

MINUTES OF MEETING
OF THE
BOARD OF DIRECTORS

THE STATE OF TEXAS §

COUNTY OF ROCKWALL §

ROCKWALL COUNTY MUNICIPAL UTILITY DISTRICT NO. 7 §

The Board of Directors (the "Board") of Rockwall County Municipal Utility District No. 7 (the "District") met in regular session by audio conference, open to the public, on Tuesday, July 28, 2020, at 5:30 pm.

Ms. Sarah Landiak, General and Bond Counsel for the District, announced that the Meeting would be conducted by audio conference to mitigate the spread of COVID-19. Ms. Landiak confirmed that Meeting participants will observe guidance provided by the Texas Attorney General's office to suspend certain requirements of the Texas Open Meetings Act. Ms. Landiak next stated that (i) Notice of the Meeting was given in accordance with Chapter 551, Government Code, and Chapter 49, Texas Water Code, as amended by the Governor's order and Attorney General's guidance; (ii) the Meeting was being conducted in a transparent and accessible manner; (iii) Meeting packets were distributed to all participants, and made available to the public; and (iv) the Meeting would be recorded, and available for electronic distribution upon request.

The roll was called of the members of the Board to-wit:

Larry Christensen	President
Sandy Sinks	Vice President
Michael W. Skinner	Secretary
Terry Jones	Treasurer/Assistant Secretary
Martha Ann Cook	Assistant Secretary

All Directors were present at the commencement of the meeting with the exception of Director Jones and Director Sinks. Also participating were: Mr. Daniel Rawls, P.E. of LJA Engineering, Inc. ("LJA"); Ms. Brandi Galindo of Dye & Toverly, LLC ("D&T"); and Ms. Sarah Landiak, attorney, and Ms. Genny Lutz, paralegal, each of Winstead PC.

The meeting was called to order at 5:32 p.m.

1. Public Communications and Comments. Ms. Landiak opened the meeting for public communication and comment. After noting that there were no members of the public present, Director Christensen moved that the Board close the public communication and comment session of the meeting. Director Cook seconded said motion, which carried unanimously.

2. Minutes of April 28, 2020 Board of Directors Meeting. Following a discussion, Director Cook moved that the Board approve the Minutes of the April 28, 2020 meeting, as presented. Director Christensen seconded said motion, which carried unanimously.

3. Consideration was next given to Statement of Officer forms and administration of Oaths of Office to Duly Elected Directors. Ms. Landiak stated that following the May 2, 2020, Director's Election, Director Skinner and Director Jones were each declared elected for new four-year terms. Next, Ms. Landiak noted that required Statement of Officer and Oath of Office forms have been executed by the newly-elected members. Upon motion by Director Cook, seconded by Director Christensen, the Board unanimously moved to accept said forms.

4. Engineer's Report. Mr. Rawls had no formal report to present.

5. Confirm receipt of 2020 certified tax roll prepared by Rockwall Central Appraisal District; consider authorizing tax rate calculation services; and adopt resolution. The Board next confirmed receipt of the 2020 tax roll by the Rockwall Central Appraisal District. Next, Ms. Landiak discussed with the Board certain legislative action and related notice provisions relative to the District's tax rate calculation. Pursuant to such new requirements, Ms. Landiak recommended that the Board approve a resolution with Rockwall Central Appraisal District to complete said tax calculations on behalf of the District, a copy of which is attached hereto as Exhibit "A". Following a discussion, Director Cook moved that the Board approve the Agreement as presented. Director Skinner seconded said motion, which carried unanimously.

6. Review tax rate recommendation from Financial Advisor; approve proposed tax rate for 2020; adopt Notice of Water District Hearing on Tax Rate; and authorize publication of same. The Board next recognized Mr. Nesmith, who presented to and reviewed with the Board the 2020 tax rate calculations and recommendations from RW Baird, a copy of which is attached hereto as Exhibit "B". The total tax rate recommendation is \$0.75 per \$100 of net taxable value. Following a discussion, Director Cook moved that the Board (i) approve the publication of a proposed tax rate of \$0.75 per \$100 net taxable value; (ii) set the public hearing on the proposed tax rate for August 25, 2020, by telephone conference; and (iii) authorize publication of a Notice of Public Hearing on Tax Rate. Director Skinner seconded said motion, which carried unanimously.

