

The	Governing Board Mayor and Board of Commissioners
of	Primary Government Unit Town of Sylva, North Carolina
and	Discretely Presented Component Unit (DPCU) (if applicable)

Primary Government Unit, together with DPCU (if applicable), hereinafter referred to as Governmental Unit(s)

and	Auditor Name Sheila Gahagan CPA
	Auditor Address 229 Penland Street, Clyde NC 28721

Hereinafter referred to as Auditor

for	Fiscal Year Ending 06/30/25	Date Audit Will Be Submitted to LGC 10/31/25
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Must be within six months of FYE

hereby agree as follows:

1. The Auditor shall audit all statements and disclosures required by U.S. generally accepted auditing standards (GAAS) and additional required legal statements and disclosures of all funds and/or divisions of the Governmental Unit(s). The non-major combining, and individual fund statements and schedules shall be subjected to the auditing procedures applied in the audit of the basic financial statements and an opinion shall be rendered in relation to (as applicable) the governmental activities, the business-type activities, the aggregate DPCUs, each major governmental and enterprise fund, and the aggregate remaining fund information (non-major government and enterprise funds, the internal service fund type, and the fiduciary fund types). The basic financial statements shall include budgetary comparison information in a budgetary comparison statement, rather than as RSI, for the General Fund and any annually budgeted Special Revenue funds.

2. At a minimum, the Auditor shall conduct the audit and render the report in accordance with GAAS. If the Governmental Unit expended \$100,000 or more in combined Federal and State financial assistance during the reporting period, the Auditor shall perform the audit in accordance with *Government Auditing Standards* (GAGAS). The Governmental Unit is subject to federal single audit requirements in accordance with Title 2 US Code of Federal Regulations Part 200 *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Subpart F (*Uniform Guidance*) and the State Single Audit Implementation Act. Currently the threshold is \$750,000 for a federal single audit and \$500,000 for a State Single Audit. This audit and all associated audit documentation may be subject to review by Federal and State agencies in accordance with Federal and State laws, including the staffs of the Office of State Auditor (OSA) and the Local Government Commission (LGC). If the audit requires a federal single audit in accordance with the Uniform Guidance (§200.501) the Auditor and Governmental Unit(s) should discuss, in advance of the execution of this contract, the responsibility for submission of the audit and the accompanying data collection form to the Federal Audit Clearinghouse as required under the Uniform Guidance (§200.512) to ensure proper submission.

Effective for audits of fiscal years beginning on or after June 30, 2023, the LGC will allow auditors to consider whether a unit qualifies as a State low-risk auditee. Please refer to "Discussion of Single Audits in North Carolina" on the LGC's website for more information.

If the audit and Auditor communication are found in this review to be substandard, the results of the review may be forwarded to the North Carolina State Board of CPA Examiners (NC State Board).

3. If an entity is determined to be a component of another government as defined by the group audit standards, the entity's auditor shall make a good faith effort to comply in a timely manner with the requests of the group auditor in accordance with AU-6 §600.41 - §600.42.

4. This contract contemplates an unmodified opinion being rendered. If during the process of conducting the audit, the Auditor determines that it will not be possible to render an unmodified opinion on the financial statements of the unit, the Auditor shall contact the LGC Staff to discuss the circumstances leading to that conclusion as soon as is practical and before the final report is issued. The audit shall include such tests of the accounting records and such other auditing procedures as are considered by the Auditor to be necessary in the circumstances. Any limitations or restrictions in scope which would lead to a qualification should be fully explained in an attachment to this contract.

5. If this audit engagement is subject to the standards for audit as defined in *Government Auditing Standards*, 2018 revision, issued by the Comptroller General of the United States, then by accepting this engagement, the Auditor warrants that he/she has met the requirements for a peer review and continuing education as specified in *Government Auditing Standards*. The Auditor agrees to provide a copy of the most recent peer review report to the Governmental Unit(s) and the Secretary of the LGC prior to the execution of an audit contract. Subsequent submissions of the report are required only upon report expiration or upon auditor's receipt of an updated peer review report. If the audit firm received a peer review rating other than pass, the Auditor shall not contract with the Governmental Unit(s) without first contacting the Secretary of the LGC for a peer review analysis that may result in additional contractual requirements.

If the audit engagement is not subject to *Government Auditing Standards* or If financial statements are not prepared in accordance with U.S. generally accepted accounting principles (GAAP) and fail to include all disclosures required by GAAP, the Auditor shall provide an explanation as to why in an attachment to this contract or in an amendment.

6. It is agreed that time is of the essence in this contract. All audits are to be performed and the report of audit submitted to LGC Staff within six months of fiscal year end. If it becomes necessary to amend the audit fee or the date that the audit report will be submitted to the LGC, an amended contract along with a written explanation of the change shall be submitted to the Secretary of the LGC for approval.

