

**STATE OF ILLINOIS
PRAIRIELAND ENERGY, INC.**

**COMPLIANCE EXAMINATION
For the Two Years 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.
COMPLIANCE EXAMINATION
Two Years Ended June 30, 2008**

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The Prairieland Energy, Inc.’s financial statement report for the year ended June 30, 2008 which includes the independent auditor’s report, management’s discussion and analysis, basic financial statements and notes, and the independent auditor’s report on internal control over financial reporting and on compliance and other matters based on an audit of basic financial statements performed in accordance with <i>Government Auditing Standards</i> has been issued separately.	
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PRAIRIELAND ENERGY, INC.
COMPANY OFFICIALS
For the Two Years Ended 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 12/7/06)	Dr. Peter J. Czajkowski
Secretary (12/7/06 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	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 Ms. Anita M. Million Ms. Nicole M. Roberts
Board of Directors (through 7/6/07)	Mr. Stephen Rugg Dr. Craig Bazzani Mr. Douglas E. Beckmann
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:

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Champaign, Illinois 61820

Prairieland Energy, Inc.

100 Trade Centre Drive, Suite 304 • Champaign, IL 61820

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plandenergy@plandenergy.com

January 21, 2009

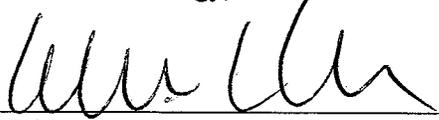
Clifton Gunderson LLP
Certified Public Accountants
301 SW Adams, Suite 900
Peoria, Illinois

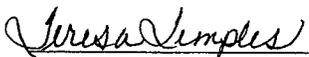
Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of Prairieland Energy, Inc. We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the Company's compliance with the following assertions during the two-year period ended June 30, 2008. Based on this evaluation, we assert that during the two years ended June 30, 2008, the Company has materially complied with the assertions below.

- A. Prairieland Energy, Inc. has obligated, expended, received and used funds in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. Prairieland Energy, Inc. has obligated, expended, received and used funds in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. Other than what has been previously disclosed, Prairieland Energy, Inc. has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The revenues and receipts collected by Prairieland Energy, Inc. are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. The money or negotiable securities or similar assets handled by Prairieland Energy, Inc. or held in trust by Prairieland Energy, Inc. have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,
Prairieland Energy, Inc.


Walter Knorr, Interim President and CEO


Teresa L. Temples, Controller

COMPLIANCE REPORT

SUMMARY

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

ACCOUNTANT'S REPORTS

The Independent Accountant's Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

SUMMARY OF FINDINGS

	<u>Number of</u>	<u>Current Report</u>	<u>Prior Reports</u>
Findings		4	6
Repeated findings		4	1
Prior recommendations implemented or not reported		2	1

Details of findings are presented in a separately tabbed report section.

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
<i>FINDINGS (GOVERNMENT AUDITING STANDARDS)</i>			
08-01	10	Inadequate Operation of Accounting Controls	Material Weakness
08-02	11	Billing Errors	Material Weakness
08-03	13	Inadequate Controls and System of Accounting for Sales and Related Accounts Receivable	Material Weakness
08-04	15	Conflict of Interest and Fraud Prevention and Detection Policies	Signif. Deficiency

FINDINGS (STATE COMPLIANCE)

The following findings which are reported as current findings relating to *Government Auditing Standards* also meet the reporting requirements for State Compliance.

08-01	10	Inadequate Operation of Accounting Controls	Material Noncomp.
08-02	11	Billing Errors	Material Noncomp.
08-03	13	Inadequate Controls and System of Accounting for Sales and Related Accounts Receivable	Material Noncomp.
08-04	15	Conflict of Interest and Fraud Prevention and Detection Policies	Noncompliance

PRIOR FINDINGS NOT REPEATED

A	17	Time sheets not required.
B	17	Use of University resources.

