

The meeting was called to order at 10:05 AM at the offices of Canterwood Commercial.

Attendees: Doug Allen, Mike Williams, Ed Caudill and Mike Hondorp (Directors); Russell Tanner (Canterwood Development Co.); Eva Hill (Still Water Planning) via phone for one matter.

A quorum of the Board was present. Vice-President Allen chaired the meeting. The first matter of business was a discussion of the recently completed preliminary engineering report (pre-design report), dated August 13, 2012, from David Jensen, PE, pertaining to LOSS feasibility. LOSS consultant Eva Hill joined the meeting by phone. Hill discussed the report executive summary that was provided at the meeting. She explained that the complete report, with appendices, was submitted by Jensen to WA DOH. Hill said she plans to contact a DOH representative, Jean Andresen, next week to explain the purpose of the LOSS project in further detail, including political issues with the City of Gig Harbor and other key factors raised by Board members. Hill thought the DOH timeline for follow-up and response would be in the area of 4 to 6 weeks. Finally, prior to hanging up, Hill agreed to the Board's request to provide a brief written summary of the LOSS project's status and her time and charges to date prior to the Board's next meeting on September 20, 2012.

Hondorp commented on the contents of the minutes of the July 19 meeting, as well as the handout of the July 31, 2012 e-mail memo he wrote and sent to all directors that summarized the meeting on that date involving Muretta, Allen, Hondorp and Kalles staff on various issues as described therein. Because a quorum of the Board was present at that Kalles meeting, Hondorp felt the Board should ratify the write up for the record and the others concurred. It was then moved and seconded to approve the July 19 minutes and the July 31, Kalles meeting memo and the motion was unanimously approved.

Financial and legal issues were then addressed. Hondorp explained that the July excise tax filing showed no tax due according to Debbie Rench from Kalles. The July financial statements were discussed. Hondorp said that various errors or concerns he raised at the July 31 Kalles meeting had been substantially addressed to his satisfaction. He said a problem remains with differences in amounts in two financial reports for the same period, as well as a continuing problem with retained earnings flow and presentation. Hondorp mentioned that he had prepared a detailed RE flow analysis on August 23 and, along with copying all directors, he had provided it to Debbie of Kalles for resolution of the remaining problems.

Discussions then turned to the status of delinquent accounts receivables at July 31, 2012, totaling over \$25,000. Allen noted that seven accounts had been moved to collection with attorney Scott Alexander since the July Board meeting discussions and the aforementioned July 31 meeting with Kalles. It was pointed out that four other member accounts have now reached the \$600 level and should be ready to be turned over for collection assuming that Kalles has issued the required "final notice" letters via certified mail to such debtors. Allen said he would check on the dunning status of those four accounts and get them turned over to Alexander for handling as soon as possible. It was suggested that Debbie from Kalles provide Allen with a copy of all "final notice" letters to debtors henceforth to ensure that they are being issued by Kalles in a timely manner. The others agreed, but Tanner suggested that Susan Anderson be assigned to be the recipient of such letters from Debbie to put into the STEP files (and also e-mail copies to all directors). The group concurred with that suggestion.

Allen was also asked to contact attorney Alexander to make sure that he has filed liens on the STEP's behalf on each of the seven accounts recently given to him for collection purposes. Hondorp said that several homes owned by these debtors are already listed for sale and that it is imperative that such liens be obtained without delay. Allen said he would check with Alexander to make certain that promptly obtaining liens is a standard practice by him when he is assigned STEP accounts for collection.

Hondorp advised the group that per a recent phone call to the WA Dept. of Revenue, the pending excise tax refund request is in the third and final review stage. There is no other information available at this time on the status of the examination or the timing of the expected refund.

Discussion then turned to the listing of builder's deposits payable totaling \$29,000 (58 accounts). According to Debbie of Kalles, aside from the last entry pertaining to builder Hill, there are only four other accounts listed therein where the builder/owner has prepaid, but not yet built and hooked up to the STEP at the address in question, a total of 5 un-builts. Also according to Debbie on July 31, all deposits on the listing except the last two are over a year old or much older. Tanner questioned two of the four items that Debbie thought were "prepaid, but un-built", stating he was quite certain they were already built and connected to the STEP system. He agreed to verify the data with Susan Anderson next week (This was subsequently done and the correct actual number of "prepaid, but un-built" was determined to be 3 accounts). In response to Hondorp's question, Tanner stated that he was certain that any builder/owner who had submitted As-built drawings has received their full deposit back. He was also confident that those 55 builder/owners still on the listing whose houses are now connected to the STEP system simply did not bother to submit the required As-built drawings in a timely manner.

