

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

**COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2006**

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

**STATE OF ILLINOIS
PRAIRIELAND ENERGY, INC.
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2006**

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PRAIRIELAND ENERGY, INC.
COMPANY OFFICIALS
June 30, 2006

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

The Prairieland Energy, Inc. offices are located at:

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Champaign, Illinois 61820

PRAIRIELAND ENERGY, INC.

100 Trade Centre Drive, Suite 304
Champaign, Illinois 61820

Phone (217) 265-0855
Fax (217) 265-0857

MANAGEMENT ASSERTION LETTER

November 14, 2006

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

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 the Company. 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, 2006. Based on this evaluation, we assert that during the years ended June 30, 2006 and June 30, 2005, the Company has materially complied with the assertions below.

- A. The Company has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Company has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Company 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 the agency 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 the agency on behalf of the State or held in trust by the agency 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.


Lyle Wachtel, President


Kevin Noland, Treasurer

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.

AUDITORS' REPORTS

The Independent Accountants' 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>This Report</u>	<u>Prior Report</u>
Findings	3	2
Repeated findings	1	0
Prior recommendations implemented or not reported	1	0

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

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
<i>FINDINGS (GOVERNMENT AUDITING STANDARDS)</i>		
06-01	9	Inadequate accounting records of sales and related accounts receivable on sales of energy to private individuals and companies.
<i>FINDINGS (STATE COMPLIANCE)</i>		
06-02	10	Time sheets not required.
06-03	11	Use of University resources.
<i>FINDINGS (PRIOR NOT REPEATED - STATE)</i>		
06-04	13	Bank balance in excess of FDIC insured limits were not protected by collateral pledged by the bank in the name of the Company.

EXIT CONFERENCE

A formal exit conference was not deemed to be necessary.

**Independent Accountants' 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 years ended June 30, 2005 and 2006. 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 public funds of the State 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 public funds of the State 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. on behalf of the State 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.

Our examination was conducted 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 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.

In our opinion, Prairieland Energy, Inc. complied, in all material respects, with the aforementioned requirements during the years ended June 30, 2005 and 2006. However, the results of our procedures disclosed instances of noncompliance with those requirements, which is required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which is described in the accompanying schedule of State findings as findings 06-02, 06-03.

As required by the Audit Guide, an immaterial finding relating to an instance of noncompliance excluded from this report has been reported in a separate letter to your office.

Internal Control

The management of Prairieland Energy, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations. In planning and performing our examination, we considered Prairieland Energy, Inc.'s internal control over compliance with the aforementioned requirements 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.

Our consideration of internal control over compliance with the aforementioned requirements would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws or regulations that would be material in relation to one or more of the aforementioned requirements being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance that we consider to be material weaknesses. However, the results of our procedures disclosed other matters involving internal control 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 State finding as finding 06-03. As required by the Audit Guide, an immaterial finding relating to an internal control deficiency excluded from this report has been reported in a separate letter to your office.

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. as of and for the year ended June 30, 2006, and have issued our report thereon dated November 14, 2006. 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 2006 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, 2006 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, 2005 and 2004. In our reports dated August 18, 2005 and July 28, 2004 on the basic financial statements, we expressed an unqualified opinion on the basic financial statements. In our opinion, the 2005 and 2004 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, 2005 and 2004 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 Gunderson LLP

Peoria, Illinois
November 14, 2006

**Independent Auditors' 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, 2006, and have issued our report thereon dated November 14, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered PrairieLand Energy, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect PrairieLand Energy, Inc.'s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 06-01.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Prairieland Energy, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain other matters which are reported as state compliance findings on the schedule of findings. We also noted a certain other matter which we have reported to management of Prairieland Energy, Inc. in a separate letter dated November 14, 2006.

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 Gunderson LLP

Peoria, Illinois
November 14, 2006

PRAIRIELAND ENERGY, INC.
SCHEDULE OF FINDINGS
CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS
June 30, 2006

06-01 - Finding: Inadequate Accounting Records of Sales and Related Accounts Receivable on Sales of Energy to Private Individuals and Companies

The Company did not have adequate accounting records of sales and accounts receivables related to sales of energy to private individuals and companies.