COMPLIANCE REPORT

SUMMARY (continued)

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 Accountant's Report on State Compliance, on
Internal Control Over Compliance, and on Supplementary
Information for State Compliance Purposes**

Honorable William G. Holland
Auditor General
State of Illinois

and

Board of Directors
PrairieLand Energy, Inc.

Compliance

As Special Assistant Auditors for the Auditor General, we have examined PrairieLand Energy, Inc.'s compliance with the requirements listed below, as more fully described in the *Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies* (Audit Guide) as adopted by the Auditor General, during the two years ended June 30, 2008. The management of PrairieLand Energy, Inc. is responsible for compliance with these requirements. Our responsibility is to express an opinion on PrairieLand Energy, Inc.'s compliance based on our examination.

- A. PrairieLand Energy, Inc. has obligated, expended, received, and used funds in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. PrairieLand Energy, Inc. has obligated, expended, received, and used funds in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
- C. PrairieLand Energy, Inc. has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by PrairieLand Energy, Inc. are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
- E. Money or negotiable securities or similar assets handled by PrairieLand Energy, Inc. or held in trust by PrairieLand Energy, Inc. have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about Prairieland Energy, Inc.'s compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Prairieland Energy, Inc.'s compliance with specified requirements.

As described in findings 08-01, 08-02, and 08-03 in the accompanying schedule of findings, Prairieland Energy, Inc. did not comply with requirements regarding compliance with applicable laws and regulations, including the State uniform accounting system in its financial and fiscal operations. Compliance with such requirement is necessary, in our opinion, for Prairieland Energy, Inc. to comply with the requirements listed in the first paragraph of this report.

In our opinion, except for the noncompliance described in the preceding paragraph, Prairieland Energy, Inc. complied, in all material respects, with the requirements listed in the first paragraph of this report during the two years ended June 30, 2008. However, the results of our procedures disclosed other instances of noncompliance, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as finding 08-04.

Internal Control

The management of Prairieland Energy, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered Prairieland Energy, Inc.'s internal control over compliance with the requirements listed in the first paragraph of this report in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of Prairieland Energy, Inc.'s internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Prairieland Energy, Inc.'s internal control over compliance.

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

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to comply with the requirements listed in the first paragraph of this report such that there is more than a remote likelihood that noncompliance with a requirement that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 08-01, 08-02, 08-03, and 08-04 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings, we consider items 08-01, 08-02, and 08-03 to be material weaknesses.

As required by the Audit Guide, immaterial findings excluded from this report have been reported in a separate letter to your office.

PrairieLand Energy, Inc.'s responses to the findings identified in our examination are described in the accompanying schedule of findings. We did not examine PrairieLand Energy, Inc.'s response and, accordingly, we express no opinion on it.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of PrairieLand Energy, Inc., a component unit of the University of Illinois and the State of Illinois, as of and for the year ended June 30, 2008, and have issued our report thereon dated January 21, 2009. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of PrairieLand Energy, Inc. The 2008 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2008 taken as a whole.

We have also previously audited, in accordance with auditing standards generally accepted in the United States, PrairieLand Energy, Inc.'s basic financial statements for the years ended June 30, 2007 and 2006. In our reports dated February 21, 2008 and November 14, 2006 on the basic financial statements, we expressed an unqualified opinion on the basic financial statements. In our opinion, the 2007 and 2006 Supplementary Information for State Compliance Purposes, except for the portion marked "unaudited," is fairly stated in all material respects in relation to the basic financial statements for the years ended June 30, 2007 and 2006 taken as a whole.

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 Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Henderson LLP

Peoria, Illinois
January 21, 2009



**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 Henderson LLP

Peoria, Illinois
January 21, 2009

PRAIRIELAND ENERGY, INC.
SCHEDULE OF FINDINGS
Current Findings – Government Auditing Standards/State Compliance
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.

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

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.

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

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.

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

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.

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

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.

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

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

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

**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.

PRAIRIELAND ENERGY, INC.
SCHEDULE OF FINDINGS
PRIOR FINDINGS NOT REPEATED
June 30, 2008

A - Finding: Time Sheets Not Required

The Company did not require all employees to submit time sheets as required by the State Officials and Employees Ethics Act (Act). (Finding Code 06-2)

Status – Implemented

Our sample testing did not identify any exceptions related to timesheets being submitted by Prairieland's employees.

