

August 7, 2025

Honorable County Commissioners Court
and Management of Panola County, Texas
Panola County Courthouse
Carthage, Texas 75633

The following represents our understanding of the services we will provide the Panola County, Texas ("the County")

You have requested that we audit the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Panola County, Texas (County), as of December 31, 2025, and for the year then ended, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents of the Annual Comprehensive Financial Report (ACFR)

The objectives of our 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 to issue an auditor's report that includes our opinion. 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 auditing standards generally accepted in the United States of America (GAAS) and in accordance with 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 the judgment made by a reasonable user based on the financial statements.

Accounting principles generally accepted in the United States of America (U S GAAP), as promulgated by the Governmental Accounting Standards Board (GASB) require that management's discussion and analysis (MD&A), and other schedules, be presented to supplement the County's basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB 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 our engagement, we will apply certain limited procedures to the required supplementary information (RSI) in accordance with auditing standards generally accepted in the United States of America, (U S GAAS). These limited procedures will consist primarily of inquiries of management regarding their methods of measurement and presentation, and comparing the information for consistency with management's responses to our inquiries. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any form of assurance on the RSI. The following RSI is required by U S GAAP. This RSI will be subjected to certain limited procedures, but will not be audited.

- 1) Management's Discussion and Analysis
- 2) Budgetary Information
- 3) Schedule of Changes in the County's Net Pension Liability and Related Ratios
- 4) Schedule of Employer Contributions
- 5) Schedule of Changes in the County's Net OPEB Liability and Related Ratios – Health Plan
- 6) Schedule of Employer Contributions – Health Plan
- 7) Schedule of Changes in the County's Net OPEB Liability and Related Ratios – Supplemental Death Benefits Plan
- 8) Schedule of Employer Contributions – Supplemental Death Benefits Plan
- 9) Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget (GAAP Basis) and Actual – General Fund
- 10) Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget (GAAP Basis) and Actual – Road and Bridge Special Revenue Fund

Supplementary information other than RSI will accompany the County's basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the basic financial statements and perform certain additional procedures, including comparing and

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reconciling the supplementary information to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and additional procedures in accordance with auditing standards generally accepted in the United States of America. We intend to provide an opinion on the following supplementary information in relation to the basic financial statements as a whole:

- 1) Combining Balance Sheets – Non-Major Governmental Funds, Non-Major Special Revenue Funds, and Non-Major Capital Projects Funds
- 2) Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Non-Major Governmental Funds
- 3) Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – Non-Major Governmental Funds
- 4) Combining Statement of Fiduciary Net Position – All Agency Funds
- 5) Combining Statement of Changes in Fiduciary Net Position – All Agency Funds

Auditor Responsibilities

We will conduct our audit in accordance with GAAS and in accordance with Government Auditing Standards. As part of an audit in accordance with GAAS and in accordance with Government Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We will also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Conclude, based on the audit evidence obtained, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about [Entity Name]'s ability to continue as a going concern for a reasonable period of time.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned and performed in accordance with GAAS and in accordance with Government Auditing Standards.

Our responsibility as auditors is limited to the period covered by our audit and does not extend to any other periods.

Compliance with Laws and Regulations

As previously discussed, as part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we will perform tests of the County's compliance with the provisions of applicable laws, regulations, contracts and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion.

Management Responsibilities

Our audit will be conducted on the basis that management and those charged with governance acknowledge and understand that they have responsibility

- a For the preparation and fair presentation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America,
- b For the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of basic financial statements that are free from material misstatement whether due to error, fraudulent financial reporting, misappropriation of assets or violations of laws, governmental regulations, grant agreements, or contractual agreements, and
- c To provide us with
 - i Access to all information of which management is aware that is relevant to the preparation and fair presentation of the basic financial statements such as records, documentation and other matters,
 - ii Additional information that we may request from management for the purpose of the audit, and
 - iii Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence
- d For including the auditors' report in any document containing basic financial statements that indicates that such basic financial statements have been audited by the entity's auditor,
- e For identifying and ensuring that the entity complies with the laws and regulations applicable to its activities,
- f For adjusting the basic financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the current year period(s) under audit are immaterial, both individually and in the aggregate, to the basic financial statements as a whole, and
- g For acceptance of nonattest services, including identifying the proper party to oversee nonattest work,
- h For maintaining adequate records, selecting and applying accounting principles, and safeguarding assets,
- i For informing us of any known or suspected fraud affecting the entity involving management, employees with significant role in internal control and others where fraud could have a material effect on the financials, and
- j For the accuracy and completeness of all information provided

