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SUPERIOR COURT OF CALIFORNIA

COUNTY OF SANTA CRUZ

CFSC, INC., a California corporation, Plaintiff, v. ENCOMPASS COMMUNITY SERVICES, a California corporation, Defendant.	Case No. 19CV01084 (Consolidated with Case No. 19PR00428) **DECLARATION OF STEPHEN M. LA BERGE IN OPPOSITION TO DEFENDANT'S MOTION FOR SUMMARY JUDGMENT, OR ALTERNATIVELY, SUMMARY ADJUDICATION**
AND RELATED CROSS-ACTION	Date: January 7, 2021 Time: 8:30 a.m. Dept: 5 Judge: Hon. Timothy Volkmann Complaint Filed: April 9, 2019 Cross-Complaint Filed: May 10, 2019 Probate Petition Filed: September 30, 2019 Counter Petition Filed: January 2, 2020 Trial Date: February 1, 2021

I, Stephen M. La Berge, declare:

1. I am the Chair of the Board of Directors of Plaintiff CFSC, Inc. ("CFSC"). I have personal knowledge of the facts stated herein, and if called upon to testify, could and would competently testify thereto.

2. I have served on CFSC's Board since 2015. I and my fellow Board members serve on CFSC's Board as unpaid volunteers. Before joining CFSC's Board, I also served as an unpaid volunteer on the Board of Defendant Encompass Community Services ("Encompass", formerly known as Santa Cruz Community Counseling Center, Inc.) for approximately 25 years, including as Board Chair.

3. CFSC was incorporated in 1981 as a nonprofit public benefit corporation. A true and correct copy of CFSC's articles of incorporation is attached hereto as **Exhibit** A. CFSC is governed by its Board, which presently has 7 members. Per CFSC's current Bylaws (a true and correct copy of which is attached hereto as **Exhibit B**), Encompass can approve up to 40% of the seats on CFSC's Board, one of which is held by Encompass's CEO, Monica Martinez.

4. Under its articles of incorporation, CFSC's primary purpose is "to devote efforts toward fundraising activities, supportive services, and the obtaining of facilities, vehicles, and equipment for the benefit of Encompass." To carry out its charitable purposes, CFSC has successfully obtained numerous facilities that benefit Encompass, primarily through a mix of government grants and loans.

5. CFSC currently owns 17 properties in Santa Cruz County. Nine of CFSC's properties are permanent "supportive housing" where eligible individuals reside. These properties collectively have more than 60 beds for residents. In the case of these properties, CFSC leases living units directly to individual tenants who may qualify for such housing because, for example, they are chronically homeless and/or suffer from a psychiatric disability. Encompass provides various types of supportive services to these individuals. CFSC rents its other eight properties

directly to Encompass, which operates various social service programs at these sites under contract with local, state or federal government.

6. Before this dispute arose, Encompass tried to persuade CFSC to change the way CFSC has always supported Encompass. On August 3, 2017, the Encompass Board proposed to CFSC's Board that CFSC change the purpose statement in CFSC's Articles of Incorporation and Bylaws. A true and correct copy of the memorandum in which the Encompass made this proposal is attached hereto as **Exhibit C**. In particular, the Encompass Board asked that CFSC agree to change the statement of purpose that CFSC has had since its incorporation in 1981, which says that CFSC is to "devote efforts toward fundraising activities, supportive services, and the obtaining of facilities, vehicles and equipment for the benefit of Encompass." Encompass's Board asked that CFSC agree to change that language to say that CFSC is to "devote efforts toward building capital for the sole purpose of supporting Encompass Community Services." **Exhibit C,** p. 3. The CFSC Board did not agree to Encompass's proposal.

7. CFSC does not make cash grants to Encompass to support Encompass's programs. CFSC supports Encompass in other ways. First and foremost, CFSC has supported Encompass over the course of nearly 40 years by – in the words of CFSC's Articles of Incorporation – "the obtaining of facilities"; these facilities are used to house individuals to whom Encompass provides counseling services, and as Encompass program sites. CFSC also supports Encompass by leasing the properties Encompass uses as program sites on favorable terms. CFSC has also supported Encompass by entering into tenant support contracts, pursuant to which CFSC pays Encompass to provide services designed to ensure that the population of supportive housing tenants in CFSC's properties remains relatively stable. CFSC has also supported Encompass by making sizeable loans to Encompass on extremely generous terms (*e.g.*, CFSC's 2017 unsecured loan of $750,000 to Encompass at 2% interest). Over the course of CFSC's working relationship with Encompass, counting the annual leases, the tenant support contracts, the loans and the administrative services

agreements discussed below, CFSC and Encompass have entered into literally hundreds of agreements with each other.

8. CFSC has no employees; it contracts with third parties to provide the services it needs. Over the years that I have served on CFSC's Board, CFSC has had a series of contracts with Encompass for Encompass to provide administrative services to CFSC, including property management and financial management services. A true and correct copy of CFSC's most recent such contract with Encompass ("the Services Agreement"), which expired on June 30, 2019, is attached hereto as **Exhibit D**.

9. Encompass prepared the Services Agreement and presented it to CFSC's Board for approval. CFSC's Board approved the Services Agreement proposed by Encompass without change or any negotiation of the terms specified by Encompass. During the time I have served on CFSC's Board the parties followed the same course of conduct for the predecessor service agreements, *i.e.*, Encompass would prepare the agreement and present its terms to CFSC's Board for approval, and CFSC's Board would approve the agreement as proposed by Encompass – including the compensation Encompass was to receive for the services provided – without any changes or negotiation.

10. While the Services Agreement was in effect, Encompass wrote checks as CFSC's property manager to pay bills relating to CFSC's properties, such as utility bills, and maintenance and repair bills. In order to carry out its duties under the Services Agreement, Encompass was given access to CFSC's bank accounts.

11. On September 17, 2018, Encompass used its access to CFSC's bank accounts to take $850,000 from CFSC's main operating account without CFSC's permission and contrary to CFSC's instructions. Specifically, Encompass CEO Monica Martinez signed a check for $850,000 written on CFSC's account, made payable to Encompass Community Services. A true and correct copy of the check is attached hereto as **Exhibit E**. The events leading up to Encompass's

unauthorized taking of these funds are as follows.

12. Before Encompass misappropriated this money, CFSC and Encompass had been negotiating the terms of a $1 million loan from CFSC to Encompass, so that Encompass could repay funds it had borrowed from Comerica Bank. The $1 million loan Encompass requested was in addition to a $750,00 loan that CFSC had made to Encompass in 2017 pursuant to a Line of Credit Agreement that was still outstanding. Encompass reported to CFSC's Board that it continued to have serious financial problems even after having borrowed $750,000 from CFSC.

13. CFSC's Board voted in March of 2018 to make a further loan of $1 million to Encompass at 2% interest, but the terms of the loan remained to be negotiated, agreed upon and documented. That process took months. On August 29, 2018, CFSC's counsel emailed Encompass loan documents for the $1 million Encompass sought to borrow from CFSC. These loan documents consisted of a loan agreement and two promissory notes, one for $850,000 and another for $150,000. (CFSC had already advanced the $150,000 amount to Encompass in late June.) A true and correct copy of these loan documents is attached hereto as **Exhibit F**.

14. Two weeks later, on September 12, 2018, I and three other CFSC Board members met with several members of Encompass's Board, Scott McDonald, Cassie Gazipura (aka Cassie Licker) and Julia Feldman. Also present was Encompass's counsel Mr. Pearce, who made clear at the meeting that Encompass would not sign the CFSC loan documents. Mr. Pearce instead provided me a revised version of the loan documents that he said Encompass would sign.

15. Later that day, after communicating with CFSC's counsel, I left a voicemail for Encompass's CFO, Kim Morrison, informing her that CFSC had communicated with its counsel, that CFSC's counsel had recommended that CFSC not agree to any of the changes to the loan documents proposed by Encompass, and that CFSC was taking its counsel's advice and would only agree to use the CFSC loan documents.

16. The next day, September 13, 2018, I emailed Ms. Martinez and the other CFSC

Board members, reconfirming that: (1) at the meeting the preceding day Mr. Pearce had asked that CFSC accept loan documents proposed by Encompass instead of CFSC's loan documents; (2) that I emailed the proposed Encompass loan documents to CFSC's counsel; (3) that CFSC's counsel advised that CFSC use the CFSC loan documents; and (4) that CFSC was taking its counsel's advice and would only agree to using the CFSC loan documents. A true and correct copy of my September 13 email to Ms. Martinez and the other Board members is attached hereto as **Exhibit G**.

17. I spoke with Ms. Martinez later that afternoon about CFSC's requirement that its version of the loan documents be signed as a condition of the proposed $850,000 loan to Encompass. Ms. Martinez said that an Encompass subcommittee had the responsibility for resolving this issue and suggested that I contact Encompass Board member Cassie Gazipura.

18. Per Ms. Martinez's suggestion, I emailed Ms. Gazipura, informing her of my conversation earlier that afternoon with Ms. Martinez. I reiterated that signed loan documents were a prerequisite to the transfer of $850,000 to Encompass, and that: "The promissory notes and loan agreements must be the notes and agreements proposed by CFSC." A true and correct copy of my September 13 email to Ms. Gazipura is attached hereto as **Exhibit H**.

19. Nevertheless, on Monday, September 17, 2018, despite: (1) my September 12 phone message to Encompass CFO Kim Morrison; (2) my September 13 email to Encompass CEO Monica Martinez; (3) my September 13 telephone conversation with Ms. Martinez; and (4) my September 13 email to Ms. Gazipura, Encompass removed $850,000 from CFSC's account without signing the CFSC loan documents. As mentioned above, Encompass took the money by negotiating a check (**Exhibit E** hereto) payable to itself in the amount of $850,000, written on CFSC's bank account, signed by Ms. Martinez.

20. That night, at 7:22 p.m., Encompass attorney Colin Pearce sent me an email attaching copies of the Encompass version of the loan documents that CFSC had already rejected, signed by Ms. Gazipura. A true and correct copy of Mr. Pearce's email is attached hereto as

Exhibit I. In his email, Mr. Pearce said that Encompass was "in desperate need" of funds, and had an "immediate and urgent" need for funds. Mr. Pearce acknowledged that he knew Encompass had access to CFSC's bank account, and that he had recommended that Encompass immediately transfer the $850,000 to Comerica Bank "given the urgent need to repay the loan obligation."

