**UNITED STATES BANKRUPTCY COURT**
**WESTERN DISTRICT OF TENNESSEE**
**WESTERN DIVISION**

In re:

| | |
|---|---|
| RYNARD PROPERTIES RIDGECREST, LP | Case No. 14-22674-jdl |
| Debtor. | Chapter 11 |

# DISCLOSURE STATEMENT
# AND SUMMARY OF PLAN OF REORGANIZATION

**September 28, 2014**

**PLAN PROPONENT:**

**Rynard Properties Ridgecrest, LP**

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## I.

## INTRODUCTION

This is the disclosure statement (the "**Disclosure Statement**") in the chapter 11 case of Rynard Properties Ridgecrest, LP (the "**Debtor**" or the "**Plan Proponent**"). This Disclosure Statement contains information about the Debtor and describes the Plan of Reorganization (the "**Plan**") filed by Debtor as the Debtor-in-Possession. A full copy of the Plan is attached to this Disclosure Statement as **Exhibit 1**. ***Your rights may be affected. You should read the Plan and this Disclosure Statement carefully and discuss them with your attorney. If you do not have an attorney, you may wish to consult one.*** Neither the Plan Proponent nor the Bankruptcy Court has authorized the communication of any information about the Plan other than the information contained in this Disclosure Statement and the related materials transmitted herewith or filed with the Bankruptcy Court. No solicitation of votes on the Plan from a Creditor in an Impaired Class may be made, unless, at the time of or before such solicitation, this Disclosure Statement, in the form approved by the Bankruptcy Court for dissemination, is transmitted to such Persons.

**NO REPRESENTATIONS CONCERNING THE DEBTOR (PARTICULARLY AS TO, VALUE OF ITS PROPERTY, OR THE PLAN) ARE AUTHORIZED BY THE PLAN PROPONENT OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT. ANY REPRESENTATIONS OR INDUCEMENTS MADE TO SECURE YOUR ACCEPTANCE WHICH ARE OTHER THAN AS CONTAINED IN THIS DISCLOSURE STATEMENT SHOULD NOT BE RELIED UPON BY YOU IN ARRIVING AT YOUR DECISIONS, AND SUCH ADDITIONAL REPRESENTATIONS AND INDUCEMENTS SHOULD BE REPORTED TO COUNSEL FOR THE TRUSTEE WHO IN TURN SHALL DELIVER SUCH INFORMATION TO THE BANKRUPTCY COURT FOR SUCH ACTION AS MAY BE DEEMED APPROPRIATE. THE INFORMATION CONTAINED HEREIN HAS NOT BEEN SUBJECT TO A CERTIFIED AUDIT. THE RECORDS KEPT BY THE DEBTOR ARE DEPENDENT UPON INTERNAL ACCOUNTING PERFORMED BY THE DEBTOR. FOR THE FOREGOING REASONS, THE PLAN PROPONENT IS UNABLE TO WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS WITHOUT ANY INACCURACY. IN ADDITION TO THIS DISCLOSURE STATEMENT, THE ATTACHED PLAN OF REORGANIZATION SHOULD ALSO BE REVIEWED FOR A BETTER UNDERSTANDING OF THE TREATMENT OF ALL CLASSES OF CREDITORS. THE PLAN IS INCORPORATED HEREIN BY REFERENCE.**

**THIS DISCLOSURE STATEMENT HAS BEEN PREPARED BY THE DEBTOR-IN-POSSESSION IN GOOD FAITH AND IN COMPLIANCE WITH THE APPLICABLE PROVISIONS OF THE BANKRUPTCY CODE. NO REPRESENTATIONS BY ANY PERSON OR ENTITY CONCERNING THE DEBTOR, ITS OPERATIONS, FUTURE SALES, PROFITABILITY, VALUES OR OTHERWISE, OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT, HAVE BEEN AUTHORIZED.**

**THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS BELIEVED TO BE CORRECT AT THE TIME OF THE FILING OF THIS DISCLOSURE STATEMENT. ANY INFORMATION, REPRESENTATION, OR INDUCEMENT MADE TO SECURE OR OBTAIN ACCEPTANCES OR REJECTIONS OF THE PLAN WHICH ARE, OTHER THAN, OR ARE INCONSISTENT WITH, THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT OR OTHER MATERIALS AUTHORIZED TO BE TRANSMITTED BY THE BANKRUPTCY**

**COURT SHOULD NOT BE RELIED UPON BY ANY PERSON IN ARRIVING AT A DECISION TO VOTE FOR OR AGAINST THE PLAN. ANY SUCH ADDITIONAL INFORMATION, REPRESENTATIONS, AND INDUCEMENTS SHOULD BE IMMEDIATELY REPORTED TO THE ATTENTION OF THE TRUSTEE AND THE BANKRUPTCY COURT.**

**EXCEPT AS EXPRESSLY INDICATED HEREIN, THIS DISCLOSURE STATEMENT DOES NOT REFLECT ANY EVENTS THAT MAY OCCUR SUBSEQUENT TO THE DATE HEREOF AND THAT MAY HAVE A MATERIAL IMPACT ON THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT. THE DEBTOR-IN-POSSESSION DOES NOT ANTICIPATE THAT ANY AMENDMENTS OR SUPPLEMENTS TO THIS DISCLOSURE STATEMENT WILL BE DISTRIBUTED TO REFLECT SUCH OCCURRENCES, UNLESS OTHERWISE ORDERED BY THE BANKRUPTCY COURT. ACCORDINGLY, THE DELIVERY OF THIS DISCLOSURE STATEMENT SHALL NOT UNDER ANY CIRCUMSTANCE IMPLY THAT THE INFORMATION CONTAINED THEREIN IS CORRECT OR COMPLETE AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF.**