Prairieland Energy entered into agreements with several private individuals and companies to provide electricity, steam and chilled water, starting in October 2004. The Company maintains its accounting records on a cash basis and used an informal excel spreadsheet to track the activity related to these energy sales. The Company did not have an accounts receivable subsidiary ledger that kept track of amounts owed to the Company for energy sales. Energy sales were recorded based on deposits reflected on the Company bank statements and not based on a detailed sales or cash receipts journal.

Good business practices and internal controls dictate that an accounts receivable ledger, sales journal and cash receipts journal be maintained.

Company personnel stated they are using a spreadsheet to track billings and receipts. The record of receipts are updated by account in the spreadsheet before being matched with the corresponding bill and filed in the customer's file. Each month when a new bill is generated, past due amounts are available from the bills not matched with receipts. Accounts receivable information is available but requires special knowledge of software systems.

Failure to maintain an accounts receivable subsidiary ledger, and related journals, could result in loss of sales revenue for energy provided to private customers. (Finding Code No. 06-01, 05-01)

Recommendation:

We recommend that the Company maintain its accounting records on the accrual basis and establish an accounts receivable subsidiary ledger, sales journal, and cash receipts journal.

Company Response:

Prairieland Energy Incorporated ("Prairieland") acknowledges the need to have adequate accounting records for its activities. The challenge until now has been the need for Prairieland to utilize a cash accounting process in its activities and how this system in the past has been translated to GAAP. Prairieland is in the process of converting its accounting processes to an accrual basis and will establish the appropriate ledgers and journals for FY 2007.

PRAIRIELAND ENERGY, INC.
SCHEDULE OF FINDINGS
CURRENT FINDINGS - STATE COMPLIANCE
June 30, 2006

06-02 - 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).

The Act required the Illinois Board of Higher Education (IBHE), with respect to State employees of public universities, to adopt and implement personnel policies. The Act (5 ILCS 430/5-5(c)) states, "The policies shall require State employees to periodically submit time sheets documenting the time spent each day on official State business to the nearest quarter hour; contractual State employees may satisfy the time sheets requirement by complying with the terms of their contract, which shall provide for a means of compliance with this requirement." The IBHE adopted personnel policies for public universities on February 3, 2004 in accordance with the Act. The Company has not incorporated these policies into the Company's policies.

We noted the Company's employee, who was paid a salary, did not submit time sheets in compliance with the Act.

Company personnel stated they were not aware this was a requirement for this University subsidiary.

By not requiring appropriate time sheets from its salaried employees, the Company is not in compliance with the Act. (Finding Code No. 06-02)

Recommendation:

We recommend the Company amend its policies to require all employees to submit time sheets in compliance with the Act.

Company Response:

PrairieLand is aware that the University of Illinois acknowledges the requirements of the State Officials and Employees Ethics Act for employees to periodically report time spent each day on official State business to the nearest quarter hour. The University is currently reviewing University wide personnel policies and department, college and campus procedures to determine what changes and additions would be required to be in compliance with the Act. A preliminary review by the University shows the need to further document policies and work time requirements for categories of positions, explore various electronic solutions and involve a broad range of University constituencies in a proposed solution.

PrairieLand will monitor the University's progress, coordinate with the University on any proposed solution(s), and determine what additional actions PrairieLand may be required to take to comply with the Act.

PRAIRIELAND ENERGY, INC.
SCHEDULE OF FINDINGS
CURRENT FINDINGS - STATE COMPLIANCE
June 30, 2006

06-03 - 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.

The Company was formed on November 19, 1996 and is a component unit of the University of Illinois. The Company is recognized by the University as a University Related Organization (URO) pursuant to a contract between the University and the Company.

During the year ended June 30, 2006 the Company received legal services and management oversight for which the University failed to bill the Company or to charge the cost of these expenses to the Company's ledger account. As a result, the Company did not provide any consideration to the University for these resources provided by the University. Total resources used for the year ended June 30, 2006 were estimated to be \$20,510. This amount was subsequently recorded on the Company's Statement of Revenues, Expenses and Changes in Net Assets as revenue and as an expense.

