STATE OF ILLINOIS
PRAIRIELAND ENERGY, INC.

FINANCIAL AUDIT
For the Year Ended June 30, 2008

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, 2008

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PRAIRIELAND ENERGY, INC.
COMPANY OFFICIALS
June 30, 2008

President and Chief Executive Officer (through 12/31/07)	Mr. Lyle D. Wachtel
Interim President and Chief Executive Officer (2/6/08 through current)	Mr. Walter K. Knorr
Vice President (through 8/31/07)	Mr. Kenneth V. Buric
Vice President (2/6/08 through 7/15/08)	Mr. Mark K. Kruger
Vice President (7/16/08 through current)	Mr. Eugene L. Waas
Controller (7/16/08 through current)	Ms. Teresa L. Temples
Secretary (through 7/15/08)	Mr. Kevin L. Noland
Secretary (7/16/08 through current)	Mr. Thomas R. Bearrows
Assistant Secretary (7/16/08 through current)	Mr. Scott E. Rice
Treasurer (through 7/15/08)	Mr. Kevin L. Noland
Treasurer (7/16/08 through current)	Mr. Walter K. Knorr
Assistant Treasurer (through 7/15/08)	Mr. Steven A. Gangloff
Assistant Treasurers (2/6/08 through 7/15/08)	Ms. Anita M. Million Mr. Grant E. Nohren Ms. Nicole M. Roberts Ms. Jill S. Wilberg
Assistant Treasurers (7/16/08 through current)	Mr. Kevin L. Noland Mr. Steven A. Gangloff Ms. Anita M. Million Ms. Nicole M. Roberts
Board of Directors (9/6/07 through current)	Mr. Walter K. Knorr Mr. Thomas R. Bearrows
Board of Directors (9/21/07 through current)	Mr. Niranjan S. Shah Mr. Robert F. Vickrey

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, 2008

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.

SUMMARY OF FINDINGS

The auditors identified matters involving Prairieland Energy, Inc.'s internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings on pages 20 - 26 of this report, as finding 08-01, *Inadequate Operation of Accounting Controls*, 08-02, *Billing Errors*, 08-03, *Inadequate Controls and System of Accounting for Sales and Related Accounts Receivable,* and *08-4, Conflict of Interest and Fraud Prevention and Detection Policies*. The auditors also consider findings 08-01, 08-02, and 08-03 to be material weaknesses.

EXIT CONFERENCE

Prairieland Energy, Inc. waived holding an exit conference in a communication dated January 20, 2009.

The responses to the recommendations were provided by Ms. Teresa L. Temples in a communication dated December 30, 2008.

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, 2008, as listed in the table of contents. 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, 2008, 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 January 21, 2009 on our consideration of 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. 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
January 21, 2009

PRAIRIELAND ENERGY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

(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, 2008, with selected comparative information for the year ended June 30, 2007. 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, 2008. 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, 2008. The Statement of Cash Flows provides details on how cash was used during the year followed by a reconciliation of the operating income to the net cash provided by operating activities.

FINANCIAL HIGHLIGHTS

The Statement of Net Assets indicates an increase in current assets of $485,125 from June 30, 2007 to June 30, 2008. The change is attributed to an increase in cash of $771,118, a decrease in accounts receivable of $556,304, an increase in the escrow deposit of $200,000 for the purchase of electricity from Midwest Independent System Operator (MISO) and an increase in refundable taxes of $70,277. Prairieland's capital assets, net of depreciation, were $96,949 as compared to $60,809 as of June 30, 2007. Net assets increased by $87,971, primarily the result of increased electric service revenue from non-University customers.

(Unaudited)

Condensed Statements of Net Assets

	2008	2007
Current assets	$4,457,547	$3,972,422
Capital assets	96,949	60,809
Total assets	$4,554,496	$4,033,231
Current liabilities	$3,504,971	$2,987,137
Long-term liabilities	55,922	140,462
Total liabilities	3,560,893	3,127,599
Net assets:		
Invested in capital assets	96,949	60,809
Unrestricted	896,654	844,823
Total net assets	993,603	905,632
Total liabilities and net assets	$4,554,496	$4,033,231

The Statement of Revenues, Expenses and Changes in Net Assets presents Prairieland's results of operations. Operating revenues primarily include revenue from the sale of electricity to the University and to third parties adjacent to the Urbana-Champaign campus. The 2007 facilities rental expense reflects the rent Prairieland paid the University for the heat and chilled water production facilities that Prairieland utilized in the production of the steam, high temperature hot water and chilled water it sold to the University. This facility rental and the fuel cost adjustment process and procedure was modified as of January 2007 (see Note 1).