B - Finding: Use of University resources

Prairieland Energy, Inc. (Company) used University of Illinois (University) facilities, assets, services, and resources without consideration paid to the University. The University and the Company were not tracking the expenses incurred by the University on behalf of the Company until it was brought to their attention as a result of the audit. In addition, the transactions were not initially recorded on the financial statements of the Company. (Finding Code 06-3)

Status – Not repeated

Our sample testing indicated that Prairieland paid the University \$75,000 and \$93,000 for non-facilities related services provided in FY 07 and 08, respectively.

SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

SUMMARY

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:
 - Schedules of Cash
 - Schedules of Changes in Capital Assets (At Cost)
 - Schedules of Cash Receipts
 - Analysis of Significant Variations in Revenues and Expenses
 - Analysis of Significant Account Balances
 - Analysis of Significant Account Variations
 - Analysis of Accounts Receivable

- Analysis of Operations:
 - Company Functions and Planning Program
 - Average Number of Employees (Unaudited)
 - Service Efforts and Accomplishments (Unaudited)

The accountant's report that covers the Supplementary Information for State Compliance purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the accountant's opinion, except for that portion marked "unaudited," on which they express no opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PRAIRIELAND ENERGY, INC.
SCHEDULES OF CASH
June 30, 2008 and 2007

	<u>Interest</u>	<u>2008</u>	<u>Interest</u>	<u>2007</u>
	<u>Rate</u>	<u>Balance</u>	<u>Rate</u>	<u>Balance</u>
CASH				
Busey Bank:				
Commercial checking account	None	\$ (5,554)	None	\$ 394,573
Money market account	1.12%	<u>1,403,201</u>	1.79%	<u>231,956</u>
 TOTAL		 <u>\$ 1,397,647</u>		 <u>\$ 626,529</u>

PRAIRIELAND ENERGY, INC.
SCHEDULES OF CHANGES IN CAPITAL ASSETS (AT COST)
Years Ended June 30, 2008 and 2007

CAPITAL ASSETS - JUNE 30, 2006	\$ 40,213
Additions - purchases	43,698
Retirements-disposals	<u>-</u>
CAPITAL ASSETS - JUNE 30, 2007	83,911
Additions - purchases	47,857
Retirements-disposals	<u>-</u>
CAPITAL ASSETS - JUNE 30, 2008	<u><u>\$ 131,768</u></u>

PRAIRIELAND ENERGY, INC.
SCHEDULES OF CASH RECEIPTS
Years Ended June 30, 2008, 2007, and 2006

	<u>2008</u>	<u>2007</u>	<u>2006</u>
REVENUE FROM			
Steam sales	\$ 86,143	\$ 2,882,019	\$ 7,324,034
Chilled water sales	58,976	1,541,329	2,246,063
Hot water sales	24,000	1,442,324	3,750,328
Electricity sales	7,992,358	4,090,464	335,680
Interest	69,512	7,238	9,107
Other	-	-	21,210
	<u> </u>	<u> </u>	<u> </u>
Total	<u>8,230,989</u>	<u>9,963,374</u>	<u>13,686,422</u>
Less noncash revenue	<u> -</u>	<u> -</u>	<u>(21,210)</u>
CUSTOMER DEPOSITS			
Beginning of year	(1,822,940)	(1,360)	-
End of year	<u>2,002,340</u>	<u>1,822,940</u>	<u>1,360</u>
	<u> </u>	<u> </u>	<u> </u>
	179,400	1,821,580	1,360
	<u> </u>	<u> </u>	<u> </u>
RECEIVABLES			
Beginning of year	2,105,601	656,587	789,511
End of year	<u>(1,549,297)</u>	<u>(2,105,601)</u>	<u>(656,587)</u>
	<u> </u>	<u> </u>	<u> </u>
	556,304	(1,449,014)	132,924
	<u> </u>	<u> </u>	<u> </u>
TOTAL CASH RECEIPTS	<u>\$ 8,966,693</u>	<u>\$ 10,335,940</u>	<u>\$ 13,799,496</u>