After further discussion, the Board decided that the STEP is legally entitled pursuant to established policy to deem all old builder/owner deposits for which As-builts were never submitted to be forfeited and become general funds of the STEP. It was then moved, seconded and unanimously approved that 55 such accounts be subject to immediate forfeiture, totaling \$27,500. Three builder/owner accounts, totaling \$1500, were deemed to be valid prepaid, but yet un-built and thus legitimate deposit liability accounts at this time. Therefore, the Board also moved, seconded and approved a motion to instruct Kalles to move \$1500 from the general bank account to the reserve bank account for these three deposits. In the future, the Board felt that builder/owner "As-built" deposits should be held in the reserve bank account until repaid or forfeited as the case may be.

The group then took up discussion of the edits submitted by Hondorp to the "STEP System Fees and Procedure List", as last revised by the Board on March 20, 2012. Hondorp explained the reasons for the edits to the policy document as are contained in a new document titled "Step System Requirements, Fees and Regulations" dated August 24, 2012. It was the consensus of the group that the new policy document corrected certain errors in the former policy document and, among other things, was more flexible with respect to Board options on refunds of builder/owner deposits for untimely As-built drawing submissions. It was moved, seconded and the Board unanimously approved replacing the former policy with the new policy document effective immediately. The Board also agreed it should be posted to the Builder's Page of the STEP web site as soon as possible.

The discussions moved to operations matters, namely the Magmeter project. Tanner indicated that the project is substantially completed as evidenced by his recent e-mail to all directors and Kalles recapping project costs to date. Reference was made to the cost spreadsheet, currently totally \$10,222.29. Tanner said that the City of Gig Harbor staff still needs to come out and assist in setting up the metering equipment for future readings. Currently, billings are being made by the City based on STEP historical usage data per Tanner. He also said that additional box venting and some facility security measures need to be installed before the project is deemed totally finished. Hondorp said that Debbie from Kalles can now record the assets, but that he wants her to delay computing depreciation until all project costs are complete. The Board thanked Tanner for his hard work on this long project.

Administrative matters covered a number of topics. Hondorp indicated that despite several requests, the revised draft services agreement from Kalles has not yet been received and he does not know what is causing the holdup. The matter of updating the STEP's current collection policy statement of October,

2011 was handled next. Due to time constraints and the complicated nature of the subject, this item was only discussed briefly. Hondorp explained that he had only recently received answers from Kalles concerning accounting practices for delinquent accounts. He is also awaiting historical data from Tanner with respect to past Board actions on the subject. Finally, he made reference to the STEP's governing documents pertaining to delinquent member accounts. Everyone agreed that the matter was complex and should be deferred to the next meeting so that more time can be devoted to it. Hondorp handed out copies of a detailed collection policy from a Nevada HOA for the director's information and consideration.

Hondorp presented a one page document, Accounting for Connection Fees (New Step Hookups), dated August 24, 2012. He explained it was intended to document the accounting practices with respect to acquiring new service connections. Tanner was in agreement with the language as outlined and the others concurred. It was moved, seconded and the Board approved the document as written. It was agreed that it should be posted in the Directors Page of the web site.

Ed Caudill and Mike Williams discussed the work they have been doing with respect to new STEP member procedures and controls. Mike outlined a package of documents that they had identified for distribution by Kalles in the future to new STEP accounts as they are set up. The package would be accompanied by a welcome letter from the STEP Board. The group was in general agreement with the documents, but felt that they were paper intensive and that most documents already existed on the web site. It was suggested that many be eliminated by informing new members that they are available for viewing on the web site. Mike and Ed were asked to bring back a draft "welcome" letter and package to the next meeting for further discussion and they agreed to do so.

By way of two hand-written handouts, Hondorp discussed the timing requirements in the By-laws for things such as an election of three of the five Board members in 2012, as well as new assessments determination and billing. Directors Allen, Williams and Caudill each volunteered to stand for re-election for the 3 seats to be up for election assuming that the Board decides to conform to Article IV, Section 2 of the By-laws in 2012. Hondorp also outlined the many things that must be accomplished at the November and December meetings to comply with the STEP's governing documents and adequately prepare for calendar 2013 business. The group agreed that there is much to do before the end of the current calendar year in light of the four meetings that remain, including the annual membership meeting in December.

Prior to adjournment, there was brief discussion of a couple of the items shown on the Existing Projects/Pending list at the bottom of the agenda. Items 1 and 9 (Magmeter and Connection Fees Accounting) are now considered concluded and will be removed from the list. Three items: Collection Policies, Bad Debts Reserves, and Revisions to By-laws and CC&Rs will be added for further Board attention when time permits.

The next regular Board meeting is Thursday September 20, 2012 at 4:00 PM.

The meeting was adjourned at 12:10 PM.