While service income has decreased by $1,794,659, the cost of energy has also decreased by $149,985 and the cost of facilities rents has decreased by $1,451,850 due to the January changes in lease and sales with the University previously discussed, salaries decreased $74,028, and other contracted services increased $36,332. These factors contributed to the majority of the change of operating income from a $199,392 profit in 2007 to a profit of $83,667 in 2008.

PRAIRIELAND ENERGY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

(Unaudited)

Condensed Statements of Revenues, Expenses, and Changes in Net Assets
(Certain 2007 amounts have been reclassified to agree with the current year presentation.)

	2008	2007
Operating revenue	$ 8,161,477	$ 9,956,136
Operating expenses:		
Energy costs	7,843,141	7,993,126
Facilities rental	0	1,451,850
Accounting fees	22,954	19,800
Salaries	42,471	116,499
Office rent	15,408	15,180
Depreciation	11,717	5,569
Telephone	1,910	1,497
Municipal and Excise Tax	22,394	72,998
Contracted services	111,332	75,000
Other	6,483	5,225
Total operating expenses	8,077,810	9,756,744
Operating income	83,667	199,392
Nonoperating revenues (expenses):		
Interest income	69,512	23,455
Interest expense	(64,250)	(16,217)
Other	(958)	(134)
Income and built-in gains taxes (expense)	0	(28,614)
Total nonoperating revenues (expenses)	4,304	(21,510)
Increase/Decrease in net assets	87,971	177,882
Net assets, beginning of year	905,632	727,750
Net assets, end of year	$ 993,603	$ 905,632

Condensed Statements of Cash Flows

	2008	2007
Net cash provided by operating activities	$ 1,062,261	$ 475,954
Net cash used in non-capital financing activities	(259,857)	(10,474)
Net cash used in capital and related financing activities	(47,857)	(43,698)
Net cash provided by investing activities	16,571	7,238
Increase in cash	$ 771,118	$ 429,020

Factors affecting the future

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 regarding a schedule of regulatory electrical rates for the Chicago campus.

Prairieland has been accepted for membership to the Midwest Independent Transmission System Operator and is continuing to investigate membership in the 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.

Having access to the wholesale markets will permit Prairieland to provide low cost electric service options to the University. The final evaluation of suppliers for the Chicago campus and options will occur well into fiscal year 2009 operations.

Prairieland intends to purchase blocks of electricity for the Urbana campus at fixed prices which will lower the unit cost of electricity in fiscal year 2009.

PRAIRIELAND ENERGY, INC.
STATEMENT OF NET ASSETS
June 30, 2008

ASSETS

CURRENT ASSETS		
Cash	$ 1,397,647	
Accounts receivable	1,549,297	
Escrow deposit	1,439,042	
Refundable taxes	70,277	
Prepaid expense	1,284	$ 4,457,547
CAPITAL ASSETS		96,949
TOTAL ASSETS		$ 4,554,496

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	$ 1,466,152	
Accrued expenses	36,479	
Customer deposits	2,340	
Service deposit - University of Illinois	2,000,000	$ 3,504,971
LONG-TERM LIABILITIES		
Deferred taxes		55,922
Total liabilities		3,560,893
NET ASSETS		
Invested in capital assets	96,949	
Unrestricted	896,654	993,603
TOTAL LIABILITIES AND NET ASSETS		$ 4,554,496

The accompanying notes are an integral part of the financial statements.