7. Developer's Report. No formal report was heard.

8. Bookkeeping Report. Ms. Galindo reviewed with the Board copies of a Bookkeeper's Report dated July 28, 2020, a copy of which is attached hereto as Exhibit "C". Following a discussion, Director Skinner moved that the Board (i) approve the bookkeeping report, (ii) authorize payment of bills presented by checks drawn on the District's accounts as listed thereon; and (iii) authorize the bookkeeper to sign disbursements on behalf of the Board of Directors of the District pursuant to Section 49.151(a), Texas Water Code, noting that said authorization would terminate upon motion of the Board when the declared State of Disaster ceases. Director Cook seconded said motion, which carried unanimously.

9. Operating and Debt Service Budgets for Fiscal Year Ending August 31, 2021. Ms. Galindo presented to and reviewed with the Board copies of a General Fund Operating Budget and a Debt Service Fund Budget, copies of which are attached hereto as Exhibit "D" and Exhibit "E" respectively. Following a discussion, Director Cook moved that the Board approve the Operating and Debt Service budgets for fiscal year ending August 31, 2021, as presented. Director Skinner seconded said motion, which carried unanimously.

**RESOLUTION DESIGNATING CHIEF APPRAISER OF ROCKWALL
CENTRAL APPRAISAL DISTRICT TO CALCULATE TAX RATE IN ACCORDANCE
WITH SECTION 26.04 OF THE TEXAS TAX CODE; AND PROVIDING AN
EFFECTIVE DATE**

WHEREAS, Rockwall County Municipal Utility District No. 7 (the "District") is a political subdivision of the State of Texas operating pursuant to Chapter 49, Texas Water Code;

WHEREAS, the 86th Legislature of the State of Texas, Regular Session, approved Senate Bill 2, amending the Texas Tax Code effective January 1, 2020;

WHEREAS, Texas Tax Code Sections 26.04(c) and 26.17(e) now require an officer or employee designated by the governing body to calculate the no-new-revenue tax rate and the voter-approval tax rate for the taxing unit after the assessor submits the appraisal roll; and

WHEREAS, The Chief Appraiser of Rockwall Central Appraisal District is actively involved in the calculation of the tax rate of the ad valorem taxes.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF ROCKWALL COUNTY MUNICIPAL UTILITY DISTRICT NO. 7 THAT:

Section 1.

The District hereby designates the Chief Appraiser of Rockwall Central Appraisal District to calculate the no-new revenue tax rate and the voter-approval tax rate for 2020 in accordance with Section 26.04 of the Texas Tax Code.

Section 2.

This resolution shall take effect immediately upon its adoption.

PASSED AND APPROVED this 28th day of July, 2020.

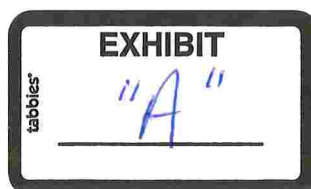
**ROCKWALL COUNTY MUNICIPAL
UTILITY DISTRICT NO. 7**

Larry Christensen
President, Board of Directors

ATTEST:

Assistant Secretary

[SEAL]



July 28, 2020

President and Board of Directors
Rockwall County Municipal Utility District No. 7
Rockwall County, Texas

Re: Levy of 2020 Tax Rate

Dear Board Members:

The Rockwall Central Appraisal District has recently certified the 2020 value for your district at \$28,276,663 and an additional \$187,648 remains uncertified. The uncertified value listed represents 80% of the uncertified value under review and is the estimated minimum amount of value that will be ultimately certified by the Rockwall Central Appraisal District. For the 2020 tax year, the District was classified as a Developing District for the purposes of determining the rollback tax rate. Last year, the District's value was certified at \$18,188,179 and the Board of Directors levied a tax rate of \$0.75 per \$100 of assessed valuation. The tax rate was composed of a maintenance tax rate of \$0.75 per \$100 of assessed valuation. For illustration purposes, we have enclosed the cash flow analysis based upon our 2020 recommended debt service tax rate. This analysis is based upon the following assumptions:

- 1) A 2020 net taxable value of \$28,464,311 (an increase of approximately 56.50%);
- 2) 98% tax collections;
- 3) The necessary growth by January 1, 2021 to amortize the District's debt;
- 4) Debt Service Fund balance of \$87,647 as of April 28, 2020;
- 5) Interest earnings of 1.00% on surplus funds; and
- 6) Adequate ending debt service coverage balances.