7. It is agreed that GAAS include a review of the Governmental Unit's (Units') systems of internal control and accounting as same relate to accountability of funds and adherence to budget and law requirements applicable thereto; that the Auditor shall make a written report, which may or may not be a part of the written report of audit, to the Governing Board setting forth his/her findings, together with his recommendations for improvement. That written report shall include all matters defined as "significant deficiencies and material weaknesses" in AU-C 265 of the *AICPA Professional Standards (Clarified)*. The Auditor shall file a copy of that report with the Secretary of the LGC.

For GAAS or *Government Auditing Standards* audits, if an auditor issues an AU-C §260 report, commonly referred to as "Governance Letter," LGC staff does not require the report to be submitted unless the auditor cites significant findings or issues from the audit, as defined in AU-C §260.12 - .14. This would include issues such as difficulties encountered during the audit, significant or unusual transactions, uncorrected misstatements, matters that are difficult or contentious reviewed with those charged with governance, and other significant matters. If matters identified during the audit were required to be reported as described in AU-C §260.12-.14 and were communicated in a method other than an AU-C §260 letter, the written documentation must be submitted.

8. All local government and public authority contracts for audit or audit-related work require the approval of the Secretary of the LGC. This includes annual or special audits, agreed upon procedures related to internal controls, bookkeeping or other assistance necessary to prepare the Governmental Unit's records for audit, financial statement preparation, any finance-related investigations, or any other audit-related work in the State of North Carolina. Approval is also required for the Alternative Compliance Examination Engagement for auditing the Coronavirus State and Local Fiscal Recovery Funds expenditures as allowed by US Treasury. Approval is not required on audit contracts and invoices for system improvements and similar services of a non-auditing nature.
9. Invoices for services rendered under these contracts shall not be paid by the Governmental Unit(s) until the invoice has been approved by the Secretary of the LGC. This also includes any progress billings [G.S. 159-34 and 115C-447]. All invoices for audit work shall be submitted in PDF format to the Secretary of the LGC for approval. The invoice marked 'approved' with approval date shall be returned to the Auditor to present to the Governmental Unit(s) for payment. This paragraph is not applicable to contracts for audits of hospitals.
10. In consideration of the satisfactory performance of the provisions of this contract, the Governmental Unit(s) shall pay to the Auditor, upon approval by the Secretary of the LGC if required, the fee, which includes any costs the Auditor may incur from work paper or peer reviews or any other quality assurance program required by third parties (federal and state grantor and oversight agencies or other organizations) as required under the Federal and State Single Audit Acts. This does not include fees for any pre-issuance reviews that may be required by the NC Association of CPAs (NCACPA) Peer Review Committee or NC State Board of CPA Examiners (see Item 13).
11. If the Governmental Unit(s) has/have outstanding revenue bonds, the Auditor shall submit to LGC Staff, either in the notes to the audited financial statements or as a separate report, a calculation demonstrating compliance with the revenue bond rate covenant. Additionally, the Auditor shall submit to LGC Staff simultaneously with the Governmental Unit's (Units') audited financial statements any other bond compliance statements or additional reports required by the authorizing bond documents, unless otherwise specified in the bond documents.
12. After completing the audit, the Auditor shall submit to the Governing Board a written report of audit. This report shall include, but not be limited to, the following information: (a) Management's Discussion and Analysis, (b) the financial statements and notes of the Governmental Unit(s) and all of its component units prepared in accordance with GAAP, (c) supplementary information requested by the Governmental Unit(s) or required for full disclosure under the law, and (d) the Auditor's opinion on the material presented. The Auditor shall furnish the required number of copies of the report of audit to the Governing Board upon completion.
13. If the audit firm is required by the NC State Board, the NCACPA Peer Review Committee, or the Secretary of the LGC to have a pre-issuance review of its audit work, there shall be a statement in the engagement letter indicating the pre-issuance review requirement. There also shall be a statement that the Governmental Unit(s) shall not be billed for the pre-issuance review. The pre-issuance review shall be performed prior to the completed audit being submitted to LGC Staff. The pre-issuance review report shall accompany the audit report upon submission to LGC Staff.

14. The Auditor shall submit the report of audit in PDF format to LGC Staff. For audits of units other than hospitals, the audit report should be submitted when (or prior to) submitting the final invoice for services rendered. The report of audit, as filed with the Secretary of the LGC, becomes a matter of public record for inspection, review and copy in the offices of the LGC by any interested parties. Any subsequent revisions to these reports shall be sent to the Secretary of the LGC. These audited financial statements, excluding the Auditors' opinion, may be used in the preparation of official statements for debt offerings by municipal bond rating services to fulfill secondary market disclosure requirements of the Securities and Exchange Commission and for other lawful purposes of the Governmental Unit(s) without requiring consent of the Auditor. If the LGC Staff determines that corrections need to be made to the Governmental Unit's (Units') financial statements and/or the compliance section, those corrections shall be provided within three business days of notification unless another deadline is agreed to by LGC Staff.

