

STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES
FINANCIAL AUDIT OF CAPITAL ASSET ACCOUNT
For the Year Ended June 30, 2017

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DEPARTMENT OF NATURAL RESOURCES
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AGENCY OFFICIALS

Director	Wayne Rosenthal
Chief of Staff	Brent Krebs
Assistant to Chief of Staff (3/1/17 - Present) ¹	Steve Ettinger
General Counsel/Legal (8/16/17 - Present)	Eric Lohrenz
General Counsel/Legal (8/3/17 - 8/15/17)	Vacant
General Counsel/Legal (9/1/16 - 8/2/17)	Gabe Grosboll
General Counsel/Legal (7/1/16 - 8/31/16)	Vacant
Chief Fiscal Officer	Doug Florence
Chief Information Officer (1/3/17 - Present)	Steve Washko
Chief Information Officer (11/1/16 - 1/2/17)	Vacant
Chief Information Officer (7/1/16 - 10/31/16)	Don Bricker
Chief Internal Auditor	Brad Colantino
GAAP Coordinator	Rebecca Wilson
Property Control (12/16/16 - Present)	Kami Windisch
Property Control (7/1/16 - 12/15/16)	Kim Clark
Legislative Director (7/1/17 - Present)	Brad Carlson
Legislation Director (7/1/16 - 6/30/17)	Michael Stevens
Architecture, Engineering, and Grants Director	Bob Appleman
Land Management Director (3/1/17 - Present)	Regan Ramsey
Land Management Director (7/1/16 - 2/28/17)	Todd Rettig
Law Enforcement Director	Rafael Gutierrez
Mines and Minerals Director (5/1/17 - Present)	Tom Brenner
Mines and Minerals Director (7/1/16 - 4/30/17)	James Hafliger

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AGENCY OFFICIALS (continued)

Oil and Gas Resource Management Director	Mike Mankowski
Realty and Environmental Planning Director	Connie Waggoner
Resource Conservation Director (10/16/16 - Present)	Chris Young
Resource Conservation Director (7/1/16 - 10/15/16)	James Herkert
Illinois State Museum Director (Acting) (1/1/18 - Present)	Robert Sill
Illinois State Museum Director (Acting) (7/1/16 - 12/31/17)	Michael Wiant
Strategic Services Director (4/1/17 - Present)	James Emmett
Strategic Services Director (7/1/16 - 3/31/17)	Steve Ettinger
Water Resources Director (1/1/18 - Present)	Loren Wobig
Water Resources Director (7/1/16 - 12/31/17)	Dan Injerd

The Department's headquarters are located at:

One Natural Resources Way
Springfield, Illinois 62703-1271

¹ This position was created, effective 3/1/17.

STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES
FINANCIAL AUDIT OF CAPITAL ASSET ACCOUNT
For the Year Ended June 30, 2017

FINANCIAL REPORT

SUMMARY

The audit of the accompanying Schedule of Capital Assets of the State of Illinois, Department of Natural Resources (Department) was performed by staff of the Office of the Auditor General.

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

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
FRANK J. MAUTINO
INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

Report on the Financial Statements

We have audited the accompanying Schedule of Capital Assets (Schedule) of the State of Illinois, Department of Natural Resources, as of June 30, 2017, and the related notes to the Schedule, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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, 2017, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the Schedule and its related footnotes are intended to present the financial position and the changes in financial position of only the Capital Asset Account of the State of Illinois, Department of Natural Resources. The Schedule 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, 2017, and the changes in either entity's 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 January 18, 2018, on our consideration of the State of Illinois, Department of Natural Resources' internal control over financial reporting of the Schedule 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 Schedule. The purpose of that report is solely 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 effectiveness of the State of Illinois, Department of Natural Resources' internal control over financial reporting of the Schedule 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 Schedule 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 Department management and is not intended to be and should not be used by anyone other than these specified parties.

SIGNED ORIGINAL ON FILE

JANE CLARK, CPA
Director of Financial and Compliance Audits

Springfield, Illinois
January 18, 2018

**STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES**

Schedule of Capital Assets

**June 30, 2017
(expressed in thousands)**

Capital Assets not being depreciated:	
Land and land improvements	\$ 395,966
Construction in progress	3,045
Internally generated intangible assets in development	372
Easements/rights of way/water-timber-mineral rights	129,151
Total Capital Assets not being depreciated	<u>528,534</u>
 Capital Assets being depreciated:	
Site improvements	441,774
Building and building improvements	257,388
Equipment	68,258
Capital leases - equipment	85
Infrastructure	63,381
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>842,732</u>
 Less Accumulated Depreciation for:	
Site improvements	298,194
Building and building improvements	166,492
Equipment	57,001
Capital leases - equipment	23
Infrastructure	37,338
Non-internally generated software	36
Internally generated software	3,360
Easements/rights of way/water-timber-mineral rights	1,407
Other intangible assets	3,160
Total Accumulated Depreciation	<u>567,011</u>
 Total Capital Assets being depreciated, net	 <u>275,721</u>
 Total Capital Assets, net	 <u><u>\$ 804,255</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, 2017

1. DESCRIPTION OF CAPITAL ASSET ACCOUNT

The State of 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 (www.illinoiscomptroller.gov) 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, 2017

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 State or the Department as of June 30, 2017, 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, 2017.