University Guidelines adopted November 30, 1982, (as amended September 10, 1997) by the Legislative Audit Commission, Section VI, University Related Organizations, Subsection E: Use of University Facilities state that the University may allow the University Related Organization to use University facilities, assets, services, and resources provided that such use is supported by consideration at rates charged other University users, if such charges are regularly made, or at the cost of furnishing such services if no internal charges are in existence.

Further, Subsection F, requires that the University budget processes or the contract will expressly identify all support provided the URO. Revenue accounts will be maintained to identify all payments received from the URO for repayment of funds advanced and as reimbursement for the use of university assets, facilities or services. If the URO maintains separate financial records, companion entries will, of course, appear in these records as well.

Company personnel stated they felt that the use of University resources was covered in the lease agreement currently in place. The Company was not aware that a specific accounting of each service was required beyond the existing lease provisions.

Not providing consideration to the University for services the Company receives results in noncompliance with University Guidelines. (Finding Code No. 06-03)

Recommendation:

We recommend that the Company work with the University to establish a system for tracking the use of University resources and that appropriate amounts be recorded on the Company's financial statements.

PRAIRIELAND ENERGY, INC.
SCHEDULE OF FINDINGS
CURRENT FINDINGS - STATE COMPLIANCE
June 30, 2006

06-03 - Finding: Use of University Resources (Continued)

Company Response:

PrairieLand does not believe that the use and accounting of University resources were outside agreements that were or are in place. PrairieLand believes that the University Guidelines have been followed in this area and with the level of immaterial costs used in the finding further believes that this finding is inappropriate. Nevertheless, PrairieLand will monitor and track University resource use and account for it more directly for FY 2007.

PRAIRIELAND ENERGY, INC.
SCHEDULE OF FINDINGS
PRIOR FINDING NOT REPEATED - STATE
June 30, 2006

06-04 - Finding: Bank Balances in Excess of FDIC Insurance Limits Were Not Protected by Collateral Pledged by the Bank in the Name of the Company

During our prior examination of cash balances, we noted that the Company did not request from their banks securities to collateralize bank balances in excess of the FDIC insurance limit of \$100,000. (Finding Code No. 04-01)

At June 30, 2006, our testing indicated that the Company had collateral pledged for balances in excess of FDIC insurance.

SUPPLEMENTARY INFORMATION

**PRAIRIELAND ENERGY, INC.
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 Variations
 - Analysis of Accounts Receivable

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

The auditors' 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 auditors' 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, 2006 and 2005

	<u>2006</u>		<u>2005</u>	
	<u>Interest</u>	<u>Balance</u>	<u>Interest</u>	<u>Balance</u>
CASH	Rate		Rate	
Busey Bank:				
Commercial checking account	None	\$ 77,667	None	\$ 41,966
Money market account	1.99%	<u>119,842</u>	0.77%	<u>114,527</u>
 TOTAL		 <u>\$ 197,509</u>		 <u>\$ 156,493</u>

PRAIRIELAND ENERGY, INC.
SCHEDULES OF CHANGES IN CAPITAL ASSETS (AT COST)
Years Ended June 30, 2006 and 2005

CAPITAL ASSETS - JUNE 30, 2004	\$ 15,901
Additions - purchases	23,200
Retirements - disposals	<u>-</u>
 CAPITAL ASSETS - JUNE 30, 2005	 39,101
Additions - purchases	4,232
Retirements - disposals	<u>(3,120)</u>
 CAPITAL ASSETS - JUNE 30, 2006	 <u>\$ 40,213</u>

PRAIRIELAND ENERGY, INC.
SCHEDULES OF CASH RECEIPTS
Years Ended June 30, 2006, 2005, and 2004

