

**State of Illinois
Department of
Natural Resources**

**FINANCIAL AUDIT OF
CAPITAL ASSET
ACCOUNT**

**FOR THE YEAR ENDED
JUNE 30, 2022**

**PERFORMED AS SPECIAL
ASSISTANT AUDITORS FOR THE
AUDITOR GENERAL,
STATE OF ILLINOIS**

STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES
FINANCIAL AUDIT OF CAPITAL ASSET ACCOUNT
For the Year Ended June 30, 2022

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STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES
FINANCIAL AUDIT OF CAPITAL ASSET ACCOUNT
For the Year Ended June 30, 2022

DEPARTMENT OFFICIALS

Director	Ms. Colleen Callahan
Assistant Director	Mr. John Rogner
Chief of Staff	Ms. Kristin DiCenso
Deputy Chief of Staff (08/02/21 to Present)	Ms. Natalie Phelps Finnie
Deputy Chief of Staff (07/01/21 to 08/01/21)	Ms. Rachel Torbert
General Counsel/Legal	Ms. Renee Snow
Chief Fiscal Officer (09/01/21 to Present)	Ms. Meta Darnell
Chief Fiscal Officer (08/17/21 to 08/31/21)	Ms. Kristina Shelton
Chief Fiscal Officer (07/01/21 to 08/16/21)	Mr. Bradley Colantino
Chief Information Officer (09/01/21 to Present)	Mr. Russ Kemple
Chief Information Officer (07/01/21 to 08/31/21)	Vacant
GAAP Coordinator	Ms. Rebecca Wilson

The State of Illinois, Department of Natural Resources' primary administrative office is located at:

Joel D. Brunsvold Building
One Natural Resources Way
Springfield, Illinois 62702-1271

STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES
FINANCIAL AUDIT OF CAPITAL ASSET ACCOUNT
For the Year Ended June 30, 2022

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying Schedule of Capital Assets of the State of Illinois, Department of Natural Resources (Department) was performed by Roth & Company, LLP.

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

EXIT CONFERENCE

The Department waived an exit conference in a correspondence from Ms. Rebecca Wilson, GAAP Coordinator, on January 10, 2023.



INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

Report on the Audit of the Schedule of Capital Assets

Opinion

As Special Assistant Auditors for the Auditor General, we have audited the accompanying Schedule of Capital Assets (Schedule) of the State of Illinois, Department of Natural Resources (Department), as of June 30, 2022, and the related notes to the Schedule, as listed in the table of contents.

In our opinion, the accompanying Schedule referred to above present fairly, in all material respects, the Capital Asset Account of the Department, as of June 30, 2022, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department, and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2, the Schedule and its related footnotes are intended to present only the Capital Asset Account of the Department. The Schedule does not purport to, and does not, present fairly the financial position of the Department as of June 30, 2022, the 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.

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Responsibilities of Management for the Schedule of Capital Assets

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, and for 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 Responsibilities for the Audit of the Schedule of Capital Assets

Our objectives are to obtain reasonable assurance about whether the Schedule as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the Schedule.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgement and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the Schedule, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the Schedule.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the Schedule.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Other Information

Management is responsible for the other information included in the Schedule. The other information comprises the Department officials page but does not include the Schedule and our auditor's report thereon. Our opinion on the Schedule does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the Schedule, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the Schedule, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2023, on our consideration of the Department's 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. 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 Department's 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 Department's internal control over financial reporting and 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 the Department's management and is not intended to be and should not be used by anyone other than these specified parties.