PRAIRIELAND ENERGY, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended June 30, 2008

OPERATING REVENUES		
Electricity sales	$ 7,992,358	
Chilled water sales	58,976	
Hot water sales	24,000	
Steam sales	86,143	$ 8,161,477
OPERATING EXPENSES		
Cost of energy	7,843,141	
Accounting fees	22,954	
Salaries	42,471	
Office rent	15,408	
Depreciation	11,717	
Telephone	1,910	
Municipal & Excise Tax	22,394	
Contracted services	111,332	
Other	6,483	8,077,810
Operating income		83,667
NONOPERATING REVENUES (EXPENSES)		
Interest revenue	69,512	
Interest expense	(64,250)	
Other expense	(958)	4,304
INCREASE IN NET ASSETS		87,971
NET ASSETS, BEGINNING OF YEAR		905,632
NET ASSETS, END OF YEAR		$ 993,603

The accompanying notes are an integral part of the financial statements.

PRAIRIELAND ENERGY, INC.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES		
Payments from customers	$ 8,889,559	
Payments to suppliers	(7,777,225)	
Payments to employees	(50,073)	
Net cash provided by operating activities		$ 1,062,261
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Interest income	60,564	
Interest expense	(71,873)	
Other expenses	(958)	
Payments for income taxes	(247,590)	
Net cash used in noncapital financing activities		(259,857)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of equipment	(47,857)	
Net cash used in capital and related financing activities		(47,857)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	16,571	
Net cash provided by investing activities		16,571
INCREASE IN CASH		771,118
CASH, BEGINNING OF YEAR		626,529
CASH, END OF YEAR		$ 1,397,647
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 83,667	
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	11,717	
Effects of changes in operating assets and liabilities:		
Accounts receivable	556,304	
Escrow deposit	(200,000)	
Refundable taxes	(31,021)	
Prepaid expense	(34)	
Accounts payable	490,980	
Customer and service deposits	179,400	
Accrued expenses	(28,752)	
NET CASH PROVIDED BY OPERATING ACTIVITIES		$ 1,062,261

The accompanying notes are an integral part of the 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 an office 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 as a separate but wholly owned subsidiary of the Board of Trustees of the University of Illinois for the purpose of producing, acquiring, and selling various forms of energy, including electricity, at both wholesale and retail prices.

Prairieland acquires 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.

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.

In the fall of 2006, Prairieland Energy, Inc. began the application process of becoming a market participant within the Midwest Independent System Operator (MISO) organization to access wholesale supplies of electric service for transportation through the Ameren local distribution system to supply the University's Urbana campus. All of the agreements required for this service from MISO and Ameren were completed, and service began on January 2, 2007. Prairieland intends to use this model to enter the Chicago market and provide electric services to the University's Chicago campus

In anticipation of the new electric service arrangements, Prairieland Energy, Inc. and the University amended their existing lease and purchase agreements effective for January 2007 to modify the business relationship between the University and Prairieland Energy, Inc. to reflect the value of assets and services the University provides Prairieland Energy, Inc. and the value of energy production and procurement Prairieland Energy, Inc. provides the University. The lease terms were modified to minimum values in return for reduced energy service charges for chilled water, high temperature hot water, steam, and electricity. Because the fuel components for chilled water, high temperature hot water and steam were largely purchased through the University, these amendments eliminate the fuel cost adjustment provisions for the University in conjunction with the reduced charges. The sales agreements have provisions for higher energy sales values to Prairieland Energy, Inc. customers who do not provide production facilities similar to the University. In addition, the agreements provide an annual payment to the University for various support functions to Prairieland Energy, Inc. such as legal and accounting services.

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

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

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.

Accounts Receivable

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.

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, 2008 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 that require excessive collection costs 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.

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

Income Taxes

Beginning in fiscal year 2007, Prairieland filed and received permission from the Internal Revenue Service to change its corporate status from Subchapter C to Subchapter S. The income or loss of a Subchapter S corporation flows thru to the shareholders of the corporation, and no provision for income taxes is recognized by Prairieland.

The deferred taxes presented in the financial statements is Prairieland's liability for "built-in gains" tax related to its conversion from cash basis to accrual basis for income tax reporting and its Subchapter S election. The deferred tax liability will be payable in future years dependent upon Prairieland's profitability.

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. Prairieland's policy is to request collateral for deposits exceeding Federal Deposit Insurance Corporation (FDIC) coverage. At June 30, 2008, all of Prairieland's deposits were collateralized by pledged securities or FDIC coverage.