21. As soon as I became aware that night of Mr. Pearce's email, I emailed it to CFSC's Board. Shortly thereafter I emailed Mr. Pearce, as well as Ms. Martinez and the rest of the CFSC Board, reiterating that the CFSC subcommittee dealing with this matter had been quite clear that the $1 million in loans sought by Encompass had to be supported by signed loan documents in the form drafted by CFSC. A true and correct copy of my September 17 email to Mr. Pearce is attached hereto as **Exhibit J**. Unbeknownst to me, Encompass had already taken the money from CFSC's account – a fact that Mr. Pearce did not mention in his September 17 email to me.

22. On the morning of September 18, 2018, I learned that Encompass had already taken the $850,000 from CFSC's bank account. CFSC's Board was scheduled to meet that afternoon. Ms. Martinez, as a member of CFSC's Board, attended the CFSC Board meeting. When I asked Ms. Martinez at the meeting about the $850,000 Encompass had taken from CFSC's bank account she refused to answer any questions on the subject, and stated that her refusal was based on advice of counsel. Encompass CFO Kim Morrison, who was also at the meeting, likewise refused to answer any questions about the money that had been taken, citing advice of counsel.

23. After Encompass misappropriated this money, CFSC moved the bulk of its remaining funds to an account to which Encompass did not have access.

24. The Services Agreement expired on June 30, 2019. Long before the June 30 expiration date Encompass had stopped performing many of the services called for by the agreement. For example, Encompass stopped providing regular financial reporting requested by CFSC's Board. In addition, Encompass staff – who previously attended CFSC Board meetings on a routine basis to take minutes, answer questions and provide other input to the Board – stopped

attending CFSC Board meetings. I believe the last CFSC Board meeting attended by Encompass staff was on January 3, 2019 – almost six months before the Services Agreement expired.

25. After this dispute arose Encompass withheld accounting and other records in its possession as CFSC's management agent under the Services Agreement, that CFSC needed to prepare its tax returns, to complete its audit, and to make required reports to government agencies. As a result, CFSC was forced to obtain an injunction to force Encompass to turn over these essential records.

26. CFSC's only material source of income is rent from its properties. After the Services Agreement expired on June 30, 2019, Encompass stopped paying rent on the properties it leases from CFSC, depriving CFSC of close to $23,000 per month of lease revenue that CFSC needs to pay its bills (*e.g.,* debt service, insurance, property maintenance and property management) and to fund replacement reserves for these aging properties. CFSC's reserves had already become seriously depleted during the period when Encompass was CFSC's management agent; its failure to pay rent has only made this situation worse. CFSC's debt obligations are substantial. Among others obligation, CFSC owes over $1 million on a loan from Comerica Bank, full payment of which is due in April 2022. Three of CFSC's properties are security for that loan.

27. After the Services Agreement expired Encompass filed a motion seeking an order that would have compelled CFSC to pay Encompass $77,000 per month – more than twice the amount Encompass had been paid under the Services Agreement. Coupled with Encompass's refusal to pay rent on the CFSC properties it occupies, the requested order would have bankrupted CFSC.

28. Encompass has recently resumed paying rent on all but one of the CFSC properties it occupies. However, Encompass has still not reimbursed CFSC for the twelve months of rent it failed to pay to CFSC for the period July 1, 2019 through June 30, 2020, for a total of approximately $272,000, ignoring interest and late charges. Encompass occupied these properties

rent-free for a year, while CFSC continued to incur the cost of operating, maintaining and managing these properties. As a result, CFSC was recently forced to incur the expense of obtaining a bank line of credit to ensure that it has adequate funds to operate.

29. As mentioned above, CFSC loaned $750,000 to Encompass in 2017 pursuant to a Line of Credit Agreement, a true and correct copy of which is attached hereto as **Exhibit K**. That was not the first large loan CFSC had made to Encompass. Encompass had also borrowed $750,000 from CFSC in 2016, which Encompass repaid the following year. Before these loans were made Encompass and CFSC had received legal advice from their joint legal counsel, Brad Caftel, about properly structuring and documenting loans from CFSC to Encompass. Attached hereto as **Exhibit L** is a true and correct copy of a document I received from Encompass in connection with a September 3, 2015 CFSC Board meeting, reflecting Mr. Caftel's advice on this subject.

30. CFSC now uses a company called Front St. Administrative Services, LLC ("FSAS") to perform the services formerly performed by Encompass under the expired Services Agreement. CFSC has also retained the services of a real estate broker, Pacific Sun Property Management, Inc. ("Pacific Sun") to assist with and supervise the property management services provided by FSAS. The combined cost to CFSC of FSAS's and Pacific Sun's services is considerably less than CFSC was being charged by Encompass under the Services Agreement.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Dated: December 22, 2020

Stephen M. La Berge

EXHIBIT A

1020592

ARTICLES OF INCORPORATION
of
COMMUNITY FOUNDATION OF SANTA CRUZ

I

The name of this corporation is COMMUNITY FOUNDATION OF SANTA CRUZ.

II

This corporation is a nonprofit public benefit corporation and is not organized for the private gain of any person. It is organized under the Nonprofit Public Benefit Corporation Law for charitable purposes. The purposes for which this corporation is formed are:

(a) The specific and primary purposes are, as a charitable organization, to devote efforts toward fundraising activities, supportive services, and the obtaining of facilities, vehicles, and equipment for the benefit of the Santa Cruz Community Counseling Center, Inc.

(b) The general purposes and powers are to have and to exercise all rights and powers conferred on nonprofit corporations under the laws of California, within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1954. Notwithstanding any other provision of these Articles, this corporation shall not carry on any activities not permitted to be carried on by a corporation exempt under that Section.

(c) No substantial part of the activities of this corporation shall consist in the carrying on of propoganda or otherwise attempting to influence legislation, nor shall this corporation participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of any candidate for public office.

III

The property of this corporation is irrevocably dedicated to charitable purposes, and no part of the net income or assets of this corporation shall ever inure to the benefit of any director, officer, or member of this corporation, or to the benefit of any private individual.

Upon the winding up and dissolution of this corporation and after paying or adequately providing for the debts and obligations of the corporation, the remaining assets shall be distributed to a nonprofit fund, foundation, or corporation which is organized and operated exclusively for charitable purposes and that has established its tax exempt status under Section 501(c)(3) of the Internal Revenue Code.

IV

The name and address in this state of the corporation's initial agent for the service of process is Robert M. Kardon, 421 Ocean Street, Santa Cruz, California 95060.

Dated: January 16, 1981

Robert M. Kardon

Robert M. Kardon, Incorporator

I declare that I am the person who executed these Articles of Incorporation, and that this instrument is my act and deed.

Robert M. Kardon

Robert M. Kardon

CERTIFICATE OF AMENDMENT
OF
ARTICLES OF INCORPORATION

Robert M. Kardon and Kenneth Hilliard certify that;

1. They are the chairperson and secretary/treasurer, respectively, of Community Foundation of Santa Cruz, Inc.,

2. Article II (a) of the articles of incorporation of this corporation is amended to read as follows:

   (a) The specific and primary purposes are, as a charitable organization, to devote efforts toward fundraising activities, supportive services, and the obtaining of facilities, vehicles, and equipment for the benefit of The Santa Cruz Community Counseling Center, Inc. The activities of the Community Foundation of Santa Cruz are limited to this support function.

3. The foregoing amendment of articles of incorporation has been duly approved by the board of directors.

4. The foregoing amendment of articles of incorporation has been duly approved by the required vote of members.

Robert M. Kardon

ROBERT M. KARDON, Chairperson

KENNETH HILLIARD, Secretary/Treasurer

The undersigned declare under penalty of perjury that the matters set forth in the foregoing certificate are true of their own knowledge.

Executed at Santa Cruz, California on November 30, 1981.

Robert M. Kardon

ROBERT M. KARDON, Chairperson

KENNETH HILLIARD, Secretary/Treasurer

ENDORSED
FILED
in the office of the Secretary of State
of the State of California

MAY 18 1988

MARCH FONG EU, Secretary of State

CERTIFICATE OF AMENDMENT
of
ARTICLES OF INCORPORATION

Terry Moriarty and Barney Elders certify that:

1. They are the Chairperson and the Secretary respectively, of the COMMUNITY FOUNDATION OF SANTA CRUZ, a California corporation.

2. Article I of the articles of incorporation of this corporation is amended to read as follows:

   The name of this corporation is CFSC, Inc.

3. The foregoing amendment of articles of incorporation has been duly approved by the Board of Directors.

4. The foregoing amendment of articles of incorporation has been duly approved by the required vote of members.

We further declare under penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of our own knowledge.

Date: May 2, 1988

T. Moriarty

Terry Moriarty, J.D., Ph.D.
Chairperson

Barney Elders, J.D.
Secretary/Treasurer

CFSC, Inc.
1201 Shaffer Road
Santa Cruz, CA 95060

(408) 425-1830

A387819

ENDORSED
FILED
In the office of the Secretary of State
of the State of California

MAY 24 1990

MARCH FONG EU, Secretary of State

CERTIFICATE OF AMENDMENT
of
ARTICLES OF INCORPORATION

Terry Moriarty and Barney Elders certify that:

1. They are the Chairperson and the Secretary respectively of CFSC, Inc., a California corporation.

2. Article II(a) of the articles of incorporation of this corporation is amended to read as follows:

(a) The specific and primary purposes are, as a charitable organization, to devote efforts toward fundraising activities, supportive services, and the obtaining of facilities, vehicles, and equipiment for the benefit of the Santa Cruz Community Counseling Center, Inc. This purpose statement cannot be revised without approval by the Board of Directors of the Santa Cruz Community Counseling Center, Inc.

3. The foregoing amendment of articles of incorporation has been duly approved by the Board of Directors.

4. The foregoing amendment of articles of incorporation has been duly approved by the required vote of members.

We further delcare under penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of our own knowledge.

Date: May 15, 1990.

Terry Moriarty, J.D., Ph.D.
Chairperson

Barney Elders, J.D.
Secretary

EXHIBIT B

BYLAWS
of
CFSC, INC.
A California Nonprofit Public Benefit Corporation

ARTICLE 1: NAME

The name of this Corporation is CFSC, Inc.