SIGNED ORIGINAL ON FILE

Chicago, Illinois
January 11, 2023



STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES
SCHEDULE OF CAPITAL ASSETS
June 30, 2022

	<u>AMOUNTS</u> (in thousands)
Capital Assets not being depreciated:	
Land and land improvements	\$ 449,377
Construction in progress	48,573
Internally generated intangible assets in development	372
Easements/rights of way/water-timber-mineral rights	<u>157,742</u>
Total Capital Assets not being depreciated	<u>656,064</u>
Capital Assets being depreciated:	
Site improvements	548,946
Building and building improvements	294,627
Leased building	231
Equipment	88,653
Leased equipment	954
Infrastructure	79,102
Non-internally generated software	36
Internally generated software	3,360
Easements/rights of way/water-timber-mineral rights	1,511
Other intangible assets	<u>6,939</u>
Total Capital Assets being depreciated	<u>1,024,359</u>
Less Accumulated Depreciation for:	
Site improvements	449,096
Building and building improvements	229,643
Leased building	32
Equipment	69,746
Leased equipment	156
Infrastructure	45,658
Non-internally generated software	36
Internally generated software	3,360
Easements/rights of way/water-timber-mineral rights	1,495
Other intangible assets	<u>5,001</u>
Total Accumulated Depreciation	<u>804,223</u>
Total Capital Assets being depreciated, net	<u>220,136</u>
Total Capital Assets, net	<u><u>\$ 876,200</u></u>

STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES
NOTES TO THE SCHEDULE OF CAPITAL ASSETS
For the Year Ended June 30, 2022

NOTE 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 and building improvements, equipment, leased equipment and all other tangible assets that are used in operations and that have expected useful lives extending beyond a single reporting period.

NOTE 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 Annual Comprehensive Financial Report can be obtained from the Office of Comptroller's website (www.illinoiscomptroller.gov) or by writing to the Office of Comptroller, 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
For the Year Ended June 30, 2022

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, 2022, and changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance 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 Annual Comprehensive 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, 2022.

(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 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 cost 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
 For the Year Ended June 30, 2022

(f) Capitalization Policies

Capitalization thresholds and the estimated useful lives are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life (in years)
Land	\$100,000	N/A
Land Improvements	25,000	N/A
Construction in Progress	5,000- 1,000,000	N/A
Infrastructure	250,000	20-40
Site Improvements	25,000	20-30
Buildings and Building Improvements	25,000- 100,000	20-50
Equipment	5,000	3-20

Intangible Asset Type	Capitalization Threshold	Estimated Useful Life (in years)
Easement other than right of way indefinite	\$25,000	Indefinite
Water-timber-mineral rights indefinite	25,000	Indefinite
Right of way indefinite	25,000	Indefinite
Internally generated software in development	25,000	Indefinite
Internally generated software	1,000,000	5-10
Non-internally generated software	25,000	5-10
Easements/rights of way/water-timber-mineral rights	25,000	Varies/depends on contract
Other intangible assets	25,000	Varies/depends on contract

(g) Infrastructure

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

STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES
NOTES TO THE SCHEDULE OF CAPITAL ASSETS
For the Year Ended June 30, 2022

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 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
For the Year Ended June 30, 2022

(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 cost 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.

NOTE 3 – LEASES

The Department has recorded right-to-use leased assets as a result of implementing GASB Statement No. 87, *Leases*. The right to use assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the leased asset into service. The right-to-use leased assets are amortized on a straight-line basis over the shorter of the lease term or life of the leased asset.

The right to use assets for the year ended June 30, 2022, was as follows (amounts in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Right to use assets				
Leased building	\$ -	\$ 231	\$ -	\$ 231
Leased equipment	-	954	-	954
Total right to use assets	<u>-</u>	<u>1,185</u>	<u>-</u>	<u>1,185</u>
Less accumulated amortization				
Leased building	-	32	-	32
Leased equipment	-	156	-	156
Total accumulated amortization	<u>-</u>	<u>188</u>	<u>-</u>	<u>188</u>
Right to use assets, net	<u>\$ -</u>	<u>\$ 997</u>	<u>\$ -</u>	<u>\$ 997</u>

STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES
NOTES TO THE SCHEDULE OF CAPITAL ASSETS
For the Year Ended June 30, 2022

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2022, was as follows (amounts in thousands):