15. Should circumstances disclosed by the audit call for a more detailed investigation by the Auditor than necessary under ordinary circumstances, the Auditor shall inform the Governing Board in writing of the need for such additional investigation and the additional compensation required therefore. Upon approval by the Secretary of the LGC, this contract may be modified or amended to include the increased time, compensation, or both as may be agreed upon by the Governing Board and the Auditor.

16. If an approved contract needs to be modified or amended for any reason, the change shall be made in writing and pre-audited if the change includes a change in audit fee (pre-audit requirement does not apply to hospitals). This amended contract shall be completed in full, including a written explanation of the change, signed and dated by all original parties to the contract. It shall then be submitted to the Secretary of the LGC for approval. No change to the audit contract shall be effective unless approved by the Secretary of the LGC.

17. A copy of the engagement letter, issued by the Auditor and signed by both the Auditor and the Governmental Unit(s), shall be attached to this contract, and except for fees, work, and terms not related to audit services, shall be incorporated by reference as if fully set forth herein as part of this contract. In case of conflict between the terms of the engagement letter and the terms of this contract, the terms of this contract shall take precedence. Engagement letter terms that conflict with the contract are deemed to be void unless the conflicting terms of this contract are specifically deleted in Item 30 of this contract. Engagement letters containing indemnification clauses shall not be accepted by LGC Staff.

18. Special provisions should be limited. Please list any special provisions in an attachment.

19. A separate contract should not be made for each division to be audited or report to be submitted. If a DPCU is subject to the audit requirements detailed in the Local Government Budget and Fiscal Control Act and a separate audit report is issued, a separate audit contract is required. If a separate report is not to be issued and the DPCU is included in the primary government audit, the DPCU shall be named along with the primary government on this audit contract. DPCU Board approval date, signatures from the DPCU Board chairman and finance officer also shall be included on this contract.

20. The contract shall be executed, pre-audited (pre-audit requirement does not apply to hospitals), and physically signed by all parties including Governmental Unit(s) and the Auditor, then submitted in PDF format to the Secretary of the LGC.

21. The contract is not valid until it is approved by the Secretary of the LGC. The staff of the LGC shall notify the Governmental Unit and Auditor of contract approval by email. The audit should not be started before the contract is approved.

22. Retention of Client Records: Auditors are subject to the NC State Board of CPA Examiners' Retention of Client Records Rule 21 NCAC 08N .0305 as it relates to the provision of audit and other attest services, as well as non-attest services. Clients and former clients should be familiar with the requirements of this rule prior to requesting the return of records.

23. This contract may be terminated at any time by mutual consent and agreement of the Governmental Unit(s) and the Auditor, provided that (a) the consent to terminate is in writing and signed by both parties, (b) the parties have agreed on the fee amount which shall be paid to the Auditor (if applicable), and (c) no termination shall be effective until approved in writing by the Secretary of the LGC.

24. The Governmental Unit's (Units') failure or forbearance to enforce, or waiver of, any right or an event of breach or default on one occasion or instance shall not constitute the waiver of such right, breach or default on any subsequent occasion or instance.

25. There are no other agreements between the parties hereto and no other agreements relative hereto that shall be enforceable unless entered into in accordance with the procedure set out herein and approved by the Secretary of the LGC.

26. E-Verify. Auditor shall comply with the requirements of NCGS Chapter 64 Article 2. Further, if Auditor utilizes any subcontractor(s), Auditor shall require such subcontractor(s) to comply with the requirements of NCGS Chapter 64, Article 2.

27. **Applicable to audits with fiscal year ends of June 30, 2020 and later.** For all non-attest services, the Auditor shall adhere to the Independence rules of the AICPA Professional Code of Conduct and *Government Auditing Standards, 2018 Revision* (as applicable). Preparing financial statements in their entirety shall be deemed a "significant threat" requiring the Auditor to apply safeguards sufficient to reduce the threat to an acceptable level. If the Auditor cannot reduce the threats to an acceptable level, the Auditor cannot complete the audit. If the Auditor is able to reduce the threats to an acceptable level, the documentation of this determination, including the safeguards applied, must be included in the audit workpapers.

All non-attest service(s) being performed by the Auditor that are necessary to perform the audit must be identified and included in this contract. The Governmental Unit shall designate an individual with the suitable skills, knowledge, and/or experience (SKE) necessary to oversee the services and accept responsibility for the results of the services performed. If the Auditor is able to identify an individual with the appropriate SKE, s/he must document and include in the audit workpapers how he/she reached that conclusion. If the Auditor determines that an individual with the appropriate SKE cannot be identified, the Auditor cannot perform both the non-attest service(s) and the audit. See "Fees for Audit Services" page of this contract to disclose the person identified as having the appropriate SKE for the Governmental Unit.

