

WASHINGTON, PITTMAN & McKEEVER, LLC

*CERTIFIED PUBLIC ACCOUNTANTS AND
MANAGEMENT CONSULTANTS*

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STATE OF ILLINOIS
ILLINOIS DEPARTMENT OF NATURAL RESOURCES
FINANCIAL AUDIT OF CAPITAL ASSETS ACCOUNT

For the Year Ended June 30, 2011

**Performed as Special Assistant Auditors for
the Auditor General, State of Illinois**

STATE OF ILLINOIS
ILLINOIS DEPARTMENT OF NATURAL RESOURCES
FINANCIAL AUDIT OF CAPITAL ASSETS ACCOUNT

For the Year Ended June 30, 2011

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STATE OF ILLINOIS
ILLINOIS DEPARTMENT OF NATURAL RESOURCES

AGENCY OFFICIALS

Director	Marc Miller
Assistant Director	John Rogner
Deputy Director (separated 5/13/11)	Leslie Sgro
Deputy Director (separated 4/8/11)	Debbie Stone
Deputy Director	Travis Lloyd
Chief of Staff (effective 7/2/10)	Jay Curtis
Office of Fiscal Management (acting)	Damon Stotts
Office of Legal Counsel	Mitchell Cohen
Chief Internal Auditor	Lisa LaBonte
Office of Architecture, Engineering and Grants (acting)	John Evans
Office of Land Management	Ron House
Office of Law Enforcement	Rafael Gutierrez
Office of Mines and Minerals	Joe Angleton
Office of Realty and Environmental Planning (acting)	Todd Rettig
Office of Resource Conservation	James Herkert
Office of Scientific Research and Analysis	Damon Stotts
Office of Strategic Services	Kristin Dicenso
Office of Water Resources (separated 12/31/10)	Gary Clark
Office of Water Resources (acting 1/3/11 – 6/15/11)	Arlan Juhl
Office of Water Resources	Arlan Juhl

Department main headquarters is located at:

One Natural Resources Way
Springfield, Illinois 62702-1271

**STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES**

FINANCIAL REPORT

SUMMARY

The audit of the accompanying Schedule of Capital Assets of the State of Illinois, Illinois Department of Natural Resources (Department) was performed by Washington, Pittman & McKeever, LLC.

Based on their audit, the auditors expressed an unqualified opinion on the Department's Schedule of Capital Assets.

EXIT CONFERENCE

The financial report was reviewed by Damon Stotts, Chief Fiscal Officer. The Department waived a formal exit conference.

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INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying Schedule of Capital Assets of the State of Illinois, Department of Natural Resources as of June 30, 2011. This schedule is the responsibility of the State of Illinois, Department of Natural Resources' management. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule of Capital Assets is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the schedule presents only the Capital Asset Account and does not purport to, and does not, present fairly the financial position of the State of Illinois, Department of Natural Resources as of June 30, 2011, and its changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Schedule of Capital Assets referred to above presents fairly, in all material respects, the Capital Asset Account of the State of Illinois, Department of Natural Resources, as of June 30, 2011 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 17, 2012 on our consideration of the State of Illinois, Department of Natural Resources' internal control over financial reporting of the Capital Asset Account and on our tests of the State of Illinois, Department of Natural Resources compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters as they relate to the Capital Asset Account. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the Schedule of Capital Assets of the State of Illinois, Department of Natural Resources. The accompanying Schedule of Changes in Capital Assets is presented for the purpose of additional analysis and is not a required part of the Schedule of Capital Assets. The Schedule of Changes in Capital Assets has been subjected to the auditing procedures applied in the audit of the Schedule of Capital Assets and, in our opinion, is fairly stated in all material respects in relation to the Schedule of Capital Assets taken as a whole.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, and agency management, and is not intended to be and should not be used by anyone other than these specified parties.


