Financial Statements and Reports of
Independent Certified Public Accountant

Miami Educational Facilities Authority

Miami, Oklahoma
June 30, 2011

TURNER & ASSOCIATES, PLC
Certified Public Accountants
P.O. Box 378
Vinita, OK 74301
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Miami Educational Facilities Authority
Board of Trustees
June 30, 2011

Charles Neal	Chairman
Brent Brassfield	Vice-Chairman
Heather Lillard	Secretary/Trustee
John Froman	Trustee
Rusty Mercer	Trustee

Miami Educational Facilities Authority
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TURNER
& ASSOCIATES, PLC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Miami Educational Facilities Authority
Miami, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Miami Educational Facilities Authority, as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Miami Educational Facilities Authority, as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2012, on our consideration of the Miami Educational Facilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Miami Educational Facilities Authority, Miami, Ottawa County, Oklahoma has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined it necessary to supplement, although not required to be part of, the basic financial statements.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Miami Educational Facilities Authority's financial statements as a whole. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Turner & Associates, PLC

Vinita, Oklahoma
January 18, 2012

TURNER
& ASSOCIATES, PLC
Certified Public Accountants

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

Board of Directors
Miami Educational Facilities Authority
Miami, Oklahoma

We have audited the financial statements of the business-type activities of the Miami Educational Facilities Authority, Miami, Ottawa County, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated January 18, 2012. The Miami Educational Facilities Authority did not present the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements. 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 the Miami Educational Facilities Authority, Ottawa County, Oklahoma's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Miami Educational Facilities Authority, Ottawa County, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Miami Educational Facilities Authority, Ottawa County, Oklahoma's internal control over financial reporting.

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 over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting, describe in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses in 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 deficiency, or a 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. We consider the deficiencies, 2011-1 and 2011-2 described in the accompanying schedule of findings and responses to be a material weaknesses.

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A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Miami Educational Facilities Authority, Miami, Ottawa County, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 matter that is required to be reported under *Government Auditing Standards*.

The Miami Educational Facilities Authority, Ottawa County, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Miami Educational Facilities Authority, Ottawa County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, and the Oklahoma State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Turner & Associates, PLC

Vinita, Oklahoma
January 18, 2012

Miami Educational Facilities Authority
Statement of Net Assets
June 30, 2011

ASSETS		
Current Assets		
Cash and Cash Equivalents	$	1,922.50
Rent Receivable		1,000.00
Due From Other Governments		2,500,776.40
Accrued Interest Receivable		27,383.37
Total Current Assets		2,531,082.27
Noncurrent Assets		
Restricted US Treasuries		260,497.23
Other Assets		
Bond Issuance Costs, net		34,033.76
Total Assets		2,825,613.26
LIABILITIES		
Current Liabilities		
Accrued Interest Payable		36,709.16
Long Term Liabilities		
Bonds Payable, net of Current Portion		2,620,000.00
Deferred Gain on Capital Lease		343,600.84
Total Long Term Liabilities		2,963,600.84
Total Liabilities		3,000,310.00
NET ASSETS		
Total Net Assets, Unrestricted	$	(174,696.74)

The accompanying Notes to the Financial Statements are an integral part of this statement.

Miami Educational Facilities Authority
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2011

Operating Revenues	
Rental Income	$ 5,877.00
Operating Expenses	
Amortization Expense	15,707.76
Professional Fees	6,987.50
Trustee Expense	2,000.00
Total Operating Expenses	24,695.26
Net Income (Loss) From Operations	(18,818.26)
Non Operating Revenue (Expense)	
Interest Income	40,339.98
Gain on Sale of Asset	94,697.72
Interest Expense	(113,737.50)
Total Non Operating Revenue (Expense)	21,300.20
Net Income (Loss)	2,481.94
Net Assets, Beginning of Year	(177,178.68)
Net Assets, End of Year	$ (174,696.74)

The accompanying Notes to the Financial Statements are an integral part of this statement

Miami Educational Facilities Authority
Statement of Cash Flows
For the Year Ended June 30, 2011