(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 acquisition value. 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), 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, 2017

(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 assets supported by purchasing documentation (e.g., contracts, requisitions, purchase

STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES
NOTES TO THE SCHEDULE OF CAPITAL ASSETS (continued)
For the Year Ended June 30, 2017

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 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, 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, those assets have met the requirement of being ready for intended use, and therefore, are not held in the Construction in Progress category.

STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES
NOTES TO THE SCHEDULE OF CAPITAL ASSETS (continued)
For the Year Ended June 30, 2017

(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 sub-system 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), 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 the asset, date of acquisition, method of acquisition, cost or other value, responsible organizational unit, location of the asset, identification of applicable network or sub-system (for infrastructure assets), estimated life, estimated salvage value, annual 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 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 (continued)
For the Year Ended June 30, 2017

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, was as follows (amounts are in thousands):

	Balance at June 30, 2016	Additions	Deletions	Net Transfers	Balance at June 30, 2017
Capital Assets not being depreciated:					
Land and land improvements	\$ 394,738	\$ 1,228	\$ -	\$ -	\$ 395,966
Construction in progress	3,048	14	17	-	3,045
Internally generated intangible assets in development	372	-	-	-	372
Easements/rights of way/water-timber-mineral rights	121,522	7,629	-	-	129,151
Total Capital Assets not being depreciated	<u>519,680</u>	<u>8,871</u>	<u>17</u>	<u>-</u>	<u>528,534</u>
Capital Assets being depreciated:					
Site improvements	441,360	415	102	101	441,774
Building and building improvements	256,587	801	-	-	257,388
Equipment	66,800	3,021	1,563	-	68,258
Capital leases - equipment	27	58	-	-	85
Infrastructure	63,381	-	-	-	63,381
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>840,001</u>	<u>4,295</u>	<u>1,665</u>	<u>101</u>	<u>842,732</u>
Less Accumulated Depreciation for:					
Site improvements	286,690	11,606	102	-	298,194
Building and building improvements	159,402	7,090	-	-	166,492
Equipment	55,802	2,748	1,549	-	57,001
Capital leases - equipment	3	20	-	-	23
Infrastructure	35,842	1,496	-	-	37,338
Non-internally generated software	36	-	-	-	36
Internally generated software	3,360	-	-	-	3,360
Easements/rights of way/water-timber-mineral rights	1,345	62	-	-	1,407
Other intangible assets	2,679	481	-	-	3,160
Total Accumulated Depreciation	<u>545,159</u>	<u>23,503</u>	<u>1,651</u>	<u>-</u>	<u>567,011</u>
Total Capital Assets being depreciated, net	<u>294,842</u>	<u>(19,208)</u>	<u>14</u>	<u>101</u>	<u>275,721</u>
Total Capital Assets, net	<u>\$ 814,522</u>	<u>\$ (10,337)</u>	<u>\$ 31</u>	<u>\$ 101</u>	<u>\$ 804,255</u>

STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES
NOTES TO THE SCHEDULE OF CAPITAL ASSETS (continued)
For the Year Ended June 30, 2017

6. SUBSEQUENT EVENTS

Executive Order 2017-01 abolished the Historic Preservation Agency and created within the Department's Office of Land Management a new Division of Historic Preservation. Effective July 1, 2017, the powers, duties, functions, responsibilities, records, documents, books, and property, both real and personal, formerly belonging to the Historic Preservation Agency were transferred to the newly established Division of Historic Preservation. This transfer is expected to impact the Schedule of Capital Assets in Fiscal Year 2018 and future years.

The Department is not aware of any additional facts, decisions, or conditions that might be expected to have a significant effect on the Schedule's financial position during this and future fiscal years.

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OFFICE OF THE AUDITOR GENERAL

FRANK J. MAUTINO

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 Frank J. Mautino
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, 2017, and the related notes to the Schedule of Capital Assets, and have issued our report thereon dated January 18, 2018.

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 for the Capital Asset Account (internal control) 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.

SIGNED ORIGINAL ON FILE

JANE CLARK, CPA
Director of Financial and Compliance Audits

Springfield, Illinois
January 18, 2018