STATE OF ILLINOIS
PRAIRIELAND ENERGY, INC.

FINANCIAL AUDIT
For the Year Ended June 30, 2006

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, 2006

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PRAIRIELAND ENERGY, INC.
COMPANY OFFICIALS
June 30, 2006

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:

106 Town Center, Suite 304
Champaign, Illinois 61820

PRAIRIELAND ENERGY, INC.
FINANCIAL STATEMENT REPORT SUMMARY
June 30, 2006

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 basic financial statements of Prairieland Energy, Inc., a component unit of the University of Illinois, and a component unit of the State of Illinois as of and for the year ended June 30, 2006, as listed in the table of content. 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, 2006, 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*, a report on our consideration of the Prairieland Energy, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters will be issued under separate cover. 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, upon issuance, 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
November 14, 2006

PRAIRIELAND ENERGY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

(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, 2006, with selected comparative information for the year ended June 30, 2005. 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, 2006. 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, 2006. The Statement of Cash Flows provides details on how cash was used during the year followed by a reconciliation of the operating loss to the net cash provided by operating activities.

FINANCIAL HIGHLIGHTS

The Statement of Net Assets indicate a decrease in current assets of $93,144 from June 30, 2005 to June 30, 2006. The decrease is due to a reduction in accounts receivable from the prior year. Note that the capital assets owned by Prairieland are $22,680 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 third parties adjacent to the Urbana-Champaign campus and prepaid expense. Net assets decreased by $142,672 as a result of an increase of fuel cost expense relative to the income and the payment in the year ended June 30, 2006 of the municipal and excise taxes expenses from the sale of electricity to parties other than the University.

PRAIRIELAND ENERGY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

(Unaudited)

Condensed Statements of Net Assets

	2006	2005
Current assets	$ 1,095,996	$ 1,189,140
Capital assets	22,680	22,063
Total assets	$ 1,118,676	$ 1,211,203
Current liabilities	$ 384,054	$ 334,096
Long-term liabilities	6,872	6,685
Total liabilities	390,926	340,781
Net assets:		
Invested in capital assets	22,680	22,063
Unrestricted	705,070	848,359
Total net assets	727,750	870,422
Total liabilities and net assets	$ 1,118,676	$ 1,211,203

The Statement of Revenues, Expenses and Changes in Net Assets presents Prairieland's results of operations. 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, hot water, and chilled 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.

PRAIRIELAND ENERGY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

(Unaudited)

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

While service income has increased by $2,595,504, the cost of fuel has also increased by $3,414,511 contributing to the majority of the change of operating income from $660,843 to a loss of $221,267. The additional expense of $45,563 in the year ended June 30, 2006 represents the tax obligations to the state and the municipalities of Champaign and Urbana for electricity sold for electricity sales.

	2006	**2005**
Service income	$ 13,677,315	$ 11,081,811
Operating expenses:		
Energy costs	10,845,009	7,430,498
Facilities rental	2,903,880	2,903,970
Accounting fees	15,572	12,854
Salaries	46,593	44,772
Office rent	13,596	14,400
Depreciation	3,615	2,984
Telephone	1,223	1,287
Municipal and excise tax	45,563	-
Budget allocation University of Illinois	21,210	-
Other	2,321	10,203
Total operating expenses	13,898,582	10,420,968
Operating income (loss)	(221,267)	660,843
Nonoperating revenues (expenses):		
Interest	9,107	3,728
Other	(514)	1,920
Income tax (expense)	70,002	(202,209)
Total nonoperating revenues (expenses)	78,595	(196,561)
Increase (decrease) in net assets	(142,672)	464,282
Net assets, beginning of year	870,422	406,140
Net assets, end of year	$ 727,750	$ 870,422

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 Company and the University of Illinois are involved in ongoing discussions with Commonwealth Edison and AmerenIP regarding schedule of regulatory electrical rates for the Urbana and Chicago campuses.

