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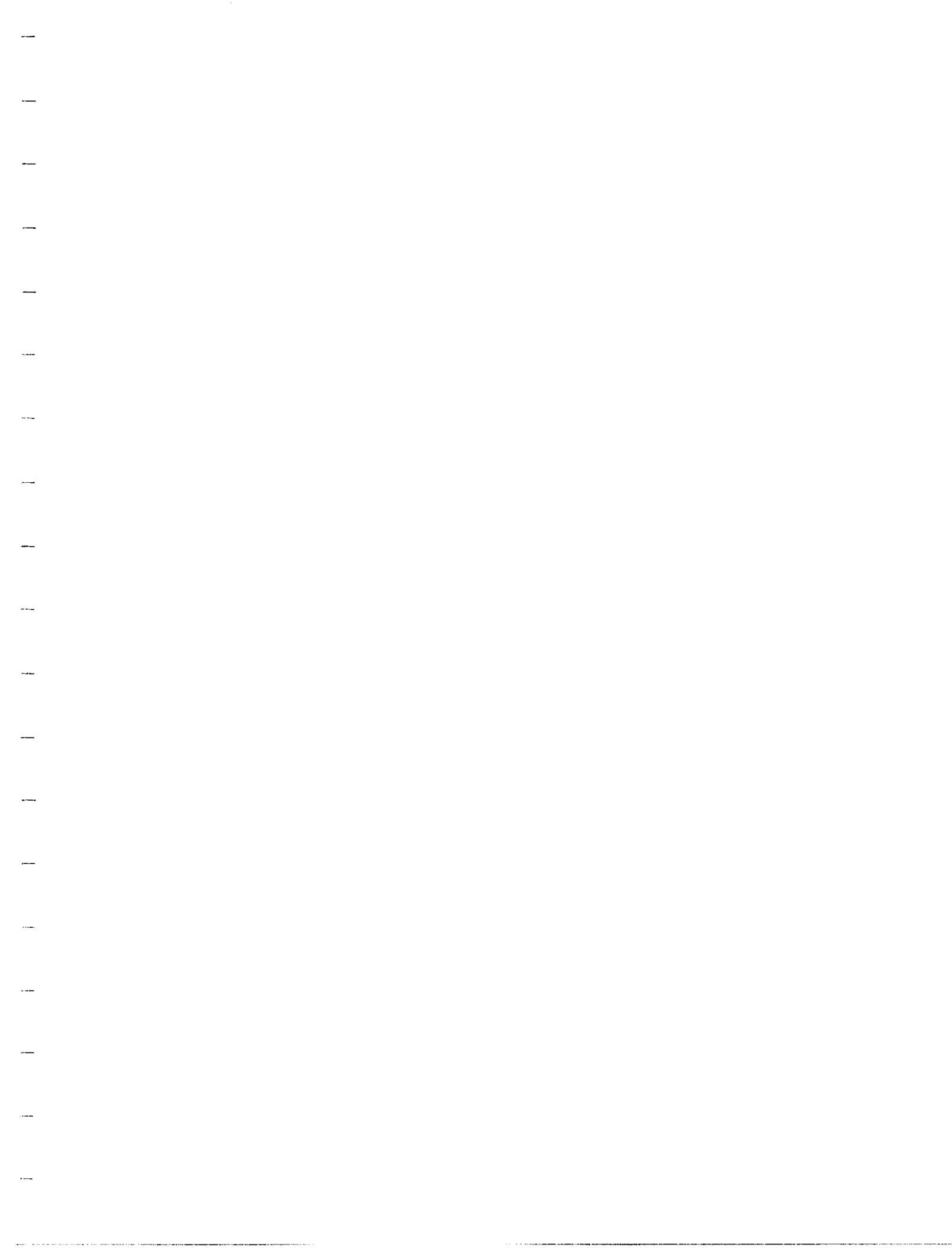
**Town of Duncan**  
Audit Report  
September 30, 2007