Cash Flows from Operating Activities		
Cash Inflows:		
Payments Received from Customers	$	5,877.00
Cash Outflows:		
Payments for Goods and Services		(8,987.50)
Net Cash Provided (Used) by Operating Activities		(3,110.50)
Cash Flows from Capital and Related Financing Activities		
Interest Expense		(120,957.50)
Gain on Sale of Asset		119,223.60
Net Cash Provided (Used) for Capital and Related Financing Activities		(1,733.90)
Cash Flows from Investing Activities		
Interest Received from Investments		98,920.46
Net Cash Inflow (Outflow) from All Activities		94,076.06
Cash and Cash Equivalents at Beginning of Year		168,343.67
Cash and Cash Equivalents at End of Year	$	262,419.73
Cash and Cash Equivalents		
Unrestricted Cash and Cash Equivalents	$	1,922.50
Restricted Cash and Cash Equivalents		260,497.23
Cash and Cash Equivalents at End of Year	$	262,419.73
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Net Operating Income (Loss)	$	(18,818.26)
Amortization of Bond Issuance Costs		15,707.76
Net Cash Provided by Operating Activities	$	(3,110.50)

The accompanying Notes to the Financial Statements are an integral part of this statement.

Miami Educational Facilities Authority
Notes to the Financial Statements
For the Year Ended June 30, 2011

The following notes to the financial statements are an integral part of Miami Educational Facilities Authority's financial statements.

I. Summary of Significant Accounting Policies

Miami Educational Facilities Authority, Miami, Oklahoma (the Authority) was established as a Trust for the use and benefit of the Beneficiary for the public purposes hereinafter set forth, under the provisions of Title 60, Oklahoma Statues 2001, Sections 176 to 180.4, inclusive, as amended and supplemented, the Oklahoma Trust Act and other applicable statutes and laws of the State of Oklahoma. The Trust is to promote and develop for the benefit of educational facilities in the Beneficiary any and all public works projects or facilities of any type of description including but not limited to those for water, sewer, solid waste, recycling, recovery, materials reduction, communication, power, natural gas or other public utilities of any type of description. The Trust is to conduct all business related to providing the necessary educational facilities and/or services; to plan, establish, develop, construct, finance, enlarge, remodel, acquire, improve, make alternations, extend, maintain, equip, operate, lease, furnish and regulate any facilities related to any of the foregoing, and if desired, to lease such facilities and to operate the same in connection therewith, and to do, perform, own, acquire, construct or engage in or finance any other enterprise or activity, project or facility to such extent and in such manner as now is or may be considered a proper and lawful function of public trust entities within the State of Oklahoma. The Authority began operation on March 31, 2008. The Authority is exempt from federal and state income taxes.

On May 15, 2008, the Board of Trustees of the Authority approved the Miami Educational Facilities Authority Educational Facilities Lease Revenue Bonds, Series 2008 between the Authority and BancFirst (the Trustee) providing for the issuance of Revenue Bonds in the aggregate principal amount of $3,190,000 less the bond issuance costs of $83,775.

The accounting policies of the Authority conform to generally accepted accounting principles applicable to governmental units. The Authority complies with generally accepted accounting principles and applies all relevant Government Accounting Standards Board (GASB) pronouncements. In addition, the Authority applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The Authority has elected not to follow FASB pronouncements issued since that date.

A. Financial Reporting Entity

The Authority complies with GASB Statement No. 14, *"The Financial Reporting Entity."* This statement establishes standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the elected officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The Authority considered all potential component units in determining what organizations should be included in the financial statements. Based on these criteria, there are no component units to include in the Authority's financial statements.

The Authority is a component unit of the City of Miami, Miami, Oklahoma and will be included in the City of Miami's basic financial statements.

Miami Educational Facilities Authority
Notes to the Financial Statements
For the Year Ended June 30, 2011

I. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation

The Authority's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus applied.

The proprietary funds utilize an *"economic resources"* measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise fund is rent and lease payments assessed at an interest rate of 1.2% charged to the Miami School District. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities, Net Assets and Revenues

1. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Trust considers all cash on hand, demand deposits, and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

Miami Educational Facilities Authority
Notes to the Financial Statements
For the Year Ended June 30, 2011

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Net Assets and Revenues (continued)

2. Fair Value of Financial Instruments

The Authority's financial statements include cash and investments. The Authority's estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

3. Restricted Assets

Restricted assets include investments of the proprietary fund that are legally restricted as to their use. Financial requirements of the bond indenture require that funds be held in a bond fund which is comprised of the reserve account, debt service account, and improvement account. Under the terms and provisions of the indenture, these funds are maintained with the Trustee bank and are not subject to lien or attachment by any other creditors. These funds are to be maintained so long as the bonds are outstanding.