Prairieland anticipates the application for membership to Midwest Independent Transmission System Operator and PJM Interconnection LLC., the two independent system operators serving the two utilities; AmerenIP for the Urbana-Champaign campus and Commonwealth Edison for the Chicago campus. The memberships are central to the ability of Prairieland to access the wholesale electric markets to provide electric service to the University once the state transition period to electrical deregulation ends on January 1, 2007.

Having access to the wholesale markets will permit Prairieland to provide low cost electric service options to the University. The final evaluation of suppliers and options will occur well into fiscal year 2007 operations.

PRAIRIELAND ENERGY, INC.
STATEMENT OF NET ASSETS
June 30, 2006

ASSETS

CURRENT ASSETS		
Cash	$ 197,509	
Accounts receivable	656,587	
Prepaid expense	241,900	$ 1,095,996
CAPITAL ASSETS		22,680
TOTAL ASSETS		$ 1,118,676

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	$ 98,773	
Accrued expenses	44,811	
Customer deposits	1,360	
Accrued income taxes	10,340	
Deferred income taxes	228,770	$ 384,054
LONG-TERM LIABILITIES		
Deferred income taxes		6,872
Total liabilities		390,926
NET ASSETS		
Invested in capital assets	22,680	
Unrestricted	705,070	727,750
TOTAL LIABILITIES AND NET ASSETS		$ 1,118,676

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, 2006

OPERATING REVENUES		
Steam sales	$ 7,324,034	
Chilled water sales	2,246,063	
Hot water sales	3,750,328	
Electricity sales	335,680	
Budget allocation University of Illinois	21,210	$ 13,677,315
OPERATING EXPENSES		
Energy cost adjustment	10,845,009	
Facilities rental	2,903,880	
Accounting fees	15,572	
Salaries	46,593	
Office rent	13,596	
Depreciation	3,615	
Telephone	1,223	
Municipal & Excise Tax	45,563	
Budget allocation University of Illinois	21,210	
Other	2,321	13,898,582
Operating loss		(221,267)
NONOPERATING REVENUES (EXPENSES)		
Interest revenue	9,107	
Other expense	(514)	
Income tax credit	70,002	78,595
DECREASE IN NET ASSETS		(142,672)
NET ASSETS, BEGINNING OF YEAR		870,422
NET ASSETS, END OF YEAR		$ 727,750

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, 2006

CASH FLOWS FROM OPERATING ACTIVITIES		
Sales	$ 13,789,029	
Payments to suppliers	(13,700,104)	
Payments to employees	(46,593)	
Net cash provided by operating activities		$ 42,332
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Other expenses	(514)	
Payments for income taxes	(5,677)	
Net cash used in noncapital financing activities		(6,191)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of equipment	(4,232)	
Net cash used in capital and related financing activities		(4,232)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	9,107	
Net cash provided by investing activities		9,107
INCREASE IN CASH		41,016
CASH, BEGINNING OF YEAR		156,493
CASH, END OF YEAR		$ 197,509
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	$ (221,267)	
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	3,615	
Effects of changes in operating assets and liabilities:		
Accounts receivable	132,924	
Prepaid expense	1,236	
Accounts payable	91,171	
Accrued expenses	34,653	
NET CASH PROVIDED BY OPERATING ACTIVITIES		$ 42,332

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 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 has been in an electric service tariff dispute with Commonwealth Edison since the completion of these plants. Until this dispute is resolved at the University, Prairieland will be unable to complete its transmission access plans. Prairieland staff is actively involved in assisting the University in the resolution of this dispute.

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.

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

Nature of Operations (Continued)

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 entered into an agreement to supply the steam, hot water, and chilled water requirements for the University's Chicago, 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

<u>Basis of Presentation</u>

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. Prairieland has chosen not to follow FASB Statements and interpretations issued after November 30, 1989.

<u>Use of Estimates</u>

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.

<u>Accounts Receivable</u>

Accounts receivable are uncollateralized customer obligations which generally require payment within thirty days from the invoice date. Accounts receivable are stated at the invoice amount.

Account balances with invoices over ninety days old are considered delinquent. Payments of accounts receivable are applied to the specific invoices identified on the customer's remittance advice or, if unspecified, to the earliest unpaid invoices.