	<u>2006</u>	<u>2005</u>	<u>2004</u>
REVENUE RECEIVED FROM			
Steam sales	\$ 7,324,034	\$ 6,556,847	\$ 6,410,722
Chilled water sales	2,246,063	1,566,845	1,692,780
Hot water sales	3,750,328	2,871,692	2,872,330
Electricity sales	335,680	86,427	-
Interest	9,107	3,728	1,873
Other	<u>21,210</u>	<u>1,920</u>	<u>45</u>
Total	<u>13,686,422</u>	<u>11,087,459</u>	<u>10,977,750</u>
Less noncash revenue	<u>(21,210)</u>	<u>-</u>	<u>-</u>
 ENERGY COST ADJUSTMENT ON SALES TO UNIVERSITY	 <u>(10,845,009)</u>	 <u>(7,430,498)</u>	 <u>(7,886,251)</u>
 RECEIVABLES			
Beginning of year	789,511	391,113	272,053
End of year	<u>(656,587)</u>	<u>(789,511)</u>	<u>(391,113)</u>
	<u>132,924</u>	<u>(398,398)</u>	<u>(119,060)</u>
 TOTAL CASH RECEIPTS	 <u>\$ 2,953,127</u>	 <u>\$ 3,258,563</u>	 <u>\$ 2,972,439</u>

PRAIRIELAND ENERGY, INC.
ANALYSIS OF SIGNIFICANT VARIATIONS IN
REVENUES AND EXPENSES
Years Ended June 30, 2006, 2005, and 2004

	<u>2006</u>	<u>2005</u>	<u>2004</u>	
OPERATING REVENUES				
Electricity sales	\$ 335,680	\$ 86,427	\$ -	
Steam sales	7,324,034	6,556,847	6,410,722	
Chilled water sales	2,246,063	1,566,845	1,692,780	
Hot water sales	3,750,328	2,871,692	2,872,330	
Budget allocation University of Illinois	<u>21,210</u>	<u>-</u>	<u>-</u>	
Total operating revenues	<u>13,677,315</u>	<u>11,081,811</u>	<u>10,975,832</u>	(A)
OPERATING EXPENSES				
Energy cost adjustment	10,845,009	7,430,498	7,886,251	(B)
Facilities rental	2,903,880	2,903,970	2,903,880	
Accounting fees	15,572	12,854	13,466	
Salaries	46,593	44,772	42,463	
Office rent	13,596	14,400	1,200	
Depreciation	3,615	2,984	664	
Telephone	1,223	1,287	1,061	
Municipal & Excise Tax	45,563	8,630	-	(C)
Budget allocation University of Illinois	21,210	-	-	
Miscellaneous	<u>2,321</u>	<u>1,573</u>	<u>1,184</u>	
Total operating expenses	<u>13,898,582</u>	<u>10,420,968</u>	<u>10,850,169</u>	
Operating income (loss)	<u>(221,267)</u>	<u>660,843</u>	<u>125,663</u>	
NONOPERATING REVENUES				
(EXPENSES)				
Interest	9,107	3,728	1,873	
Other	(514)	1,920	45	
Income tax credit (expense)	<u>70,002</u>	<u>(202,209)</u>	<u>(37,808)</u>	(D)
Total nonoperating revenues (expenses)	<u>78,595</u>	<u>(196,561)</u>	<u>(35,890)</u>	
INCREASE (DECREASE) IN NET				
ASSETS				
	<u>\$ (142,672)</u>	<u>\$ 464,282</u>	<u>\$ 89,773</u>	

See page 21 for analysis.

PRAIRIELAND ENERGY, INC.
ANALYSIS OF SIGNIFICANT ACCOUNT VARIATIONS
June 30, 2006, 2005, and 2004

	<u>2006</u>	<u>2005</u>	<u>2004</u>
ASSETS			
CURRENT ASSETS			
Cash	\$ 197,509	\$ 156,493	\$ 137,130 (E)
Accounts receivable	656,587	789,511	391,113 (F)
Prepaid expense	<u>241,900</u>	<u>243,136</u>	<u>-</u> (G)
Total current assets	1,095,996	1,189,140	528,243
CAPITAL ASSETS, NET	<u>22,680</u>	<u>22,063</u>	<u>1,847</u> (H)
TOTAL ASSETS	<u>\$ 1,118,676</u>	<u>\$ 1,211,203</u>	<u>\$ 530,090</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$ 100,133	\$ 8,962	\$ 102 (I)
Accrued expenses	44,811	10,158	4,343 (J)
Accrued income taxes	10,340	5,789	1,511
Deferred income taxes	<u>228,770</u>	<u>309,187</u>	<u>117,434</u> (K)
Total current liabilities	384,054	334,096	123,390
LONG TERM LIABILITIES			
Deferred income taxes	<u>6,872</u>	<u>6,685</u>	<u>560</u>
Total liabilities	<u>390,926</u>	<u>340,781</u>	<u>123,950</u>
NET ASSETS			
Invested in capital assets	22,680	22,063	1,847
Unrestricted	<u>705,070</u>	<u>848,359</u>	<u>404,293</u>
Total net assets	<u>727,750</u>	<u>870,422</u>	<u>406,140</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,118,676</u>	<u>\$ 1,211,203</u>	<u>\$ 530,090</u>