WASHINGTON, PITTMAN & MCKEEVER, LLC

Chicago, Illinois
February 17, 2012

STATE OF ILLINOIS
ILLINOIS DEPARTMENT OF NATURAL RESOURCES

SCHEDULE OF CAPITAL ASSETS

JUNE 30, 2011
(expressed in thousands)

Capital Assets not being depreciated:

Land and land improvements	\$	371,413
Construction in progress		55
Internally generated intangible assets in development		372
Easements/rights of way/water-timber-mineral rights		77,503
		77,503

Total Capital Assets not being depreciated: 449,343

Capital Assets being depreciated:

Site improvements		425,976
Building and building improvements		258,893
Equipment		63,516
Capital lease-equipment		14
Infrastructure		51,462
Non-internally generated software		36
Internally generated software		3,360
Easements/rights of way/water-timber-mineral rights		1,484
Other intangible assets		6,939
		6,939

Total Capital Assets being depreciated: 811,680

Less Accumulated Depreciation for:

Site improvements		227,992
Building and building improvements		130,021
Equipment		54,993
Capital lease-equipment		9
Infrastructure		28,287
Non-internally generated software		36
Internally generated software		3,360
Easements/rights of way/water-timber-mineral rights		996
Other intangible assets		273
		273

Total Accumulated Depreciation 445,967

Total Capital Assets being depreciated, net 365,713

Total Capital Assets, net \$ 815,056

The accompanying Notes to Schedules of Capital Assets are an integral part of this schedule.

STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES
NOTES TO SCHEDULE OF CAPITAL ASSETS
June 30, 2011

1. DESCRIPTION OF CAPITAL ASSET ACCOUNT

The State of Illinois, Illinois Department of Natural Resources (the Department) maintains a Capital Asset Account. Capital assets include construction in progress, infrastructure, intangibles, land and land improvements, site improvements, buildings, building improvements, equipment, and all other tangible assets that are used in operations and that have expected useful lives extending beyond a single reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Schedule of Capital Assets (Schedule) maintained by the Department have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the Schedule, summarized below are the more significant accounting policies.

(a) Reporting Entity

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which elected officials of the primary government are financially accountable. Financial accountability is defined as:

- (1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- (2) Fiscal dependency on the primary government.

Based upon the required criteria, the capital asset account does not have component units, nor is it a component unit of any other entity. However, because the Capital Asset Account is not legally separate from the State of Illinois (State), it is included in the financial statements of the State. The State's Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1871.

DEPARTMENT OF NATURAL RESOURCES

NOTES TO SCHEDULE OF CAPITAL ASSETS (Continued)

June 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The Schedule presents only the capital assets administered by the Department and does not purport to, and does not, present fairly the financial position of the Department as of June 30, 2011 and changes in its financial position, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

(b) Basis of Presentation

The Capital Asset Account balances are reported in the State's Comprehensive Annual Financial Report. For its reporting purposes, the Department has presented the Schedule of Capital Assets using a columnar format that presents capital assets, net of accumulated depreciation, as of June 30, 2011.

(c) Basis of Accounting

The Capital Asset Account is reported using the economic resources measurement focus and the accrual basis of accounting.

(d) Use of Estimates

The preparation of the Schedule of Capital Assets in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and accumulated depreciation at the date of the schedule. Actual results could differ from those estimates.

(e) Valuation

Capital assets are reported at cost or estimated historical cost or, if donated, at their fair value at the time of acquisition. Historical costs include the amount paid for the asset and ancillary charges necessary to place the asset into its intended location and condition for use. Assets acquired in various amounts for a single purpose which may not individually meet the capitalization threshold are capitalized if the estimated total of the project exceeds the capitalization threshold.

For capital assets that are depreciated, expenditures that extend the useful lives of capital assets beyond their initial estimated useful lives (preservation costs) or improve their efficiency (improvements) or capacity (additions) are capitalized, whereas expenditures for repairs and maintenance are expensed.

Capital assets are depreciated using the straight-line method.