	Balance At June 30, 2021	Additions	Deletions	Net Transfers	Adjustments*	Balance At June 30, 2022
Capital Assets not being depreciated:						
Land and land improvements	\$ 447,043	\$ 5,933	\$ 3,715	\$ 116	\$ -	\$ 449,377
Construction in progress	25,023	18,338	6,584	11,796	-	48,573
Internally generated intangible assets in development	372	-	-	-	-	372
Easements/rights of way/water-timber-mineral rights	153,273	4,469	-	-	-	157,742
Total Capital Assets not being depreciated:	<u>625,711</u>	<u>28,740</u>	<u>10,299</u>	<u>11,912</u>	<u>-</u>	<u>656,064</u>
Capital Assets being depreciated:						
Site improvements	546,818	2,075	49	102	-	548,946
Building and building improvements	292,021	3,220	617	3	-	294,627
Equipment	87,224	2,946	1,747	230	-	88,653
Capital leases - equipment	654	-	-	-	(654)	-
Infrastructure	76,206	2,896	-	-	-	79,102
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>1,014,769</u>	<u>11,137</u>	<u>2,413</u>	<u>335</u>	<u>(654)</u>	<u>1,023,174</u>
Less Accumulated Depreciation for:						
Site improvements	435,422	13,700	26	-	-	449,096
Building and building improvements	223,460	6,726	543	-	-	229,643
Equipment	65,822	5,390	1,466	-	-	69,746
Capital leases - equipment	95	-	-	-	(95)	-
Infrastructure	43,859	1,799	-	-	-	45,658
Non-internally generated software	36	-	-	-	-	36
Internally generated software	3,360	-	-	-	-	3,360
Easements/rights of way/water-timber-mineral rights	1,494	1	-	-	-	1,495
Other intangible assets	4,859	142	-	-	-	5,001
Total Accumulated Depreciation	<u>778,407</u>	<u>27,758</u>	<u>2,035</u>	<u>-</u>	<u>(95)</u>	<u>804,035</u>
Total Capital Assets being depreciated, net	<u>236,362</u>	<u>(16,621)</u>	<u>378</u>	<u>335</u>	<u>(559)</u>	<u>219,139</u>
Total Capital Assets, net	<u>\$ 862,073</u>	<u>\$ 12,119</u>	<u>\$ 10,677</u>	<u>\$ 12,247</u>	<u>\$ (559)</u>	<u>\$ 875,203</u>

*The Department recorded capital assets adjustments to record right-to-use leased assets as a result of implementing GASB Statement No. 87, *Leases*, as presented in Note 3.

NOTE 5 – CAPITAL ASSET MANAGEMENT SYSTEM

The Department implemented the Enterprise Resource Planning (ERP) System on January 1, 2019. The fixed assets module of the ERP System is used to track all assets which includes, 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, and annual accumulated depreciation.

STATE OF ILLINOIS
DEPARTMENT OF NATURAL RESOURCES
NOTES TO THE SCHEDULE OF CAPITAL ASSETS
For the Year Ended June 30, 2022

NOTE 6 - REPORTING REQUIREMENTS

The Department is required to complete and submit the Capital Asset Summary (SCO-538) form to the Office of Comptroller as part of the year-end reporting process related to capital assets. The amounts reported on the Fiscal Year 2022 SCO-538 form have been reconciled to the Schedule of Capital Assets as of June 30, 2022.



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

As Special Assistant Auditors for the Auditor General, 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 (Department), as of June 30, 2022, and the related notes to the Schedule of Capital Assets, and we have issued our report thereon dated January 11, 2023.

Report on Internal Control Over Financial Reporting

Management of the Department is responsible for establishing and maintaining effective internal control over financial reporting (internal control).

In planning and performing our audit of the Schedule of Capital Assets, we considered the Department's internal control as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the Schedule of Capital Assets, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's 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 Schedule of Capital Assets 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.

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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 that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department’s 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 Schedule of Capital Assets. 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 entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Restricted Use of this 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 the Department’s management and is not intended to be and should not be used by anyone other than these specified parties.

SIGNED ORIGINAL ON FILE

Chicago, Illinois
January 11, 2023