Based on this analysis, we are recommending the Board of Directors consider levying a 2020 total tax rate of \$0.75 per \$100 of assessed valuation composed of a maintenance tax rate of \$0.26 per \$100 of assessed valuation and a debt service tax rate of \$0.49 per \$100 of assessed valuation.

Sincerely,
Robert W. Baird & Co. Incorporated



Ryan Nesmith
Director

Enclosure(s)



Rockwall County Municipal Utility District No. 7

2020 Debt Service Tax Rate Analysis

Necessary Growth through January 1, 2021

Year Ending 12/31	Beginning Fund Balance as of 04/28/2020	Fund Interest Earnings @ 1.000%	Other Income 1	Other Income 2	Prior Year Taxable AV	AV Growth Percentage	Tax Rate / \$100 of Assessed Value	Tax Collections @ 98.00%	Total Funds Available	Current Debt Service	Total Debt Service	Ending Balance	Debt Service Coverage %
2020	87,647	591	-	-	18,188,179	-	-	-	88,239	36,651	36,651	51,587	35.999%
2021	51,587	516	-	-	28,464,311	56.499%	0.490000	136,686	188,789	143,303	143,303	45,486	30.927%
2022	45,486	455	-	-	31,800,000	11.719%	0.490000	152,704	198,645	147,078	147,078	51,567	35.404%
2023	51,567	516	-	-	31,800,000	-	0.490000	152,704	204,787	145,653	145,653	59,134	39.647%
2024	59,134	591	-	-	31,800,000	-	0.490000	152,704	212,429	149,153	149,153	63,276	42.907%
2025	63,276	633	-	-	31,800,000	-	0.490000	152,704	216,613	147,473	147,473	69,140	45.876%
2026	69,140	691	-	-	31,800,000	-	0.490000	152,704	222,535	150,713	150,713	71,823	48.282%
2027	71,823	718	-	-	31,800,000	-	0.490000	152,704	225,245	148,758	148,758	76,487	50.414%
2028	76,487	765	-	-	31,800,000	-	0.490000	152,704	229,956	151,718	151,718	78,238	52.345%
2029	78,238	782	-	-	31,800,000	-	0.490000	152,704	231,724	149,468	149,468	82,257	54.071%
2030	82,257	823	-	-	31,800,000	-	0.490000	152,704	235,783	152,128	152,128	83,655	54.124%
2031	83,655	837	-	-	31,800,000	-	0.490000	152,704	237,195	154,563	154,563	82,633	54.449%
2032	82,633	826	-	-	31,800,000	-	0.490000	152,704	236,163	151,763	151,763	84,400	54.890%
2033	84,400	844	-	-	31,800,000	-	0.490000	152,704	237,948	153,763	153,763	84,185	54.099%
2034	84,185	842	-	-	31,800,000	-	0.490000	152,704	237,311	155,613	155,613	82,118	52.201%
2035	82,118	821	-	-	31,800,000	-	0.490000	152,704	235,643	157,313	157,313	78,331	49.307%
2036	78,331	783	-	-	31,800,000	-	0.490000	152,704	231,818	158,863	158,863	72,955	47.034%
2037	72,955	730	-	-	31,800,000	-	0.490000	152,704	226,388	155,113	155,113	71,276	45.584%
2038	71,276	713	-	-	31,800,000	-	0.490000	152,704	224,692	156,363	156,363	68,330	43.996%
2039	68,330	683	-	-	31,800,000	-	0.490000	152,704	221,717	157,456	157,456	64,260	40.570%
2040	64,260	643	-	-	31,800,000	-	0.490000	152,704	217,606	158,394	158,394	59,213	37.200%
2041	59,213	592	-	-	31,800,000	-	0.490000	152,704	212,508	159,175	159,175	53,333	33.412%
2042	53,333	533	-	-	31,800,000	-	0.490000	152,704	206,570	159,625	159,625	46,945	29.337%
2043	46,945	469	-	-	31,800,000	-	0.490000	152,704	200,118	159,913	159,913	40,206	25.123%
2044	40,206	402	-	-	31,800,000	-	0.490000	152,704	193,312	160,038	160,038	33,274	0.000%
Totals		16,800					0.490000	3,648,868		3,720,041	3,720,041		

Maintenance taxes are levied at the discretion of the Board of Directors of the District. Should the Board determine that a maintenance tax is necessary, we estimate the following:

2019 M&O Tax Rate	\$ 0.75000	@ a 98.00% collections rate generates \$133,683.
Proposed 2020 M&O Tax Rate	\$ 0.26000	@ a 98.00% collections rate generates \$72,527.
Parity M&O Tax Rate	\$ 0.47920	@ a 98.00% collections rate generates \$133,673.
M&O Tax Rate to Balance Budget	\$ 0.24250	@ a 98.00% collections rate generates \$67,645.
Maximum Authorized M&O Tax Rate	\$ -	
Value of One Penny	\$ 2,790	@ a 98.00% collections rate.