ARTICLE 2: PURPOSE

The purposes for which this corporation is formed are charitable, to devote efforts toward fundraising activities, supportive services, and the obtaining of facilities, vehicles, and equipment for the benefit of the Santa Cruz Community Counseling Center, Inc. This purpose statement cannot be revised without approval by the Board of Trustees of the Santa Cruz Community Counseling Center, Inc ("SCCCC").

In addition, this corporation is formed for the purpose of performing all things incidental to, or appropriate in, the achievement of the foregoing specific and primary purposes. The corporation shall not, except in an insubstantial degree, engage in any activities or exercise any powers that are not in furtherance of its primary charitable purposes.

ARTICLE 3: PRINCIPAL OFFICE

The principal office for the transaction of the business of the corporation is fixed and located in the City of Santa Cruz, County of Santa Cruz, State of California. The Board of Directors may at any time, or from time to time, change the location of the principal office from one location to another in this County.

ARTICLE 4: NONPARTISAN ACTIVITIES

This corporation has been formed under the California Nonprofit Public Benefit Corporation Law (the "Law") for the charitable purposes described above, and it shall be nonprofit and nonpartisan. No substantial part of the activities of the corporation shall consist of publication or dissemination of materials with the purpose of attempting to influence legislation, the carrying on of propaganda or otherwise attempting to influence legislation. The corporation shall not participate or intervene in any political campaign on behalf of or in opposition to any candidate for public office.

ARTICLE 5: DEDICATION OF ASSETS

The properties and assets of this nonprofit corporation are irrevocably dedicated to charitable purposes. No part of the net earnings, properties, or assets of this corporation, on dissolution or otherwise, shall inure to the benefit of any private person or individual, or any member or director of this corporation. On liquidation or dissolution, all properties and assets and obligations shall be distributed and paid over to an organization dedicated to charitable purposes, which has established its tax-exempt status as specified in Internal Revenue Code Section 501 (c)(3).

ARTICLE 6: BOARD OF DIRECTORS

Section 1. Powers. Subject to the provisions and limitations of the Law and any other applicable laws, the business and affairs of the corporation shall be managed, and all corporate powers shall be exercised, by or under the direction of the Board of Directors. The Board of Directors may delegate the management of the day-to-day operation of the business of the corporation to a management company, committee, or other person, provided that the activities and affairs of the corporation shall be managed and all corporate powers shall be exercised under the ultimate direction of the Board of Directors.

Section 2. Number of Directors. This corporation shall be governed by a Board of Directors consisting of no fewer than 3 and up to 10 directors, residents of Santa Cruz County, who shall receive no compensation for their services as such. 40% of the seats on this Board, (except that at all times should be less than 50%) rounded up to the nearest whole number, shall be approved by SCCCC Board of Trustees; this provision can only be amended with the approval of the SCCCC Board of Trustees.

Section 3. Election and Term of Office. At all times, one of the directors shall be the SCCCC Executive Director, who shall be counted as one of the directors approved by the SCCCC Board of Trustees. Except for the SCCCC Executive Director, each director shall be elected for a term of three (3) years. Each director shall hold office until the expiration of the term for which elected and until a successor has been elected and qualified. Each year in March, the Board of Directors will nominate candidates for terminating positions and submit the required number of Directors to SCCCC Board of Trustees for approval. Election and installation will occur in June. Any seat requiring SCCCC approval will remain vacant until such time as SCCCC Board of Trustees has approved. Directors may serve any number of consecutive terms.

Section 4. Vacancies. A vacancy shall be deemed to exist in the event that the actual number of directors is less than the authorized number for any reason. Any vacancy occurring in the Board of Directors shall be filled by a duly held election of members of the Board of Directors, once approval of the candidate by the SCCCC Board of Trustees has been given if so required.

Section 5. Meetings. The Board of Directors shall hold an annual meeting in June of each year for the purpose of electing directors and officers of the corporation and for the transaction of other business. Notice of the annual meeting shall be given in the manner set forth below. Other regular meetings shall be held at such times as are fixed by the Board of Directors. The meeting schedule will be determined in reference to the business that needs to be accomplished. Meetings will be held at the principal office of the corporation unless otherwise designated by the Board.

Meetings of the Board for any purpose may be called at any time by the chairperson of the Board, the secretary, or any two (2) directors. Notice of the date, time, and place of meetings shall be delivered personally to each director or communicated to each director by telephone (including voice messaging system which records and communicates messages), facsimile, or electronic mail at least 24 hours prior to the meeting, or communicated by mail or other means of written communication, addressed to the director at the director's address as it is shown upon the records of the corporation, deposited in the mail or other carrier at least four (4) days before the date of the meeting. The notice need not specify the purpose of the meeting.

Any meeting may be held by conference telephone or other communications equipment permitted by the Law, as long as all directors participating in the meeting can communicate with one another and all other requirements of the Law are satisfied. All such directors shall be deemed to be present in person at such a meeting.

Section 6. Action at a Meeting. Presence of a majority of the directors then in office or 20% of the authorized number of directors, whichever is greater, at a meeting of the Board of Directors constitutes a quorum for the transaction of business, except as otherwise provided in these Bylaws. Every act done or decision made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the Board of Directors. Directors may not vote by proxy. A meeting at which a quorum is initially present, including an adjourned meeting, may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a disinterested majority of the required quorum for such meeting, or such greater number as required by the Articles of Incorporation, these bylaws or the Law.

Section 7. Adjourned Meeting and Notice. A majority of the directors present, whether or not constituting a quorum, may adjourn any meeting to another time and place. Notice of the time and place of holding an adjourned meeting need not be given, unless the meeting is adjourned for more than 24 hours, in which case personal notice of the time and place shall be given before the time of the adjourned meeting to the directors who were not present at the time of the adjournment.

Section 8. Action Without a Meeting. Any required or permitted action by the Board of Directors may be taken without a meeting, if all members of the Board shall individually or collectively unanimously consent in writing (electronic or facsimile communication is acceptable) to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board. Such action by written consent shall have the same force and effect as the unanimous vote of such directors.

Section 9. Removal. The Board by majority vote may remove any director with or without cause. The action to remove any Board members approved by SCCCC must be approved by the SCCCC Board of Trustees. Absence of a director from two or more consecutive Board meetings shall constitute cause for removal.

ARTICLE 7: STANDARD OF CARE

A. General. A director shall perform the duties of a director, including duties as a member of any committee of the Board on which the director may serve, in good faith, in a manner such director believes to be in the best interest of this corporation and with such care, including reasonable inquiry, as an ordinarily prudent person in a like situation would use under similar circumstances.

In performing the duties of a director, a director shall be entitled to rely on information, opinions, reports or statements, including financial statements and other financial data, in each case prepared or presented by:

1. One or more officers or employees of the corporation whom the director believes to be reliable and competent in the matters presented;

2. Counsel, independent accountants, or other persons as to matters which the director believes to be within such person's professional or expert competence; or,

3. A committee of the Board upon which the director does not serve, as to matters within its designated authority, which committee the director believes to merit confidence,

so long as in any such case, the director acts in good faith, after reasonable inquiry when the need therefore is indicated by the circumstances and without knowledge that would cause such reliance to be unwarranted.

A person who performs the duties of a director in accordance with these provisions shall have no liability based upon any failure or alleged failure to discharge that person's obligations as a director, including, without limiting the generality of the foregoing, any actions or omissions which exceed or defeat a public or charitable purpose to which a corporation, or assets held by it, are dedicated.

B. Loans. This corporation shall not make any loan of money or property to, or guarantee the obligation of, any director or officer; provided, however, that this corporation may advance money to a director or officer of this corporation or any subsidiary for expenses reasonably anticipated to be incurred in performance of the duties of such officer or director so long as such individual would be entitled to be reimbursed for such expenses absent that advance.

C. Self-Dealing Transactions. Except as approved in subsection D below, the Board shall not approve a self-dealing transaction. A self-dealing transaction is one to which the corporation is a party and in which one or more of the directors has a material financial interest or a transaction between this corporation and one or more of the directors or between this corporation and any person in which one or more of its directors has a material financial interest.

D. Approval. The Board of Directors may approve a self-dealing transaction if the Board determines that the transaction is in the best interests of, and is fair and reasonable to, this corporation and, after reasonable investigation under the circumstances, determines that this corporation could not have obtained a more advantageous arrangement with reasonable effort under the circumstances. Such determinations must be made by the Board in good faith, with knowledge of the material facts concerning the transaction and the director's interest in the transaction, and by a unanimous vote of the directors then in office, without counting the vote of the interested director or directors.

E. Inspection. Every director shall have the absolute right at any time to inspect and copy all books, records, and documents, and to inspect the physical properties of this corporation.

F. Gifts. The Board of Directors may accept on behalf of the corporation any contribution, gift, bequest, or devise for the general purpose of the corporation

ARTICLE 8: OFFICERS

Section 1. Officers. The officers of the corporation shall consist of a Chairperson, a Vice Chairperson, and a Secretary/Treasurer. A director may hold more than one office, except that neither the secretary nor the treasurer may serve concurrently as the chairperson of the Board. In addition to the duties specified in this Article 8, officers shall perform all other duties customarily incident to their office and such other duties as may be required by law, by the Articles of Incorporation, or by these bylaws, subject to control of the Board of Directors, and shall perform such additional duties as the Board of Directors shall from time to time assign.

The officers shall be chosen by the Board at its annual meeting, and shall serve at the pleasure of the Board. A vacancy in any office because of death, resignation, removal, disqualification, or any other cause shall be filled in the manner prescribed in these bylaws for regular appointments to that office.

The Chairperson of the Board shall, when present, preside at all meetings of the Board of Directors. The Chairperson shall, in general supervise and conduct the activities and operations of the corporation and keep the Board informed as to how the purposes and goals of the corporation are being met and shall consult with them concerning the activities of the corporation. The Chairperson is authorized to execute in the name of the corporation, all contracts and other documents authorized either generally or specifically by the Board. The Chairperson shall perform such other duties as shall from time to time be assigned to him or her by the Board of Directors. The Chairperson shall furnish a written report annually to all directors of this corporation containing the following information.