4. Rent Receivable

The Authority receives semi-annual rent payments from Miami Public Schools in the amount of $1,500.

5. Accrued Interest

Interest payments on the 2008 Series Bonds are due semi-annually on March 1 and September 1 each year until maturity. Interest payable is accrued from March 1 through June 30 on all bonds.

6. Long-Term Obligations

Long-term debt is reported as a liability in the Authority's balance sheet. Bond premiums, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bond issuance costs are reported as "other noncurrent assets" and amortized over the term of the related debt.

7. Deferred Revenue

The Authority entered into a lease agreement with Miami Public Schools. The 2008 Bond Series proceeds are used to complete the construction of the gymnasium/band and choral facility. This facility is being sold to the Miami Public Schools through a lease agreement.

Miami Educational Facilities Authority
Notes to the Financial Statements
For the Year Ended June 30, 2011

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Net Assets and Revenues (continued)

8. Equity Classifications

Equity is classified as net assets and displayed in three components:

a. Invested in capital assets, net of related debt --- Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
b. Restricted net assets --- Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
c. Unrestricted net assets --- All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

9. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. Detailed Notes Concerning the Funds

A. Cash

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority's cash deposits, including interest-bearing certificates of deposit, are maintained in financial institutions. As of June 30, 2011, none of the Authority's deposits were exposed to custodial credit risk.

Interest rate risk: This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Repurchase agreements: The Authority is invested in Federated Treasury Obligations. According to the Federated Treasury Obligation Fund portfolio, 86.9% of the investments are subject to repurchase agreements. The Authority's investments are collateralized by Treasury securities; however, current and future holdings are subject to risk.

Miami Educational Facilities Authority
Notes to the Financial Statements
For the Year Ended June 30, 2011

II. Detailed Notes Concerning the Funds (continued)

C. Long-Term Debt

The Authority issued bonds in the amount of $3,190,000 on May 15, 2008. Interest on the bonds is payable March 1st and September 1st at varying rates. The Authority has a total of (3) principal payments, beginning September 1, 2010.

Debt service requirements for the 2008 Series Bonds are as follows:

Year Ended June 30,	Principal	Interest	Total Requirements
2012	$ -	$ 110,127.50	$ 110,127.50
2013	815,000.00	93,420.00	908,420.00
2014	1,805,000.00	38,356.25	1,843,356.25
	$ 2,620,000.00	$ 241,903.75	$ 2,861,903.75

D. Changes in Long-Term Debt

Long-term debt consists of bonds payable. The following is a summary of the changes in long-term debt of the Authority for the fiscal year.

	Balance June 30, 2010	Advances	Payments	Balance June 30,2011	Due within One Year
Bonds Payable	$ 3,190,000.00	$ -	$ 570,000.00	$ 2,620,000.00	$ -

E. Lease Purchase Agreement (Sub Lease)

The Authority has a commitment with the Miami Public Schools to lease the gymnasium/band and choral facility. Future minimum rental commitments for operating leases as of June 30, 2011 are as follows:

Year Ended June 30,	Rent
2012	$ 3,000.00
2013	3,000.00
2014	1,500.00
	$ 7,500.00

The rent is due in equal semi-annual installments on or before the 1st of September and March ending September 1, 2013.

Miami Educational Facilities Authority
Notes to the Financial Statements
For the Year Ended June 30, 2011

II. Detailed Notes Concerning the Funds (continued)

F. Capital Lease Agreement (Ground Lease)

The Authority has entered into an agreement to lease the gymnasium/band and choral facility. Such agreements are, in substance, purchase (capital leases) and are reported as capital lease obligations.

