UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)
☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2017

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 000-52566

SUMMIT HEALTHCARE REIT, INC.

(Exact name of registrant as specified in its charter)

Maryland	**73-1721791**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

2 South Pointe Drive, Suite 100, Lake Forest, CA 92630
(Address of Principal Executive Offices)

800-978-8136
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:
Title of Each Class:
None

Securities registered pursuant to Section 12(g) of the Act:
Title of Each Class:
Common Stock, $0.001 par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§292.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☒
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act): Yes ☐ No ☒

As of June 30, 2017 (the last business day of the Registrant's second fiscal quarter), there were 23,027,978 shares of common stock held by non-affiliates of the Registrant. While there is no established trading market for the Registrant's shares of common stock, the last price paid to acquire a share in the Registrant's primary public offering, which was terminated on November 23, 2010, was $8.00.

As of March 12, 2018 there were 23,027,978 shares of common stock of Summit Healthcare REIT, Inc. outstanding.

SUMMIT HEALTHCARE REIT, INC.
(A Maryland Corporation)

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PART I

SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

As used in this report, “we,” “us,” “our” and the “Company” refer to Summit Healthcare REIT, Inc. and its consolidated subsidiaries, except where the context otherwise requires.

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words “believes,” “project,” “expects,” “anticipates,” “estimates,” “intends,” “strategy,” “plan,” “may,” “will,” “would,” “will be,” “will continue,” “will likely result,” and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section entitled “Risk Factors” in Item 1A of this report. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, there can be no assurance that our expectations will be realized.

ITEM 1. BUSINESS

Our Company

Summit Healthcare REIT, Inc., a Maryland corporation, formed in 2004, invests in and owns real estate. We continue to qualify as a real estate investment trust (“REIT”) for federal tax purposes. We are structured as an umbrella partnership REIT, referred to as an “UPREIT,” under which substantially all of our business is conducted through a majority owned subsidiary, Summit Healthcare Operating Partnership, L.P. (“Operating Partnership”). We are the sole general partner of the Operating Partnership and have control over its affairs.

We are self-managed and have employees to directly manage our operations. At December 31, 2017, we own a 99.88% general partner interest in the Operating Partnership while Cornerstone Realty Advisors, LLC (“CRA”), a former affiliate, owns a 0.12% limited partnership interest.

We are currently focused on investing in healthcare real estate assets, more specifically senior housing facilities, which we believe to be accretive to earnings and potentially stockholder value. Senior housing facilities include independent living (“IL”), skilled-nursing (“SNF”), assisted living (“AL”), memory care (“MC”) and continuing care retirement communities (“CCRC”). Each of these caters to different segments of the senior population. AL and IL facilities provide residents a place to reside that offers medical monitoring and certain medical care while still maintaining personal privacy and freedom. MC facilities are similar to AL facilities in that residents may live in semi-private apartments or private rooms and have structured activities delivered by staff members specifically trained to care for those with memory impairment. Most AL, IL and MC facilities are paid for with private funds. SNFs are typically dependent on government reimbursement programs. SNFs are for seniors in need of continuous medical attention or recovery and therapy after a hospital visit but do not require the more extensive and sophisticated treatment available at hospitals. Sub-acute care services are provided to residents beyond room and board. Certain SNFs provide some services on an outpatient basis. Skilled nursing services are paid for either by private sources, insurance, Medicare or Medicaid programs.

As of December 31, 2017, our ownership interests in senior housing facilities was as follows: 100% of six properties, 95.3% of four properties, 95% of one property, a 10% equity interest in an unconsolidated equity-method investment that holds 17 properties, a 20% equity interest in two unconsolidated equity-method investments that each hold two properties, a 10% equity interest in an unconsolidated equity-method investment that holds nine properties and a 10% equity interest in an unconsolidated equity-method investment that holds six properties.

Healthcare properties include a wide variety of lease structures. We generally lease our senior housing facilities to tenants on a triple net basis, with an initial leasehold term of 10 to 15 years with one or more five-year renewal options. Under a triple net lease, the tenant pays or reimburses the owner for all or substantially all property operating expenses and capital expenditures.

Each tenant holds the license to operate the facility, employs all facility employees (facility administrator, nurses, housekeeping staff, etc.), contracts directly with residents or patients and receives all facility-related revenue, and bears all of the expenses and other obligations of the property, including rent payments to us. Most, if not all, of our tenants engage a separate, affiliated management company ("operator/manager") to assist with back-office management (bookkeeping, human resources, payroll processing, etc.) of the facility.

Cornerstone Healthcare Partners LLC – Consolidated Joint Venture

We own 95% of Cornerstone Healthcare Partners LLC ("CHP LLC"), which was formed in 2012, and the remaining 5% non-controlling interest is owned by Cornerstone Healthcare Real Estate Fund, Inc. ("CHREF"), an affiliate of CRA. CHP LLC is consolidated with our financial statements and owns five properties (the "JV Properties").

As of December 31, 2017, we own a 95.3% interest in four of the JV Properties, and CHREF owns a 4.7% interest. We continue to own a 95% interest in the fifth JV Property, and CHREF owns a 5% interest in the fifth JV Property.

Summit Union Life Holdings, LLC – Equity-Method Investment

In April 2015, through our Operating Partnership, we entered into a limited liability company agreement (as amended, the "SUL LLC Agreement") with Best Years, LLC ("Best Years"), an unrelated entity and a U.S.-based affiliate of Union Life Insurance Co, Ltd. (a Chinese corporation), and formed Summit Union Life Holdings, LLC (the "SUL JV"). The SUL JV is not consolidated in our consolidated financial statements and is accounted for under the equity-method in our consolidated financial statements. As of December 31, 2017 and 2016, we have a 10% interest in the SUL JV. As of December 31, 2017 and 2016, the SUL JV owned 17 properties.

Summit Fantasia Holdings, LLC – Equity-Method Investment

On September 27, 2016, through our Operating Partnership, we entered into a limited liability company agreement (the "Fantasia LLC Agreement") with Fantasia Investment III LLC ("Fantasia"), an unrelated entity and a U.S.-based affiliate of Fantasia Holdings Group Co., Limited (a Chinese corporation listed on the Stock Exchange of Hong Kong (HKEX)), and formed Summit Fantasia Holdings, LLC (the "Fantasia JV"). The Fantasia JV is not consolidated in our consolidated financial statements and is accounted for under the equity-method in our consolidated financial statements. As of December 31, 2017 and 2016, we have a 20% interest in the Fantasia JV. As of December 31, 2017 and 2016, the Fantasia JV owned two properties.

Summit Fantasia Holdings II, LLC – Equity-Method Investment

On December 23, 2016, through our Operating Partnership, we entered into a limited liability company agreement (the "Fantasia II LLC Agreement") with Fantasia, and formed Summit Fantasia Holdings II, LLC (the "Fantasia II JV"). The Fantasia II JV is not consolidated in our consolidated financial statements and is accounted for under the equity-method in the Company's consolidated financial statements. As of December 31, 2017 and 2016, we have a 20% interest in the Fantasia II JV. As of December 31, 2017, the Fantasia II JV owned two properties.

Summit Fantasia Holdings III, LLC– Equity-Method Investment

On July 27, 2017, through our Operating Partnership, we entered into a limited liability company agreement ("Fantasia III LLC Agreement") with Fantasia and formed Summit Fantasia Holdings III, LLC (the "Fantasia III JV"). The Fantasia III JV is not consolidated in our consolidated financial statements and is accounted for under the equity-method in the Company's consolidated financial statements. As of December 31, 2017, we have a 10% interest in the Fantasia III JV. As of December 31, 2017, the Fantasia III JV owned nine properties.

Summit Fantasy Pearl Holdings, LLC– Equity-Method Investment

On October 2, 2017, through our Operating Partnership, we entered into a limited liability company agreement ("FPH LLC Agreement") with Fantasia, Atlantis Senior Living 9, LLC, a Delaware limited liability company ("Atlantis"), and Fantasy Pearl LLC, a Delaware limited liability company ("Fantasy"), and formed Summit Fantasy Pearl Holdings, LLC (the "FPH JV"). The FPH JV is not consolidated in our consolidated financial statements and is accounted for under the equity-method in the Company's consolidated financial statements. As of December 31, 2017, we have a 10% interest in the FPH JV. As of December 31, 2017, the FPH JV owned six properties.

Summit Healthcare Asset Management, LLC (TRS)

Summit Healthcare Asset Management, LLC (the "SAM TRS") is our wholly-owned taxable REIT subsidiary ("TRS"). We serve as the manager of the SUL JV, Fantasia JV, Fantasia II JV, Fantasia III JV and FPH JV, (collectively, our "Equity-Method Investments") and provide various services in exchange for fees and reimbursements. All acquisition fees and management fees are paid to SAM TRS and expenses incurred by us, as the manager, are reimbursed from SAM TRS.

Friendswood TRS

Friendswood TRS ("Friendswood TRS") was our wholly-owned TRS, which was the licensed operator and tenant of Friendship Haven Healthcare and Rehabilitation Center ("Friendship Haven"). In December 2017, we entered into a Membership Interest Purchase, Assignment, Resignation and Release Agreement ("MIPA") with HMG Park Manor of Friendswood, LLC ("HMG"), pursuant to which the Company agreed to sell Friendswood TRS to HMG, the current management company of Friendship Haven. The sale was completed on January 1, 2018 and pursuant to the MIPA, we transferred all of our rights, title, and membership interest in Friendswood TRS to HMG. See Note 11 to the accompanying Notes to Consolidated Financial Statements.

Investment Strategy

We intend to continue acquiring and developing a portfolio of healthcare real estate assets, although we may also invest in other real estate-related assets that we believe may assist us in meeting our investment objectives. Our charter does not allow investments in mortgage loans on unimproved real property, but we are not otherwise restricted in our investment allocation to any specific type of property. We periodically review our investment policies to determine whether these policies continue to be in the best interest of our stockholders.

Acquisition Policies

Primary Investment Focus

We intend to acquire healthcare-related real estate assets that are:

- stabilized;
- operated by high-quality and experienced tenants and operators/managers;
- of high-quality and currently producing income; and
- fee simple.

The properties in which we invest may not meet all of these criteria and the relative importance that we assign to any one or more of these criteria may differ from asset to asset and change as general economic and real estate market conditions evolve. We may also consider additional important criteria in the future.

Joint Ventures and Other Potential Investments

We may invest in any type of real estate investment that we believe to be in the best interests of our stockholders, including other real estate funds or REITs, mortgage funds, mortgage loans of developed properties, and sale leasebacks. Furthermore, there are no restrictions on the number or size of properties we may purchase or on the amount that we may invest in a single property. Although we may invest in any type of real estate investment, our charter restricts certain types of investments. We do not intend to underwrite securities of other issuers or to engage in the purchase and sale of any types of investments other than real estate investments.

We may acquire additional properties through joint venture investments in the future, or sell a percentage of our existing properties to a joint venture partner, which may result in the deconsolidation of properties we already own. We anticipate acquiring properties through joint ventures in order to diversify our portfolio of properties in terms of geographic region, facility type and operator/manager, among other reasons. Joint ventures typically also allow us to acquire an interest in a property without funding the entire purchase price. In addition, certain properties may be available to us only through joint ventures. In determining whether to recommend a particular joint venture, management will evaluate the structure of the joint venture, the real property that such joint venture owns or is being formed to own under the same criteria. We may form additional entities in conjunction with joint ventures. These entities may employ debt financing consistent with our borrowing policies. See “Borrowing Policies” below. Our joint ventures may take the form of equity joint ventures with one or more large institutional partners. They may also include ventures with developers who contribute land, development services and expertise rather than cash.

We believe the outlook for raising additional third party institutional equity capital to support our growth and further diversify geographically, operator/manager and healthcare property sector risk is favorable. Our largest joint venture partners are located in China, and the Chinese government imposed new restrictions on overseas investments during 2017. Based in part on this and other factors, our joint venture strategy, and the size and frequency of our joint venture investments may change. We will continue to pursue other growth initiatives that lower capital costs and enable us to reduce or improve our ability to cover our general and administrative costs over a broader base of assets.

Borrowing Policies

We may acquire properties initially with temporary financing or permanent long-term debt financing with the objective of increasing income and increasing the amount of capital available to us so that we achieve greater property diversification.

We may incur indebtedness for working capital requirements, capital improvements, and to make distributions, including but not limited to those necessary in order to maintain our qualification as a REIT for federal income tax purposes. We have secured, and we may continue to secure, indebtedness with some or all of our properties if a majority of our directors determine that it is in the best interests of the Company and our stockholders to do so. We may also acquire properties encumbered with existing financing which cannot be immediately repaid.

We may invest in joint venture entities that borrow funds or issue senior equity securities to acquire properties, in which case our equity interest in the joint venture would be junior to the rights of the lender or preferred equity holders.

Our charter limits our borrowings to 300% of our net asset value, as defined in our charter, unless any excess borrowing is approved by a majority of our directors and is disclosed to our stockholders in our next quarterly report with an explanation from our directors of the justification for the excess borrowing.

Competition

We compete with a considerable number of other real estate investment companies and investors, which may have greater marketing and financial resources than we do. Principal factors of competition in our business are the availability and quality of properties (including the design and condition of improvements), leasing terms (including rent and other charges and allowances for tenant improvements), attractiveness and convenience of location, the quality and breadth of tenant services provided and reputation as an owner and operator/manager of quality properties in the relevant market. Our ability to compete also depends on, among other factors, trends in the national and local economies, financial condition and operating results of current and prospective tenants, availability and cost of capital, construction and renovation costs, taxes, governmental regulations, legislation and population trends.

Government Regulations applicable to our Business

Health Law Matters — Generally

The healthcare properties in our portfolio are subject to extensive federal, state, and local licensure, registration, certification, and inspection laws, regulations, and industry standards. Our tenants' failure to comply with any of these, and other, laws could result in loss of accreditation; denial of reimbursement; imposition of fines; suspension, decertification, or exclusion from federal and state healthcare programs; loss of license; or closure of the facility.

Licensing and Certification

The primary regulations affecting ALs are state licensing and registration laws. In granting and renewing these licenses, state regulatory agencies consider numerous factors relating to a property's physical plant and operations, including, but not limited to, admission and discharge standards, staffing, and training. A decision to grant or renew a license is also affected by a tenant's record with respect to patient and consumer rights, medication guidelines, and other regulations.

With respect to licensure, generally tenants of SNFs are required to be licensed and certified for participation in Medicare, Medicaid, and other state and federal healthcare programs. This generally requires license renewals and compliance surveys on an annual or bi-annual basis. Our tenants' failure to maintain or renew any required license or regulatory approval, as well as their failure to correct serious deficiencies identified in a compliance survey, could require those tenants to discontinue operations at a facility. In addition, if a facility is found to be out of compliance with Medicare, Medicaid, or other healthcare program conditions of participation, the facility tenant may be excluded from participating in those government healthcare programs. Any such occurrence may impair a tenant's ability to meet their financial obligations to us. If we must replace an excluded tenant, our ability to replace the tenant may be affected by federal and state laws, regulations, and applicable guidance governing changes in provider control. This may result in payment delays, an inability to find a replacement tenant, a significant working capital commitment from us to a new tenant or other difficulties.

Certain healthcare facilities are subject to a variety of licensure and certificate of need ("CON") laws and regulations. Where applicable, CON laws generally require, among other requirements, that a facility demonstrate the need for (1) constructing a new facility, (2) adding beds or expanding an existing facility, (3) investing in major capital equipment or adding new services, (4) changing the ownership or control of an existing licensed facility, or (5) terminating services that have been previously approved through the CON process. Certain state CON laws and regulations may restrict the ability of tenants to add new properties or expand an existing facility's size or services. In addition, CON laws may constrain the ability of a tenant to transfer responsibility for operating a particular facility to a new tenant. If we must replace a tenant who is excluded from participating in a federal or state healthcare program, our ability to replace the tenant may be affected by a particular state's CON laws, regulations, and applicable guidance governing changes in provider control.

Reimbursement

Some states offer Medicaid reimbursement to AL providers as an alternative to institutional long-term care services. And some states seek waivers from typical Medicaid requirements to develop cost-effective alternatives to long-term care, including Medicaid payments for AL and home health.

SNFs typically receive most of their revenues from the Medicare and Medicaid programs, with the balance representing payments from private payors, including private insurers. Consequently, changes in federal or state reimbursement policies may also adversely affect a tenant's ability to cover its expenses. SNFs are subject to periodic pre- and post-payment reviews, and other audits by federal and state authorities. A review or audit of a tenant's claims could result in recoupments, denials, or delay of payments in the future, which could have a material adverse effect on the tenant's ability to meet its financial obligations to us. Due to the significant judgments and estimates inherent in payor settlement accounting, no assurance can be given as to the adequacy of any reserves maintained by our tenants to cover potential adjustments to reimbursements, or to cover settlements made to payors. Recent attention on skilled nursing billing practices and payments or ongoing government pressure to reduce spending by government healthcare programs, could result in lower payments to SNFs and, as a result, may impair a tenant's ability to meet its financial obligations to us.

SNFs are reimbursed under the Medicare Skilled Nursing Facility Prospective Payment System ("SNF PPS"). There is a risk that some SNFs' costs will exceed the fixed payments under the SNF PPS, and there is also a risk that payments under the SNF PPS may be set below the costs to provide certain items and services, which could result in immediate financial difficulties for SNFs, and could cause tenants to seek bankruptcy protection.

The reimbursement methodologies applied to healthcare facilities continue to evolve. Federal and state authorities have considered and may seek to implement new or modified reimbursement methodologies that may negatively impact healthcare property operations. The impact of any such changes, if implemented, may result in a material adverse effect on our skilled nursing property operations. No assurance can be given that current revenue sources or levels will be maintained. Accordingly, there can be no assurance that payments under a government healthcare program are currently, or will be in the future, sufficient to fully reimburse the tenants for their operating and capital expenses. As a result, this may impair a tenant's ability to meet its financial obligations to us.

Finally, the Patient Protection and Affordable Care Act of 2010 ("PPACA") and the Healthcare and Education Reconciliation Act of 2010, which amends the PPACA (collectively, the "Health Reform Laws"), and any modifications to these Health Reform Laws, may have a significant impact on Medicare, Medicaid, other federal healthcare programs, and private insurers, which impact the reimbursement amounts received by SNFs and other healthcare providers. The Health Reform Laws could have a substantial and material adverse effect on all parties directly or indirectly involved in the healthcare system.

Other Related Laws

SNFs (and participating senior housing facilities that receive Medicare and Medicaid payments) are subject to federal, state, and local laws, regulations, and applicable guidance that govern the operations and financial and other arrangements that may be entered into by healthcare providers. Certain of these laws prohibit direct or indirect payments of any kind for the purpose of inducing or encouraging the referral of patients for medical products or services reimbursable by government healthcare programs. Other laws require providers to furnish only medically necessary services and submit to the government valid and accurate statements for each service. Still, other laws require providers to comply with a variety of safety, health and other requirements relating to the condition of the licensed property and the quality of care provided. Sanctions for violations of these laws, regulations, and other applicable guidance may include, but are not limited to, criminal and/or civil penalties and fines, loss of licensure, immediate termination of government payments, and exclusion from any government healthcare program. In certain circumstances, violation of these rules (such as those prohibiting abusive and fraudulent behavior) with respect to one property may subject other facilities under common control or ownership to sanctions, including exclusion from participation in the Medicare and Medicaid programs, as well as other government healthcare programs. In the ordinary course of its business, a tenant is regularly subjected to inquiries, investigations, and audits by the federal and state agencies that oversee these laws and regulations.

Our properties may be affected by our tenants' operations, the existing condition of land when we buy it, operations in the vicinity of our properties, such as the presence of underground and above-ground storage tanks, or activities of unrelated third parties. The presence of hazardous substances, or the failure to properly remediate these substances, may make it difficult or impossible to sell or rent such property.

We obtain satisfactory Phase I environmental assessments on each property we purchase. A Phase I assessment is an inspection and review of the property, its existing and prior uses, aerial maps and records of government agencies for the purpose of determining the likelihood of environmental contamination. A Phase I assessment includes only non-invasive testing. It is possible that environmental liabilities related to a property we purchase will not be identified in the Phase I assessments we obtain or that a prior owner, tenant or current occupant has created (or will create) an environmental condition which we do not know about. There can be no assurance that future law, ordinances or regulations will not impose material environmental liability on us or that the current environmental condition of our properties will not be affected by our tenants, or by the condition of land or operations in the vicinity of our properties such as the presence of underground and above-ground storage tanks or groundwater contamination.

Other information

Our executive offices are located at 2 South Pointe Drive, Suite 100, Lake Forest, CA 92630. Our lease expires in April 2022 and covers approximately 4,100 square feet in a two-story office building. As of December 31, 2017, we have 11 full-time employees.

Available Information

Information about us is available on our website (http://www.summithealthcarereit.com/). We make available, free of charge on our internet website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with the Securities and Exchange Commission ("SEC"). Our filings with the SEC are available to the public over the internet at the SEC's website at http://www.sec.gov. You may read and copy any filed document at the SEC's public reference room in Washington, D.C. at 100 F Street, N.E., Room 1580 Washington, D.C. Please call the SEC at (800) SEC-0330 for further information about the public reference rooms.

ITEM 1A. RISK FACTORS

The risks and uncertainties described below can adversely affect our business, operating results, prospects and financial condition. These risks and uncertainties could cause our actual results to differ materially from those presented in our forward-looking statements.

General Risks of the Company

Our limited operating history as a healthcare REIT makes it difficult for you to evaluate us. In addition we have incurred losses in the past and may continue to incur losses.

We have a limited operating history as a healthcare REIT. We cannot assure our stockholders that we will be able to operate our business successfully or implement our operating policies and strategies. Our stockholders should not assume that our performance will be similar to the past performance of other real estate investment programs. As a consequence, our past performance and the past performance of other real estate investment programs may not be indicative of the performance we will achieve. Historically, we have generated limited income, cash flow, funds from operations or funds from which to make distributions to our stockholders. In addition, we have incurred substantial losses since our inception and we may continue to incur losses.

Because there is no public trading market for our stock, it will be difficult for stockholders to sell their stock. Further, we do not expect to have funds available for redemptions during the upcoming fiscal year and are uncertain when and on what terms we will be able to resume ordinary redemptions. If stockholders are able to sell their stock, they will likely sell it at a substantial discount.

There is no current public market for our stock and there is no assurance that a public market will ever develop for our stock. Our charter contains restrictions on the ownership and transfer of our stock, and these restrictions may inhibit our stockholders' ability to sell their stock. Our charter prevents any one person from owning more than 9.8% in number of shares or value, whichever is more restrictive, of the outstanding shares of any class or series of our stock unless exempted by our board of directors. Our charter also limits our stockholders' ability to transfer their stock to prospective stockholders unless (i) they meet suitability standards regarding income or net worth, and (ii) the transfer complies with minimum purchase requirements.

We believe the value of our stock owned by our stockholders has declined substantially from the issue price. It may be difficult for our stockholders to sell their stock promptly or at all. If our stockholders are able to sell shares of stock, they may only be able to sell them at a substantial discount from the price they paid. This may be the result, in part, because the amount of funds available for investment was reduced by sales commissions, dealer manager fees, organization and offering expenses, and acquisition fees and expenses. As of December 31, 2017, our estimated per-share value of our common stock was $2.80 per share. Unless our aggregate investments increase in value to compensate for upfront fees and expenses and prior declines in value, it is unlikely that our stockholders will be able to sell their stock, whether pursuant to our stock repurchase program or otherwise, without incurring a substantial loss. We cannot assure our stockholders that their stock will ever appreciate in value to equal the price they paid for their stock. It is also likely that their stock would not be accepted as the primary collateral for a loan. Stockholders should consider their stock as an illiquid investment, and they must be prepared to hold their stock for an indefinite period of time.

Stockholders cannot currently, and may not in the future, be able to sell their stock under our stock repurchase program.

Effective December 2010, we suspended redemptions under our stock repurchase program and we suspended our distribution reinvestment plan. We may amend our stock repurchase program to resume or suspend repurchases or amend other terms without stockholder approval. Our board is also free to terminate the program at any time upon 30 days written notice to our stockholders. In addition, the stock repurchase program includes numerous restrictions that would limit our stockholders' ability to sell their stock.

We have limited liquidity and we may be required to pursue certain measures in order to maintain or enhance our liquidity.

Liquidity is essential to our business and our ability to operate and to fund our existing obligations. Historically, a primary source of liquidity for us was the issuance of common stock in our public offerings. However, we do not anticipate commencing any public offerings for our common stock in the near future. As a result, we are dependent on external debt financing, joint venture opportunities and cash from our operating properties to fund our ongoing operations. We may not find suitable joint venture partners willing to provide capital at terms acceptable to us or at all. Our access to debt financing depends on the willingness of third parties to provide us with corporate- or asset-level debt. It also depends on conditions in the capital markets generally. Companies in the real estate industry have at times historically experienced limited availability of capital, and new capital sources may not be available on acceptable terms, if at all. We cannot be certain that sufficient funding will be available to us in the future on terms that are acceptable to us, if at all. If we cannot obtain sufficient funding on acceptable terms, or at all, we will not be able to operate and/or grow our business, which would likely have a negative impact on the value of our common stock and our ability to make distributions to our stockholders. In such an instance, a lack of sufficient liquidity would have a material adverse impact on our operations, cash flow, financial condition and our ability to continue as a going concern. We may be required to pursue certain measures in order to maintain or enhance our liquidity, including seeking the extension or replacement of our debt facilities, potentially selling assets at unfavorable prices and/or reducing our operating expenses. We cannot assure you that we will be successful in managing our liquidity.

The inability to retain or obtain key personnel and senior housing tenants could have a material negative impact on our operations, which could impair our ability to make distributions.

Our success depends to a significant degree upon our management team. If key personnel were to cease employment with the Company, we may be unable to find suitable replacements, and our operating results could suffer. We believe that our future success depends, in large part, upon our ability to hire and retain highly-skilled managerial and operational personnel. Competition for highly-skilled personnel is intense, and we may be unsuccessful in attracting and retaining such skilled personnel. If we lose or are unable to obtain the services of highly-skilled personnel and tenants, our ability to implement our investment strategies could be delayed or hindered and the value of our stockholders' investments in us may decline.

We have not generated sufficient cash for distributions and have ceased distributions. Cash distributions to our stockholders may not resume.

If the rental revenues from the properties we own do not exceed our operational expenses, we may be unable to pay distributions to our stockholders. No distributions have been declared or made for periods after June 30, 2011. All expenses we incur in our operations, including payment of interest to finance property acquisitions, are deducted from cash funds generated by operations prior to computing the amount of cash available to be paid as distributions to our stockholders. Our directors will determine the amount and timing of distributions. Our directors will consider all relevant factors, including the amount of cash available for distribution, capital expenditure, reserve requirements general operational requirements, and the analysis of investing excess cash flow to grow the portfolio versus paying distributions to shareholders. We cannot determine with certainty how long it may take to generate sufficient available cash flow to support distributions to our stockholders. We may borrow funds, return capital or sell assets to make distributions.

If we are unable to raise capital or resume the reinvestment of distributions under the distribution reinvestment plan, we will have less funds available to make distributions to our stockholders, which will continue until we generate operating cash flow sufficient to support distributions to stockholders. As a result, we may not resume cash distributions to stockholders. With limited prior operations, we cannot predict the amount of distributions our stockholders may receive, if any. We may be unable to resume cash distributions or increase distributions over time.

A limit on the percentage of our securities a person may own may discourage a takeover or business combination, which could prevent our stockholders from realizing a premium price for their stock.

In order for us to qualify as a REIT, no more than 50% of our outstanding stock may be beneficially owned, directly or indirectly, by five or fewer individuals (including certain types of entities) at any time during the last half of each taxable year. To assure that we do not fail to qualify as a REIT under this test, our charter restricts direct or indirect ownership by one person or entity to no more than 9.8% in number of shares or value, whichever is more restrictive, of the outstanding shares of any class or series of our stock unless exempted by our board of directors. This restriction may have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price to our stockholders.

Although we are not currently afforded the protection of the Maryland General Corporation Law relating to business combinations, we could opt into these provisions of Maryland law in the future, which may discourage others from trying to acquire control of us and may prevent our stockholders from receiving a premium price for their stock in connection with a business combination.

Under Maryland law, "business combinations" between a Maryland corporation and certain interested stockholders or affiliates of interested stockholders are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. Also under Maryland law, control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquirer, by officers or by directors who are employees of the corporation are not entitled to vote on the matter. Should our board opt into these provisions of Maryland law, it may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer. Similarly, provisions of the Maryland Unsolicited Takeover Statute could provide similar anti-takeover protection.

Our stockholders' and our rights to recover claims against our directors are limited, which could reduce our stockholders' and our recovery against our directors if they negligently cause us to incur losses.

Our charter provides that no independent director shall be liable to us or our stockholders for monetary damages and that we will generally indemnify them for losses unless they are grossly negligent or engage in willful misconduct. As a result, our stockholders and we may have more limited rights against our directors than might otherwise exist under common law, which could reduce our stockholders' and our recovery from these persons if they act in a negligent manner. In addition, we may be obligated to fund the defense costs incurred by our directors (as well as by our officers, employees and agents) in some cases, which would decrease the cash otherwise available for distributions to our stockholders.

If we do not successfully implement a long-term liquidity strategy, our stockholders may have to hold their investment for an indefinite period.

If we determine to pursue a liquidity transaction in the future, we would be under no obligation to conclude the process within a set time. The timing of the sale of assets will depend on real estate and financial markets, economic conditions in the areas in which properties are located, and federal income tax effects on stockholders, that may prevail in the future. We cannot guarantee that we will be able to liquidate all assets. After we adopt a plan of liquidation, we would remain in existence until all properties and assets are liquidated. If we do not pursue a liquidity event, or delay such an event due to market conditions, our stockholders' shares may continue to be illiquid and they may, for an indefinite period of time, be unable to convert their investment to cash easily and could suffer losses on their investment. If we were to pursue a liquidation currently, our stockholders would likely not receive the amount of their original investment.

We face significant risks associated with uncertainties resulting from changes to policies and laws following the change of administration in the U.S. federal government in 2017.

The change of administration in the U.S. federal government may affect our business in a manner that currently cannot be reliably predicted, especially given the potentially significant changes to various laws and regulations that affect the Company. These uncertainties may include changes in laws and policies in areas such as corporate taxation, environmental protection laws and healthcare, which individually or in the aggregate could materially and adversely affect our business, results of operations or financial condition, as well as the business of our tenants.

Our business may be materially affected by changes to fiscal and tax policies. Negative or unexpected tax consequences could adversely affect our results of operations.