See page 22 for analysis.

PRAIRIELAND ENERGY, INC.
ANALYSIS OF SIGNIFICANT VARIATIONS
June 30, 2006, 2005, and 2004

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

Revenues and Expenses

A) Changes in Operating Revenues

Steam sales increased by \$146,125, between the years ended June 30, 2004 and June 30, 2005. This increase is related to an increase in steam used by the University. The University used 13,091 million more pounds of steam in the year ended June 30, 2005 than in 2004. Chilled water and hot water sales decreased by \$125,935 and \$638 between the years ended June 30, 2004 and 2005, respectively. The decreases are related to a decrease in the amount of chilled and hot water used by the University. The University used 9,174 million less BTUs of chilled water in the year ended June 30, 2005 and 2004. The University used 58 million less BTUs of hot water in the year ended June 30, 2005 than in 2004. Starting in October 2004, the Company entered into agreements to purchase electricity from the University of Illinois at its Urbana Champaign campus and to supply electricity, steam, hot water and chilled water to private individuals and companies at locations adjacent to the Urbana Champaign campus. For the year ended June 30, 2005, sales to these private individuals and companies resulted in electricity revenue of \$86,427.

Steam, hot water, and chilled water sales increased by \$767,187, \$878,636, and \$679,218, respectively, between the years ended June 30, 2005 and 2006. The increases are related to an increase in steam, hot water and chilled water used by the University. The University used 39,583 million more pounds of steam in the year ended June 30, 2006 than in 2005. The University used 79,876 million more BTUs of hot water in the year ended June 30, 2006 than in 2005. During the year ended June 30, 2006, the Company began providing steam hot and chilled water to a new high-energy use College of Medicine Research Building, a new recreation facility, and a new dorm which increased the University's demand for all three types of energy compared to the prior year. Electricity sales increase by \$249,253 between the years ended June 30, 2005 and 2006. The Company started selling electricity in October of 2004 such that the year ended June 30, 2006 would only have nine months of electrical sales. During the year ended June 30, 2006, the Company added electrical service to several buildings in the University of Illinois Research Park in Champaign.

B) Changes in Energy Cost Adjustment

Energy cost adjustments generally fluctuate in concert with changes in operating revenue. The fuel cost adjustment for the year ended June 30, 2004 cover a 13 month period. The fuel costs adjustments for the years ended June 30, 2005 and 2006 were both a 12 month period.

C) Municipal and Excise Tax

When the Company began selling electricity in October of 2004 to private individuals and companies, it became responsible for remitting municipal and excise tax on these sales.

D) Income Tax Expenses

Income taxes fluctuate in concert with increases and decreases in net assets.

PRAIRIELAND ENERGY, INC.
ANALYSIS OF SIGNIFICANT VARIATIONS
June 30, 2006, 2005, and 2004

Assets and Liabilities

E) Increase in Cash

Cash provided by operating activities for the year ended June 30, 2006 was \$42,332 as a result of cash received exceeding payments to suppliers for the year.

F) Increase in Accounts Receivable

Accounts receivable at June 30, 2005 included \$209,922 related to the additional billing for the annual energy cost adjustment. The remaining balance at June 30, 2005 is for the May 2005 and June 2005 energy usage by the University of \$253,355 and \$283,808, respectively, plus receivables from private individuals and businesses of \$42,426. The balance at June 30, 2006 included \$255,398 related to the additional billing for the annual energy cost adjustment. The remaining balance at June 30, 2006 was for the June energy usage of \$256,521 plus corrections of prior month billings of \$37,694 plus receivables from private individuals and businesses of \$106,694 and miscellaneous receivables of \$280.