The following schedule presents future minimum lease payments as of June 30, 2011:

Year Ended June 30,	Principal	Interest	Total Requirements
2012	$ -	$ -	$ -
2013	843,470.77	62,079.23	905,550.00
2014	1,657,305.63	20,444.37	1,677,750.00
	$ 2,500,776.40	$ 82,523.60	$ 2,583,300.00

The Authority leases the gymnasium/band and choral facility to the Miami Public Schools at an interest rate of 1.2%. The terms of this lease commenced on May 1, 2008 and extends to May 31, 2018 under the terms of the indenture and so long thereafter as long as any Bond shall remain outstanding and unpaid. Upon fulfilling the lease obligation, the Authority agrees to execute and deliver to the Miami Public Schools a deed or bill of sale, as appropriate, to convey legal title to the gymnasium/band and choral facility.

III. Other Information

A. Economic Dependence

During the fiscal year ended June 30, 2011, the Authority reported lease revenues of $3,000 pursuant to its lease agreement with the Miami Public Schools, Miami, Oklahoma. This amount represents 100% of the Authority's total operating revenues.

B. Related Party Information

The Miami Educational Facilities Authority chairman reported to also serve on the Board at The First National Bank & Trust Company of Miami, Oklahoma, which purchased some of the bonds used to finance the construction of the gymnasium/band and choral facility and maintains a checking account thereat.

C. Subsequent Events

Management has evaluated subsequent events through January 18, 2012, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

Miami Educational Facilities Authority
Schedule of Findings and Reponses
For the Year Ended June 30, 2011

2011-1 Material Weakness in Internal Control over Financial Reporting – Preparation of Financial Statements in Accordance with GAAP

Criteria:
The Authority's management is responsible for internal controls over financial reporting. This includes controls over the fair and complete presentation of the Authority's annual financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting). Professional audit standards clearly indicate that the external financial statement auditor cannot take responsibility for any part of management's control activities or be a component of the internal controls over financial reporting.

Condition:
As is the case with many smaller and medium-sized entities, the Authority has historically relied extensively on its independent external auditors to provide the necessary expertise to assist in the preparation of the financial statements and footnotes. However, management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting, even if the auditor assists in drafting the financial statements. Accordingly, the Authority's ability to prepare financial statements in accordance with GAAP is based, in part, on assistance from its external auditors, who cannot by definition be considered a part of the government's internal controls.

Cause:
Authority personnel do not possess formal knowledge, expertise, and education relative to preparing GAAP financial statements and related note disclosures without assistance from the external auditor or another outside source. Professional standards do not require that the management possess the expertise to prepare the financial statements and related note disclosures but to have the skills to understand them. As a result management was able to review the financial statements and related note disclosures and sufficiently understand them to take full responsibility for them as required by professional standards.

Effect or Potential Effect:
As a result of this condition, without assistance from its external auditors or another outside source, the Authority may lack the necessary internal controls over the preparation of financial statements in accordance with GAAP. This condition also places the auditor in a questionable position regarding auditor independence as a result of potentially performing part of management's functions.

Recommendation:
We recommend that the Authority consider designing and implementing sufficient internal controls over financial reporting by obtaining the necessary knowledge, expertise and continuing education to prepare financial statements in according to generally accepted accounting principles without assistance from the external financial statement auditor. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

Client Response:
Due to the limited transactions and limited resources of the Authority we need to continue to rely on external auditors.

Miami Educational Facilities Authority
Schedule of Findings and Reponses
For the Year Ended June 30, 2011

FINDINGS - FINANCIAL STATEMENT AUDIT

2011-2 Material Adjusting Journal Entries

Criteria:
The Authority's management is responsible for internal controls over accounting and financial reporting. This responsibility includes the design and implantation of controls over the fair and complete presentation of the Authority's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the government's accounting records. For trial balances to be both complete and accurate, the Authority must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balances required that are detected and corrected solely as a result of the financial statement audit. In other words, Authority management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal control, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that material misstatements will be detected and corrected in its trial balances prior to audit.

Condition:
The Authority's trial balances for the year ended June 30, 2011, required a material adjusting journal entry in order for the financial statements to be prepared in accordance with GAAP.

Cause:
The Authority's accounting and financial reporting staff did not record the $94,697.72 adjustment necessary to record the deferred gain from the capital lease.

Effect:
The unadjusted trial balance was materially misstated by the $94,697.72 in deferred gain.

Recommendation:
The Authority should ensure that all adjustments are made to the trial balance, including any deferrals.

Client Response:
We shall endeavor to reflect all adjustments on the trial balance.