The Tax Cuts and Jobs Act of 2017 was signed into law on December 22, 2017. This legislation will make significant changes to the U.S. Internal Revenue Code, including a reduction in the corporate tax rate and limitations on certain corporate deductions and credits, among other changes. While certain of these changes may benefit us, other changes could have a negative impact on our business. In addition, adverse changes in the underlying profitability and financial outlook of our operations or changes in tax law could lead to changes in our valuation allowances against deferred tax assets on our consolidated balance sheets, which could materially affect our results of operations. Furthermore, we are subject to tax audits by governmental authorities. If we experience unfavorable results from one or more such tax audits, there could be an adverse effect on our tax rate and therefore on our net income.

Our business could be negatively impacted by cyber and other security threats or disruptions.

We face various cyber and other security threats, including attempts to gain unauthorized access to sensitive information and networks; threats to the security of our leased facilities; and threats from terrorist acts or other acts of aggression. Although we use various procedures and controls to monitor and mitigate the risk of these threats, there can be no assurance that these procedures and controls will be sufficient. These threats could lead to losses of sensitive information or capabilities; harm to personnel, infrastructure or products; financial liabilities and damage to our reputation.

Cyber threats are evolving and include, but are not limited to, malicious software, destructive malware, attempts to gain unauthorized access to data, disruption or denial of service attacks, and other electronic security breaches that could lead to disruptions in mission critical systems, unauthorized release of confidential, personal or otherwise protected information (ours or that of our employees, tenants or partners), and corruption of data, networks or systems. In addition, we could be impacted by cyber threats or other disruptions or vulnerabilities found in our partners' or tenants' systems that are used in connection with our business. These events, if not prevented or effectively mitigated, could damage our reputation, require remedial actions and lead to loss of business, regulatory actions, potential liability and other financial losses.

The impact of these factors is difficult to predict, but one or more of them could result in the loss of information or capabilities, harm to individuals or property, damage to our reputation, loss of business, contractual or regulatory actions and potential liabilities, any one of which could have a material adverse effect on our financial position, results of operations and/or cash flows.

General Risks Related to Investments in Real Estate and Real Estate-Related Investments

Economic and regulatory changes that impact the real estate market may reduce our net income and the value of our properties.

We are subject to risks related to the ownership and operation of real estate, including but not limited to:

- worsening general or local economic conditions and financial markets could cause lower demand, tenant defaults, and reduced occupancy and rental rates, some or all of which would cause an overall decrease in revenue from rents;
- increases in competing properties in an area which could require increased concessions to tenants and reduced rental rates;
- increases in interest rates or unavailability of permanent mortgage funds which may render the sale of a property difficult or unattractive; and
- changes in laws and governmental regulations, including those governing real estate usage, zoning and taxes.

Some or all of the foregoing factors may affect our properties, which would reduce our net income, and our ability to make distributions to our stockholders.

Lease terminations could reduce our revenues from rents and our distributions to our stockholders and cause the value of our stockholders' investment in us to decline.

The success of our investments depends upon the occupancy levels, rental income and operating expenses of our properties. In the event of a tenant default or bankruptcy, we may experience delays in enforcing our rights as landlord and may incur costs in protecting our investment and re-leasing our property. In the event of tenant default or bankruptcy, or lease terminations or expiration, we may be unable to re-lease the property for the rent previously received. We may be unable to sell a property without incurring a loss. These events and others could cause the value of our stockholders' investment in us to decline.

Acquisitions of properties that we execute, or seek to execute, may prove to be unsuccessful or may not produce the cash flow that we expect, which would negatively affect our financial results.

We intend to continue to acquire real estate properties. In deciding whether to acquire a particular property, we make assumptions regarding the expected future performance of that property. We are exposed to the risk that some of our acquisitions may not prove to be successful. We could encounter unanticipated difficulties and expenditures relating to any acquired properties, including contingent liabilities, and acquired properties might require significant management attention that would otherwise be devoted to our ongoing business. Such expenditures may negatively affect our results of operations. If our estimated return on investment proves to be inaccurate, it may fail to perform as we expected. Furthermore, there can be no assurance that our anticipated acquisitions and investments, the completion of which is subject to various conditions, will be consummated in accordance with anticipated timing, on anticipated terms, or at all.

Costs incurred in complying with governmental laws and regulations may reduce our net income and the cash available for distributions and cash to operate our business.

We and the properties we own and/or manage are subject to federal, state and local laws and regulations relating to environmental protection and human health and safety. Federal laws such as the National Environmental Policy Act, the Comprehensive Environmental Response, Compensation, and Liability Act, the Resource Conservation and Recovery Act, the Federal Water Pollution Control Act, the Federal Clean Air Act, the Toxic Substances Control Act, the Emergency Planning and Community Right to Know Act and the Hazard Communication Act govern such matters as wastewater discharges, air emissions, the operation and removal of underground and above-ground storage tanks, the use, storage, treatment, transportation and disposal of solid and hazardous materials and the remediation of contamination associated with disposals. The properties we own and those we expect to acquire are subject to the Americans with Disabilities Act of 1990 which generally requires that certain types of buildings and services be made accessible and available to people with disabilities. These laws may require us to make modifications to our properties. Some of these laws and regulations impose joint and several liability on tenants, owners or operators/managers for the costs to investigate or remediate contaminated properties, regardless of fault or whether the acts causing the contamination were legal. Compliance with these laws and any new or more stringent laws or regulations may require us to incur material expenditures. Future laws, ordinances or regulations may impose material environmental liability. In addition, there are various federal, state and local fire, health, life-safety and similar regulations with which we may be required to comply, and which may subject us to liability in the form of fines or damages for noncompliance. Our properties may be affected by our tenants' operations, the existing condition of land when we buy it, operations in the vicinity of our properties, such as the presence of underground and above-ground storage tanks, or activities of unrelated third parties. The presence of hazardous substances, or the failure to properly remediate these substances, may make it difficult or impossible to sell or rent such property. Any material expenditures, fines, or damages we must pay will reduce our ability to make distributions, would impact our cash to run our business and may reduce the value of our stockholders' investment in us.

Discovery of environmentally hazardous conditions may reduce our cash available for distribution to our stockholders.

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous real property owner or tenant may be liable for the cost to remove or remediate hazardous or toxic substances on, under or in such property. These costs could be substantial. Such laws often impose liability whether or not the owner or tenant knew of, or was responsible for, the presence of such hazardous or toxic substances. Environmental laws also may impose restrictions on the manner in which a property may be used or businesses may be operated, and these restrictions may require substantial expenditures or prevent us from entering into leases with prospective tenants that may be impacted by such laws. Environmental laws provide for sanctions for noncompliance and may be enforced by governmental agencies or, in certain circumstances, by private parties. Certain environmental laws and common law principles could be used to impose liability for release of and exposure to hazardous substances, including asbestos-containing materials into the air. Third parties may seek recovery from real property owners or tenants for personal injury or property damage associated with exposure to released hazardous substances. The cost of defending against claims of liability, of complying with environmental regulatory requirements, of remediating any contaminated property, or of paying personal injury claims could be substantial and reduce our ability to make distributions and the value of our stockholders' investments in us.

Any uninsured losses or high insurance premiums will reduce our net income and the amount of our cash distributions to stockholders.

We will attempt to obtain adequate insurance to cover significant areas of risk to us as a company and to our properties. However, there are types of losses at the property level, generally catastrophic in nature, such as losses due to wars, acts of terrorism, earthquakes, floods, hurricanes, pollution or environmental matters, which are uninsurable or not economically insurable, or may be insured subject to limitations, such as large deductibles or co-payments. We may not have adequate coverage for such losses. If any of our properties incurs a casualty loss that is not fully insured, the value of our assets will be reduced by any such uninsured loss. In addition, other than any working capital reserve or other reserves we may establish, we have no source of funding to repair or reconstruct any uninsured damaged property. Also, to the extent we must pay unexpectedly large amounts for insurance, we could suffer reduced earnings that would result in lower distributions to stockholders.

We may have difficulty selling real estate investments, and our ability to distribute all or a portion of the net proceeds from such sale to our stockholders may be limited.

Equity real estate investments are relatively illiquid. Therefore, we will have a limited ability to vary our portfolio in response to changes in economic or other conditions. We may also have a limited ability to sell assets in order to fund working capital and similar capital needs. When we sell any of our properties, we may not realize a gain on such sale. We may elect not to distribute any proceeds from the sale of properties to our stockholders; for example, we may use such proceeds to:

- purchase additional properties;
- repay debt, if any;
- buy out interests of any joint venturer or other partners in any joint venture in which we are a party;
- create working capital reserves; or
- make repairs, maintenance, tenant improvements or other capital improvements or expenditures to our remaining properties.

Our ability to sell our properties may also be limited by our need to avoid a 100% penalty tax that is imposed on gain recognized by a REIT from the sale of property characterized as dealer property. In order to ensure that we avoid such characterization, we may be required to hold our properties for a minimum period of time, generally two years, and comply with certain other requirements in the Internal Revenue Code.

As part of otherwise attractive portfolios of properties, we may acquire some properties with existing lock-out provisions which may inhibit us from selling a property, or may require us to maintain specified debt levels for a period of years on some properties.

Loan provisions could materially restrict us from selling or otherwise disposing of or refinancing properties. These provisions would affect our ability to turn our investments into cash and thus affect cash available for distributions to our stockholders. Loan provisions may prohibit us from reducing the outstanding indebtedness with respect to properties, refinancing such indebtedness on a non-recourse basis at maturity, or increasing the amount of indebtedness with respect to such properties.

Loan provisions could impair our ability to take actions that would otherwise be in the best interests of our stockholders, and therefore, may have an adverse impact on the value of our stock, relative to the value that would result if the loan provisions did not exist. In particular, loan provisions could preclude us from participating in major transactions that could result in a disposition of our assets or a change in control even though that disposition or change in control might be in the best interests of our stockholders. These provisions usually restrict our operations for one year.

Our debt agreements typically contain provisions that require the lender to approve certain changes to the loan agreements or ownership, in addition to charging us prepayment penalties for certain periods of time and in certain circumstances which may make it cost prohibitive to prepay the principal balances of our loans prior to the expiration of any lock-out periods.

Actions of our joint venture partners could subject us to liabilities in excess of those contemplated or prevent us from taking actions that are in the best interests of our stockholders which could result in lower investment returns to our stockholders.

We have and are likely to continue to enter into joint ventures with third parties to acquire or improve properties. We may also purchase properties in partnerships, co-tenancies or other co-ownership arrangements. Such investments may involve risks not otherwise present when acquiring real estate directly, including, for example:

- joint venturers may share certain approval rights over major decisions;
- that such joint venturer, co-owner or partner may at any time have economic or business interests or goals which are or which become inconsistent with our business interests or goals, including inconsistent goals relating to the sale of properties held in the joint venture or the timing of termination or liquidation of the joint venture;
- the possibility that our joint venturer, co-owner or partner in an investment might become insolvent or bankrupt;
- the possibility that we may incur liabilities as a result of an action taken by our joint venturer, co-owner or partner;
- that such joint venturer, co-owner or partner may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives, including our policy with respect to qualifying and maintaining our qualification as a REIT;
- disputes between us and our joint venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and directors from focusing their time and effort on our business and result in subjecting the properties owned by the applicable joint venture to additional risk; or
- that under certain joint venture arrangements, neither venture partner may have the power to control the venture, and an impasse could be reached which might have a negative influence on the joint venture.

These events might subject us to liabilities in excess of those contemplated and thus reduce our stockholders' investment returns. If we have a right of first refusal or buy/sell right to buy out a joint venturer, co-owner or partner, we may be unable to finance such a buy-out if it becomes exercisable or we may be required to purchase such interest at a time when it would not otherwise be in our best interest to do so. If our interest is subject to a buy/sell right, we may not have sufficient cash, available borrowing capacity or other capital resources to allow us to elect to purchase an interest of a joint venturer subject to the buy/sell right, in which case we may be forced to sell our interest as the result of the exercise of such right when we would otherwise prefer to keep our interest. Finally, we may not be able to sell our interest in a joint venture if we desire to exit the venture.

Rapid changes in the values of our assets may make it more difficult for us to maintain our qualification as a REIT.

If the market value or income potential of our qualifying real estate assets changes as compared to the market value or income potential of our non-qualifying assets, or if the market value or income potential of our assets that are considered "real estate-related assets" under the REIT qualification tests changes as compared to the market value or income potential of our assets that are not considered "real estate-related assets" under the REIT qualification tests, whether as a result of increased interest rates, prepayment rates or other factors, we may need to modify our investment portfolio in order to maintain our REIT qualification. If the decline in asset values or income occurs quickly, this may be especially difficult, if not impossible, to accomplish. This difficulty may be exacerbated by the illiquid nature of many of the assets that we may own. We may have to make investment decisions that we otherwise would not make absent REIT considerations.

Risks Related to Investments in Healthcare-Related Real Estate

Healthcare policy changes, including national legislation to reform the U.S. healthcare system, may have a material adverse effect on our business.

There have been and continue to be proposals by the federal government, state governments, regulators and third-party payors to control healthcare costs and, more generally, to reform the U.S. healthcare system.

Our results of operations may be adversely affected by current and potential future healthcare reforms as our tenants' operations could be affected impacting their ability to meet their lease obligations to us.

Federal and state legislatures, health agencies and third-party payors continue to focus on containing the cost of healthcare. Legislative and regulatory proposals and enactments to reform healthcare insurance programs could significantly impact our properties and the manner in which our tenants are paid. For example, provisions of the PPACA, also known as "Obamacare," have resulted in changes in the way healthcare is paid for by both governmental and private insurers. These changes have had, and are expected to continue to have, a significant impact on our business. In 2018, we may face uncertainties as a result of likely federal and administrative efforts to repeal, substantially modify or invalidate some or all of the provisions of the PPACA. There is no assurance that the PPACA, as currently enacted or as amended in the future, will not adversely affect our business and financial results, and we cannot predict how future federal or state legislative or administrative changes relating to healthcare reform will affect our business.

There is also significant economic pressure on state budgets that may result in states increasingly seeking to achieve budget savings through mechanisms that limit coverage or payment for the services our tenants provide.

Failure to succeed in the healthcare sector may have adverse consequences on our performance.

Our success in the healthcare sector will be dependent, in part, upon our ability to evaluate local healthcare sector conditions, identify appropriate acquisition opportunities, and find qualified tenants or, where properties are acquired through a taxable REIT subsidiary, to engage and retain qualified independent managers to operate these properties. In addition, we may abandon opportunities to enter a local market or acquire a property that we have begun to explore for any reason and may, as a result, fail to recover expenses already incurred.

We will be competing with many other entities engaged in real estate investment activities for acquisitions of healthcare properties, including healthcare REITs, national, regional and local operators/managers, banks, insurance companies, and other entities engaged in real estate investment activities, many of which have greater resources than we do. Some of these investors may enjoy significant competitive advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. In addition, the number of entities and the amount of funds competing for suitable investments may increase. Any such increase would result in increased demand for these assets and increased prices. Our potential acquisition targets may find our competitors to be more attractive because they may have greater resources and/or a lower cost of capital, may be willing to pay more for the properties or may have a more compatible operating philosophy. If competitive pressures cause us to pay higher prices for properties, our ultimate profitability may be reduced and the value of our properties may not appreciate or may decrease significantly below the amount paid for such properties.

At the time we elect to dispose of one or more of our properties, we will be in competition with sellers of similar properties to locate suitable purchasers, which may result in us receiving lower proceeds from the disposal or result in us not being able to dispose of the property due to the lack of an acceptable return. If we are unable to succeed in the healthcare sector as a result of any of the factors described above, our business, financial condition and results of operations and our ability to make distributions to our stockholders may be materially and adversely affected.

Adverse trends in the healthcare service industry may negatively affect lease revenues from healthcare properties that we may acquire and the values of those investments.

The healthcare service industry may be affected by the following:

- trends in the method of delivery of healthcare services;
- competition among healthcare providers;
- lower increases or decreases in reimbursement rates from government and commercial payors, high uncompensated care expense, investment losses and limited admissions growth pressuring operating profit margins for healthcare providers;
- availability of capital;
- liability insurance expense;
- health reform initiatives to address healthcare costs through expanded pay-for-performance criteria, value-based purchasing programs, bundled provider payments, accountable care organizations, state health insurance exchanges, increased patient cost-sharing, geographic payment variations, comparative effectiveness research, and lower payments for hospital readmissions;
- regulatory environment uncertainty due to the phased implementation of the PPACA and its impact upon healthcare facility tenant reimbursement, including the impact of Obamacare on reimbursement rates;
- Congressional efforts to reform the Medicare physician fee-for-service formula that dictates annual updates in payment rates for physician services, including significant reductions in the sustainable growth rate, whether through a short-term fix or a more long-term solution;
- scrutiny and formal investigations by federal and state authorities;
- prohibitions on additional types of contractual relationships between physicians and the healthcare facilities and providers to which they refer, and related information-collection activities;
- efforts to increase transparency with respect to pricing and financial relationships among healthcare providers and drug/device manufacturers;
- increased regulation to limit medical errors and conditions acquired inside health facilities and improve patient safety; and
- heightened health information technology standards for healthcare providers.

These changes, among others, can adversely affect the economic performance of some or all of the tenants and operators/managers of healthcare properties that we may acquire and, in turn, negatively affect the lease revenues and the value of our property investments.

Tenants of our healthcare properties derive a substantial portion of their income from third-party payors.

SNFs tenants derive a substantial portion of their net operating revenues from third-party payors, including the Medicare and Medicaid programs. These programs are highly regulated by federal, state and local laws, rules and regulations and are subject to substantial change. There are no assurances that payments from governmental and other third-party payors will remain at levels comparable to present levels or will, in the future, be sufficient to cover the costs allocable to patients utilizing reimbursement under these programs. Efforts by such third-party payors to reduce healthcare costs have intensified in recent years and will likely continue, which may result in reductions or slower growth in reimbursement for certain services provided by some of our tenants. In addition, the failure of any of our tenants to comply with various laws and regulations could jeopardize their ability to continue participating in Medicare, Medicaid and other government-sponsored programs. The healthcare industry continues to face various challenges on healthcare providers to control or reduce costs. The financial impact on tenants of healthcare properties that we may acquire could limit their ability to make rent payments to us, which would have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our stockholders.

Operators/managers of healthcare properties that we may acquire may be affected by the financial deterioration, insolvency and/or bankruptcy of other significant operators/managers in the healthcare industry.

Certain companies in the healthcare industry, including some key senior housing operators/managers, are experiencing considerable financial, legal and/or regulatory difficulties which have resulted or may result in financial deterioration and, in some cases, insolvency and/or bankruptcy. The adverse effects on these companies could have a significant impact on the industry as a whole, including but not limited to negative public perception by investors, lenders and consumers. As a result, lessees of healthcare facilities that we may acquire could experience the damaging financial effects of a weakened industry sector driven by negative headlines, ultimately making them unable to meet their obligations to us, and our business could be adversely affected.

Tenants of healthcare properties that we may acquire face certain operational risks that may impact their ability to generate revenues or that may increase their expenses, either of which might negatively affect our financial results.

Our tenants' revenues are primarily driven by occupancy, private pay rates, and Medicare and Medicaid reimbursement, if applicable. Expenses for these facilities are primarily driven by the costs of labor, food, utilities, taxes, insurance and rent or debt service. Revenues from government reimbursement have, and may continue to, come under pressure due to reimbursement cuts and state budget shortfalls. Operating costs continue to increase for our tenants. To the extent that any decrease in revenues and/or any increase in operating expenses result in a property not generating enough cash to make payments to us, our revenues may be reduced and the credit of our tenant and the value of other collateral would have to be relied upon. To the extent the value of such property is reduced, we may need to record an impairment for such asset. Furthermore, if we determine to dispose of an underperforming property, such sale may result in a loss. Any such impairment or loss on sale would negatively affect our financial results.

Future economic weakness may have an adverse effect on our tenants, including their ability to access credit or maintain occupancy and/or private pay rates. If the operations, cash flows or financial condition of our tenants are materially adversely impacted by economic or other conditions, our revenue and operations may be adversely affected. Increased competition may affect our tenants' ability to meet their obligations to us. The tenants of our properties compete on a local and regional basis with tenants and licensed operators of properties and other healthcare providers that provide comparable services. We cannot be certain that the tenants of all of our facilities will be able to achieve and maintain occupancy and rate levels that will enable them to meet all of their obligations to us. Our tenants are expected to encounter increased competition in the future that could limit their ability to attract residents or expand their businesses.

Our properties expose us to various operational risks, liabilities and claims that could adversely affect our ability to generate revenues or increase our costs and could have a material adverse effect on us.

From time to time, one or more of our subsidiaries might become a licensed operator of a senior housing facility due to adverse circumstances, rather than entering into a triple net lease with an independent tenant, although that is not our intent. Becoming the licensed operator of a facility exposes us to additional operational risks, liabilities and claims that could increase our costs or adversely affect our ability to generate revenues, thereby reducing our profitability. These operational risks include fluctuations in occupancy levels, the inability to achieve economic resident fees (including anticipated increases in those fees), increased cost of compliance, increases in the cost of food, materials, energy, labor (as a result of unionization or otherwise) or other services, national and regional economic conditions, the imposition of new or increased taxes, capital expenditure requirements, professional and general liability claims, and the availability and cost of professional and general liability insurance. Any one or a combination of these factors could result in operating deficiencies in our operations and decreases in cash flow, which could have a material adverse effect on us.

Transfers of healthcare facilities may require regulatory approvals and these facilities may not have efficient alternative uses.

Transfers of healthcare facilities to successor tenants frequently are subject to regulatory approvals or notifications, including, but not limited to, change of ownership approvals under CON or determination of need laws, state licensure laws and Medicare and Medicaid provider arrangements, that are not required for transfers of other types of real estate. The replacement of a healthcare facility tenant could be delayed by the approval process of any federal, state or local agency necessary for the transfer of the facility or the replacement of the operator licensed to manage the facility. Alternatively, given the specialized nature of our facilities, we may be required to spend substantial time and funds to adapt these properties to other uses. If we are unable to timely transfer properties to successor tenants or find efficient alternative uses, our revenue and operations may be adversely affected.

Tenants of healthcare properties that we may acquire face certain operational risks related to extensive governmental regulation of healthcare properties, the costs of which (including compliance costs) might negatively affect our financial results.

Our tenants' businesses are affected by government reimbursement. To the extent that a tenant receives a significant portion of its revenues from government payors, primarily Medicare and Medicaid, such revenues may be subject to statutory and regulatory changes, retroactive rate adjustments, recovery of program overpayments or set-offs, court decisions, administrative rulings, policy interpretations, payment or other delays by fiscal intermediaries or carriers, government funding restrictions (at a program level or specific to certain facilities) and interruption or delays in payments due to any ongoing government investigation amid audits at such property. In recent years, government payors have frozen or reduced payments to healthcare providers due to budgetary pressures. Healthcare reimbursement will likely continue to be of paramount importance to federal and state authorities. We cannot make any assessment as to the ultimate timing or effect any future legislative reforms may have on the financial condition of our tenants and properties. There can be no assurance that adequate reimbursement levels will be available for services provided by any tenant, whether the property receives reimbursement from Medicare, Medicaid or private payors. Significant limits on the scope of services reimbursed and on reimbursement rates and fees could have a material adverse effect on an obligor's liquidity, financial condition and results of operations, which could adversely affect the ability of an obligor to meet its obligations to us.

Our tenants generally are subject to varying levels of federal, state, local, and industry-regulated licensure, certification and inspection laws, regulation and standards. Our tenants' failure to comply with any of these laws, regulations, or standards could result in loss of accreditation, denial of reimbursement, imposition of fines, suspension, decertification or exclusion from federal and state healthcare programs, loss of license or closure of the facility. Such actions may have an effect on our tenants' ability to make lease payments to us and, therefore, adversely impact us.

Operators may be required to have a license, registration, and/or CON to operate. Failure to obtain a license, registration, or CON, or loss of a required license, registration, or CON would prevent a facility from operating in the manner intended by the tenants. These events could materially adversely affect our tenants' ability to make rent payments to us. State and local laws also may regulate the expansion, including the addition of new beds or services or acquisition of medical equipment, and the construction or renovation of healthcare facilities, by requiring a CON or other similar approval from a state agency.

The Health Reform Laws provide individual states with an increased federal medical assistance percentage under certain conditions. On June 28, 2012, the United States Supreme Court upheld the individual mandate of the Health Reform Laws but partially invalidated the expansion of Medicaid. The ruling on Medicaid expansion will allow states not to participate in the expansion-and to forego funding for the Medicaid expansion-without losing their existing Medicaid funding. Given that the federal government substantially funds the Medicaid expansion, it is unclear whether any state will pursue this option, although at least some appear to be considering this option at this time. The participation by states in the Medicaid expansion could have the dual effect of increasing our tenants' revenues through new patients while further straining state budgets. The federal government paid 100 percent of state Medicaid costs for certain newly eligible individuals through the end of 2016. Starting in 2017, the matching rate declines slightly each year until it reaches 90 percent in 2020 and remains there. With increasingly strained budgets, it is unclear how states will pay their share of these additional Medicaid costs and what other healthcare reimbursements could be reduced as a result. A significant reduction in other healthcare related spending by states to pay for increased Medicaid costs could affect our tenants' revenue streams.

More generally, and because of the dynamic nature of the legislative and regulatory environment for healthcare products and services, and in light of existing federal deficit and budgetary concerns, we cannot predict the impact that broad-based, far-reaching legislative or regulatory changes could have on the US economy, our business or that of our tenants.

Tenants of healthcare properties that we may acquire face certain operational risks related to liability claims and insurance costs, the existence of which might negatively affect our financial results.

In recent years, skilled nursing and senior housing tenants have experienced substantial increases in both the number and size of patient care liability claims. As a result, general and professional liability insurance costs have increased in some markets. General and professional liability insurance coverage may be restricted or very costly, which may adversely affect the tenants' future operations, cash flows and financial condition, and may have a material adverse effect on the operators' ability to meet their lease obligations to us.

Risks Associated with Financing

We expect to continue to use temporary acquisition financing to acquire properties and otherwise incur other indebtedness, including long-term financing, which will increase our expenses and could subject us to the risk of losing properties in foreclosure if our cash flow is insufficient to make loan payments.

We have used temporary acquisition financing to acquire our healthcare properties. We have also used long-term debt financing to increase the amount of capital available to us and to achieve greater property diversification. We may also acquire properties encumbered with existing financing which cannot be immediately repaid. We may also invest in joint venture entities that borrow funds or issue senior equity securities to acquire properties, in which case our equity interest in the joint venture would be junior to the rights of the lender or preferred stockholders. Our charter limits our borrowings to 300% of our net asset value, as defined in our charter, unless any excess borrowing is approved by a majority of our independent directors and is disclosed to our stockholders in our next quarterly report with an explanation from our independent directors of the justification for the excess borrowing. We may borrow funds for operations, tenant improvements, capital improvements or other working capital needs. We may also borrow funds to make distributions, including but not limited to funds to satisfy the REIT tax qualification requirement that we distribute at least 90% of our annual REIT taxable income to our stockholders. We may also borrow, if we otherwise deem it necessary or advisable, to ensure that we maintain our qualification as a REIT for federal income tax purposes. To the extent we borrow funds, we may raise additional equity capital or sell properties to pay such debt.

If there is a shortfall between the cash flow from a property and the cash flow needed to service acquisition financing on that property, then the amount available for distributions to stockholders may be reduced. In addition, incurring mortgage debt increases the risk of loss since defaults on indebtedness collateralized by a property may result in lenders initiating foreclosure actions. In that case, we could lose the property securing the loan that is in default. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but we would not receive any cash proceeds. We may give full or partial guarantees to lenders of mortgage debt to the entities that own our properties. When we give a guaranty on behalf of an entity that owns one of our properties, we will be responsible to the lender for satisfaction of the debt if it is not paid by such entity. If any mortgages contain cross-collateralization or cross-default provisions, a default on a single property could affect multiple properties. If any of our properties are foreclosed upon due to a default, the value of our stockholders' investments in us will be reduced.

If we are unable to obtain funding for future capital needs, cash distributions to our stockholders could be reduced and the value of our investments could decline.

If we need additional capital in the future to improve or maintain our properties or for any other reason, we will have to obtain financing from other sources, such as cash flow from operations, borrowings, property sales, future equity offerings or from joint ventures related to existing investments, which may result in the deconsolidation of properties we already own. These sources of funding may not be available on attractive terms or at all. If we cannot procure additional funding for capital improvements, our investments may generate lower cash flows or decline in value, or both.

Lenders may require us to enter into restrictive covenants relating to our operations, which could limit our ability to make distributions to our stockholders.

When providing financing, a lender may impose restrictions on us that affect our distribution and operating policies and our ability to incur additional debt. Loan documents we have entered into contain covenants that limit our ability to further mortgage the property or discontinue insurance coverage. These or other limitations may limit our flexibility and prevent us from achieving our operating plans.

High levels of debt or increases in interest rates could increase the amount of our loan payments, reduce the cash available for distribution to stockholders and subject us to the risk of losing properties in foreclosure if our cash flow is insufficient to make loan payments.

Our policies do not limit us from incurring debt. High debt levels would cause us to incur higher interest charges, would result in higher debt service payments, and could be accompanied by restrictive covenants. Interest we pay could reduce cash available for distribution to stockholders. Additionally, variable rate debt could result in increases in interest rates which would increase our interest costs, which would reduce our cash flows and our ability to make distributions to our stockholders. In addition, if we need to repay existing debt during periods of rising interest rates, we could be required to liquidate one or more of our investments in properties at times which may not permit realization of the maximum return on such investments and could result in a loss.

High mortgage rates may make it difficult for us to finance or refinance properties, which could reduce the number of properties we can acquire, our cash flows from operations and the amount of cash distributions we can make.

If mortgage debt is unavailable at reasonable rates, we may not be able to finance the purchase of properties. If we place mortgage debt on properties, we run the risk of being unable to refinance the properties when the debt becomes due or of being unable to refinance on favorable terms. If interest rates are higher when we refinance the properties, our income could be reduced. We may be unable to refinance properties. If any of these events occurs, our cash flow would be reduced. This, in turn, would reduce cash available for distribution and may hinder our ability to raise capital or borrow more money.

Federal Income Tax Risks

Failure to qualify as a REIT would subject us to federal income tax, which would reduce the cash available for distribution to our stockholders.

We expect to operate in a manner that will allow us to continue to qualify as a REIT for federal income tax purposes. However, the federal income tax laws governing REITs are extremely complex, and interpretations of the federal income tax laws governing qualification as a REIT are limited. Qualifying as a REIT requires us to meet various tests regarding the nature of our assets and our income, the ownership of our outstanding stock, and the amount of our distributions on an ongoing basis. While we intend to operate so that we will qualify as a REIT, given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations, including the tax treatment of certain investments we may make, and the possibility of future changes in our circumstances, no assurance can be given that we will so qualify for any particular year. If we fail to qualify as a REIT in any calendar year and we do not qualify for certain statutory relief provisions, we would be required to pay federal income tax on our taxable income. We might need to borrow money or sell assets to pay that tax. Our payment of income tax would decrease the amount of our income available for distribution. Furthermore, if we fail to maintain our qualification as a REIT and we do not qualify for certain statutory relief provisions, we no longer would be required to distribute substantially all of our REIT taxable income to our stockholders. Unless our failure to qualify as a REIT was excused under federal tax laws, we would be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost.