G) Increase in Prepaid Expense

Prepaid expense at June 30, 2006 and 2005 included one month's prepayment of facilities rental due to the University of Illinois. The monthly rent the Company pays to the University for facilities rent is \$241,900.

H) Increase in Capital Assets

During the year ended June 30, 2005 and 2006, the Company purchased meters in connection with providing electricity steam and hot water services to private companies and individuals for \$23,200 and \$2,232, respectively.

I) Increase in Accounts Payable

Included in accounts payable at June 30, 2006 are amounts due to the University of Illinois for May and June energy acquired from the University that was resold to private individuals and businesses totaling \$98,773.

J) Increase in Accrued Expense

Included in accrued expense at June 30, 2006 and 2005 are amounts accrued for municipal and excise tax payments of \$41,021 and \$5,692, respectively.

K) Increase and Decreases in Deferred Income Taxes

The increase and decreases in the deferred income tax liability is due primarily to the changes in the accounts receivable, prepaid, accounts payable, and accrued expense balances. The Company files its tax return on a cash basis so that any cash to accrual adjustment would impact the deferred income tax balance.

PRAIRIELAND ENERGY, INC.
ANALYSIS OF ACCOUNTS RECEIVABLE
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ACCOUNTS RECEIVABLE		
University of Illinois	\$ 549,613	\$ 747,085
Private individuals and companies	106,694	42,426
Other miscellaneous	<u>280</u>	<u>-</u>
TOTAL	<u>\$ 656,587</u>	<u>\$ 789,511</u>

Accounts receivable arise from Prairieland selling steam, hot water, and chilled water to the University of Illinois, Chicago Campus as well as sales of electricity, steam, chilled and hot water to private individuals and companies adjacent to the Urbana Champaign campus. The Company has written off any receivable balances from private individuals and companies it does not believe will be collected. All remaining receivables are considered fully collectible and no allowance for bad debts has been provided.

ANALYSIS OF OPERATIONS

PRAIRIELAND ENERGY, INC.
COMPANY FUNCTION AND PLANNING PROGRAM
Years Ended June 30, 2006 and 2005

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

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

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's planning function is adequate for its intended purpose.

Prairieland Energy, Inc.'s office is located in Champaign, Illinois and its address is:

Prairieland Energy, Inc.
106 Town Center, Suite 304
Champaign, Illinois 61820
(217) 265-0855

PRAIRIELAND ENERGY, INC.
AVERAGE NUMBER OF EMPLOYEES
Years Ended June 30, 2006, 2005, and 2004

(Unaudited)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
EMPLOYED BY PRAIRIELAND ENERGY, INC.			
Management	<u>1.00</u>	<u>1.00</u>	<u>1.00</u>
Total employed by Prairieland Energy, Inc.	<u>1.00</u>	<u>1.00</u>	<u>1.00</u>
 EMPLOYED BY THE UNIVERSITY OF ILLINOIS			
President	<u>1.00</u>	<u>1.00</u>	<u>1.00</u>
Total employed by the University of Illinois	<u>1.00</u>	<u>1.00</u>	<u>1.00</u>
 TOTAL	 <u><u>2.00</u></u>	 <u><u>2.00</u></u>	 <u><u>2.00</u></u>

Prairieland Energy, Inc.'s President is employed by the University. Clerical services used are included in Prairieland's office lease agreement.

Prairieland's officers and directors are also employed by the University. One director is employed by the University of Illinois Foundation.

PRAIRIELAND ENERGY, INC.
SERVICE EFFORTS AND ACCOMPLISHMENTS
Years Ended June 30, 2006 and 2005

(Unaudited)

During the fiscal years ended June 30, 2006 and 2005, Prairieland Energy, Inc. delivered the following energy units to the Chicago Campus of the University of Illinois:

	<u>2006</u>	<u>2005</u>
1) Hot water (millions BTUs)	339,848	259,972
2) Chilled water (millions BTUs)	160,010	111,396
3) Steam (millions pounds)	1,031,256	991,673