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STATE AUDITOR'S OFFICE

**Ellis & Hirsberg**  
Certified Public Accountants, PLLC  
Clarksdale, Mississippi



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## INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Aldermen  
Town of Duncan, Mississippi

We have audited the Combined Statements of Cash Receipts and Disbursements Governmental and Business-Type Activities of the Town of Duncan, Mississippi, as of and for the year ended September 30, 2007. This financial statement is the responsibility of the Town of Duncan, Mississippi's management. Our responsibility is to express an opinion on this financial statement 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 statement referred to above is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Combined Statements of Cash Receipts and Disbursements Governmental and Business-type Activities. 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 opinion.

As described more fully in Note 1, the Town of Duncan, Mississippi has prepared their financial statements using accounting practices recommended or permitted by the Mississippi State Department of Audit, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effect of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of each fund of the Town of Duncan, Mississippi as of September 30, 2007, or changes in financial position or cash flows thereof for the year then ended. Further, the Town has not presented management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although it is not a required part of the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balance of each fund of the Town of Duncan, Mississippi, as of September 30, 2007, and the respective cash receipts and disbursements, for the year then ended, on the basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming an opinion on the Combined Statements of Cash Receipts and Disbursements Governmental and Business-type Activities of the Town of Duncan, Mississippi taken as a whole. Schedules 1 - 3 are presented for the purposes of additional analysis and are not a required part of the financial statement. The information in those schedules has been subjected to the auditing procedures applied in the audit of the Combined Statements of Cash Receipts and Disbursements Governmental and Business-type Activities and, in our opinion, are fairly presented in all material respects in relation to the Combined Statements of Cash Receipts and Disbursements Governmental and Business-type Activities taken as a whole.

In accordance with *Government Auditing Standards* we have also issued a report dated April 2, 2008 on our consideration of the Town of Duncan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

April 2, 2008

*Ellis + Weinberg CPA PLLC*

**EXHIBIT A**

**TOWN OF DUNCAN, MISSISSIPPI  
 COMBINED STATEMENTS OF CASH RECEIPTS AND DISBURSEMENTS GOVERNMENTAL & BUSINESS-TYPE ACTIVITIES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	Governmental Activities Types			Total Memorandum Only	Business-type Activities	
	General Fund	Special Revenue			Water & Sewer Fund	
<b>REVENUE RECEIPTS</b>						
Ad valorem taxes - current	44,232.12			44,232.12		
Homestead reimbursement	2,626.07			2,626.07		
Franchise tax - utility	10,190.26			10,190.26		
Privilege license	175.00			175.00		
Intergovernmental revenues:						
State shared revenue:						
Sales tax	5,775.91			5,775.91		
Fire aid		2,735.23		2,735.23		
Municipal aid	301.27			301.27		
Gasoline tax	1,516.98			1,516.98		
Grand Gulf	3,177.34			3,177.34		
Charges for service:						
Water, sewer and drainage fees	12,967.82			12,967.82		61,818.44
Garbage				0.00		
						12,967.82

**EXHIBIT A**

**TOWN OF DUNCAN, MISSISSIPPI  
COMBINED STATEMENTS OF CASH RECEIPTS AND DISBURSEMENTS GOVERNMENTAL & BUSINESS-TYPE ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	Governmental Activities Types			Business-type Activities	
	General Fund	Special Revenue	Total (Memorandum Only)	Water & Sewer Fund	
Other receipts:					
Interest earned	295.53	91.73	387.26	481.79	
Delta Regional Authority / Rural Development Project		58,140.00	58,140.00		
Homeland Security Grant					
Miscellaneous	1,369.32		1,369.32	500.00	
Meter deposits - net			0.00	443.29	
<b>Total Receipts</b>	82,627.62	60,966.96	143,594.58	63,243.52	
Cash: Beginning of Year	30,252.32	11,781.33	42,033.65	58,849.89	
Total amount to account for	112,879.94	72,748.29	185,628.23	122,093.41	