Even if we qualify as a REIT for federal income tax purposes, we may be subject to other tax liabilities that reduce our cash flow and our ability to make distributions to our stockholders.

Even if we qualify as a REIT for federal income tax purposes, we may be subject to some federal, state and local taxes on our income or property. For example:

- In order to qualify as a REIT, we must distribute annually at least 90% of our REIT taxable income to our stockholders (which is determined without regard to the dividends-paid deduction or net capital gain). To the extent that we satisfy the distribution requirement but distribute less than 100% of our REIT taxable income, we will be subject to federal corporate income tax on the undistributed income.
- We will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions we pay in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years.
- If we elect to treat property that we acquire in connection with a foreclosure of a mortgage loan or certain leasehold terminations as "foreclosure property," we may avoid the 100% tax on gain from a resale of that property, but the income from the sale or operation of that property may be subject to corporate income tax at the highest applicable rate.
- If we sell an asset, other than foreclosure property, that we hold primarily for sale to customers in the ordinary course of business, our gain would be subject to the 100% "prohibited transaction" tax unless such sale were made by one of our taxable REIT subsidiaries.
- We may be subject to an excise tax under IRC section 857(b)(7) if the IRS reallocates certain specified income and expense items between the REIT and the TRS under principles similar to IRC section 482. The excise tax is equal to 100% of redetermined rents, redetermined deductions, excess interest, and redetermined TRS service income.

We intend to make distributions to our stockholders to comply with the REIT requirements of the Internal Revenue Code.

To maintain our REIT status, we may be forced to forego otherwise attractive opportunities, which may delay or hinder our ability to meet our investment objectives and reduce the overall return to our stockholders.

To qualify as a REIT, we must satisfy certain tests on an ongoing basis concerning, among other things, the sources of our income, nature of our assets and the amounts we distribute to our stockholders. We may be required to make distributions to stockholders at times when it would be more advantageous to reinvest cash in our business or when we do not have funds readily available for distribution. Compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits and the value of our stockholders' investments in us.

If we borrow money to meet the REIT minimum distribution requirement or for other working capital needs, our expenses will increase, our net income will be reduced by the amount of interest we pay on the money we borrow and we will be obligated to repay the money we borrow from future earnings or by selling assets, which will decrease future distributions to stockholders.

To qualify as a REIT, we generally must distribute annually to our stockholders a minimum of 90% of our taxable income, excluding capital gains. If we do not have sufficient cash to make distributions necessary to preserve our REIT status for any year or to avoid taxation, we may be forced to borrow funds or sell assets even if the market conditions at that time are not favorable for these borrowings or sales. We may decide to borrow funds in order to meet the REIT minimum distribution requirements even if our management believes that the then prevailing market conditions generally are not favorable for such borrowings or that such borrowings would not be advisable in the absence of such tax considerations. Distributions made in excess of our net income will generally constitute a return of capital to stockholders.

If our Operating Partnership is classified as a "publicly-traded partnership" under the Internal Revenue Code, it could be subjected to tax on its income and the amount of potential distributions we make to our stockholders will be less.

The Operating Partnership is classified as a partnership for federal income tax purposes. The Internal Revenue Code generally classifies "publicly traded partnerships" (as defined in Section 7704 of the Internal Revenue Code) as associations taxable as corporations (rather than as partnerships), unless substantially all of their taxable income consists of specified types of passive income. In order to minimize the risk that the Internal Revenue Code would re-classify the Operating Partnership as a "publicly traded partnership" for tax purposes, we placed certain restrictions on the transfer and/or redemption of partnership units in our Operating Partnership. If the Internal Revenue Service were to assert successfully that our Operating Partnership is a "publicly traded partnership," and substantially all of the Operating Partnership's gross income did not consist of the specified types of passive income, the Internal Revenue Code would treat our Operating Partnership as an association taxable as a corporation. In such event, the character of our assets and items of gross income would change and would likely prevent us from qualifying and maintaining our status as a REIT. In addition, the imposition of a corporate tax on our Operating Partnership would reduce the amount of cash distributable to us from our Operating Partnership, and therefore, would reduce our amount of cash available to make distributions to our stockholders.

The tax on prohibited transactions will limit our ability to engage in transactions, including certain methods of securitizing mortgage loans that would be treated as sales for federal income tax purposes.

A REIT's net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of assets, other than foreclosure property, deemed held primarily for sale to customers in the ordinary course of business. We might be subject to this tax if we were to dispose of or securitize loans in a manner that was treated as a sale of the loans for federal income tax purposes. Therefore, in order to avoid the prohibited transactions tax, we may choose not to engage in certain sales of loans at the REIT level, and may limit the structures we utilize for our securitization transactions, even though the sales or structures might otherwise be beneficial to us.

It may be possible to reduce the impact of the prohibited transactions tax by conducting certain activities through taxable REIT subsidiaries. However, to the extent that we engage in such activities through taxable REIT subsidiaries, the income associated with such activities may be subject to full corporate income tax.

We may be subject to adverse legislative or regulatory tax changes.

At any time, the federal income tax laws or regulations governing REITs or the administrative interpretations of those laws or regulations may be amended. We cannot predict when or if any new federal income tax law, regulation or administrative interpretation, or any amendment to any existing federal income tax law, regulation or administrative interpretation, will be adopted, promulgated or become effective and any such law, regulation or interpretation may take effect retroactively. We and our stockholders could be adversely affected by any such change in, or any new, federal income tax law, regulation or administrative interpretation.

Distributions to tax-exempt investors may be classified as unrelated business taxable income and tax-exempt investors would be required to pay tax on the unrelated business taxable income and to file income tax returns.

Neither ordinary nor capital gains distributions with respect to our common stock nor gains from the sale of stock should generally constitute unrelated business taxable income to a tax-exempt investor. However, there are certain exceptions to this rule. In particular:

- under certain circumstances, part of the income and gain recognized by certain qualified employee pension trusts with respect to our stock may be treated as unrelated business taxable income if our stock is predominately held by qualified employee pension trusts, such that we are a "pension-held" REIT (which we do not expect to be the case);
- part of the income and gain recognized by a tax-exempt investor with respect to our stock would constitute unrelated business taxable income if such investor incurs debt in order to acquire the common stock; and
- part or all of the income or gain recognized with respect to our stock held by social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans which are exempt from federal income taxation under Sections 501(c)(7), (9), (17), or (20) of the Code may be treated as unrelated business taxable income.

Foreign investors may be subject to FIRPTA tax on the sale of our stock if we are unable to qualify as a "domestically controlled" REIT.

A foreign person disposing of a U.S. real property interest, including stock of a U.S. corporation whose assets consist principally of U.S. real property interests is generally subject to a tax, known as the Foreign Investment in Real Property Tax Act of 1980 ("FIRPTA") tax, on the gain recognized on the disposition. Distributions that are attributable to gains from the disposition of U.S. real property interests by a REIT are subject to FIRPTA tax for foreign investors as though they were engaged in a trade or business and the distribution constitutes income which is effectively connected with such a business. Such FIRPTA tax does not apply, if the REIT is "domestically controlled." A REIT is "domestically controlled" if less than 50% of the REIT's capital stock, by value, has been owned directly or indirectly by persons who are not qualifying U.S. persons during a continuous five-year period ending on the date of disposition or, if shorter, during the entire period of the REIT's existence.

We cannot be sure that we will qualify as a "domestically controlled" REIT. If we were to fail to so qualify, any gain realized by foreign investors on a sale of our stock would be subject to FIRPTA tax, unless our stock were traded on an established securities market and the foreign investor did not at any time during a specified testing period, directly or indirectly, own more than 10% of the value of our outstanding common stock.

Retirement Plan Risks

If the fiduciary of an employee benefit plan subject to ERISA (such as a profit sharing, Section 401(k) or pension plan) or an owner of a retirement arrangement subject to Section 4975 of the Internal Revenue Code (such as an individual retirement account ("IRA")) fails to meet the fiduciary and other standards under ERISA or the Internal Revenue Code ("IRC") as a result of an investment in our stock, the fiduciary could be subject to penalties and other sanctions.

There are special considerations that apply to employee benefit plans subject to the Employee Retirement Income Security Act ("ERISA") (such as profit sharing, Section 401(k) or pension plans) and other retirement plans or accounts subject to Section 4975 of the IRC (such as an IRA) that are investing in our shares. Fiduciaries and IRA owners investing the assets of such a plan or account in our common stock should satisfy themselves that:

- the investment is consistent with their fiduciary and other obligations under ERISA and the IRC;
- the investment is made in accordance with the documents and instruments governing the plan or IRA, including the plan's or account's investment policy;
- the investment satisfies the prudence and diversification requirements of Sections 404(a)(1)(B) and 404(a)(1)(C) of ERISA and other applicable provisions of ERISA and the IRC;
- the investment in our shares, for which no public market currently exists, is consistent with the liquidity needs of the plan or IRA;
- the investment will not produce an unacceptable amount of "unrelated business taxable income" for the plan or IRA;
- our stockholders will be able to comply with the requirements under ERISA and the IRC to value the assets of the plan or IRA annually; and
- the investment will not constitute a prohibited transaction under Section 406 of ERISA or Section 4975 of the IRC.

With respect to the annual valuation requirements described above, we will provide an estimated value for our shares annually. We can make no claim whether such estimated value will or will not satisfy the applicable annual valuation requirements under ERISA and the IRC. The Department of Labor or the Internal Revenue Service may determine that a plan fiduciary or an IRA custodian is required to take further steps to determine the value of our common stock. In the absence of an appropriate determination of value, a plan fiduciary or an IRA custodian may be subject to damages, penalties or other sanctions.

Failure to satisfy the fiduciary standards of conduct and other applicable requirements of ERISA and the IRC may result in the imposition of civil and criminal penalties and could subject the fiduciary to claims for damages or for equitable remedies, including liability for investment losses. In addition, if an investment in our shares constitutes a prohibited transaction under ERISA or the IRC, the fiduciary or IRA owner who authorized or directed the investment may be subject to the imposition of excise taxes with respect to the amount invested. In addition, the investment transaction must be undone. In the case of a prohibited transaction involving an IRA owner, the IRA may be disqualified as a tax-exempt account and all of the assets of the IRA may be deemed distributed and subjected to tax. ERISA plan fiduciaries and IRA owners should consult with counsel before making an investment in our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

As of December 31, 2017, our healthcare portfolio consisted of 11 properties, six of which are 100% owned by us, four of which are owned by us through a 95.3% interest and one of which is owned by us through a 95% interest. All of the properties are 100% leased on a triple net basis. The following table (excluding the 36 properties held by our unconsolidated Equity-Method Investments) provides summary information regarding these properties:

Property	Location	Date Purchased	Type[(2)]	Purchase Price	Loans Payable, Excluding Debt Issuance Costs	Number of Beds
Sheridan Care Center	Sheridan, OR	August 3, 2012	SNF	$ 4,100,000	$ 4,778,000	51
Fernhill Care Center	Portland, OR	August 3, 2012	SNF	4,500,000	4,191,000	63
Friendship Haven Healthcare and Rehabilitation Center [(1)]	Galveston County, TX	September 14, 2012	SNF	15,000,000	6,880,000	150
Pacific Health and Rehabilitation Center	Tigard, OR	December 24, 2012	SNF	8,140,000	6,987,000	73
Danby House	Winston-Salem, NC	January 31, 2013	AL/MC	9,700,000	7,642,000	100
Brookstone of Aledo	Aledo, IL	July 2, 2013	AL	8,625,000	7,216,000	66
The Shelby House	Shelby, NC	October 4, 2013	AL	4,500,000	4,721,000	72
The Hamlet House	Hamlet, NC	October 4, 2013	AL	6,500,000	3,989,000	60
The Carteret House	Newport, NC	October 4, 2013	AL	4,300,000	3,365,000	64
Sundial Assisted Living	Redding, CA	December 18, 2013	AL	3,500,000	2,800,000	65
Pennington Gardens	Chandler, AZ	July 17, 2017	AL/MC	13,400,000	10,050,000	90
Total:				$ 82,265,000	$ 62,619,000	854

(1) We became the licensed operator and tenant of the facility on May 1, 2014 (Friendswood TRS), which has been consolidated in our consolidated financial statements. In December 2017, we entered into an agreement to sell Friendswood TRS, the licensed operator and tenant of Friendship Haven, to the current management company, HMG Services, L.L.C. The sale was effective January 1, 2018, and as such, we will no longer be the licensed operator and tenant of Friendship Haven and Friendswood TRS will no longer be consolidated. CHP Friendswood SNF, LLC (a majority-owned consolidated subsidiary) continues to be the landlord under the amended triple-net lease. See Note 11 to the accompanying Notes to Consolidated Financial Statements for treatment as discontinued operations as of December 31, 2017 and 2016.

(2) SNF is an abbreviation for skilled nursing facility.
AL is an abbreviation for assisted living facility.
MC is an abbreviation for memory care facility.

Portfolio Lease Expirations

The following table sets forth lease expiration information for the ten years and thereafter following December 31, 2017. We expect that, prior to maturity, we will negotiate new terms of a lease to either the current tenant or another qualified operator.

Year Ending December 31	No. of Leases Expiring	Base Rent In Final Year of Expiring Leases (Annual $)	Percent of Total Leasable Area Expiring (%)	Percent of Total Annual Base Rent Expiring (%)
2023 – 2028	2	$ 1,946,000	23.1%	20.2%
2029	6	4,257,000	38.8%	44.3%
2030 and later	3	3,410,000	38.1%	35.5%
	11	$ 9,613,000	100.0%	100.0%

ITEM 3. LEGAL PROCEEDINGS

On April 1, 2014, CRA and Cornerstone Ventures, Inc. filed a complaint in the Superior Court of California for the County of Orange-Central Justice Center, Case No. 30-2014-00714004-CU-BT-CJC, naming the Company, its directors and two of its officers as defendants, seeking declaratory and injunctive relief and compensatory and punitive damages. On September 17, 2014, we filed a First Amended Cross-Complaint seeking compensatory damages and an accounting pursuant to Sections 10(c)(i) and 17(c)(ii) of the Advisory Agreement and including any monies Plaintiffs and Terry Roussel directly or indirectly received from or paid to the Company. On February 22, 2018, the action was assigned to a different trial judge and no trial date has yet been set. We continue to believe that all of plaintiffs' claims are without merit and will continue to vigorously defend ourselves.

A bankruptcy petition was filed against Healthcare Real Estate Partners, LLC ("HCRE") by the investors in Healthcare Real Estate Fund, LLC and Healthcare Real Estate Qualified Purchasers Fund, LLC (collectively, the "Funds"). HCRE did not timely respond to the involuntary petition and the Bankruptcy Court entered an Order of Relief making HCRE a debtor in bankruptcy. As a result, HCRE was removed as manager under the Funds' operating agreement. Thereafter the Company became the manager of the Funds and purchased the investors' interests in the Funds. Following the subsequent dismissal of the involuntary bankruptcy petition filed against it, HCRE filed a motion for attorneys' fees and damages and a separate complaint for violation of the automatic stay against the petitioning creditors and the Company in the United States Bankruptcy Court of the District of Delaware. The Bankruptcy Court granted a motion to dismiss the complaint for violation of the automatic stay filed jointly by the petitioning creditors and us, and dismissed the complaint with prejudice. HCRE appealed the Bankruptcy Court's decision to the United States District Court for the District of Delaware and the appeal is being briefed by the parties. The Bankruptcy Court has stayed all litigation on HCRE's motion for damages pending resolution of the appeal on the complaint for violation of the automatic stay by the District Court. We believe that all of HCRE's remaining alleged claims are without merit and will vigorously defend ourselves.

Delbert Freeman filed an action against us and Mr. Eikanas on December 21, 2017 for breach of contract arising out of the sale of the Athens project in Georgia. We originally guaranteed a lease for the development of the Athens project, which was ultimately sold to a third party. Mr. Freeman sued for breach of contract based on an allegation that he was not paid profits he was promised from the proceeds of the project. Mr. Freeman is also alleging that he was promised consulting fees of $270,000 from us arising out of an alleged agreement to pay consulting fees of $10,000 per month. We believe that his claims are without merit and are vigorously defending them.

In addition, we are or may be subject to various other legal proceedings and actions arising in the normal course of our business. In the opinion of management, based upon the information presently known, the ultimate liability, if any, arising from such pending legal proceedings, as well as from asserted legal claims and known potential legal claims which are likely to be asserted, taking into account established accruals for estimated liabilities (if any), are not expected to be material individually and in the aggregate to our consolidated financial position, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

During the period covered by this report, there was no established public trading market for our shares of common stock.

On December 31, 2017, the estimated common stock per-share value is $2.80 per share, adjusted from the previous estimated common stock per-share value of $2.53 established on December 31, 2016. The estimated value per share was based on the methodologies and assumptions described further below. The estimated per-share value determined below neither represents the fair value according to U.S. generally accepted accounting principles ("GAAP") of our assets less liabilities, nor does it represent the amount our shares would trade at on a national securities exchange or the amount a stockholder would obtain if he or she tried to sell his or her shares or if we liquidated our assets.

As with any valuation methodology, our methodology is based on a number of estimates and assumptions that may not be accurate or complete. Different parties with different assumptions and estimates could derive a different estimated per-share amount. Accordingly, with respect to our estimated per-share value, we can provide no assurance that:

- a stockholder would be able to realize our estimated value per share upon attempting to resell his or her shares;
- we would be able to achieve, for our stockholders, our estimated value per share, upon a listing of our shares of common stock on a national securities exchange, selling our real estate portfolio, or merging with another company;
- an independent third-party appraiser or other third-party valuation firm would agree with our estimated value per share; or
- the estimated share value, or the methodologies relied upon to estimate the share value, will be found by any regulatory authority to comply with FINRA, ERISA, or any other regulatory requirements.

Our December 31, 2017 estimated per-share value was calculated by aggregating the estimated fair value of our investments in real estate and the estimated fair value of our other assets, subtracting the estimated fair value of our liabilities, which approximate current book value, and dividing the total by the number of our common shares outstanding as of December 31, 2017. Our estimated per-share value is the same as our net asset value. Our estimated per-share value does not reflect "enterprise value," which may include a premium for the portfolio or the potential increase in our share value if we were to list our shares on a national securities exchange. Our estimated per-share value also does not reflect a liquidity discount for the fact that the shares are not currently traded on a national securities exchange.

The following is a summary of the valuation methodologies used:

Investments in Real Estate. For purposes of calculating an estimated value per share, we used the value of the 2017 lease payments and applied the current market lease rates for each asset type to determine fair market value of our properties.

Loans Payable. We reduced the fair value of our investments by the total amount due of our loans payable based on the current book value at December 31, 2017.

Other Assets and Liabilities. The carrying values of our other assets and liabilities are considered to be equal to fair value due to their short maturities, except for the note receivable, which is based on the remaining note term and on management's estimates of current market interest rates for instruments with similar characteristics. Certain balances, including straight-line rent related assets and liabilities, have been eliminated for the purpose of the valuation due to the fact that the value of those balances have no value or decrement to the assets going forward.

Equity-Method Investments. We estimate the value of our interests in our equity-method investments based on the discounted cash flows after applying our ownership percentage in the individual equity-method investments.

Our estimated per-share value was calculated as follows:

		December 31, 2017
Investments in real estate	$	4.13
Loans payable		(2.66)
Other assets and liabilities, net		0.50
Equity-Method Investments value		0.83
Estimated net asset value per-share value	$	2.80
Estimated enterprise value premium		None applied
Estimated liquidity discount		None applied
Total estimated per-share value	$	2.80

Furthermore, the estimated value of our shares was calculated as of December 31, 2017. The value of our shares will fluctuate over time in response to, among other things, changes in real estate market fundamentals, capital markets activities, and attributes specific to the properties within our portfolio. We are not required to update the estimated value per share more frequently than every 18 months. We expect that any future estimates of the value of our properties will be performed by the Company; however, our board of directors may direct us to engage one or more independent, third-party valuation firms in connection with such estimates.

Our board of directors reviewed the report prepared by management which recommended an estimated per-share value, and considering all information provided in light of its own knowledge regarding our assets and unanimously agreed upon an estimated value of $2.80 per share, which is consistent with the recommendations of management.

A summary of our estimated per-share value for the last five years is as follows:

2017	$	2.80
2016	$	2.53
2015	$	2.34
2014	$	2.04
2013	$	2.09

Stockholders

As of March 12, 2018 we had approximately 23.0 million shares of common stock outstanding held by 4,624 stockholders of record.

Distributions

In order to qualify for tax treatment as a REIT under the IRC, we must pay distributions to our stockholders each taxable year equal to at least 90% of our net ordinary taxable income. However, no distributions have been declared or paid since June 30, 2011 because we have not had any net ordinary taxable income.

The declaration, rate, frequency and amount of distributions are at the discretion of our board of directors and will depend on numerous factors including, but not limited to, our funds from operations, financial condition, capital requirements, annual distribution requirements under the REIT provisions of the IRC and other factors our board of directors deems relevant. Our board determined, based on the financial condition of the Company, to suspend the declaration of further distributions.

Funds from Operations

Funds from operations (“FFO”) is a non-GAAP supplemental financial measure that is widely recognized as a measure of REIT operating performance. We compute FFO in accordance with the definition outlined by the National Association of Real Estate Investment Trusts (“NAREIT”). NAREIT defines FFO as net income (loss), computed in accordance with GAAP, excluding gains or losses from sales of property, plus real estate depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures .

Our FFO may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than we do. We believe that FFO is helpful to investors and our management as a measure of operating performance because it excludes depreciation and amortization, gains and losses from property dispositions, impairments, and as a result, when compared year to year, reflects the impact on operations from trends in occupancy rates, rental rates, operating costs, development activities, general and administrative expenses, and interest costs, which is not immediately apparent from net income. Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting alone to be insufficient. As a result, our management believes that the use of FFO, together with the required GAAP presentations, provide a more complete understanding of our performance. Factors that impact FFO include start-up costs, fixed costs, delays in buying assets, lower yields on cash held in accounts pending investment, income from portfolio properties and other portfolio assets, interest rates on acquisition financing and operating expenses. FFO should not be considered as an alternative to net income (loss), as an indication of our performance, nor is it indicative of funds available to fund our cash needs, including our ability to make distributions.

The following is reconciliation from net loss applicable to common shares, the most direct comparable financial measure calculated and presented with GAAP, to FFO for the years ended December 31, 2017 and 2016:

	Year Ended December 31	
	2017	2016
Net loss applicable to common stockholders (GAAP)	$ (1,272,000)	$ (801,000)
Adjustments:		
Depreciation and amortization	3,083,000	3,509,000
Depreciation and amortization related to non-controlling interests	(79,000)	(94,000)
Depreciation related to Equity-Method Investments	905,000	434,000
Gain on disposition of real estate properties	-	(2,888,000)
Funds provided by operations (FFO) applicable to common stockholders	$ 2,637,000	$ 160,000
Weighted-average number of common shares outstanding – basic and diluted	23,027,978	23,027,978
FFO per weighted average common shares	$ 0.11	$ 0.01

Recent Sales of Unregistered Securities

We did not sell any equity securities that were not registered under the Securities Act of 1933 during the period covered by this Form 10-K.

Equity Compensation Plans

See the “Equity Compensation Plan Information” in Item 12 of this report.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Form 10-K. See also the “Special Note about Forward-Looking Statements” preceding Item 1 of this report.

Overview

As of December 31, 2017, our ownership interests in our 11 real estate properties of senior housing facilities was as follows: 100% ownership of six properties, five properties in a consolidated joint venture, Cornerstone Healthcare Partners LLC, of which we have a 95.3% interest in four properties and a 95% interest in the fifth property. Additionally, we have a 10% interest in an unconsolidated equity-method investment that owns 17 properties, a 20% interest in two unconsolidated equity-method investments that each own two properties, and a 10% interest in two unconsolidated equity-method investments that hold nine properties and six properties, respectively, (collectively, our “Equity-Method Investments”). As used in this report, the “Company,” “we,” “us” and “our” refer to Summit Healthcare REIT, Inc. and its consolidated subsidiaries, except where the context otherwise requires.

Our revenues are comprised largely of tenant rental income from our 11 real estate properties, including rents reported on a straight-line basis over the initial term of each tenant lease, and acquisition and asset management fees resulting from our Equity-Method Investments. We also receive cash distributions from our Equity-Method Investments, which are included in net cash provided by operating activities and net cash provided by investing activities in our consolidated statements of cash flows. Our growth depends, in part, on our ability to continue to raise joint venture equity, acquire new healthcare properties at attractive prices, negotiate long-term tenant leases with sustainable rental rate escalation terms and control our expenses. Our operations are impacted by property-specific, market-specific, general economic, regulatory and other conditions.

We believe that continued investing in senior housing facilities is accretive to earnings and stockholder value. Senior housing facilities include independent living facilities ("IL"), skilled nursing facilities ("SNF"), assisted living facilities ("AL"), memory care facilities ("MC") and continuing care retirement communities ("CCRC"). Each of these types of facilities focuses on to different segments of the senior population.

Summit Portfolio Properties

At December 31, 2017, our portfolio consisted of 11 real estate properties as noted above. All of the properties are 100% leased on a triple net basis. The following table provides summary information (excluding the 36 properties held by our unconsolidated Equity-Method Investments) regarding these properties as of December 31, 2017:

Real Estate Properties:

	Properties	Beds	Square Footage	Purchase Price
SNF	4	337	109,306	$ 31,740,000
AL or AL/MC	7	517	250,750	50,525,000
Total Real Estate Properties	11	854	360,056	$ 82,265,000

Property	Location	Date Purchased	Type	Beds	2017 Revenue[1]
Sheridan Care Center	Sheridan, OR	August 3, 2012	SNF	51	$ 492,000
Fernhill Care Center	Portland, OR	August 3, 2012	SNF	63	525,000
Friendship Haven Healthcare and Rehabilitation Center	Galveston County TX	September 14, 2012	SNF	150	—[2]
Pacific Health and Rehabilitation Center	Tigard, OR	December 24, 2012	SNF	73	968,000
Danby House	Winston-Salem, NC	January 31, 2013	AL/MC	100	1,160,000
Brookstone of Aledo	Aledo, IL	July 2, 2013	AL	66	765,000
The Shelby House	Shelby, NC	October 4, 2013	AL	72	456,000
The Hamlet House	Hamlet, NC	October 4, 2013	AL	60	658,000
The Carteret House	Newport, NC	October 4, 2013	AL	64	435,000
Sundial Assisted Living	Redding, CA	December 18, 2013	AL	65	359,000
Pennington Gardens	Chandler, AZ	July 17, 2017	AL/MC	90	498,000
Total				854	

[1] Represents year-to-date revenue based on in-place leases, including straight-line rent, through December 31, 2017.

[2] Rent due under a lease between the Company and its wholly-owned taxable REIT subsidiary ("Friendswood TRS") was approximately $1.6 million year-to-date through December 31, 2017. Such rental income is eliminated in consolidation through December 31, 2017. See Note 11 to the accompanying Notes to Consolidated Financial Statements regarding the sale of Friendswood TRS effective January 1, 2018.

Summit Equity-Method Investment Portfolio Properties

We continue to believe that raising institutional joint venture equity to make acquisitions will be accretive to shareholder value and will move us closer to our goal of resuming shareholder distributions. Our sole source of equity since 2015 has been institutional funds raised through a joint venture structure and accounted for as equity-method investments. Currently, our two largest joint venture partners are Chinese companies and face restrictions on overseas investments by the Chinese government. Accordingly, the size and frequency of our joint venture investments may change. We still believe this is the most prudent strategy for growth and our shareholders benefit for the following reasons:

- We have not incurred the expense of organizational and offering costs, including brokerage commissions, that could amount to 15% or more of the actual capital raised through a registered secondary offering;
- We have not diluted our shareholders;
- Acquisition fees and asset management fees earned from our joint ventures; and
- Waterfall terms for both net operating cash flow and all sales proceeds, which increases our cash on cash return and our internal rate of return considerably.

Summit Union Life Holdings, LLC

In April 2015, through our operating partnership ("Operating Partnership"), we formed Summit Union Life Holdings, LLC ("SUL JV") with Best Years, LLC ("Best Years"), an unrelated entity and a U.S.-based affiliate of Union Life Insurance Co, Ltd. (a Chinese corporation), and entered into a limited liability company with Best Years with respect to the SUL JV (the "SUL LLC Agreement"). The SUL JV is not consolidated in our consolidated financial statements and is accounted for under the equity-method in the Company's consolidated financial statements.

Under the SUL LLC Agreement, as amended, net operating cash flow of the SUL JV will be distributed monthly, first to the Operating Partnership and Best Years *pari passu* up to a 9% to 10% cash on cash return, as defined, and thereafter to Best Years 75% and the Operating Partnership 25%. All capital proceeds from the sale of the properties held by the SUL JV, a refinancing, or another capital event will be paid first to the Operating Partnership and Best Years *pari passu* until each has received an amount equal to its accrued but unpaid 9% to 10% return plus its total contribution, and thereafter to Best Years 75% and the Operating Partnership 25%.