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Office equipment	$ 21,857	$ 5,170	$ -	$ 27,027
Metering system	62,054	42,687	-	104,741
Total cost	83,911	47,857	-	131,768
Less accumulated depreciation	(23,102)	(11,717)	-	(34,819)
	$ 60,809	$ 36,140	$ -	$ 96,949

NOTE 4 - OPERATING LEASES

The Company leased office facilities during the year under a lease agreement with monthly lease payments of $1,284. The initial term of the lease is through June 30, 2011. The monthly payment amount is $1,336. Future minimum lease payments under this lease are as follows:

June 30,	2009	$ 16,032
	2010	16,032
	2011	16,032
Total		$ 48,096

Rental expense for the operating leases totaled $15,408 for the year ended June 30, 2008.

NOTE 5 - INCOME AND BUILT-IN GAINS TAXES

Prairieland Energy, Inc., with the consent of its shareholder, elected S corporation status effective July 1, 2006. In lieu of corporation income taxes, the shareholder will be taxed on all future income. However, as a result of the S election and conversion to the accrual method for filing income tax returns, the corporation was subject to a built-in gains tax of $264,256. For the tax years ended June 30, 2007 and June 30, 2008, the taxes due were limited to the taxes computed as if it were a C corporation. The taxes payable and the deferred taxes were computed as follows:

Total built-in gains tax as of July 1, 2006	$ 264,256
Taxes paid for year ended June 30, 2007	123,794
Taxes paid for year ended June 30, 2008	84,540
Deferred tax liability	$ 55,922

NOTE 6 - RELATED PARTY TRANSACTIONS

The University provides various services to Prairieland including management, clerical services, and certain administrative costs as provided in the agreement. The majority of the Prairieland's financial activity from January 2007 forward has centered mostly on the acquisition and supply of electric service to the University and outside customers.

Utility sales to the University were $7,254,984. Energy costs purchased from the University were $735,826. Included in accounts receivable is $1,404,326 due from the University. Included in accounts payable is $160,980 due to the University. During the year ended June 30, 2008, Prairieland paid the University $93,000 for support services such as legal and accounting services. To provide an appropriate escrow for electric services purchased on behalf of the University, the University has paid Prairieland Energy, Inc. $2,000,000 as a service deposit. Any interest earned on the MISO escrow deposit is passed thru to the University.

Clifton Gunderson LLP
Certified Public Accountants & Consultants

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, 2008, and have issued our report thereon dated January 21, 2009. 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 as a basis for determining our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of Prairieland Energy, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Prairieland Energy, Inc.'s internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting, findings 08-01, 08-02, 08-03, and 08-04.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that findings 08-01, 08-2, and 08-03 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Prairieland Energy, Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit Prairieland Energy, Inc.'s responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, agency management, and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Peoria, Illinois
January 21, 2009

PRAIRIELAND ENERGY, INC.
SCHEDULE OF FINDINGS
Current Findings – Government Auditing Standards
June 30, 2008

08-01 - Finding: Inadequate Operation of Accounting Controls

Prairieland Energy, Inc. (Prairieland) maintained its accounting records during the year on the cash basis and recorded accrual adjustments at the end of the year in order to report financial results in accordance with accounting principles generally accepted in the United States of America (GAAP). However, Prairieland failed to identify and properly record an accrual adjustment.

During our testing, we identified the following adjustment which had not been identified and recorded by Prairieland:

- We identified a liability which had not been recorded in accounts payable. The liability ($5,780) was found while updating our liabilities search near audit completion. The vendor's invoice was dated in August 2008, but was for services performed in February thru April of 2008. A proposed entry was not recorded by Prairieland.

Good business practices and internal controls require management to implement an adequate system of controls to ensure that the financial statements are presented in accordance with GAAP. In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal controls, which shall provide assurance that revenues, expenditures, transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Prairieland personnel stated that they performed subsequent disbursement testing through August of 2008, at which point they needed to finalize FY08 tax returns and financial statements. The subsequent disbursement testing performed in July and August did reveal disbursements paid in FY09 that related to FY08 activity. These FY08 related disbursements were properly reported as accounts payable for FY08. The invoice in question was not received by Prairieland until September, 2008.