28. **Applicable to audits with fiscal year ends of June 30, 2021 and later.** The auditor shall present the audited financial statements including any compliance reports to the government unit's governing body or audit committee in an official meeting in open session as soon as the audited financial statements are available but not later than 45 days after the submission of the audit report to the Secretary. The auditor's presentation to the government unit's governing body or audit committee shall include:

- a) the description of each finding, including all material weaknesses and significant deficiencies, as found by the auditor, and any other issues related to the internal controls or fiscal health of the government unit as disclosed in the management letter, the Single Audit or Yellow Book reports, or any other communications from the auditor regarding internal controls as required by current auditing standards set by the Accounting Standards Board or its successor;
- b) the status of the prior year audit findings;
- c) the values of Financial Performance Indicators based on information presented in the audited financial statements; and
- d) notification to the governing body that the governing body shall develop a "Response to the Auditor's Findings, Recommendations, and Fiscal Matters," if required under 20 NCAC 03 .0508.

29. Information based on the audited financial statements shall be submitted to the Secretary for the purpose of identifying Financial Performance Indicators and Financial Performance Indicators of Concern. See 20 NCAC 03 .0502(c)(6).

30. All of the above paragraphs are understood and shall apply to this contract, except the following numbered paragraphs shall be deleted (See Item 17 for clarification).

31. The process for submitting contracts, audit reports and invoices is subject to change. Auditors and units should use the submission process and instructions in effect at the time of submission. Refer to the N.C. Department of State Treasurer website at <https://www.nctreasurer.com/state-and-local-government-finance-division/local-government-commission/submitting-your-audit>

32. All communications regarding audit contract requests for modification or official approvals will be sent to the email addresses provided on the signature pages that follow.

33. Modifications to the language and terms contained in this contract form (LGC-205) are not allowed.

FEES FOR AUDIT SERVICES

1. For all non-attest services, the Auditor shall adhere to the independence rules of the AICPA Professional Code of Conduct (as applicable) and *Government Auditing Standards, 2018 Revision*. Refer to Item 27 of this contract for specific requirements. The following information must be provided by the Auditor; contracts presented to the LGC without this information will not be approved.

Financial statements were prepared by: ☒ Auditor ☐ Governmental Unit ☐ Third Party

If applicable: Individual at Governmental Unit designated to have the suitable skills, knowledge, and/or experience (SKE) necessary to oversee the non-attest services and accept responsibility for the results of these services:

Name:

Title and Unit / Company:

Email Address:

Lynn Bryant

Finance Officer

lbryant@townofsylva.org

OR Not Applicable ☐ (Identification of SKE Individual on the LGC-205 Contract is not applicable for GAAS-only audits or audits with FYEs prior to June 30, 2020.)

2. Fees may not be included in this contract for work performed on Annual Financial Information Reports (AFIRs), Form 990s, or other services not associated with audit fees and costs. Such fees may be included in the engagement letter but may not be included in this contract or in any invoices requiring approval of the LGC. See Items 8 and 13 for details on other allowable and excluded fees.

3. The audit fee information included in the table below for both the Primary Government Fees and the DPCU Fees (if applicable) should be reported as a specific dollar amount of audit fees for the year under this contract. If any language other than an amount is included here, the contract will be returned to the audit form for correction.

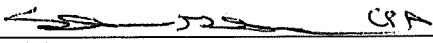
4. Prior to the submission of the completed audited financial report and applicable compliance reports subject to this contract, or to an amendment to this contract (if required) the Auditor may submit interim invoices for approval for services rendered under this contract to the Secretary of the LGC, not to exceed 75% of the billings for the unit's last annual audit that was submitted to the Secretary of the LGC. All invoices for services rendered in an audit engagement as defined in 20 NCAC .0503 shall be submitted to the Commission for approval before any payment is made. Payment before approval is a violation of law. (This paragraph not applicable to contracts and invoices associated with audits of hospitals).

Primary Government Unit	Town of Sylva, North Carolina
Audit Fee (financial and compliance if applicable)	\$ 18900
Fee per Major Program (if not included above)	\$ 4000
Additional Fees Not Included Above (if applicable):	
Financial Statement Preparation (incl. notes and RSI)	\$ 2100
All Other Non-Attest Services	\$
TOTAL AMOUNT NOT TO EXCEED	\$ 25,000

Discretely Presented Component Unit	
Audit Fee (financial and compliance if applicable)	\$
Fee per Major Program (if not included above)	\$
Additional Fees Not Included Above (if applicable):	
Financial Statement Preparation (incl. notes and RSI)	\$
All Other Non-Attest Services	\$
TOTAL AMOUNT NOT TO EXCEED	\$