1. The assets and liabilities of this corporation at the end of the fiscal year;
2. The principal changes in assets and liabilities during the fiscal year;
3. The revenue or receipts of this corporation, both unrestricted and restricted for particular purposes, for the fiscal year, and;
4. The expenses or disbursements of the corporation for both general and restricted purposes during the fiscal year.

The Vice Chairperson shall consult with the Chairperson on the supervision, direction, and control of the corporation and advise and consent in the Chairperson's acts. In the absence of the Chairperson, or in the event of his or her inability or refusal to act, the Vice Chairperson shall perform all the duties of the Chairperson, and when so acting shall have all the powers of, and be subject to all the restrictions on, the Chairperson. The Vice Chairperson shall have such other powers and perform such other duties as may be prescribed from time to time by the Board of Directors.

The Secretary/Treasurer, or his/her designee, shall act as Secretary of all the meetings of the Board of Directors, and shall be the custodian of all records and documents of the corporation which are to be kept at the principal office of the corporation. The Secretary/Treasurer shall keep the minutes of all such meetings in books proposed for that purpose. The Secretary/Treasurer shall attend to the giving and serving of all notices of the corporation, and ensure that the execution of all documents on behalf of the corporation is duly authorized in accordance with the provisions of these Bylaws. The Secretary/Treasurer shall act as lease officer and is authorized by the Board to sign all leases in the name of the corporation under the following conditions: Prior approval of the Board is required for transactions over $5,000; the Secretary/Treasurer will prepare summaries for the Board when leases under $5,000 have been signed. The Secretary/Treasurer shall perform all other duties customarily incident to the office of Secretary/Treasure, subject to control of the Board of Directors, and shall perform such additional duties as may be prescribed, from time to time, by the Board of Directors.

In addition, the Secretary/Treasurer, or his/her designee, shall receive and safely keep all funds of the corporation and deposit them in the bank or banks that may be designated by the Board of Directors. Those funds shall be paid out only on checks of the corporation, signed by such persons as designated by the Board of Directors as authorized to sign them.

ARTICLE 9: COMMITTEES

Section 1. Committees. The Board of Directors may, by resolution adopted by majority vote of the directors then in office, provided that a quorum is present, designate one or more committees to serve at the pleasure of the Board. No committee shall bind the corporation in a contract or agreement or expend corporate funds, unless authorized to do so by the Board of Directors. Each such committee shall consist of two (2) or more directors and if an advisory body may also include persons who are not on the Board in a nonvoting capacity. Any committee that includes members who are not Directors serves only in an advisory capacity and cannot make decisions on behalf of the corporation.

Section 2. Meetings and Actions of Committees. Meetings and actions of all committees shall be governed by, and held and taken in accordance with, the provisions of Article 7 of these bylaws, concerning meetings and actions of directors, with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the Board of Directors and its members, except that the time for regular meetings of committees may be determined either by resolution of the Board of Directors or by resolution of the committee. Special meetings of committees may also be called by resolution of the Board of Directors. Notice of special meetings of committees shall also be given to any and all alternate members, who shall have the right to attend all meetings of the committee. Minutes shall be kept of each meeting of any committee and shall be filed with the corporate records. The Board of Directors may adopt rules not inconsistent with the provisions of these bylaws for the government of any committee.

ARTICLE 11: RECORDS AND REPORTS

Section 1. Maintenance and Inspection of Articles and Bylaws. The corporation shall keep at its principal office the original or a copy of its Articles of Incorporation and bylaws as amended to date, which shall be open to inspection by the directors at all reasonable times during office hours.

Section 2. Maintenance and Inspection of Federal Tax Exemption Application and Annual Information Returns. The corporation shall keep at its principal office a copy of its federal tax exemption application and its annual information returns for three (3) years from their date of filing, which shall be open to public inspection and copying to the extent required by law.

Section 3. Maintenance and Inspection of other Corporate Records. The corporation shall keep: (a) adequate and correct books and records of accounts, (b) written minutes of the proceedings of the Board and committees of the Board. These books and records shall be maintained at the principal office of the corporation.

Every director shall have the absolute right at any reasonable time to inspect all books, records, and documents of every kind and the physical properties of the corporation and each of its subsidiary corporations. The inspection may be made in person or by an agent or attorney, and shall include the right to copy and make extracts of documents.

Section 4. Preparation of Annual Financial Statements. The corporation shall prepare annual financial statements using generally accepted accounting principles. Such statements shall be audited by an independent certified public accountant, in conformity with generally accepted accounting standards, under supervision of the Audit Committee established by these bylaws. The corporation shall make these financial statements available to the California Attorney General and members of the public for inspection no later than nine (9) months after the close of the fiscal year to which the statements relate.

ARTICLE 13: FISCAL YEAR

The fiscal year for this corporation shall begin on July 1 and shall end on June 30.

ARTICLE 14: AMENDMENTS AND REVISIONS

These bylaws may be adopted, amended or repealed by the vote of a majority of the directors then in office. Such action is authorized only at a duly called and held meetings of the Board of Directors for which written notice of such meeting, setting forth the proposed bylaw revisions with explanations therefore, is given in accordance with these bylaws, unless such notice is waived in accordance with these bylaws.

ARTICLE 15: CORPORATE SEAL

The seal of the corporation shall be circular in form and shall bear the name of the corporation and words and figures showing that it was incorporated in the State of California in the year 1981. The seal shall be kept at the principal office of the corporation. Failure to affix the seal to any corporate instrument, however, shall not affect the validity of that instrument.

Revised May 15, 1990
Revised November 18, 1998
Revised September 10, 2007

EXHIBIT C

From: Encompass Board of Trustees
To: CFSC Board of Directors
Date: 8/3/2017
Regarding: Request for CFSC Actions

Encompass Community Services has been a strong, dependable, and impactful human services organization since 1973. Since inception, Encompass has navigated complex policy and funding landscapes to become one of the largest and most successful nonprofits in Santa Cruz County. Today, in the context of the seismic shifts occurring in social policy, Encompass is engaging in an organizational transformation that will strengthen our foundation and provide opportunities to leverage new sources of funding. Many of these changes have been shared with the CFSC Board during recent sessions, and Encompass will continue to communicate these efforts in future meetings.

During the past year, Encompass has made significant staffing and structural changes that have increased the efficiency of operations and repositioned the organization to negotiate more favorable contracts. Programs are being redesigned and restructured to reduce operating overhead and to deliver data-driven, evidence-based services.

In alignment with these changes, Encompass is also undergoing a transformation of our fiscal strategy to ensure long-term sustainability and support growth. This three-pronged approach is as follows:

- **Improve** our access to and utilization of timely, accurate, and useful financial reports
    - Overhauling our accounting and budgeting systems
    - Using automation to improve efficiency and reduce the risk of errors
- **Reposition** our approach to revenue generation
    - Negotiating contracts that represent true cost of delivering quality services
    - Diversifying funding beyond county contracts
- **Strengthen** our balance sheet
    - Creating a true operating reserve to stabilize cash flow
    - Operating within a balanced budget

This strategy includes a plan to redesign both the purpose and strategic use of Encompass' support corporations to ensure that these corporations are utilized to the maximum benefit of Encompass' mission and services. Encompass is proposing short and long term plans to strategically leverage the assets held under CFSC. Included is a proposal to amend the purpose statement of CFSC, so that the purpose more accurately reflects the current needs and proposed duties of the support corporation.

Encompass and CFSC are valuable entities that make up a unique and important community resource to serve Santa Cruz County. These entities have operated in a symbiotic relationship since the incorporation of CFSC by Encompass in 1981. CFSC was established to be of sole benefit to Encompass, and is restricted as such.

Given the long-term needs of Encompass and CFSC, we are faced with a timely and strategic opportunity to ensure long-term sustainability and support growth. At the recommendation of the Encompass Board of Trustees and CFSC Board Chair, this proposal will lay out immediate action to be taken in order to:

1. Address the immediate needs by establishing a Line of Credit
2. Create a long term plan that includes:
    a. Permanently moving assets from the CFSC balance sheet to the Encompass balance sheet for the purpose of establishing a cash reserve
    b. Establishing adequate liquid assets to strategically reinvest in existing and/or new CFSC properties that serve the mission of Encompass
3. Revise the purpose statement of CFSC

Current Encompass Cash View

Like many nonprofits, Encompass lacks the cash reserves necessary to adequately support seasonal changes in cash flow. This has been a longstanding issue for Encompass. Since 2006 the agency has had an average of 32 days of working capital, which is grossly insufficient for an organization of our size. In recent years, our working capital has decreased due to approved investment spending (at a deficit) and unprecedented changes in the industry landscape related to billing requirements and reimbursement terms. As a result, Encompass faces increasingly tight cash flows in the summer and early fall. Based on current trends, we have projected cash flow through November 2017. It is anticipated that the County of Santa Cruz will be slow to pay contractors in the beginning of the fiscal year. Therefore, our projections reflect lower payments in July and August, and show payments resuming normal levels by October.

Cash Flow balances are as follows:

June	$689,847
July	$517,416
August	$328,696
September	$17,083
October	$310,055
November	$510,505

Although the balance remains positive, the timing of deposits will become critical at the start of each month. The first payroll of each month will need to be funded by the 10th and requires approximately $1.7M.

Currently, Encompass has two loans outstanding. The amount outstanding on the Comerica loan is $1,000,000 and amount outstanding on the CFSC loan is $750,000.

The Encompass Board of Trustees has mandated a balanced operating budget for the 17-18 fiscal year, which will be part of overall financial stability moving forward, but does not solve the immediate cash flow shortage.

Addressing Immediate Needs

The Encompass Board is requesting an immediate action to resolve the insufficient cash reserves currently on the Encompass balance sheet. It is proposed that CFSC borrow against assets to fund a Line of Credit to be loaned to Encompass. Because CFSC has a large portfolio of real property holdings, it is able to borrow funds commercially at more favorable terms than Encompass. Encompass staff are currently working with Comerica to obtain appraisals on four unencumbered properties that could be collateralized to secure a loan or line of credit. Upon bank approval, it is requested that CFSC execute this line of credit and subsequent loan to Encompass. The amount of this loan has yet to be determined, and will be based on the appraisals.

