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, 2019

☐ **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 **(State or other jurisdiction of incorporation or organization)**	**73-1721791** **(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	Ticker symbol(s)	Name of each exchange on which registered
N/A	N/A	N/A

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	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, 2019 (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 16, 2020 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,” “projects,” “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, 2019, 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, 2019, our ownership interests in our seven real estate properties of senior housing facilities was as follows: 100% ownership of three properties, and 95.3% ownership interest in four properties held in a consolidated joint venture, Cornerstone Healthcare Partners LLC. Additionally, we have a 10% equity interest in an unconsolidated equity-method investment that holds 17 properties, a 35% equity interest in an unconsolidated equity-method investment that holds two properties, a 20% equity interest in an unconsolidated equity-method investment that holds two properties, a 10% equity interest in an unconsolidated equity-method investment that holds nine properties, a 10% equity interest in an unconsolidated equity-method investment that holds six properties and a 15% equity interest in an unconsolidated equity-method investment that holds 14 properties.

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 of our tenants 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 of the facility (e.g. bookkeeping, human resources, payroll processing, etc.).

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% noncontrolling 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 four properties (each, a "JV Property" and collectively, the "JV Properties").

As of December 31, 2019 and 2018, we own a 95.3% interest in the four JV Properties, and CHREF owns a 4.7% interest. As of December 31, 2018, we also owned a 95% interest in the fifth JV Property, and CHREF owned a 5% interest in the fifth JV Property, which was sold in February 2019 (see Note 11 to the accompanying Notes to Consolidated Financial Statements).

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, 2019 and 2018, we have a 10% interest in the SUL JV which owns 17 properties.

Summit Fantasia Holdings, LLC – Equity-Method Investment

In September 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, 2019 and 2018, we have a 35% in the Fantasia JV which owns two properties.

Summit Fantasia Holdings II, LLC – Equity-Method Investment

In December 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, 2019 and 2018, we have a 20% interest in the Fantasia II JV which owns two properties.

Summit Fantasia Holdings III, LLC – Equity-Method Investment

In July 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, 2019 and 2018, we have a 10% interest in the Fantasia III JV which owns nine properties.

Summit Fantasy Pearl Holdings, LLC – Equity-Method Investment

In October 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, 2019 and 2018, we have a 10% interest in the FPH JV which owns six properties.

Indiana JV – Equity-Method Investment

In February 2019, through our wholly-owned subsidiary, Summit Indiana, LLC, we formed a new joint venture, a Delaware limited liability company (the "Indiana JV"). On March 13, 2019, we entered into a Limited Liability Company Agreement (the "Indiana JV Agreement") with two unrelated parties: a real estate holding company and a global institutional asset management firm, both Delaware limited liability companies. The Indiana JV is not consolidated in our consolidated financial statements and is accounted for under the equity-method. As of December 31, 2019, we have a 15% interest in the Indiana JV which owns 14 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, FPH JV and Indiana 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.

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 continue to believe that raising institutional equity to make acquisitions will be accretive to shareholder value. Our sole source of equity since 2015 has been institutional funds raised through a joint venture structure and accounted for as equity-method investments. We still believe this is a prudent strategy for growth; however, in the future, we may raise additional equity capital through alternative methods if warranted by market conditions.

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.

Effective October 1, 2019, the current SNF PPS (RUG-IV) system was replaced with a new method for calculating reimbursement, the Patient-Driven Payment Model (PDPM). Under PDPM, therapy minutes are removed as the basis for payment in favor of resident classifications and anticipated resource needs during the course of a patient's stay. PDPM assigns every resident a case-mix classification that drives the daily reimbursement rate for that individual. It is too early to assess how PDPM will affect our tenants, however, lower reimbursement rates may impair a tenant's ability to meet its financial obligation to us.

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, 2019, we have 10 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.

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

Because there is no public trading market for our stock, it will be difficult for stockholders to sell their stock.

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, 2019, our estimated per-share value of our common stock was $2.82 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. 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.

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.

Cash distributions to our stockholders may not continue.

Prior to the distribution made to stockholders on January 31, 2019, no distributions had been made or declared since June 2011. 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. 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 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 continue 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 continue 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.

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 2020, 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.

SNF 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.

Effective October 1, 2019, the current SNF PPS (RUG-IV) system was replaced with a new method for calculating reimbursement, the Patient-Driven Payment Model (PDPM). Under PDPM, therapy minutes are removed as the basis for payment in favor of resident classifications and anticipated resource needs during the course of a patient’s stay. PDPM assigns every resident a case-mix classification that drives the daily reimbursement rate for that individual. It is too early to assess how PDPM will affect our tenants, however, lower reimbursement rates may impair a tenant’s ability to meet its financial obligation to us.

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.

Adverse economic or other conditions in our geographic markets could negatively affect our tenants’ ability to pay rent to us.