Failure to properly identify liabilities and record transactions in accordance with GAAP may lead to materially misstated financial statements. (Finding Code Nos. 08-01, 07-01)

Recommendation:
We recommend that Prairieland improve its procedures and related controls for identifying liabilities and recording transactions in accordance with GAAP.

Prairieland Response:
Accepted: The period of subsequent disbursement testing will be extended in future years to ensure liabilities are identified and recorded in accordance with GAAP.

08-02 - Finding: Billing Errors

Prairieland Energy, Inc. (Prairieland) did not properly bill some of its electric service customers in accordance with its written service agreements.

As part of our FY 08 financial audit procedures, we sampled 14 residential and 11 commercial (non-University) electric service customer billings during the year and noted the following:

- Thirteen of the 14 residential customers were not billed in accordance with the written service agreements. These overbillings totaled $37.31.

As part of our two year compliance examination, we selected 25 revenue transactions and noted the following:

- Eleven of the 25 revenue transactions contained some sort of billing error. These eleven errors resulted in a net overbilling of $1,950 in our sample. Of these eleven, eight (all in FY 07) included errors related to failure to use appropriate graduated municipal tax rates. We also noted 5 other types of errors on the billings that included inaccurate energy charges, standard charges left off of invoices, or charges that were double billed due to split month billing.

Prairieland maintains written service agreements with each of its customers. The written electric service agreements provide for higher summer rates from June through September and lower rates from October through May. The residential service agreements also call for a reduced rate for all kilowatt hours used in excess of 275 per month. Our testing indicated that these reduced rates were not used for any residential billings where the kilowatts exceeded 275. The commercial customers have varying service agreements dependent on the expected customer usage. The commercial billing errors noted primarily were miscalculation of municipal taxes due to failure to use appropriate graduated rates in FY2007 and previous years. We noted that Prairieland did prepare calculations of residential customer overbillings (based upon the 275 kilowatt hours per month based on the contract provisions) dating back to inception of residential electric services and recorded a $9,109 credit to customer receivables to be credited to future billings or refunded if the customer had moved. In addition, Prairieland recalculated overbillings on commercial accounts related to the failure to use the appropriate graduated tax rates and recorded credits of $46,597 to those commercial accounts.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal controls, which shall provide assurance that revenues, expenditures, transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Prairieland personnel stated that there was an error in the billing program and that appropriate billing adjustments have been processed.

08-02 - Finding: Billing Errors (continued)

Failure to properly bill customers in accordance with written service agreements and regulations is a violation of those agreements and regulations and may result in liability to the customers and lost revenue to Prairieland. (Finding Code Nos. 08-02, 07-02)

Recommendation:
We recommend that Prairieland bill its customers in accordance with its written service agreements and applicable regulations.

Prairieland Response:
Accepted: Prairieland will develop and implement improved controls to ensure billings are processed according to the signed service agreements.

08-03 - Finding: Inadequate Controls and System of Accounting for Sales and Related Accounts Receivable

Prairieland Energy, Inc. (Prairieland) does not maintain an integrated accounting system for recording its sales and accounts receivable and some billings are not done timely. In addition, Prairieland's controls over the revenue/receipt process includes less than ideal segregation of duties.

Prairieland maintains its accounting records on a cash basis during the year and records accrual adjustments at the end of the year. Prairieland uses an excel spreadsheet to track the monthly billing and payments of non-University electricity customers and to record accounts receivable at year end. Energy sales were recorded during the year based on actual deposits reflected on the bank statements and deposit details provided by Prairieland to its external accountant, and not based on a detailed sales journal. We noted that billings to a commercial customer of steam and chilled water in Champaign were not done timely. These bills were for up to eight months of usage at a time and did not follow a regular billing pattern.

In addition, we noted that the internal controls related to the revenues, receivables, and cash handling procedures lack an adequate segregation of duties. We noted that a single employee is printing and mailing the prepared invoices, recording the billings in the spreadsheet used to track receivables, receiving payments, crediting payments to the customers' accounts, and depositing the daily receipts. Also, the daily deposit is not kept in a secured environment while awaiting deposit.

Good business practices and internal controls dictate that an accounts receivable ledger, sales journal and cash receipts journal be maintained. Good business practices also require the timely billing of customers. Proper internal controls require the segregation of asset custody from the record keeping function. In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal controls, which shall provide assurance that revenues, expenditures, transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Prairieland personnel stated that delays were caused by inconsistent meter reading dates. Minimal staffing has resulted in less than ideal segregation of duties.