**THIS DISCLOSURE STATEMENT CONTAINS SUMMARIES OF CERTAIN PROVISIONS OF THE PLAN, CERTAIN STATUTORY PROVISIONS, CERTAIN RELATED DOCUMENTS, CERTAIN EVENTS, AND CERTAIN FINANCIAL INFORMATION. WHILE THE DEBTOR-IN-POSSESSION BELIEVES THAT THE PLAN AND RELATED DOCUMENT SUMMARIES ARE FAIR AND ACCURATE, SUCH SUMMARIES ARE QUALIFIED TO THE EXTENT THAT THEY DO NOT SET FORTH THE ENTIRE TEXT OF SUCH DOCUMENTS OR STATUTORY PROVISIONS. EXCEPT AS OTHERWISE SPECIFICALLY NOTED, FACTUAL INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT HAS BEEN PROVIDED BY A REVIEW OF THE CERTAIN PARTS OF THE RECORD IN THE CASE AND BY CERTAIN PERSONS HAVING A FAMILIARITY WITH THE DEBTOR'S BUSINESS. THE FINANCIAL INFORMATION CONTAINED HEREIN HAS NOT BEEN SUBJECT TO AN AUDIT. NEITHER THE DEBTOR-IN-POSSESSION NOR COUNSEL FOR THE DEBTOR-IN-POSSESSION ARE ABLE TO WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN, INCLUDING THE FINANCIAL INFORMATION, IS WITHOUT ANY INACCURACY OR OMISSION.**

As a Creditor or interest holder, your vote is important. The Plan can be confirmed by the Court if it is accepted by the holders of two-thirds (2/3) in amount and more than one-half (1/2) in number of claims of those creditors actually voting in each impaired Class of claims or interests. The Plan may also be confirmed over the objection of a creditor and despite a class' rejection of the plan in accordance with 11 U.S.C. § 1129(b). The purpose of this statement is to provide the holders of claims against or interests in the Debtors with adequate information about the Debtor and the Plan to make an informed judgment when voting on the Plan.

## II.

## FINANCIAL INFORMATION CONCERNING THE DEBTORS

### A. DEBTOR'S BUSINESS HISTORY

The Debtor is a Tennessee limited partnership which owns, a multi-family housing project consisting of 256 units located at 2881 Rangeline Road, Memphis, Shelby County, Tennessee and which has qualified as a Low Income Housing Tax Credit project (herein, the "**Project**"). The Debtor was organized on May 3, 2007.

Ridgecrest GP, LLC, an Tennessee limited liability company, has been serving as the general partner holding 100% of the general partnership interests and .009% of the linited interests in the Debtor. Renasant Bank is the majority investment limited partner holding 99.99% of the investment limited partnership interests in the Debtor. Renasant is also the sole special limited partner holding the special limited partner interests of .001% of the overall interests in the Debtor. Prior to the filing of the case, TESCO Management was the manager of the Project. Currently the Debtor has employed LEDIC Property Management to manage the Project.

### B. DEBTOR'S ASSETS AND LIABILITIES

The Debtor's schedules filed with the Court reflect assets consisting almost exclusively of the Project which are (i) subject to liens in favor of Federal National Mortgage Association ("**FNMA**") as successor to Wells Fargo Bank; and (ii) certain disputed liens related to improvements made to the Project. The Debtor has not obtained a recent independent appraisal for the Project.

#### 1. Assets.

The specific assets allegedly owned by the Debtor and their corresponding scheduled values[1] as of (the "**Petition Date**") are as follows:

| | Description | Value |
|---|---|---|
| **Real Property** | 256 Unit Apartment Complex<br>2881 Rangeline Road<br>Memphis, TN 38127 | $15,000,000 |
| **Personal Property** | Petty Cash | 200 |
| | Checking Account | 70,329 |
| | Security Deposits (including escrows) | 602,101 |
| | Tenant Receivables | 5,429 |
| | Breach of Contract Claim | 300,000 |
| | Office Equipment and Furnishings | 5,569 |
| | Other Furnishings and Appliances | 248,331 |
| | **Total** | **$16,231,959** |

#### 2. Liabilities.

[1] These values are those suggested by the Debtors in their Schedules and the Debtors have not obtained independent appraisals or other indications of value of the assets since the filings except as otherwise noted.

The Debtor's scheduled liabilities are categorized and prioritized as (a) administrative expense claims; (b) prepetition secured claims; (c) prepetition unsecured priority claims, and (d) prepetition unsecured nonpriority claims and the Debtor has ascribed the following amounts to these categories of liabilities:

| | | |
|---|---|---|
| Administrative Expense Claims | Estimated collective | $50,000 |
| Secured Claims | FNMA | 6,000,000 |
| | THDA | 2,500,000 |
| Prepetition Unsecured Priority Claims | | 0 |
| Prepetition Unsecured Non- Priority Claims | | 234,000 |
| **Total** | | **$8,784,000** |

**3. Secured Claim Analysis.**

The Debtor may have scheduled certain claims as non-contingent, liquidated and undisputed. By operation of FED. R. BANKR. P. 3003(b)(1) these claims are deemed allowed unless objected to without the necessity of filing a formal proof of claim. Certain creditors have filed proofs of claim which supersede the scheduling of the debts. The actual filed secured claims against the Debtor are as follows:

| Creditor | Scheduled | Filed | Claim No. |
|---|---|---|---|
| FNMA | $6,000,000 | $4,881,543 | 6 |
| THDA | 2,500,000 | 2,947,279 | 5 |
| **Total** | $8,500,000 | $7,828,822 | |

**4. Unsecured Claim Analysis.**

The Debtor may have scheduled certain claims as non-contingent, liquidated and undisputed. By operation of FED. R. BANKR. P. 3003(b)(1) these claims are deemed allowed unless objected to without the necessity of filing a formal proof of claim. Certain creditors have filed proofs of claim which supersede the scheduling of the debts. The actual filed and deemed filed unsecured claims total approximately $403,677. A reconciliation of the deemed filed and actual filed claims and the anticipated allowed total of unsecured claims for each Debtor is below:

| Creditor | Scheduled | Filed | Claim No. | Potential[2] Allowed Amt. |
|---|---|---|---|---|
| Dillard Door & Entrance Control | n/a | $58,865 | 1 | $58,865 |
| TESCO Properties | n/a | 102,306 | 2 | 102,306 |
| Dewayne Rhea | n/a | 16,320 | 3 | 16,320 |
| Tie Construction | $203,000 | 226,186 | 4 | 226,186 |

