

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION**

In Re:)	Chapter 11
)	
VENTANA HILLS ASSOCIATES, LTD.,))	Case No. 09-41755
an Ohio limited partnership, and)	Hon. Pamela S. Hollis
VENTANA HILLS PHASE II, L.P., an)	(substantively consolidated)
Ohio limited partnership,)	
)	
Debtor.)	

**DISCLOSURE STATEMENT OF THE DEBTOR
AS OF JUNE 30, 2010**

THIS DISCLOSURE STATEMENT IS SUBMITTED FOR DETERMINATION BY THE COURT REGARDING WHETHER IT CONTAINS ADEQUATE INFORMATION AS REQUIRED BY § 1125 OF THE CODE. SUCH DETERMINATION, HOWEVER, WILL NOT CONSTITUTE RECOMMENDATION OR APPROVAL OF THE PLAN BY THE COURT AND YOU SHOULD EACH REACH YOUR OWN CONCLUSION ABOUT HOW TO VOTE ON THE PLAN.

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DISCLOSURE STATEMENT TO PLAN OF REORGANIZATION

I. INTRODUCTION

Ventana Hills Associates, Ltd., and Ventana Hills Phase II, L.P. (collectively the "Debtor") provide this Disclosure Statement (the "Disclosure Statement") to its creditors pursuant to Section 1125 of the Bankruptcy Code in connection with its solicitation of acceptances of its Amended Plan of Reorganization (the "Plan") filed on July _____, 2010, with the United States Bankruptcy Court for the Northern District of Illinois, Eastern Division (the "Bankruptcy Court") in the captioned Chapter 11 case. A copy of the Plan is attached hereto as Exhibit A.

The purpose of this Disclosure Statement is to provide creditors with adequate information with which to make an informed and prudent business judgment when voting on the Plan. This Disclosure Statement discussion is not meant to take the place of the Plan. To the extent that the Plan and this Disclosure Statement are or may be construed to be inconsistent, the Plan controls. Since creditors will be bound by the Plan if it is confirmed by the Bankruptcy Court, creditors are urged to read the Plan carefully and to consult with its own attorneys about the Plan's effect on its claims. Capitalized terms used but not defined in this Disclosure Statement shall have the meanings ascribed to them by the Plan.

The following chart summarizes the proposed treatment of claims under the Plan:

SUMMARY OF PROPOSED TREATMENT OF CREDITORS

Class of Claims	Class Description	Number of Claims	Amount of Claims	Payment and Timing of Claims	Amount to be paid to Creditors
Class 1	Anglo Irish Bank Secured Claim	1 Claim	\$54,975,555.28	Paid in full. Monthly installments of interest only for five years, with payment of the unpaid balance at the end of the fifth year	\$54,975,555.28, plus interest at the contract rate
Class 2	Real Estate Tax Secured Claim	2 Tax Claims	\$1,608,165.40	Paid in full. Monthly installments, with interest, over three years	\$1,608,165.40, plus interest at 5%
Class 3	Other Secured Claims	0		Paid in full, in accordance with agreements with third parties, if any	\$0
Class 4	Tenant Claims	Various	Varies from time to time	Paid in full, in accordance with the terms of the Tenant's leases	Varies
Class 5	Unsecured Claims	58 Claims	\$203,200.75	Paid in full. Quarterly quarterly installments, with interest, over two years	\$203,200.75, plus interest at 5%
Class 6	Ownership Interests	1 Claim	\$0	No distribution	\$0

II. EXPLANATION OF CHAPTER 11, THE VOTING PROCEDURES, AND CONFIRMATION OF THE PLAN

Chapter 11 of the Bankruptcy Code allows the Debtor to attempt to reorganize its financial affairs for the benefit of itself, its creditors, and other parties in interest. The filing of a petition

under Chapter 11 triggers the automatic stay of 11 U.S.C. Section 362 and bars all attempts to collect pre-petition claims from the Debtor, enforce liens on the Debtor's properties or otherwise interfere with the Debtor's property. The filing of the petition also creates an estate (the "Estate") comprised of all legal and equitable interests of the Debtor in property as of the date the petition was filed. The United States Trustee for the appropriate District may appoint a committee of unsecured creditors, from interested creditors, to represent the interests of unsecured creditors in the case. A committee has not been appointed in this Case.

