STATE OF ILLINOIS
PRAIRIELAND ENERGY, INC.

FINANCIAL AUDIT
For the Year Ended June 30, 2005

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

Clifton Gunderson LLP
Certified Public Accountants & Consultants

STATE OF ILLINOIS
PRAIRIELAND ENERGY, INC.
FINANCIAL AUDIT
For the Year Ended June 30, 2005

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PRAIRIELAND ENERGY, INC.
COMPANY OFFICIALS
June 30, 2005

President and Chief Executive Officer	Mr. Lyle D. Wachtel
Vice President	Mr. Kenneth V. Buric
Secretary	Dr. Peter J. Czajkowski
Treasurer	Kevin Nolan
Assistant Treasurer	Steven Gangloff
Chief Operating Engineer	Vacant
Board of Directors	Dr. Craig S. Bazzani Mr. Doug Beckmann Mr. Stephen K. Rugg

The Prairieland Energy, Inc. offices are located at:

2805 Research Road
Champaign, Illinois 61822

PRAIRIELAND ENERGY, INC.
FINANCIAL STATEMENT REPORT SUMMARY
June 30, 2005

The audit of the accompanying financial statements of Prairieland Energy, Inc. was performed by Clifton Gunderson LLP.

Based on their audit, the auditors expressed an unqualified opinion on Prairieland Energy, Inc.'s financial statements.

Independent Auditor's Report

The Honorable William G. Holland
Auditor General
State of Illinois

and

Board of Directors
Prairieland Energy, Inc.

As Special Assistant Auditors for the Auditor General, we have audited the accompanying statement of net assets of Prairieland Energy, Inc., a component unit of the University of Illinois, as of June 30, 2005, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Prairieland Energy, Inc. as of June 30, 2005, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2005 on our consideration of Prairieland Energy, Inc.'s internal control over financial reporting 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 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.

The accompanying management's discussion and analysis on pages 5 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clifton Gunderson LLP

Peoria, Illinois
August 18, 2005

PRAIRIELAND ENERGY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

(Unaudited)

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of Prairieland Energy, Inc. for the year ended June 30, 2005, with selected comparative information for the year ended June 30, 2004. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section. These include the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows.

By agreement with the Board of Trustees of the University of Illinois (University), Prairieland Energy, Inc. (Prairieland) exists for the sole purpose of reducing energy operating costs to the University.

USING THE FINANCIAL STATEMENTS

Prairieland's financial report includes three financial statements: Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows. These statements are prepared in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB).

The Statement of Net Assets is presented to show assets, liabilities, and net assets as of June 30, 2005. Following the Statement of Net Assets is the Statement of Revenues, Expenses, and Changes in Net Assets, which provides operational information for Prairieland regarding changes in its financial position for the year ended June 30, 2005. The Statement of Cash Flows provides details on how cash was used during the year followed by a reconciliation of the income to the net cash provided by operating activities.

FINANCIAL HIGHLIGHTS

The Statement of Net Assets indicates an increase in current assets of $660,897 from June 30, 2004 to June 30, 2005. The increase in current assets is due to increases in accounts receivable and prepaid expense at June 30, 2005. The accounts receivable balance at June 30, 2005 includes an amount receivable for energy sales to the U of I Chicago campus for May and June 2005 as well as amounts receivable from the annual energy cost adjustment. In addition there were some receivables for sale of electricity, steam and chilled water to third parties adjacent to the Urbana Champaign campus. In the year ended June 30, 2004, the accounts receivable did not include an amount for the May energy sales for the Chicago campus. The May 2004 energy invoice was paid by the University prior to June 30, 2004. Prairieland started selling electricity, steam and chilled water to third parties in October 2004. There were no receivables from third parties at June 30, 2004. In June 2005, Prairieland prepaid its rent for July 2005. The rental payment for July 2004 was not made until July 2004. Note that the capital assets owned by Prairieland are $22,063, and the only other assets are the cash funds kept in the checking and money market accounts, as well as accounts receivable from the University and prepaid expenses.

PRAIRIELAND ENERGY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

(Unaudited)

Condensed Statements of Net Assets

	2005	2004
Current assets	$1,189,140	$ 528,243
Capital assets	22,063	1,847
Total assets	$1,211,203	$ 530,090
Liabilities	$ 340,781	$ 123,950
Net assets:		
Invested in capital assets	22,063	1,847
Unrestricted	848,359	404,293
Total net assets	870,422	406,140
Total liabilities and net assets	$1,211,203	$ 530,090

Service income represents the revenue from the University for the sale of high temperature hot water, steam, and chilled water. It also includes revenue for the sale of electricity, steam and chilled water to third parties adjacent to the Urbana Champaign campus. The energy cost adjustment represents the amounts the University bills Prairieland for producing electricity, steam chilled and hot water. The facilities rental expense reflects the rent Prairieland pays the University for the heat and chilled water production facilities Prairieland utilizes in the production of the steam, high temperature hot water, and chilled water it sells to the University. The balance of the expenses is related to the rent and operating expenses of office space at 2805 Research Road in Champaign, Illinois.