[2] The Debtor reserves the right to object to these and any other claims filed in this case.

| | | | | |
|---|---|---|---|---|
| Security One | 31,000 | n/a | n/a | 0 |
| **Total** | **$234,000** | **$403,677** | | **$403,677** |

Based on the Claims Register, unsecured claims of approximately $403,677 have been filed against the Debtor. The Debtor will object to the claims of TESCO Properties and Dewayne Rhea as not holding valid unsecured claims against the Debtor. This number may not include all tort claims, unliquidated claims or claims for rejection damages. In addition, this number does not include any potential unsecured claims held by creditors filing secured claims that might be subject to avoidance and/or subordination. The Debtor expects to file objections to a significant number of unsecured proofs of claims. Should additional or amended proofs of claim be filed, the Debtor will review such claims and may file additional objections. The Plan also provides a mechanism for other parties to object to claims under certain circumstances. The Debtor is unable to predict the outcome of any anticipated claim objections that may be filed.

**THE RIGHT OF ALL PARTIES, INCLUDING THE DEBTOR, TO OBJECT TO ANY CLAIM FILED IN THIS CASE IS EXPRESSLY RESERVED. THE INCLUSION OF A CLAIM OR CLAIMS WITHIN THIS DISCLOSURE STATEMENT IS NOT AN ADMISSION REGARDING THE VALIDITY OR ALLOWANCE OF ANY CLAIM. YOU SHOULD NOT ASSUME THAT A VOTE FOR OR AGAINST THE PLAN WILL HAVE ANY AFFECT OF THE STATUS OF YOUR CLAIM. IF ANYONE SUGGESTS THAT THE STATUS OF YOUR CLAIM MAY BE AFFECTED BY YOUR VOTE, YOU SHOULD REPORT SUCH INCIDENT TO COUNSEL FOR THE DEBTOR IMMEDIATELY AS ANY SUCH SUGGESTION MAY VIOLATE TITLE 18.**

### C. DEBTOR'S OPERATIONS

A summary of the Debtor's postpetition operations from January 1, 2014 through August 31, 2014 is as follows:

| | |
|---|---|
| Occupancy Rate (Physical/Economic) [3] | 99% |
| Gross Rents Collected YTD | $1,175,503.00 |
| Gross Expenditures YTD | $1,063,208.00 |
| Net Cash Flow from Operations YTD | $112,295.00 |

### D. EVENTS LEADING TO CHAPTER 11 FILING

The events leading to the filing of this chapter 11 case may be summarized as follows: The Debtor was in substantial compliance with the prepetition loan agreements by and among the Debtor, Wells Fargo, and FNMA. As a result of largely non-economic defaults concerning certain capital improvements to the Project, FNMA declared a default and indicated that it would be seeking the appointment of a receiver for Project. FNMA's unwillingness to delay its request for the appointment of a receiver even caused the Debtor to file the instant chapter 11 case to preserve the substantial equity in the Project and to satisfy all or a greater portion of the debts than would be realized through a fire-sale of the Project.

### E. SIGNIFICANT EVENTS DURING THE BANKRUPTCY CASE

[3] As of September 19, 2014.

- March 13, 2014 – Chapter 11 Petition filed by Debtor.
- September 19, 2014 – Application to Employ LEDIC Management Group as the property manager to manage the Project.
- March 31, 2014 – Debtor completed and filed Schedules and Statements of Financial Affairs.
- April 4, 2014 – Consent Order on Debtor's Interim and Final Motion to Authorize Use of Cash Collateral.
- August 19, 2014 – Exclusivity Period extended through and including September 28, 2014.

## F. PROJECTED RECOVERIES FROM AVOIDABLE TRANSFERS.

Under the Bankruptcy Code and various state laws, the Debtor may recover certain transfers of property, including the grant of a security interest in property, made while insolvent or which rendered the Debtor insolvent. The Debtor reserves the right to bring fraudulent conveyance claims.

The Debtor has conducted a limited analysis of potential recoveries under Chapter 5 of the Bankruptcy Code and concluded that potential claims may exist. In addition, all creditors scheduled as "disputed," "contingent," or "unliquidated" in the Debtor's schedules are subject to claims for fraudulent transfer and/or preference on account of their asserted security interests or claims. **Creditors are advised that if they received a voidable transfer, they may be sued whether or not they vote to accept the Plan and should not accept the Plan with the expectation that they will not be sued.** All avoidance actions and rights pursuant to §§ 506(c), 510, 542, 543, 544, 545, 547, 548, 549, 550, 551, 552(b), 553, and 724 of the Bankruptcy Code and all causes of action under state, federal or other applicable law shall be retained and may be prosecuted or settled by the Debtor in its sole discretion. To the extent that material amounts are recovered, it will enhance the returns to the holders of Unsecured Claims.

To date the Debtor has not identified any potential Causes of Action (defined below). The Debtor reserves any and all claims and rights against any and all third parties, whether such claims and rights arose before, on or after the Petition Date, the Confirmation Date, the Effective Date, and/or any Distribution date, including, without limitation, any and all Causes of Action, Rights of Action and/or claims for relief that the Debtor, or the Plan Agent has against (i) any insurer and/or insurance policies in which either the Debtor and/or its current or former personnel have an insurable or other interest in or right to make a claim against, any other of the Debtor's insurers; (ii) any recipient of a transfer identified in the Debtor's statements of financial affairs, including any amendments thereto, filed in the chapter 11 cases, (iii) any of the Non-Released Parties for claims of breach of fiduciary duty, fraudulent transfer, preferential transfer, unauthorized post-petition transfer under 11 U.S.C. § 549, turnover under 11 U.S.C. §§ 542 and 543, subordination, recharacterization of debt to equity, malpractice, constructive trust, disgorgement, counterclaims, claims to determine the extent and validity of liens under 11 U.S.C. § 506 and any other claims that the estates may have against such Non-Released Parties.

For purposes of this Disclosure Statement and the Plan, the term "Cause of Action" shall mean any Claim or cause of action, legal or equitable, now owned or hereafter acquired by the Debtor, the Debtor-in-Possession or the estate whether arising under contract or tort, federal or state law, including but not limited to Avoidance Actions, whether commenced prior or subsequent to the Petition Date.

