equipment	29,027	2,440	(1,097)	30,370
General infrastructure	20,240	-	-	20,240
NC toll road system	1,534,469	828,143	-	2,362,612
Computer software	2,085	124	-	2,209
Subscription asset	3,897	15,182	-	19,079
<b>Right to use lease assets, depreciable</b>				
Buildings	9,156	5,674	(1,649)	13,181
Machinery and equipment	900	91	(92)	899
Total Capital Assets-depreciable	1,714,893	852,004	(3,014)	2,563,883
<b>Less accumulated depreciation for</b>				
<b>Capital Assets, depreciable</b>				
Buildings	(60,439)	(2,670)	3	(63,106)
Machinery and equipment	(20,003)	(1,802)	1,015	(20,790)
General infrastructure	(14,745)	(308)	-	(15,053)
NC toll road system	(264,884)	(33,635)	-	(298,519)
Computer software	(1,630)	(91)	-	(1,721)
Subscription asset	(1,639)	(7,082)	-	(8,721)
<b>Right to use lease assets, depreciable</b>				
Buildings	(3,135)	(1,569)	827	(3,877)
Machinery and equipment	(324)	(213)	93	(444)
Total accumulated depreciation	(366,799)	(47,370)	1,938	(412,231)
Total Capital Assets-depreciable, net	1,348,094	804,634	(1,076)	2,151,652
Business-type activities				
Capital Assets, net	\$ 3,148,732	\$ 1,032,550	\$ (829,219)	\$ 3,352,063

**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	\$	76,455
Primary and secondary education		18,491
Higher education		895
Health and human services		72,473
Economic development		2,837
Environment and natural resources		30,334
Public safety, corrections, and regulation		48,679
Transportation		1,176,719
Agriculture		13,564
Total depreciation expense	\$	<u>1,440,447</u>

***Business-type activities***

N.C. State Lottery	\$	7,042
EPA Revolving Loan		1
N.C. Turnpike Authority		33,637
Regulatory programs		4,795
North Carolina State Fair		821
Other business-type activities		1,074
Total depreciation expense	\$	<u>47,370</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 \$168.38 million at fiscal year-end and a related deferred inflow of resources of \$65.77 million that is amortized using the straight-line method over the term of the PPP agreement. NCDOT recognized \$1.47 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.

Chimney Rock State Park sustained significant damage from Hurricane Helene on September 27, 2024 leading to its closure. The park reopened on June 27, 2025, nine months after it closed. The percentage received is based on annual gross sales and a fee schedule outlined in the arrangement as amended. DNCR received and recognized \$228 thousand in sales and services related to

**NOTES TO THE FINANCIAL STATEMENTS**

Park revenues in fiscal year 2025. 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. However, the actual carrying value could not be determined because of the damage from Hurricane Helene.

**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, 2025, was as follows (dollars in thousands):

**University of North Carolina System**

	<b>Balance July 1, 2024 (as restated)</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2025</b>
<b>Capital Assets, nondepreciable</b>				
Land and permanent easements	\$ 564,903	\$ 3,068	\$ (3,705)	\$ 564,266
Art, literature, and other artifacts	263,708	2,836	(12)	266,532
Construction in progress	1,225,797	950,966	(731,842)	1,444,921
Computer software in development	2,764	3,338	(5,271)	831
Other intangible assets	19,688	-	(4,806)	14,882
Total Capital Assets-nondepreciable	2,076,860	960,208	(745,636)	2,291,432
<b>Capital Assets, depreciable</b>				
Buildings	17,935,934	671,308	(20,690)	18,586,552
Machinery and equipment	3,661,901	346,252	(112,192)	3,895,961
Art, literature, and artifacts	202	-	(7)	195
General infrastructure	2,498,557	118,436	(2,638)	2,614,355
Computer software	492,835	15,284	(619)	507,500
Subscription asset	456,030	156,064	(24,795)	587,299
<b>Right to use lease assets, depreciable</b>				
Land and permanent easements	11,317	-	(140)	11,177
Buildings	822,495	103,058	(17,048)	908,505
Machinery and equipment	48,784	11,477	(2,511)	57,750
General infrastructure	6,573	-	-	6,573
Total Capital Assets-depreciable	25,934,628	1,421,879	(180,640)	27,175,867
<b>Less accumulated depreciation for</b>				
<b>Capital Assets, depreciable</b>				
Buildings	(6,620,359)	(421,738)	12,435	(7,029,662)
Machinery and equipment	(2,191,948)	(227,708)	98,167	(2,321,489)
Art, literature, and other artifacts	(198)	(1)	7	(192)
General infrastructure	(1,184,563)	(66,394)	1,342	(1,249,615)
Computer software	(419,276)	(26,954)	-	(446,230)
Subscription asset	(174,973)	(136,006)	18,834	(292,145)
<b>Right to use lease assets, depreciable</b>				
Land and permanent easements	(553)	(231)	-	(784)
Buildings	(343,481)	(111,552)	7,329	(447,704)
Machinery and equipment	(19,133)	(9,542)	2,499	(26,176)
General infrastructure	(2,298)	(766)	-	(3,064)
Total accumulated depreciation	(10,956,782)	(1,000,892)	140,613	(11,817,061)
Total Capital Assets-depreciable, net	14,977,846	420,987	(40,027)	15,358,806
University of North Carolina System				
Capital Assets, net	\$ 17,054,706	\$ 1,381,195	\$ (785,663)	\$ 17,650,238

Capital assets of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At June 30, 2025, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had nondepreciable capital assets of \$61.157 million and net depreciable capital assets of \$192.413 million.