The Plan is the method by which the Debtor proposes to satisfy the claims of creditors. The Plan provides for the classification and treatment of creditors and the disposition of the Estate's assets.

In order for the Plan to be implemented, it must be confirmed by the Bankruptcy Court. The standards for confirmation are complex and are primarily set forth in Section 1129 of the Code. One of the principal requirements is that the Plan must be accepted by a vote of two-thirds in amount and a majority in number of the voting members of each class of impaired creditors, or in the alternative the Plan must meet the standards prescribed for the cramdown under Section 1129(b).

The holders of impaired claims are entitled to vote on the Plan and may cast their votes for or against the Plan by (a) completing, dating and signing the Ballot for Accepting or Rejecting Plan (the "Ballot") accompanying this Disclosure Statement and (b) filing the Ballot with the Bankruptcy Court. The Ballot may be filed in person or by mailing the Ballot to the Bankruptcy Court, Final Meetings Department, 219 South Dearborn Street, Chicago, Illinois 60604. In order to be counted, all Ballots must be filed or received by the Bankruptcy Court on or before _____, 2010.

In determining acceptance of the Plan, votes will be counted only if submitted by a creditor whose claim is scheduled by the Debtor as undisputed, non-contingent and liquidated, or who, prior to the date previously fixed by the Bankruptcy Court (_____, 2010), timely filed with the Bankruptcy Court a proof of claim which has not been objected to, disallowed or disqualified prior to computation of the vote on the Plan. The Ballot which accompanies this Disclosure Statement does

not constitute a proof of claim. If you are uncertain whether your claim has been correctly scheduled, you should check the Debtor's schedules which are on file with, and may be inspected at, the Bankruptcy Court, Room 713, 219 South Dearborn Street, Chicago, Illinois.

The confirmation hearing will take place on _____, 2010, at _____ a.m. before the Honorable Pamela S. Hollis, Bankruptcy Judge, in the Dirksen Federal Building, Room 644, 219 South Dearborn Street, Chicago, Illinois. The hearing may be continued from time to time as announced in open court on that date without further written notice to you. At the hearing, the Bankruptcy Court will determine whether the requirements for confirmation of the Plan have been satisfied. If confirmed, the Plan will become effective on the Effective Date, which, as defined in the Plan, shall be the first (1st) business day after the Confirmation Order is entered.

III. DISCLAIMERS AND ENDORSEMENTS

This Disclosure Statement has been approved by the Bankruptcy Court in accordance with Section 1125 of the Bankruptcy Code and Bankruptcy Rule 3017 and is provided to each creditor entitled to vote on the Plan. This Disclosure Statement is intended to assist creditors whose claims are impaired in evaluating the Plan and in determining whether to accept or reject the Plan. Under the Bankruptcy Code, acceptance or rejection of the Plan may not be solicited unless a copy of this Disclosure Statement is furnished prior to or concurrently with solicitation.

The Bankruptcy Court's approval of this Disclosure Statement does not constitute a recommendation by the Bankruptcy Court either for or against the Plan.

This Disclosure Statement contains information supplementary to the Plan and is not intended to take the place of the Plan. Each creditor is strongly urged to study the Plan carefully with its own counsel to determine the Plan's impact on its interests. The financial information contained herein has not been certified by an independent auditor.

THE DEBTOR, ITS ATTORNEYS, AND ITS ADVISORS ARE UNABLE TO WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS

WITHOUT ANY INACCURACIES, ALTHOUGH GREAT EFFORT HAS BEEN MADE TO BE ACCURATE.

NOTHING CONTAINED IN THE PLAN SHALL BE DEEMED AN ADMISSION OR USED AGAINST THE DEBTOR IN ANY PENDING OR FUTURE LITIGATION.

THIS DISCLOSURE STATEMENT ALSO HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN.

NO REPRESENTATIONS CONCERNING THE DEBTOR ARE AUTHORIZED OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT OR AUTHORIZED BY THE BANKRUPTCY COURT. ANY REPRESENTATION OR INDUCEMENT MADE TO SECURE YOUR ACCEPTANCE OF THE PLAN WHICH IS OTHER THAN AS CONTAINED IN THIS DISCLOSURE STATEMENT OR AUTHORIZED BY THE BANKRUPTCY COURT SHOULD NOT BE RELIED ON BY YOU IN ARRIVING AT YOUR DECISION, AND ANY SUCH ADDITIONAL REPRESENTATION OR INDUCEMENT SHOULD BE REPORTED TO COUNSEL FOR THE DEBTOR WHO SHALL FURNISH INFORMATION TO THE BANKRUPTCY COURT FOR SUCH ACTION AS MAY BE DEEMED APPROPRIATE.