SIGNATURE PAGE

AUDIT FIRM

Audit Firm*	
Sheila Gahagan CPA	
Authorized Firm Representative (typed or printed)*	Signature*
Sheila Gahagan	 CPA
Date*	Email Address*
03/28/25	sheila@gahagan CPA.com

GOVERNMENTAL UNIT

Governmental Unit*	
Town of Sylva, North Carolina	
Date Governing Board Approved Audit Contract* (Enter date in box to right)	
Mayor/Chairperson (typed or printed)*	Signature*
Johnny Phillips	
Date	Email Address*
	jphillips@townofsylva.org

Chair of Audit Committee (typed or printed, or "NA")	Signature
Date	Email Address

GOVERNMENTAL UNIT – PRE-AUDIT CERTIFICATE

Required by G.S. 159-28(a1) or G.S. 115C-441(a1). Not applicable to hospital contracts.

This instrument has been pre-audited in the manner required by The Local Government Budget and Fiscal Control Act or by the School Budget and Fiscal Control Act.

Sum Obligated by This Transaction:	\$ 25,000
Primary Governmental Unit Finance Officer* (typed or printed)	Signature*
Lynn Bryant	
Date of Pre-Audit Certificate*	Email Address*
	lbryant@townofsylva.org

SHEILA GAHAGAN, CPA

229 Penland Street

Clyde, NC 28721

Phone: 828-627-1040 Fax: 828-627-2329

March 27, 2025

To the Mayor, Board of Commissioners, and Management of Town of Sylva, North Carolina

I am pleased to confirm my understanding of the services I am to provide the Town of Sylva, North Carolina (Town of Sylva) for the year ended June 30, 2025.

Audit Scope and Objectives

I will audit the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information, including the disclosures, which collectively comprise the basic financial statements, of the Town of Sylva, North Carolina (Town of Sylva) as of and for the year ended June 30, 2025. Accounting standards generally accepted in the United States of America (GAAP) provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement the Town of Sylva's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of my engagement, I will apply certain limited procedures to the Town of Sylva's RSI in accordance with auditing standards generally accepted in the United States of America (GAAS). These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I will not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient appropriate evidence to express an opinion or provide any assurance. The following RSI is required by GAAP and will be subjected to certain limited procedures, but will not be audited:

- 1) Management's Discussion and Analysis.
- 2) Local Government Employees' Retirement Schedules (Other Post-Employment Benefits Schedules)
- 3) Law Enforcement Officers' Special Separation Allowance Schedules
- 4) Budget to Actual Schedules

I have also been engaged to report on supplementary information other than RSI that accompanies the Town of Sylva's financial statements. I will subject the following supplementary information to the auditing procedures applied in my 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 GAAS and I will provide an opinion on it in relation to the financial statements as a whole, in a report combined with my auditor's report on the financial statements:

- 1) Schedule of expenditures of federal and state awards.
- 2) Combining and Individual Fund Statements and Schedules
- 3) Schedule of Ad Valorem Taxes Receivable
- 4) Schedule of Current Tax Levy – Town Wide Levy

The objectives of my audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and issue an auditor's report that includes my opinions about whether your financial statements are fairly presented, in all material respects, in conformity with GAAP and report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. Misstatements, including omissions, can arise from fraud or error and are considered material if there is a substantial likelihood that, individually or in the aggregate they would influence that judgment of a reasonable user based on the financial statements. The objective also includes reporting on:

- Internal control over financial reporting and compliance with provisions of laws, regulations, contracts, and award agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control over compliance related to major programs and an opinion (or disclaimer of opinion) on compliance with federal and state statutes, regulations, and the terms and conditions of state awards that could have a direct and material effect on each major program in accordance with the State Single Audit Implementation Act and applicable sections of the Single Audit Act Amendments of 1996 and Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).
- Internal control over compliance related to major programs and an opinion (or disclaimer of opinion) on compliance with federal and state statutes, regulations, and the terms and conditions of state awards that could have a direct and material effect on each major program in accordance with the State Single Audit Implementation Act.

Auditor's Responsibilities for the Audit of the Financial Statements and State Single Audit

I will conduct my audit in accordance with GAAS; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of Uniform Guidance, provisions of the State Single Audit Implementation Act, and will include tests of accounting records, a determination of major program(s) in accordance with the State Single Audit Implementation Act, and other procedures I consider necessary to enable me to express such opinions. As part of an audit in accordance with GAAS and *Government Auditing Standards*, I exercise professional judgment and maintain professional skepticism throughout the audit.