Last Year's Average Homestead Value	\$ 243,086
Last Year's Average Tax Bill	\$ 1,823
This Year's Average Homestead Value	\$ 244,621
This Year's Proposed Average Tax Bill	\$ 1,835
Percentage Change	0.63%
Value of One Penny on This Year's Average Tax Bill	\$ 24

Proposed 2020 Total Tax Rate	\$ 0.75000
Parity Tax Rate	\$ 0.74520
Type of District	Developing District
Total Rate to Avoid a Rollback Election	\$ 0.80490
2020 M&O Rollback Rate	\$ 0.80490 @ a 98.00% collections rate generates \$224,527.

WOODCREEK

F A T E - T E X A S

Rockwall County Municipal Utility District No. 7
July 28, 2020

Summary - All Funds

General Fund:

	Balance
General Operating Fund - Plains Capital Bank #9275	\$ (7,957.96)
Logic Investment Fund #0001 - GF, .626%	91,999.45
Total General Operating Funds	\$ 84,041.49

Capital Projects Fund:

Capital Projects Fund - Series 2019 Road - PCB #0802	\$ 524.17
Logic Investment Fund #0002 - CPF, .6260%	232,977.80
Total Capital Projects Funds	\$ 233,501.97

Debt Service Fund:

Debt Service Fund - Series 2019 Road - PCB #9403	\$ 608.66
Logic Investment Fund #0003 - DSF, .6260%	87,217.30
Total Debt Service Funds	\$ 87,825.96

Prepared by:

Dye & Tovery, LLC

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Rockwall County Municipal Utility District No. 7
Bookkeeper's Report for Meeting of:
July 28, 2020

\$ (3,414.10) Beginning Balance
 138.52 Void Ck #3537 - Larry Christensen
 5,000.00 Transfer from Logic Investment Fund
 0.45 Interest Income

\$ 1,724.87 Adjusted cash balance

(9,682.83) Total of all bills

\$ (7,957.96) Ending Balance - Plains Capital

Recommend transferring \$8,000 from Logic

\$ 91,999.45 Logic Investment Fund #0001 - GF, .626%

<u>Bills To Be Paid:</u>	<i>Check #</i>		
138.52	3547	Director - Larry Christensen	<i>Current meeting</i>
138.53	3548	Director - Martha Cook	<i>Current meeting</i>
138.53	3549	Director - Michael Skinner	<i>Current meeting</i>
138.52	3550	Director - Sandy Sinks	<i>Current meeting</i>
138.53	3551	Director - Terry Jones	<i>Current meeting</i>
138.53	3552	Director - Larry Christensen	<i>Cyber Security Training</i>
138.52	3553	Director - Martha Cook	<i>Cyber Security Training</i>
138.52	3554	Director - Michael Skinner	<i>Cyber Security Training</i>
138.53	3555	Director - Sandy Sinks	<i>Cyber Security Training</i>
138.52	3556	Director - Terry Jones	<i>Cyber Security Training</i>
91.82	<i>EFT</i>	United States Treasury	<i>2nd Qtr Payroll Tax</i>
926.64	3563	Dye & Toverly, LLC - accounting	<i>Inv #4286 - April</i>
4.15	3563	Dye & Toverly, LLC - accounting	<i>Inv #5168 - Fed Ex</i>
435.83	3563	Dye & Toverly, LLC - accounting	<i>Inv #4335 - May</i>
287.49	3563	Dye & Toverly, LLC - accounting	<i>Inv #4383 - June</i>
100.00	3564	JD Parker	<i>Posting Agenda - Current mtg</i>
960.27	3565	LJA Engineering	<i>Inv #202008397 April</i>
834.43	3565	LJA Engineering	<i>Inv #202010625 May</i>
2,905.60	3566	Winstead - legal	<i>Inv #2875885 - April</i>
1,335.25	3566	Winstead - legal	<i>Inv #2886967 - May</i>
416.10	3557	Winstead - legal	<i>Inv #2903967 - June</i>