DEPARTMENT OF NATURAL RESOURCES

NOTES TO SCHEDULE OF CAPITAL ASSETS (Continued)

June 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

(f) Capitalization Policies

Capitalization thresholds and the estimated useful lives are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life
Land	\$ 100,000	N/A
Infrastructure	250,000	30
Site Improvements	25,000	30
Buildings	100,000	30
Building Improvements	25,000	30
Equipment	5,000	7
Capital Leases - Equipment	5,000	Varies/depends on contract

Intangible Asset Type	Capitalization Threshold	Estimated Useful Life
Easement other than row indefinite	\$25,000	Indefinite
Water rights indefinite	25,000	Indefinite
Right of way indefinite	25,000	Indefinite
Software internally generated	1,000,000	3
Software websites	1,000,000	3
Land easements finite	25,000	Varies/depends on contract
Software purchased	25,000	3
Conservation land rights finite	25,000	Varies/depends on contract
Right of way finite	25,000	Varies/depends on contract

DEPARTMENT OF NATURAL RESOURCES

NOTES TO SCHEDULE OF CAPITAL ASSETS (Continued)

June 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

(g) Infrastructure

The Department maintains infrastructure assets, including waterways, dams, tunnels, and drainage systems.

In the majority of cases, a legal title document was not created when these assets were constructed or placed into service. The Department capitalizes all infrastructure assets supported by purchasing documentation (e.g., contracts, requisitions, purchase orders, payment documents, etc.). In cases where infrastructure assets are jointly developed or constructed by the Department and neighboring states or local municipalities, the Department capitalizes only those assets, which are maintained by the Department and legal title has not been established by another legal entity.

(h) Historical Treasures and Works of Art

The Department maintains extensive collections of historical treasures and works of art. Items meeting the following conditions are not capitalized: 1) held for public exhibition, education, or research in furtherance of public service, rather than financial gain; 2) protected, kept unencumbered, cared for, and preserved; and 3) subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. All Department historical treasures and works of art meet these conditions, and are not capitalized in the Schedule of Capital Assets.

(i) Intangible Assets

The Department maintains various types of intangible assets. These assets lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include, but are not limited to, software (both internally generated and non-internally generated), easements and rights of way, and water and land use rights. Intangible assets are capitalized and depreciated based on conventions listed in Capitalization Policies table.

DEPARTMENT OF NATURAL RESOURCES

NOTES TO SCHEDULE OF CAPITAL ASSETS (Continued)

June 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

(j) Construction in Progress

The Department maintains assets that are constructions in progress. This includes costs incurred during construction of assets. Those accumulated costs are held in the Construction in Progress category until such time as the project is determined to be “substantially complete” (i.e. ready for its intended use). At that time the asset is moved to proper asset category and capitalized and depreciated based on conventions listed in Capitalization Policies table. The Department considers infrastructure and bikeways to be a series of networks and sub-systems. As such those assets have met the requirement of being ready for intended use and therefore not held in the Construction in Process category.

(k) Networks and Sub-Systems

The Department maintains networks and sub-systems. A network is composed of all assets that provide a particular type of service for the State or an agency. A network of assets may be only one asset that is composed of many components. A subsystem is composed of all assets that make up a portion or segment of a network. Assets acquired in various amounts for a single purpose which may not individually meet the capitalization threshold may be capitalized if the estimated total of the project exceeds the capitalization threshold. Also, for capital assets that are depreciated, expenditures that extend the useful lives of capital assets beyond their initial estimated useful lives (preservation costs) or improve their efficiency (improvements) or capacity (additions) are capitalized, whereas expenditures for repairs and maintenance are expensed.

3. CAPITAL ASSET MANAGEMENT SYSTEM

The Department maintains a capital asset management system which includes, for all capital assets, the major asset category, description of asset, date of acquisition, method of acquisition, cost or other value, responsible organizational unit, location of asset, identification of applicable network or subsystem (for infrastructure assets), estimated life, estimated salvage value, annual and accumulated depreciation, and appropriation.

4. REPORTING REQUIREMENTS

The Department is required to complete and submit the *SAMS TO GAAP Reconciliation – Capital Assets* (SCO-537) and *Capital Asset Summary* (SCO-538) forms to the Illinois Office of the Comptroller as part of the year-end reporting process related to capital assets. Amounts reported on these forms have been reconciled to the Schedule of Capital Assets.