Long Term Strategy

Together, Encompass and CFSC have built assets that create a unique and rare opportunity, and it is proposed that we use our foundational strength in a strategic way. Immediately following the establishment of a Line of Credit, it is requested that steps are taken to achieve two mutually beneficial purposes: 1) to permanently move assets from the CFSC balance sheet to the Encompass balance sheet for the purpose of establishing a cash reserve, and 2) to establish adequate liquid assets to strategically reinvest in existing and/or new CFSC properties that serve the mission of Encompass. This action, which aligns with the charitable purpose of CFSC, may involve multiple actions including but not limited to: liquidating targeted properties, establishing long-term real estate loans, paying off targeted debts, and/or investing in new properties.

Revising the CFSC Purpose Statement

The Encompass Board is requesting that revisions be made so that the purpose statement and bylaws more accurately reflects the current landscape and more closely aligns with the direction of Encompass. The CFSC purpose statement was last revised in May 1990.

It is proposed that the purpose statement is revised from:

> The specific and primary purposes are, as a charitable organization, to devote efforts toward fundraising activities, supportive services, and the obtaining of facilities, vehicles, and equipment for the benefit of the Santa Cruz Community Counseling Center, Inc. This purpose statement cannot be revised without approval by the Board of Directors of the Santa Cruz Community Counseling Center, Inc.

To:

> The specific and primary purposes are, as a charitable organization, to devote efforts towards building capital for the sole purpose of supporting Encompass Community Services. This purpose statement cannot be revised without approval by the Board of Trustees of Encompass Community Services.

It is also proposed that the bylaws be amended to reflect these changes.

EXHIBIT D

AGREEMENT FOR ADMINISTRATIVE SERVICES

THIS AGREEMENT, made and entered into this first day of July, 2018 by and between **CFSC, Inc.**, hereinafter called "**CFSC**" and **Encompass Community Services**, hereinafter called "**Encompass.**"

WITNESSETH

WHEREAS, **Encompass** is experienced and skilled in the performance of general management, program performance, administrative and accounting services,

WHEREAS, **CFSC**, in order to further its non-profit charitable purposes, is in need of such services and desires to engage **Encompass** to perform such services on **CFSC's** behalf;

NOW, THEREFORE, in consideration of the promises and of the mutual covenants and agreements contained herein, the parties agree as follows:

INTRODUCTION:

1. **CFSC** hereby retains Encompass to perform management and administrative services on its behalf. **Encompass** shall devote its best efforts to the performance of its management and administrative services, which shall include rendering assistance and advice with respect to **CFSC** administrative, accounting, and program efforts, and shall perform such other work as may be assigned to **Encompass** by **CFSC** from time to time.

2. At all reasonable times during the term of this Agreement, any officer of **CFSC** shall have free access to all of **Encompass** books and records pertaining to matters encompassed by this Agreement with the right to make copies of any or all thereof.

SPECIFICATIONS:

1. INDEPENDENT CONTRACTOR: **Encompass** is retained by **CFSC** as an independent contractor and nothing herein contained shall be construed to create the relationship of employer and employee between **CFSC** and **Encompass.**

2. ADMINISTRATION: The Executive Director/CEO of **Encompass** shall represent **Encompass** in all matters pertaining to administrative services rendered pursuant to this Agreement and shall administer this Agreement on behalf of **Encompass.**

3. SCOPE OF SERVICES: **Encompass** agrees to provide the following services:

   Overview: **Encompass** will provide operational administrative services to **CFSC** for the following general areas: fiscal control, accounting, property development coordination and other operations management.

   A. Fiscal Control:
      - Develop and/or document financial control policy approved by the **CFSC** Board of Directors.
      - Check authorization and policy expenditure limits as outlined by **CFSC** Board of Directors.

A. Fiscal Control (continued)

- Direct process for **CFSC** Board of Directors approval of all contracts entered.
- Enter into contracts on behalf of **CFSC** without requiring prior Board approval given the following criteria are met:
    - The work being performed is within budget
    - The contract lasts no more than twelve months
    - The Amount of the contract does not exceed $10,000
    - A report of all expenses paid valued at $5,000.00 and greater, excluding rent and administrative agreement payments, is provided at each board meeting
- Ensure bid process is followed for capital expenditures and capital improvements.
- Monitor "arms-length" compliance.
- Keep and maintain accurate, complete, and separate records in accordance with accepted accounting standards and procedures, showing income and expenditures in connection with the operations of **CFSC,** so that any accounts payable, other obligations, cash, accounts receivable, and other assets pertaining thereto can be identified and their respective amounts determined at all times.

B. Accounting:

1. Budgeting
    - Manage the annual budgeting process including budget development for capital equipment, rental and leased property and general administration.
    - Ensure appropriate level of understanding by the **CFSC** Board of Directors and then document Board approval.
    - Manage budget versus actual expense reporting; develop and organize monthly statements, reporting quarterly to the **CFSC** Board of Directors.
    - After **CFSC** Board of Directors approval of annual budget, **Encompass** staff will authorize expenditures and checks written within the authorized budget.

2. Reporting
    - Manage all accounts payable business including following expenditure authorization limits, posting all payables and expenditures to the appropriate fund and expense account, and paying on terms where cash is maximized.
    - Manage all account receivable business so that all bills are accurate and received by the first of the month and payment is received by the 15 of the month. All revenues are to be posted to the appropriate revenue account and allocated correctly to the cash accounts.
    - Manage all capital asset accounting such as appropriate documentation and posting of purchases, depreciation and retirement or loss/sale of assets according to **CFSC,** accounting procedures and GAAP.
    - Manage all related fiscal accounting such as surcharge income recording and administrative income and expenditure documentation.

2. Reporting (continued)
   - Capture and post all financial transactions monthly, maintaining appropriate documentation and producing a Balance Sheet and Statement of Revenue and Expense for each fund monthly.
   - Negotiate, organize and manage the annual audit by an accredited CPA.
   - Filing all government required documents annually, including, but not limited to, Federal and State tax forms, welfare tax exemptions, etc.

C. Property Development Coordination:
   - Maintain the timeline and close plan for projects in progress.
   - Manage coordination and reporting to funding sources.
   - Seek funds for designated projects and for on-going **CFSC** operations.

D. Other Operations Management:
   - Maintain all the leases and lease master list for property and equipment.
   - Maintain **CFSC** files.
   - Provide staff input to **CFSC** Board of Directors.
   - Update and maintain insurance authorized by **CFSC**.

E. Tenant Leasing:
   - Maintain waiting lists in compliance with applicable funding source. Responsible for advertising the open and/or closing of wait lists and processing applications.
   - Responsible for conducting interviews and verifications to place applicants in vacant units
   - Sign all documents necessary for applicants to move in as well as completing a move in walk thru the day of lease signing. Process any Housing Authority voucher paper work.
   - Complete all annual and interim recertifications in accordance with applicable funding sources requirements.
   - Provide rent collection services and maintain tenant ledgers.
   - Correspondence with tenants including but not limited to notices to enter, warning notices, termination notices, legal proceedings/filing if necessary, and reasonable accommodation requests.
   - Move- out coordination and processing of security deposits in accordance with county law.
   - Responsible for maintenance including but not limited to after-hours answering service, emergency repair service, annual inspections, pre Housing Authority inspections, turnover preparation, regular repairs and coordination with vendors within budgetary allowances, move-in move-out inspections, and replacement reserve projects as planned.

4. <u>INSURANCE AND INDEMNIFICATION:</u>

a) **Encompass** shall maintain a policy of comprehensive general liability insurance of at least $1 million in coverage, and such other bonding and liability insurance, including but not limited to Unemployment and Workers' Compensation Insurance, required by law or usual and customary with respect to the conduct of its activities, in amounts which the **Encompass** Board of Directors has determined are reasonably adequate to protect **Encompass** and **CFSC**. All such insurance shall cover **Encompass's** management and fiscal agent services pursuant to this Agreement, if such coverage is available, and the increased cost, if any, to **Encompass** of such coverage shall be included in the **CFSC** budget and borne by **CFSC**.

b) **Encompass** shall indemnify, assume the defense of (if requested), and hold harmless **CFSC** and its directors and officers from every claim, loss, damage, injury, expense (including attorney's fees), judgment, and liability of every kind, nature, and description arising from **Encompass's** negligent, fraudulent, or illegal act or omission in the performance of its services under this Agreement, except, as to the party requesting indemnification, to the extent such claim, loss, damage, injury, expense, judgment, or liability results in whole or in part from unauthorized, negligent, fraudulent, or illegal action by the party requesting the indemnification.

5. COMPENSATION: It is contemplated that **Encompass**, in order to properly perform its duties under this Agreement, will incur direct expenses for staff salaries and benefits, office rent and utilities, travel, and office supplies and equipment, and will incur indirect overhead expenses.

   a) In express recognition of **Encompass's** and **CFSC's** non-profit, charitable, tax-exempt corporate status, **Encompass** shall receive no remuneration for services performed hereunder other than the reimbursement of direct expenses as set forth.

   b) Based on the anticipated cost of services provided (including Property Management), **CFSC** agrees to pay **Encompass** a total sum of **$366,248** for services performed during the July 1, 2018 to June 30, 2019 fiscal year. **CFSC** shall reimburse **Encompass** on a monthly basis.

6. PERSONNEL: **Encompass** agrees to maintain solely at its own expense, except for the reimbursement provided herein, and organization and personnel adequate to perform its duties under this Agreement.

7. NONEXCLUSIVE: **Encompass** may act and render management, program performance, administrative, and accounting services to other individuals, firms, or corporations during the term of this Agreement provided that such services do not relate to matters which may be confidential or directly competitive or adverse to **CFSC**.

8. ASSIGNMENT: **Encompass** shall not assign any of its obligations or duties under this Agreement without obtaining the prior written consent of **CFSC**, which consent may not be unreasonably withheld or delayed by **CFSC**. This Agreement shall be binding upon and inure to the benefit of the successors and permitted assigns of the parties.

9. TERM: The term of this Agreement shall commence upon July 1, 2018, and continue through and include the following 12 months to June 30, 2019.

