

**MARSHALLS ENERGY COMPANY, INC.**

**INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL AND ON COMPLIANCE**

**YEAR ENDED SEPTEMBER 30, 2005**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Marshalls Energy Company, Inc.:

We have audited the financial statements of the Marshalls Energy Company, Inc. (MEC) as of and for the year ended September 30, 2005 and have issued our report thereon dated May 8, 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 MEC'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 assurance on the internal control over financial reporting. However, we noted one 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 MEC'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 (pages 3 and 4) as item 2005-1.

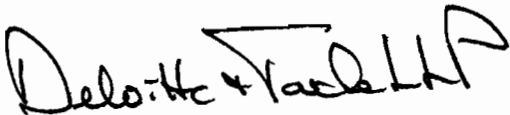
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected 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 the reportable condition described above is a material weakness.

We also noted other matters involving the internal control over financial reporting, which we have reported to management of MEC in a separate letter dated May 8, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MEC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2005-2.

This report is intended solely for the information and use of the Board of Directors, management, the Rural Utilities Service, supplemental lenders, the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Deloitte & Touche LLP", with a stylized flourish extending from the end of the signature.

May 8, 2006

**MARSHALLS ENERGY COMPANY, INC.**

Schedule of Findings  
Year Ended September 30, 2005

Cash

Finding No. 2005-1

Criteria: Cash accounts should be reconciled on a monthly basis.

Condition: At September 30, 2005, MEC recorded cash balances of \$10,526 and \$6,122 in general ledger cash account #s 1002 and 1005, respectively; however, no reconciliations were initially provided for these accounts. Reconciliations were later performed and adjusting entries were then posted to the general ledger, which included \$400,000 in unrecorded other income.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures regarding timely reconciliation of cash accounts.

Effect: The effect of the above condition is that posting errors will not be detected in a timely manner and that cash accounts are misstated throughout the year.

Recommendation: We recommend that management adhere to established policies and procedures regarding timely reconciliation of cash accounts.

Auditee Response: We acknowledge that the reconciliations of Solar Operating and Capital accounts were not completed prior to the audit. This was caused primarily as a result of a change in senior accounting staff. Measures have now been put in place to ensure that existing procedures will be adhered to.

**MARSHALLS ENERGY COMPANY, INC.**

Schedule of Findings, Continued  
Year Ended September 30, 2005

Coverage Ratios

Finding No. 2005-2

Criteria: Section 5.4 of the RUS loan contract requires MEC to establish rates to provide revenue sufficient to meet average coverage ratio requirements as follows:

Operating Times Interest Earned Ratio (OTIER)	=	1.10
Operating Debt Service Coverage (ODSC)	=	1.10

Condition: During the year ended September 30, 2005, MEC achieved the following average coverage ratios:

OTIER	=	(2.25)
ODSC	=	(0.50)

Cause: The cause of the above condition is that utility rates are not sufficient to provide adequate revenues to comply with the prescribed ratio requirements.

Effect: The effect of the above condition is noncompliance with the average coverage ratio requirements as prescribed by Section 5.4 of the RUS loan contract.

Recommendation: We recommend that management review MEC's rates to comply with average coverage ratio requirements.

Prior Year Status: Noncompliance with the average contract ratio requirements as prescribed by Section. 5.4 of the RUS loan contract was reported as a finding in the audits of MEC for fiscal years 2000 through 2004.

Auditee Response: The regulatory body of MEC approved two increases in electricity tariffs during the financial year. During the year the regulatory body also approved the use of a pricing template which allows MEC to automatically adjust tariffs according to the movement in world oil prices without the need for the approval of the regulatory body.

**MARSHALLS ENERGY COMPANY, INC.**

Unresolved Prior Year Findings  
Year Ended September 30, 2005

The status of unresolved prior year findings is disclosed within the Schedule of Findings section of this report (pages 3 and 4).