

SHEILA GAHAGAN, CPA

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March 6, 2024

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, 2024.

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, 2024. 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 should be available for my review on October 7, 2024.

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, and COVID-19 related concepts, such as lost revenues) 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 June 10, 2024 and audit on approximately October 14, 2024 and to issue my reports no later than November 30, 2024.

I estimate my fee for these services will not exceed \$24,500. 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

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

Management signature: _____

Title: _____

Date: _____

Governance signature: _____

Title: _____

Date: _____



Bernard Robinson & Company, L.L.P.

Report on the Firm's System of Quality Control

June 24, 2021

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, 2020. 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 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 a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with 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 in conformity with 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 the system of quality control and the firm's compliance therewith 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.

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of Sheila Gahagan, CPA in effect for the year ended December 31, 2020, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and 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*.

Bernard Robinson & Company, L.L.P.

BERNARD ROBINSON & COMPANY, L.L.P.

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