PRAIRIELAND ENERGY, INC.
ANALYSIS OF SIGNIFICANT VARIATIONS IN
REVENUES AND EXPENSES
Years Ended June 30, 2008, 2007, and 2006

	<u>2008</u>	<u>2007</u>	<u>2006</u>	
OPERATING REVENUES				
Electricity sales	\$ 7,992,358	\$ 4,090,464	\$ 335,680	
Steam sales	86,143	2,882,019	7,324,034	
Chilled water sales	58,976	1,541,329	2,246,063	
Hot water sales	24,000	1,442,324	3,750,328	
Budget allocation University of Illinois	-	-	21,210	
	<u>8,161,477</u>	<u>9,956,136</u>	<u>13,677,315</u>	(A)
OPERATING EXPENSES				
Energy costs	7,843,141	7,993,126	10,845,009	(A)
Facilities rental	-	1,451,850	2,903,880	(B)
Accounting fees	22,954	19,800	15,572	
Salaries	42,471	116,499	46,593	(C)
Office rent	15,408	15,180	13,596	
Depreciation	11,717	5,569	3,615	
Telephone	1,910	1,497	1,223	
Municipal & Excise Tax	22,394	72,998	45,563	(D)
Budget allocation University of Illinois	-	-	21,210	(E)
Contracted Services	111,332	75,000	-	(E)
Miscellaneous	6,483	5,225	2,321	
	<u>8,077,810</u>	<u>9,756,744</u>	<u>13,898,582</u>	
OPERATING INCOME (LOSS)	<u>83,667</u>	<u>199,392</u>	<u>(221,267)</u>	
NONOPERATING REVENUES				
(EXPENSES)				
Interest income	69,512	23,455	9,107	(F)
Interest expense	(64,250)	(16,217)	-	(F)
Other	(958)	(134)	(514)	
Income or built-in gains tax credit (expense)	-	(28,614)	70,002	(G)
	<u>4,304</u>	<u>(21,510)</u>	<u>78,595</u>	
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 87,971</u>	<u>\$ 177,882</u>	<u>\$ (142,672)</u>	

Certain 2007 amounts have been reclassified to agree to the 2008 presentation.

See page 24 for analysis

PRAIRIELAND ENERGY, INC.
ANALYSIS OF SIGNIFICANT ACCOUNT BALANCES
June 30, 2008, 2007, and 2006

	<u>2008</u>	<u>2007</u>	<u>2006</u>	
ASSETS				
CURRENT ASSETS				
Cash	\$ 1,397,647	\$ 626,529	\$ 197,509	(H)
Accounts receivable	1,549,297	2,105,601	656,587	(I)
Escrow deposit	1,439,042	1,239,042	-	(J)
Refundable taxes	70,277	-	-	(K)
Prepaid expense	<u>1,284</u>	<u>1,250</u>	<u>241,900</u>	(L)
Total current assets	4,457,547	3,972,422	1,095,996	
CAPITAL ASSETS, NET	<u>96,949</u>	<u>60,809</u>	<u>22,680</u>	(M)
TOTAL ASSETS	<u>\$ 4,554,496</u>	<u>\$ 4,033,231</u>	<u>\$ 1,118,676</u>	
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 1,466,152	\$ 975,172	\$ 98,773	(N)
Accrued expenses	36,479	65,231	44,811	(O)
Customer deposits	2,002,340	1,822,940	1,360	(P)
Accrued income or built-in gains taxes	-	123,794	10,340	(K)
Deferred income or built-in gains taxes	<u>-</u>	<u>-</u>	<u>228,770</u>	(K)
Total current liabilities	3,504,971	2,987,137	384,054	
LONG TERM LIABILITIES				
Deferred income or built-in gains taxes	<u>55,922</u>	<u>140,462</u>	<u>6,872</u>	(K)
Total liabilities	<u>3,560,893</u>	<u>3,127,599</u>	<u>390,926</u>	
NET ASSETS				
Invested in capital assets	96,949	60,809	22,680	(M)
Unrestricted	<u>896,654</u>	<u>844,823</u>	<u>705,070</u>	
Total net assets	<u>993,603</u>	<u>905,632</u>	<u>727,750</u>	
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,554,496</u>	<u>\$ 4,033,231</u>	<u>\$ 1,118,676</u>	