\$ 9,682.83 Total Bills

Rockwall County Municipal Utility District No. 7
Analysis of Rockwall County Property Tax Levied vs. Collected
Tax Year 2019 (10/01/19-9/30/20)

Amount Levied on 10/01/19		\$ 136,411.52	
<i>Adjustments & supplements</i>		<i>(4,291.33)</i>	
Adjusted levy		<u>132,120.19</u>	
Amount Collected as of	6/30/2020	\$ 132,120.19	100.00%
Amount Uncollected as of	6/30/2020	<u><u>-</u></u>	
 Tax Year 2019 (10/01/19-9/30/20)			
Taxable Value of District Property		\$ 17,616,025	
M & O - available for operating costs	\$ 0.75000 *	\$ 132,120	
		<u>\$ 132,120</u>	

Rockwall County Municipal Utility District No. 7
Capital Projects Fund
July 28, 2020

Capital Projects Fund - Series 2019 Road - PCB #0802

Beginning balance	\$ 7,923.36
Transfer to Logic Fund	(7,400.00)
<i>Ck #1008 - McCall Gibson Swedlund Barfoot 2019 Road Bond AUP</i>	
Interest Income	0.81
Ending balance	<u>\$ 524.17</u>
Logic Investment Fund #0002 - CPF, .6260%	<u>\$ 232,977.80</u>

Rockwall County Municipal Utility District No. 7
General Fund Operating Budget
 September 2020 through August 2021

DRAFT To be presented 7/28/20

	TOTAL												Actuals			
	Sep 20	Oct 20	Nov 20	Dec 20	Jan 21	Feb 21	Mar 21	Apr 21	May 21	Jun 21	Jul 21	Aug 21	Sep '20 - Aug 21	Sep '19 - Aug 20	7/1/19 - 6/30/20	
Assuming .45 tax rate**																
Ordinary Income/Expense																
Income	0	0	0	61,227	61,227	0	0	0	0	0	0	0	0	122,453	129,591	133,845
Property Tax Revenue	45	45	30	72	140	140	135	130	125	120	115	110	300	300	458	
5391 - Interest Income	45	45	30	61,299	61,367	140	135	130	125	120	115	110	123,660	129,891	134,303	
Total Income	45	45	30	61,299	61,367	140	135	130	125	120	115	110	123,660	129,891	134,303	
Gross Profit	45	45	30	61,299	61,367	140	135	130	125	120	115	110	123,660	129,891	134,303	
Expense																
6050 - Tax Appraisal Fees	0	0	0	0	500	0	0	0	0	0	0	0	500	500	0	
7001 - Accounting	0	1,250	0	1,250	600	1,250	1,250	1,250	1,250	1,250	2,000	2,000	7,200	7,200	11,460	
7070 - Audit	7,000		3,250										10,250	0	10,250	
7190 - Delivery/Courier	15		15								30	30	60	0	14	
7200 - Director's Fees																
7201 - Directors Mtg Fee	0	750	0	750	0	750	750	750	750	750	750	750	6,750	4,500	6,150	
7210 - Mileage	0	128	0	128	0	128	128	128	128	128	128	128	1,152	768	819	
7250 - Payroll Taxes	0	57	0	57	0	57	57	57	57	57	57	57	513	342	470	
Total 7200 - Director's Fees	0	750	0	750	0	750	750	750	750	750	750	750	8,415	5,610	7,439	
7275 - Election Costs	0	0	0	0	0	0	0	0	0	0	0	0	0	100	100	
7300 - Engineering	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000	10,200	9,084	
7500 - Legal	3,500	4,000	3,500	4,000	3,500	4,000	4,000	4,000	4,000	4,000	4,000	4,000	46,500	38,880	43,378	
7520 - Mtg. Exp	0	100	0	100	0	100	100	100	100	100	100	100	900	600	900	
7521 - Mtg. Exp - conf. rm.	0	50	0	50	0	50	50	50	50	50	50	50	450	390	433	
7600 - Office Supplies	0	4,250	0	0	0	0	0	0	0	105	105	105	105	4,192	103	
7460 - Insurance	4,500	11,400	4,500	7,150	5,600	7,150	7,150	7,150	7,150	7,255	7,900	7,900	4,250	4,192	4,192	
Total Expense	-4,455	-11,355	-4,470	54,149	55,767	-7,010	-7,015	-7,020	-7,025	-7,135	-7,785	-7,790	86,365	67,672	77,089	
Net Ordinary Income																
Other Income/Expense																
Other Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
8510 - Devel. Adv. - to District	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Other Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Other Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income	-4,455	-11,355	-4,470	54,149	55,767	-7,010	-7,015	-7,020	-7,025	-7,135	-7,785	-7,790	37,295	62,219	57,214	81,749

** Assuming the overall tax rate stays at .75 and .30 is allocated to DSF. Financial Advisor will be presenting the actual recommendation.