Adverse economic or other conditions, including periods of economic slowdown or recession, healthcare industry slowdowns, periods of deflation, relocation of businesses, changing demographics, natural disasters, terrorist acts, public health crises, pandemics and epidemics, including but not limited to the spread of the coronavirus (COVID-19), and civil disturbances or acts of war and other disasters which may result in uninsured or underinsured losses, and changes in tax, real estate, zoning and other laws and regulations, may negatively affect our tenants’ businesses and their ability to pay rents to us and, therefore, could have a material adverse effect on our revenues, business and results of operations and the value of our stock.

A pandemic, epidemic or outbreak of a contagious disease could affect the markets in which our tenants operate or otherwise impact our facilities.

If a pandemic or other public health crisis were to affect our markets, or our tenants specifically, such as a major breakout of the coronavirus (COVID-19) in the United States or specifically in the locations where our tenants operate, the businesses of our tenants could be adversely affected. Such a crisis could diminish the public trust in healthcare facilities, especially facilities that fail to accurately or timely diagnose, or other facilities such as those where our tenants that are treating, have treated or otherwise have residents affected by these contagious diseases. If any of those residents contracted such a contagious disease at one of our facilities, other residents or prospective residents might decline to use such facilities. Any of our tenants’ infectious disease plans or polices may not prevent the spread of these diseases to their residents, many of which are already elderly or otherwise medically compromised. Further, a pandemic might adversely impact our tenants’ businesses by causing a temporary shutdown of one or more facilities or diversion of residents, by disrupting or delaying production and delivery of materials and products in the supply chain or by causing staffing shortages in one or more facilities. The potential impact of a pandemic, epidemic or outbreak of a contagious disease with respect to our tenants or our facilities is difficult to predict and could have a material adverse impact on the operations of our tenants and, in turn, our revenues, business and results of operations and the value of our stock.

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, circumstances may require one or more of our subsidiaries to become a licensed operator of a senior housing facility, rather than entering into a triple net lease with an independent tenant, although that is not our objective. 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.

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, 2019, our healthcare portfolio consisted of seven properties, three of which we own 100%, and four of which we own through a 95.3% interest in CHP LLC. All of the properties are 100% leased on a triple net basis. The following table (excluding the 50 properties held by our unconsolidated Equity-Method Investments) provides summary information regarding these properties:

Property	Location	Date Purchased	Type[1]	Purchase Price	Loans Payable, Excluding Debt Issuance Costs	Number of Beds
Sheridan Care Center	Sheridan, OR	August 3, 2012	SNF	$ 4,100,000	$ 4,485,000	51
Fernhill Care Center	Portland, OR	August 3, 2012	SNF	4,500,000	3,934,000	63
Friendship Haven Healthcare and Rehabilitation Center	Galveston County, TX	September 14, 2012	SNF	15,000,000	10,725,000	150
Pacific Health and Rehabilitation Center	Tigard, OR	December 24, 2012	SNF	8,140,000	6,559,000	73
Brookstone of Aledo	Aledo, IL	July 2, 2013	AL	8,625,000	6,983,000	66
Sundial Assisted Living	Redding, CA	December 18, 2013	AL	3,500,000	3,843,000	65
Pennington Gardens	Chandler, AZ	July 17, 2017	AL/MC	13,400,000	10,473,000	90
Total:				$ 57,265,000	$ 47,002,000	558

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

See Note 11 to the accompanying Notes to Consolidated Financial Statements regarding the sale of our four properties located in North Carolina.

Portfolio Lease Expirations

The following table sets forth lease expiration information for the ten years and thereafter following December 31, 2019. 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	1	$ 408,000	10.5%	6.2%
2027	1	1,538,000	23.2%	23.5%
2029	3	2,418,000	21.3%	36.9%
2030 -2032	2	2,181,000	45.0%	33.43%
	7	$ 6,545,000	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 former directors, one of its officers and one of its former 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. On May 29, 2018, the Company filed a motion for terminating and monetary sanctions against CRA, Cornerstone Ventures, Inc. and their counsel, Winget Spadafora & Schwartzberg. On November 30, 2018, the new trial judge vacated the trial date, pending resolution of the Company's motion for terminating and monetary sanctions against CRA and Cornerstone Ventures, Inc. and denied the Company's motion for sanctions against Winget Spadafora & Schwartzberg. On February 13, 2019, the trial judge held another hearing on the Company's motion for terminating and monetary sanctions and indicated that it intended to grant the Company's motion for terminating sanctions and award the Company monetary sanctions. On March 14, 2019, the Court entered an Order and Judgment granting the Company's motion for terminating sanctions, awarding the Company monetary sanctions in the amount of $588,672, and dismissing CRA and Cornerstone Ventures Inc.'s Complaint with prejudice. On May 21, 2019, CRA and Cornerstone Ventures, Inc. filed a notice of appeal from the Judgment and, on June 3, 2019, the Company filed a notice of cross-appeal from the Judgment. On July 9, 2019, the California Court of Appeal, Fourth District dismissed CRA and Cornerstone Ventures, Inc.'s appeal with prejudice. The Company's appeals against CRA, Cornerstone Ventures, Inc and Winget Spadafora & Schwartzberg are currently pending before the Court of Appeal, Fourth District.