**DISBURSEMENTS**

Financial & administrative	18,145.04	9,115.60
Salaries & wages	12,755.22	
Other services & charges		
Public safety - police		
Salaries & wages		9,115.60

**EXHIBIT A**

**TOWN OF DUNCAN, MISSISSIPPI  
COMBINED STATEMENTS OF CASH RECEIPTS AND DISBURSEMENTS GOVERNMENTAL & BUSINESS-TYPE ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	Governmental Activities Types			Total (Memorandum Only)	Business-type Activities	
	General Fund	Special Revenue			Water & Sewer Fund	
Public safety - fire						
Other services & charges	1,731.12	100.00		1,831.12		
Public property						
Streets & structures						
Street lights	8,486.80			8,486.80		
Sanitation	14,087.98			14,087.98		
Beautification	2,250.03			2,250.03		
Housing						
Insurance	11,533.85			11,533.85		
Water & sewer						
Salaries & wages				0.00	10,764.49	
Other services and charges				0.00	35,949.02	
Note payments - Capmark Financial Services, Inc.				0.00	13,344.00	
Other Financing Sources (Uses)						
Delta Regional Authority / Rural Development Project		30,133.00		30,133.00		
Total Disbursements	78,105.64	30,233.00		108,338.64		60,057.51

**EXHIBIT A**

**TOWN OF DUNCAN, MISSISSIPPI  
COMBINED STATEMENTS OF CASH RECEIPTS AND DISBURSEMENTS GOVERNMENTAL & BUSINESS-TYPE ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	Governmental Activities Types			Total	Business-type Activities
	General Fund	Special Revenue	(Memorandum Only)		Water & Sewer Fund
Cash: End of Year	34,774.30	42,515.29	77,289.59	62,035.90	
Total Amount Accounted For	112,879.94	72,748.29	185,628.23	122,093.41	

The notes to the financial statements are an integral part of this statement.

**TOWN OF DUNCAN, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENT  
FOR YEAR ENDED SEPTEMBER 30, 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The Town of Duncan operates under a Mayor-Board of Aldermen form of government. The Town has an approximate population of 800. The accounting policies of the Town of Duncan conform to the laws of Mississippi for a municipality with a population of less than 3,000. The following is a summary of the more significant policies.

**Reporting Entity** - This report includes all of the funds and account groups of the Town of Duncan. The Town has developed criteria to determine whether outside agencies or authorities with activities which benefit the citizens of the Town should be included within its financial reporting entity. The criteria include, but are not limited to, whether the Town exercises oversight responsibility on financial inter-dependency, selection of governing authority, and accountability for fiscal matter, scope of public service and special financing relationships. No component unit was identified for inclusion or potential inclusion utilizing the criteria indicated.

**Basis of Presentation - Fund Accounting** - The accounts of the Town of Duncan are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. Each fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures/expenses. The individual funds account for the governmental resources allocated to them for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions.

**Basis of Accounting** - All governmental and proprietary funds are accounted for using the cash receipts and disbursements basis of accounting, as recommended by the Mississippi State Department of Audit. This basis of accounting differs from accounting principles generally accepted in the United States of America in that revenues are recognized when received rather than when measurable and available as net current assets and expenditures are generally recognized when the related fund expense is disbursed rather than when the related fund liability is incurred. Consequently, these financial statements are not intended to present financial position or results of operations in accordance with accounting principles generally accepted in the United States of America. Financial statements issued following accounting principles generally accepted in the United States of America normally contain Government-wide Financial Statements, Fund Financial Statements, Management Discussion and Analysis (MD&A), and other supplemental information.

The following funds and groups of accounts are used by the Town:

**Governmental Fund Types:**

**General Fund** - This fund is established to account for resources devoted to financing the general services that the Town performs for its citizens, including the servicing of general long-term debt (debt service funds). General tax revenues and other sources of revenue used to finance the

**TOWN OF DUNCAN, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENT  
FOR YEAR ENDED SEPTEMBER 30, 2007**

fundamental operations of the Town are included in this fund. The fund is charged with all cost of operating the government for which a separate fund has not been established.