For purposes of this Disclosure Statement and the Plan, the term "Avoidance Action" shall mean any and all rights, claims and causes of action arising under Sections 506(c), 510, 542, 543, 544, 545, 547, 548, 549, 550, 551, 552(b), 553 or 724 of the Bankruptcy Code.

For purposes of this Disclosure Statement and the Plan, the term "Rights of Action" includes (a) any avoidance, recovery, subordination or other action of the Debtor, the Estate or the Reorganized Debtor, (b) any Cause of Action of the Debtor, the Estate or the Reorganized Debtor, (c) any objection or other challenge to a Claim, and (d) any objection or other challenge to an Interest.

The Debtor believes that there may be additional avoidable transfers which will be discovered after additional historic financial information is finally reviewed and evaluated.

**G. Claims Objections.**

Except to the extent that a claim is already allowed pursuant to a final non-appealable order, the Debtor reserves the right to object to claims. Therefore, even if a claim is allowed for voting purposes, the holder of such claim may not be entitled to a distribution if an objection to the claim is later sustained. The procedures for resolving disputed claims are set forth in the Plan.

**H. Current Financial Conditions.**

**CURRENT BALANCE SHEET**
**AS OF AUGUST 31, 2014**

| Asset | Value |
|---|---|
| **Current Assets** | |
| Cash | $32,792 |
| Accounts Receivable | 29,429 |
| **Total Current Assets** | **$62,221** |
| | |
| **Fixed Assets** | |
| Land | $200,000 |
| Building | 15,008,596 |
| Furn., Fixtures & Equip. | 225,196 |
| **Less Accumulated Depreciation** | (1,390,661) |
| **Total Fixed Assets** | **$14,043,130** |
| | |
| **TOTAL ASSETS** | **$14,105,351** |

| Liabilities | Amount |
|---|---|
| **Postpetition** | |
| Accounts Payable | $47,929 |
| Taxes Payable | 80,866 |
| **Total Postpetition Liabilities** | **$128,795** |
| | |
| **Prepetition Liabilities** | |
| Secured | $8,500,000 |
| Priority | 0 |
| Unsecured Non-priority | 403,677 |
| **Total Prepetition Liabilities** | **$8,903,677** |

| | |
|---|---|
| **TOTAL LIABILITIES** | **$9,032,472** |

| Owner's Equity | Amount |
|---|---|
| **Owner's Equity** | $5,072,879 |
| **TOTAL LIABILITIES AND OWNER'S EQUITY** | **$14,105,351** |

## PROFIT & LOSS

| | August 2014 | YTD 2014 |
|---|---|---|
| **Revenue** | | |
| Rent/Misc. | 159,240 | 881,058 |
| **Net Sales** | **159,240** | **881,058** |
| **Cost of Goods Sold** | | |
| **Cost of Goods Sold** | 0 | 0 |
| **Gross Profit (Loss)** | **159,240** | **881,058** |
| **Expenses** | | |
| Officer/Management Comp | 5,000 | 32,737 |
| Payroll - Other Employees | 18,725 | 126,310 |
| Taxes - Payroll | 1,500 | 1,500 |
| Taxes - Real Property | 0 | 22,130 |
| Insurance | 8,704 | 41,787 |
| Rents and Leases (Real Estate) | 0 | 1,191 |
| Rents and Leases (Personal Prop) | 0 | 10,948 |
| Maintenance and Repairs | 28,172 | 140,817 |
| Utilities | 5,425 | 39,064 |
| Security/Admin | 18,525 | 70,421 |
| Lawn/Landscape | 3,260 | 27,103 |
| Interest/Adeq. Protection Pmt | 24,617 | 123,085 |
| US Trustee Fees | 0 | 976 |
| Bank Fees | 0 | 2,351 |
| TS Account | 8,500 | 8,500 |
| Tenant Utility Payments | 33,183 | 84,559 |
| **Total Expenses** | **155,611** | **733,479** |
| **Net Operating Income** | **3,629** | **147,579** |

## III.
## SUMMARY OF THE PLAN OF LIQUIDATION AND TREATMENT OF CLAIMS AND EQUITY INTERESTS

**A. The Plan.** As required by the Code, the Plan places claims and equity interests in various classes and describes the treatment each class will receive. The Plan also states whether each class of claims or equity interests is impaired or unimpaired. If the Plan is confirmed, your recovery will be limited to the amount provided by the Plan. The general framework for the Plan involves (i) the refinancing of the indebtedness to FNMA secured by the Project; and (ii) the distribution of the proceeds of said refinancing to the holders of allowed claims against the Debtor.

**B. Unclassified Claims.** Certain types of claims are automatically entitled to specific treatment under the Code. They are not considered impaired, and holders of such claims do not vote on the Plan. They may, however, object if, in their view, their treatment under the Plan does not comply with that required by the Code. As such, the Plan Proponent has ***not*** placed the following claims in any class:

**1.** ***Administrative Expenses***

Administrative expenses are costs or expenses of administering the Debtor's chapter 11 case which are allowed under § 507(a)(2) of the Code. Administrative expenses also include the value of any goods sold to the Debtor in the ordinary course of business and received within 20 days before the date of the bankruptcy petition. The Code requires that all administrative expenses be paid on the effective date of the Plan, unless a particular claimant agrees to a different treatment.

The following chart lists the Debtor's estimated administrative expenses, and their proposed treatment under the Plan:

| **Type** | **Estimated Amount Owed** | **Proposed Treatment** |
|---|---|---|
| Expenses Arising in the Ordinary Course of Business After the Petition Date | | Paid in full on the effective date of the Plan, or according to terms of obligation if later |
| Professional Fees, as approved by the Court. | $48,000.00 | Paid in full on the effective date of the Plan, or according to separate written agreement, or according to court order if such fees have not been approved by the Court on the effective date of the Plan |
| Clerk's Office Fees | | Paid in full on the effective date of the Plan |
| Other administrative expenses | | Paid in full on the effective date of the Plan |
| Office of the U.S. Trustee Fees | $4,875.00 | Paid in full on the effective date of the Plan |
| **TOTAL** | **$52,875.00** | |

### C. Classes of Claims and Equity Interests

The following are the classes set forth in the Plan, and the proposed treatment that they will receive under the Plan:

#### 1. *Classes of Secured Claims*

Allowed Secured Claims are claims secured by property of the Debtor's bankruptcy estate (or that are subject to setoff) to the extent allowed as secured claims under § 506 of the Code. If the value of the collateral or setoffs securing the creditor's claim is less than the amount of the creditor's allowed claim, the deficiency will be classified as a general unsecured claim.