The following reconciles our 10% equity investment in the SUL JV from inception through December 31, 2017:

JV 2 Properties (Colorado, Oregon and Virginia) – April 2015	$ 1,007,000
Creative Properties (Texas) – October 2015	837,000
Cottage Properties (Wisconsin) – December 2015	544,000
Riverglen (New Hampshire) – April 2016	392,000
Delaware Properties – September 2016	1,783,000
Total investments	4,563,000
Income from equity-method investee	655,000
Distributions	(1,604,000)
Total investment at December 31, 2017	**$ 3,614,000**

A summary of the consolidated financial data for the balance sheets and statements of income for the unconsolidated SUL JV, of which we own a 10% equity interest, is as follows:

Condensed Consolidated Balance Sheets of SUL JV:	**December 31, 2017**	**December 31, 2016**
Real estate properties and intangibles, net	$ 146,065,000	$ 151,439,000
Cash and cash equivalents	8,253,000	4,750,000
Other assets	8,095,000	4,860,000
Total Assets:	**$ 162,413,000**	**$ 161,049,000**
Loans payable, net	$ 110,089,000	$ 104,717,000
Other liabilities	10,629,000	13,185,000
Members' equity:		
Best Years	37,967,000	39,186,000
Summit	3,728,000	3,961,000
Total Liabilities and Members' Equity	**$ 162,413,000**	**$ 161,049,000**

Condensed Consolidated Statements of Income of SUL JV:

	Year Ended December 31, 2017	**Year Ended December 31, 2016**
Total revenue	$ 15,657,000	$ 12,391,000
Property operating expenses	(1,341,000)	(1,568,000)
Net operating income	**14,316,000**	**10,823,000**
General and administrative expense	(433,000)	(307,000)
Depreciation and amortization expense	(5,727,000)	(4,112,000)
Income from operations	**8,156,000**	**6,404,000**
Interest expense	(5,596,000)	(3,925,000)
Amortization of deferred financing costs	(806,000)	(358,000)
Gain on earn-out	1,800,000	–
Other income (expense)	7,000	(7,000)
Net Income	**$ 3,561,000**	**$ 2,114,000**
Summit equity interest in SUL JV net income	$ 356,000	$ 211,000

As of December 31, 2017, the 17 properties held by SUL JV, our unconsolidated 10% equity-method investment, all of which are 100% leased on a triple net basis, are as follows:

Property	**Location**	**Type**	**Number of Beds**
Lamar Estates	Lamar, CO	SNF	60
Monte Vista Estates	Monte Vista, CO	SNF	60
Myrtle Point Care Center	Myrtle Point, OR	SNF	55
Gateway Care and Retirement Center	Portland, OR	SNF/IL	91
Applewood Retirement Community	Salem, OR	IL	69
Loving Arms Assisted Living	Front Royal, VA	AL	78
Pine Tree Lodge Nursing Center	Longview, TX	SNF	92
Granbury Care Center	Granbury, TX	SNF	181
Twin Oaks Nursing Center	Jacksonville, TX	SNF	116
Dogwood Trails Manor	Woodville, TX	SNF	90
Carolina Manor	Appleton, WI	AL	45
Carrington Manor	Green Bay, WI	AL	20
Marla Vista Manor	Green Bay, WI	AL	40
Marla Vista Gardens	Green Bay, WI	AL/MC	20
Riverglen House of Littleton	Littleton, NH	AL	59
Atlantic Shore Rehabilitation and Health Center	Millsboro, DE	SNF	181
Pinnacle Rehabilitation and Health Center	Smyrna, DE	SNF	151
Total:			1,408

Equity-Method Partner - Fantasia Investment III LLC

In 2016 and 2017, through our Operating Partnership, we entered into three separate limited liability company agreements (collectively, the "Fantasia Agreements") with Fantasia Investment III LLC ("Fantasia"), an unrelated entity and a U.S.-based affiliate of Fantasia Holdings Group Co., Limited (a Chinese corporation listed on the Stock Exchange of Hong Kong (HKEX)), and formed three separate companies, Summit Fantasia Holdings, LLC ("Fantasia I"), Summit Fantasia Holdings II, LLC ("Fantasia II")and Summit Fantasia Holdings III, LLC ("Fantasia III") (collectively, the "Fantasia JVs"). The Fantasia JVs are not consolidated in our consolidated financial statements and are accounted for under the equity-method in the Company's consolidated financial statements. Through the Fantasia JVs, we own a 20% interest in two senior housing facilities, one located in California and one located Oregon; a 20% interest in two skilled nursing facilities located in Rhode Island; and a 10% interest in nine skilled nursing facilities located in Connecticut.

Under the Fantasia Agreements, net operating cash flow of the Fantasia JVs will be distributed monthly, first to the Operating Partnership and Fantasia *pari passu* (8% for Fantasia I and II and 9% for Fantasia III) until each member has received an amount equal to its accrued, but unpaid return, and thereafter 70% to Fantasia and 30% to the Operating Partnership for Fantasia I and II, and 75% to Fantasia and 25% to the Operating Partnership for Fantasia III. All capital proceeds from the sale of the properties held by the Fantasia JVs, a refinancing or another capital event, will be paid first to the Operating Partnership and Fantasia *pari passu* as noted above until each has received an amount equal to its accrued but unpaid return plus its total capital contribution, and thereafter to Fantasia and to the Operating Partnership, as noted above.

The following reconciles our equity investments in the Fantasia JVs from inception through December 31, 2017:

Summit Fantasia Holdings, LLC – October 2016	$	1,274,000
Summit Fantasia Holdings II, LLC – February 2017	$	1,923,000
Summit Fantasia Holdings III, LLC – August 2017	$	1,953,000
Total investment		5,150,000
Income from Fantasia JVs		230,000
Distributions		(672,000)
Total Fantasia investments at December 31, 2017	**$**	**4,708,000**

A summary of the consolidated financial data for the balance sheets and statements of income for the unconsolidated Fantasia JVs, of which we own a 10% to 20% equity interest, is as follows:

Condensed Combined Balance Sheets of Fantasia JVs:		**December 31, 2017**		**December 31, 2016**
Real estate properties, net	$	110,055,000	$	23,227,000
Cash and cash equivalents		4,317,000		548,000
Other assets		755,000		146,000
Total Assets:	**$**	**115,127,000**	**$**	**23,921,000**
Loans payable, net	$	76,825,000	$	16,991,000
Other liabilities		4,507,000		667,000
Members' equity:				
Fantasia JVs		29,087,000		5,015,000
Summit		4,708,000		1,248,000
Total Liabilities and Members' Equity	**$**	**115,127,000**	**$**	**23,921,000**

Condensed Combined Statements of Income of Fantasia JVs:	Year Ended December 31, 2017	Year Ended December 31, 2016
Total revenue	$ 7,837,000	$ 329,000
Property operating expenses	(1,374,000)	(29,000)
Net operating income	**6,463,000**	**300,000**
General and administrative expense	(348,000)	(17,000)
Depreciation and amortization expense	(1,856,000)	(110,000)
Income from operations	**4,259,000**	**173,000**
Interest expense	(2,504,000)	(123,000)
Amortization of debt issuance costs	(307,000)	(24,000)
Net Income	**$ 1,448,000**	**$ 26,000**
Summit equity interest in Fantasia JVs net income	$ 225,000	$ 5,000

As of December 31, 2017, the 13 properties in Fantasia JVs, our unconsolidated equity-method investments, are all 100% leased on a triple net basis, and are as follows:

Property	Location	Type	Number of Beds
Sun Oak Assisted Living	Citrus Heights, CA	AL/MC	78
Regent Court Senior Living	Corvallis, OR	MC	48
Trinity Health and Rehabilitation Center	Woonsocket, Rhode Island	SNF	185
Hebert Nursing Home	Smithfield, Rhode Island	SNF	133
Chelsea Place Care Center	Hartford, CT	SNF	234
Touchpoints at Manchester	Manchester, CT	SNF	131
Touchpoints at Farmington	Farmington, CT	SNF	105
Fresh River Healthcare	East Windsor, CT	SNF	140
Trinity Hill Care Center	Trinity Hill, CT	SNF	144
Touchpoints at Bloomfield	Bloomfield, CT	SNF	150
Westside Care Center	Westside, CT	SNF	162
Silver Springs Care Center	Meriden, CT	SNF	159
Touchpoints of Chestnut	Chestnut, CT	SNF	60
Total:			1,729

Summit Fantasy Pearl Holdings, LLC

On October 2, 2017, through our Operating Partnership, we entered into a limited liability company agreement (the “FPH LLC Agreement”) with Fantasia, Atlantis Senior Living 9, LLC, a Delaware limited liability company (“Atlantis”), and Fantasy Pearl LLC, a Delaware limited liability company (“Fantasy”), and formed Summit Fantasy Pearl Holdings, LLC (the “FPH JV”). The FPH JV is not consolidated in our consolidated financial statements and will be accounted for under the equity-method in the Company’s consolidated financial statements.

In November 2017, through the FPH JV, we acquired a 10% interest in six senior housing facilities, located in Iowa, for a total aggregate purchase price of $29.5 million for the properties, which was funded through capital contributions from the members of the FPH JV plus the proceeds from a collateralized loan. The facilities consist of a total of 582 licensed beds, and are operated by and leased to a third party operator.

Under the FPH LLC Agreement, net operating cash flow of the FPH JV will be distributed quarterly, first to the members *pari passu* until each member has received an amount equal to its accrued, but unpaid 9% return, and thereafter 65.25% to Fantasy, 7.5% to Atlantis, 7.25% to Fantasia and 20% to the Operating Partnership. All capital proceeds from the sale of the properties held by the FPH JV, a refinancing or another capital event, will be paid to the members *pari passu* until each has received an amount equal to its accrued but unpaid 9% return plus its total capital contribution, and thereafter 65.25% to Fantasy, 7.5% to Atlantis, 7.25% to Fantasia, and 20% to the Operating Partnership.

The following reconciles our equity investment in the FPH JV from inception through December 31, 2017:

Iowa properties – November 2017	$ 929,000
Total investment	929,000
Income from equity-method investee	5,000
Distributions	(16,000)
Total Fantasia investments at December 31, 2017	**$ 918,000**

A summary of the consolidated financial data for the balance sheet and statement of income for the unconsolidated FPH JV is as follows:

Condensed Consolidated Balance Sheet of FPH JV:	**Year Ended December 31, 2017**
Real estate properties, net	$ 29,752,000
Cash and cash equivalents	590,000
Other assets	69,000
Total Assets:	**$ 30,411,000**
Loans payable, net	$ 20,632,000
Other liabilities	589,000
Members' equity:	
FPH members	8,272,000
Summit	918,000
Total Liabilities and Members' Equity	**$ 30,411,000**

Condensed Consolidated Statement of Income of FPH JV:	**Period Ended December 31, 2017**
Total revenue	$ 493,000
Property operating expenses	(81,000)
Net operating income	**412,000**
General and administrative expense	(22,000)
Depreciation and amortization expense	(153,000)
Income from operations	**237,000**
Interest expense	(167,000)
Amortization of debt issuance costs	(19,000)
Net Income	**$ 51,000**
Summit equity interest in FPH JV net income	$ 5,000

As of December 31, 2017, the six properties of our unconsolidated equity-method investments in FPH JV, all of which are 100% leased on a triple net basis, are as follows:

Property	Location	Type	Number of Beds
Hawkeye Care Center Bancroft	Bancroft, Iowa	SNF/AL	57
Hawkeye Care Center/Hawkeye Assisted Living	Milford, Iowa	SNF/AL	94
Hawkeye Care Center Carroll	Carroll, Iowa	SNF/IL	138
Hawkeye Care Center Cresco	Cresco, Iowa	SNF	63
Hawkeye Care Center Marshalltown	Marshalltown, Iowa	SNF	110
Hawkeye Care Center Spirit Lake	Spirit Lake, Iowa	SNF	120
Total:			582

A summary of the combined financial data for the balance sheets and statements of income for all unconsolidated Equity-Method Investments are as follows:

Condensed Combined Balance Sheets:	**December 31, 2017**	**December 31, 2016**
Total Assets	$ 307,951,000	$ 184,970,000
Total Liabilities	$ 223,271,000	$ 135,560,000
Total Members Equity	$ 84,680,000	$ 49,410,000

Condensed Combined Statements of Income:	**December 31, 2017**	**December 31, 2016**
Total Revenue:	$ 23,987,000	$ 12,720,000
Net Operating Income	$ 21,191,000	$ 11,123,000
Income from Operations	$ 12,652,000	$ 6,577,000
Net Income	$ 5,060,000	$ 2,140,000

Distributions from Equity-Method Investments

For the years ended December 31, 2017 and 2016, we recorded distributions and cash received for distributions from our Equity-Method Investments as follows:

	Years Ended December 31,	
	2017	**2016**
Distributions	$ 1,262,000	$ 743,000
Cash received for distributions	$ 1,177,000	$ 526,000

Additionally, we could be subject to a capital call from our Equity-Method Investments.

Acquisition and Asset Management Fees

We serve as the manager of our Equity-Method Investments and provide management services in exchange for fees and reimbursements. As the manager, we are paid an acquisition fee, as defined in the agreements. Additionally, we are paid an annual asset management fee for managing the properties owned by our Equity-Method Investments, as defined in the agreements. For the years ended December 31, 2017 and 2016, we recorded approximately $0.8 million and $0.5 million, respectively, in acquisition and asset management fees.

Results of Operations

Our results of operations are described below:

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

	Years Ended December 31, 2017	Years Ended December 31, 2016	$ Change
Rental revenues	$ 6,386,000	$ 6,677,000	$ (291,000)
Tenant reimbursements	862,000	856,000	6,000
Total revenues	7,248,000	7,533,000	(285,000)
Less expenses:			
Property operating costs	(989,000)	(1,023,000)	34,000
Net operating income (1)	6,259,000	6,510,000	(251,000)
Acquisition and asset management fees	838,000	496,000	342,000
Interest income from notes receivable	180,000	163,000	17,000
General and administrative	(5,051,000)	(4,711,000)	(340,000)
Depreciation and amortization	(3,083,000)	(3,509,000)	426,000
Income from equity-method investees	586,000	216,000	370,000
Other income	40,000	110,000	(70,000)
Interest expense	(3,013,000)	(3,044,000)	31,000
(Loss) gain on disposition of real estate properties	-	2,888,000	(2,888,000)
Loss from continuing operations	(3,244,000)	(881,000)	(2,363,000)
Income from discontinued operations	1,933,000	387,000	1,546,000
Net loss	(1,311,000)	(494,000)	(817,000)
Noncontrolling interests' share in losses (income)	38,000	(307,000)	345,000
Net loss applicable to common stockholders	$ (1,273,000)	$ (801,000)	$ (472,000)

(1) Net operating income ("NOI") is a non-GAAP supplemental measure used to evaluate the operating performance of real estate properties. We define NOI as rental revenues and tenant reimbursements less property operating costs. NOI excludes acquisition and asset management fees, interest income from notes receivable, general and administrative expense, depreciation and amortization, income from equity-method investees, other income, interest expense, gain on disposition of real estate and income from discontinued operations. We believe NOI provides investors relevant and useful information because it measures the operating performance of the REIT's real estate at the property level on an unleveraged basis. We use NOI to make decisions about resource allocations and to assess and compare property-level performance. We believe that net income (loss) is the most directly comparable GAAP measure to NOI. NOI should not be viewed as an alternative measure of operating performance to net income (loss) as defined by GAAP since it does not reflect the aforementioned excluded items. Additionally, NOI as we define it may not be comparable to NOI as defined by other REITs or companies, as they may use different methodologies for calculating NOI.

Total rental revenue for our properties includes rental revenues and tenant reimbursements for property taxes and insurance. Property operating expenses include property taxes, insurance, and other operating expenses. Net operating income decreased by approximately $0.3 million for the year ended December 31, 2017 primarily due to the sale of Medford in October 2016, for which there was 10 months of rental revenue (approximately $0.7 million) in 2016 and none in 2017. Additionally, we contributed Riverglen to the SUL JV in 2016 and we recorded four months of rental revenue in 2016 (approximately $0.3 million) and none in 2017. Those decreases were offset by the acquisition of Chandler in July 2017 (see Note 3) for which we recorded rental revenue of approximately $0.5 million.

The increase in the acquisition and asset management fees of approximately $0.3 million is due to the increase in acquisition fees of $0.1 million earned on the properties acquired by our Equity-Method Investment acquisitions in 2017, and the increase in asset management fees of approximately $0.3 million from our three new Equity-Method Investments acquired in 2017.

The net increase in general and administrative expenses of $0.3 million is mainly due to an increase of $0.3 million in legal expenses associated with the CRA litigation.

The decrease in depreciation and amortization is primarily due to 2016 included four months for Riverglen (contributed to the SUL JV in April 2016) and nine months for Medford (sold in October 2016) (see Note 11 to the accompanying Notes to Consolidated Financial Statements) and none for 2017 offset by the acquisition of Chandler (see Note 3).

The increase in income from equity-method investees is mainly due to our three new Equity-Method Investments acquired in 2017 and one that was acquired at the end of 2016 having income for the full year in 2017.

The $2.9 million decrease in the gain on disposition of real estate properties is due to the gain of approximately $2.8 million recognized on the sale of our Medford property in October 2016.

The income from discontinued operations was a result of the reclassification of operations due to the sale of Friendswood TRS (see Note 11 to the accompanying Notes to Consolidated Financial Statements).

Liquidity and Capital Resources

As of December 31, 2017, we had approximately $3.9 million in cash and cash equivalents on hand and as of January 31, 2018, we have approximately $8.3 million in cash and cash equivalents on hand, primarily as a result of the receipt of $4 million for the payoff of our note receivable (see Notes 6 and 13 to the accompanying Notes to Consolidated Financial Statements). Based on current conditions, we believe that we have sufficient capital resources to sustain operations.

Going forward, we expect our primary sources of cash to be rental revenues, joint venture distributions, and acquisition and asset management fees. In addition, we may increase cash through the sale of additional properties, which may result in the deconsolidation of properties we already own, or borrowing against currently-owned properties. For the foreseeable future, we expect our primary uses of cash to be for funding future acquisitions, investments in joint ventures, operating expenses, interest expense on outstanding indebtedness, and the repayment of principal on loans payable. We may also incur expenditures for renovations of our existing properties, making the facility more appealing in their market.

We continue to pursue options for repaying and/or refinancing debt obligations with long-term, fixed rate U.S. Department of Housing and Urban Development ("HUD") insured loans. We are currently working to refinance our two outstanding loans that mature in 2018 with HUD-insured loans and expect to close within the next six months. The Capital One loan (see below) has a scheduled maturity date of July 2018, however, as part of the loan agreement, we can elect to extend the scheduled maturity date with two six-month options, which will extend the scheduled maturity date through July 2019, subject to certain terms and conditions, which do not include any fees or other conditions that we believe would prohibit us from successfully extending the maturity date. The Healthcare Financial Solutions, LLC loan (see below) has a scheduled maturity date of October 2018, and if the refinancing with our HUD-insured lender were not to close prior to the maturity date, we believe we would have cash on hand to pay off the loan. Additionally, in 2017, as part of our responsibilities as the manager under operating agreements of our Equity-Method Investments, we refinanced seven existing loans of our Equity-Method Investments with Lancaster Pollard (HUD-insured) loans.

Although our current joint venture partners are facing government restrictions on new overseas investments, we believe that market conditions may be favorable to continue to raise capital through additional joint venture arrangements with new partners.

Our liquidity will increase if cash from operations exceeds expenses, we receive net proceeds from the sale of whole or partial interest in a property or properties, or refinancing results in excess loan proceeds. Our liquidity will decrease as proceeds are expended in connection with our acquisitions and operation of properties.

Credit Facilities and Loan Agreements

As of December 31, 2017, we had debt obligations of approximately $62.6 million. The outstanding balance by loan agreement is as follows:

- Capital One, National Association –approximately $10.1 million maturing July 2018
- Healthcare Financial Solutions, LLC–approximately $2.8 million maturing October 2018
- Oxford Finance, LLC– approximately $6.9 million maturing October 2019
- Lancaster Pollard (HUD insured)–approximately $42.9 million maturing from September 2039 through January 2051

As of December 31, 2017, approximately 69% of our total debt obligations were under fixed interest rates through our loans payable with Lancaster Pollard.

We continue to pursue options for repaying and/or refinancing debt obligations.

In recent years, financial markets have experienced unusual volatility and uncertainty and liquidity has tightened in all financial markets, including the debt and equity markets. Our ability to repay or refinance debt could be adversely affected by an inability to secure financing at reasonable terms, if at all.

Debt Service Requirements

Please refer to Note 4 in the accompanying Notes to Consolidated Financial Statements for a detailed discussion of our loans payable.

Other Liquidity Needs

Off-Balance Sheet Arrangements

There are no off-balance sheet transactions, arrangements or obligations (including contingent obligations) that have, or are reasonably likely to have, a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Inflation

Although the real estate market has not been affected significantly by inflation in recent years, we expect that the contractual rent escalations in our tenants' triple net leases will protect us to some extent from the impact of inflation. Our ongoing ability to include provisions in the leases that protect us against inflation is subject to competitive conditions that vary from market to market.

Subsequent Events

Please refer to Note 13 in the accompanying Notes to Consolidated Financial Statements for a detailed discussion of our subsequent events.

Critical Accounting Policies and Estimates

The preparation of our financial statements in accordance with GAAP, requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We believe that our critical accounting policies are those that require significant judgments and estimates such as those related to real estate purchase price allocations, evaluation of possible impairment of real property assets, and income taxes. These estimates are made and evaluated on an on-going basis using information that is currently available as well as various other assumptions believed to be reasonable under the circumstances. Actual results could vary from those estimates, perhaps in materially adverse ways, and those estimates could be different under different assumptions or conditions. Our significant accounting policies are described in more detail in Note 2 to the accompanying Notes to Consolidated Financial Statements. We believe that the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective and complex judgments.

Real Estate Purchase Price Allocation and Useful Lives

Upon acquisition of a property, we allocate the purchase price of the property based upon the relative fair value of the assets acquired, which generally consist of land, buildings, site improvements, furniture and fixtures. We allocate the purchase price to the fair value of the tangible assets of an acquired property by valuing the property as if it were vacant. We are required to make subjective assessments as to the useful lives of our depreciable assets. We consider the period of future benefit of the assets to determine the appropriate useful lives.

Impairment of Real Property Assets

An assessment as to whether our investments in real estate are impaired is highly subjective. Impairment calculations involve management's best estimate of the holding period, market comparables, future occupancy levels, rental rates, capitalization rates, lease-up periods and capital requirements for each property at the point in time when a valuation analysis is performed. On a quarterly basis, we review our properties for recoverability and when events or circumstances, including significant physical changes in the property, significant adverse changes in general economic conditions and significant deteriorations of the underlying cash flows of the property, indicate that the carrying amount of the property may not be recoverable. The need to recognize an impairment charge is based on estimated undiscounted future cash flows from a property compared to the carrying value of that property. If recognition of an impairment charge is necessary, it is measured as the amount by which the carrying amount of the property exceeds the fair value of the property. A change in any one or more of these factors could materially impact whether a property is impaired as of any given valuation date.

We did not record any impairment charges during the years ended December 31, 2017 or 2016 for properties held and used.

Revenue Recognition

We collect rent from our tenants. Generally, our policy is to recognize revenues on an accrual basis as earned. However, if we determine, based on insufficient historical collections, that rent is not probable of collection until received, our policy is to recognize rental income when assured, which we consider to be the period the amounts are collected. Revenue from minimum lease payments under our leases is recognized on a straight-line basis to the extent that future lease payments are considered collectible. Tenant reimbursements and other revenue are recognized based on the actual property tax and insurance incurred for the properties. Acquisition and asset management fees are recorded as earned.

Equity-Method Investments

We recognize our investments in unconsolidated entities that we have less than a 50% equity interest over whose operating and financial policies we have the ability to exercise significant influence but not control, under the equity method of accounting. We initially record our investments based on our cash invested or for properties that we have contributed, we record the investments at the carrying value of the contributed properties at the time of contribution.

We evaluate our equity-method investments for impairment whenever events or changes in circumstances indicate that the carrying value of our investments may exceed the fair value. No events or changes have occurred as of December 31, 2017 and 2016 that would affect the carrying value of our equity-method investments.

Income Taxes

We have elected to be taxed as a REIT for federal income tax purposes beginning with our taxable year ended December 31, 2006. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to currently distribute at least 90% of the REIT's ordinary taxable income to stockholders. No distributions were declared or paid in 2017 or 2016. We believe that we are organized and operate in such a manner as to qualify for treatment as a REIT, and we intend to operate in the foreseeable future in such a manner so that we will remain qualified as a REIT in subsequent tax years for federal income tax purposes. We have elected to treat each of our taxable REIT subsidiaries ("TRS"), which generally may engage in any business (including the provision of customary or non-customary services for our tenants) as a corporation. As a result, each TRS is subject to federal income tax and applicable state income and franchise taxes at regular corporate rates.

New Accounting Pronouncements

Please see Note 2 to the accompanying Notes to Consolidated Financial Statements for our current analysis of the effects of new accounting pronouncements on our consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See the index included at Item 15. Exhibits and Financial Statement Schedules.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Management, under the supervision of our President (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), periodically evaluate the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities and Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our senior management, including our President (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), as appropriate, to allow timely decisions regarding required disclosure. Based upon this evaluation, as of December 31, 2017, our President (Principal Executive Officer) and our Chief Financial Officer (Principal Financial Officer) have concluded that these disclosure controls and procedures are effective.

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Management's Report on Internal Control over Financial Reporting

Our President (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer) are responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13(a)-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our President and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on their evaluation, our President (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer) have concluded that we maintained effective internal control over financial reporting as of December 31, 2017.

This report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. As a smaller reporting company under applicable SEC rules, we are not required to include an attestation of management's report from our independent registered public accounting firm.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Board of Directors

Our Board of Directors (our "Board") is currently comprised of three members, Messrs. Kent Eikanas and J. Steven Roush, and Ms. Suzanne Koenig, of which, J. Steven Roush and Suzanne Koenig are independent directors.

J. Steven Roush, CPA, age 71, serves on our Audit, Independent Directors, Compensation and Investment Committees. Mr. Roush chairs our Board of Directors and our Audit Committee. Mr. Roush's term on our Board and the Committees noted above expire on the date of the 2018 Annual Meeting. Mr. Roush retired from PricewaterhouseCoopers in 2007 after 39 years, 30 of those as a Partner. Mr. Roush brings experience in a diverse number of industries ranging from manufacturing, non-profits and retail (restaurants) with concentrations in real estate (office, residential, hospitality and commercial) telecommunications and pharmaceutical. He has a background in dealing with both private and public company boards of directors. Mr. Roush has a Bachelor of Science Degree in Accounting from Drake University and a Masters Professional Director Certification from the American College of Corporate Directors. Mr. Roush has served on our Board since 2014.

Mr. Roush brings to our Board years of dealing with the SEC and its various regulatory filings, Sarbanes Oxley (SOX 404) implementation and maintenance and the experience of working with many diverse boards running across varied industries. Over the years, he has served as an office managing partner, an SEC Review Partner (over 20 years) and a Risk Management Partner. Mr. Roush currently serves as Chairman of the Board and Chairman of the Audit Committee of W.E. Hall Company, a privately held manufacturer and distributor of corrugated pipe and related drainage products. Mr. Roush is also on the Board of Trustees and Chairman of the Audit Committee of the Orange County Museum of Art. He previously served six years on the Audit Committee of the National American Heart Association. He was also a member of the Board and Chairman of the Audit committee of AirTouch Communications, Inc., a public telecommunication device company and Staar Surgical Company, a public manufacturer of implantable lenses for the eye. Our Board has determined that Mr. Roush satisfies the SEC's requirements of an "audit committee financial expert."

Suzanne Koenig, age 57, serves on our Audit, Independent Directors, Compensation and Investment Committees. Ms. Koenig's term on our Board and the Committees noted above expires on the date of the 2018 Annual Meeting. Ms. Koenig is president and founder of SAK Management Services LLC, a nationally recognized long-term care management and healthcare consulting services company, where she has worked for 18 years. With over 20 years of extensive experience as an owner and operator, Ms. Koenig offers specialized skills in operations improvement, staff development and quality assurance with particular expertise in marketing, census development and operations enhancement for the whole spectrum of senior housing, long-term care and other healthcare entities requiring turnaround services. Ms. Koenig has served on our Board since 2015.

Ms. Koenig's professional experience has included executive positions in marketing, development and operations management for both regional and national healthcare providers representing property portfolios throughout the United States. Recently Ms. Koenig has been appointed as the Patient Care Ombudsman, Examiner, Receiver and Chapter 11 Trustee in several of the new Health Care Bankruptcy Filings (Chapter 11 and Chapter 7) with the advent of the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (BAPCPA), including healthcare entities such as physician practices and hospitals. In addition, Ms. Koenig has served in an advisory and consulting capacity for numerous client engagements involving bankruptcy proceedings as well as in turnaround management situations. She offers proven proficiency in maximizing financial return and cash flow, while maintaining the highest standards of quality care.

Ms. Koenig brings to our Board approximately 30 years of experience in operating long-term care facilities. Ms. Koenig offers the practical perspective of the challenges and opportunities confronting healthcare providers in managing the changing dynamics of this industry. She is a Certified Turnaround Practitioner, a Licensed Nursing Home Administrator and a Licensed Social Worker in multiple states where she has worked.

Ms. Koenig also serves as an officer and director for several of the states' long term care provider associations. Ms. Koenig is the current Co-Chair of the American Bankruptcy Institute's (ABI) Health Care Insolvency Committee and Ms. Koenig is a Board of Director for the Global Turnaround Management Association (TMA) Chapter. Ms. Koenig is a frequent speaker for various healthcare industry associations and business affiliates where she conducts continuing education and training programs. She holds a Master of Science Degree from Spertus College, Illinois, and a Bachelor of Social Work Degree from the University of Illinois, Champaign-Urbana, Illinois.

Kent Eikanas, age 48, currently serves as our President and Chief Operating Officer. Further information regarding Mr. Eikanas' business experience and specific skills that qualify him to serve as a director of the Company is set forth below in the "Executive Officers" section. Mr. Eikanas' term on our Board expires on the date of the 2018 Annual Meeting. Mr. Eikanas has served on our Board since 2016.

Executive Officers

Mr. Kent Eikanas is our President and Chief Operating Officer. Our Chief Financial Officer and Treasurer is Ms. Elizabeth Pagliarini.

Kent Eikanas, age 48, currently serves as our President and Chief Operating Officer. Mr. Eikanas has served as Chief Operating Officer since July 2012 and President since September 2012. From 2008 to 2012, Mr. Eikanas served as Vice President of Senior Housing for a private equity group, where he closed over $100 million in senior housing real estate refinances, dispositions and acquisitions. In addition, Mr. Eikanas was responsible for asset management of over $700 million in senior housing assets, was a key contributor to the launch of a skilled nursing operating company based in Dallas, Texas, as well as helped grow the operating company from 14 facilities to 35 facilities. From 2003 to 2008, Mr. Eikanas was the Vice President of Acquisitions for a private real estate company and closed over $200 million in senior housing real estate. Mr. Eikanas has overseen licensing for skilled nursing facilities, assisted living facilities and memory care facilities in California, Texas, Rhode Island, Oregon and Pennsylvania. Mr. Eikanas graduated from California State University Sacramento with a Bachelor of Arts Degree in Psychology and a minor in Business Administration. Mr. Eikanas was a panelist in 2012 on a question-and-answer webinar about buying, valuing and selling skilled nursing facilities hosted by Irving Levin Associates and was a speaker in 2015 at the IBC Asia 2nd Healthcare Facilities Asia conference in Singapore.

Elizabeth Pagliarini, age 47, currently serves as our Chief Financial Officer and Treasurer and has been with the Company since June 2014 and has served as Chief Financial Officer and Treasurer since September 2014. Ms. Pagliarini is a seasoned executive with over 25 years of experience in financial services and investment banking having held positions including chief executive officer, president, chief financial officer and chief compliance officer. Her background includes experience in finance, accounting, operations, compliance, securities litigation and executive management. Ms. Pagliarini successfully broke the "glass ceiling" in her mid-twenties as chief executive officer and chairwoman of the board of an investment brokerage subsidiary of a public company in Beverly Hills, California. She also co-founded a boutique investment bank and registered broker-dealer. Prior to working at Summit, Ms. Pagliarini was a principal at a securities litigation and financial consulting firm since 2001 and chief compliance officer and FINOP (financial and operations principal) at a Los Angeles-based investment bank from 2005-2008. Ms. Pagliarini received her Bachelor of Science in Business Administration with a concentration in Finance from Valparaiso University where she was honored with their highest academic award, the Presidential Scholarship. She is also a Certified Fraud Examiner (CFE) and has studied law and forensic accounting at UCLA.