**Special Revenue Fund** - The Special Revenue Fund is used to account for revenue sources that are legally restricted to expenditures for specific purposes.

**Proprietary Fund Types:**

**Enterprise Funds** - These funds account for operations that are organized to be self-supporting through user charges. Included in this category is the Water and Sewer Fund.

**Budgetary Data** - Formal budgetary accounting is employed as a management control for all funds of the Town. Annual operating budgets are adopted each fiscal year through passage of an annual budget ordinance and amended as required for governmental and proprietary funds. For governmental funds, receipts are budgeted on the cash basis.

Expenditures are budgeted on the modified cash basis of accounting. This is consistent with the applicable laws of Mississippi for municipalities. Budgets for Special Revenue Funds are made on a project basis, spanning more than one fiscal year. Budgetary control is exercised at the departmental level or by projects.

All unencumbered budget appropriations, except special revenue project budgets, lapse at the end of each fiscal year.

**Cash** - Cash in excess of current requirements is invested in various interest-bearing bank deposits.

**Property Tax Revenues** - Property taxes are levied on January 1 based on the assessed value of property per the County Tax Bills. Assessed values are an approximation of market value.

Property taxes are recognized as revenue when they are received.

**Encumbrances** - The Town of Duncan does not use encumbrance accounting.

**Total Columns** - The Combined Statements of Cash Receipts and Disbursements, Governmental and Business-type Activities includes a total column that is described as memorandum only. Data in this column does not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Interfund transactions have not been eliminated from the total column of this financial statement.

**TOWN OF DUNCAN, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENT  
FOR YEAR ENDED SEPTEMBER 30, 2007**

**NOTE 2 - PROPERTY TAXES:**

Property taxes attach as an enforceable lien as of February 1.

The Town used a tax levy in 2007 of 43 mills on assessed valuation for taxing property within the incorporated boundaries. The Town utilized the county tax rolls and values in assessing the ad valorem taxes on real and personal property within the Town boundaries. The Town bills and collects its own property taxes except for the personal auto taxes that are collected and remitted to the Town by the Bolivar County tax collector.

Property for which ad valorem taxes have not been paid is advertised for sale in April of each year. Property not sold at the auction is purchased by the State of Mississippi. Since unpaid ad valorem taxes at year end are usually not collected within the 60 day period following the close of the Town's fiscal year, delinquent property taxes are not recorded as a receivable on the books of the Town.

**NOTE 3 - CASH AND OTHER DEPOSITS:**

The collateral for public entities' deposits in financial institutions is now held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

The carrying amount of the Town's deposits with financial institutions was \$139,391.99 and the bank balance was \$139,325.49. The bank balance is categorized as follows:

Amount insured or collateralized with securities held by the Town or its agent in the Town's name	<u>139,325.49</u>
Total Bank Balance	<u>139,325.49</u>

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the Town will not be able to recover deposits or collateral securities that are in the possession of an outside party. The Town does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the Town. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the town. As of September 30, 2007, none of the Town's bank balances of \$139,325.49 was exposed to custodial credit risk.

**TOWN OF DUNCAN, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENT  
FOR YEAR ENDED SEPTEMBER 30, 2007**

**NOTE 4 - LONG-TERM DEBT:**

Transactions of the long-term debt group of accounts are shown in Schedule 1. The following schedule reflects the debt service requirements of the general obligation debt and revenue debt contained in the schedule of long-term debt for the next five years and thereafter:

Revenue Obligation

Note Payable to Capmark Financial Services, Inc.