The following chart lists all classes containing Debtor's secured prepetition claims and their proposed treatment under the Plan:

| Class | Description | Impairment | Treatment |
|---|---|---|---|
| **1** | FNMA | **No** | Payment in Full by Refinancing or Payments |
| **2** | THDA | **No** | Payment in Full |
| | | | |

#### 2. *Classes of Priority Unsecured Claims*

Certain priority claims that are referred to in §§ 507(a)(1), (4), (5), (6), and (7) of the Code are required to be placed in classes. The Code requires that each holder of such a claim receive cash on the effective date of the Plan equal to the allowed amount of such claim. However, a class of holders of such claims may vote to accept different treatment. The Plan proposes to pay all allowed priority claims in full from the proceeds of the liquidation of the Estate Property. In the event that the proceeds of the liquidation are insufficient to satisfy all Allowed Priority Claims, the Plan Agent will distribute the proceeds of the liquidation to the holders of Allowed Priority Claims on a pro rata basis. The Trustee reserves the right to seek to reclassify the claims in this class as secured claims.

The following chart lists the estimated Unsecured Priority Claims and their proposed treatment under the Plan:

| Description (name and type of tax) | Filed Claim Amount | Claim No. | Scheduled Amount | Treatment |
|---|---|---|---|---|
| None | | | | |
| | | | | |
| | | | | |
| | | | | |

### 3. *Classes of Unsecured Non-priority Claims*

Unsecured Non-priority Claims are not secured by property of the estate and are not entitled to priority under § 507(a) of the Code.

The following chart identifies the Plan's proposed treatment of Class 3 which contains general unsecured claims against the Debtors:

| Class | Description | Impairment | Treatment |
|---|---|---|---|
| **3** | Unsecured Non-Priority Claims | **Yes** | Unsecured claims will be paid 90% of their respective Allowed Claims in cash within 90 days of the Effective Date. |

### 4. *Classes of Equity Interest Holders*

Equity interest holders are parties who hold an ownership interest (*i.e.*, equity interest) in the Debtors.

The following chart identifies the Plan's proposed treatment of Class 4 which contains equity interests in the Debtor:

| Class | Description | Impairment | Treatment |
|---|---|---|---|
| **4** | Limited Partnership Interests | **No** | Holders of Limited Partnership Interests in the Debtor shall retain said interests under the Plan. |
| 4 | General Partnership Interests | **No** | Holders of General Partnership Interests in the Debtor shall retain said interests under the Plan |

### D. Controversy Concerning Classification, Impairment or Voting Rights.

In the event a controversy or dispute should arise involving issues related to the classification, impairment or voting rights of any Creditor or Interest Holder under the Plan, prior to the Confirmation Date, the Bankruptcy Court may, after notice and a hearing, determine such controversy. Without limiting the foregoing, the Bankruptcy Court may estimate for voting purposes the amount of any contingent or unliquidated Claim, the fixing or liquidation of which, as the case may be, would unduly delay the administration of the Chapter 11 Case. In addition, the Bankruptcy Court may in accordance with § 506(b) of the Bankruptcy Code conduct valuation hearings to determine the Allowed Amount of any Secured Claim.

**E. Means of Implementing the Plan**

**1. Plan Funding.**

The Debtor has received preliminary interest from one or more lenders to provide a loan in the principal amount of $6 million to be utilized to refinance the FNMA Secured Claim and to make other payments required by the Plan (the "**Refinancing**"). Pending the consummation of the Refinancing, payments to FNMA will be amortized with payments of principal and interest being made until the earlier of (i) consummation of the Refinancing and (ii) the Maturity Date. The Refinancing to be obtained on or before the Maturity Date, will be secured by a first position Lien on the Project. The payments to be made under the Plan will come from several sources. First, available cash on hand on the Effective Date and income from operation of the Project will be used in making the payments to holders of Allowed Secured Claims required under the Plan pending the Refinancing. Second, on and after the Effective Date, the Reorganized Debtor will provide sufficient amounts to fund the payments to Class 3 Unsecured Non-Priority Claims in the estimated amount of $200,000.

**2. Funding Operations.**

The Reorganized Debtor's operations will be funded by cash generated from operations to fund the payments required under the Plan pending the Refinancing. Projections regarding these operations are attached to this Disclosure Statement as **Exhibit 2.**

**3. Vesting of Property of the Estate in the Reorganized Debtor.**

On the Effective Date, all property of the Debtor and of the Debtor's Estate including all rights to object to Claims, all avoidance actions, causes of action, alter-ego rights, derivative claims, breach of fiduciary duty claims, veil piercing rights, the right to pursue such claims and all other remaining property of the estate as defined in § 541 of the Bankruptcy Code, shall vest in the Reorganized Debtor, free and clear of liens, claims and encumbrances, except as otherwise provided in the Plan.

**4. Management of the Reorganized Debtor.**

Upon confirmation of the Plan, Ridgecrest GP, LLC shall be and remain the general partner of the Debtor. Initially, LEDIC shall remain as the manager of the Project.

**5. Continuation of Operations.**

From and after the Effective Date of the Plan, the Reorganized Debtor is authorized to take all such actions as are necessary to complete the reorganization efforts including, without limitation, (i) consummating the Refinancing; (ii) filing claim objections; (iii) making distributions; (iv) prosecuting causes of action owned by the Estate, including all claims and causes of action arising under the Bankruptcy Code; (v) pursuing, liquidating and administering Estate property; (vi) filing tax returns and responding to any audits; and (vii) taking such other action as provided for under the Plan.