Ms. Pagliarini proudly serves on the Emeritus Board of Directors for Forever Footprints, a non-profit organization that provides support to families that have suffered the loss of a baby during pregnancy or infancy and educates the medical community to improve quality of care and response. Ms. Pagliarini was named one of "20 Women to Watch" by OC Metro magazine and nominated for The Orange County Business Journal's Women in Business Award. She has also been honored by Step Up Women's Network as the recipient of their prestigious Commitment to Philanthropy Volunteer Award. She has been interviewed by The Wall Street Journal, The Los Angeles Times, The Hedge Fund Law Report, The Daily Deal, Washington Business Journal and Fortune among others, and has been a guest on business talk radio.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act, requires each director, officer and individual beneficially owning more than 10% of our outstanding shares of common stock to file initial statements of beneficial ownership (Form 3) and statements of changes in beneficial ownership (Forms 4 and 5) of common stock of us with the SEC.

Based solely upon our review of copies of these reports filed with the SEC and written representations furnished to us by our officers and directors, we believe that all of the persons subject to the Section 16(a) reporting requirements filed the required reports on a timely basis with respect to fiscal year 2017, except for the following reports:

Name	Title	Type of Form	Number of Late Reports
Kent Eikanas	Director, President and Chief Operating Officer	Form 4	3
Elizabeth Pagliarini	Chief Financial Officer	Form 4	3
Steve Roush	Director	Form 4	1
Suzanne Koenig	Director	Form 4	1

Code of Business Conduct and Ethics

Our Board has adopted a Code of Business Conduct and Ethics that is applicable to all members of our Board and our executive officers. The Code of Business Conduct and Ethics can be accessed through our website: www.summithealthcarereit.com/code-of-business-conduct-and-ethics/.

No Changes to Director Nomination Procedures

Since the date of our proxy statement for our 2017 Annual Meeting, there have no changes to the procedures by which our stockholders may recommend nominees to our Board.

Audit Committee

Our Board has a standing Audit Committee that selects the independent public accountants that audit our annual consolidated financial statements, reviews the plans and results of the audit engagement with the independent public accountants, approves the audit and non-audit services provided by the independent public accountants, reviews the independence of the independent public accountants, considers the range of audit and non-audit fees and reviews the adequacy of our internal accounting controls. The current members of the Audit Committee are J. Steven Roush, Suzanne Koenig and Kent Eikanas. J. Steven Roush serves as the Chairman of the Audit Committee and satisfies the SEC's requirements of an "audit committee financial expert."

ITEM 11. EXECUTIVE COMPENSATION

Executive Compensation

The following table provides certain information concerning compensation for services rendered in all capacities by our named executive officers during the fiscal years ended December 31, 2017 and 2016.

Name and Principal Position	Year	Salary	Bonus	Option Awards[(1)]	Total
Kent Eikanas					
President and Chief Operating Officer	2017	$ 335,055[(2)]	$ 277,378	$ 70,180	$ 682,613
	2016	$ 300,000	$ 287,103	$ -	$ 587,103
Elizabeth Pagliarini					
Chief Financial Officer and Treasurer	2017	$ 221,978[(3)]	$ 184,919	$ 47,787	$ 454,684
	2016	$ 200,000	$ 167,366	$ -	$ 367,366

(1) Reflects the aggregate grant date fair value of awards granted to the named executive officers in the reported year. For more information regarding the grant date fair value of awards of common stock, see Note 10 to the accompanying Notes to Consolidated Financial Statements for assumptions made in the valuation for option awards.

(2) This includes $34,615 paid in 2017 that relates to unused paid time off earned in 2016.

(3) This includes $21,538 paid in 2017 that relates to unused paid time off earned in 2016.

Employment Agreements with Named Executive Officers

On September 23, 2015, the Company entered into employment agreements with each of its named executive officers, Kent Eikanas, President and Chief Operating Officer, and Elizabeth Pagliarini, Chief Financial Officer and Treasurer. These employment agreements were approved by the Company's Compensation Committee and Board of Directors. Each employment agreement has a three-year term and contains standard terms relating to salary, bonus, position, duties and benefits (including eligibility for equity compensation), as well as a special cash payment following a change in control of the Company. The initial base salaries for each of Mr. Eikanas and Ms. Pagliarini were as follows: $300,000 and $200,000 per year, respectively, and are subject to annual merit increases. In December 2017, the Company's Compensation Committee approved an increase to the base salaries effective January 1, 2018, for each of Mr. Eikanas and Ms. Pagliarini to $335,000 and $225,000 per year, respectively.

Potential Payments upon Termination or Change in Control

If there is a termination of employment by the Company without cause or by the named executive officer for good reason, then the named executive officer will be entitled to receive payment of any base salary amounts that have accrued but not been paid as of the termination date, any accrued but unused paid time off, expenses not yet reimbursed, vested benefits accrued through the termination date payable pursuant to the plans providing such benefits and cash severance in the amount equal to two (2) times base salary for Mr. Eikanas and one (1) times base salary for Ms. Pagliarini. In addition, all options granted to the executive under the Summit Healthcare REIT, Inc. 2015 Omnibus Incentive Plan that otherwise were unvested shall immediately and fully accelerate and shall be deemed to be vested, and the executive shall be entitled to reimbursement for monthly COBRA premiums until the earliest of (A) the eighteen (18) month anniversary of the termination date; or (B) the date on which executive becomes eligible to enroll in comparable coverage with another employer.

If the Company undergoes a change in control during the executive's term of employment or within six months after the termination of the executive's employment for any reason, then the Company will pay a cash bonus in the amount equal to three (3) times base salary for Mr. Eikanas and two (2) times base salary for Ms. Pagliarini. In addition, all options granted to the executive under the Summit Healthcare REIT Inc., 2015 Omnibus Incentive Plan that otherwise were unvested shall immediately and fully accelerate and shall be deemed to be vested.

Director Compensation

In the event that a director is also one of our full time executive officers, we do not pay any compensation for services rendered as a director. The amount and form of compensation payable to our directors for their service to us is determined by the Compensation Committee of our Board, based in part on its evaluation of third party board compensation information.

The following table summarizes the annual compensation received by our independent directors for the fiscal year ended December 31, 2017.

Name	Fees Earned or Paid in Cash in 2017	Stock Awards (1)	Total
J. Steven Roush	$ 83,000	$ 10,500	$ 93,500
Suzanne Koenig	$ 62,000	$ 10,500	$ 72,500

(1) On January 1, 2017, Mr. Roush and Ms. Koenig each received a stock option grant for 30,000 shares of common stock. The options had a grant date fair value of $10,500. As of December 31, 2017, each of the independent directors had 20,833 unvested stock options which vest monthly through January 2020. For more information regarding the grant date fair value of awards of stock options, see Note 10 to the accompanying Notes to Consolidated Financial Statements.

During fiscal year 2017, we paid each of our independent directors' compensation as follows:

- $50,000 annual retainer, paid pro-rata twice monthly ($12,500 per director per quarter);
- Board meeting fee of $2,000 per meeting for each regularly scheduled Board meeting ($2,000 per director per quarter);
- Special Board meeting fee of $1,000 per meeting, per director, which will apply to any Board meeting called by an executive officer of the Company that is not a regular scheduled Board meeting;
- Committee fees of $1,000 per committee meeting duly called by an officer of the Company (approximately $1,000 per director per quarter, plus other meetings); and
- Annual fee of $12,500 for the Chairman of the Board of Directors and $7,500 for the Chairman of the Audit Committee.

All directors are reimbursed for all reasonable out-of-pocket expenses incurred in connection with attendance at meetings of our Board and Committees.

Summit Healthcare REIT, Inc. 2015 Omnibus Incentive Plan

In October 2015, we adopted the Summit Healthcare REIT, Inc. 2015 Omnibus Incentive Plan. The purpose of the Omnibus Incentive Plan is to provide a means through which to attract and retain key personnel and to provide a means whereby current or prospective directors, officers, employees, consultants and advisors can acquire and maintain an equity interest in us, or be paid incentive compensation, including incentive compensation measured by reference to the value of our common stock, thereby strengthening their commitment to our welfare and aligning their interests with those of our stockholders.

The Omnibus Incentive Plan provides that the total number of shares of common stock that may be issued under the Omnibus Incentive Plan is 3,000,000.

Outstanding Equity Awards as of December 31, 2017

The following table presents information regarding the outstanding equity awards held by each of our named executive officers as of December 31, 2017, including the vesting dates for the portions of these awards that had not vested as of that date.

	Option Awards			
Name	Number of Securities Underlying Unexercised Options - Exercisable	Number of Securities Underlying Unexercised Options - Unexercisable	Option Exercise Price	Option Expiration Date
Kent Eikanas	300,000	-	$ 1.72	12/22/2025
Kent Eikanas	73,119	36,559(1)	$ 2.02	12/1/2026
Kent Eikanas	55,556	44,444(2)	$ 2.04	4/1/2027
Kent Eikanas	9,449	16,718(3)	$ 2.26	11/7/2027
Elizabeth Pagliarini	100,000	-	$ 1.72	12/17/2025
Elizabeth Pagliarini	48,745	24,373(4)	$ 2.02	12/1/2026
Elizabeth Pagliarini	38,889	31,111(5)	$ 2.04	4/1/2027
Elizabeth Pagliarini	6,300	11,145(6)	$ 2.26	11/7/2027

(1) 3,047 stock options vest monthly and become fully vested on December 1, 2018
(2) 2,778 stock options vest monthly and become fully vested on April 1, 2019
(3) 727 stock options vest monthly and become fully vested on November 1, 2019
(4) 2,031 stock options vest monthly and become fully vested on December 1, 2018
(5) 1,944 stock options vest monthly and become fully vested on April 1, 2019
(6) 485 stock options vest monthly and become fully vested on November 1, 2019

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Equity Compensation Plan Information

Our equity compensation plan information as of December 31, 2017 is as follows**:**

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance
Equity compensation plans approved by security holders	895,408	$ 1.90	2,104,592
Equity compensation plans not approved by security holders	—	—	—
Total	895,408	$ 1.90	2,104,592

OWNERSHIP OF EQUITY SECURITIES

Security Ownership of Certain Beneficial Owners

The following table sets forth information as of March 12, 2018, regarding the beneficial ownership of our common stock by each person known by us to own 5% or more of the outstanding shares of common stock. The percentage of beneficial ownership is calculated based on 23,027,978 shares of common stock outstanding as of March 12, 2018.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percentage of Class
MPF Badger Acquisition Co., LLC 1640 School Street Moraga CA 94556	1,316,995.99(1)	5.7%

(1) This information is based solely on a Schedule 13G filed November 29, 2017 by MPF Badger Acquisition Co., LLC, MacKenzie Realty Capital, Inc., MacKenzie Income Fund 27, LLC, MPF DeWaay Premier Fund 4, LLC and MPF Income Fund 26, LLC (the "Reporting Persons"). The Schedule 13G reports that MacKenzie Capital Management, LP is the manager of each Reporting Person and has the power to direct the voting or disposition of all 1,316,995.99 shares held by the Reporting Persons.

Security Ownership of Management

The following table sets forth information as of March 12, 2018, regarding the beneficial ownership of our common stock by each of our directors, each of our named executive officers, and our directors and executive officers as a group. The percentage of beneficial ownership is calculated based on 23,027,978 shares of common stock outstanding as of March 12, 2018.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percentage of Class
Kent Eikanas	470,880	2%
Elizabeth Pagliarini	216,234	*
J. Steven Roush	13,333	*
Suzanne Koenig	13,333	*
All current directors and executive officers as a group (4 persons)	713,780	3.1%

* Less than 1%.

(1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities and shares issuable pursuant to options, warrants and similar rights held by the respective person or group that may be exercised within 60 days following March 12, 2018. Except as otherwise indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. None of the securities listed are pledged as security.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The Independent Directors Committee has reviewed the material transactions between the Company and our affiliates (including CRA, our former advisor) since the beginning of 2017, as well as any such currently proposed transactions. Set forth below is a description of such transactions.

Our Relationship with our Equity-Method Investments

We currently have an interest in five equity-method investments (collectively, "Equity-Method Investments") (see Note 5 to the Notes to Consolidated Financial Statements). We serve as the manager of our Equity-Method Investments and provide various services in exchange for fees and reimbursements. Under the agreements, as the manager, we are paid an acquisition fee upon closing of an acquisition based on the purchase price paid for the properties. Additionally, we are paid an annual asset management fee based on the properties in the portfolios, as defined in the agreements. All acquisition fees and asset management fees are paid to Summit Healthcare Asset Management, LLC ("SAM TRS"), our consolidated taxable REIT subsidiary, and expenses incurred by us, as the manager, are reimbursed from SAM TRS.

For the year ended December 31, 2017, we received $292,000 in acquisition fees and approximately $546,000 in asset management fees as the manager of the Equity-Method Investments.

Our Relationships with CRA, our former advisor

Until April 1, 2014, and subject to certain restrictions and limitations, our business was managed pursuant to an advisory agreement (the "Advisory Agreement") with CRA. Please refer to Item 3 Legal Proceedings in Part 1 for more information regarding current legal proceedings involving CRA and the Company.

Our Policy regarding Transactions with Affiliates

Our charter requires our Independent Directors Committee to review and approve all transactions involving our affiliates and us. For example, prior to entering into a transaction with an affiliate, a majority of the Independent Directors Committee must have concluded that the transaction was fair and reasonable to us and on terms and conditions not less favorable to us than those available from unaffiliated third parties. Furthermore, our Independent Directors Committee must review at least annually our fees and expenses to determine that the expenses incurred are reasonable in light of our investment performance, our net asset value, our net income and the fees and expenses of other comparable unaffiliated REITs.

Our Code of Business Conduct and Ethics sets forth examples of types of transactions with related parties that would create conflicts of interest between the interests of our stockholders and the private interests of the parties involved in such transactions. Our directors and officers are required to take all reasonable action to avoid such conflicts of interest or the appearance of conflicts of interest. If a conflict of interest becomes unavoidable, our directors and officers are required to report the conflict to a designated ethics contact, which, depending on the circumstances of the transaction, would be either our President, Chief Financial Officer or the Chairman of our Audit Committee. The appropriate ethics contact is then responsible for working with the reporting director or officer to monitor and resolve the conflict of interest in accordance with our Code of Business Conduct and Ethics.

Director Independence

Our charter contains detailed criteria for determining the independence of our directors and requires a majority of the members of our Board to qualify as independent. Our Board consults with our legal counsel to ensure that its independence determinations are consistent with our charter and applicable securities and other laws and regulations. Consistent with these considerations, after reviewing all relevant transactions or relationships between each director, or any of his family members and the Company, our senior management and our independent registered public accounting firm, our Board has determined that a majority of our Board is independent. Furthermore, although our shares are not listed on a national securities exchange, our Board reasonably believes that a majority of our Board and, thus, a majority of our Audit Committee, Independent Directors Committee, Compensation Committee and Investment Committee are independent under the NASDAQ listing standards.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table lists the aggregate fees billed for services rendered by BDO USA, LLP, our principal accountant, for 2017 and 2016:

Services	2017	2016
Audit Fees[(1)]	$ 394,769	$ 393,866
Total	$ 394,769	$ 393,866

[(1)]Audit fees billed in 2017 and 2016 consisted of the audit of our annual consolidated financial statements, reviews of our quarterly consolidated financial statements, consents, statutory and regulatory audits, and other services related to filings with the SEC.

The Audit Committee pre-approves all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for us by our independent auditor, subject to the de minimis exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act and the rules and regulations of the SEC which are approved by the Audit Committee prior to the completion of the audit.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements

The following financial statements are included in a separate section of this Annual Report on Form 10-K commencing on the page numbers specified below:

Report of Independent Registered Public Accounting Firm (BDO USA, LLP)

Consolidated Balance Sheets as of December 31, 2017 and 2016

Consolidated Statements of Operations for the Years Ended December 31, 2017 and 2016

Consolidated Statements of Equity for the Years Ended December 31, 2017 and 2016

Consolidated Statements of Cash Flows for the Years Ended December 31, 2017 and 2016

Notes to Consolidated Financial Statements for the Years Ended December 31, 2017 and 2016

(2) Exhibits

The exhibits listed on the Exhibit Index (following the signatures section of this report) are included, or incorporated by reference, in this annual report.

Included in the exhibits are the audited combined financial statements of WPH Salem, LLC. WPH Salem, LLC is a significant lessee to us, and as of December 31, 2017 and 2016, leases more than 20% of our assets.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors
Summit Healthcare REIT, Inc.
Lake Forest, California

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Summit Healthcare REIT, Inc. and subsidiaries (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of operations, equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended**,** in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2013.

Costa Mesa, California

March 16, 2018

SUMMIT HEALTHCARE REIT, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2017 and 2016

	December 31, 2017	December 31, 2016
ASSETS		
Cash and cash equivalents	$ 3,851,000	$ 10,755,000
Restricted cash	3,447,000	3,806,000
Real estate properties, net	69,063,000	58,517,000
Notes receivable	3,854,000	4,801,000
Deferred costs and deposits	9,000	240,000
Tenant and other receivables, net	4,106,000	3,319,000
Deferred leasing commissions, net	1,273,000	1,413,000
Other assets, net	225,000	179,000
Equity-method investments	9,241,000	5,095,000
Assets of Friendswood TRS held for sale	1,762,000	1,278,000
Total assets	$ 96,831,000	$ 89,403,000
LIABILITIES AND EQUITY		
Accounts payable and accrued liabilities	$ 1,902,000	$ 2,098,000
Accrued salaries and benefits	96,000	151,000
Security deposits	1,208,000	1,208,000
Loans payable, net of debt issuance costs	60,831,000	51,717,000
Liabilities of Friendswood TRS held for sale	898,000	986,000
Total liabilities	64,935,000	56,160,000
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, $0.001 par value; 10,000,000 shares authorized; no shares issued or outstanding at December 31, 2017 and 2016	—	—
Common stock, $0.001 par value; 290,000,000 shares authorized; 23,027,978 shares issued and outstanding at December 31, 2017 and 2016	23,000	23,000
Additional paid-in capital	117,349,000	117,243,000
Accumulated deficit	(86,040,000)	(84,767,000)
Total stockholders' equity	31,332,000	32,499,000
Noncontrolling interests	564,000	744,000
Total equity	31,896,000	33,243,000
Total liabilities and equity	$ 96,831,000	$ 89,403,000

The accompanying notes are an integral part of these consolidated financial statements

SUMMIT HEALTHCARE REIT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2017 and 2016

		2017		2016
Revenues:				
Rental revenues	$	6,386,000	$	6,677,000
Tenant reimbursements		862,000		856,000
Acquisition and asset management fees		838,000		496,000
Interest income from notes receivable		180,000		163,000
		8,266,000		8,192,000
Expenses:				
Property operating costs		989,000		1,023,000
General and administrative		5,051,000		4,711,000
Depreciation and amortization		3,083,000		3,509,000
		9,123,000		9,243,000
Operating loss		(857,000)		(1,051,000)
Income from equity-method investees		586,000		216,000
Other income		40,000		110,000
Interest expense		(3,013,000)		(3,044,000)
Gain on disposition of real estate properties		-		2,888,000
Loss from continuing operations		(3,244,000)		(881,000)
Income from discontinued operations		1,933,000		387,000
Net loss		(1,311,000)		(494,000)
Noncontrolling interests' share in net loss (income)		38,000		(307,000)
Net loss applicable to common stockholders	$	(1,273,000)	$	(801,000)
Basic and diluted loss per common share:				
Continuing operations	$	(0.14)	$	(0.05)
Discontinued operations	$	0.08	$	0.02
Net loss applicable to common stockholders	$	(0.06)	$	(0.03)
Weighted average shares used to calculate basic and diluted net loss per common share		23,027,978		23,027,978

The accompanying notes are an integral part of these consolidated financial statements

SUMMIT HEALTHCARE REIT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
For the Years Ended December 31, 2017 and 2016

	Common Stock						
	Number of Shares	Common Stock Par Value	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity	Noncontrolling Interests	Total
BALANCE — January 1, 2016	**23,027,978**	**$ 23,000**	**$117,215,000**	**$ (83,966,000)**	**$ 33,272,000**	**$ 707,000**	**$33,979,000**
Stock-based compensation	—	—	28,000	—	28,000	—	28,000
Distributions paid to noncontrolling interests	—	—	—	—	—	(270,000)	(270,000)
Net (loss) income	—	—	—	(801,000)	(801,000)	307,000	(494,000)
BALANCE — December 31, 2016	**23,027,978**	**$ 23,000**	**$117,243,000**	**$ (84,767,000)**	**$ 32,499,000**	**$ 744,000**	**$33,243,000**
Stock-based compensation	—	—	106,000	—	106,000	—	106,000
Distributions paid to noncontrolling interest	—	—	—	—	—	(142,000)	(142,000)
Net loss	—	—	—	(1,273,000)	(1,273,000)	(38,000)	(1,311,000)
BALANCE — December 31, 2017	**23,027,978**	**$ 23,000**	**$117,349,000**	**$ (86,040,000)**	**$ 31,332,000**	**$ 564,000**	**$31,896,000**

The accompanying notes are an integral part of these consolidated financial statements

SUMMIT HEALTHCARE REIT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Net loss	$ (1,311,000)	$ (494,000)
Adjustments to reconcile net loss to net cash and cash equivalents provided by operating activities:		
Amortization of debt issuance costs	212,000	137,000
Depreciation and amortization	3,139,000	3,559,000
Straight line rents	(662,000)	(584,000)
Bad debt expense	219,000	79,000
Stock-based compensation expense	106,000	28,000
Gain on disposition of real estate properties	—	(2,888,000)
Income from equity-method investees	(586,000)	(216,000)
Change in operating assets and liabilities:		
Restricted cash related to current activities	(134,000)	(15,000)
Tenant and other receivables, net	319,000	307,000
Other assets	52,000	234,000
Accounts payable and accrued liabilities	(78,000)	650,000
Accrued salaries and benefits	(83,000)	(134,000)
Net cash and cash equivalents provided by operating activities	1,193,000	663,000
Cash flows from investing activities:		
Restricted cash	327,000	1,149,000
Real estate acquisitions and capitalized costs	(13,452,000)	—
Deferred costs and deposits	—	(222,000)
Real estate improvements	(194,000)	(146,000)
Sale of Medford	—	10,557,000
Proceeds from contribution of properties, net of cash and restricted cash contributed	—	2,814,000
Investments in equity-method investees	(4,624,000)	(3,119,000)
Distributions received from equity-method investees	596,000	315,000
Payments from notes receivable	947,000	32,000
Net cash and cash equivalents (used in) provided by investing activities	(16,400,000)	11,380,000
Cash flows from financing activities:		
Proceeds from issuance of loans payable	10,050,000	—
(Payments) refunds of deferred financing costs	(172,000)	21,000
Payments of loans payable	(976,000)	(7,640,000)
Distributions paid to non-controlling interests	(142,000)	(270,000)
Net cash and cash equivalents provided by (used in) financing activities	8,760,000	(7,889,000)
Net (decrease) increase in cash and cash equivalents	(6,447,000)	4,154,000
Cash and cash equivalents — beginning of year	10,757,000	6,603,000
Cash and cash equivalents – end of year (including cash of TRS)	4,310,000	10,757,000
Cash and cash equivalents of FWD TRS held for sale – end of year (see Note 11)	(459,000)	(2,000)
Cash and cash equivalents – end of year	$ 3,851,000	$ 10,755,000
Supplemental disclosure of cash flow information:		
Cash paid for interest:	$ 2,492,000	$ 2,908,000

Supplemental disclosure of non-cash investing activities:

In April 2016, the Company contributed one property to its 10%-owned SUL JV (see Note 11). This transaction had the following effect on the Company's 2016 consolidated balance sheet:

Real estate properties	$(8,536,000)
Other assets	(677,000)
Loans payable, net	4,685,000
Other liabilities	601,000
Total contribution:	$ 3,927,000

The accompanying notes are an integral part of these consolidated financial statements

1. Organization

Summit Healthcare REIT, Inc. ("Summit") is a real estate investment trust that owns 100% of six properties, 95.3% of four properties, 95% of one property, a 10% equity interest in an unconsolidated equity-method investment that holds 17 properties, a 20% equity interest in two unconsolidated equity-method investments that each hold two properties and a 10% equity interest in two unconsolidated equity-method investment that holds nine properties and six properties, respectively. Summit is a Maryland corporation, formed in 2004 under the General Corporation Law of Maryland for the purpose of investing in and owning real estate. As used in these notes, the "Company", "we", "us" and "our" refer to Summit and its consolidated subsidiaries, except where the context otherwise requires.

We conduct substantially all of our operations through Summit Healthcare Operating Partnership, L.P. (the "Operating Partnership"), which is a Delaware limited partnership. As of December 31, 2017, we own a 99.88% general partner interest in the Operating Partnership, and Cornerstone Realty Advisors, LLC ("CRA"), a former affiliate, owns a 0.12% limited partnership interest. Our financial statements and the financial statements of the Operating Partnership are consolidated in the accompanying consolidated financial statements.

Cornerstone Healthcare Partners LLC

We own 95% of Cornerstone Healthcare Partners LLC ("CHP LLC"), which was formed in 2012, and the remaining 5% non-controlling interest is owned by Cornerstone Healthcare Real Estate Fund, Inc. ("CHREF"), an affiliate of CRA. CHP LLC is consolidated with our financial statements and owns five properties (the "JV Properties").

As of December 31, 2017, we own a 95.3% interest in four of the JV Properties, and CHREF owns a 4.7% interest. We continue to own a 95% interest in the fifth JV Property, and CHREF owns a 5% interest in the fifth JV Property.

Summit Healthcare Asset Management, LLC (TRS)

Summit Healthcare Asset Management, LLC is our wholly-owned TRS ("SAM TRS"). We serve as the manager of our equity-method investments (see below) and provide management services in exchange for fees and reimbursements. All acquisition fees and asset management fees earned by us will be paid to SAM TRS and expenses incurred by us, as the manager, will be reimbursed to us from SAM TRS. See Notes 5 and 7 for further information.

Friendswood TRS

Friendswood TRS ("Friendswood TRS") is our wholly-owned TRS, which is the licensed operator and tenant of Friendship Haven Healthcare and Rehabilitation Center ("Friendship Haven"). In December 2017, we entered into a Membership Interest Purchase, Assignment, Resignation and Release Agreement ("MIPA") with HMG Park Manor of Friendswood, LLC ("HMG"), pursuant to which the Company agreed to sell Friendswood TRS to HMG, the current management company of Friendship Haven. The sale was completed on January 1, 2018 and pursuant to the MIPA, we transferred all of our rights, title, and membership interest in Friendswood TRS to HMG. See Notes 2 and 11 for further information regarding the classification of assets, liabilities and operations for Friendswood TRS as of December 31, 2017 and 2016.

Equity-Method Investments

Summit Union Life Holdings, LLC

On April 29, 2015, through our Operating Partnership, we entered into a limited liability company agreement (as amended, the "SUL LLC Agreement") with Best Years, LLC ("Best Years"), an unrelated entity and a U.S.-based affiliate of Union Life Insurance Co, Ltd. (a Chinese corporation), and formed Summit Union Life Holdings, LLC (the "SUL JV"). The SUL JV is not consolidated in our consolidated financial statements and is accounted for under the equity-method in our consolidated financial statements (see Note 5). As of December 31, 2017 and 2016, we have a 10% interest in the SUL JV. As of December 31, 2017 and 2016, the SUL JV owned 17 properties.

Summit Fantasia Holdings, LLC

On September 27, 2016, through our Operating Partnership, we entered into a limited liability company agreement (the "Fantasia LLC Agreement") with Fantasia Investment III LLC ("Fantasia"), an unrelated entity and a U.S.-based affiliate of Fantasia Holdings Group Co., Limited (a Chinese corporation listed on the Stock Exchange of Hong Kong (HKEX)), and formed Summit Fantasia Holdings, LLC (the "Fantasia JV"). The Fantasia JV is not consolidated in our consolidated financial statements and is accounted for under the equity-method in our consolidated financial statements. As of December 31, 2017 and 2016, we have a 20% interest in the Fantasia JV. As of December 31, 2017 and 2016, the Fantasia JV owned two properties.

Summit Fantasia Holdings II, LLC

On December 23, 2016, through our Operating Partnership, we entered into a limited liability company agreement (the "Fantasia II LLC Agreement") with Fantasia, and formed Summit Fantasia Holdings II, LLC (the "Fantasia II JV"). The Fantasia II JV is not consolidated in our consolidated financial statements and is accounted for under the equity-method in our consolidated financial statements. As of December 31, 2017 and 2016, we have a 20% interest in the Fantasia II JV. As of December 31, 2017, the Fantasia II JV owned two properties.

Summit Fantasia Holdings III, LLC

On July 27, 2017, through our Operating Partnership, we entered into a limited liability company agreement ("Fantasia III LLC Agreement") with Fantasia and formed Summit Fantasia Holdings III, LLC (the "Fantasia III JV"). The Fantasia III JV is not consolidated in our consolidated financial statements and is accounted for under the equity-method in the Company's consolidated financial statements. As of December 31, 2017, we have a 10% interest in the Fantasia III JV. As of December 31, 2017, the Fantasia III JV owned nine properties.

Summit Fantasy Pearl Holdings, LLC

On October 2, 2017, through our Operating Partnership, we entered into a limited liability company agreement ("FPH LLC Agreement") with Fantasia, Atlantis Senior Living 9, LLC, a Delaware limited liability company ("Atlantis"), and Fantasy Pearl LLC, a Delaware limited liability company ("Fantasy"), and formed Summit Fantasy Pearl Holdings, LLC (the "FPH JV"). The FPH JV is not consolidated in our consolidated financial statements and will be accounted for under the equity-method in the Company's consolidated financial statements. As of December 31, 2017, we have a 10% interest in the FPH JV. As of December 31, 2017, the FPH JV owned six properties.

2. Summary of Significant Accounting Policies

The summary of significant accounting policies presented below is designed to assist in understanding our consolidated financial statements. Such consolidated financial statements and accompanying notes are the representations of our management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America, or GAAP, in all material respects, and have been consistently applied in preparing the accompanying consolidated financial statements.

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, the Operating Partnership (of which the Company owns 99.88%) and CHP, LLC (of which the Company owns 95%). All intercompany accounts and transactions have been eliminated in consolidation.