Property taxes - based on current certified values

Interest - increase due to Logic Fund investment

Meetings budgeted for every month - met more often in prior fiscal year

Accounting - increase from prior budget

Engineering - increase from prior budget

Legal - increased from prior budget

Insurance - slight increase from prior budget



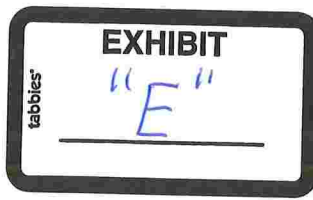
Rockwall County Municipal Utility District No. 7
Debt Service Fund Budget
 September 2020 through August 2021

	Sep 20	Oct 20	Nov 20	Dec 20	Jan 21	Feb 21	Mar 21	Apr 21	May 21	Jun 21	Jul 21	Aug 21	Sep 20 - Aug 21	TOTAL
Ordinary Income/Expense	-	-	-	68,343	68,343	-	-	-	-	-	-	-	-	-
Income	-	-	-	68,343	68,343	-	-	-	-	-	-	-	-	136,686
4000 - Property Tax Revenue	-	-	-	68,343	68,343	-	-	-	-	-	-	-	-	136,686
5391 - Interest Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Income	-	-	-	68,343	68,343	-	-	-	-	-	-	-	-	136,686
Expenses	-	36,651	-	-	-	-	-	36,651	-	-	-	-	-	-
Bond Interest - 2019 Road	-	36,651	-	-	-	-	-	36,651	-	-	-	-	-	-
Total Bond Expenses	-	36,651	-	-	-	-	-	36,651	-	-	-	-	-	73,302
Gross Profit	-	(36,651)	-	68,343	68,343	-	-	(36,651)	-	-	-	-	-	63,384
Appraisal Dis. Fees	-	-	-	500	-	-	-	-	-	-	-	-	-	500
Paying Agent Annual Fees	500	-	-	-	-	-	-	-	-	-	-	-	-	500
bank charges / wire fees	-	-	-	-	-	-	-	25	-	-	-	-	-	25
Total Expense	500	-	-	500	-	-	-	25	-	-	-	-	-	1,025
Net Ordinary Income	(500)	(36,651)	-	67,843	68,343	-	-	(36,676)	-	-	-	-	-	62,359

Approved

Assuming .49 Tax Rate**

** Assuming the overall tax rate stays at .75 and .49 is allocated to DSF.



McCALL GIBSON SWEDLUND BARFOOT PLLC

Certified Public Accountants

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July 28, 2020

Board of Directors
Rockwall County Municipal
Utility District No. 7
Rockwall County, Texas

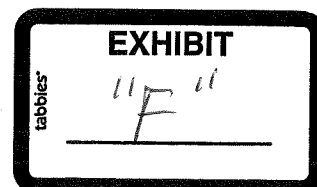
We previously provided you with an evergreen audit engagement letter dated September 24, 2019. This letter serves as a reminder of the terms of the evergreen audit engagement letter including audit objectives, an overview of the audit procedures to be performed, management's responsibilities, auditor's responsibilities and any other services we may perform as part of the annual audit or developer reimbursement engagements.

ANNUAL AUDIT OF FINANCIAL STATEMENTS

Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement the District's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (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 District's RSI in accordance with auditing standards generally accepted in the United States of America. 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. 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 assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

- 1) Management's Discussion and Analysis, and
- 2) Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund

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We have also been engaged to report on supplementary information other than RSI that accompanies the District's financial statements. The document we submit to you will include various supplementary schedules as required by the Texas Commission on Environmental Quality (the "Commission") as published in the *Water District Financial Management Guide*. This supplementary information will be subjected to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and we will provide an opinion on it in relation to the financial statements as a whole except for that portion marked "unaudited", on which we will express no opinion.

Audit Objective

The objective of our audit is the expression of opinions as to whether your financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles and to 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. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and will include tests of the accounting records and other procedures we consider necessary to enable us to express such opinions. We will issue a written report upon completion of our audit of the District's financial statements. Our report will be addressed to the Board of Directors of the District. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions on the financial statements are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or may withdraw from this engagement.