AGREEMENT FOR ADMINISTRATIVE SERVICES

Encompass Community Services: By: [signature]
Monica Martinez, Chief Executive Officer

CFSC, Inc.: By: Paul M. O'Brien
Paul M. O'Brien, Secretary/Treasurer

Contract approved by the **CFSC, Inc.**, Board of Directors on: ________________

Contract approved by the **Encompass** Board of Trustees on: 6/21/18

CFSC Administrative Agreement FY18-19

$ 366,248 The Signed Admin Agreement

Lines in Management Agreement			Mission	Van Ness	Broadway	Lincoln	Water	Lotus	Perlman	Anderson	Freedom
6310	Office Salaries	$ 47,138	5248.00	5525.00	2900.00	4302.00	6402.00	9364.00	2762.00	0.00	10635.00
6320	Management Fee	$ 44,144	3420.00	5472.00	3420.00	4788.00	6156.00	8208.00	2736.00	2420.00	7524.00
6330	Manager Salaries	$ 32,741	3645.00	3837.00	2015.00	2988.00	4446.00	6504.00	1919.00	0.00	7387.00
6351	Bookkeeping Fees	$ 6,954	570.00	912.00	570.00	798.00	1026.00	1368.00	456.00	0.00	1254.00
6510	Maint Payroll	$ 64,086	7135.00	7511.00	3943.00	5849.00	8703.00	12731.00	3755.00	0.00	14459.00
6711	Payroll Taxes	$ 12,833	1429.00	1504.00	790.00	1171.00	1743.00	2549.00	752.00	0.00	2895.00
6722	Workers Comp	$ 2,677	298.00	314.00	165.00	244.00	363.00	532.00	157.00	0.00	604.00
6723	Health Ins & Bene	$ 27,053	3012.00	3171.00	1665.00	2469.00	3674.00	5374.00	1585.00	0.00	6103.00
	Subtotal:	**$ 237,626**	**$ 24,757**	**$ 28,246**	**$ 15,468**	**$ 22,609**	**$ 32,513**	**$ 46,630**	**$ 14,122**	**$ 2,420**	**$ 50,861**

			Rigg	Weeks	Prather	412 E.Lake	241 E.Lake	2714 freed	245 E.Lake	Freedom	RSS	Tay
6398	Surcharge Fees	128622	27892	11954	17895	0	15320	7117	12091	29981	720	5652
	Subtotal Offices:	**$ 128,622**										
	Admin Total:	**$ 366,248**										
6591	Supportive Services	$ -	11820.00				7500.00	10000.00				

EXHIBIT E

14234

CFSC INC
OPERATING ACCOUNT
380 ENCINAL STREET SUITE 200
SANTA CRUZ, CA 95060-2126
Ph: 831-469-1700

COMERICA BANK

****Eight Hundred Fifty Thousand and 00/100 Dollars

DATE 09/17/2018

AMOUNT $850,000.00

PAY TO THE ORDER OF ENCOMPASS COMMUNITY SERVICES

VOID AFTER 6 MONTHS

AUTHORIZED SIGNATURE

⑈014234⑈ ⑆121137522⑆ 1890949686⑈

508781039537 CMA*CA 09/17/2018 >121137522<

PAY TO THE ORDER OF
COMERICA BANK
SANTA CRUZ, CA 95062-2107
121137522
FOR DEPOSIT ONLY
ENCOMPASS COMMUNITY SERVICES

Posted	: 09/17/2018
Bank	: 00000002
R/T	: 12113752
Account	: 1890949686
Check	: 14234
Amount	: 850000.00
DIN	: 481123531

EXHIBIT F

LOAN AGREEMENT

THIS LOAN AGREEMENT ("Agreement"), dated August ___, 2018, is made by and between **CFSC, Inc.**, a California nonprofit corporation ("Lender") and **Encompass Community Services**, a California corporation ("Borrower").

Recitals

A. Borrower has a line of credit with Comerica Bank in the total amount of $1,000,000 (the "Line of Credit"). The Line of Credit came due earlier this year, and Borrower was unable to repay it. At Borrower's request, Lender loaned Borrower the principal sum of $150,000 on or about June 29, 2018 for the purpose of allowing Borrower to pay down the Line of Credit (the "$150,000 Loan"). The $150,000 Loan is to be memorialized by a Promissory Note dated July 1, 2018 from Borrower to Lender, which will replace and supersede that certain Line of Credit Loan Agreement between the parties with respect to the $150,000 Loan.

B. At Borrower's request, concurrent herewith, Lender is loaning Borrower the additional sum of $850,000 in order to pay off the Line of Credit (the "$850,000 Loan"). The $850,000 Loan is to be memorialized by a Promissory Note dated the same date as this Agreement from Borrower to Lender.

C. The parties intend for the $150,000 Loan and the $850,000 Loan to be subject to the terms of this Agreement, as more particularly set forth herein.

NOW, THEREFORE, for good and valuable consideration, receipt of which is hereby acknowledged, the parties agree as follows:

1. <u>Promissory Notes</u>: Concurrent herewith, Borrower shall deliver to Lender promissory notes in the forms provided by Lender to Borrower, duly executed by Borrower, memorializing the $150,000 Loan and the $850,000 Loan (collectively, the "Promissory Notes").

2. <u>Payments</u>: Borrower shall make timely payments to Lender as required by the terms of the Promissory Notes. Interest shall accrue on the unpaid principal due under the Promissory Notes at the rates specified in the Promissory Notes. There shall be no penalty for prepayment.

3. <u>Default</u>: Failure of Borrower to timely make any payment due under the terms of the Promissory Notes, or either of them, shall constitute a default by Borrower. Additionally, failure by Borrower to abide by any provision of this Agreement shall constitute a default by Borrower under the terms of this Agreement and the Promissory Notes. Upon a default by Borrower, Lender may, at its election, declare the entire unpaid principal and accrued interest to be immediately due and payable.

4. <u>Financial Statements</u>: So long as any amount remains outstanding under the terms of the Promissory Notes, Borrower shall furnish to Lender monthly unaudited and annual audited financial statements of Borrower in form and content reasonably acceptable to Lender. In addition, Borrower shall furnish to Lender such additional information concerning Borrower's affairs and operations as may be reasonably requested by Lender from time to time.

5. Prohibition on New Debt: So long as any amount remains outstanding under the terms of the Promissory Notes, Borrower shall not incur any new indebtedness except debt to finance the purchase or lease of equipment in the ordinary course of business.

6. Binding Effect: This Agreement shall be binding upon and shall inure to the benefit of all of the parties hereto and their respective successors and assigns; provided, however, that Borrower shall not be permitted to assign any of Borrower's obligations under this Agreement or under the Promissory Notes.

7. Entire Agreement: This Agreement, together with the Promissory Notes, contains the entire agreement of the parties with respect to the subject matter contained herein, and supersedes all discussions, negotiations, or statements made between the parties as to the subject matter contained herein. No supplement, modification, or amendment of this Agreement shall be binding unless executed in writing by Borrower and Lender.

8. Severability: In the event that any court having competent jurisdiction shall determine that any one or more of the provisions contained in this Agreement shall be unenforceable in any respect, then such provision shall be deemed limited and restricted to the extent that the court shall deem the provision to be enforceable. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision hereof.

9. Attorneys' Fees: In the event that a dispute arises between Borrower and Lender with respect to the Promissory Notes or this Agreement, the prevailing party in the dispute shall be entitled to recover its reasonable attorneys' fees, costs and litigation expenses related to the dispute from the non-prevailing party.

10. No Waiver: The waiver or failure of any party to exercise in any respect any right provided for herein shall not be deemed a waiver of any other exercise of such right or of any further right hereunder

11. Headings: Headings to sections herein are for the convenience of the parties only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

12. Counterparts: This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument. The signature of a party on any counterpart which is transmitted electronically (such as in PDF format) to another party or legal counsel for another party shall be deemed an original signature binding upon the executing party and acceptable to all parties.

13. Authority: Each party represents and warrants to the other party that such party has the full power and authority to execute, deliver and perform the terms of this Agreement and has taken or caused to be taken all necessary action required by law or any governing documents to authorize the execution, delivery and performance of this Agreement, and additionally, in the case of Borrower, of the Promissory Notes.

[signature page follows]

WHEREFORE, the parties executed this Agreement as of the date first set forth above.

Borrower:

Encompass Community Services
A California nonprofit corporation

By: ______________________________
Monica Martinez, Chief Executive Officer

By: ________________________________
Name:______________________________
Title:_______________________________

Lender:

CFSC, Inc.
A California nonprofit corporation

By: ________________________________
Name:______________________________
Title:_______________________________

By: ________________________________
Name:______________________________
Title:_______________________________

PROMISSORY NOTE

$850,000.00 Santa Cruz, CA August __, 2018

FOR VALUE RECEIVED, Encompass Community Services, a California nonprofit corporation ("Payor") hereby promises to pay to CFSC, Inc., a California nonprofit corporation ("Payee"), or order, at such address as Payee shall instruct in writing from time to time, the sum of Eight Hundred Fifty Thousand Dollars ($850,000.00) with the unpaid principal balance bearing interest at the rate of two percent (2%) per annum, with interest-only payments due each and every month commencing on October 1, 2018 through and including September 1, 2019 (the "Maturity Date"), at which time the entire unpaid principal and accrued interest will be due in full. This Note may be prepaid in whole or in part at any time without penalty. Each payment shall be credited first on interest then due and the remainder on principal, and interest shall thereupon cease upon the principal so credited.

A default by Payor under that certain Loan Agreement dated concurrent herewith between Payor and Payee (the "Loan Agreement") shall additionally constitute a default under this Promissory Note.

In addition, the failure to make any payment of interest or principal on this Note when and as the same shall become due and payable, whether at maturity or by acceleration or otherwise, in each case, as is provided herein, shall constitute a default under this Note. Upon default, the entire principal amount outstanding and the accrued interest shall at once become immediately due and payable at the election of Payee.

Payor agrees to pay the following costs, expenses, and attorneys' fees paid or incurred by Payee, or adjudged by a court: (1) Reasonable costs of collection, costs, and expenses, and attorneys' fees paid or incurred in connection with the collection or enforcement of this Note, whether or not suit is filed; and (2) costs of suit and such sum as the court may adjudge as attorneys' fees in any action to enforce payment of this Note or any part of it.

This Note shall be construed in accordance with the laws of the State of California.

This Note shall inure to the benefit of and be binding on the respective heirs, executors, administrators, successors and assigns of Payor and Payee; provided, however, that Payor shall not be permitted to assign its obligations under this Note. Payor waives presentment for payment, notice of non-payment, protest and notice of protest.