The Financial Accounting Standards Board ("FASB") issued Accounting Standard Codification ("ASC") 810, *Consolidation*, which addresses how a business enterprise should evaluate whether it has a controlling interest in an entity through means other than voting rights and accordingly should consolidate the entity. Before concluding that it is appropriate to apply the voting interest consolidation model to an entity, an enterprise must first determine that the entity is not a variable interest entity. We evaluate, as appropriate, our interests, if any, in joint ventures and other arrangements to determine if consolidation is appropriate.

Use of Estimates

The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. We base these estimates on various assumptions that we believe to be reasonable under the circumstances, and these estimates form the basis for our judgments concerning the carrying values of assets and liabilities that are not readily apparent from other sources. We periodically evaluate these estimates and judgments based on available information and experience. Actual results could differ from our estimates under different assumptions and conditions. If actual results significantly differ from our estimates, our financial condition and results of operations could be materially impacted.

Cash and Cash Equivalents

We consider all short-term, highly liquid investments that are readily convertible to cash with a maturity of three months or less at the time of purchase to be cash equivalents. As of December 31, 2017, we had cash accounts in excess of FDIC-insured limits. We do not believe we are exposed to any significant credit risk on cash and cash equivalents.

Restricted Cash

Restricted cash represents cash held in interest bearing accounts related to impound reserve accounts for property taxes, insurance and capital improvements or commitments as required under the terms of our loans payable agreements. Based on the intended use of the restricted cash, we have classified changes in restricted cash within the statements of cash flows as operating for property taxes and insurance, and investing activities for capital and other commitments.

Investments in Real Estate and Depreciation

We allocate the purchase price of our properties in accordance with ASC 805 – *Business Combinations*. If the acquisition does not meet the definition of a business, we record the acquisition as an asset acquisition. For transactions that are business combinations, acquisition costs are expensed as incurred. For transactions that are an asset acquisition, acquisition costs are capitalized as incurred. Upon acquisition of a property, we allocate the purchase price of the property based upon the relative fair value of the assets acquired and liabilities assumed, which generally consists of land, buildings, site improvements, and furniture and fixtures. We allocate the purchase price to the fair value of the tangible assets of an acquired property by valuing the property as if it were vacant.

We are required to make subjective assessments as to the estimated useful lives of our depreciable assets. We consider the period of future benefit of the assets to determine the appropriate estimated useful lives. Depreciation of our assets is being charged to expense on a straight-line basis over the estimated useful lives. We depreciate the fair value allocated to building and improvements over estimated useful lives ranging from 15 to 39 years.

We estimate the value of furniture and fixtures based on the assets' depreciated replacement cost. We depreciate the fair value allocated to furniture and fixtures over estimated useful lives ranging from three to six years. Assets held for sale are not depreciated.

Impairment of Real Estate Assets

We evaluate the recoverability of the carrying value of our real estate properties on a property-by-property basis. On a quarterly basis, we review our properties for recoverability when events or circumstances, including significant physical changes in the property, significant adverse changes in general economic conditions and significant deteriorations of the underlying cash flows of the property, indicate that the carrying amount of the property may not be recoverable. The need to recognize an impairment charge is based on estimated undiscounted future cash flows from a property compared to the carrying value of that property. If recognition of an impairment charge is necessary, it is measured as the amount by which the carrying amount of the property exceeds the fair value of the property.

We recorded no impairment charges in 2017 and 2016.

Fair Value Measurements

ASC 825, *Financial Instruments*, requires the disclosure of fair value information about financial instruments whether or not recognized on the face of the balance sheet, for which it is practical to estimate that value.

Fair value represents the estimate of the proceeds to be received, or paid in the case of a liability, in a current transaction between willing parties. ASC 820, *Fair Value Measurement,* establishes a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. Inputs are either observable or unobservable in the marketplace. Observable inputs are based on market data from independent sources and unobservable inputs reflect the reporting entity's assumptions about market participant assumptions used to value an asset or liability.

Financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

Level 1. Quoted prices in active markets for identical instruments.

Level 2. Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3. Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets and liabilities measured at fair value are classified according to the lowest level input that is significant to their valuation. A financial instrument that has a significant unobservable input along with significant observable inputs may still be classified as a Level 3 instrument.

We generally determine or calculate the fair value of financial instruments using quoted market prices in active markets when such information is available or use appropriate present value or other valuation techniques, such as discounted cash flow analyses, incorporating available market discount rate information for similar types of instruments and our estimates for non-performance and liquidity risk. These techniques are significantly affected by the assumptions used, including the discount rate, credit spreads, and estimates of future cash flow.

There were no assets measured at fair value on a nonrecurring basis during the year ended December 31, 2017.

Fair Value Measurement of Financial Instruments

Our consolidated balance sheets include the following financial instruments: cash and cash equivalents, restricted cash, notes receivable, deposits, tenant and other receivables, certain other assets, accounts payable and accrued liabilities, security deposits and loans payable. With the exception of the Nantucket note receivable (see Note 6) and loans payable discussed below, we consider the carrying values to approximate fair value for such financial instruments because of the short period of time between origination of the instruments and their expected payment.

As of December 31, 2017 and 2016, the fair value of the Nantucket note receivable (see Note 6) was $4.0 million and $4.9 million compared to the carrying value of $3.8 million and $4.7 million, respectively. The fair value of the note receivable was estimated based on cash flow analysis at an assumed market rate of interest. As the inputs to our valuation estimate are neither observable in nor supported by market activity, our notes receivable are classified as Level 3 assets within the fair value hierarchy.

As of December 31, 2017 and 2016, the fair value of loans payable was $63.3 million and $54.3 million, compared to the principal balance (excluding debt discount) of $62.6 million and $53.5 million, respectively. The fair value of loans payable was estimated using lending rates available to us for financial instruments with similar terms and maturities. To estimate fair value as of December 31, 2017, we utilized discount rates ranging from 4.4% to 7.8% and a weighted average discount rate of 4.9%. As the inputs to our valuation estimate are neither observable in nor supported by market activity, our loans payable are classified as Level 3 assets within the fair value hierarchy.

At December 31, 2017 and 2016, we do not have any significant financial assets or financial liabilities that are measured at fair value on a recurring basis in our consolidated financial statements.

Variable Interest Entities

We analyze our contractual and/or other interests to determine whether such interests constitute an interest in a variable interest entity ("VIE") in accordance with ASC 810, *Consolidation*, and, if so, whether we are the primary beneficiary. If we are determined to be the primary beneficiary of a VIE, we must consolidate the VIE. A VIE is an entity with insufficient equity investment or in which the equity investors lack some of the characteristics of a controlling financial interest. In determining whether it is the primary beneficiary, we consider, among other things, whether it has the power to direct the activities of the VIE that most significantly impact the entity's economic performance, including, but not limited to, determining or limiting the scope or purpose of the VIE, selling or transferring property owned or controlled by the VIE, or arranging financing for the VIE. We also consider whether we have the obligation to absorb losses of the VIE or the right to receive benefits from the VIE.

Tenant and Other Receivables and Valuation of Receivables

Tenant and other receivables are comprised of rental and reimbursement billings due from tenants, the cumulative amount of future adjustments necessary to present rental income on a straight-line basis and distributions receivable. Tenant receivables for rental revenues are recorded at the original amount earned, less an allowance for any doubtful accounts. Management assesses the likelihood of realizing tenant receivables and other fees on an ongoing basis and provides for allowances as such balances, or portions thereof, are estimated to become uncollectible. As of December 31, 2017 and 2016, there were no allowances recorded for tenant receivables.

Deferred Costs and Deposits

Deferred costs and deposits primarily consist of deposits and costs paid for potential acquisitions.

Deferred Financing Costs

Costs incurred with potential financing arrangements are recorded as deferred financing costs. Costs incurred in connection with completed debt financing are recorded as debt issuance costs. Debt issuance costs are amortized using the straight-line basis which approximates the effective interest rate method, over the contractual terms of the respective financings, and are presented net of loans payable in loans payable, net of debt issuance costs, in the consolidated balance sheets.

Deferred Leasing Commissions

Leasing commissions (paid to CRA prior to April 1, 2014) were capitalized at cost and are being amortized on a straight-line basis over the related lease term. As of December 31, 2017 and 2016, total costs incurred were $1.9 million, respectively, and the unamortized balance was approximately $1.3 million and $1.4 million, respectively. Amortization expense for the years ended December 31, 2017 and 2016 was approximately $0.1 million and $0.2 million, respectively.

Other Assets

Other assets consist primarily of deferred financing costs, prepaid insurance and property taxes. Additionally, other assets will be amortized to expense over their future service periods. Balances without future economic benefit are expensed as they are identified.

Equity-Method Investments

We report our investments in unconsolidated entities, over whose operating and financial policies we have the ability to exercise significant influence but not control, under the equity method of accounting. Under this method of accounting, our pro rata share of the applicable entity's earnings or losses is included in our consolidated statements of operations. We initially record our investments based on either the carrying value for properties contributed or the cash invested.

We evaluate our equity-method investments for impairment whenever events or changes in circumstances indicate that the carrying value of our investments may exceed the fair value. If it is determined that a decline in the fair value of our investments is not temporary, and if such reduced fair value is below its carrying value, an impairment is recorded. Determining fair value involves significant judgment. Our estimates consider available evidence including the present value of the expected future cash flows discounted at market rates, general economic conditions and other relevant factors. We did not record any impairments related to our equity-method investments for the years ended December 31, 2017 and 2016.

Revenue Recognition

Revenue is recognized after four basic criteria are met. These four criteria include persuasive evidence of an arrangement, the rendering of service, fixed and determinable income and reasonably assured collectability. Leases with fixed annual rental escalators are recognized on a straight-line basis over the initial lease period, subject to a collectability assessment. Because our leases provide for free rent, lease incentives, or other rental increases at specified intervals, we straight-line the recognition of revenue, which results in the recording of a receivable for rent not yet due under the lease terms. Our rental revenues are comprised of lease rental income and straight-line rent. Straight line rent for the years ended December 31, 2017 and 2016 was approximately $0.7 million and $0.6 million, respectively. Tenant reimbursements and other revenue are recognized based on the actual property tax and insurance incurred for the properties.

Acquisition and asset management fees are recorded as earned.

Stock-Based Compensation

We record stock-based compensation expense for share-based payments to employees and directors, including grants of stock options based on the estimated fair value of the options on the date of grant using the Black-Scholes option-pricing model. Compensation expense is recognized ratably over the vesting term and is included in general and administrative expense in our consolidated statements of operations. See Note 10 for further information.

Noncontrolling Interest in Consolidated Subsidiary

Noncontrolling interest relates to the interest in the consolidated entities that are not wholly-owned by us. As of December 31, 2017 and 2016, the non-controlling interest mainly relates to CHP, LLC.

ASC 810-10-65, "*Consolidation*", clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. ASC 810-10-65 also requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest and requires disclosure, on the face of the consolidated statements of operations, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest.

We periodically evaluate individual noncontrolling interests for the ability to continue to recognize the noncontrolling interest as permanent equity in the consolidated balance sheets. Any noncontrolling interest that fails to qualify as permanent equity will be reclassified as temporary equity and adjusted to the greater of (a) the carrying amount, or (b) its redemption value as of the end of the period in which the determination is made.

Income Taxes

We have elected to be taxed as a REIT, under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code") beginning with our taxable year ending December 31, 2006. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to currently distribute at least 90% of the REIT's ordinary taxable income to stockholders. As a REIT, we generally will not be subject to federal income tax on taxable income that we distribute to our stockholders. If we fail to qualify as a REIT in any taxable year, we will then be subject to federal income taxes on our taxable income at regular corporate rates and will not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year during which qualification is lost unless the Internal Revenue Service were to grant us relief under certain statutory provisions. Such an event could materially and adversely affect our net income and net cash available for distribution to stockholders. However, we believe that we will be organized and operate in such a manner as to qualify for treatment as a REIT and intend to operate for the foreseeable future in such a manner so that we will remain qualified as a REIT for federal income tax purposes. Given the applicable statute of limitations, we generally are subject to audit by the Internal Revenue Service ("IRS") for the year ended December 31, 2014 and subsequent years, and state income tax returns are subject to audit for the year ended December 31, 2013 and subsequent years.

We have elected to treat Friendswood TRS and SAM TRS as taxable REIT subsidiaries, which generally may engage in any business, including the provision of customary or non-customary services for our tenants. These TRS entities are treated as a regular corporation and are subject to federal income tax and applicable state income and franchise taxes at regular corporate rates. As of December 31, 2017, Friendswood TRS has net deferred tax assets which include $106,000 of other temporary differences. In fiscal year 2014, the Company recorded a valuation allowance against its deferred tax assets based on operating performance at that time, which indicated that it was not more likely than not that net deferred tax assets would be realized in future period. As of December 31, 2016 and 2017, it was determined that it was not more likely than not that net deferred tax assets would be realized in the future and therefore net deferred tax assets should remain fully valued. Additionally, at the end of the tax year the NOL was re-valued to $0 due to the exclusion of cancellation of debt income under Sec. 108(a)(1)(B) and the corresponding valuation allowance was reduced accordingly. A provision for state income taxes of $32,000 and $40,000, respectively, was recorded for the years ended December 31, 2017 and 2016. These amounts are included in our consolidated statements of operations under income from discontinued operations (see Note 11). SAM TRS has deferred tax assets related to their NOL (which expires in or after 2035 for federal and state) for a total of $917,000, which has a full valuation allowance as of December 31, 2017 and 2016. Due to the losses incurred and the full valuation allowance on deferred tax assets, there was no tax provision related to SAM TRS in 2017 and 2016.

The Tax Cuts and Jobs Act was enacted in December 2017 and is generally effective for tax years beginning in 2018. This new legislation is not expected to have a material adverse effect on the Company's business and contains several potentially favorable provisions. However, the Company has recorded a reduction of approximately $14,000 to its deferred tax assets to reflect the lower Federal corporate tax rate and other provisions effective in 2018. Correspondingly, the valuation allowance will also decrease by $14,000.

Uncertain Tax Positions

In accordance with the requirements of ASC 740, "*Income Taxes,"* favorable tax positions are included in the calculation of tax liabilities if it is more likely than not that our adopted tax position will prevail if challenged by tax authorities. As a result of our REIT status, we are able to claim a dividends-paid deduction on our tax return to deduct the full amount of common dividends paid to stockholders when computing our annual taxable income, which results in our taxable income being passed through to our stockholders. A REIT is subject to a 100% tax on the net income from prohibited transactions. A "prohibited transaction" is the sale or other disposition of property held primarily for sale to customers in the ordinary course of a trade or business. There is a safe harbor provision which, if met, expressly prevents the Internal Revenue Service from asserting the prohibited transaction test. We have no income tax expense, deferred tax assets or deferred tax liabilities associated with any such uncertain tax positions for the operations of any entity included in the consolidated results of operations. We classify interest and penalties related to uncertain tax positions, if any, in our consolidated financial statements as a component of general and administrative expense.

Basic and Diluted Net Loss and Distributions per Common Share

Basic and diluted net loss per common share applicable to common stockholders is computed by dividing net loss applicable to common stockholders by the weighted-average number of common shares outstanding for the period. For each of the years ended December 31, 2017 and 2016, 895,408 and 400,000 stock options, respectively, have been excluded from the weighted-average number of shares outstanding since their effect was anti-dilutive. The basic and diluted loss applicable to common stockholders for the years ended December 31, 2017 and 2016 is computed by dividing the loss applicable to common stockholders of $1.3 million and $0.8 million by the weighted average number of shares outstanding of 23,027,978, respectively.

The Company declared no cash distributions per common share during the years ended December 31, 2017 and 2016.

Recently Issued Accounting Pronouncements

In November 2016, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash.* The amendments apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows. The amendments address diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows.

The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.

The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The amendments should be applied using a retrospective transition method to each period presented. Once adopted, restricted cash will be presented with cash and cash equivalents in our consolidated statements of cash flows and, at December 31, 2017, that amount was approximately $3.4 million.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing lease. If the lessor does not convey risks and rewards or control, an operating lease results. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessors for sales-type, direct financing, and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We continue to evaluate the impact of our adoption of this new standard in 2019 and we estimate the effect on our consolidated financial statements could be approximately $0.3 million, related to the operating lease for our corporate office space, that will be added to the assets and liabilities of our consolidated balance sheet. As generally accepted accounting principles for lessors remains mostly unchanged, we do not expect it to have an impact on our leases from our tenants.

The FASB has issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date.* In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606).* The amendments in ASU 2015-14 defer the effective date of ASU 2014-09 for all entities by one year. Public business entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period.

We have evaluated the impact that our adoption of this new revenue recognition standard in the first quarter of 2018 will have on our rental revenues and we do not expect this to have a significant impact on our consolidated financial statements as our rental revenue relates to triple net leases and related tenant reimbursements, which are excluded from this standard. Non-lease components will be evaluated under this standard upon adoption of ASU No. 2016-02. Additionally, we have completed our evaluation of the impact this standard will have on our interest income revenue and acquisition and asset management fees. Interest income from our notes receivable is excluded from this standard. Acquisition fees are earned and paid at the time we close the acquisition, and therefore satisfying our performance obligations. We earn our asset management fees based on a percentage of the purchase price or equity raised. As the manager, our duty is to manage the day-to-day operations of the special-purpose entities ("SPE"), which own the properties. We record asset management fees monthly as our performance obligations are satisfied. Revenue recognition for acquisition and asset management fees will not change under the new standard, and as such, it will not have a material impact on our consolidated financial statements.

The Company has elected the modified retrospective transition method. Upon adoption of this ASU in 2018, the Company anticipates that additional disclosures will be necessary to separately disclose the components of our total revenue.

Reclassifications

Certain amounts related to the assets, liabilities and operations of Friendswood TRS have been reclassified in the Company's consolidated balance sheets and consolidated statements of operations for prior year to conform to the current period presentation due to the classification of Friendswood TRS as held for sale (see Note 11). These reclassifications had no effect on total assets or liabilities or cash flows from operating activities. The reclassifications for the year ended December 31, 2016 increased our loss from continuing operations by $387,000, but did not change our net loss of $(494,000) or our net loss applicable to common stockholders of $(801,000).

3. Investments in Real Estate Properties

As of December 31, 2017 and 2016, investments in real estate properties including those held by our consolidated subsidiaries:

	2017	2016
Land	$ 7,318,000	$ 5,548,000
Buildings and improvements	69,254,000	58,322,000
Less: accumulated depreciation	(9,012,000)	(6,996,000)
Buildings and improvements, net	60,242,000	51,326,000
Furniture and fixtures	6,755,000	5,981,000
Less: accumulated depreciation	(5,252,000)	(4,338,000)
Furniture and fixtures, net	1,503,000	1,643,000
Real estate properties, net	$ 69,063,000	$ 58,517,000

Depreciation expense for the years ended December 31, 2017 and 2016 was approximately $2.9 million and $3.4 million, respectively.

As of December 31, 2017, our portfolio consisted of 11 real estate properties which were 100% leased to the tenants of the related facilities. The following table provides summary information regarding our portfolio (excluding the 36 properties owned by our unconsolidated Equity-Method Investments) as of December 31, 2017:

Property	Location	Date Purchased	Type[(2)]	Purchase Price	Loans Payable, Excluding Debt Issuance Costs	Number of Beds
Sheridan Care Center	Sheridan, OR	August 3, 2012	SNF	$ 4,100,000	$ 4,778,000	51
Fernhill Care Center	Portland, OR	August 3, 2012	SNF	4,500,000	4,191,000	63
Friendship Haven Healthcare and Rehabilitation Center [(1)]	Galveston County, TX	September 14, 2012	SNF	15,000,000	6,880,000	150
Pacific Health and Rehabilitation Center	Tigard, OR	December 24, 2012	SNF	8,140,000	6,987,000	73
Danby House	Winston-Salem, NC	January 31, 2013	AL/MC	9,700,000	7,642,000	100
Brookstone of Aledo	Aledo, IL	July 2, 2013	AL	8,625,000	7,216,000	66
The Shelby House	Shelby, NC	October 4, 2013	AL	4,500,000	4,721,000	72
The Hamlet House	Hamlet, NC	October 4, 2013	AL	6,500,000	3,989,000	60
The Carteret House	Newport, NC	October 4, 2013	AL	4,300,000	3,365,000	64
Sundial Assisted Living	Redding, CA	December 18, 2013	AL	3,500,000	2,800,000	65
Pennington Gardens	Chandler, AZ	July 17, 2017	AL/MC	13,400,000	10,050,000	90
Total:				$ 82,265,000	$ 62,619,000	854

(1) Friendswood TRS became the licensed operator and tenant of the facility on May 1, 2014. In December 2017, we entered into an agreement to sell Friendswood TRS, the licensed operator and tenant of the facility, to the current management company, HMG Services, L.L.C. ("HMG") (see Note 11). The sale was completed on January 1, 2018.

(2) SNF is an abbreviation for skilled nursing facility. AL is an abbreviation for assisted living facility. MC is an abbreviation for memory care facility.

Future Minimum Lease Payments

The future minimum lease payments to be received under existing operating leases for properties owned as of December 31, 2017 are as follows:

Years ending December 31,	
2018	7,607,000
2019	7,740,000
2020	7,902,000
2021	8,068,000
2022	8,237,000
Thereafter	60,988,000
	$ 100,542,000

2017 Acquisition – Pennington Gardens

On July 17, 2017, we acquired a 100% interest in Pennington Gardens, a 90-bed assisted living/memory care facility located in Chandler, Arizona ("Pennington Gardens") for a purchase price of $13.4 million plus approximately $52,000 in acquisition costs (allocated values were approximately $1.8 million to land, $10.9 million to building and improvements and $750,000 to furniture and fixtures), which was funded through cash on hand plus a collateralized loan (see Note 4). Pennington Gardens is leased pursuant to a 15-year triple net lease with two five-year renewal options, and per the lease agreement, we received a letter of credit in lieu of a cash security deposit.

Acquisitions - 2016

None

4. Loans Payable

As of December 31, 2017 and 2016, loans payable consisted of the following:

	December 31, 2017	December 31, 2016
Loan payable to Capital One, National Association in monthly installments of approximately $36,000, including interest at LIBOR plus 2.95% (4.3% at December 31, 2017), due in July 2018, and collateralized by Pennington Gardens.	$ 10,050,000	$ -
Loan payable to Healthcare Financial Solutions, LLC in monthly installments of approximately $15,000, including interest at LIBOR (floor of 0.50%) plus 4.0% (5.3% at December 31, 2017 and 5.0% at December 31, 2016, respectively), due in October 2018, and collateralized by Sundial Assisted Living.	$ 2,800,000	$ 2,800,000
Loan payable to Oxford Finance, LLC in monthly installments of approximately $53,000, including interest at LIBOR (floor of 0.75%) plus 6.50% (8.1% as of December 31, 2017 and 7.25% as of December 31, 2016, respectively) due in October 2019, collateralized by Friendship Haven.	6,880,000	6,978,000
Loans payable to Lancaster Pollard (insured by HUD) in monthly installments of approximately $209,000, including interest, ranging from a fixed rate of 3.70% to 3.78%, due in September 2039 through January 2051, and collateralized by Sheridan, Fernhill, Pacific Health, Shelby, Hamlet, Carteret, Aledo and Danby.	42,889,000	43,768,000
	62,619,000	**53,546,000**
Less debt issuance costs	**(1,788,000)**	**(1,829,000)**
Total loans payable	**$ 60,831,000**	**$ 51,717,000**

We have total debt obligations of approximately $62.6 million that will mature between 2018 and 2051. See Note 3 for loans payable balance for each property. All of the loans payable have certain financial and non-financial covenants, including ratios and financial statement considerations. As of December 31, 2017, we were in compliance with all of our debt covenants.

In connection with our loans payable, we incurred debt issuance costs. The unamortized balance of the debt issuance costs was approximately $1.8 million as of December 31, 2017 and 2016. These debt issuance costs are being amortized over the life of their respective financing agreements using the straight-line basis which approximates the effective interest rate method. For the years ended December 31, 2017 and 2016, approximately $0.2 million and $0.1 million, respectively, of debt issuance costs were amortized and included in interest expense in our consolidated statements of operations.

During the years ended December 31, 2017 and 2016, we incurred approximately $2.8 million and $2.9 million, respectively, of interest expense related (excluding debt issuance cost amortization) to our loans payable.

The principal payments due on the loans payable (excluding debt issuance costs) for each of the five following years and thereafter ending December 31 are as follows:

Year	Principal Amount
2018	13,870,000
2019	7,725,000
2020	986,000
2021	1,024,000
2022	1,063,000
Thereafter	37,951,000
	$ 62,619,000

The following information notes the loan activity for the years ended December 31, 2017 and 2016:

Capital One, National Association

In July 2017, in conjunction with the acquisition of Pennington Gardens (see Note 3), we entered into a first priority $10.1 million mortgage loan collateralized by Pennington Gardens with Capital One, National Association. The loan, which bears interest at the One Month LIBOR (London Interbank Offered Rate) plus 2.95%, matures on July 17, 2018, with the option for two six-month extensions. The loan may be prepaid with no penalty if the property is refinanced through United States Department of Housing and Urban Development ("HUD"); otherwise we will be required to pay an exit fee, as defined in the loan agreement. We incurred approximately $0.2 million in deferred financing costs. We are currently in negotiations to refinance this loan with a HUD-insured loan through Capital One.

Healthcare Financial Solutions, LLC (a.k.a. Capital One)

We have an amended loan agreement for the Sundial Assisted Living property located in Redding with Healthcare Financial Solutions, LLC ("HFS"). See table above listing loans payable for further information. The loan was interest-only through January 2017 and then the loan payments increased to approximately $15,000 a month, including interest. The principal payment portion of this loan payment commencing in February 2017 is being held in a cash loan guarantee fund until maturity date. As of December 31, 2017, the total amount of approximately $53,000 is included in restricted cash on our consolidated balance sheet. If the loan is refinanced prior to the maturity date, the loan payments in the cash loan guarantee fund will be released to us; otherwise at the maturity date, the loan payments in the cash loan guarantee fund will be released to the lender and applied to the outstanding principal balance. Additionally, the loan is collateralized by the property and cross-guaranteed with several properties owned by the SUL JV, which will be released from the guarantee when the property is refinanced with a HUD-insured loan or upon repayment at the maturity date.

Oxford Finance, LLC

We have a secured term loan agreement with Oxford Finance, LLC collateralized by the Friendship Haven facility. See table above listing loans payable for further information. Prior to the maturity date, we may prepay the loan, in whole, subject to certain terms and by paying an exit fee as further described in the loan agreement.

Lancaster Pollard Mortgage Company, LLC

We have several properties with HUD-insured loans from the Lancaster Pollard Mortgage Company, LLC ("Lancaster Pollard"). See table above listing loans payable for further information.

All of the HUD-insured loans are subject to customary representations, warranties and ongoing covenants and agreements with respect to the operation of the facilities, including the provision for certain maintenance and other reserve accounts for property tax, insurance, and capital expenditures, with respect to the facilities all as described in the HUD agreements. These reserves are included in restricted cash in our consolidated balance sheets.

5. Equity-Method Investments

As of December 31, 2017 and 2016, the balances of our Equity-Method Investments were approximately $9.2 million and $5.1 million, respectively, and are as follows:

Summit Union Life Holdings, LLC

In April 2015, we formed the SUL JV, which is owned 10% by the Operating Partnership and 90% by Best Years. The SUL JV will continue until an event of dissolution occurs, as defined in the SUL LLC Agreement.

In April 2015, the Operating Partnership recorded a receivable for approximately $362,000 for distributions that could not be paid prior to the contribution of the original six properties contributed in April 2015 ("JV 2 Properties") due to cash restrictions related to the loans payable for the contributed JV 2 Properties. In April 2017, we received approximately $122,000 to pay down the distribution receivable from one of the JV 2 properties. In December 2017, we received approximately $56,000 to pay down the distribution receivable from two of the JV 2 properties. As of December 31, 2017 and 2016, the receivable of $184,000 and $362,000, respectively, due from the JV 2 properties is included in tenant and other receivables on our consolidated balance sheets.

Under the SUL LLC Agreement, net operating cash flow of the SUL JV will be distributed monthly, first to the Operating Partnership and Best Years *pari passu* up to a 9% to 10% annual return, as defined, and thereafter to Best Years 75% and the Operating Partnership 25%. All capital proceeds from the sale of the properties held by the SUL JV, a refinancing or another capital event will be paid first to the Operating Partnership and Best Years *pari passu* until each has received an amount equal to its accrued but unpaid 9% to 10% return plus its total contribution, and thereafter to Best Years 75% and the Operating Partnership 25%.

In April 2017, one of the JV 2 properties that owed Summit approximately $110,000 in distributions payable was able to repay the funds; however, the cash was retained by the property to fund future capital calls. Through December 2017, we applied approximately $5,000 of this as additional capital. As of December 31, 2017, the remaining balance of $105,000 is included in tenant and other receivables in our consolidated balance sheets.

As of December 31, 2017 and 2016, the balance of our equity-method investment related to the SUL JV was approximately $3.6 million and $3.8 million, respectively.

Summit Fantasia Holdings, LLC

In September 2016, we formed the Fantasia JV, which is owned 20% by the Operating Partnership and 80% by Fantasia. The Fantasia JV will continue until an event of dissolution occurs, as defined in the Fantasia LLC Agreement.

Under the Fantasia LLC Agreement, net operating cash flow of the Fantasia JV will be distributed quarterly, first to the Operating Partnership and Fantasia *pari passu* until each member has received an amount equal to its accrued, but unpaid 8% return, and thereafter 70% to Fantasia and 30% to the Operating Partnership. All capital proceeds from the sale of the properties held by the Fantasia JV, a refinancing or another capital event, will be paid first to the Operating Partnership and Fantasia *pari passu* until each has received an amount equal to its accrued but unpaid 8% return plus its total capital contribution, and thereafter 70% to Fantasia and 30% to the Operating Partnership.

As of December 31, 2017 and 2016, the balance of our equity-method investment related to the Fantasia JV was approximately $1.1 million and $1.2 million, respectively.

Summit Fantasia Holdings II, LLC

In December 2016, we formed the Fantasia II JV, which is owned 20% by the Operating Partnership and 80% by Fantasia. The Fantasia II JV will continue until an event of dissolution occurs, as defined in the Fantasia II LLC Agreement.

On February 28, 2017, through the Fantasia II JV, we acquired a 20% interest in two skilled nursing facilities, located in Rhode Island, for a total aggregate purchase price of $27 million, which was funded through capital contributions from the members of the Fantasia II JV plus the proceeds from a collateralized loan. The facilities consist of a total of 318 licensed beds, and are operated by and leased to a third party operator. We contributed approximately $1.9 million for the acquisition, which includes approximately $0.2 million of acquisition costs paid in 2016.