With regard to the supplementary information referred to above, you acknowledge and understand your responsibility (a) for the preparation of the supplementary information in accordance with the applicable criteria, (b) to provide us with the appropriate written representations regarding supplementary information, (c) to include our report on the supplementary information in any document that contains the supplementary information and that indicates that we have reported on such supplementary information, and (d) to present the supplementary information with the audited basic financial statements, or if the supplementary information will not be presented with the audited basic financial statements, to make the audited basic financial statements readily available to the intended users of the supplementary information no later than the date of issuance by you of the supplementary information and our report thereon

As part of our audit process, we will request from management and, when appropriate, those charged with governance, written confirmation concerning representations made to us in connection with the audit

Non-Attest Services

With respect to any non-attest services we perform,

At the end of the year, we agree to perform the following

- Propose adjusting or correcting journal entries to be reviewed and approved by the County's management
- Prepare the basic financials statements and related notes as identified on page one of this letter as well as the RSI and supplementary information
- Consult with the County on implementation of any new GASB Standards
- Assist the County with the recording of its capital assets for the year for the government wide presentation in the audit report and we will compute the annual depreciation on the County's capital assets for the year ended December 31, 2025 on software that is maintained on our server. As part of our internal safeguards to maintain independence, we will provide the County with a copy of all of our work papers related to capital assets and our depreciation schedule

We will not assume management responsibilities on behalf of the County. However, we will provide advice and recommendations to assist management of the County in performing its responsibilities.

The County's management is responsible for (a) making all management decisions and performing all management functions, (b) assigning a competent individual to oversee the services, (c) evaluating the adequacy of the services performed, (d) evaluating and accepting responsibility for the results of the services performed, and (e) establishing and maintaining internal controls, including monitoring ongoing activities.

Our responsibilities and limitations of the non-attest services are as follows:

- We will perform the services in accordance with applicable professional standards.
- The non-attest services are limited to those identified above. Our firm, in its sole professional judgment, reserves the right to refuse to do any procedure or take any action that could be construed as making management decisions or assuming management responsibilities, including determining account coding and approving journal entries.

Reporting

We will issue a written report upon completion of our audit of the County's basic financial statements. Our report will be addressed to the governing body of Panola County, Texas. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions, add an emphasis-of-matter or other-matter paragraph(s), or withdraw from the engagement.

In accordance with the requirements of Government Auditing Standards, we will also issue a written report describing the scope of our testing over internal control over financial reporting and over compliance with laws, regulations, and provisions of grants and contracts, including the results of that testing. However, providing an opinion on internal control and compliance will not be an objective of the audit and, therefore, no such opinion will be expressed.

Fees and Timing

Upon acceptance of this engagement letter, we will meet with the County Auditor to map out a schedule for the audit. We expect to begin our audit as soon as mutually convenient after year-end (usually early April 2026) and to issue our reports no later than your first Commissioners Court meeting in June 2026. As part of our engagement, we will consult with you regarding a time during November or December 2025 to conduct interim field work. In addition to the normal audit procedures, we will also conduct a year-end observation and test counts (as necessary) of the physical inventory that includes all donated materials.

Fees and Timing (continued)

Kevin R. Cashion, CPA is the engagement partner for the audit services specified in this letter. His responsibilities include supervising Gollob Morgan Peddy PC's services performed as part of this engagement and signing or authorizing another qualified firm representative to sign the audit report.

Our fee for these services will be at our standard hourly rates plus out-of-pocket costs (such as report reproduction, word processing, postage, travel, copies, telephone, etc.). Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Based on our preliminary estimates, the fee for audit service related to the County's ACPR, including travel, should approximate \$66,000 and the services related to the assembly of the County's capital assets and recording of depreciation will be \$6,000. Our services will be invoiced monthly as the audit work progresses. Payment of our services will be due within 30 days of each invoice date. A finance charge of 6% simple interest, calculated at 0.5% per month, will be assessed on any unpaid balance after deduction of current payments made within thirty days of the date of billing. In accordance with our 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 we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us 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. We will notify you immediately of any circumstances we encounter that could significantly affect this initial fee estimate. Whenever possible, we will attempt to use the County's personnel to assist in the preparation of schedules and analyses of accounts. This effort could substantially reduce our time requirements and facilitate the timely conclusion of the audit.

Other Matters

We understand that your employees will prepare all confirmations we request and will locate any document or support for any other transactions we select for testing.

We will provide copies of our reports to management and the Commissioner's Court for Panola County, Texas, however, management is responsible for distribution of the reports and the basic financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection. If you intend to publish or otherwise reproduce the basic financial statements and make reference to our firm, you agree to provide us with printers' proofs or masters for our review and approval before printing. You also agree to provide us with a copy of the final reproduced material for our approval before it is distributed.