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

Summary of Significant Accounting Policies (Continued)

Accounts Receivable (Continued)

The carrying amount of accounts receivable is reduced by an allowance that reflects management's best estimate of amounts that will not be collected. The allowance for doubtful accounts is based on management's assessment of the collectibility of specific customer accounts and the aging of the accounts receivable As of June 30, 2006 management does not believe an allowance is required and there were no write offs of uncollectible accounts during the year. If there is a deterioration of a major customer's credit worthiness or actual defaults are higher than the historical experience, management's estimates of the recoverability of amounts due the Company could be adversely affected. All accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for doubtful accounts.

Capital Assets

Capital assets are stated at cost and depreciated over the estimated useful life of each asset which range from 3 to 10 years. Annual deprecation is computed using the straight-line method.

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

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 have a custodial deposit risk as of June 30, 2006, of $106,653 which are collateralized by securities held by the pledging bank not in the Company's name.

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Office equipment	$ 15,901	$ -	$ (3,120)	$ 12,781
Metering system	23,200	4,232	-	27,432
Total cost	39,101	4,232	(3,120)	40,213
Less accumulated depreciation	(17,038)	(3,615)	3,120	(17,533)
	$ 22,063	$ 617	$ -	$ 22,680

NOTE 4 - OPERATING LEASES

Noncancelable operating leases with the University of Illinois for certain steam, hot water, and chilled water production and distribution facilities expire June 30, 2006. 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.

The Company leased office facilities during the year under a lease agreement with monthly lease payments of $1,236. This lease was terminated on May 31, 2006. A new lease was entered into effective July 1, 2006 for the office facilities. The initial term of the lease is through June 30, 2011. The monthly payment amount is $1,250 for the first year. Annually thereafter, rent will be adjusted annually based upon the Consumer Price Index.

Future minimum lease payments under these leases are as follows:

June 30:	
2007	$ 2,918,880
2008	15,000
2009	15,000
2010	15,000
2011	15,000
Total	$ 2,978,880

Rental expense for the year ended June 30, 2006 for all operating leases consisted of:

Facilities rental	$ 2,903,880
Office rental	13,596
	$ 2,917,476

PRAIRIELAND ENERGY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 5 - INCOME TAX

The provision (credit) for income taxes consists of the following components:

Current	$ 10,227
Deferred	(80,229)
Total provision (credit) for income taxes	$ (70,002)

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

Computed at the statutory rate	$ (48,915)
State income tax	(11,954)
Other	(9,133)
Income tax expense (credit)	$ (70,002)

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	6,872
Accrual to cash adjustments	228,770
Total deferred tax liabilities	235,642
Net deferred tax liability	$ 235,642

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

Deferred tax liability - current	$ 228,770
Deferred tax asset - long-term	6,872
Net deferred tax liability	$ 235,642

NOTE 6 - RELATED PARTY TRANSACTIONS

The University provides various services to Prairieland including management (president's salary), clerical 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.

NOTE 6 - RELATED PARTY TRANSACTIONS (CONTINUED)

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 2006 was $13,286,289, and energy costs paid to the University were $10,845,009. At June 30, 2006, accounts receivable from the University were $549,613. During the year ended June 30, 2006 the University of Illinois provided support to Prairieland Energy, Inc. of $1,700 in legal and $19,510 manager oversight services.

NOTE 7 - SUBSEQUENT EVENT

On September 15, 2006, the Company filed an election with the Internal Revenue Service to be treated as an "S corporation." The change in tax status will be effective July 1, 2006. Earnings and losses after that date will be included in the income tax returns of the stockholder. Accordingly, the Company will not incur additional income tax obligations, and future financial statements will not include a provision for income taxes. As a result of the change, the current deferred income tax liability of $228,770 and noncurrent deferred tax liability of $6,872 will be eliminated from the Company's statement of net assets in the year ended June 30, 2007. The effect of the change in tax status will be increase net income by $235,642 in the year ended June 30, 2007.