**6. Continued Corporate Existence.**

From and after the Effective Date, the Reorganized Debtor shall continue to exist in accordance with the applicable laws of its state of incorporation/organization.

**F. Risk Factors**

The proposed Plan has the following risks:

1. Although historic operating results support the projections, there is no guaranty that the occupancy rates and revenues generated from the operation of the Project will be sufficient to satisfy the claims of creditors provided in the Plan.
2. Although, the Debtor believes that it the Refinancing will be achieved, there is no guaranty that the Refinancing will be consummated.

**G. Executory Contracts and Unexpired Leases**

The Debtor is not aware of any executory contracts or unexpired leases other than the leases of the tenants of the Project – all of which shall be assumed at confirmation of the Plan. Any other executory contracts or unexpired leases will be rejected under the Plan. You are advised to consult your adviser or attorney for more specific information about particular contracts or leases.

If you object to the rejection of your contract or lease, you must file and serve your objection to the Plan within the deadline for objecting to the confirmation of the Plan.

***The Deadline for Filing a Proof of Claim Based on a Claim Arising from the Rejection of a Lease or Contract Is 30 days after earlier of (i) confirmation of the Plan or (ii) entry of an order rejecting a Lease or Contract.*** Any claim based on the rejection of a contract or lease will be barred if the proof of claim is not timely filed, unless the Court orders otherwise.

**H. Tax Consequences of Plan**

***Creditors and Equity Interest Holders Concerned with How the Plan May Affect Their Tax Liability Should Consult with Their Own Accountants, Attorneys, And/or Advisors.***

Events subsequent to the date of this Disclosure Statement, such as the enactment of additional tax legislation, could change the federal income tax consequences of the Plan and the transactions contemplated therein. Furthermore, certain significant federal income tax consequences of the Plan are subject to uncertainties due to the complexity of the Plan and the federal tax system. The Debtors assumes no responsibility for the tax effect that Confirmation and receipt of any distribution under the Plan may have on any given creditor or party in interest.

**NO RULING HAS BEEN SOUGHT OR OBTAINED FROM THE IRS WITH RESPECT TO ANY OF THE TAX ASPECTS OF THE PLAN AND NO OPINION OF COUNSEL HAS BEEN OBTAINED BY THE PLAN PROPONENT WITH RESPECT THERETO. NO REPRESENTATIONS OR ASSURANCES ARE BEING MADE WITH RESPECT TO FEDERAL INCOME TAX CONSEQUENCES AS DESCRIBED HEREIN. CERTAIN TYPES OF CLAIMANTS AND INTEREST HOLDERS MAY BE SUBJECT TO SPECIAL RULES NOT ADDRESSED IN THIS SUMMARY OF FEDERAL INCOME TAX CONSEQUENCES. FURTHER, STATE, LOCAL OR FOREIGN TAX CONSIDERATIONS MAY APPLY TO A HOLDER OF A CLAIM OR INTEREST WHICH ARE NOT ADDRESSED HEREIN. BECAUSE THE TAX CONSEQUENCES OF THE PLAN ARE COMPLEX AND MAY VARY BASED ON INDIVIDUAL CIRCUMSTANCES, EACH HOLDER OF A CLAIM OR INTEREST AFFECTED**

**BY THE PLAN MUST CONSULT, AND RELY UPON, HIS OR HER OWN TAX ADVISOR REGARDING SPECIFIC TAX CONSEQUENCES OF THE PLAN WITH RESPECT TO THAT HOLDER'S CLAIM OR INTEREST. THIS INFORMATION MAY NOT BE USED OR QUOTED IN WHOLE OR IN PART IN CONNECTION WITH THE OFFERING FOR SALE OF SECURITIES.**

**1. Tax Consequences to the Debtor.** Under the IRC, a taxpayer generally must include in gross income the amount of any discharge of indebtedness income realized during the taxable year. Section 108(a)(1)(A) of the IRC provides an exception to this general rule, however, in the case of a taxpayer that is under the jurisdiction of the bankruptcy court in a case brought under the Bankruptcy Code where the discharge of indebtedness is granted by the court or is pursuant to a Plan approved by the court, provided that the amount of discharged indebtedness that would otherwise be required to be included in income is applied to reduce certain tax attributes of the taxpayer. Section 108(e)(2) of the IRC provides that a taxpayer shall not realize income from the discharge of indebtedness to the extent that satisfaction of the liability would have given rise to a deduction. As a result of § 108(a)(1)(A) and § 108(e) (2) of the IRC, the Debtor does not anticipate that it will recognize any taxable income from the discharge of any indebtedness through the Chapter 11 Case. Reductions in tax attributes (net operating loss carryover) will occur to the extent of cancellation of indebtedness income not recognized due to the above.

Under § 1141 of the Bankruptcy Code, confirmation of the Plan will discharge the Debtor from all debts except as provided for in the Plan. Implementation of the Plan, including the possible liquidation of the Debtor may result in discharge of indebtedness to the Debtor as a matter of tax law to the extent of any unsatisfied portion of such Claims. Any such discharge of indebtedness should not be included in gross income of the Debtor, however, because of the exceptions to such inclusion discussed above.

Additionally, there are certain tax-credit recapture rules which could result in disallowance and/or recapture of certain tax credits in the event that the Project is sold and/or is not maintained as Low Income Housing for the applicable compliance period.

**2. Tax Consequences to Creditors.** A Creditor who receives cash or other consideration in satisfaction of any Claim may recognize ordinary income. The impact of such ordinary income, as well as the tax year for which the income shall be recognized, shall depend upon the individual circumstances of each Claimant, including the nature and manner of organization of the Claimant, the applicable tax bracket for the Claimant, and the taxable year of the Claimant. Each Creditor is urged to consult with its tax advisor regarding the tax implications of any payments or distributions under the Plan.

In general, the principal federal income tax consequences of the Plan to holders of Claims will be (a) recognition of loss or a bad debt deduction to the extent that the total payments received under the Plan with respect to the Claim are less than the adjusted basis of the holder of such claim, or (b) recognition of taxable income by the holder of the Claim to the extent of the excess of the amount of any payments made under the Plan in respect of the Claim over the holder's adjusted basis therein.