Operating income is up $535,180 from the prior year. Revenue from the sale of hot water, steam, chilled water, and electricity increased from the year ended June 30, 2004 by $105,979. There was a decrease in the energy cost adjustment of $455,753. The combination of these changes contributed $561,732 to the increase in operating income. Rent expense for the year was up $13,200 compared to the year ended June 30, 2004. Prairieland was not charged any office rent for 11 months of the year ended June 30, 2004.

PRAIRIELAND ENERGY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

(Unaudited)

Condensed Statements of Revenues, Expenses, and Changes in Net Assets

	2005	**2004**
Service income	$ 11,081,811	$ 10,975,832
Operating expenses:		
Energy cost adjustment	7,430,498	7,886,251
Facilities rental	2,903,970	2,903,880
Audit fees	12,854	13,466
Salaries	44,772	42,463
Office rent	14,400	1,200
Depreciation	2,984	664
Telephone	1,287	1,061
Other	10,203	1,184
Total operating expenses	10,420,968	10,850,169
Operating income	660,843	125,663
Nonoperating revenues (expenses):		
Interest	3,728	1,873
Other	1,920	45
Income tax (expense)	(202,209)	(37,808)
Total nonoperating revenues (expenses)	(196,561)	(35,890)
Increase in net assets	464,282	89,773
Net assets, beginning of year	406,140	316,367
Net assets, end of year	$ 870,422	$ 406,140

Prairieland currently relies primarily on payments from the University for funding of operations. Cash at June 30, 2005 as indicated on the Statement of Net Assets is $156,493, or 13 percent of the total assets.

Future events that could have an impact on revenues and expenses are the regulatory framework that Prairieland operates within, and the market conditions that would permit the economic purchase and/or sale of electricity on the wholesale markets.

The University of Illinois is having dialogue with Commonwealth Edison and Illinois Power with respect to the application of the schedule of regulatory rates for electric service at the Urbana and Chicago Campuses. These discussions are ongoing.

Once the rate discussions have concluded, the value of electricity on the wholesale market will influence the purchase strategies of Prairieland and consequently impact the level of revenues and expenses.

PRAIRIELAND ENERGY, INC.
STATEMENT OF NET ASSETS
June 30, 2005

ASSETS

CURRENT ASSETS		
Cash	$ 156,493	
Accounts receivable	789,511	
Prepaid expense	243,136	$ 1,189,140
CAPITAL ASSETS		22,063
TOTAL ASSETS		$ 1,211,203

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	$ 8,962	
Accrued expenses	10,158	
Accrued income taxes	5,789	
Deferred income taxes	309,187	$ 334,096
LONG-TERM LIABILITIES		
Deferred income taxes		6,685
Total liabilities		340,781
NET ASSETS		
Invested in capital assets	22,063	
Unrestricted	848,359	870,422
TOTAL LIABILITIES AND NET ASSETS		$ 1,211,203

These financial statements should be read only in connection with
the accompanying notes to financial statements.

PRAIRIELAND ENERGY, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS
Year Ended June 30, 2005

OPERATING REVENUES		
Steam sales	$ 6,556,847	
Chilled water sales	1,566,845	
Hot water sales	2,871,692	
Electricity sales	86,427	$ 11,081,811
OPERATING EXPENSES		
Energy cost adjustment	7,430,498	
Facilities rental	2,903,970	
Audit fees	12,854	
Salaries	44,772	
Office rent	14,400	
Depreciation	2,984	
Telephone	1,287	
Other	10,203	10,420,968
Operating income		660,843
NONOPERATING REVENUES (EXPENSES)		
Interest revenue	3,728	
Other revenue	1,920	
Income tax expense	(202,209)	(196,561)
INCREASE IN NET ASSETS		464,282
NET ASSETS, BEGINNING OF YEAR		406,140
NET ASSETS, END OF YEAR		$ 870,422

These financial statements should be read only in connection with the accompanying notes to financial statements.