Interest Rate 5%

Balance 9/30/06 100,578.40

<u>FYE</u>	<u>Revenue Obligation</u>		<u>Totals</u>
	<u>Principal</u>	<u>Interest</u>	
	<u>Capmark Financial Services, Inc.</u>		
2008	8,589	4,755	13,344
2009	9,029	4,315	13,344
2010	9,514	3,830	13,344
2011	9,976	3,368	13,344
2012 - 2016	<u>63,470</u>	<u>8,675</u>	<u>72,145</u>
Totals	<u>100,578</u>	<u>24,943</u>	<u>125,521</u>

Interest expense for the year was \$8,171.32.

There are a number of limitations and restrictions contained in the revenue bond ordinance. There are requirements that a reserve account be maintained as follows:

	<u>Amount of Reserve Requirement At 9-30-07</u>
Note Payable Capmark Financial Services, Inc.	
Bond Reserve	4,984.00
Bond Contingent	2,492.00
Bond Depreciation	<u>2,492.00</u>
Total	<u>9,968.00</u>

**TOWN OF DUNCAN, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENT  
FOR YEAR ENDED SEPTEMBER 30, 2007**

As of September 30, 2007, restricted cash for the specific obligation described above and reserves for future uses is maintained in the Enterprise Fund in the amount of \$9,968.

**NOTE 5 - RISK MANAGEMENT**

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors, and omissions; injuries to employees; and natural disasters. Except as described below, the Town carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Participation in Public Entity Risk Pool.**

The Town is a member of the Mississippi Municipal Workers' Compensation Group (MMWCG). The group is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. MMWCG covers risks of loss arising from injuries to the Town's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of the MMWCG contributes quarterly to a fund held in trust. The trust pays statutory amounts. The funds in the trust account are used to pay any claim up to \$750,000 for police and fire fighters and \$500,000 on all others. For a claim exceeding \$750,000 for police and fire fighters and \$500,000 on all others, MMWCG has reinsurance. If total claims during a year were to deplete the trust account, then the pool members would be required to pay for the deficiencies. The Town has not had an additional assessment for excess losses incurred by the pool.

The Town is a member of the Mississippi Municipal Liability Plan (MMLP). This is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. MMLP covers liability claims against the Town. Each member of the MMLP contributes to a fund held in trust account. The funds held in the trust account are used to pay claims of \$500,000 for torts and \$1,000,000 on federal claims. The Town has not had an additional assessment for excess losses.

**NOTE 6 - DELTA REGIONAL AUTHORITY**

The Town has received a Delta Regional Authority grant to do sewer repairs. During the current period the Town received \$58,140 and spent \$30,133 on this project.

**NOTE 7 - SUBSEQUENT EVENTS**

The Board of Aldermen voted to pay the Bolivar County tax collector three percent of collections to collect and remit the Town's ad valorem tax.

At the September 2007 board meeting water rates were increased. This increase will be effective for the year beginning October 31, 2007.

**TOWN OF DUNCAN, MISSISSIPPI  
SCHEDULE OF LONG-TERM DEBT  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

<u>Definitions &amp; Purpose</u>	<u>Balance Outstanding 10-1-06</u>	<u>Transactions During Fiscal Year</u>		<u>Balance Outstanding 9-30-07</u>
		<u>Issued</u>	<u>Redeemed</u>	
Other Long-Term Debt				
Capmark Financial Services, Inc.	<u>108,749.72</u>	<u>          </u>	<u>8,171.32</u>	<u>100,578.40</u>
	<u>108,749.72</u>	<u>          </u>	<u>8,171.32</u>	<u>100,578.40</u>

**TOWN OF DUNCAN, MISSISSIPPI  
SCHEDULE OF SURETY BONDS FOR TOWN OFFICIALS  
SEPTEMBER 30, 2007**

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Bond</u>
Charles Harvey	Mayor	St. Paul Insurance	25,000.00
Thomas Boschert	Town Clerk	Union Standard	50,000.00
Charles H. Griffin, Jr.	Police Chief	CNA Surety	50,000.00
Shirley Reddies	Alderman	MS Muni Bond Program	3,000.00
Erma C. Lee	Alderman	MS Muni Bond Program	3,000.00
Roy Caston	Alderman	MS Muni Bond Program	3,000.00
Lynn Sutton McMurchy	Alderman	MS Muni Bond Program	3,000.00
Kerry S. Coffey	Alderman	MS Muni Bond Program	3,000.00

