

STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES
FINANCIAL AUDIT OF CAPITAL ASSET ACCOUNT
For the Year Ended June 30, 2015

STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES
FINANCIAL AUDIT OF CAPITAL ASSET ACCOUNT
For the Year Ended June 30, 2015

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STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES
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For the Year Ended June 30, 2015

AGENCY OFFICIALS

Marc Miller	Director (through January 19, 2015)
Wayne Rosenthal	Director (January 20, 2015 – Present)
Randy Pollard	Assistant to the Director (February 3, 2015 – Present)
Elizabeth Penesis	Deputy Director (through January 30, 2015)
Elizabeth Norden	Deputy Director (through January 30, 2015)
Michael Howard	Deputy Director (through January 30, 2015)
Todd Main	Chief of Staff (through January 9, 2015)
Jason Hefley	Chief of Staff (January 12, 2015 – Present)
Jeff Smith	General Counsel/Legal (through February 15, 2015)
Brent Krebs	General Counsel/Legal (February 17, 2015 – Present)
Scott Harper	Chief Fiscal Officer (through January 30, 2015)
Doug Florence	Chief Fiscal Officer (February 1, 2015 – Present)
Dan Lorenc	Chief Information Officer (through January 31, 2015)
Chris Hill	Chief Information Officer (February 1, 2015 – June 15, 2015)
Don Bricker	Chief Information Officer (September 1, 2015 – Present)
Lisa LaBonte	Chief Internal Auditor
Michael Stevens	Office Director – Legislation
Christopher Stucki	Office Director – Architecture, Engineering & Grants (through February 15, 2015)
Bob Appleman	Office Director – Architecture, Engineering & Grants (March 1, 2015 – Present)
Todd Rettig	Office Director – Land Management
Rafael Gutierrez	Office Director – Law Enforcement
James Hafliger	Office Director – Mines & Minerals

STATE OF ILLINOIS
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AGENCY OFFICIALS (continued)

Mitchell Cohen	Office Director – Oil & Gas Management (through October 31, 2014)
Mike Mankowski	Acting Office Director - Oil and Gas Resource Management (April 1, 2014 – July 31, 2014) CMS approved “additional identity” July 1, 2014 – December 31, 2014
Mike Mankowski	Office Director – Oil & Gas Management (August 1, 2014 – Present)
Todd Main	Office Director – Performance Management (January 10, 2015 – February 15, 2015)
Connie Waggoner	Acting Office Director – Realty & Environmental Planning (July 1, 2014 – September 30, 2014)
Connie Waggoner	Office Director – Realty & Environmental Planning (October 1, 2014 – Present)
James Herkert	Office Director – Resource Conservation
Bonnie Styles	Director – State Museum (through September 30, 2015)
Marceo Haywood	Office Director – Strategic Planning (through March 30, 2015)
Rosemary Laudani	Office Director – Strategic Services (through January 27, 2015)
Steve Ettinger	Office Director – Strategic Services (January 28, 2015 – Present)
Arlan Juhl	Office Director – Water Resources (through December 31, 2014)
Dan Injerd	Office Director – Water Resources (April 8, 2015 – Present)

Department main headquarters is located at:

One Natural Resources Way
Springfield, Illinois 62703-1271

STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES
FINANCIAL AUDIT OF CAPITAL ASSET ACCOUNT
For the Year Ended June 30, 2015

FINANCIAL STATEMENT 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 staff of the Illinois Office of the Auditor General.

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

SUMMARY OF FINDINGS

The auditors did not identify matters involving the Department's internal controls over financial reporting.

EXIT CONFERENCE

The audit was reviewed by Department staff, and per Rebecca Wilson, Audit Liaison, the Department declined an exit conference.

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland
Auditor General
State of Illinois

Report on the Schedule

We have audited the accompanying Schedule of Capital Assets (Schedule) of the State of Illinois, Department of Natural Resources, as of June 30, 2015, and the related notes to the Schedule, as listed in the table of contents.

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of the Schedule in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the 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 is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and

the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Schedule 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, 2015, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

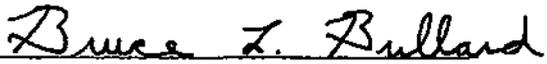
As discussed in Note 2, the Schedule presents only the Capital Asset Account and does not purport to, and does not, present fairly the financial position of the State of Illinois or the State of Illinois, Department of Natural Resources, as of June 30, 2015, and its changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2015, 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 its 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Department of Natural Resources' internal control over financial reporting of the Capital Asset Account and its compliance.

Restricted Use of this Auditor's Report

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.


BRUCE L. BULLARD, CPA
Director of Financial and Compliance Audits

Springfield, Illinois
December 15, 2015

**STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES**

Schedule of Capital Assets

**June 30, 2015
(expressed in thousands)**

Capital Assets not being depreciated:	
Land and land improvements	\$ 395,016
Construction in Progress	2,669
Internally generated intangible assets in development	372
Easements/rights of way/water-timber-mineral rights	119,558
Total Capital Assets not being depreciated	<u>517,615</u>
Capital Assets being depreciated:	
Site improvements	440,451
Building and building improvements	256,431
Equipment	70,989
Capital leases - equipment	20
Infrastructure	63,380
Non-internally generated software	36
Internally generated software	3,360
Easements/rights of way/water-timber-mineral rights	1,511
Other intangible assets	6,939
Total Capital Assets being depreciated	<u>843,117</u>
Less Accumulated Depreciation for:	
Site improvements	274,977
Building and building improvements	152,376
Equipment	57,333
Capital leases - equipment	18
Infrastructure	34,129
Non-internally generated software	36
Internally generated software	3,360
Easements/rights-of-way/water-timber-mineral rights	1,278
Other intangible assets	2,198
Total Accumulated Depreciation	<u>525,705</u>
Total Capital Assets being depreciated, net	<u>317,412</u>
Total Capital Assets, net	<u><u>\$ 835,027</u></u>