See page 25 for analysis

PRAIRIELAND ENERGY, INC.
ANALYSIS OF SIGNIFICANT VARIATIONS
June 30, 2008, 2007, and 2006

The scope of this analysis of significant variations explains any increases or decreases which vary by more than 20% and is also \$20,000 more or less than the prior year.

Revenues and Expenses

A) Operating revenues and energy costs

Operating revenue decreased \$1,794,659 from FY2007 to FY2008 and \$3,721,179 from FY2006 to FY2007. Prairieland Energy, Inc. (Prairieland) and the University amended their existing lease and purchase agreements effective January 2007. 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 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. FY2008 was the first full year of providing the wholesale supply of electric service, for transportation through the Ameren local distribution system, to the Urbana campus. Prairieland began providing electric services to the Urbana campus in January, 2007.

B) Facilities rental

The existing lease of production facilities with the Chicago campus was modified (as noted above) in December, 2006.

C) Salaries

An additional full time office assistant was added in FY2007. During FY 2008, the Vice President retired, the office assistant was out with illness most of FY2008 and replaced with contract labor until late in FY2008.

D) Municipal and Excise Tax

It was determined in FY2008 that Prairieland had been overbilling its customers and remitting excess municipal taxes.

E) Budget allocation University of Illinois and contracted services

In FY2006, Prairieland recorded a budget allocation for services provided by the University without charge. Beginning in FY2007, Prairieland is now paying the University for these services and have included them in the contracted services line item.

F) Interest income and interest expense

The majority of interest income and expense results from the escrow deposit with the Midwest Independent System Operator. Any amounts earned on this escrow deposit is passed on the University as interest expense.

G) Income or built-in gains tax credit (expense)

In FY2006, Prairieland recognized an income tax credit related to the tax loss sustained that year. In FY2007, Prairieland converted to accrual basis for income taxes and elected Subchapter S status. This conversion and election resulted in a reversal of previously deferred income taxes and a greater exposure to built-in gains taxes. No additional built-in gains tax expense is expected in future years beyond those that have been deferred.

PRAIRIELAND ENERGY, INC.
ANALYSIS OF SIGNIFICANT VARIATIONS
June 30, 2008, 2007 and 2006

Assets and Liabilities

- H) Cash
Cash increases were primarily related to the service deposit provided by the University and the reduction of receivables in FY2008. The service deposit enabled Prairieland to establish the escrow deposit with Midwest Independent System Operator and provided additional working capital.
- I) Accounts receivable
Accounts receivable at June 30, 2008 decreased approximately \$556 thousand and included a \$581 thousand reduction in the receivable from the University. The June 30, 2007 increase primarily related to electric services provided to the University's Urbana-Champaign campus, as well as delayed billings to the Chicago campus.
- J) Escrow deposit
Prairieland was required to provide an escrow deposit to the Midwest Independent System Operator in order to access the wholesale electric market for the Urbana-Champaign campus. Due to the volume of electricity purchased in FY2008, Prairieland was required to increase the escrow deposit.
- K) Refundable taxes and accrued and deferred income and built-in gains taxes
In FY2007, Prairieland converted to accrual basis for income taxes and elected Subchapter S status. This conversion and election resulted in a reversal of previously deferred income taxes and a greater exposure to built-in gains taxes. In FY2008, Prairieland made pre-payments totaling \$123,796 with the Internal Revenue Service and reported a built-in gains tax on its tax return of \$84,540, leaving \$39,256 to be applied to future tax periods. In addition, Prairieland recorded an adjustment of \$31,021 for municipal taxes that have been overpaid in previous reporting periods.
- L) Prepaid expense
The June 30, 2006 prepaid expenses included one month facilities rental of the production facilities at the Chicago campus. The facilities rental ended in December, 2006.
- M) Capital assets and net assets invested in capital assets
Prairieland invested \$43,698 and \$47,857 in new equipment in FY2007 and FY2008, respectively. These additions are offset by annual depreciation expense.
- N) Accounts payable
Prairieland's accounts payable have increased due to increased activity in the purchase of wholesale electricity.
- O) Accrued expenses
Accrued expenses experienced an increase as of June 30, 2007 followed by a subsequent decrease. This spike primarily resulted from increased commercial electricity services provided, annual excise tax returns in calendar year 2007 (compared to quarterly in calendar year 2008), incorrect municipal tax rates used in FY2007, and a reduced interest rate earned on the escrow deposit as of June 30, 2008.
- P) Customer deposits
Customer deposits increased as electric services to the University began in FY2007.