**TOWN OF DUNCAN, MISSISSIPPI**  
**SCHEDULE OF BUDGET AND ACTUAL EXPENSES - CASH BASIS**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

	Budget	Actual	Budget Variance Favorable (Unfavorable)
Franchise Tax	8,000.00	10,190.26	2,190.26
Misc. W-S	1,900.00	2,067.00	167.00
Miscellaneous	18,000.00	18,848.73	848.73
Municipal Aid	1,800.00	1,818.25	18.25
Privilege Taxes	150.00	175.00	25.00
Property Taxes	48,284.00	44,257.57	(4,026.43)
Sales Taxes	4,700.00	5,775.91	1,075.91
Sanitation Fees	11,324.00	12,967.82	1,643.82
Sewer Use Fees	21,000.00	21,365.26	365.26
State Fire Aid	2,400.00	2,826.96	426.96
Water Revenue	46,000.00	46,736.10	736.10
<u>Total of Income</u>	163,558.00	167,028.86	3,470.86
Admin. - Tel. Calls	600.00	350.00	250.00
Audit	2,255.00	1,725.00	530.00
Beautification Supplies & Repairs	2,600.00	1,661.08	938.92
Beautification Salaries	3,000.00	1,652.13	1,347.87
Fire Department - Sundry Expense	2,400.00	1,791.12	608.88
Insurance	9,000.00	9,105.49	(105.49)
Miscellaneous	15,643.00	11,796.48	3,846.52
Office Supply	1,000.00	490.96	509.04
Police Salaries	9,600.00	9,115.60	484.40
Police Supplies	150.00	120.00	30.00
Publications	210.00	85.56	124.44
Salaries - Administrative	20,000.00	18,045.04	1,954.96
Sanitation Landfill	9,000.00	8,419.92	580.08
Sanitation Salaries	4,500.00	3,545.82	954.18
Sanitation Supplies & Repairs	3,000.00	1,365.65	1,634.35
Street Lights	9,500.00	8,486.80	1,013.20
Supplies & Utilities	2,200.00	757.03	1,442.97
Sewer Chemicals	100.00	164.53	(64.53)

**TOWN OF DUNCAN, MISSISSIPPI**  
**SCHEDULE OF BUDGET AND ACTUAL EXPENSES - CASH BASIS**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

	<u>Budget</u>	<u>Actual</u>	Budget Variance Favorable <u>(Unfavorable)</u>
Sewer Lab Analysis	600.00	430.63	169.37
Sewer Maintenance Repairs	7,500.00	6,312.96	1,187.04
Sewer Maintenance Salaries	6,400.00	6,402.31	(2.31)
Sewer Utilities	3,600.00	3,314.95	285.05
W-S Insurance	2,000.00	1,200.00	800.00
Water - Sewer Administrative	8,700.00	9,305.52	(605.52)
Water - Sewer Sundry	3,500.00	3,192.75	307.25
Water System Chemicals	1,800.00	1,366.25	433.75
Water System Maintenance	5,100.00	4,500.00	600.00
Water System Note	13,344.00	13,344.00	0.00
Water System Salaries	6,100.00	6,387.24	(287.24)
Water System Sales Tax	740.00	625.00	115.00
Water System Utilities	4,100.00	4,117.47	(17.47)
Water System Supplies & Repairs	<u>5,316.00</u>	<u>4,875.51</u>	<u>440.49</u>
 <u>Total of Expenses</u>	 <u>163,558.00</u>	 <u>144,052.80</u>	 <u>19,505.20</u>
 <u>Total of Income Minus Expenses</u>	 <u>0.00</u>	 <u>22,976.06</u>	 <u>22,976.06</u>