Failure to maintain proper ledgers and related journals could result in loss of sales revenue for energy provided to private customers. Untimely and irregular billing may result in lost revenue to Prairieland. Failure to implement appropriate controls creates an opportunity for misappropriation of assets which could possibly be concealed. (Finding Code Nos. 08-03, 07-03, 06-01, 05-01)

Recommendation:
We recommend Prairieland maintain its accounting records on the accrual basis, record sales and accounts receivable when they are earned, and implement a regular billing cycle for steam and chilled water customers in Champaign. Further, we recommend Prairieland improve the segregation of duties relative to revenue/receipt transactions and improve security of daily deposits.

08-03 - Finding: Inadequate Controls and System of Accounting for Sales and Related Accounts Receivable (continued)

Prairieland Response:
Accepted. Prairieland will continue to develop improved controls and processes to address the issues noted in this finding.

08-04 - Finding: Conflict of Interest and Fraud Prevention and Detection Policies

Prairieland Energy, Inc. (Prairieland) has not implemented a conflict of interest policy for its operations nor adopted a formal policy regarding the periodic evaluation of fraud risks.

Prairieland's Board of Directors and management are all University employees, and in the past have completed conflict of interest statements relative to their position within the University. However, no conflict of interest statements have ever been utilized relative to Prairieland's operations. Prairieland's Board of Directors did adopt a conflict of interest policy at its January 29, 2007 Board meeting, but the policy only addresses "salaried staff members" of Prairieland and has yet to be implemented.

Accounting industry trends have increased organizations' awareness of the prevalence of fraud. Many organizations rely in part on their auditors to uncover any internal fraud, but audits, even those of the highest quality, are not a substitute for management establishing good internal controls along with a formal policy regarding the evaluation of fraud risk.

It is management's responsibility to establish reasonable controls to prevent and detect fraud. Therefore, Prairieland should implement a formal policy regarding evaluation of fraud risk and a system of controls to help prevent and detect fraudulent activity within its organization. Preparing a written policy will serve to document the Prairieland's awareness and responsibility for fraud prevention and detection.

Sound business practice and good internal controls require that a conflict of interest policy be formally adopted. Each Board Member and management (as well as employees) have a duty to place the interest of Prairieland foremost in any dealings with Prairieland and must conduct their personal affairs in such a manner as to avoid any actual or perceived interest in an action that results in, or has the appearance of resulting in, personal, organizational, or professional gain. Members of the Board and management should be required to submit conflict of interest disclosure statements at least annually. In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal controls, which shall provide assurance that funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation.

Prairieland officials stated the importance of a conflict of interest policy is understood and management is addressing the development of improvements in this area.

Implementing an appropriate conflict of interest policy should establish a clear definition of situations or circumstances when a conflict of interest can occur, and would assist in identifying situations where a Board Member or member of management could use his or her position, or the knowledge gained therefrom, in such a manner that conflicts with the interests of Prairieland. Receiving the conflict of interest disclosure statement from all Board Members and members of

08-04 - Finding: Conflict of Interest and Fraud Prevention and Detection Policies (continued)

management should aid in identifying potential conflicts of interest and would establish a consistent approach to managing conflict of interest matters as they arise. In addition, weaknesses in internal control, which may lead to fraud, may go unnoticed due to a formal fraud prevention and detection program not being implemented. (Finding Code Nos. 08-4, 07-04).

Recommendation:
We recommend Prairieland review the content of its newly adopted conflict of interest policy and implement an appropriate program to identify and avoid conflicts of interest specific to Prairieland. We further recommend Prairieland management establish a continuous fraud prevention, deterrence and detection plan. This should include evaluating whether appropriate internal controls have been implemented in any areas identified as posing a higher risk of fraudulent activity, as well as controls over the financial reporting process. In addition, the Board of Directors should evaluate management's identification of fraud risks and implementation of anti-fraud measures.

Prairieland Response:
Accepted. Prairieland will develop and implement a program to identify and avoid conflicts of interest. This program will include elements to address fraud prevention, deterrence and detection.