I will evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management. I will evaluate the overall presentation of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. I will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the government or to acts by management or employees acting on behalf of the government. Because the determination of waste and abuse is subjective, *Government Auditing Standards* do not expect auditors to perform specific procedures to detect waste or abuse in financial audits nor do they expect auditors to provide reasonable assurance of detecting waste or abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because I will not perform a detailed examination of all transactions, an unavoidable risk exists that

some material misstatements or noncompliance may exist and not be detected by me, even though the audit is properly planned and performed in accordance with GAAS and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or on major programs. However, I will inform the appropriate level of management of any material errors, any fraudulent financial reporting, or misappropriation of assets that come to my attention. I will also inform the appropriate level of management of any violations of laws or governmental regulations that come to my attention, unless clearly inconsequential. I will include such matters in the reports required for a State Single Audit. My responsibility as an auditor is limited to the period covered by my audit and does not extend to any later periods for which I am not engaged as an auditor.

I will also conclude, based on the audit evidence obtained, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the government's ability to continue as a going concern for a reasonable period of time.

My procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. I will also request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry.

I have identified the following significant risks of material misstatement as part of my audit planning:

1. Management override of controls
2. Revenue Recognition

I may, from time to time and depending on the circumstances, use third-party service providers in serving your account. I may share confidential information about you with these service providers but remain committed to maintaining the confidentiality and security of your information. Accordingly, I maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, I will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and I will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that I am able to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, I will remain responsible for the work provided by any such third-party service providers.

My audit of the financial statements does not relieve you of your responsibilities.

Audit Procedures—Internal Control

My audit will include obtaining an understanding of the government and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that I consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. My tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in my report on internal control issued pursuant to *Government Auditing Standards*.

As required by the State Single Audit Implementation Act, I will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that I consider relevant to preventing

or detecting material noncompliance with compliance requirements applicable to each major federal and state award program. However, my tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in my report on internal control issued pursuant to the State Single Audit Implementation Act.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. Accordingly, I will express no such opinion. However, during the audit, I will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, applicable sections of Uniform Guidance and the State Single Audit Implementation Act.

Audit Procedures—Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I will perform tests of the Town of Sylva's compliance with provisions of applicable laws, regulations, contracts, and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and I will not express such an opinion in my report on compliance issued pursuant to *Government Auditing Standards*.

The State Single Audit Implementation Act requires that I also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable federal and state statutes, regulations, and the terms and conditions of federal and state awards applicable to major programs. My procedures will consist of tests of transactions and other applicable procedures described in the OMB *Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the Town of Sylva's major programs. For federal and state programs that are included in the Compliance Supplement, my compliance and internal control procedures will relate to the compliance requirements that the Compliance Supplement identifies as being subject to audit. The purpose of these procedures will be to express an opinion on the Town of Sylva's compliance with requirements applicable to each of its major programs in my report on compliance issued pursuant to the State Single Audit Implementation Act.

Other Services

I will also assist in preparing the financial statements, schedule of expenditures of federal and state awards, and disclosures and fixed asset schedule of the Town of Sylva and assist with conversion journal entries from budget to full accrual in conformity with U.S. generally accepted accounting principles and the State Single Audit Implementation Act based on information provided by you. These nonaudit services do not constitute an audit under *Government Auditing Standards* and such services will not be conducted in accordance with *Government Auditing Standards*. I will perform the services in accordance with applicable professional standards. The other services are limited to the financial statements, schedule of expenditures of federal and state awards, and disclosures, fixed asset schedule and bookkeeping services previously defined. I, in my sole professional judgement, reserve the right to refuse to perform any procedure or take any action that could be construed as assuming management responsibilities.

You agree to assume all management responsibilities for the financial statements, schedule of expenditures of federal and state awards, and related disclosures and any other nonaudit services I provide. You will be required to acknowledge in the management representation letter my assistance with the preparation of the financial statements, the schedule of expenditures of federal and state awards, related disclosures, and other nonaudit services and that you have reviewed and approved the financial statements, the schedule of expenditures of federal and state awards, related disclosures and other nonaudit services prior to their issuance and have accepted responsibility for them. Further you agree to oversee the nonaudit services by designating an individual, preferably from senior management, with

suitable skills, knowledge, or experience; evaluate the adequacy and results of those services; and accept responsibility for them.

Responsibilities of Management for the Financial Statements and the State Single Audit

My audit will be conducted on the basis that you acknowledge and understand your responsibility for (1) designing, implementing, establishing, and maintaining effective internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, including internal controls over federal and state awards, and for evaluating and monitoring ongoing activities to help ensure that appropriate goals and objectives are met; (2) following laws and regulations; (3) ensuring that there is reasonable assurance that government programs are administered in compliance with compliance requirements; and (4) ensuring that management and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. You are responsible for the selection and application of accounting principles; for the preparation and fair presentation of the financial statements, schedule of expenditures of federal and state awards, and all accompanying information in conformity with accounting principles generally accepted in the United States of America; and for compliance with applicable laws and regulations (including federal and state statutes) and the provisions of contracts and grant agreements (including award agreements). Your responsibilities include identifying significant contractor relationships in which the contractor has responsibility for program compliance and for the accuracy and completeness of that information.