Under the Fantasia II LLC Agreement, net operating cash flow of the Fantasia JV will be distributed quarterly, first to the Operating Partnership and Fantasia *pari passu* until each member has received an amount equal to its accrued, but unpaid 8% return, and thereafter 70% to Fantasia and 30% to the Operating Partnership. All capital proceeds from the sale of the properties held by the Fantasia II JV, a refinancing or another capital event, will be paid first to the Operating Partnership and Fantasia *pari passu* until each has received an amount equal to its accrued but unpaid 8% return plus its total capital contribution, and thereafter 70% to Fantasia and 30% to the Operating Partnership.

As of December 31, 2017, the balance of our equity-method investment related to the Fantasia II JV was approximately $1.8 million.

Summit Fantasia Holdings III, LLC

On July 27, 2017, through our Operating Partnership, we entered into a limited liability company agreement ("Fantasia III LLC Agreement") with Fantasia and formed Summit Fantasia Holdings III, LLC (the "Fantasia III JV"). The Fantasia III JV is not consolidated in our condensed consolidated financial statements and is accounted for under the equity-method in the Company's condensed consolidated financial statements.

On August 10, 2017, through the Fantasia III JV, we acquired a 10% interest in nine skilled nursing facilities, located in Connecticut, for a total aggregate purchase price of $60 million for the properties, which was funded through capital contributions from the members of the Fantasia III JV plus the proceeds from a collateralized loan. The facilities consist of a total of 1,285 licensed beds, and will be operated by and leased to a third party operator. We contributed approximately $2.0 million to the Fantasia III JV in connection with the acquisition.

Under the Fantasia III LLC Agreement, net operating cash flow of the Fantasia III JV will be distributed quarterly, first to the Operating Partnership and Fantasia *pari passu* until each member has received an amount equal to its accrued, but unpaid 9% return, and thereafter 75% to Fantasia and 25% to the Operating Partnership. All capital proceeds from the sale of the properties held by the Fantasia III JV, a refinancing or another capital event, will be paid first to the Operating Partnership and Fantasia *pari passu* until each has received an amount equal to its accrued but unpaid 9% return plus its total capital contribution, and thereafter 75% to Fantasia and 25% to the Operating Partnership.

As of December 31, 2017, the balance of our equity-method investment related to the Fantasia III JV was approximately $1.8 million.

Summit Fantasy Pearl Holdings, LLC

On October 2, 2017, through our Operating Partnership, we entered into the FPH LLC Agreement with Fantasia, Atlantis and Fantasy, and formed the FPH JV. The FPH JV is not consolidated in our consolidated financial statements and will be accounted for under the equity-method in the Company's condensed consolidated financial statements.

In November 2017, through the FPH JV, we acquired a 10% interest in six skilled nursing facilities, located in Iowa, for a total aggregate purchase price of $29.5 million for the properties, which was funded through capital contributions from the members of the FPH JV plus the proceeds from a collateralized loan. The facilities consist of a total of 582 licensed beds, and will be operated by and leased to a third party operator.

Under the FPH LLC Agreement, net operating cash flow of the FPH JV will be distributed quarterly, first to the members *pari passu* until each member has received an amount equal to its accrued, but unpaid 9% return, and thereafter 65.25% to Fantasy, 7.5% to Atlantis, 7.25% to Fantasia and 20% to the Operating Partnership. All capital proceeds from the sale of the properties held by the FPH JV, a refinancing or another capital event, will be paid to the members *pari passu* until each has received an amount equal to its accrued but unpaid 9% return plus its total capital contribution, and thereafter 65.25% to Fantasy, 7.5% to Atlantis, 7.25% to Fantasia, and 20% to the Operating Partnership.

As of December 31, 2017, the balance of our equity-method investment related to the FPH JV was approximately $0.9 million.

Summarized Financial Data for Equity-Method Investments

Our Equity-Method Investments are significant equity-method investments in the aggregate. The results of operations of our Equity-Method Investments for the year ending December 31, 2017 are summarized below:

	SUL JV	Fantasia JV	Fantasia II JV	Fantasia III JV	FPH JV
Revenue	$ 15,657,000	$ 2,027,000	$ 2,789,000	$ 3,021,000	$ 493,000
Net Operating Income	$ 14,316,000	$ 1,799,000	$ 2,378,000	$ 2,286,000	$ 412,000
Income from Operations	$ 8,156,000	$ 1,037,000	$ 1,604,000	$ 1,618,000	$ 237,000
Net Income	$ 3,561,000	$ 119,000	$ 681,000	$ 648,000	$ 51,000
Summit interest in Equity-Method Investments net income	$ 356,000	$ 24,000	$ 136,000	$ 65,000	$ 5,000

Our Equity-Method Investments combined, are considered to be significant equity-method investments. The results of operations of our Equity-Method Investments for the year ending December 31, 2016 are summarized below:

	SUL JV	Fantasia JV
Revenue	$ 12,391,000	$ 329,000
Net Operating Income	$ 10,823,000	$ 300,000
Income from Operations	$ 6,404,000	$ 173,000
Net Income	$ 2,114,000	$ 26,000
Summit interest in Equity-Method Investments net income	$ 211,000	$ 5,000

Distributions from Equity-Method Investments

As of December 31, 2017 and 2016, we have distributions receivable, which is included in tenant and other receivables in our consolidated balance sheets, as follows:

	December 31, 2017	December 31, 2016
SUL JV	$ 169,000	$ 365,000
Fantasia JV	30,000	31,000
Fantasia II JV	58,000	-
Fantasia III JV	97,000	-
FPH JV	17,000	-
Total	$ 371,000	$ 396,000

For the years ended December 31, 2017 and 2016, we have received cash distributions, which are included in our cash flows from operating activities in tenant and other receivables, and cash flows from investing activities, using the cumulative earnings approach, as follows:

	Year Ended December 31, 2017			Year Ended December 31, 2016		
	Total Cash Distributions Received	Cash Flow from Operating	Cash Flow from Investing	Total Cash Distributions Received	Cash Flow from Operating	Cash Flow from Investing
SUL JV	$ 690,000	$ 356,000	$ 334,000	$ 526,000	$ 211,000	$ 315,000
Fantasia JV	180,000	24,000	156,000	-	-	-
Fantasia II JV	237,000	136,000	101,000	-	-	-
Fantasia III JV	70,000	65,000	5,000	-	-	-
FPH JV	-	-	-	-	-	-
Total	$ 1,177,000	$ 581,000	$ 596,000	$ 526,000	$ 211,000	$ 315,000

Acquisition and Asset Management Fees

We serve as the manager of our Equity-Method Investments and provide management services in exchange for fees and reimbursements. As the manager, we are paid an acquisition fee, as defined in the agreements. Additionally, we are paid an annual asset management fee for managing the properties held by our Equity-Method Investments, as defined in the agreements. For the years ended December 31, 2017 and 2016, we recorded approximately $0.8 million and $0.5 million, respectively, in acquisition and asset management fees from our Equity-Method Investments.

6. Receivables

Notes Receivable

Fernhill Note

In September 2014, we loaned approximately $140,000 to the operator of the Fernhill facility for certain property improvements at a fixed rate of interest of 6% payable in monthly installments through January 2019. As of December 31, 2017 and 2016, the balance on the note was approximately $0.1 million.

Nantucket Note

On January 7, 2015, through our Operating Partnership, we sold Sherburne Commons to The Residences at Sherburne Commons, Inc. ("Sherburne Buyer"), an unaffiliated Massachusetts non-profit corporation, in exchange for $5.0 million, as evidenced by a purchase money note from Sherburne Buyer to us as the lender.

The $5.0 million purchase money note was collateralized by the Sherburne Commons property, bears an annual interest rate of 3.5% and matured on December 31, 2017. In December 2017, we provided an extension on the note until January 2018. Additionally, in December 2017, we collected approximately $0.9 million related to the principal on the note and as of December 31, 2017, the net carrying amount of the note receivable was approximately $3.8 million. In January 2018, we received approximately $4.0 million in full payoff of the note and recorded a gain on the note of approximately $0.2 million.

For the years ended December 31, 2017 and 2016, we received interest payments from the note of approximately $177,000 and $158,000, respectively, which is recorded as interest income from notes receivable in our consolidated statements of operations.

Tenant and Other Receivables, net

Tenant and other receivables, net consists of:

	December 31, 2017	December 31, 2016
Straight-line rent receivables	$ 3,046,000	$ 2,384,000
Distribution receivables from Equity-Method Investments	371,000	396,000
Receivable from JV 2 properties	184,000	362,000
Asset management fees	170,000	100,000
Other receivables	335,000	77,000
Total	$ 4,106,000	$ 3,319,000

7. Related Party Transactions

CRA

Prior to the termination of our advisory agreement on April 1, 2014 with CRA (our former advisor, a related party), we incurred costs related to fees paid and costs reimbursed for services rendered to us by CRA through March 31, 2014. Some of the fees we had paid to CRA were considered to be in excess of allowed amounts and, therefore, CRA was required to reimburse us for the amount of the excess costs we paid to them. As of December 31, 2017 and 2016, the receivables from CRA are fully reserved due to the uncertainty of collectability and are included in tenant and other receivables in our consolidated balance sheets (see Note 9).

As of December 31, 2017 and 2016, we had the following receivables and reserves:

	Receivables	Reserves	Balance
Organizational and offering costs	$ 738,000	$ (738,000)	$ -
Asset management fees and expenses	32,000	(32,000)	-
Operating expenses (direct and indirect)	189,000	(189,000)	-
Operating expenses (2%/25% Test)	1,717,000	(1,717,000)	-
Total Real Estate Properties	$ 2,676,000	$ (2,676,000)	$ -

Equity-Method Investments

See Note 5 for further discussion of distributions and acquisition and asset management fees related to our Equity-Method Investments.

8. Concentration of Risk

Our cash is generally invested in investment-grade short-term money market instruments. As of December 31, 2017, we had cash and cash equivalent accounts in excess of FDIC-insured limits. However, we do not believe the risk associated with this excess is significant.

As of December 31, 2017, we owned one property in California, three properties in Oregon, four properties in North Carolina, one property in Texas, one property in Illinois, and one property in Arizona (excluding the 36 properties held by our Equity-Method Investments). Accordingly, there is a geographic concentration of risk subject to economic conditions in certain states.

Additionally, for the year ended December 31, 2017, we leased our 11 real estate properties to four different tenants under long-term triple net leases, three of which comprise 55%, 30% and 13% of our tenant rental revenue. For the year ended December 31, 2016, we leased our 10 healthcare properties to four different tenants under long-term triple net leases, two of which comprise 56% and 33% of our tenant rental revenue.

As of December 31, 2017 and 2016, we have one tenant that constitutes a significant asset concentration, as the net assets of the tenant were 33% and 38%, respectively, of our total assets.

9. Commitments and Contingencies

We inspect our properties under a Phase I assessment for the presence of hazardous or toxic substances. While there can be no assurance that a material environmental liability does not exist, we are not currently aware of any environmental liability with respect to the properties that would have a material effect on our consolidated financial condition, results of operations and cash flows. Further, we are not aware of any environmental liability or any unasserted claim or assessment with respect to an environmental liability that we believe would require additional disclosure or the recording of a loss contingency.

Our commitments and contingencies include the usual obligations of real estate owners and licensed operators in the normal course of business. In the opinion of management, these matters are not expected to have a material impact on our consolidated financial condition, results of operations and cash flows. We are also subject to contingent losses resulting from litigation against the Company.

On April 1, 2014, CRA and Cornerstone Ventures, Inc. filed a complaint in the Superior Court of California for the County of Orange-Central Justice Center, Case No. 30-2014-00714004-CU-BT-CJC, naming the Company, its directors and two of its officers as defendants, seeking declaratory and injunctive relief and compensatory and punitive damages. On September 17, 2014, we filed a First Amended Cross-Complaint seeking compensatory damages and an accounting pursuant to Sections 10(c)(i) and 17(c)(ii) of the Advisory Agreement and including any monies Plaintiffs and Terry Roussel directly or indirectly received from or paid to the Company. On February 22, 2018, the action was assigned to a different trial judge and no trial date has yet been set. We continue to believe that all of plaintiffs' claims are without merit and will continue to vigorously defend ourselves.

A bankruptcy petition was filed against Healthcare Real Estate Partners, LLC ("HCRE") by the investors in Healthcare Real Estate Fund, LLC and Healthcare Real Estate Qualified Purchasers Fund, LLC (collectively, the "Funds"). HCRE did not timely respond to the involuntary petition and the Bankruptcy Court entered an Order of Relief making HCRE a debtor in bankruptcy. As a result, HCRE was removed as manager under the Funds' operating agreement. Thereafter the Company became the manager of the Funds and purchased the investors' interests in the Funds. Following the subsequent dismissal of the involuntary bankruptcy petition filed against it, HCRE filed a motion for attorneys' fees and damages and a separate complaint for violation of the automatic stay against the petitioning creditors and the Company in the United States Bankruptcy Court of the District of Delaware. The Bankruptcy Court granted a motion to dismiss the complaint for violation of the automatic stay filed jointly by the petitioning creditors and us, and dismissed the complaint with prejudice. HCRE appealed the Bankruptcy Court's decision to the United States District Court for the District of Delaware and the appeal is being briefed by the parties. The Bankruptcy Court has stayed all litigation on HCRE's motion for damages pending resolution of the appeal on the complaint for violation of the automatic stay by the District Court. We believe that all of HCRE's remaining alleged claims are without merit and will vigorously defend ourselves.

Delbert Freeman filed an action against us and Mr. Eikanas on December 21, 2017 for breach of contract arising out of the sale of the Athens project in Georgia. We originally guaranteed a lease for the development of the Athens project, which was ultimately sold to a third party. Mr. Freeman sued for breach of contract based on an allegation that he was not paid profits he was promised from the proceeds of the project. Mr. Freeman is also alleging that he was promised consulting fees of $270,000 from us arising out of an alleged agreement to pay consulting fees of $10,000 per month. We believe that his claims are without merit and are vigorously defending them.

Lake Forest Lease

We entered into a lease agreement, as amended, for corporate office space located in Lake Forest, California, which expires in April 2022. Lease payments for the next five years are as follows:

Year	Lease payments
2018	89,000
2019	100,000
2020	104,000
2021	108,000
2022	36,000
	$ 437,000

Indemnification and Employment Agreements

The Company has entered into indemnification agreements with certain officers and directors of the Company against all judgments, penalties, fines and amounts paid in settlement and all expenses actually and reasonably incurred by him or her in connection with any proceeding. Additionally, in September 2015, the Company entered into three-year employment agreements with its officers which include customary terms relating to salary, bonus, position, duties and benefits (including eligibility for equity compensation), as well as a cash payment following a change in control of the Company, as defined in such agreements. In September 2016, the Compensation Committee approved a 2016 executive compensation plan and there were no changes to the 2016 executive compensation plan in 2017.

Management of our Equity-Method Investments

As the manager of our Equity-Method Investments, we are responsible for managing the day-to-day operations and are, thus, subject to contingencies that may arise in the normal course of their operations. Additionally, we could be subject to a capital call from our Equity-Method Investments.

10. Equity

Common Stock

Our articles of incorporation authorize 290,000,000 shares of common stock with a par value of $0.001 and 10,000,000 shares of preferred stock with a par value of $0.001.

Distributions

Our distribution reinvestment plan was suspended indefinitely effective December 31, 2010. At this time, we cannot provide any assurance as to if or when we will resume distributions or our distribution reinvestment plan. We did not pay any distributions to stockholders for the years ended December 31, 2017 and 2016.

Share-Based Compensation Plans

Upon the grant of stock options, we determine the exercise price by using our estimated per-share value, which is calculated by aggregating the estimated fair value of our investments in real estate and the estimated fair value of our other assets, subtracting the estimated fair value of our liabilities, which approximate book value, utilizing a discount for the fact that the shares are not currently traded on a national securities exchange and a control premium, and divided by the total by the number of our common shares outstanding at the time the options were granted.

The fair value of each grant is estimated on the date of grant using the Black-Scholes option-pricing model. Assumptions required by the model include the risk-free interest rate, the expected life of the options, the expected stock price volatility over the expected life of the options, and the expected distribution yield. Compensation expense for employee stock options is recognized ratably over the vesting term. The expected life of the options was based on evaluations of expected future exercise behavior. The risk-free interest rate was based on the U.S. Treasury yield curve at the date of grant with maturity dates approximating the expected term of the options at the date of grant. Volatility was based on historical volatility of the stock prices for a sample of publicly traded companies with risk profiles similar to ours. The valuation model applied in this calculation utilizes highly subjective assumptions that could potentially change over time, including the expected stock price volatility and the expected life of an option.

Summit Healthcare REIT, Inc. 2015 Omnibus Incentive Plan

On October 28, 2015, we adopted the Summit Healthcare REIT, Inc. 2015 Omnibus Incentive Plan (“Incentive Plan”). The purpose of the Incentive Plan is to provide a means through which to attract and retain key personnel and to provide a means whereby current or prospective directors, officers, employees, consultants and advisors can acquire and maintain an equity interest in us, or be paid incentive compensation, including incentive compensation measured by reference to the value of our common stock, thereby strengthening their commitment to our welfare and aligning their interests with those of our stockholders.

We may grant non-qualified stock options and incentive stock options, stock appreciation rights, restricted stock and restricted stock units, and performance based compensation awards. Stock options granted under the Incentive Plan are required to have a per share exercise price that is not less than 100% of the fair market value of our common stock underlying such stock options on the date an option is granted (other than in the case of options that are substitute awards). All stock options that are intended to qualify as incentive stock options must be granted pursuant to an award agreement expressly stating that the option is intended to qualify as an incentive stock option, and will be subject to the terms and conditions that comply with the rules as may be prescribed by Section 422 of the Code. The maximum term for stock options granted under the Incentive Plan will be ten years from the initial date of grant.

The Incentive Plan provides that the total number of shares of common stock that may be issued is 3,000,000, of which 2,104,592 is available for future issuances as of December 31, 2017.

On January 1, 2017, the Compensation Committee of the Board of Directors approved the issuance of 99,000 stock options under our Incentive Plan to our directors and employees. The stock options vest monthly beginning on February 1, 2017 and continuing over a three-year period through January 1, 2020. The options expire 10 years from the grant date. The weighted-average fair value per share of the stock options granted was $0.35.

In March 2017, 182,796 stock options were issued under our Incentive Plan to executive management as part of their 2016 performance bonus arrangement. The options vested 33% on the grant date and the remaining 67% will vest in equal monthly installments beginning January 1, 2017 and continuing over a two-year period through December 31, 2018. The options expire 10 years from the grant date. The weighted-average fair value per share of the stock options granted was $0.29.

On April 3, 2017, the Compensation Committee of the Board of Directors approved the issuance of 170,000 stock options to executive management related to their performance goals for 2016. The stock options were granted under the Incentive Plan, with 33% vesting on the grant date and the remaining 67% vesting in equal monthly installments beginning May 1, 2017 and continuing over a two-year period through April 2019. The options expire 10 years from the grant date. The weighted-average fair value per share of the stock options granted was $0.30.

In November 2017, 43,612 stock options were issued under our Incentive Plan to executive management as part of their 2017 performance bonus arrangement. The options vested 33% on the grant date and the remaining 67% will vest in equal monthly installments beginning December 1, 2017 and continuing over a two-year period through November 2018. The options expire 10 years from the grant date. The weighted-average fair value per share of the stock options granted was $0.32.

The estimated fair value using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2017
Stock options granted	495,408
Expected Volatility	23.50%
Expected lives	2.2 years
Risk-free interest rate	1.27%
Dividends	0%
Fair value per share	$0.31

The following table summarizes our stock options as of December, 2017:

	Options	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term**	**Aggregate Intrinsic Value**
Options outstanding at January 1, 2017	400,000	$ 1.72		
Granted	495,408	2.05		
Exercised	—			
Cancelled/forfeited	—			
Options outstanding at December 31, 2017	895,408	$ 1.90	8.61	$ 805,000
Options exercisable at December 31, 2017	662,307	$ 1.85	8.42	$ 631,000

For our outstanding non-vested options as of December 31, 2017, the weighted average grant date fair value per share was $0.31. As of December 31, 2017, we have unrecognized stock-based compensation expense related to unvested stock options, net of forfeitures, which is expected to be recognized as follows:

Years Ending December 31,	
2018	$ 51,000
2019	21,000
2020	1,000
	$ 73,000

The stock-based compensation expense reported for the years ended December 31, 2017 and 2016 was approximately $106,000 and $28,000, respectively, and is included in general and administrative expense in the consolidated statements of operations.

11. Dispositions

In accordance with ASC 360, *Property, Plant & Equipment*, we report results of operations from real estate assets that meet the definition of a component of an entity that have been sold, or meet the criteria to be classified as held for sale, as discontinued operations.

TRS Held for Sale

In December 2017, we determined to sell our wholly-owned subsidiary, Friendswood TRS. In December 2017, we entered into a Membership Interest Purchase, Assignment, Resignation and Release Agreement ("MIPA") with HMG Park Manor of Friendswood, LLC ("HMG"), pursuant to which we agreed to sell Friendswood TRS, the licensed operator and tenant of Friendship Haven Healthcare and Rehabilitation Center ("Friendship Haven"), to HMG, the current management company of Friendship Haven.

We made the decision to sell Friendswood TRS primarily because we are not in the business of operating facilities, we are in the business of acquiring senior housing facilities and leasing them to independent third party operators under triple-net leases. Friendswood TRS recorded the operations of Friendship Haven as resident services and fee income and resident services costs in their financial statements, which were then consolidated in our consolidated balance sheets and consolidated statements of operations and cash flows. The sale represents a strategic shift to divest ourselves of being a tenant and licensed operator of our facilities and will have a major effect on the Company's operations and financial results as we will no longer record resident services and fee income and resident services costs. The sale was effective as of January 1, 2018. Prior year consolidated financial statements have been restated to present the operations of Friendswood TRS as a discontinued operation and assets and liabilities as held for sale.

The sale was completed on January 1, 2018 and pursuant to the MIPA, we transferred all of our rights, title, and membership interest in Friendswood TRS to HMG. As a result of the sale, as of January 1, 2018, Friendswood TRS will no longer be consolidated in our consolidated financial statements.

In connection with the sale, Friendswood TRS entered into an Amended and Restated 10-year triple-net lease with two five-year renewal options, with CHP Friendswood SNF, LLC, our majority-owned consolidated subsidiary.

Prior to the sale, HMG provided management services to Friendship Haven pursuant to a management agreement with Friendswood TRS. We do not have any continuing obligations under the management agreement post-sale.

The Operating Partnership entered into an amended and restated promissory note with Friendswood TRS for approximately $1.1 million, dated January 1, 2018. The note does not bear interest and is due in 48 equal payments of approximately $22,000. We recorded a discount of approximately $95,000 on the note using an imputed interest rate of 4.25%.

The income from discontinued operations presented in the consolidated statements of operations related to Friendswood TRS consists for the following for the years ended December 31, 2017 and 2016:

	December 31, 2017	December 31, 2016
Revenues:		
Resident services and fee income	$ 9,354,000	$ 8,194,000
Other revenues	11,000	10,000
	9,365,000	8,204,000
Expenses:		
Property operating costs	603,000	684,000
Resident services costs	6,657,000	7,011,000
General and administrative	116,000	72,000
Depreciation and amortization	56,000	50,000
	7,432,000	7,817,000
Income from discontinued operations	$ 1,933,000	$ 387,000

The assets and liabilities of the discontinued operations are presented separately under the captions "Assets of Friendswood TRS held for sale" and "Liabilities of Friendswood TRS held for sale," respectively, in the accompanying consolidated balance sheets at December 31, 2017 and 2016, and consist of the following:

	December 31, 2017	December 31, 2016
ASSETS:		
Cash and cash equivalents	$ 459,000	$ 2,000
Real estate properties, net	320,000	222,000
Tenant and other receivables, net	947,000	943,000
Other assets	36,000	111,000
Total assets	$ 1,762,000	$ 1,278,000
LIABILITIES:		
Accounts payable and accrued liabilities	821,000	881,000
Accrued salaries and benefits	77,000	105,000
Total liabilities of property held for sale (not eliminated)	$ 898,000	$ 986,000
Intercompany note payable (eliminated in consolidation)	972,000	996,000
Total liabilities	$ 1,870,000	$ 1,982,000

Total operating, investing and financing activities from cash flows of the discontinued operations were $455,000, $(71,000) and $72,000, respectively, for the year ended December 31, 2017, and $(137,000), $(102,000) and $72,000, respectively, for the year ended December 31, 2016.

Disposal of real estate

On April 29, 2016, we contributed Riverglen to the SUL JV (see Note 5) and, therefore, Riverglen is no longer consolidated in our condensed consolidated financial statements. The aggregate net value of Riverglen at the date of the contribution was approximately $3.9 million, which approximated the Operating Partnership's carrying value on the date of contribution (total assets were approximately $9.2 million less liabilities of approximately $5.3 million, which included approximately $4.7 million in a HUD insured loan payable).

Medford Purchase Option and Sale

In September 2016, the option holder for our Medford property provided notice to us to exercise its option to purchase the property. On October 31, 2016, we sold the Medford property. The total sale price was $10.8 million, of which we received approximately $3.8 million in cash. The aggregate carrying value of Medford at the date of the sale was approximately $1.3 million, (total assets were approximately $8.0 million less liabilities of approximately $6.7 million, which included approximately $6.7 million in a HUD-insured loan payable). As a result of the sale, as of November 1, 2016, Medford is no longer consolidated in our consolidated financial statements. Additionally, in October 2016, we recorded a net gain of approximately $2.8 million related to the sale.

12. Segment Reporting

ASC 280, *Segment Reporting*, establishes standards for reporting financial and descriptive information about an enterprise's reportable segments. As of December 31, 2017 and 2016, we operate in one reportable segment: healthcare real estate. We are managed as one segment, rather than multiple segments for internal purposes and for internal decision making.

13. Subsequent Events

In December 2017, we determined to sell our wholly-owned subsidiary, Friendswood TRS. The sale was completed on January 1, 2018 and pursuant to the MIPA, we transferred all of our rights, title, and membership interest in Friendswood TRS to HMG. As a result of the sale, as of January 1, 2018, Friendswood TRS will no longer be consolidated in our consolidated financial statements. See Note 11 for further information.

In January 2018, we received approximately $4.0 million in full payoff of the note from the Sherburne Buyer. See Note 6 for further information.

Issuance of Stock Options

On January 1, 2018, the Compensation Committee of the Board of Directors approved the issuance of 41,500 stock options to our employees. The stock options will be granted under the Incentive Plan (see Note 10), will vest monthly over three years and expire 10 years from the grant date.

Land Purchase

In January 2018, we entered in a purchase and sale agreement to purchase the land under the HP Redding facility, Sundial Assisted Living, for $685,000. We have a non-refundable $25,000 deposit and expect to close on or before May 31, 2018.

ITEM 16. FORM 10-K SUMMARY

None

SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SUMMIT HEALTHCARE REIT, INC.

Date: March 16, 2018	By:	/s/ Kent Eikanas
		Kent Eikanas
		President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 16, 2018.

Name	Title
/s/ Kent Eikanas Kent Eikanas	President (Principal Executive Officer)
/s/ Elizabeth A. Pagliarini Elizabeth A. Pagliarini	Chief Financial Officer (Principal Financial Officer)
/s/ J. Steven Roush J. Steven Roush	Director
/s/ Suzanne Koenig Suzanne Koenig	Director
/s/ Kent Eikanas Kent Eikanas	Director

EXHIBIT INDEX

Ex.	Description
3.1	Amendment and Restatement of Articles of Incorporation (incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K filed on March 24, 2006).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.3 to Post-Effective Amendment No. 1 to the Registration Statement on Form S-11 (No. 333-121238) filed on December 23, 2005 ("Post-Effective Amendment No. 1")).
3.3	Articles of Amendment of Cornerstone Core Properties REIT, Inc. dated October 16, 2013 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on October 22, 2013).
3.4	Second Articles of Amendment and Restatement of Articles of Incorporation of Cornerstone Core Properties REIT, Inc. dated June 30, 2010 (incorporated by reference to the Company's Annual Report on Form 10-K filed on March 20, 2015).
4.1	Subscription Agreement (incorporated by reference to Appendix A to the prospectus included on Post-Effective Amendment No. 2 to the Registration Statement on Form S-11 (No. 333-155640) filed on April 16, 2010 ("Post-Effective Amendment No. 2")).
4.2	Statement regarding restrictions on transferability of shares of common stock (to appear on stock certificate or to be sent upon request and without charge to stockholders issued shares without certificates) (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-11 (No. 333-121238) filed on December 14, 2004).
4.3	Amended and Restated Distribution Reinvestment Plan (incorporated by reference to Appendix B to the prospectus dated April 16, 2010 included on Post-Effective Amendment No. 2).
4.4	2015 Omnibus Incentive Plan dated October 28, 2015 (incorporated by reference to Appendix A to the Definitive Proxy Statement on Schedule 14A filed on September 28, 2015).
10.1	Loan Agreement between Summit Chandler, LLC, as borrower and Capital One, National Association, dated July 17, 2017 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 18, 2017).
10.2	Purchase and Sale Agreement between Summit Healthcare REIT, Inc. and Family Healthreach, Inc. dated as of April 5, 2017 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on July 18, 2017).
10.3	Limited Liability Company Agreement of Summit Union Life Holdings, LLC between Summit Healthcare Operating Partnership, LP and Best Years, LLC dated as of April 7, 2015 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 1, 2015).
10.4	Assignment and Assumption of Limited Liability Company Membership Interests made by Summit Healthcare Operating Partnership, LP and Summit Union Life Holdings, LLC dated as of April 28, 2015 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 1, 2015).
10.5	Employment Agreement, dated as of September 23, 2015, between Kent Eikanas and the Company (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 28, 2015).