PRAIRIELAND ENERGY, INC.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES		
Sales	$ 10,683,413	
Payments to suppliers	(10,646,445)	
Net cash provided by operating activities		$ 36,968
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Other income received	1,920	
Payments for income taxes	(53)	
Net cash provided by noncapital financing activities		1,867
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of equipment	(23,200)	
Net cash used in capital and related financing activities		(23,200)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	3,728	
Net cash provided by investing activities		3,728
INCREASE IN CASH		19,363
CASH, BEGINNING OF YEAR		137,130
CASH, END OF YEAR		$ 156,493
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 660,843	
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,984	
Effects of changes in operating assets and liabilities:		
Accounts receivable	(398,398)	
Prepaid expense	(243,136)	
Accounts payable	8,860	
Accrued expenses	5,815	
NET CASH PROVIDED BY OPERATING ACTIVITIES		$ 36,968

These financial statements should be read only in connection with the accompanying notes to financial statements.

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Prairieland Energy, Inc. (Prairieland) is an Illinois corporation with offices located in Champaign, Illinois. Prairieland was formed by and is a component unit of the University of Illinois (University), a body corporate and politic of the State of Illinois.

Prairieland was formed November 19, 1996 for the purpose of producing, acquiring, and selling various forms of energy, including electricity, at both wholesale and retail prices.

Prairieland intends to acquire economically priced electricity from available sources and to make such electricity available to the University and other customers at prices below what they are otherwise paying. In order to access such electricity for the University's Chicago campus, Prairieland must obtain transmission service from Commonwealth Edison Company (ComEd). ComEd denied Prairieland's initial requests for such transmission service.

In September 1998, Prairieland made application to the Federal Energy Regulatory Commission (Commission) for an order directing ComEd to provide transmission service under ComEd's Open Access Transmission Tariff (OATT), which is available to certain electric utility companies. ComEd intervened in the matter, stating that Prairieland did not qualify as an eligible customer under ComEd's OATT because Prairieland is not an electric utility. In an order dated August 2, 1999, the Commission agreed with ComEd. The order stated that Prairieland had not shown that it was an electric utility, and that it had failed to demonstrate that it sold electrical energy. On September 1, 1999, Prairieland filed a request for re-hearing of the Commission's August 2, 1999 order. The Commission subsequently denied Prairieland's September 1, 1999 request.

On June 13, 2000, Prairieland filed a new petition with the Commission. The petition requested the Commission to disclaim jurisdiction over Prairieland as a "public utility" under the Federal Power Act. More specifically, the petition stated that since both Prairieland and the University are agencies or instrumentalities of the State of Illinois, neither entity should fall under the Commission's jurisdiction. In an order dated August 1, 2000, the Commission granted Prairieland's petition in a disclaimer of jurisdiction as a public utility. The order means that Prairieland will not be subject to the Commission's regulations and other requirements. However, the order did not address Prairieland's request for transmission access through Commonwealth Edison Company. Concurrent with these activities, the University was constructing additional generating facilities for the two heating plants in Chicago. The East plant on the Chicago campus was completed in 2000 while the West plant on the Chicago campus was completed in April 2002. The University had been in an electric service tariff dispute with Commonwealth Edison since the completion of these plants. This dispute was resolved by the University in October 2003. Under the terms of the Agreement, the University will use Commonwealth Edison as its electric supplier until the termination of its agreement scheduled for December 31, 2006. Prairieland will move forward to complete its transmission access plans to be effective in January 2007.

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nature of Operations (Continued)

When the issues of transmission access from ComEd are resolved, it is the intent of Prairieland to subsequently use this model in the purchase of energy for the Urbana and Springfield campuses of the University of Illinois, as applicable.

On April 1, 1999, Prairieland entered into an agreement to lease certain steam, hot water, and chilled water production and distribution facilities from the University and into an agreement to supply the steam, hot water, and chilled water requirements of the University's Chicago, Illinois campus.

Starting in October 2004, Prairieland entered into agreements to purchase electricity, steam and chilled water from the University of Illinois, at its Urbana Champaign campus and to supply electricity, steam and chilled water to private individuals and companies at locations adjacent to the Urbana Champaign campus.

Summary of Significant Accounting Policies

Basis of Presentation

Prairieland's financial statements are prepared as a business-type activity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 34, using the economic resources measurement focus and the accrual basis of accounting. Business-type activities are those financed in whole, or in part, by fees charged to external parties for goods and services. Pursuant to GASB Statement No. 20, Prairieland has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Capital Assets

Capital assets are stated at cost and depreciated over the estimated useful life of each asset. Annual deprecation is computed using the straight-line method.