IV. HISTORY OF THE DEBTOR

The Debtor is the owner and operator of a residential apartment project located in Pittsburgh, Pennsylvania, known as “Ventana Hills Apartments” (the “Property”). The Property was constructed in 2002 as a rental apartment community, in two phases, and was purchased by the Debtor in 2004 for \$50,000,000.00. The Property is comprised of 470 residential rental apartment units located in 30 buildings spread over 63 acres. In addition, the Property contains clubhouse and garage buildings.

On or about January 27, 2007, the Debtor refinanced the Property with Anglo Irish Bank, executing a Promissory Note in the original principal amount of \$53,125,000.00.

V. EVENTS LEADING TO THE FILING OF THE PETITION

The Debtor's operational and profitability problems are principally due to the general economic problems of the country over the last several years which has resulted in periodic declines in occupancy levels, and the extended time required to bring occupancy levels back to proper levels. This has been exacerbated in Debtor's case by reason of fixed interest rate financing at levels substantially above current interest levels. Debtor filed these bankruptcy cases to preserve the opportunity to realize maximum value in today's economy for the benefit of all of its creditors.

VI. HISTORY OF THE CHAPTER 11 CASES

Since the filing of Debtor's case, it has continued to operate its business in the normal course. For purposes of this case, Ventana Hills Associates, Ltd., and Ventana Hills Phase II, L.P. have been substantively consolidated and treated as one debtor. Attached hereto as Exhibit B is a summary of Debtor's monthly operating reports filed in these proceedings. Attached hereto as Exhibit C is the Debtor's balance sheet as of June 30, 2010. Debtor anticipates that its revenues in calendar 2010 will reach approximately \$5,800,000.00, and that it will show a modest operating profit. Attached hereto as Exhibit D are Debtor's projected balance sheets and income statements for the period from October 1, 2010, through September 30, 2013, which is the initial three (3) year period during which the Plan is to be in effect.

Debtor believes that its operations are sufficiently profitable to provide the necessary cash availability, which in conjunction with its secured credit facility to fund the Plan.

Pursuant to the terms of the Plan, the Anglo Irish Bank loan will continue in place after the confirmation of the Plan, and will be paid on monthly installments of interest over five years, with the unpaid balance due on the fifth anniversary of the Effective Date. Upon confirmation of the Plan, Anglo Irish Bank will retain its first lien on the Property. Real estate taxes will be paid in full, in installments over three (3) years with interest. Tenant security deposit claims will be paid in accordance with the provisions of the Tenant leases. Unsecured creditors will be paid in full, in installments over two (2) years with interest.

VII. PLAN OF REORGANIZATION

The following is a summary of the principal features of the Plan, which is Exhibit A to this Disclosure Statement. Although Debtor believes the summary to be accurate, the summary necessarily omits numerous details. Creditors are urged not to rely on this summary, but to read the Plan in its entirety in order to obtain a full and complete understanding of the Plan. In the event of any conflict or inconsistency between the Plan and this summary, the provisions of the Plan shall govern.

The primary purpose of the Plan is to permit the orderly reorganization of the Debtor in a manner consistent with the rights of the creditors to receive distributions pursuant to the priority provisions of the Code. The Debtor believes that liquidation under Chapter 7 of the Code would not be in the best interests of the Debtor, its estate, and its creditors and would not produce any greater recovery for creditors than will be achieved by the Plan. See “LIQUIDATION ANALYSIS”, attached hereto as Exhibit E.

A. Introduction

The Plan contemplates Debtor’s continued operation generally in a like manner as it is currently operating. All payments to be made under the Plan will be made from the following

sources: (a) rental and other income generated by the Property; and, (b) the recoveries, if any, from any cause of action. Debtor will continue its operations at the Property and will retain its current managers and its employees.