Audit Procedures - General

An audit includes 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We 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 District or to acts by management or employees acting on behalf of the District.

Audit Procedures – General (Continued)

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted 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. However, we will inform you of any material errors, any fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include direct confirmation of certain assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

Audit Procedures – Internal Control

Our audit will include obtaining an understanding of the District 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. An audit is not designed to provide assurance on internal control or to identify deficiencies in internal control. Accordingly, we will express no such opinion. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards.

Audit Procedures – Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatements, we will perform tests of the District'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.

Other Services

We will also prepare the financial statements in conformity with U.S. generally accepted accounting principles as well as depreciation schedules based on information provided by you. We will perform the services in accordance with applicable professional standards. The other services are limited to the services previously defined. We, in our sole professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as assuming management responsibilities.

Management Responsibilities

Management is responsible for designing, implementing 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 monitoring ongoing activities; for the selection and application of accounting principles; and for the preparation and fair presentation of the financial statements in conformity with U.S. generally accepted accounting principles.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

Your responsibilities include adjusting the 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 latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the District 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 us of your knowledge of any allegations of fraud or suspected fraud affecting the District received in communications from employees, former employees, consultants, regulators, or others. In addition, you are responsible for identifying and ensuring that the District complies with applicable laws and regulations.

You are responsible for the preparation of the supplementary information in conformity with the Commission's requirements. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon. Your responsibilities include acknowledging to us in the representation letter that (1) you are responsible for presentation of the supplementary information in accordance with the Commission's requirements, (2) that you believe the supplementary information, including its form and content, is fairly presented in accordance with the Commission's requirements, (3) that the methods of measurement or presentation have not changed from those used in the prior period, and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

With regard to using the auditor's report, you understand that you must obtain our prior written consent to reproduce or use our report in bond offering official statements or other documents.

Management Responsibilities (Continued)

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

You agree to assume all management responsibilities for our preparation of the financial statement and our preparation of the capital asset schedules including calculation of depreciation on the capital assets; oversee the services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of the services; and accept responsibility for them.

Engagement Administration, Fees and Other

We are aware of the State statute requiring the audit to be completed within 120 days and filed with the Texas Commission on Environmental Quality within 135 days from the closing date of the audit and barring any unforeseen circumstances every effort will be made to comply with this rule.

In accordance with provisions of the Local Records Retention Schedule Section 2-1: Item 1025-01(e) we agree to retain our audit work papers in our office for a period of three years after all questions arising from the audit have been resolved. In order to allow for all questions arising from the audit to be resolved and to comply with Rule 501.76(f) of the Rules of Professional Conduct of the Texas State Board of Public Accountancy the actual date will be the five-year anniversary of the audit report in question.

We expect to present a draft of the audit report within 45 days of the availability of the District's accounting records. Chris Swedlund is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign the report. We estimate the fees for the audit of the District's financial statements and for the other services to be provided for the year ended August 31, 2020 will range between \$10,000 and \$12,000.

Not included in the fees above are out-of-pocket costs such as printing, postage, and other charges incidental to the completion of our audit. If for any reason our services are terminated prior to issuance of a final report, our engagement will be deemed to have been completed, even if we have not completed our report. The District will be obligated to compensate us for our time expended through the date of termination. The above fee is based on anticipated cooperation from your consultants and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

AGREED-UPON PROCEDURES REIMBURSEMENT REPORT

We will perform the procedures enumerated below, which are agreed to by the Board of Directors, on any invoices and schedules submitted by the Developer(s) for payment from District bond proceeds, bond anticipation note proceeds or any other source. These procedures will be performed solely to assist you in evaluating the reasonableness of those costs as required by the Commission and the report is not to be used for any other purpose.

This agreed-upon procedures engagement will be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Board of Directors of the District. Consequently, we will make no representation regarding the sufficiency of the procedures either for the purpose of which this report has been requested or for any other purpose. The procedures we will perform are as summarized below:

- A. We will review all correspondence from the Commission relative to any reimbursement request. Our review will be for the purpose of identifying those items authorized for District participation and those items the District is specifically prohibited from purchasing.
- B. We will review for completeness certain Developer schedules, supporting invoices and contract estimates in substantiation of the costs to be reimbursed. Our review will include all documentation supporting items, amounts, and proof of payment for which reimbursement is requested.
- C. We will read the development and financing agreements for particular items that might affect the reimbursement. The agreements reviewed will be referenced in our report.
- D. We will foot the extensions of engineering invoices pertaining to the reimbursement on a test basis and compare the contract amounts used in determining the fee for the design and construction phase portions of the invoice to the related construction contracts and to the engineering contract when appropriate.
- E. For construction pay estimates, we will foot and test extensions on a test basis on payments made on behalf of the District.
- F. For all payments, we will compare the payment dates to copies of cancelled checks. If cancelled checks are not available, alternate procedures will be designed to support dates and amounts of payments.
- G. We will review the formulas for computation of developer interest to be reimbursed to the Developer(s) and limit interest, if appropriate, in accordance with the orders and rules of the Commission.