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of Significant Accounting Policies (Continued)

Income Taxes

Deferred income taxes are provided on temporary differences between financial statement and income tax reporting. Temporary differences are differences between the amounts of assets and liabilities reported for financial statement purposes and their tax bases. Deferred tax assets are recognized for temporary differences that will be deductible in future years' tax returns and for operating loss and tax credit carryforwards. Deferred tax assets are reduced by a valuation allowance if it is deemed more likely than not that some or all of the deferred tax assets will not be realized. Deferred tax liabilities are recognized for temporary differences that will be taxable in future years' tax returns.

Revenue Recognition and Classification

Revenue from the sale of Prairieland's products is recognized when the products are delivered. Prairieland has classified its sales revenues as operating. All other revenues are classified as nonoperating.

NOTE 2 - DEPOSITS

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Company does not have a formal policy for interest rate risk. All of the Company's deposits are in either a commercial checking account or a bank money market account, which are not subject to maturity and therefore do not have interest rate risk.

Credit Risk. Credit risk is the risk that an issuer or their counterparty to an investment will not fulfill its obligations. The Company does not have a formal policy for credit risk. All of the Company's deposits are in either a commercial checking account or a bank money market account.

Custodial Credit Risk. Deposits, as of June 30, 2005, are categorized in accordance with the risk factors defined by governmental reporting standards.

Depository Account	**Bank Balance**
Insured	$ 100,000
Collateralized or pledged:	
Collateral held by pledging bank not in the Company's name	59,009
Uninsured and uncollateralized	-
Total deposits	$ 159,009

Custodial credit risk is the risk that in the event of a bank failure, the Company's deposits may not be returned to the Company. The Company does not have a custodial deposit risk as of June 30, 2005, as there were no uncollateralized deposits.

NOTE 2 - DEPOSITS (CONTINUED)

Prairieland implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, (an amendment of GASB Statement No. 3) for the fiscal year ending June 30, 2005.

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Office equipment	$ 15,901	$ -	$ -	$ 15,901
Metering system	-	23,200	-	23,200
Total cost	15,901	23,200	-	39,101
Less accumulated depreciation	(14,054)	(2,984)	-	(17,038)
	$ 1,847	$ 20,216	$ -	$ 22,063

NOTE 4 - OPERATING LEASES

Noncancelable operating leases for certain steam, hot water, and chilled water production and distribution facilities expire June 30, 2005. These leases automatically renew for successive periods of twelve calendar months beginning every July 1, absent of notification by either party to decline to renew.

A lease was entered into effective June 1, 2004 for the office facilities. The initial term of the lease is through June 30, 2005. The Company has the option to extend the lease on an annual basis through June 30, 2008. The annual lease amount under the base lease is $14,400 for the first year. If the lease is extended the annual lease payments would increase under the lease agreement to $14,832 for the second year, $15,276 for the third year and $15,744 for the fourth year.

Future minimum lease payments under these leases are as follows:

2006	$ 2,918,802

Rental expense for all operating leases consisted of:

Facilities rental	$ 2,903,970
Office rental	14,400
	$ 2,918,370

PRAIRIELAND ENERGY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 5 - INCOME TAX

The provision for income taxes consists of the following components:

Current	$ 4,331
Deferred	197,878
Total provision for income taxes	$ 202,209

A reconciliation of income tax expense at the statutory rate of the Company's actual income tax expense is shown below:

Computed at the statutory rate	$ 151,532
State income tax	37,592
Other	13,085
Income tax expense	$ 202,209

The tax effects of temporary differences related to deferred taxes shown on the statement of revenues, expenses, and changes in net assets were:

Deferred tax assets	$ -
Deferred tax liabilities:	
Office equipment depreciated difference	6,685
Accrual to cash adjustments	309,187
Total deferred tax liabilities	315,872
Net deferred tax liability	$ 315,872

The above net deferred tax liability is presented on the statement of net assets as follows:

Deferred tax liability - current	$ 309,187
Deferred tax asset - long-term	6,685
Net deferred tax liability	$ 315,872

NOTE 6 - RELATED PARTY TRANSACTIONS

The University provides various services to Prairieland including management (president's salary), bookkeeping and accounting services, the cost of operation and maintenance of the facilities leased to Prairieland (see Note 4), and certain administrative costs as provided in the agreement.

Prairieland has an agreement with the University to provide the steam, hot water, and chilled water requirements of the University's Chicago campus. The agreement operates on a year-to-year basis and can be terminated by either party with two month's prior written notice. These services are billed to the University monthly at rates specified in the agreement. The University pays for the cost of the fuel to produce the services, and amounts billed by Prairieland are net of a fuel cost adjustment. Gross operating revenue from steam, hot water, and chilled water sales in 2005 was $10,995,384, and energy costs paid to the University were $7,430,498. At June 30, 2005, accounts receivable from the University were $747,085.