The Plan provides for the payment of Debtor's Administrative Claims in cash, in full. Priority Tax Claims, except for real estate taxes, will be paid in cash, in full. Administrative Claims and Priority Tax Claims will be paid as soon as practicable after allowance, or in the ordinary course of business, when due. The Anglo Irish Secured Claim will be paid in full in monthly installments of interest only over five (5) years, with payment of the unpaid balance at the end of the fifth (5th) year. The proceeds of the refinancing of the Property or its sale will be used to pay Anglo Irish Bank's balance at the end of the 5th year. Real estate taxes will be in full, in monthly installments, with interest, over two (2) years. Unsecured claims will be paid in full, in quarterly installments, with interest, over two (2) years. The current equity holders of the Debtor will not receive any distribution on account of their ownership interests, but shall retain their ownership interests in the Reorganized Debtor.

B. Assets

The Plan contemplates that Debtor will continue to operate its business generally in the manner it has been operating. Following the Effective Date, the Debtor will use its best efforts to maximize the value of its assets through the profitable operations of its business, thereby maximizing the value of its estate for the benefit of its creditors.

In addition to the continued operation of the Debtor's business, the Plan provides for the Debtor to pursue and collect all causes of action, including Avoidance Actions relating to preferential payments and fraudulent conveyances. Generally, Avoidance Actions under the Bankruptcy Code allows for the recovery of all payments made within 90 days of the filing (one year if the payment was made to an Insider) of the Case (other than in the ordinary course of business), on account of a non-current debt, which allows a creditor to recover more than that creditor would recover if this was a Chapter 7 liquidation (preferences); and the recovery of the value of all transfers

of the Debtor's property made within one year of the filing of the Case, for which reasonably equivalent value was not received (fraudulent conveyances). In addition, fraudulent conveyances made up to four years prior to the filing of the Case may be recovered under the Illinois Fraudulent Conveyance Act. Debtor is currently reviewing its records to determine the Avoidance Actions it has available to pursue. Debtor has not been able to estimate the amount that could be recovered for the benefit of the unsecured creditors from these actions, due to, among other things, the incomplete status of Debtor's investigation, the uncertainties of the litigation process, the possible defenses that could be raised by a payee, the uncertainty of the collectability of any recoveries, and the costs that may be incurred in collection. However, from its initial review, Debtor does not believe that Avoidance Actions will generate any substantial recoveries. Net proceeds from Avoidance Actions, after payment of the costs and expenses of obtaining the recoveries, will be paid to Debtor.

C. Liabilities

Under the Plan, upon Confirmation, the Debtor will be indebted to Anglo Irish Bank, which indebtedness will be secured by virtually all of Debtor's assets (as well as the personal guaranty of the Debtor's equity holder, Ivan Djurin ("Djurin")). Debtor estimates that the indebtedness due Anglo Irish Bank at confirmation will be approximately Fifty-Five Million Dollars (\$55,000,000.00). In addition, Debtor will, upon Confirmation, be indebted for real estate taxes to the County of Allegheny and the Montour School District for approximately One Million Six Hundred Thousand Dollars (\$1,600,000.00), plus interest.

Administrative claims due by the Debtor, subject to Court approval, include professional fees for Debtor's attorneys and other professionals. Upon Confirmation, Debtor will also be indebted to various of its trade creditors for normal trade expenses and purchases, made in the normal course of Debtor's business while operating in Chapter 11. The amount of this debt varies from time to time. During the pendency of this Chapter 11, Debtor in the normal course of its business, has been paying this trade debt as it becomes due. In accordance with the terms of the Plan upon Confirmation, Debtor will continue to pay its trade debt as it becomes due in the normal course of its business.

Debtor's remaining indebtedness will consist of its obligations to its prepetition creditors, approximately Two Hundred Five Thousand Dollars (\$205,000.00) as provided for under the Plan. Depending upon the classification of the debt, payment will be made at the times and in the amounts set forth in the Plan for that class of debt.

The following section describes generally the timing and treatment of Claims under the Plan. In the event of any conflict or inconsistency between the Plan and the following description, the provisions of the Plan shall govern.