- H. We will inquire of the District's Bookkeeper regarding current period General Fund expenditures for costs to be reimbursed to the General Fund from the Capital Projects Fund in accordance with the approval of the Commission. If necessary we will review prior year audit work papers for items capitalized in the past, which can now be reimbursed from bond proceeds.
- I. If possible, we will obtain verbal confirmation from construction contractors concerning whether or not the contract estimates to date have been paid in full and whether or not the contractor has any claims to be made against either the District or Developer(s) on the project.
- J. A draft of our report will be provided to the District's Attorney, Engineer, Financial Advisor, Bookkeeper, and Developer(s) prior to reimbursing the Developer(s).
- K. We will prepare for submittal to the Commission our report detailing the costs payable to the Developer(s) and a schedule reflecting the results of the payment and future costs to complete as compared with the amount approved by the Commission.

The objective of this agreed-upon procedures engagement will be to assist you in evaluating the reasonableness of the aforementioned costs. Because the above procedures will not be sufficient to constitute an audit made in accordance with generally accepted auditing standards, we will not express an opinion on the aforementioned reimbursable costs, however, we will report to you any matters that come to our attention that cause us to believe that the aforementioned costs are incorrect. Our report will contain a paragraph indicating that had we performed additional procedures, other matters might have come to our attention that would have been reported to you. In addition, this engagement is not primarily or specifically designed and cannot be relied upon to disclose defalcations and other similar irregularities, although their discovery may result.

This report of agreed-upon procedures will be for the exclusive use of the Board of Directors of the District in compliance with certain rules of the Commission. The report is intended for use by the Board of Directors and is not intended to be associated with the presentation of any other financial data of the District. We are aware that the report is subject to distribution under provisions of the Texas Open Records Act. Chris Swedlund is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign the report.

GENERAL TERMS AND CONDITIONS

You may request that we perform additional services not contemplated by this engagement letter. If this occurs, we will communicate with you regarding the scope of the additional services and the estimated fees. We also may issue a separate engagement letter covering the additional services. In the absence of any other written documentation from us documenting such additional services, our services will continue to be governed by the terms of this engagement letter.

This agreement may be terminated by either party, with or without cause, upon 30 days written notice.

You agree that any dispute regarding this engagement will, prior to resorting to litigation, be submitted to mediation upon written request by either party. Both parties agree to try in good faith to settle the dispute in mediation. The American Arbitration Association will administer any such mediation in accordance with its Commercial Mediation Rules. The results of the mediation proceeding shall be binding only if each of us agrees to be bound. We will share any costs of mediation proceedings equally.

As required by Chapter 2270, Government Code, we hereby verify that our firm does not boycott Israel and will not boycott Israel through the term of our engagement. For purposes of this verification, "boycott Israel" means refusing to deal with, terminating business activities with, or otherwise taking any action that is intended to penalize, inflict economic harm on, or limit commercial relations specifically with Israel, or with a person or entity doing business in Israel or in an Israeli-controlled territory, but does not include an action made for ordinary business purposes.

Pursuant to Chapter 2252, Texas Government Code, we represent and certify that, at the time of execution of this Agreement neither our firm, nor any wholly owned subsidiary, majority-owned subsidiary, parent company or affiliate of the same (i) engages in business with Iran, Sudan, or any foreign terrorist organization as described in Chapters 806 or 807 of the Texas Government Code, or Subchapter F of Chapter 2252 of the Texas Government Code, or (ii) is a company listed by the Texas Comptroller of Public Accounts under Sections 806.051, 807.051, or 2252.153 of the Texas Government Code. The term "foreign terrorist organization" in this paragraph has the meaning assigned to such term in Section 2252.151 of the Texas Government Code.

We appreciate the confidence you have placed in our firm and we look forward to serving the District again this coming year.

Sincerely,

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants