SELTZER MANAGEMENT GROUP, INC.

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November 25, 2014

VIA EMAIL

Mr. Todd Fowler
Director of Special Assets
Florida Housing Finance Corporation
227 North Bronough Street
Tallahassee, Florida 32301

Re: Royalton
SAIL & HC 2004-037CS / SAIL 2005-048S
Transfer of General Partner Interest

Dear Mr. Fowler:

On your behalf, Seltzer Management Group, Inc. ("SMG" or "Seltzer") has reviewed a request for Florida Housing Finance Corporation ("FHFC" or "Florida Housing") to consent to the transfer of the managing general partner interest in Royalton Apartments, Ltd. ("Borrower") from TCG Royalton Apartments, LLC ("TCG") to C4 Royalton Apartments, LLC (the "Sole GP" or "C4"). Specifically, SMG has been requested to determine that C4 has the prerequisite financial strength and experience to successfully own and operate the subject.

For the purposes of this analysis, SMG has reviewed the following:

1. Correspondence dated September 4, 2014 from Matthew S. Greer, manager of TCG requesting Florida Housing's consent to approve the withdrawal of TCG as the managing general partner and the assumption of the role of sole general partner of the Borrower by C4
2. Credit Underwriting Report dated May 25, 2006
3. Credit Underwriting recommendation letter dated September 2, 2008 for Additional Subordinate Financing approved by the FHFC Board on September 26, 2008
4. Credit Underwriting recommendation letter dated December 21, 2007 for Additional Subordinate Financing approved by the FHFC Board on January 25, 2008
5. Credit Underwriting recommendation letter dated August 22, 2007, for Additional Subordinate Financing approved by the FHFC Board on September 21, 2007
6. Credit Underwriting recommendation letter dated June 21, 2007 to Change the HOME Investment Partnership Program Loan approved by the FHFC Board on July 27, 2007
7. 2012 and 2013 Audited Financial Statements for the Borrower
8. Seltzer's 2013 Annual Management Review and Physical Inspection for the Borrower
9. 2012 and 2013 Audited Financial Statements for Carrfour Supportive Housing, Inc. and Its Subsidiaries ("Carrfour")
10. Internally prepared C4 Balance Sheet as of September 30, 2014 and Income Statements for the period January 1, 2014 through September 30, 2014
11. 2012 and 2013 Federal Income Tax Returns for C4

12. Development Agreement dated December 1, 2004 between Borrower and Carlisle Development Group, LLC ("CDG") and Carrfour
13. Amended and Restated Agreement of Limited Partnership of Royalton Apartments, Ltd. dated October 11, 2006
14. State Apartment Incentive Loan ("SAIL") loan documents dated October 11, 2006
15. FHFC Past Due Report dated September 30, 2014
16. FHFC Noncompliance Report dated September 30, 2014

In addition, SMG has had various conversations with FHFC staff concerning the general partner interest change.

Our findings are as follows:

- C4 currently owns 49% of the general partnership interest and is an entity owned 100% by Carrfour.
- TCG owns 51% of the general partnership interest. At the time of credit underwriting, this entity was owned 80% by Lloyd J. Boggio and 20% by The Sagra, LLC. The 99.99% equity investment limited partner is Wachovia Affordable Housing Community Development Corporation. ("ILP").
- The subject transaction was partially funded through the proceeds of a first mortgage permanent SAIL in the amount of $3,000,000 from FHFC. Other permanent funding sources include a City of Miami HOME loan; a Miami-Dade County HOME loan; two (2) Miami-Dade County Documentary Surtax loans; a Homeless Housing Assistance Grant from the State of Florida Department of Children and Families; Federal Historic Tax Credits, Housing Credits and deferred developer fee. All other debt is subordinate to the SAIL.
- The development was placed in service in September 2008 and reached stabilization in January 2009 at which time occupancy was 100%. Average occupancy for 2013 was 92.0%. Occupancy as of September 2014 is 87.0%.
- The most recent Compliance Annual Management Review and Physical Inspection for Royalton was performed by the Servicer on November 6, 2014. A copy of the review was forwarded to the Borrower on November 21, 2014. Vacancy and occupancy as of the date of the review were considered unsatisfactory and the Borrower was asked to describe its efforts to sustain an occupancy rate of 90% or above. No other discrepancies were noted. The Borrower's response is due to the Servicer no later than December 1, 2014.
- Audited Financial Statements for the Borrower for the year ended December 31, 2013, do not reflect any going concerns or pending litigation.
- Internally prepared financial statements for C4 reflect no cash assets or liquidity. Total assets in the amount of $973,494 are comprised of the entity's interest in Royalton. Total liability in the amount of $973,950 exceeds total assets by $456. Liabilities include Accrued Expenses Payable in the amount of $158 and due to Carrfour in the amount of $973,792. The internally prepared Income Statement for C4 for the period January 1, 2014 through September 30, 2014 reflects no revenue and total expenses of $158 for a net loss of $158. Seltzer also reviewed the 2012 and 2013 federal income tax returns for C4. C4 has no contingent liabilities and is not involved in any litigation. C4 has no deposit account.
- Carrfour is a Florida non-profit organized to develop permanent supportive housing and maximize the self-sufficiency of the formerly homeless and those at risk of homelessness in Miami-Dade County, Florida. Carrfour was established in 1993 by the Homeless Committee of the Greater Miami Chamber of Commerce and works closely with key elements of the Miami-Dade County community in addressing the needs of the homeless. Properties currently in operation and those under development will provide over 1,214 units of housing for approximately 1,600 men, women

and children. Ultimately, Carrfour plans to own at least 2,000 units of supportive housing in Miami-Dade County.

- The December 31, 2013, audited financials for Carrfour and its subsidiaries were issued by BDO USA, LLP located in Miami, Florida in a report dated September 29, 2014 with an unqualified opinion. The report reflects no going concern issues, litigation, and no defaults. As of December 31, 2013, total assets of $95,541,892 exceeded total liabilities of $59,841,105 by $35,700,787. The December 31, 2013 audited balance sheet reflects this amount as Non-controlling Interest in Subsidiaries in the amount of $25,900,358 and Net Assets – Unrestricted in the amount of $9,800,429. During the period ended December 31, 2013, total unrestricted support and revenue of $16,788,887 exceeded total expenses of $16,581,150 by $207,737. Other changes added to this amount include a change in the Value of Investments in Unconsolidated Subsidiaries ($8,661), a change in the Fair Value of the Interest Rate Swap Liability in the amount of $79,406 and Loan Forgiveness in the amount of $1,451,233 resulting in a Change in Net Assets Before Non-controlling Interest in the amount of $1,729,715. Non-controlling Interest in Losses of Subsidiaries in the amount of $1,838,983 is added to the Change in Net Assets to result in a Total Change in Unrestricted Net Assets in the amount of $3,568,983. Non-controlling interests represent amounts of outside ownership interest in Carrfour's subsidiaries.

  The auditors identified a deficiency in internal control over financial reporting that is considered to be a material weakness. The weakness involves a lack of written year-end closing, consolidation and financial reporting policies and procedures and a lack of adequate resources devoted to oversee the financial reporting. This resulted in significant delays in the preparation of the consolidation worksheet and consolidated financial statements. In addition, the "non-controlling interest in subsidiary" in two (2) of the subsidiaries were inadvertently reported as unrestricted net assets in the previously issued financial statements requiring restatement of the opening balance of the unrestricted net assets as of January 1, 2013. The auditor advised that delays in producing timely, reliable and accurate financial reports may lead to Carrfour not complying with all external reporting deadlines.

  A prior year audit finding related to accounting of grant revenue is repeated. The auditor identified a material accounting error in the financial records related to accounting of grant revenue. It was determined that approximately $1,400,000 of deferred grant revenues should have been recorded as revenue in prior years as the revenue recognition for the grant had been met. This resulted in restatement of the opening balance of unrestricted net assets for the year ended December 31, 2012. The auditor recommended that Carrfour review its controls over the financial statement closing process to ensure that the accounting error identified is appropriately accounted for in the future. Since a material misstatement was noted during the year ended December 31, 2013 pertaining to incorrect presentation of non-controlling financial interests in subsidiaries that required restatement of unrestricted net assets as of January 1, 2013. Therefore, the prior year's findings and recommendation are repeated.

  The results of the auditor's tests disclosed no instance of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

  Carrfour reported contingent liabilities in the amount of $1,670,821 and construction completion guaranties of $8,000,000. Carrfour also reported litigation with Siltek Group, Inc. with respect to the construction of Verde Gardens in Homestead, Florida. The suit was filed by Siltek for Declaratory Judgment so Siltek can not recover damages. Efforts to mediate a settlement have been inconclusive. However, settlement costs will only include legal costs that Carrfour's insurance provider has agreed to cover. Copies of Carrfour's September 30, 2014 bank statements reflect checking accounts with an aggregate balance in the low seven (7) figures.

- FHFC Noncompliance Report dated September 30, 2014 did not reflect any instances of noncompliance for the principals.

- FHFC Past Due Report dated September 30, 2014, lists no past due items for the principals.

<u>Conclusion</u>

Seltzer's review indicates that the Sole GP through its affiliated entities has the prerequisite financial strength and experience to successfully own and operate the subject.

Therefore, SMG recommends that FHFC consent to the transfer of the managing general partner interest of TCG to C4, subject to the following:

- The Borrower, Carrfour, C4, TCG and any other required entities or individuals to execute any assignment and assumption documents FHFC deems necessary to effectuate the transfer of general partner interests.
- Receipt and satisfactory review, prior to the closing of the General Partner Transfer, of the approval of the withdrawal of TCG as the managing general partner of the Subject Development by the Investor Limited Partner and all other lenders.
- Receipt and satisfactory review, prior to the closing of the General Partner Transfer, of approval of the Investor Limited Partner and all other lenders of the transfer of the managing general partner interest to C4.
- Payment of any outstanding arrearages to the Corporation, its legal counsel, Servicer or any agent or assignee of the Corporation for past due issues applicable to the development team (Applicant or Developer or Principal, Affiliate or Financial Beneficiary, as described in 67-48.0075 (5) F.A.C., of an Applicant or a Developer).
- Payment of a non-refundable transfer and assumption fee equal to one-tenth of one percent of the SAIL.
- Satisfactory resolution of any noncompliance or past due items.
- Review and approval by FHFC and its legal counsel of all documents consistent with the terms outlined above.
- Prepayment of any required compliance monitoring fees and servicing fees, if applicable.
- Any other requirement of FHFC, its legal counsel and servicer.

I hope this correspondence has been helpful and please do not hesitate to contact me if I can be of further assistance.

Sincerely,

SELTZER MANAGEMENT GROUP, INC.

Wanda Greggo

Wanda Greggo
Credit Underwriter