Common examples of holders of Claims who may recognize income upon receipt of payments under the Plan include (a) former employees with Claims for services rendered while serving as employees of a Debtor, (b) trade creditors whose claims represent an item not previously reported as income (including Claims for lost income upon rejection of leases or other contracts with the Debtors), (c) holders of Claims who had previously claimed a bad debt deduction with respect to their Claims in excess of their ultimate economic loss, and (d) holders of Claims that include amounts of pre-petition interest that had not previously been reported in income. Common examples of Claims who may recognize a loss or deduction for tax purposes as a result of implementation of the Plan, provided that such holders are not

paid in full, include holders of Claims that arose out of cash actually loaned or advanced to a Debtor, and holders of Claims consisting of items that were previously included in income of such holders on the accrual method of accounting, to the extent, in both cases, that the economic loss to such holders has not been allowed as a tax deduction in a prior year.

The amount and character or any resulting income or loss recognized for federal income tax consequences to a holder of any Claim as a result of implementation of the Plan will, however, depend on many factors. The most significant of these factors include (a) the nature and origin of the Claim, (b) whether the holder is a corporation, (c) the extent to which the Plan provides for payment of the particular Claim, (d) the extent to which any payment made is allocable to pre-petition interest which is part of such Claim, and (e) the prior tax reporting positions taken by the holder with respect to the item that constitutes the Claim. As to the last factor, relevant tax reporting positions include whether the holder had to report under its method of accounting any portion of the Claim (including accrued and unpaid interest) as income prior to receipt and whether the holder previously claimed a bad debt or worthless deduction with respect to the Claim, which would affect the adjusted basis of the holder in the Claim General rules for the deduction of bad debts are provided in I.R.C. § 166 as follows:

> If either (a) the creditor's corporation, or (b) the debt is a business bad debt in the hands of the creditor, and the creditor demonstrates that the debt is collectible only in part, a deduction for partial worthlessness of the debt will be allowed to the extent that the debt is charged off in the accounting records of the creditor.
>
> For a creditor not described in the previous paragraph, a bad debt deduction is allowable only in the year that the debt becomes wholly worthless.
>
> If the creditor is not a corporation and the debt is a non-business bad debt, the bad debt deduction is treated as a short-term capital loss, which can offset only capital gain income and a limited amount of ordinary income.
>
> For purposes of I.R.C. § 166, a "non-business debt" means a debt other than (i) a debt created or acquired in connection with the creditor's trade or business, or (ii) a debt the loss from the worthlessness of which was incurred during the operation of the creditor's trade or business.
>
> The time as of which a debt becomes worthless (or partially worthless), and therefore the tax year in which a creditor may claim a bad debt deduction, is a question of fact. Pursuant to income tax regulations ("Regs") § 1.166-2(c), as a general rule, bankruptcy is an indication of the worthlessness of at least a part of an unsecured, non-priority debt. In bankruptcy cases, a debt may become worthless before settlement in some instances, and only when settlement and bankruptcy has been reached in other instances. The mere fact that bankruptcy proceedings instituted against the debtor are terminated in a later year, thereby confirming the conclusion that the debt is worthless (or partially worthless), does not necessarily shift the deduction to such later year. Thus, even though the precise amount the holders of General Unsecured Claims or other Claims will receive under the Plan may not be known until the final distribution date, the determination of the precise amount that will be paid under the Plan with respect to a Claim, or that no amount will be paid, does not necessarily establish that any resulting bad debt deduction is properly allowable in the creditor's tax year in which the final distribution is made, rather than in an earlier year. Accordingly, to the extent that a Creditor may claim a bad debt deduction which it has not previously claimed, it is possible that the Creditor will be required to amend its return for a prior year and claim

the deduction in that year, rather than in the year in which the final distribution is made. Creditors should consult with their individual tax advisors with respect to this issue.

The extent to which gain or loss may be recognized by a holder of a Claim upon implementation of the Plan may be significantly affected by any bad debt deduction that may have been claimed by the holder in a prior year with respect to the debt on which the Claim is based. If the holder took a bad debt deduction in a prior year which is recovered in whole or in part through a payment made to the holder pursuant to the Plan, the holder will generally be required to include in income the amount recovered in the year the holder receives the payment. An exception to this rule permits exclusion of a recovery of a prior bad debt deduction to the extent that the earlier bad debt deduction did not produce a tax benefit to the holder.

**THE FOREGOING IS INTENDED TO BE A SUMMARY ONLY AND NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING OR CONSULTATION WITH A TAX ADVISOR. THE FEDERAL, STATE, LOCAL, AND FOREIGN TAX CONSEQUENCES OF THE PLAN ARE COMPLEX AND, IN SOME CASES, UNCERTAIN. SUCH CONSEQUENCES MAY ALSO VARY BASED ON THE INDIVIDUAL CIRCUMSTANCES OF EACH HOLDER OF A CLAIM OR INTEREST. ACCORDINGLY, EACH HOLDER HAVING A CLAIM OR INTEREST IS STRONGLY URGED TO CONSULT WITH HIS OR HER OWN TAX ADVISOR REGARDING THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PLAN.**

**THE DEBTORS BELIEVE THAT THE PLAN PROVIDES THE BEST RECOVERIES POSSIBLE FOR THE HOLDERS OF CLAIMS AGAINST AND INTERESTS IN THE DEBTORS. THE DEBTORS RECOMMEND THAT YOU VOTE TO ACCEPT THE PLAN.**

## IV.
## CONFIRMATION REQUIREMENTS AND PROCEDURES

To be confirmable, the Plan must meet the requirements listed in §§ 1129(a) or (b) of the Code. These include the requirements that: the Plan must be proposed in good faith; at least one impaired class of claims must accept the plan, without counting votes of insiders; the Plan must distribute to each creditor and equity interest holder at least as much as the creditor or equity interest holder would receive in a chapter 7 liquidation case, unless the creditor or equity interest holder votes to accept the Plan; and the Plan must be feasible. These requirements are <u>not</u> the only requirements listed in § 1129, and they are not the only requirements for confirmation.