D. Treatment of Claims

1. **Administrative Priority Claims.** Administrative Priority Claims include all costs and expenses of the administration of the Chapter 11 case allowed under § 503(b) of the Code and entitled to priority under § 507(a)(1) of the Code. the Plan provides for payment in full of all allowed administrative expenses on or before the Effective Date unless paid prior thereto or if the holder of such administrative expense has agreed to a different treatment. Any administrative expense that has not yet been allowed by the Bankruptcy Court, will be paid in the amount ultimately allowed or otherwise agreed, promptly after allowance.

Fees to professionals will continue to accrue through confirmation. the Court will ultimately review and determine the allowability and amounts of all fees paid or to be paid to the professionals. All fees of professionals approved by the Court will be paid from the Estate.

Any fees due to the United States Trustee payable under 28 U.S.C. § 1930 shall be paid on confirmation in accordance with 11 U.S.C. § 1129(a)(12).

Other administrative expense claims may be filed by entities that believe they have an entitlement to be paid as an administrative expense.

2. **Priority and Secured Tax Claims.** Except for real estate taxes, Priority and Secured Tax Claims are unimpaired. Such claims, which Debtor anticipates will be approximately \$ -0- shall be paid in full on the Effective Date.

3. **Class 1 Claims (Anglo Irish Bank Secured Claim)**

The Anglo Irish Bank Secured Claim is impaired by the Plan. The Anglo Irish Bank Secured Claim is secured by a lien on the Property totaling \$54,975,555.28. The Anglo Irish Bank Secured Claim relates to a mortgage encumbering the Property. The Anglo Irish Bank Secured Claim will be paid in monthly installments of interest for five (5) years, at which time the unpaid balance will be paid. Anglo Irish will retain all of its prepetition liens and encumbrances against Debtor's property to secure its Class 1 Claim.

4. **Class 2 Claims (Real Estate Tax Secured Claims)**

Real Estate Tax Secured Claims are impaired under the Plan. Real Estate Tax Secured Claims consist of two (2) claims for real estate taxes due from Debtor to the County of Allegheny and the Montour School District. The total amount of these claims is \$1,608,165.40. The Real Estate Tax Secured Claims will be paid in full, with interest at 5% per annum, in monthly installments over three (3) years. The County of Allegheny and the Montour School District shall retain their respective prepetition liens to secure the repayment of the Class 2 Claims

5. **Class 3 Claims (Other Secured Claims)**

Other Secured Claims against the Debtor, other than Class 1 Claims and Class 2 Claims, are unimpaired under the Plan. The other Secured Claims will be either (i) paid in full from the net proceeds of the collateral securing such claim; (ii) paid in full by the delivery of the collateral securing such claims to the holder of the claim; or (iii) paid in full in accordance with the terms of the contract between the debtor and the holder of the claim. Debtor does not know of any Class 3 Claims.

6. **Class 4 Claims (Tenant Claims)**

Tenant Claims against the Debtor are unimpaired under the Plan. Tenant Claims will be paid in full from Debtor's existing segregated bank account for Tenant's security deposits, in accordance with Debtor's lease agreements with its tenants.

7. Class 5 Claims (General Unsecured Claims)

Unsecured claims against the Debtor, other than Administrative Claims and Priority Tax Claims are impaired under the Plan. Unsecured claims include, without limitation, general trade debt, unsecured deficiency claims held by secured creditors and claims for damages arising from the Debtor's rejection of executory contracts and unexpired leases. Fifty-eight (58) General Unsecured Claims totaling Two Hundred Three Thousand Two Hundred and 75/100 Dollars (\$203,200.75) have been filed and/or scheduled. General Unsecured Claims will be paid in full, with interest, at 5% per annum, in quarterly installments over two (2) years.

8. Class 6 Claims (Ownership Interests)

Equity holders are impaired under the Plan. At the Petition Date, Djurin was the equity holder of the Debtor. Under the Plan, Djurin will not receive any distribution on account of his equity interests. The Plan provides for Djurin to continue to guaranty Debtor's secured indebtedness to Anglo Irish Bank. Djurin will retain his equity interest in the Reorganized Debtor. Djurin will continue to be the manager of the Reorganized Debtor.

E. Means of Implementation

The principal means by which the Plan will be funded will be through the rental and other income generated by the Property. Debtor currently anticipates that the rental income will generate approximately Twenty-Nine Million Dollars (\$29,000,000.00) for the Debtor's estate, although the number may change. Debtor will use these funds to make all payments due under the Plan.