PRAIRIELAND ENERGY, INC.
ANALYSIS OF ACCOUNTS RECEIVABLE
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Accounts receivable		
University of Illinois	\$ 1,404,326	\$ 1,985,581
Private individuals and companies	<u>144,971</u>	<u>120,020</u>
Total	<u>\$ 1,549,297</u>	<u>\$ 2,105,601</u>

Accounts receivable arise from Prairieland selling steam, hot water, and chilled water to the University of Illinois, Chicago Campus, electricity to the Urbana Champaign campus, as well as sales of electricity, steam, and chilled water to private individuals and companies adjacent to the Urbana Champaign campus. The Company believes all remaining receivables from private individuals and companies are fully collectible and no allowance for bad debts has been provided.

**PRAIRIELAND ENERGY, INC.
COMPANY FUNCTIONS AND PLANNING PROGRAM
Years Ended June 30, 2008 and 2007**

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. This agreement was subsequently modified on December 7, 2006 to reduce charges for customers which own the facilities used to produce these utilities.

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 addition, on January 2, 2007, Prairieland was allowed access to the Midwest Independent System Operator and can now purchase wholesale electricity which is resold to the University's Urbana Champaign campus and to private individuals and companies adjacent to the campus.

Planning is the responsibility of Prairieland's President and officers who ensure that Prairieland Energy, Inc.'s goals are congruent with the University's priorities. The President and officers also seek input from Prairieland Energy, Inc.'s Board of Directors.

Prairieland prepares an annual plan through its budgeting process which outlines the anticipated revenues, expenses, and capital expenditures for the fiscal year.

Prairieland Energy, Inc.'s Chief Executive Officer is Walter K. Knorr. Its office is located in Champaign, Illinois and its address is:

Prairieland Energy, Inc.
100 Trade Centre Drive, Suite 304
Champaign, Illinois 61820
(217) 265-0855

PRAIRIELAND ENERGY, INC.
AVERAGE NUMBER OF EMPLOYEES
Years Ended June 30, 2008, 2007, and 2006

(Unaudited)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Administrative	1.00	1.00	-
Management	<u>-</u>	<u>1.00</u>	<u>1.00</u>
Total employed by Prairieland Energy, Inc.	<u>1.00</u>	<u>2.00</u>	<u>1.00</u>

Prairieland Energy, Inc.'s President is employed by the University. The President and other University employees spend a portion of their time on Prairieland activities. Prairieland compensated the University \$75,000 for these services in FY2007 and \$93,000 in FY2008.

Prairieland's officers and directors are also employed by the University.

PRAIRIELAND ENERGY, INC.
SERVICE EFFORTS AND ACCOMPLISHMENTS
Years Ended June 30, 2008 and 2007

(Unaudited)

During the fiscal years ended June 30, 2008 and 2007, Prairieland Energy, Inc. delivered the following energy units to the Urbana Champaign Campus of the University of Illinois:

	<u>2008</u>	<u>2007</u>
1) Electricity (KWH)	124,251,552	48,450,934