10.6	Employment Agreement, dated as of September 23, 2015, between Elizabeth Pagliarini and the Company (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on September 28, 2015).
10.7	Healthcare Facility Note with respect to HUD – insured loans between HP Aledo, LLC and Lancaster Pollard Mortgage Company, LLC dated October 1, 2015 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 9, 2015).
10.8	Healthcare Regulatory Agreement – Borrower between HP Aledo, LLC and HUD dated October 1, 2015 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 9, 2015).
10.9	Term Loan and Security Agreement between Oxford Finance LLC and CHP Friendswood SNF, LLC dated October 6, 2015 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on October 9, 2015).
10.11	Healthcare Regulatory Agreement – Borrower between HP Winston-Salem, LLC and HUD dated December 16, 2015 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 23, 2015).
10.12	Second Amendment to Limited Liability Company Agreement of Summit Union Life Holdings, LLC dated as of December 21, 2015 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 30, 2015).
10.13	Assignment and Assumption of Limited Liability Company Membership Interests made by Summit Healthcare Operating Partnership, LP and Summit Union Life Holdings, LLC dated as of December 24, 2015 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 30, 2015).
10.14	Healthcare Facility Note with respect to HUD – insured loans between HP Winston-Salem, LLC and Lancaster Pollard Mortgage Company, LLC dated December 21, 2015 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 23, 2015).
10.15	Cornerstone Healthcare Partners LLC Operating Agreement dated June 11, 2012 (incorporated by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q filed on November 14, 2012).
10.16	Agreement of Limited Partnership of Cornerstone Operating Partnership, L.P. (incorporated by reference to Exhibit 10.2 to Pre-Effective Amendment No. 4 to the Registration Statement on Form S-11 (No. 333-121238) filed on August 30, 2005).
10.17	Indemnification Agreement dated July 31, 2014 by and between the Company and Kent Eikanas (incorporated by reference to the form of such agreement on Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 1, 2014).
10.18	Indemnification Agreement dated September 2, 2014 by and between the Company and Elizabeth Pagliarini (incorporated by reference to the form of such agreement on Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 3, 2014).
10.19	Healthcare Facility Note (incorporated by reference to the form of such note on Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 23, 2014).
10.20	Lease Agreement between CHP Portland, LLC, CHP Tigard, LLC and Sheridan Care Center LLC, and SNF Management, LLC dated September 1, 2014 (incorporated by reference on Exhibit 10.29 to the Company's Annual Report on Form 10-K filed on March 20, 2015).
10.21	Form of Healthcare Facility Note (incorporated by reference to the form of such note on Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 2, 2014).

10.22	Form of Healthcare Regulatory Agreement – Borrower (incorporated by reference to the form of such agreement on Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 2, 2014).
10.23	Membership Interest Purchase, Assignment, Resignation and Release Agreement between HMG Park Manor of Friendswood, LLC and Summit Healthcare REIT, Inc. dated January 1, 2018 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 5, 2018).
10.24	Amended and Restated Lease between CHP Friendswood SNF, LLC and Friendswood TRS, LLC dated January 1, 2018 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on January 5, 2018).
10.25	Amended and Restated Promissory Note between Friendswood TRS, LLC and Summit Healthcare Operating Partnership, L.P. dated January 1, 2018 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on January 5, 2018).
14.1	Code of Business Conduct and Ethics (incorporated by reference to Exhibit 14.1 to the Company's Annual Current Report on Form 8-K filed on June 23, 2014).
21.1	List of Subsidiaries (filed herewith).
23.1	Consent of Jones, Maresca & McQuade, P.A (filed herewith).
23.2	Consent of BDO USA, LLP (filed herewith).
31.1	Certification of Principal Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of Principal Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of Principal Executive Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
99.1	WPH Salem, LLC Combined Financial Statements as of and for the years ended December 31, 2017 and 2016 (filed herewith).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Exhibit 21.1

Summit Healthcare Operating Partnership, L.P.	Delaware
Healthcare Properties	
Cornerstone Healthcare Partners, LLC	Delaware
Cornerstone Healthcare Holdings 1, LLC	Delaware
CHP Portland LLC	Delaware
CHP Medford 1 LLC	Delaware
CHP Friendswood SNF, LLC	Delaware
CHP Tigard, LLC	Delaware
Healthcare Property Holding Co., LLC	Delaware
HP Winston-Salem, LLC	Delaware
NHP Holding Co., LLC	Delaware
HP Aledo, LLC	Delaware
HP Shelby, LLC	Delaware
HP Carteret, LLC	Delaware
HP Hamlet, LLC	Delaware
HP Redding, LLC	Delaware
Friendswood TRS, LLC	Delaware
Summit Healthcare Asset Management, LLC	Delaware
Summit Chandler, LLC	Delaware

Exhibit 23.1

Consent of Independent Auditor

We consent to the incorporation by reference in this Annual Report on Form 10-K of Summit Healthcare REIT, Inc. of our report dated March 1, 2018, with respect to the combined financial statements of WPH Salem, LLC as of and for the years ended December 31, 2017 and 2016.

/s/ Jones, Maresca & McQuade, P.A.

Jones, Maresca & McQuade, P.A.
Columbia, Maryland

March 02, 2018

Exhibit 23.2

Consent of Independent Registered Public Accounting Firm

Summit Healthcare REIT, Inc.
Lake Forest, California

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-212231) of Summit Healthcare REIT, Inc. of our report dated March 16, 2018, relating to the consolidated financial statements which appears in this Form 10-K.

/s/ BDO USA, LLP

Costa Mesa, California
March 16, 2018

Exhibit 31.1

CERTIFICATIONS

I, Kent Eikanas, certify that:

1. I have reviewed this annual report on Form 10-K of Summit Healthcare REIT, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; and

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

	/s/ Kent Eikanas
Date: March 16, 2018	Kent Eikanas
	President
	(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Elizabeth A. Pagliarini, certify that:

1. I have reviewed this annual report on Form 10-K of Summit Healthcare REIT, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; and

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Elizabeth A. Pagliarini

Date: March 16, 2018

Elizabeth A. Pagliarini
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATIONS PURSUANT TO
18 U.S.C. Sec.1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Kent Eikanas and Elizabeth A. Pagliarini, do each hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his or her knowledge, the Annual Report of Summit Healthcare REIT, Inc. on Form 10-K for the year ended December 31, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-K fairly presents in all material respects the financial condition and results of operations of Summit Healthcare REIT, Inc.

Date: March 16, 2018	/s/ Kent Eikanas Kent Eikanas *President* *(Principal Executive Officer)*
Date: March 16, 2018	/s/ Elizabeth A. Pagliarini Elizabeth A. Pagliarini *Chief Financial Officer* *(Principal Financial Officer)*

Exhibit 99.1

WPH SALEM, LLC

COMBINED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR’S REPORT

DECEMBER 31, 2017

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JONES, MARESCA & MCQUADE, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

10500 Little Patuxent Parkway
Suite 770
Columbia, Maryland 21044
(410) 884-0220
(301) 596-5451
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Independent Auditor's Report

To the Management of
WPH Salem, LLC
Hickory, NC

We have audited the accompanying combined financial statements of WPH Salem, LLC (a Delaware corporation), which comprise the combined balance sheet as of December 31, 2017 and the related combined statements of operations and member's equity, and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the combined financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined 2017 financial statements referred to above present fairly, in all material respects, the financial position of WPH Salem, LLC as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The combined financial statements of WPH Salem, LLC as of December 31, 2016, were audited by other auditors whose report dated March 8, 2017, expressed an unmodified opinion on those statements.

As part of our audit of the 2017 combined financial statements, we also audited the adjustments described in Note G that were applied to restate the 2016 combined financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2016 combined financial statements of WPH Salem, LLC other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2016 combined financial statements as a whole.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining information presented in Schedules I and II is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The combining information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Jaue Mausca & McQuade PA

Columbia, Maryland
March 1, 2018

WPH SALEM, LLC
COMBINED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016

	2017	2016 (Restated)
ASSETS		
CURRENT ASSETS		
Cash	$ 202,962	$ 55,190
Resident trust fund cash, restricted	96,957	76,275
Tenant receivables, net	419,328	1,024,270
Due from affiliates	-	41,309
Accounts receivable, other	1,941	134,211
Escrow deposits	753,468	630,412
Inventory	7,662	7,014
Prepaid expenses	124,264	134,672
Other current assets	139	-
Total Current Assets	1,606,721	2,103,353
PROPERTY AND EQUIPMENT, NET	803,319	808,417
OTHER ASSETS		
Security deposits	722,218	722,218
TOTAL ASSETS	$ 3,132,258	$ 3,633,988

The accompanying notes are an integral part of these combined financial statements.

WPH SALEM, LLC
COMBINED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016
(continued)

	2017	2016 (Restated)
LIABILITIES AND MEMBER'S EQUITY		
CURRENT LIABILITIES		
Cash overdraft	$ 80,204	$ -
Accounts payable	1,155,861	1,543,404
Accrued expenses	408,871	337,912
Resident trust funds payable	96,957	76,275
Deferred revenue	112,411	204,075
Total Current Liabilities	1,854,304	2,161,666
LONG-TERM LIABILITIES		
Deferred rent	1,741,863	1,414,563
Total Liabilities	3,596,167	3,576,229
MEMBER'S EQUITY (DEFICIT)		
Member's equity (deficit)	(463,909)	57,759
TOTAL LIABILITIES AND MEMBER'S EQUITY	$ 3,132,258	$ 3,633,988

The accompanying notes are an integral part of these combined financial statements.

WPH SALEM, LLC
COMBINED STATEMENTS OF OPERATIONS AND MEMBER'S EQUITY
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016 (Restated)
REVENUE		
Assisted living revenue, net of contractual allowances	$ 9,969,868	$ 9,759,618
Other income	139,061	42,154
Total Revenue	10,108,929	9,801,772
OPERATING EXPENSES		
Salaries	3,218,187	3,223,200
Payroll taxes	291,453	308,361
Employee benefits	214,058	274,945
Food costs	548,446	591,655
Utilities	545,173	556,356
Supplies	182,989	173,935
Repairs and maintenance	162,709	158,041
Insurance	204,193	199,247
Property taxes	294,618	338,112
Professional/consulting fees	371,850	395,421
General and administrative expenses	279,122	337,156
Bad debt expense	905,369	385,081
Advertising and marketing	51,937	35,223
Travel and entertainment	28,979	23,694
Management service fee	501,729	496,091
Total Operating Expenses	7,800,812	7,496,518
CAPITAL RELATED EXPENSES		
Depreciation and amortization	155,065	148,908
Rent	3,373,748	3,373,747
Total Capital Related Expenses	3,528,813	3,522,655
NET LOSS	(1,220,696)	(1,217,401)
MEMBER'S EQUITY, beginning of year	57,759	2,404,476
Prior period adjustment	-	(1,024,181)
MEMBER'S EQUITY, beginning of year (restated)	57,759	1,380,295
Contributions from members	1,396,268	-
Distributions to members	(697,240)	(105,135)
MEMBER'S EQUITY, end of year	$ (463,909)	$ 57,759

The accompanying notes are an integral part of these combined financial statements.

WPH SALEM, LLC
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

		2017		2016 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss	$	(1,220,696)	$	(1,217,401)
Adjustments to reconcile change in net loss to change in net cash used for operating activities:				
Depreciation and amortization		155,065		148,908
Provision for bad debts		905,369		32,779
Decrease (increase) in assets:				
Resident trust fund cash, restricted		(20,682)		(7,787)
Tenant receivables		(300,427)		(240,737)
Due from affiliates		41,309		(6,023)
Accounts receivable, other		132,270		(73,455)
Escrow deposits		(123,056)		(55,628)
Inventory		(648)		5,570
Prepaid expenses		10,408		24,978
Other current assets		(139)		-
Increase (decrease) in liabilities:				
Cash overdraft		80,204		-
Accounts payable		(387,543)		823,262
Accrued expenses		70,959		108,877
Resident trust fund payable		20,682		7,787
Deferred revenue		(91,664)		51,291
Deferred rent		327,300		390,382
Net Cash Used for Operating Activities		(401,289)		(7,197)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property and equipment		(149,967)		(48,338)
Net Cash Used for Investing Activities		(149,967)		(48,338)
CASH FLOWS FROM FINANCING ACTIVITIES				
Contributions from members		1,396,268		-
Distributions to members		(697,240)		(105,135)
Net Cash Provided by (Used for) Financing Activities		699,028		(105,135)
NET INCREASE (DECREASE) IN CASH		147,772		(160,670)
CASH, beginning of year		55,190		215,860
CASH, end of year	$	202,962	$	55,190

The accompanying notes are an integral part of these combined financial statements.

WPH SALEM, LLC
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE A – NATURE OF THE ORGANIZATION

WPH Salem, LLC (the "Company") is an LLC taxed as a partnership organized under the laws of the State of Delaware. The Company operates a group of five assisted living facilities ("OPCOs") operating out of Hickory, North Carolina and Aledo, Illinois. Three of the OPCOs (Hamlet AL Holdings LLC, Carteret-Newport AL Holdings LLC, and Shelby AL Holdings LLC) are single-member LLCs organized under the laws of the State of North Carolina. Two of the OPCOs (MW Aledo Operating LLC and Danby House LLC) are single-member LLCs organized under the laws of the State of Delaware. Four of the OPCOS operate in North Carolina. Aledo operates in Illinois. The Company primarily serves elderly Medicaid residents who need assistance with basic living activities.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Combination

The combined financial statements include the accounts of the five OPCOs which operate under one master lease. All significant intercompany accounts and transactions between the OPCOs have been eliminated in combination.

Basis of Accounting

The combined financial statements were prepared using the accrual basis of accounting. Therefore, revenue and related assets are recognized when earned and expenses and related liabilities are recognized as the obligations are incurred.

Assisted Living Revenue and Tenant Receivables

Tenant receivables are reported at estimated net realizable amounts from tenants. Tenant receivables from Medicaid are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments provided to Medicaid. Tenant receivables are reduced by an allowance for doubtful accounts, which is determined by identifying troubled accounts and by historical experience. The Company generally does not charge interest on past due accounts. Tenant receivables are written off against the allowance for doubtful accounts when deemed uncollectible. The allowance for doubtful accounts was $861,496 and $73,807 as of December 31, 2017 and 2016, respectively.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assisted Living Revenue and Tenant Receivables (continued)

The Company has agreements with Medicaid that provide for payments to the OPCOs at amounts different from its established rates. Payment arrangements include predetermined fee schedules and discount charges. Contractual adjustments under the Medicaid third-party reimbursement agreements represent the different between the Company's billings at the established rates and the amounts reimbursed by Medicaid. Contractual allowances and discounts are deducted from assisted living revenue. Assisted living revenue is therefore reported at the estimated net realizable amount from tenants and Medicaid for services rendered, including retroactive adjustments under reimbursement agreements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Resident Trust Fund Cash, Restricted

The Company holds resident personal funds on behalf of the residents. A corresponding Resident Trust Funds Payable is established with respect to these balances.

Escrow Deposits

Under the provisions of the Master Lease Agreement, refundable escrow deposits for capital expenditures, property insurance, and property taxes are required for each of the OPCOs to secure full, faithful, and punctual performance of the lessees. These deposits are due and payable in arrears.

Inventory

Inventory consists of food for residents and is stated at the lower of cost or market.

Security Deposits

Security deposits consist of funds held by the landlord in accordance with the Master Lease Agreement for capital reserve funds and utility deposits held by the related utility company.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment are stated at cost. Purchases and improvements greater than $500 and a useful life of one year are charged to the property accounts, while maintenance and repairs, which do not improve or extend life of the respective assets, are expensed as incurred. Depreciation is provided using the straight-line method over estimated useful lives of the assets, ranging from three to ten years. Leasehold improvements are amortized on a straight-line basis over the useful life of the asset or lease term, whichever is less. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gains or losses are included in operations.

Whenever events or changes in circumstances indicate that the related carrying amount of an asset may not be recovered, management, using its best estimates and projections, reviews for impairment the carrying value of long-lived identifiable assets to be held and used in the future. Any impairment losses identified are recognized when determined.

Deferred Rent

The Company records rent expense including incentives on a straight-line basis over the terms of its leases. Deferred rental liability is recorded as the difference in rent expense recognized on a straight-line basis and cash payments.

Advertising

Advertising costs are expensed as incurred. Advertising expense totaled $51,937 and $35,223 for the years ended December 31, 2017 and 2016, respectively.

Income Taxes

The Company and all related OPCOs included in these combined financial statements are single member limited liability companies whereby all of the elements of income and deductions are included in the tax returns of their member. Therefore, no income tax provision or liability for federal and state purposes related to the entities are recorded in these combined financial statements.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes (continued)

The Company has adopted Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, Income Taxes, with no cumulative effect adjustment required. The Company believes that its income tax filing positions and deductions will be sustained upon examination, and accordingly, has not recorded any reserves, or related accruals for interest and penalties as of December 31, 2017 or 2016, for uncertain tax positions. The Company continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings. The Company has adopted a policy under which, if required to be recognized in the future, it will classify interest related to the underpayment of income taxes as a component of interest expense, and will classify any related penalties under general and administrative expenses in the combined statement of income.

With few exceptions, the Company is no longer subject to U.S. federal, state, and local income tax examinations by tax authorities for tax returns filed for years beginning before January 1, 2014.

Reclassifications

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation.

NOTE C – PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31:

	2017	**2016**
Furniture, fixtures, and equipment	$ 194,505	$ 192,315
Other equipment	161,395	116,048
Leasehold improvements	1,064,196	961,766
	1,420,096	1,270,129
Less: accumulated depreciation and amortization	(616,777)	(461,712)
Property and Equipment, Net	$ 803,319	$ 808,417

Depreciation and amortization expense for the years ended December 31, 2017 and 2016 totaled $155,065 and $148,908, respectively.

NOTE D – LEASE OBLIGATIONS

The Company leases facilities under various lease agreements with unrelated third-party landlords. These non-cancellable lease agreements have terms extending through December 31, 2030. The leases are structured as triple net leases whereby the individual OPCOs are required to pay all executory costs, including taxes, insurance, utilities and maintenance.

The following is a schedule of the future minimum lease payments at December 31, 2017:

Year ending December 31,	Amount
2018	$ 3,110,871
2019	3,176,659
2020	3,243,852
2021	3,312,459
2022	3,382,527
Thereafter	27,441,402
	$43,667,770

Rent expense for the years ended December 31, 2017 and 2016 totaled $3,373,748 and $3,373,747 respectively.

NOTE E – CONCENTRATION OF RISK

Cash

The Company places its cash and temporary cash investments with high credit quality institutions. The Company, at times, could have deposits in excess of federally insured limits. Management does not believe the Company is exposed to any risk, which might affect the financial position of the Company.

Medicaid

The Company provides services to residents of North Carolina who are Medicaid recipients. Accordingly, the company is subject to a concentration of revenue risks related to the North Carolina Medicaid Program. Revenue received under the North Carolina Medicaid Program is subject to audit and retroactive adjustment by the fiscal intermediary. The Company provides estimates for potential adjustments by the fiscal intermediary which may or may not occur in future years. Adjustments that significantly differ from the applicable estimates are reflected as an increase or decrease in resident services revenue in the year the adjustments are finalized.

NOTE E – CONCENTRATION OF RISK (continued)

The Company derived approximately 54% and 53% of its revenues from Medicaid for the years ended December 31, 2017 and 2016, respectively. Approximately 74% and 59% of gross tenant receivables at December 31, 2017 and 2016, respectively, are due from Medicaid. Management does not believe there are significant credit risks associated with amounts due from Medicaid.

NOTE F – RELATED PARTY TRANSACTIONS

The Company has management agreements with related parties with common ownership to operate the OPCOs. Management fees expensed under these agreements totaled $501,729 and $496,091 for the years ended December 31, 2017 and 2016, respectively.

The Company purchases medical supplies from a vendor in which an executive of one of the aforementioned management companies is a principal. For the years ended December 31, 2017 and 2016, the Company purchased medical supplies totaling approximately $27,053 and $25,400, respectively. As of December 31, 2017 and 2016, the Company had outstanding accounts payable due to the related party of approximately $26,762 and $11,800, respectively.

NOTE G - PRIOR PERIOD ADJUSTMENT

The Company discovered that previously issued financial statements included certain errors related to the fact that it had not previously recognized rental expense on a straight line basis in accordance with Financial Accounting Standards Board Accounting Standards Codification 842: *Leases*. The errors in accounting required restatements of the 2016 combined financial statements.

As a result of this adjustment, members equity as of December 31, 2015 was reduced by $1,024,181. In addition, deferred rent liability as of December 31, 2016 was increased by $1,414,563. Also as a result of this adjustment, rent expense for the year ended December 31, 2016 was increased by $458,573, resulting in a corresponding decrease in members equity as of December 31, 2016.

NOTE H – PROFESSIONAL LIABILITY INSURANCE

The Company maintains claims-made basis professional liability insurance with a per-claim limit of $1,000,000 and aggregate annual limit of $3,000,000 with a commercial carrier. The Company is liable for a deductible up to $25,000 for each claim.

NOTE I – SUBSEQUENT EVENTS

In preparing these combined financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through March 1, 2018, the date the combined financial statements were available to be issued. There were no additional events or transactions that were discovered during the evaluation that required further recognition or disclosure.

SUPPLEMENTARY INFORMATION

WPH SALEM, LLC
SCHEDULE I - COMBINING BALANCE SHEETS
DECEMBER 31, 2017

	Carteret	Hamlet	Shelby	Aledo	Danby	Eliminations	Combined
ASSETS							
CURRENT ASSETS							
Cash	$ 10,913	$ -	$ -	$ 192,049	$ -	$ -	$ 202,962
Resident trust fund cash, restricted	6,186	9,902	26,820	-	54,049	-	96,957
Tenant receivables, net	3,502	78,265	108,270	66,252	163,039	-	419,328
Accounts receivable, other	-	5	-	-	1,936	-	1,941
Escrow deposits	124,218	150,178	68,708	158,083	252,281	-	753,468
Inventory	1,875	1,344	1,840	-	2,603	-	7,662
Prepaid expenses	30,037	21,898	45,367	6,573	20,389	-	124,264
Other current assets	139	-	-	-	-	-	139
Total Current Assets	176,870	261,592	251,005	422,957	494,297	-	1,606,721
PROPERTY AND EQUIPMENT, NET	208,704	99,127	304,323	55,780	135,385	-	803,319
OTHER ASSETS							
Security deposits	102,387	139,706	95,625	166,250	218,250	-	722,218
TOTAL ASSETS	$ 487,961	$ 500,425	$ 650,953	$ 644,987	$ 847,932	$ -	$ 3,132,258
LIABILITIES AND MEMBER'S EQUITY							
CURRENT LIABILITIES							
Cash overdraft	$ -	$ 38,158	$ 20,536	$ -	$ 21,510	$ -	$ 80,204
Accounts payable	247,894	257,171	323,531	32,962	294,303	-	1,155,861
Accrued expenses	75,336	39,194	48,311	139,224	106,806	-	408,871
Resident trust funds payable	6,186	9,902	26,820	-	54,049	-	96,957
Deferred revenue	24,470	4,814	4,917	61,342	16,868	-	112,411
Total Current Liabilities	353,886	349,239	424,115	233,528	493,536	-	1,854,304
LONG-TERM LIABILITIES							
Deferred rent	230,637	349,113	241,692	487,790	432,631		1,741,863
Total Liabilities	584,523	698,352	665,807	721,318	926,167	-	3,596,167
MEMBER'S EQUITY							
Member's equity (deficit)	(96,562)	(197,927)	(14,854)	(76,331)	(78,235)	-	(463,909)
TOTAL LIABILITIES AND MEMBER'S EQUITY	$ 487,961	$ 500,425	$ 650,953	$ 644,987	$ 847,932	$ -	$ 3,132,258

WPH SALEM, LLC
SCHEDULE I - COMBINING BALANCE SHEETS
DECEMBER 31, 2016 (RESTATED)

	Carteret	Hamlet	Shelby	Aledo	Danby	Eliminations	Combined
ASSETS							
Cash	$ 11,089	$ 518	$ 895	$ 38,621	$ 4,067	$ -	$ 55,190
Resident trust fund cash, restricted	9,345	24,046	10,834	-	32,050	-	76,275
Tenant receivables, net	45,051	111,269	77,969	436,027	353,954	-	1,024,270
Due from affiliates	295,537	-	267,888	40,000	1,309	(563,425)	41,309
Accounts receivable, other	103,460	-	-	21,986	8,765	-	134,211
Escrow deposits	99,355	138,323	62,766	137,486	192,482	-	630,412
Inventory	1,873	1,720	1,322	-	2,099	-	7,014
Prepaid expenses	29,581	16,238	27,804	45,384	15,665	-	134,672
Total Current Assets	595,291	292,114	449,478	719,504	610,391	(563,425)	2,103,353
PROPERTY AND EQUIPMENT, NET	247,408	100,437	311,765	47,860	100,947	-	808,417
OTHER ASSETS							
Security deposits	102,387	139,706	95,625	166,250	218,250	-	722,218
TOTAL ASSETS	$ 945,086	$ 532,257	$ 856,868	$ 933,614	$ 929,588	$ (563,425)	$ 3,633,988
LIABILITIES AND MEMBER'S EQUITY							
CURRENT LIABILITIES							
Accounts payable	$ 318,040	$ 423,592	$ 333,318	$ 57,143	$ 411,311	$ -	$ 1,543,404
Due to affiliates	-	478,094	85,331	-	-	(563,425)	-
Accrued expenses	57,104	24,389	34,581	164,473	57,365	-	337,912
Resident trust funds payable	9,345	24,046	10,834	-	32,050	-	76,275
Deferred revenue	82,772	9,643	6,699	66,067	38,894	-	204,075
Total Current Liabilities	467,261	959,764	470,763	287,683	539,620	(563,425)	2,161,666
LONG-TERM LIABILITIES							
Deferred rent	188,357	285,114	197,385	422,061	321,646	-	1,414,563
Total Liabilities	655,618	1,244,878	668,148	709,744	861,266	(563,425)	3,576,229
MEMBER'S EQUITY							
Member's equity (deficit)	289,468	(712,621)	188,720	223,870	68,322	-	57,759
TOTAL LIABILITIES AND MEMBER'S EQUITY	$ 945,086	$ 532,257	$ 856,868	$ 933,614	$ 929,588	$ (563,425)	$ 3,633,988

WPH SALEM, LLC
SCHEDULE II - COMBINING STATEMENTS OF OPERATIONS AND MEMBER'S EQUITY
YEAR ENDED DECEMBER 31, 2017

	Carteret	Hamlet	Shelby	Aledo	Danby	Combined
REVENUE						
Assisted living revenue, net of contractual allowances	$ 1,633,527	$ 1,325,960	$ 1,648,340	$ 2,374,744	$ 2,987,297	$ 9,969,868
Other income	13,064	7,854	76,765	20,893	20,485	139,061
Total Revenue	1,646,591	1,333,814	1,725,105	2,395,637	3,007,782	10,108,929
OPERATING EXPENSES						
Salaries	551,119	421,967	605,329	585,269	1,054,503	3,218,187
Payroll taxes	49,473	38,372	54,773	49,749	99,086	291,453
Employee benefits	22,913	18,572	31,504	88,433	52,636	214,058
Food costs	106,155	87,551	92,184	121,840	140,716	548,446
Utilities	117,115	98,740	105,354	122,244	101,720	545,173
Supplies	31,799	28,394	40,976	32,352	49,468	182,989
Repairs and maintenance	27,738	32,231	40,938	28,897	32,905	162,709
Insurance	47,061	25,281	41,455	41,790	48,606	204,193
Property taxes	31,567	39,037	23,738	123,032	77,244	294,618
Professional/consulting fees	59,634	81,726	105,095	32,240	93,155	371,850
General and administrative expenses	57,819	35,168	62,131	47,576	76,428	279,122
Bad debt expense	16,466	90,407	44,572	482,494	271,430	905,369
Advertising and marketing	12,793	3,115	5,043	26,369	4,617	51,937
Travel and entertainment	3,728	5,377	1,475	14,900	3,499	28,979
Management service fee	81,326	68,662	83,781	116,614	151,346	501,729
Total Operating Expenses	1,216,706	1,074,600	1,338,348	1,913,799	2,257,359	7,800,812
CAPITAL RELATED EXPENSES						
Depreciation and amortization	45,169	21,041	49,559	17,521	21,775	155,065
Rent	434,675	657,965	455,511	764,518	1,061,079	3,373,748
Total Capital Related Expenses	479,844	679,006	505,070	782,039	1,082,854	3,528,813
NET INCOME (LOSS)	(49,959)	(419,792)	(118,313)	(300,201)	(332,431)	(1,220,696)
MEMBER'S EQUITY, beginning of year	289,468	(712,621)	188,720	223,870	68,322	57,759
Contributions from member	63,180	949,286	32,986	-	350,816	1,396,268
Distributions to member	(399,251)	(14,800)	(118,247)	-	(164,942)	(697,240)
MEMBER'S EQUITY (DEFICIT), end of year	$ (96,562)	$ (197,927)	$ (14,854)	$ (76,331)	$ (78,235)	$ (463,909)

WPH SALEM, LLC
SCHEDULE II - COMBINING STATEMENTS OF OPERATIONS AND MEMBER'S EQUITY (DEFICIT)
YEAR ENDED DECEMBER 31, 2017 (RESTATED)

	Carteret	Hamlet	Shelby	Aledo	Danby	Combined
REVENUE						
Assisted living revenue, net of contractual allowances	$ 1,628,200	$ 1,408,351	$ 1,495,350	$ 2,373,358	$ 2,854,359	$ 9,759,618
Other income	7,158	4,535	4,781	19,951	5,729	42,154
Total Revenue	1,635,358	1,412,886	1,500,131	2,393,309	2,860,088	9,801,772
OPERATING EXPENSES						
Salaries	535,839	410,299	614,350	593,022	1,069,690	3,223,200
Payroll taxes	52,563	40,704	59,407	50,862	104,825	308,361
Employee benefits	14,055	17,480	30,335	117,326	95,749	274,945
Food costs	108,513	115,899	98,903	120,116	148,224	591,655
Utilities	114,470	78,511	95,680	131,002	136,693	556,356
Supplies	30,270	25,441	31,359	42,707	44,158	173,935
Repairs and maintenance	36,567	23,851	27,599	47,403	22,621	158,041
Insurance	48,372	26,170	41,243	36,859	46,603	199,247
Property taxes	45,147	38,348	23,474	157,801	73,342	338,112
Professional/consulting fees	64,397	85,249	112,797	35,794	97,184	395,421
General and administrative expenses	45,878	29,775	49,859	148,273	63,371	337,156
Bad debt expense	16,347	14,129	48,767	23,930	281,908	385,081
Advertising and marketing	7,325	3,141	4,187	16,645	3,925	35,223
Travel and entertainment	5,180	6,254	3,216	7,091	1,953	23,694
Management service fee	82,186	75,468	74,892	119,111	144,434	496,091
Total Operating Expenses	1,207,109	990,719	1,316,068	1,647,942	2,334,680	7,496,518
CAPITAL RELATED EXPENSES						
Depreciation and amortization	44,470	20,036	48,566	13,963	21,873	148,908
Rent	434,675	657,965	455,511	764,518	1,061,078	3,373,747
Total Capital Related Expenses	479,145	678,001	504,077	778,481	1,082,951	3,522,655
NET LOSS	(50,896)	(255,834)	(320,014)	(33,114)	(557,543)	(1,217,401)
MEMBER'S EQUITY, beginning of year	477,807	(248,742)	652,764	704,749	817,898	2,404,476
Prior period adjustment	(137,443)	(208,045)	(144,030)	(342,630)	(192,033)	(1,024,181)
MEMBER'S EQUITY, beginning of year (restated)	340,364	(456,787)	508,734	362,119	625,865	1,380,295
Distributions to member	-	-	-	(105,135)	-	(105,135)
MEMBER'S EQUITY (DEFICIT), end of year	$ 289,468	$ (712,621)	$ 188,720	$ 223,870	$ 68,322	$ 57,759