Notwithstanding any other provision of this Note, the parties intend that the interest charged under this Note complies with applicable usury laws. In the event of any conflict between the interest rate of this Note and the applicable usury laws, the maximum rate of interest permitted by applicable law shall prevail over the rate stated in this Note.

WHEREFORE, this Note was executed as of the date first-above written.

ENCOMPASS COMMUNITY SERVICES, INC.
A California nonprofit corporation

By:____________________
Name:____________________
Title:____________________

By:____________________
Name:____________________
Title:____________________

PROMISSORY NOTE

$150,000.00 Santa Cruz, CA June 29, 2018

FOR VALUE RECEIVED, Encompass Community Services, a California nonprofit corporation ("Payor") hereby promises to pay to CFSC, Inc., a California nonprofit corporation ("Payee"), or order, at such address as Payee shall instruct in writing from time to time, the sum of One Hundred Fifty Thousand Dollars ($150,000.00) with the unpaid principal balance bearing interest at the rate of two percent (2%) per annum, with interest-only payments due each and every month commencing on August 1, 2018 through and including July 1, 2019 (the "Maturity Date"), at which time the entire unpaid principal and accrued interest will be due in full. This Note may be prepaid in whole or in part at any time without penalty. Each payment shall be credited first on interest then due and the remainder on principal, and interest shall thereupon cease upon the principal so credited.

A default by Payor under that certain Loan Agreement dated concurrent herewith between Payor and Payee (the "Loan Agreement") shall additionally constitute a default under this Promissory Note.

In addition, the failure to make any payment of interest or principal on this Note when and as the same shall become due and payable, whether at maturity or by acceleration or otherwise, in each case, as is provided herein, shall constitute a default under this Note. Upon default, the entire principal amount outstanding and the accrued interest shall at once become immediately due and payable at the election of Payee.

Payor agrees to pay the following costs, expenses, and attorneys' fees paid or incurred by Payee, or adjudged by a court: (1) Reasonable costs of collection, costs, and expenses, and attorneys' fees paid or incurred in connection with the collection or enforcement of this Note, whether or not suit is filed; and (2) costs of suit and such sum as the court may adjudge as attorneys' fees in any action to enforce payment of this Note or any part of it.

This Note shall be construed in accordance with the laws of the State of California.

This Note shall inure to the benefit of and be binding on the respective heirs, executors, administrators, successors and assigns of Payor and Payee; provided, however, that Payor shall not be permitted to assign its obligations under this Note. Payor waives presentment for payment, notice of non-payment, protest and notice of protest.

Notwithstanding any other provision of this Note, the parties intend that the interest charged under this Note complies with applicable usury laws. In the event of any conflict between the interest rate of this Note and the applicable usury laws, the maximum rate of interest permitted by applicable law shall prevail over the rate stated in this Note.

WHEREFORE, this Note was executed as of the date first-above written.

ENCOMPASS COMMUNITY SERVICES, INC.
A California nonprofit corporation

By:______________________
Name:____________________
Title:_____________________

By:______________________
Name:____________________
Title:_____________________

EXHIBIT G

From: **Stephen La Berge** slaberg@sbcglobal.net
Subject: CFSC Subcommittee; Loan to Encompass
Date: September 13, 2018 at 10:19 AM
To: Monica Martinez Monica.Martinez@EncompassCS.org, Paul O'brien paul410s@yahoo.com, Ann Pomper acpomper@gmail.com, Joe Appenrodt joe@appenrodtcommercial.com, John Livingston jjl47@comcast.net, Sandy Kaplan sandy@santacruzproperties.com

The CFSC subcommittee met with the Encompass subcommittee yesterday. The two topics of discussion were: (1)the two loans from CFSC to Encompass of $150,000. and $850,000 to facilitate the prompt repayment of the Comerica Bank line of credit; (2) the legal and fiscal relationships our two non-profit entities.
CFSC has, through our attorney, sent to Encompass the promissory notes and loan agreements which would allow the immediate transfer of $850,00 to Comerica Bank. At yesterday's subcommittee meeting the Encompass attorney asked that CFSC accept proposed Encompass promissory notes and loan agreements instead of using our proposed notes and agreements.
I emailed the proposed Encompass promissory notes and loan agreements to our attorney. She advised us to use the CFSC proposed notes and agreements.
Our subcommittee has taken her advice and will only agree to the use of the CFSC loan agreements and promissory notes.
Yesterday afternoon I left a phone message for Kim Morrison which stated the position of the CFSC subcommittee.
Paul O'Brien is available today to sign the notes and agreements to allow for the immediate release of the $850,000 to Comerica. The $150,000 has already been released from the CFSC account and been used to repay Comerica. CFSC needs to have a signed promissory note and loan agreement to reflect that loan.
If anyone on our Board believes we need to have a phone vote to discuss the release of the $850,000 to Encompass pursuant to these conditions I would suggest that we arrange that vote as soon as possible as Comerica is anxious to receive repayment as soon as possible.
Steve

EXHIBIT H

From: **Stephen La Berge** SLABERG@AOL.COM
Subject: CFSC Loan
Date: September 13, 2018 at 3:51 PM
To: Cassie Licker cassie.licker@gmail.com

ML

Hi Cassie,
I talked to Monica Martinez this afternoon regarding the proposed $850,000 loan. I explained to her that Paul O'Brien is ready to sign the promissory notes and loan agreements to allow for the transfer of the $850,000 to Comerica Bank.
Monica said that the Encompass subcommittee has responsibility for resolving the loan documents issue and suggested that I contact you.
The CFSC subcommittee is clear that prerequisites to the transfer of the $850,000 to Encompass are signed promissory notes and loan agreements on both the $150,000 already transferred from CFSC to Encompass as well as the projected $850,000 loan to Encompass.
The promissory notes and loan agreements must be the notes and agreements proposed by CFSC.
The CFSC subcommittee appreciates all the time and energy spent on this issue by the Encompass subcommittee and hopes that we can resolve the matter soon.
Steve

EXHIBIT I

From: **Pearce, Colin L.** CLPearce@duanemorris.com
Subject: CFSC-Encompass Loan Documents
Date: September 17, 2018 at 7:22 PM
To: slaberg@aol.com

Steve,

It was nice to meet you and the other members of the CFSC Board at our meeting last week. Thank you for taking the time to meet with me and the Encompass Board members.

As we discussed during our meeting, Encompass is in urgent need of funds held for its benefit by CFSC, so that it can repay a loan to Comerica Bank. I understand that CFSC has refused to provide the funds to Encompass unless Encompass signs a Loan Agreement with CFSC.

As I stated during our meeting, CFSC's request that Encompass sign the Loan Agreement is contrary to CFSC's duties and obligations to Encompass, and its express purpose ("to devote efforts toward fundraising activities, supportive services and the obtaining of facilities, vehicles and equipment for the benefit of [Encompass]"). I have advised Encompass that they should still sign the Loan Agreement, however, with certain revisions to the Agreement, because Encompass is in desperate need of the funds which CFSC has been holding for the benefit of Encompass.

I have therefore attached a copy of an executed Loan Agreement between CFSC and Encompass, along with two signed promissory notes. Encompass's execution of these documents, however, does not and should not amend, alter or modify the rights, duties, obligations and responsibilities of the parties, and Encompass does not waive, compromise or relinquish any rights, interests or claims it has or may have against CFSC.

I understand that Encompass already has access to the funds held by CFSC for its benefit, so I have recommended that Encompass immediately transfer the funds held for its benefit to the bank, given the urgent need to repay the loan obligation. This immediate transfer of funds is necessary because CFSC's failure to previously provide funds to the bank on behalf of Encompass has jeopardized Encompass's ability to operate, and has put Encompass at significant financial risk. In our meeting you also indicated that CFSC has been and is willing to fulfill its stated purpose of supporting Encompass financially, and the immediate release of funds to the bank is entirely consistent with those statements, and CFSC's "specific and primary purposes," as stated in its bylaws.

I understand CFSC may still disagree with our understanding of its stated mission and purpose and I may still respond to the memo drafted by your attorney in support of CFSC's position, if directed to do so by Encompass. Given Encompass's immediate and urgent need for the funds held for its benefit by CFSC, however, we could not wait for that response, nor can we wait for further discussions or meetings between CFSC and Encompass prior to releasing the funds to the bank.

I am still happy to meet with you, other CFSC Board members, or CFSC's attorney, to discuss these issues. It would be helpful, however, prior to our next meeting, for CFSC to provide us with a budget, estimate, and explanation of its "own financial obligations," as referenced in the memo from CFSC's attorney, as well as the value of all of the assets it is referenced in the memo from CFSC's attorney, as well as the value of all of the assets it is currently holding for Encompass, so that Encompass can verify and determine the amount and extent of the funds that CFSC may need to retain, instead of transferring the assets to Encompass, to satisfy its "own financial obligations."

If you have any questions or concerns with this course of action, please let me know.

Thanks, Colin.

Colin L. Pearce
Partner

Duane Morris LLP
Spear Tower
One Market Plaza, Suite 2200
San Francisco, CA 94105-1127
P: +1 415 957 3015
F: +1 415 704 3098
C: +1 415 519 4138

CLPearce@duanemorris.com
www.duanemorris.com

PDF

850K Promis...18.pdf

PDF

Encompass CFSC L...18.pdf

PDF

150k Promissory Note E...18.pdf

EXHIBIT J

From: **Michele La Berge** slaberg@aol.com
Subject: Re: CFSC-Encompass Loan Documents
Date: September 17, 2018 at 9:19 PM
To: Pearce, Colin L. CLPearce@duanemorris.com
Cc: monica.martinez@encompasscs.org, **Paul O'Brien** paul410s@yahoo.com, **Sandy Kaplan** sandy@santacruzproperties.com, acpomper@gmail.com, **Joe Appenrodt** joe@appenrodtcommercial.com, **John Livingston** jjl47@comcast.net

ML

Colin,
I have forwarded your email and attachments to the CFSC Board. As a CFSC Board member I am not in any official position to authorize any transfer of CFSC funds to Encompass to repay Comerica Bank. The CFSC Board meets at 3:00 pm tomorrow at Encompass. The CFSC Board will discuss the email you sent to me on behalf of Encompass and determine a course of action.