During the course of the engagement, we may communicate with you or your personnel via fax or e-mail, and you should be aware that communication in those mediums contains a risk of misdirected or intercepted communications.

The audit documentation for this engagement is the property of Gollob Morgan Peddy PC and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to federal agencies or its designee, a federal 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. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Gollob Morgan Peddy PC personnel. Furthermore, upon request, we 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 certain federal agencies. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

Other Matters (continued)

During the course of the audit, we may observe opportunities for economy in, or improved controls over, your operations. We will bring such matters to the attention of the appropriate level of management, either orally or in writing.

You agree to inform us of facts that may affect the basic financial statements of which you may become aware during the period from the date of the auditor's report to the date the financial statements are issued

At the conclusion of our audit engagement, we will communicate to the County Commissioners the following significant findings from the audit:

- Our view about the qualitative aspects of the entity's significant accounting practices;
- Significant difficulties, if any, encountered during the audit;
- Uncorrected misstatements, other than those we believe are trivial, if any;
- Disagreements with management, if any;
- Other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process;
- Material, corrected misstatements that were brought to the attention of management as a result of our audit procedures;
- Representations we requested from management;
- Management's consultations with other accountants, if any; and
- Significant issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management.

In accordance with the requirements of *Government Auditing Standards*, we have attached a copy of our latest external peer review report of our firm for your consideration and files.

Please sign and return the attached copy of this letter to indicate your acknowledgment of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

We appreciate the opportunity to be your financial statement auditors and look forward to working with you and your staff.

Sincerely,

GOLLOB MORGAN PEDDY PC

Kevin Cashion

Kevin R. Cashion, CPA

RESPONSE:

This letter correctly sets forth the understanding of Panola County, Texas

By: *Rodger D. McKee*

Title: *County Judge*

Date: *08-12-2025*

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August 7, 2025

To the Honorable County Commissioners Court
and Management of Panola County, Texas

This letter is provided in connection with our engagement to audit the financial statements and to audit compliance over major federal award programs of Panola County, Texas as of and for the year ended December 31, 2025. Professional standards require that we communicate with you certain items including our responsibilities with regard to the financial statement audit and the planned scope and timing of our audit.

Our Responsibilities

As stated in our engagement letter dated August 7, 2025, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America and with Government Auditing Standards of the Comptroller General of the United States of America, for the purpose of forming and expressing an opinion about whether the financial statements that have been prepared by management, with your oversight, are prepared, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit does not relieve you or management of your respective responsibilities.

Our responsibility for supplementary information required by the Government Accounting Standards Board, and included in the document containing the audited financial statements and our report thereon includes only the information identified in our report. We have no responsibility for determining whether the required supplementary information is properly stated.

Our responsibility as it relates to additional supplementary information is to evaluate its presentation for the purpose of forming and expressing an opinion as to whether the information is fairly stated in all material respects in relation to the financial statements as a whole.

Planned Scope of the Audit

Our audit will include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements or material noncompliance may not be detected exists, even though the audit is properly planned and performed in accordance with U.S. GAAS, and *Government Auditing Standards* of the Comptroller General of the United States of America.

Our audits will include obtaining an understanding of the entity and its environment, including its internal control, sufficient to assess the risks of material misstatement of the financial statements, the risk of material noncompliance in the major federal awards programs, and as a basis for designing the nature, timing, and extent of further audit procedures. However, we will communicate to you at the conclusion of our audit, significant matters that are relevant to your responsibilities in overseeing the financial reporting process, including any material weaknesses, significant deficiencies, and violation of laws or regulations that come to our attention. Our responsibility as auditors is, of course, limited to the period covered by our audit and does not extend to any other periods.

Although we are currently in the planning stage of our audit, we have identified the following significant risks during our audit to date that require special audit consideration:

- Management override of controls
 - Substantive procedures will be performed addressing manual journal entries prepared by management, management's use of accounting estimates, and significant unusual transactions occurring in the fiscal year.

- Improper revenue recognition due to fraud
 - Substantive procedures will be performed to gain assurance over the existence of revenue recognized in the fiscal year
 - Additional procedures, including a combination of transactional and data-analytic-driven tests, will be performed on revenue cycle and transactions with a higher risk profile

We will conduct our planning for the audit and will schedule a time to conduct interim field work at the County's offices sometime during November or December 2025. We will conduct our final field work beginning April 2026 and we plan to issue our final report to the Commissioners Court in the June 2026 meeting.

This information is intended solely for the information and use of the Commissioners Court and management of Panoia County, Texas and is not intended to be and should not be used by anyone other than these specified parties.

Gollob Morgan Peddy PC

Certified Public Accountants
Tyler, Texas