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

STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES
NOTES TO THE SCHEDULE OF CAPITAL ASSETS
For the Year Ended June 30, 2015

1. DESCRIPTION OF CAPITAL ASSET ACCOUNT

The State of Illinois, Illinois Department of Natural Resources (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 has 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 from the Office of the Comptroller's website (ledger.illinoiscomptroller.com) or by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1871.

STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES
NOTES TO THE SCHEDULE OF CAPITAL ASSETS (continued)
For the Year Ended June 30, 2015

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, 2015, 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, 2015.

(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.

STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES
NOTES TO THE SCHEDULE OF CAPITAL ASSETS (continued)
For the Year Ended June 30, 2015

(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 right of way 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

(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

STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES
NOTES TO THE SCHEDULE OF CAPITAL ASSETS (continued)
For the Year Ended June 30, 2015

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 the Capitalization Policies table.

(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 the proper asset category and capitalized and depreciated based on conventions listed in the Capitalization Policies table. The Department considers infrastructure and bikeways to be a series of networks and sub-systems. As such

STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES
NOTES TO THE SCHEDULE OF CAPITAL ASSETS (continued)
For the Year Ended June 30, 2015

those assets have met the requirement of being ready for intended use and therefore are not held in the Construction in Progress 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
DEPARTMENT OF NATURAL RESOURCES
NOTES TO THE SCHEDULE OF CAPITAL ASSETS
For the Year Ended June 30, 2015

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, was as follows (amounts are in thousands):

	Balance At June 30, 2014	Additions	Deletions	Net Transfers	Balance At June 30, 2015
Capital Assets not being depreciated:					
Land and land improvements	\$ 380,682	\$ 14,135	\$ 26	\$ 225	\$ 395,016
Construction in Progress	1,701	1,400	4	(428)	2,669
Internally generated intangible assets in development	372	-	-	-	372
Easements/rights of way/water-timber-mineral rights	114,599	4,959	-	-	119,558
Total Capital Assets not being depreciated	<u>497,354</u>	<u>20,494</u>	<u>30</u>	<u>(203)</u>	<u>517,615</u>
Capital Assets being depreciated:					
Site improvements	436,161	2,652	1,123	2,761	440,451
Building and building improvements	255,632	1,386	19	(568)	256,431
Equipment	69,229	5,105	3,355	10	70,989
Capital leases - equipment	20	-	-	-	20
Infrastructure	54,018	9,362	-	-	63,380
Non-internally generated software	36	-	-	-	36
Internally generated software	3,360	-	-	-	3,360
Easements/rights of way/water-timber-mineral rights	1,511	-	-	-	1,511
Other intangible assets	6,939	-	-	-	6,939
Total Capital Assets being depreciated	<u>826,906</u>	<u>18,505</u>	<u>4,497</u>	<u>2,203</u>	<u>843,117</u>
Less Accumulated Depreciation for:					
Site improvements	263,105	11,866	(6)	-	274,977
Building and building improvements	145,709	7,302	(60)	(695)	152,376
Equipment	57,672	2,987	3,326	-	57,333
Capital leases - equipment	11	7	-	-	18
Infrastructure	31,968	2,161	-	-	34,129
Non-internally generated software	36	-	-	-	36
Internally generated software	3,360	-	-	-	3,360
Easements/rights-of-way/water-timber-mineral rights	1,210	68	-	-	1,278
Other intangible assets	1,717	481	-	-	2,198
Total Accumulated Depreciation	<u>504,788</u>	<u>24,872</u>	<u>3,260</u>	<u>(695)</u>	<u>525,705</u>
Total Capital Assets being depreciated, net	<u>322,118</u>	<u>(6,367)</u>	<u>1,237</u>	<u>2,898</u>	<u>317,412</u>
Total Capital Assets, net	<u>\$ 819,472</u>	<u>\$ 14,127</u>	<u>\$ 1,267</u>	<u>\$ 2,695</u>	<u>\$ 835,027</u>

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

INDEPENDENT AUDITOR'S 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

We have audited, in accordance with the 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, the Schedule of Capital Assets of the State of Illinois, Department of Natural Resources, as of June 30, 2015, and the related notes to the Schedule of Capital Assets, and have issued our report thereon dated December 15, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the Schedule of Capital Assets, we considered the State of Illinois, Department of Natural Resources' internal control over financial reporting (internal control) of the Capital Asset Account to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Department of Natural Resources' internal control.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

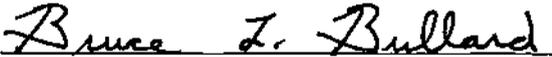
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control of the Capital Asset Account that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 from 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 the Schedule of Capital Assets 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Illinois, Department of Natural Resources' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Department of Natural Resources' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


BRUCE L. BULLARD, CPA
Director of Financial and Compliance Audits

Springfield, Illinois
December 15, 2015