STATE OF ILLINOIS
ILLINOIS DEPARTMENT OF NATURAL RESOURCES

Schedule of Changes in Capital Assets

For the Year Ended June 30, 2011
(expressed in thousands)

	Balance At June 30, 2010	Additions	Deletions	Net Transfers	Balance At June 30, 2011
Capital Assets not being depreciated:					
Land and land improvements	\$ 369,355	\$ 2,482	\$ 524	\$ 100	\$ 371,413
Construction in progress	-	55	-	-	55
Internally generated intangible assets in development	327	45	-	-	372
Easements/rights of way/water-timber-mineral rights	73,686	3,817	-	-	77,503
Total Capital Assets not being depreciated:	<u>443,368</u>	<u>6,399</u>	<u>524</u>	<u>100</u>	<u>449,343</u>
Capital Assets being depreciated:					
Site improvements	419,837	4,679	64	1,524	425,976
Building and building improvements	258,424	50	19	438	258,893
Equipment	64,175	1,216	464	(1,411)	63,516
Capital leases-equipment	-	14	-	-	14
Infrastructure	50,929	533	-	-	51,462
Non-internally generated software	36	-	-	-	36
Internally generated software	3,360	-	-	-	3,360
Easements/rights of way/water-timber-mineral rights	1,484	-	-	-	1,484
Other intangible assets	-	6,939	-	-	6,939
Total Capital Assets being depreciated:	<u>798,245</u>	<u>13,431</u>	<u>547</u>	<u>551</u>	<u>811,680</u>
Less Accumulated Depreciation for:					
Site improvements	216,078	11,988	64	(10)	227,992
Building and building improvements	122,689	7,363	-	(31)	130,021
Equipment	54,369	2,668	457	(1,587)	54,993
Capital leases-equipment	-	9	-	-	9
Infrastructure	27,074	1,213	-	-	28,287
Non-internally generated software	36	-	-	-	36
Internally generated software	3,360	-	-	-	3,360
Easements/rights of way/water-timber-mineral rights	887	109	-	-	996
Other intangible assets	-	273	-	-	273
Total Accumulated Depreciation	<u>424,493</u>	<u>23,623</u>	<u>521</u>	<u>(1,628)</u>	<u>445,967</u>
Total Capital Assets being depreciated, net	<u>373,752</u>	<u>(10,192)</u>	<u>26</u>	<u>2,179</u>	<u>365,713</u>
Total Capital Assets, net	<u>\$ 817,120</u>	<u>\$ (3,793)</u>	<u>\$ 550</u>	<u>\$ 2,279</u>	<u>\$ 815,056</u>

The accompanying Notes to Schedule of Capital Assets are an integral part of this schedule.

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the Schedule of Capital Assets of the State of Illinois, Department of Natural Resources, as of and for the year ended June 30, 2011, and have issued our report thereon dated February 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the State of Illinois, Department of Natural Resources is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the State of Illinois, Department of Natural Resources' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Schedule of Capital Assets, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Department of Natural Resources' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Department of Natural Resources' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

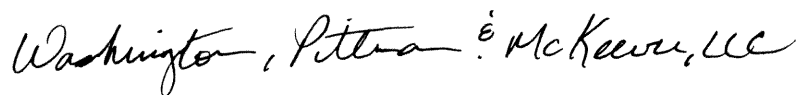
A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the State of Illinois, Department of Natural Resources' Schedule of Capital Assets will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Department of Natural Resources' Schedule of Capital Assets is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and the State of Illinois Department of Natural Resources' management, and is not intended to be and should not be used by anyone other than these specified parties.



WASHINGTON, PITTMAN & MCKEEVER, LLC

Chicago, Illinois
February 17, 2012

STATE OF ILLINOIS
ILLINOIS DEPARTMENT OF NATURAL RESOURCES

SCHEDULE OF FINDINGS
For the Year Ended June 30, 2011

There were no findings disclosed during this audit.

STATE OF ILLINOIS
ILLINOIS DEPARTMENT OF NATURAL RESOURCES

PRIOR FINDINGS NOT REPEATED
For the Year Ended June 30, 2011

A FINDING: (Inadequate controls over capital assets)

During the prior audit, the State of Illinois, Department of Natural Resources (Department) did not have adequate policies or procedures to ensure that assets categorized as Construction in Progress (CIP) were properly recorded.

During the current year, the Department developed and implemented policies and procedures to ensure that CIP was properly recorded as of June 30, 2011. (Finding Code No. 10-1)