The CFSC subcommittee has been quite clear in mandating that both the $150,000 loan and the projected $850,000 loan to Encompass to repay Comerica Bank be supported by the signed loan agreements and promissory notes drafted by CFSC. The documents you propose would need to be reviewed and voted on by the entire CFSC Board.

To be clear it is my opinion that Encompass is not authorized to take funds from the CFSC account without a vote from the CFSC Board.

Steve

> On Sep 17, 2018, at 7:22 PM, Pearce, Colin L. <CLPearce@duanemorris.com> wrote:
>
> Steve,
>
> It was nice to meet you and the other members of the CFSC Board at our meeting last week. Thank you for taking the time to meet with me and the Encompass Board members.
>
> As we discussed during our meeting, Encompass is in urgent need of funds held for its benefit by CFSC, so that it can repay a loan to Comerica Bank. I understand that CFSC has refused to provide the funds to Encompass unless Encompass signs a Loan Agreement with CFSC.
>
> As I stated during our meeting, CFSC's request that Encompass sign the Loan Agreement is contrary to CFSC's duties and obligations to Encompass, and its express purpose ("to devote efforts toward fundraising activities, supportive services and the obtaining of facilities, vehicles and equipment for the benefit of [Encompass]"). I have advised Encompass that they should still sign the Loan Agreement, however, with certain revisions to the Agreement, because Encompass is in desperate need of the funds which CFSC has been holding for the benefit of Encompass.
>
> I have therefore attached a copy of an executed Loan Agreement between CFSC and Encompass, along with two signed promissory notes. Encompass's execution of these documents, however, does not and should not amend, alter or modify the rights, duties, obligations and responsibilities of the parties, and Encompass does not waive, compromise or relinquish any rights, interests or claims it has or may have against CFSC.
>
> I understand that Encompass already has access to the funds held by CFSC for its benefit, so I have recommended that Encompass immediately transfer the funds held for its benefit to the bank, given the urgent need to repay the loan obligation. This immediate transfer of funds is necessary because CFSC's failure to previously provide funds to the bank on behalf of Encompass has jeopardized Encompass's ability to operate, and has put Encompass at significant financial risk. In our meeting you also indicated that CFSC has been and is willing to fulfill its stated purpose of supporting Encompass financially, and the immediate release of funds to the bank is entirely consistent with those statements, and

CFSC's "specific and primary purposes," as stated in its bylaws.

I understand CFSC may still disagree with our understanding of its stated mission and purpose and I may still respond to the memo drafted by your attorney in support of CFSC's position, if directed to do so by Encompass. Given Encompass's immediate and urgent need for the funds held for its benefit by CFSC, however, we could not wait for that response, nor can we wait for further discussions or meetings between CFSC and Encompass prior to releasing the funds to the bank.

I am still happy to meet with you, other CFSC Board members, or CFSC's attorney, to discuss these issues. It would be helpful, however, prior to our next meeting, for CFSC to provide us with a budget, estimate, and explanation of its "own financial obligations," as referenced in the memo from CFSC's attorney, as well as the value of all of the assets it is currently holding for Encompass, so that Encompass can verify and determine the amount and extent of the funds that CFSC may need to retain, instead of transferring the assets to Encompass, to satisfy its "own financial obligations."

If you have any questions or concerns with this course of action, please let me know.

Thanks, Colin.

Colin L. Pearce
Partner

Duane Morris LLP
Spear Tower
One Market Plaza, Suite 2200
San Francisco, CA 94105-1127
P: +1 415 957 3015
F: +1 415 704 3098
C: +1 415 519 4138

CLPearce@duanemorris.com
www.duanemorris.com

<850K Promissory Note Encompass to CFSC Sept 17 2018.pdf><Encompass CFSC Loan Agreement Sept 17 2018.pdf><150k Promissory Note Encompass to CFSC Sept 17 2018.pdf>

EXHIBIT K

LINE OF CREDIT LOAN AGREEMENT

THIS AGREEMENT, made and entered into this by and between **CFSC, Inc.**, hereinafter called "**CFSC**" and **Encompass Community Services**, hereinafter called "**Encompass**."

WITNESSETH

WHEREAS, **Encompass** is in need of working capital,

WHEREAS, **CFSC**, in order to further its non-profit charitable purposes, has sufficient capital available to lend and has no higher source of income on these funds;

NOW, THEREFORE, in consideration of the promises and of the mutual covenants and agreements contained herein, the parties agree to a line of credit loan with terms as follow:

SPECIFICATIONS:

1. AMOUNT: $750,000 (Seven hundred fifty thousand) on a revolving basis

2. PURPOSE: Provide working capital

3. TERM: This Agreement shall commence upon approval, and continue through and include the following months to October 1, 2017.

4. COLLATERAL: None

5. INTEREST RATE: 2.0%

6. COMMITMENT FEE: None

7. GUARANTORS: None

8. LOAN PAYMENTS: Monthly interest payments will be required. The outstanding balance will be due within 60 days of demand. The principal will be repaid by October 1, 2017.

10. REPORTING: Monthly Borrower prepared interim financial statements and annual CPA prepared financial statements prepared on an audited basis.

11. ASSIGNMENT: Encompass shall not assign any of its obligations or duties under this Agreement.

12. NO MATERIAL ADVERSE CHANGES: A further condition to proceeding in this matter is CFSC's continued satisfaction with Borrower's financial condition, operations and economic environment which may be reviewed at any time.

LINE OF CREDIT LOAN AGREEMENT

Encompass Community Services: By: ____________________
Monica Martinez, Chief Executive Officer

CFSC, Inc.: By: ____________________

Loan approved by the **CFSC, Inc.**, Board of Directors on: **5/22/2017**

Loan approved by the **Encompass** Board of Trustees on: **6/5/2017**

EXHIBIT L

ENCOMPASS REQUEST FOR A $500,000 LINE OF CREDIT (SEPTEMBER 3, 2015)

California Corporations Code Section 5234(a)(1) requires: The disinterested directors (directors not on both boards) in each corporation approve the transaction. *Disinterested directors would be those not approved by Encompass.*

The conditions below document the reasonableness of the transaction from the perspective of both corporations in order to meet the requirements of Section 5234(a)(2).

For CFSC, the interest rate return is better than the rate it receives on its current cash investments. *Encompass proposed to pay the one-month LIBOR rate in effect at the time of the transfer of funds currently .2%. This rate is higher than the amount CFSC currently earns on liquid holdings. That amount is .01%-.03%.*

For Encompass, the interest rate and borrowing amount may be better than other lenders are offering. *Encompass has a $500,000 line of credit from Comerica. Comerica is charging 2.5% plus the one-month LIBOR rate. There is also a $1,000 annual commitment fee. Encompass would not be charged the 2.5% interest premium and would avoid the cost of an increase in the annual commitment fee. Comerica has been informed of the terms of this proposed additional credit arrangement.*

ADDITIONAL CONSIDERATIONS:
(1) CFSC will have sufficient cash available at all times to meet its needs even if Encompass exercises the full line of credit.

Encompass has requested a $500,000 line of credit. This amount is far below the total of $343,000 of operating cash and the $717,000 of liquid replacement reserves available at June 30, 2015 (unaudited number) and will be repayable in full upon demand within ten business days. These figures will be updated annually at the renewal of the line of credit agreement.

(2) CFSC has or will have no better or competing uses for the cash loaned to Encompass.

Encompass proposed to pay the one-month LIBOR rate in effect at the time of the transfer of funds (Insert website quote location). This rate is higher than the amount CFSC currently earns on liquid holdings: .01% for operating cash and .03% for reserves.

ADDITIONAL TERMS:
(1) CFSC shall be permitted to withdraw at any time the amount of the line of credit currently unexercised by Encompass;

(2) CFSC shall be permitted to demand full repayment upon the occurrence of specified events that negatively affect Encompass' ability to repay;

(3) CFSC shall be permitted to demand full repayment within **60** days of CFSC's notice demand for repayment to Encompass;

(4) Collateral is required and the type of acceptable collateral.
This will be an unsecured, short-term, limited line of credit without a collateral requirement.

These provisions protect CFSC and further demonstrate the commercial, arms-length nature of the transaction. It was recommended that a standard bank line of credit document be used.

CAFTEL EMAIL DATED 8/31/15

Kathryn,

I recommend that the disinterested directors (directors not on both boards) in each corporation approve the transaction. See California Corporations Code Section 5234(a), reprinted below. As a precaution, even if the requirements of Section 5234(a)(1) are met, also meet the requirements of Section 5234(a)(2) by documenting the reasonableness of the transaction from the perspective of both corporations. For Encompass, the interest rate and borrowing amount may be better than other lenders are offering. For CFSC, the interest rate return may be better than it receives on its current cash investments. Also, CFSC should document that (1) it will have sufficient cash available at all times to meet its needs even if Encompass exercises the full line of credit, and (2) it has or will have no better or competing uses for the cash loaned to Encompass.

The terms of the line of credit should (1) permit CFSC to withdraw at any time the amount of the line of credit currently unexercised by Encompass; (2) permit CFSC to demand full repayment upon the occurrence of specified events that negatively affect Encompass' ability to repay; (3) permit CFSC to demand full repayment after a specified period of time, such as within 12 months of line of credit exercise, or within 120 days of CFSC's demand for repayment; and (4) specify whether and when collateral is required and the type of acceptable collateral. These provisions protect CFSC and further demonstrate the commercial, arms-length nature of the transaction. I suggest using/modifying standard bank line of credit documents for the same reason.

I hope this is helpful. Please let me know if you have further questions.

5234.

(a) No contract or other transaction between a corporation and any domestic or foreign corporation, firm or association of which one or more of its directors are directors is either void or voidable because such director or directors are present at the meeting of the board or a committee thereof which authorizes, approves or ratifies the contract or transaction, if:

(1) The material facts as to the transaction and as to such director's other directorship are fully disclosed or known to the board or committee, and the board or committee authorizes, approves or ratifies the contract or transaction in good faith by a vote sufficient without counting the vote of the common director or directors; or

(2) As to contracts or transactions not approved as provided in paragraph (1) of this subdivision, the contract or transaction is just and reasonable as to the corporation at the time it is authorized, approved or ratified.