



SCHEDULE OF EXPENDITURES OF STATE
AWARDS AND RELATED AUDIT REPORTS

Highlands Ethanol, LLC
d/b/a Vercipia Biofuels
Year Ended December 31, 2010
With Report of Independent Certified Public Accountants

Ernst & Young LLP

Highlands Ethanol, LLC
d/b/a Vercipia Biofuels

Schedule of Expenditures of State
Awards and Related Audit Reports

Year Ended December 31, 2010

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Highlands Ethanol, LLC
d/b/a Vercipia Biofuels

Schedule of Expenditures of State Awards

Year Ended December 31, 2010

	<u>CSFA Number</u>	<u>Expenditures</u>
Florida Department of Agriculture and Consumer Services		
Florida Farm to Fuel Grants Program	42.022	\$ 1,929,311
Executive Office of the Governor		
Renewable Energy and Energy Efficient Technologies Grants Program	31.055	<u>292,881</u>
Total Expenditures of State Awards		<u>\$ 2,222,192</u>

See accompanying notes.

Highlands Ethanol, LLC
d/b/a Vercipia Biofuels

Notes to Schedule of Expenditures of State Awards

Year Ended December 31, 2010

1. Summary of Significant Accounting Policies

Basis of Presentation

The purpose of the accompanying schedule of expenditures of state awards (the schedule) is to present, in summary form, total state award expenditures of Highlands Ethanol, LLC d/b/a Vercipia Biofuels (the Company) for the year ended December 31, 2010, that have been funded under various state award programs. The schedule is prepared on the accrual basis of accounting. Because the schedule presents only a selected portion of the activities of the Company, it is not intended to and does not present the expenditures of the Company.

2. Contingency

The grant amounts received are subject to audit and adjustment. If any expenditures are disallowed by the grantor agencies as a result of such an audit, any claim for reimbursement to the grantor agencies would become a liability of the Company. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements and applicable state laws and regulations.

Report of Independent Certified Public Accountants on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based on an
Audit of the Financial Statements Performed in Accordance With
Government Auditing Standards

The Board of Directors
Highlands Ethanol, LLC d/b/a Vercipia Biofuels

We have audited the financial statements of Highlands Ethanol, LLC d/b/a Vercipia Biofuels (the Company) as of and for the year ended December 31, 2010, and have issued our report thereon dated September 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 the Company's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a significant deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company'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*.

This report is intended solely for the information and use of the Board of Directors, management of the Company, others within the entity, and state awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Ernst + Young LLP

September 29, 2011

Report of Independent Certified Public Accountants on Compliance With
Requirements That Could Have a Direct and Material Effect on
Each Major State Awards Program and on Internal Control Over Compliance
in Accordance With Section 215.97, *Florida Statutes*, and on
Schedule of Expenditures of State Awards

The Board of Directors
Highlands Ethanol, LLC
d/b/a Vercipia Biofuels

Compliance

We have audited the compliance of Highlands Ethanol, LLC d/b/a Vercipia Biofuels (the Company) with the types of compliance requirements described in the Executive Office of the Governor's State Projects Compliance Supplement, that could have a direct and material effect on each of its major state awards programs for the year ended December 31, 2010. The Company's major state awards programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major state awards programs is the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Section 215.97, *Florida Statutes*. Those standards and Section 215.97, *Florida Statutes*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state awards program occurred. An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Company's compliance with those requirements.

In our opinion, the Company complied, in all material respects, with the requirements referred to above that are applicable to each of its major state awards programs for the year ended December 31, 2010.

Internal Control Over Compliance

The management of the Company is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to state awards programs. In planning and performing our audit, we considered the Company's internal control over compliance with the requirements that could have a direct and material effect on a major state awards program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over financial reporting in accordance with Section 215.97, *Florida Statutes*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state awards program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state awards program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was limited for the purpose described in the first paragraph of this section and would not necessarily identify all the deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as described above.

Schedule of Expenditures of State Awards

We have audited the financial statements of the Company as of and for the year ended December 31, 2010, and have issued our report thereon dated September 29, 2011. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis as required by Section 215.97, *Florida Statutes*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



This report is intended solely for the information and use of the Board of Directors, management, others within the entity, and state awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Ernst + Young LLP

September 29, 2011

Highlands Ethanol, LLC
d/b/a Vercipia Biofuels

Schedule of Findings and Questioned Costs

Year Ended December 31, 2010

Part I – Summary of Auditors’ Results

Financial Statement Section

Type of auditors’ report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified not considered to be material weaknesses? Yes X No

Noncompliance material to financial statements noted? Yes X No

State Awards Section

Dollar threshold used to determine Type A programs: \$ 300,000

Type of auditor’s report issued on compliance for major programs (unqualified, qualified, adverse or disclaimer): Unqualified

Highlands Ethanol, LLC
d/b/a Vercipia Biofuels

Schedule of Findings and Questioned Costs (continued)

Year Ended December 31, 2010

Part I – Summary of Auditors’ Results (continued)

State Awards Section (continued)

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Were significant deficiency(ies) identified
not considered to be material weakness(es)? _____ Yes X No

Any audit findings disclosed that are required to be
reported in accordance with Section 215.97,
Florida Statutes?

_____ Yes X No

Identification of major state programs:

<u>CSFA Number(s)</u>	<u>Name of Program</u>
42.022	Florida Farm to Fuel Grants Program

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Schedule of Findings and Questioned Costs (continued)

Year Ended December 31, 2010

Part II – Financial Statement Findings Section

This section identifies significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Section 215.97, *Florida Statutes* audit.

No significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse related to the financial statements were identified.

Highlands Ethanol, LLC
d/b/a Vercipia Biofuels

Schedule of Findings and Questioned Costs (continued)

Year Ended December 31, 2010

Part III – State Program Findings and Questioned Costs

This section identifies significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of state awards programs, required to be reported by Section 215.97, *Florida Statutes*.

There were no findings required to be reported by Section 215.97, *Florida Statutes*.

Highlands Ethanol, LLC
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Summary Schedule of Prior Audit Findings

Year Ended December 31, 2010

Finding No. 09-01

Criteria or specific requirement:

Improper Accrual of Payroll Costs Not Incurred

Condition:

For certain labor costs charged under the Florida Farm to Fuel Grants Program and the Renewable Energy and Energy Efficient Technologies Grants Program, the wage rates charged to the programs were the budgeted rates as stated in the contract and not actual rates incurred.

Current status:

Resolved – finding did not repeat.

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