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**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 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 \$23.38 million at year-end and a related deferred inflow of resources of \$19.87 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 \$309.9 million at year-end and a related deferred inflow of resources of \$298.72 million.

**Availability Payment Arrangement for a State Energy System**

On October 27, 2023, Appalachian State University ("the University") entered into a Build Transfer Agreement (BTA) and a Long-Term Utility Agreement (LTUA) with Mountaineer Energy P3, LLC (MEP3) to design, construct, finance, operate, and maintain a District Energy System (DES) to provide utility services for 50 years to the university's innovation district, which will include a new State funded academic Science, Technology, Engineering, and Mathematics (STEM) building and the faculty staff housing project. Under the arrangement, MEP3 constructed and transferred ownership of the DES in 2025 to the University and began providing utility services to the university when the DES became operational during the year. This agreement is accounted for as an availability payment arrangement.

The University's obligations under these agreements meet the definition of long-term debt under GASB Statement No. 88 because they arise from contractual obligations to pay fixed amounts in the future. These obligations include "Milestone Payments" that are fixed amounts due to MEP3 upon mechanical completion and transfer of ownership to the University, including \$15.38 million for the Thermal Utility System, \$1.87 million for the Wind Assets, and \$899 thousand for the Solar Assets. The University's obligations will be funded by federal energy tax credits in addition to monthly payments representing the financing purchase of the assets and their operation and maintenance. An intergovernmental receivable was reported by the University in 2025 in the amount of \$18.62 million for the tax credits that are expected to be received in 2027. Payments are not contingent on usage but on the availability of the assets for service.

Early termination for convenience is permitted after year 20 but subject to significant termination costs estimated at \$54 million. Events of default include failure to make payments when due, insolvency, or material breach of obligations. Upon default, the service provider may accelerate all amounts due under the LTUA and BTA, including unpaid milestone payments and the present value of remaining capital components. The University has retained cure rights prior to acceleration.

**NOTES TO THE FINANCIAL STATEMENTS**

The University also entered into a Recognition Agreement with Sumitomo Mitsui Banking Corporation (Collateral Agent) acknowledging MEP3's collateral assignment of its rights under the BTA and LTUA to secure financing. The University has not pledged any of its own assets as collateral. At year-end the University reports the DES as its own capital asset with a carrying amount of \$52.58 million and a related availability payment arrangement liability of \$53.21 million using the implicit rate of 4.5%.

**Community Colleges**

	Balance July 1, 2024 (as restated)	Increases	Decreases	Balance June 30, 2025
<b>Capital Assets, nondepreciable</b>				
Land and permanent easements	\$ 236,190	\$ 6,484	\$ (535)	\$ 242,139
Art, literature, and other artifacts	1,161	23	-	1,184
Construction in progress	177,270	247,421	(109,927)	314,764
Other intangible assets	2,292	-	-	2,292
Total Capital Assets-nondepreciable	416,913	253,928	(110,462)	560,379
<b>Capital Assets, depreciable</b>				
Buildings	4,610,376	102,227	(5,525)	4,707,078
Machinery and equipment	818,183	102,463	(28,209)	892,437
Art, literature, and artifacts	1,060	-	(15)	1,045
General infrastructure	319,393	10,838	(738)	329,493
Computer software	720	-	-	720
Subscription asset	38,131	4,612	(9,389)	33,354
<b>Right to use lease assets, depreciable</b>				
Land and permanent easements	2,245	366	(461)	2,150
Buildings	55,440	14,370	(2,066)	67,744
Machinery and equipment	12,988	1,863	(2,594)	12,257
General infrastructure	9,451	-	-	9,451
Total Capital Assets-depreciable	5,867,987	236,739	(48,997)	6,055,729
<b>Less accumulated depreciation for</b>				
<b>Capital Assets, depreciable</b>				
Buildings	(1,373,928)	(89,988)	1,900	(1,462,016)
Machinery and equipment	(365,361)	(54,395)	23,541	(396,215)
Art, literature, and other artifacts	(321)	(25)	-	(346)
General infrastructure	(98,477)	(7,574)	152	(105,899)
Computer software	(102)	(177)	-	(279)
Subscription asset	(17,004)	(8,324)	7,321	(18,007)
<b>Right to use lease assets, depreciable</b>				
Land and permanent easements	(617)	(55)	430	(242)
Buildings	(14,089)	(4,734)	1,703	(17,120)
Machinery and equipment	(7,309)	(2,550)	2,537	(7,322)
General infrastructure	(2,227)	(289)	-	(2,516)
Total accumulated depreciation	(1,879,435)	(168,111)	37,584	(2,009,962)
Total Capital Assets-depreciable, net	3,988,552	68,628	(11,413)	4,045,767
Community Colleges				
Capital Assets, net	\$ 4,405,465	\$ 322,556	\$ (121,875)	\$ 4,606,146

Capital assets of nongovernmental component units of community colleges are excluded from the above amounts. At June 30, 2025, nongovernmental component unit foundations and similarly affiliated organizations of community colleges had nondepreciable capital assets of \$14.811 million and net depreciable capital assets of \$10.668 million.