### A. Who May Vote or Object

Any party in interest may object to the confirmation of the Plan if the party believes that the requirements for confirmation are not met.

Many parties in interest, however, are not entitled to vote to accept or reject the Plan. A creditor or equity interest holder has a right to vote for or against the Plan only if that creditor or equity interest holder has a claim or equity interest that is both (1) allowed or allowed for voting purposes and (2) impaired.

In this case, the Plan Proponent believes that Class 3 is impaired and that holders of claims in this class is therefore entitled to vote to accept or reject the Plan. The Plan Proponent believes that Classes 1, 2 and 4 are unimpaired and that holders of claims in each of these classes, therefore, do not have the right to vote to accept or reject the Plan.

**1. *Allowed Claims and Allowed Equity Interests***

Only a creditor or equity interest holder with an allowed claim or an allowed equity interest has the right to vote on the Plan. Generally, a claim or equity interest is allowed if either (1) the Debtor has scheduled the claim on the Debtor's schedules, unless the claim has been scheduled as disputed, contingent, or unliquidated, or (2) the creditor has filed a proof of claim or equity interest, unless an objection has been filed to such proof of claim or equity interest. When a claim or equity interest is not allowed, the creditor or equity interest holder holding the claim or equity interest cannot vote unless the Court, after notice and hearing, either overrules the objection or allows the claim or equity interest for voting purposes pursuant to Rule 3018(a) of the Federal Rules of Bankruptcy Procedure.

***The deadline for filing a proof of claim in this case was July 8, 2014 for non-governmental creditors and September 9, 2014 for governmental creditors.***

**2. *Impaired Claims or Impaired Equity Interests***

As noted above, the holder of an allowed claim or equity interest has the right to vote only if it is in a class that is *impaired* under the Plan. As provided in § 1124 of the Code, a class is considered impaired if the Plan alters the legal, equitable, or contractual rights of the members of that class.

**3. *Claims and Interests <u>Not</u> Entitled to Vote***

The holders of the following five types of claims and equity interests are *not* entitled to vote:

- holders of claims and equity interests that have been disallowed by an order of the Court;
- holders of other claims or equity interests that are not "allowed claims" or "allowed equity interests" (as discussed above), unless they have been "allowed" for voting purposes.
- holders of claims or equity interests in unimpaired classes;
- holders of claims entitled to priority pursuant to §§ 507(a)(2), (a)(3), and (a)(8) of the Code; and
- holders of claims or equity interests in classes that do not receive or retain any value under the Plan;
- administrative expenses.

**4. *Claims Entitled to Vote in More Than One Class***

A creditor whose claim has been allowed in part as a secured claim and in part as an unsecured claim, or who otherwise hold claims in multiple classes, is entitled to accept or reject a Plan in each capacity, and should cast one ballot for each claim.

**B. Votes Necessary to Confirm the Plan**

If impaired classes exist, the Court cannot confirm the Plan unless (1) at least one impaired class of creditors has accepted the Plan without counting the votes of any insiders within that class, and (2) all

impaired classes have voted to accept the Plan, unless the Plan is eligible to be confirmed by "cram-down" on non-accepting classes, as discussed later in Section B.2. *infra.*

**1.** ***Votes Necessary for a Class to Accept the Plan*** A class of claims accepts the Plan if both of the following occur: (1) the holders of more than one-half (1/2) of the allowed claims in the class, who vote, cast their votes to accept the Plan, and (2) the holders of at least two-thirds (2/3) in dollar amount of the allowed claims in the class, who vote, cast their votes to accept the Plan. A class of equity interests accepts the Plan if the holders of at least two-thirds (2/3) in amount of the allowed equity interests in the class, who vote, cast their votes to accept the Plan.

**2.** ***Treatment of Nonaccepting Classes***

Even if one or more impaired classes reject the Plan, the Court may nonetheless confirm the Plan if the nonaccepting classes are treated in the manner prescribed by § 1129(b) of the Code. A plan that binds nonaccepting classes is commonly referred to as a "cram-down" plan. The Code allows the Plan to bind nonaccepting classes of claims or equity interests if it meets all the requirements for consensual confirmation except the voting requirements of § 1129(a)(8) of the Code, does not "discriminate unfairly," and is "fair and equitable" toward each impaired class that has not voted to accept the Plan.

**C. Liquidation Analysis**

To confirm the Plan, the Court must find that all creditors and equity interest holders who do not accept the Plan will receive at least as much under the Plan as such claim and equity interest holders would receive in a chapter 7 liquidation. A liquidation analysis is attached to this Disclosure Statement as **Exhibit 3.**

**D. Feasibility**

The Court must find that confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Debtor or any successor to the Debtor, unless such liquidation or reorganization is proposed in the Plan. As the Plan to be submitted in connection with this Disclosure Statement is a liquidating plan, the feasibility component of the confirmation requirements is inapplicable.

**1.** ***Ability to Initially Fund Plan***

The Plan Proponent believes that the Trustee will have enough cash on hand on the effective date of the Plan to pay all the claims and expenses that are entitled to be paid on that date.

**2.** ***Ability to Make Future Plan Payments And Operate Without Further Reorganization***

The Plan Proponent must also show that it will have enough cash over the life of the Plan to make the required Plan payments. As the Plan to be submitted in connection with this Disclosure Statement is a liquidating plan, the feasibility component of the confirmation requirements is inapplicable.

**Respectfully submitted,**

**RYNARD PROPERTIES RIDGECREST, L.P.**

By: /s/ John Bartle
John Bartle, Sec./Treas. Of G.P., Ridgecrest GP, LLC

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing document has been served on this 28th day of September, 2014 either by email or by placing in the U.S. Mail as required pursuant to the Local Rules.

Geoff Treece, Attorney for Fannie Mae

James E. Bailey, III, Attorney for Renasant Bank

Office of U.S. Trustee

Michael Hartsfield , Attorney for Tie Construction

All Creditors and Interested Parties who have Requested Notice

/s/ Toni Campbell Parker
Toni Campbell Parker