**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 Mayor and Aldermen  
Town of Duncan, Mississippi

We have audited the Combined Statements of Cash Receipts and Disbursements, Governmental and Business-type Activities of the Town of Duncan, Mississippi as of and for the year ended September 30, 2007, and have issued our report thereon dated April 2, 2008. Our report differed from the standard report due to the basis of accounting. All governmental and proprietary funds contained in this report are accounted for using the cash receipts and disbursements basis of accounting, as recommended by the Mississippi State Department of Audit. This basis of accounting differs from generally accepted accounting principles in that revenues are recognized when received rather than when measurable and available as net current assets and expenditures are generally recognized when the related fund expense is disbursed rather than when the related fund liability is incurred. Consequently, these financial statements are not intended to present financial position or results of operations in accordance with generally accepted accounting principles. Financial statements issued following accounting principles generally accepted in the United States of America normally contain Government-Wide Financial Statements, Fund Financial Statements, Management Discussion and Analysis (MD&A), and other Supplemental Information. 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 Town'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 Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control. We consider the deficiency described in the accompanying Schedule of Findings as Finding 2007-01 to be a significant deficiency in internal control over financial reporting.

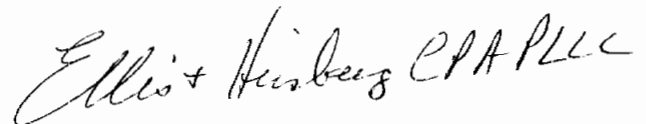
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in their internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above in Finding 2007-01 to be a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Duncan's Combined Statements of Cash Receipts and Disbursements, Governmental and Business-type Activities is 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 did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Town board and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



April 2, 2008

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
STATE LAWS AND REGULATIONS**

Honorable Mayor and Aldermen  
Town of Duncan, Mississippi

We have audited the Combined Statements of Cash Receipts and Disbursements, Governmental and Business-type Activities of the Town of Duncan, Mississippi as of and for the year ended September 30, 2007, and have issued our report thereon dated April 2, 2008. Our report differed from the standard report due to the basis of accounting. All governmental and proprietary funds contained in this report are accounted for using the cash receipts and disbursements basis of accounting, as recommended by the Mississippi State Department of Audit. This basis of accounting differs from generally accepted accounting principles in that revenues are recognized when received rather than when measurable and available as net current assets and expenditures are generally recognized when the related fund expense is disbursed rather than when the related fund liability is incurred. Consequently, these financial statements are not intended to present financial position or results of operations in accordance with generally accepted accounting principles. Financial statements issued following accounting principles generally accepted in the United States of America normally contain Government-Wide Financial Statements, Fund Financial Statements, Management Discussion and Analysis (MD&A), and other Supplemental Information. 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.

We have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

In connection with our audit, nothing came to our attention that caused us to believe that the Town of Duncan, Mississippi had not complied with the requirements of the Office of the State Auditor as set forth in the Municipal Compliance Questionnaire and other state laws and regulations.

This report is intended for the information of the Mayor and Board of Aldermen and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

April 2, 2008

*Ellis & Hirsberg CPA PLLC*

**TOWN OF DUNCAN, MISSISSIPPI  
SCHEDULE OF FINDINGS  
SEPTEMBER 30, 2007**

2007-01      Finding:

There is a lack of segregation of duties in the Town Clerk's office. Internal accounting controls of the Town of Duncan are inadequate because of a lack of segregation of duties due to limited personnel and limited funding. Good internal controls call for the segregation of duties between the performance, approval and record keeping of a transaction. This finding was reported in the prior year.

Recommendation:

An evaluation of the internal control structure of the Town of Duncan, Mississippi to determine a workable and economically feasible improvement in the internal control structure.

Response:

The Town of Duncan, Mississippi is unable to hire additional employees to properly segregate duties due to the limited funding resources of a small municipality.