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
and
The Board of Directors
Prairieland Energy, Inc.

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of Prairieland Energy, Inc. as of and for the year ended June 30, 2005, and have issued our report thereon dated August 18, 2005. 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

In planning and performing our audit, we considered Prairieland Energy, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Prairieland Energy, Inc's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 05-01.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Prairieland Energy, Inc.'s financial statements are 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 Company management, and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Peoria, Illinois
August 18, 2005

PRAIRIELAND ENERGY, INC.
SCHEDULE OF FINDINGS
June 30, 2005

Finding Relating to the Financial Statements

05-01 - Finding: Inadequate Accounting Records of Sales and Related Accounts Receivable on Sales of Energy to Private Individuals and Companies

During our audit we noted that the Company did not have adequate accounting records of sales and accounts receivables related to sales of energy to private individuals and companies. Prairieland Energy entered into agreements with several private individuals and companies to provide electricity, steam and chilled water starting in October 2004. Prairieland maintains its accounting records on a cash basis and uses a spreadsheet software package to track the activity related to these energy sales. The Company did not have an accounts receivable subsidiary ledger that kept track of amounts owed to the Company for energy sales. Energy sales were recorded based on deposits reflected on the Company bank statements and not based on a detailed sales or cash receipts journal. In addition, certain invoices to customers were not being generated on a timely basis.

Good business practices and internal controls dictate that an accounts receivable ledger, sales journal, and cash receipts journal be maintained and that invoices for all customers should be generated on a regular basis.

Per discussion with Company management, the sale of energy to private individuals began during fiscal year 2005. In past fiscal years, the Company had a limited number of transactions which did not necessitate maintaining an accounts receivable subsidiary ledger and related journals. The Company decided to track the status of receivables using a spreadsheet program to accumulate the activity and balances until a more formal system could be put into place. Company management stated that they were in the process of negotiating with an outside accounting firm to provide accounting services for the Company. These accounting services would consist of maintaining the Company's accounting records.

While the Company continues to solve its startup issues, it is appropriate to note that failure to maintain an accounts receivable subsidiary ledger, related journals, and to bill on a timely basis could result in not collecting amounts receivable for energy provided to private customers.

(Finding Code No. 05-01)

Recommendation:

We recommend that the Company maintain its accounting records on the accrual basis and establish an accounts receivable subsidiary ledger, sales journal, and cash receipts journal. In addition, invoices should be generated monthly for all customers.

Finding Relating to the Financial Statements (Continued)

05-01 - Finding: Inadequate Accounting Records of Sales and Related Accounts Receivable on Sales of Energy to Private Individuals and Companies (Continued)

Company Response:

Company appreciates that this audit finding recognizes the startup issues it is confronting in this new endeavor. The Company agrees that the completeness and timeliness of the billings are to be assured and accounted for properly. The Company disagrees that it did not track the amounts owed to the Company for energy sales billed. It appears that this point is a product of whether or not an accrual method of accounting is used and how this data is tracked. The Company will evaluate the recommendation to move to an accrual method of accounting. Absent this evaluation, it is not yet clear that this method is required or is in the best interest of the Company. What is clear is that a better way of presenting accounts receivable data is required to avoid these types of audit discussions. The Company will make sure that regardless of the accounting method that is used there will be a proper presentation of the data.

Auditor's Comment:

The finding does not assert that the Company did not track the amounts owed to the Company for energy sales billed. The Company did maintain a spreadsheet on which it tracked activity related to energy sales. The Company was able to reconstruct the amount it was owed using this spreadsheet. However, the spreadsheet does not facilitate the tracking of individual customer accounts receivable balances.

The implementation of an accounts receivable subsidiary ledger could assist in improved monitoring of accounts receivable balances. A receivable subsidiary ledger could generate aging reports which would identify accounts that are past due and could be used by the Company's management to identify and focus collection efforts on delinquent accounts.

The adoption of the accrual basis of accounting would further enhance controls over receivable balances. Under the accrual basis of accounting, the Company's general ledger would include the accounts receivable balance which should agree with or reconcile to the accounts receivable subsidiary ledger. In addition, the Company's annual audited financial statements are required to be presented on the accrual basis to be in compliance with generally accepted accounting principles. The adoption of the accrual method would facilitate the preparation of these annual audited financial statements.

The basis of the accrual method of accounting is to recognize revenue when it is earned and expenses when they are incurred rather than when cash is received or disbursed. Using accrual basis throughout the year could provide the Company's management with more comprehensive information about revenue as it is earned and expenses as they are incurred.