After the Effective Date, the Court shall retain jurisdiction only for the following limited purposes: (a) allowing or disallowing claims, including administrative claims; (b) effectuating, modifying, interpreting and enforcing the Plan; (c) hearing and concluding any adversary proceedings or contested matters, including Avoidance Actions whether filed prior to or subsequent to Confirmation; (d) approving the sale or abandonment of any asset; and (d) entering an order closing the case.

VIII. BANKRUPTCY CODE REQUIREMENTS

The Bankruptcy Code imposes requirements of acceptance of the Plan by creditors, minimum value of distributions, and feasibility. To confirm the Plan, the Court must find that all of these conditions and other conditions set forth in § 1129(a) of the Code have been met, unless the “cram-down” provisions of the Code are applicable. Thus, even if each class of creditors accepts the Plan by the requisite majorities, the Court must undertake an independent evaluation of the feasibility of the Plan and of the other statutory requirements before the Plan may be confirmed. The conditions for minimum value and financial feasibility are discussed below. The conditions for acceptance are discussed in “EXPLANATION OF CHAPTER 11, VOTING PROCEDURES AND CONFIRMATION OF THE PLAN.”

A. Minimum Value

Before it may confirm the Plan, a Court must determine (with certain exceptions) that the Plan provides to each member of each impaired class of allowed claims a recovery that is at least equal to the distribution that such member would receive if the estates of the Debtor were liquidated on the Effective Date under Chapter 7 of the Code. As described in “LIQUIDATION ANALYSIS,” the Debtor has concluded that under the Plan each holder of a claim will receive or retain property of a value that is equal to or greater than the amount that such holder would receive or retain if the estates of the Debtor were liquidated outside Chapter 11.

B. Cash Necessary On Confirmation

The Debtor estimates that it will need at least \$100,000.00 on the Effective Date to pay Administrative and Priority and Secured Claims.

IX. FEDERAL INCOME TAX CONSEQUENCES

A. General

While the general rule under the Internal Revenue Code of 1986, as amended (“IRC”) is that income from the discharge of indebtedness is included in a taxpayer’s gross income (“COD”), Debtors in bankruptcy are entitled to exclude from gross income, for federal income tax purposes,

any amount which, but for 26 U. S. C. §108(a), would be includible in gross income by reason of discharge of indebtedness. If a Debtor excludes COD from its gross income, it must reduce certain tax attributes unless the Debtor elects to apply all or any portion of the excluded amount to reduce the basis of its depreciable property.

The state and local tax treatment of income from the COD in a bankruptcy case is controlled by §346(j) of the Bankruptcy Code. Neither the estate nor the Debtor realizes income by COD in a case under Title 11, except as otherwise provided in § 346(j). Similar to the federal tax treatment, the net operating loss of the company must be reduced by the amount of indebtedness forgiven or discharged. Once net operating losses are adjusted, then the Debtor may either recognize income under §346(j)(6) of the Bankruptcy Code or reduce its basis in depreciable property under §346(j)(7).

The estate of a Debtor in a Chapter 11 proceeding is treated as a separate entity that is taxed like any other taxpayer (IRC Section 1398). No gain or loss is recognized on the transfer of assets to the estate that occurs by operation of law upon the commencement of the case (IRC Section 1398(f)). The estate succeeds to certain tax attributes of the Debtors, determined as of the first day of the Debtors' taxable year in which the case commences, including, but not limited, net operating loss carryovers, passive activity loss carryovers, charitable contribution carryovers and investment tax credit carryovers (IRC Section 1398(g)).

The precise amount of tax attributes available to the estate has not yet been determined. While Debtor's tax attributes expire at various times depending on their nature and when they arose, Debtor believes that it has sufficient tax attributes available so that no recognition of taxable income, for either federal or state tax purposes, will result from income from COD under its Plan. Debtor does not believe there will be any COD income.

B. Income During Period of Administration

The estate will recognize taxable income, gain, loss and deduction during the period of administration based on its sources of income and expense, including its operations during the

Chapter 11 case. The estate may also recognize taxable income if it disposes of any estate assets at a gain in a taxable transaction.

The principal expenses and losses of the estate consist of operating expenses and to a much lesser degree administration expenses. Also, there may be significant unrecovered tax basis in some of the estate's receivables with the result that the estate may incur additional losses attributable to worthless receivables.