You are also responsible for making drafts of financial statements, schedule of expenditures of federal and state awards, all financial records and related information available to me and for the accuracy and completeness of that information (including information from outside of the general and subsidiary ledgers). You are responsible for providing me with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, identification of all related parties and all related-party relationships and transactions, and other matters (2) access to personnel, accounts, books, records, supporting documentation, and other information as needed to perform an audit under the State Single Audit Implementation Act, (3) additional information that I may request for the purpose of the audit, and (4) unrestricted access to persons within the government from whom I determine it necessary to obtain audit evidence. At the conclusion of the of my audit, I will require written representations from you about the financial statements; schedule of expenditures of federal and state awards; federal and state award programs; compliance with laws, regulations, contracts, and grant agreements; and other matters.

Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to me in the management representation letter that the effects of any uncorrected misstatements aggregated by me during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements of each opinion unit as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing me about all known or suspected fraud affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing me of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the government complies with applicable laws, regulations, contracts, agreements, and grants. You are also responsible for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that I report. Additionally, as required by the State Single Audit Implementation Act, it is management's

responsibility to evaluate and monitor noncompliance with federal and state statutes, regulations, and the terms and conditions of federal and state awards; take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings; promptly follow up and take corrective action on reported audit findings; and prepare a summary schedule of prior audit findings and a separate corrective action plan. The summary schedule of prior audit findings, if applicable, should be available for my review on August 25, 2025.

You are responsible for identifying all federal and state awards received and understanding and complying with the compliance requirements and for the preparation of the schedule of expenditures of federal and state awards (including disclosures and noncash assistance received) in conformity with Uniform Guidance and the State Single Audit Implementation Act. You agree to include my report on the schedule of expenditures of federal and state awards in any document that contains and indicates that I have reported on the schedule of expenditures of federal and state awards. You also agree to include the audited financial statements with any presentation of the schedule of expenditures of federal and state awards that includes my reports thereon. Your responsibilities include acknowledging to me in the written representation letter that (1) you are responsible for presentation of the schedule of expenditures of federal and state awards, including its form and content, is fairly stated in accordance with Uniform Guidance and the State Single Audit Implementation Act; (2) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (3) you have disclosed to me any significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal and state awards.

You are also responsible for the preparation of the other supplementary information, which I have been engaged to report on, in conformity with U.S. generally accepted accounting principles. You agree to include my report on the supplementary information in any document that contains, and indicates that I have reported on, the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes my report thereon. Your responsibilities include acknowledging to me in the written representation letter that (1) you are responsible for presentation of the supplementary information in accordance with GAAP; (2) you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to me any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying and providing report copies of previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit Scope and Objectives section of this letter. This responsibility includes relaying to me corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or studies. You are also responsible for providing management's views on my current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

Engagement Administration, Fees, and Other

I understand that your employees will prepare all cash, accounts receivable, or other confirmations I request and will locate any documents selected by me for testing.

At the conclusion of the engagement, I will complete the appropriate sections of the Data Collection Form that summarizes my audit findings. It is management's responsibility to electronically submit the reporting

package (including financial statements, schedule of expenditures of federal and state awards, summary schedule of prior audit findings, auditor's reports, and corrective action plan) along with the Data Collection Form to the Federal Audit Clearinghouse. I will coordinate with you the electronic submission and certification. The Data Collection Form and the reporting package must be submitted within the earlier of 30 calendar days after receipt of the auditor's reports or nine months after the end of the audit period.

I will provide copies of my reports to the Town of Sylva; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of my reports are to be made available for public inspection.

As an attest client, Sheila Gahagan CPA cannot retain your documents on your behalf. This is in accordance with ET 1.295.143 of the AICPA *Code of Professional Conduct*. Town of Sylva is responsible for maintaining its own data and records.

The audit documentation for this engagement is the property of Sheila Gahagan, CPA and constitutes confidential information. However, subject to applicable laws and regulations, audit documentation and appropriate individuals will be made available upon request and in a timely manner to the State Auditor or the North Carolina Local Government Commission or its designee, a federal or state agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. I will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Sheila Gahagan, CPA's personnel. Furthermore, upon request, I may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of five years after the report release date or for any additional period requested by the State Auditor or North Carolina Local Government Commission. If I am aware that a federal or state awarding agency, pass-through entity, or auditee is contesting an audit finding, I will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

Sheila Gahagan is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them. I expect to begin my interim audit work on in June 2025, depending on management's availability and audit on approximately September 22, 2025 and to issue my reports no later than November 30, 2025.