It is anticipated that the operation of the Debtor's business during the pendency of these proceedings will not result in the realization of taxable net income or net gains during the period of administration of the estate that will exceed available tax attributes. Moreover, based upon the payments to be made under the Plan, COD income should not cause the estate to incur any tax liability.

During the pendency of this case, Debtor has been paying all of its tax obligations when due. The Debtor does not anticipate that the estate will incur any tax burden in excess of tax attributes and the funds available to satisfy such taxes. The pre-petition tax liabilities and the estate's tax liabilities are expected to be determined by the Court.

C. Taxation of Distributions

The excess of the amount of an allowed claim over the amount distributed to such creditor will constitute COD income to the estate. The transfer of any assets to the Debtors at the conclusion of the proceedings are not treated as taxable dispositions by the estate under IRC Section 1398(f)(2). The gain or loss to a creditor will be measured by difference between the amount distributed to such creditor and the creditor's tax basis for its claim. The tax consequences to each creditor will vary depending on the prior tax treatment accorded to their claims. For example, if a creditor's tax basis for its claim exceeds the distribution received, such creditor will recognize a taxable loss. On the other hand, a creditor who has completely written off its claim against the Debtor and obtained a full tax loss for the amount of the claim may have to recognize taxable income upon the distribution under the Plan. The amount of taxable gain or loss realized by a creditor will depend on facts that

are unique to each creditor. Each creditor should seek independent tax advice to determine the tax consequences to each creditor.

X. LIQUIDATION ANALYSIS AND BEST INTERESTS OF CREDITORS

Notwithstanding acceptance of the Plan by the requisite majorities of creditors, in order to confirm the Plan, the Court must independently determine that the Plan is in the best interests of each impaired class of creditors. The "best interests" test requires the Court to find that, with respect to each impaired class of claims or interests which has not unanimously accepted the Plan, each holder of a claim or interest in such class will receive or retain under the Plan on account of such claim or interest, property of a value, as of the Effective Date, that is not less than the amount such holder would receive or retain if Debtor's estate were liquidated under Chapter 7 of the Code on such date.

If this case were converted to a Chapter 7 liquidation, the Chapter 7 Trustee would be required to dispose of Debtor's assets in a prompt manner under circumstances amounting to a forced sale liquidation. Given the nature of the Debtor's assets, substantially an apartment complex, its value in a forced liquidation circumstance, and the amount of secured debt and taxes owed by Debtor, Debtor believes that its unsecured creditors would receive a distribution equal to the amount of their claim if this case were converted to a Chapter 7 liquidation. Debtor believes that the payments to be made under the Plan will be equal to the amount unsecured creditors would receive in a Chapter 7 liquidation. In addition, the Chapter 7 estate would entail the incurrence of additional fees and costs, and will substantially delay any payment to creditors, that would otherwise not be incurred under the Plan. For example, the Chapter 7 Trustee is entitled to statutory fees based upon the value of the assets administered, and will require the assistance of professionals (both accountants and lawyers) who will be entitled to be paid for their services as a cost of administration of the liquidating estate. While precise estimates are virtually impossible to give, Debtor's analysis of the likely results of a Chapter 7 liquidation are set forth on Exhibit E. Based on that liquidation analysis, the Debtor believes Unsecured Creditors will receive distributions under the Plan which have a value equal to the value that Unsecured Creditors would receive in a Chapter 7 liquidation.

XII. CONCLUSION

This Disclosure Statement is intended to assist creditors in understanding the effect of the Plan. Creditors are cautioned, however, that the provisions of the Plan are complex and that reference must be made to the Plan itself for a proper understanding and analysis of the terms and provisions of the Plan. If there is a conflict between the terms of the Plan and the terms of this Disclosure Statement, the terms of the Plan will control.

XIII. RECOMMENDATION

The Debtor believes that the Plan will provide its creditors with full recovery, at the least cost, and as much as its creditors would receive if this case were converted to a Chapter 7 liquidation. Therefore, Debtor recommends that the Plan be accepted by its creditors.

**VENTANA HILLS ASSOCIATES, LTD.,
and VENTANA HILLS PHASE II, L.P.**

By: /s/ Richard H. Fimoff
One of its Attorneys

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