I estimate my fee for these services will not exceed \$25,000. My invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with my firm policies, work may be suspended if your account becomes 45 days or more overdue and may not be resumed until your account is paid in full. If I elect to terminate my services for nonpayment, my engagement will be deemed to have been completed upon written notification of termination, even if I have not completed my report(s). You will be obligated to compensate me for all time expended and to reimburse me for all out-of-pocket costs through the date of termination. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, I will keep you informed of any problems I encounter and my fees will be adjusted accordingly.

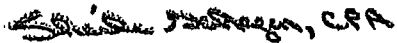
Reporting

I will issue written reports upon completion of my State Single Audit. My report will be addressed to management and those charged with governance of the Town of Sylva. Circumstances may arise in which my report may differ from its expected form and content based on the results of my audit. Depending on the nature of these circumstances, it may be necessary for me to modify my opinions, add a separate section, or add emphasis-of-matter or other-matter paragraph to my auditor's report, or if necessary,

withdraw from this engagement. If my opinions are other than unmodified, I will discuss the reasons with you in advance. If, for any reason, I am unable to complete the audit or are unable to form or have not formed opinions, I may decline to express opinions or I may withdraw from this engagement.

The *Government Auditing Standards* report on internal control over financial reporting and on compliance and other matters will state that (1) the purpose of the report is solely to describe the scope of testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance, and (2) the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Uniform Guidance and State Audit Implementation Act report on internal control over compliance will state that the purpose of the report on internal control over compliance is solely to describe the scope of testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance and State Audit Implementation Act. Both reports will state that the report is not suitable for any other purpose.

I appreciate the opportunity to be of service to the Town of Sylva, North Carolina and believe this letter accurately summarizes the significant terms of the engagement. If you have any questions, please let me know. If you agree with the terms of the engagement as described in this letter, please sign the enclosed copy and return it to me.

 Sheila Gahagan, CPA

Sheila Gahagan, CPA

RESPONSE: This letter correctly sets forth the understanding of the Town of Sylva, North Carolina.

Management signature: _____

Title: _____

Date: _____

Governance signature: _____

Title: _____

Date: _____



Report on the Firm's System of Quality Control

June 30, 2024

To the Owner of Sheila Gahagan, CPA and
the Peer Review Committee of the Coastal Peer Review, Inc.

We have reviewed the system of quality control for the accounting and auditing practice of Sheila Gahagan, CPA (the firm) in effect for the year ended December 31, 2023. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a system review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported on in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing and complying with a system of quality control to provide the firm with reasonable assurance of performing and reporting in conformity with the requirements of the applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported on in conformity with the requirements of the applicable professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of and compliance with the firm's system of quality control based on our review.

Required Selections and Considerations

Engagements selected for review included an engagement performed under *Government Auditing Standards*, including a compliance audit under the Single Audit Act.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

1501 Highwoods Blvd., Ste. 300 (27410)
P.O. Box 19608
Greensboro, NC 27419

P: 336-294-4494 • F: 336-294-4495

brc.cpa

Sheila Gahagan, CPA
and the Peer Review Committee of the
Coastal Peer Review, Inc.
June 30, 2024
Page Two

Significant Deficiency Identified in the Firm's System of Quality Control

We noted the following significant deficiency during our review:

The Firm's quality control policies and procedures require that all attestation engagements be properly planned, performed and documented in accordance with professional standards. During our review of the audits, we noted that the engagement team did not develop audit programs for a couple areas to allow sufficient linkage between risk assessment performed and the audit work performed. In our opinion, this contributed to the audit engagements were not in conformity with professional standards in all material respects.

Opinion

In our opinion, except for the deficiency previously described, the system of quality control for the accounting and auditing practice of Sheila Gahagan, CPA in effect for the year ended December 31, 2023, has been suitably designed or complied with to provide the firm with reasonable assurance of performing or reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. Sheila Gahagan, CPA has received a peer review rating of *pass with deficiency*.

Bernard Robinson & Company, L.L.P.

BERNARD ROBINSON & COMPANY, L.L.P.

SHEILA GAHAGAN, CPA

229 Penland Street

Clyde, NC 28721

Phone: 828-627-1040 Fax: 828-627-2329

Explanation of Peer Review Rating:

Although it is firm policy and audit programs are used by Sheila Gahagan, CPA, audit programs are not required by auditing standards, they are instead a resource to assist auditors in documenting compliance. During the Peer Review there were instances where audit programs were not deemed necessary and therefore not completed. The reason for not using audit programs was documented but the Peer Reviewer felt the documentation could be more robust.

The current rating was not an indication of actual work performed and no engagements required restatement. The deficiency is related to documentation and workpaper placement. In over 25 years as an auditor, this is my first deficiency. I acknowledge the importance of documentation and have made necessary adjustments to improve documentation of the linkage between my risk assessment and the audit work performed. This deficiency is not related to the quality of the audit services provided to my clients.