In September 2015, 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 for approximately $0.9 million. 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 which affirmed the Bankruptcy Court's dismissal of the complaint in a decision dated September 9, 2018. On October 11, 2018, HCRE appealed the District Court's decision affirming the Bankruptcy Court's dismissal of the complaint to the United States Court of Appeals for the Third Circuit. On October 22, 2019, the Third Circuit granted HCRE's appeal, reversing the District Court and holding that HCRE could assert the adversary complaint seeking damages for violation of the automatic stay. The Company filed a Petition for Rehearing on November 5, 2019 asserting that HCRE is not entitled to assert a claim for damages for violation of the automatic stay. This Petition was denied and the mandate was issued sending the matter back to the Bankruptcy Court. The Bankruptcy Court has not taken any action on the matter since the Third Circuit remanded the case. We believe that all of HCRE's remaining alleged claims are without merit and will vigorously defend ourselves.

Delbert Freeman and his company, Freescan Ventures, Inc. (collectively, “Freeman”), filed an action against us and Mr. Eikanas, our Chief Executive Officer, 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 in June of 2016, thereby releasing us from our obligation. 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. Freeman also alleged that he was promised consulting fees of $270,000 from us arising out of an alleged oral agreement to pay consulting fees of $10,000 per month. On May 8, 2019, Freeman agreed to voluntarily dismiss all claims in their complaint, with prejudice. In return, the Company agreed to dismiss its claims with prejudice as well. Accordingly, the Court has dismissed this action in its entirety, with prejudice.

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, 2019, the estimated common stock per-share value is $2.82 per share, adjusted from the previous estimated common stock per-share value of $2.83 established on December 31, 2018. 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, 2019 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 current book value of our liabilities, and dividing the total by the number of our common shares outstanding as of December 31, 2019. 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 2019 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, 2019.

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, 2019
Investments in real estate	$ 2.90
Loans payable	(2.00)
Other assets and liabilities, net	0.86
Equity-Method Investments value	1.06
Estimated net asset value per-share value	$ 2.82
Estimated enterprise value premium	None applied
Estimated liquidity discount	None applied
Total estimated per-share value	$ 2.82

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 $2.82 per share, which is consistent with the recommendations of management.

A summary of our estimated per-share value for the last five years at December 31 is as follows:

2019	$ 2.82
2018	$ 2.83
2017	$ 2.80
2016	$ 2.53
2015	$ 2.34

Stockholders

As of March 16, 2020 we had approximately 23.0 million shares of common stock outstanding held by 4,459 stockholders of record.

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, impairments, 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, and 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 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 the reconciliation from net income (loss) applicable to common stockholders, the most direct comparable financial measure calculated and presented with GAAP, to FFO for the years ended December 31, 2019 and 2018:

	Year Ended December 31	
	2019	**2018**
Net income (loss) applicable to common stockholders (GAAP)	$ 3,113,000	$ (916,000)
Adjustments:		
Depreciation and amortization	1,750,000	3,000,000
Depreciation and amortization related to noncontrolling interests	(42,000)	(69,000)
Depreciation related to Equity-Method Investments	2,050,000	1,198,000
Gain on sale of real estate properties	(4,274,000)	-
Funds provided by operations (FFO) applicable to common stockholders	$ 2,597,000	$ 3,213,000
Weighted-average number of common shares outstanding – basic	23,027,978	23,027,978
FFO per weighted average common shares - basic	$ 0.11	$ 0.14
Weighted-average number of common shares outstanding – diluted	23,506,478	23,027,978
FFO per weighted average common shares - diluted	$ 0.11	$ 0.14

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, 2019, our ownership interests in our seven real estate properties of senior housing facilities was as follows: 100% ownership of three properties and a 95.3% interest in four properties in a consolidated joint venture, Cornerstone Healthcare Partners LLC. Additionally, we have a 10% interest in an unconsolidated equity-method investment that owns 17 properties, a 35% equity interest in an unconsolidated equity-method investment that holds two properties, a 20% equity interest in an unconsolidated equity-method investment that holds two properties, a 10% equity interest in an unconsolidated equity-method investment that holds nine properties, a 10% equity interest in an unconsolidated equity-method investment that holds six properties and a 15% equity interest in an unconsolidated equity-method investment that holds 14 properties (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 seven 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 or other 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 different segments of the senior population.

Summit Portfolio Properties

At December 31, 2019, our portfolio consisted of seven 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 50 properties held by our unconsolidated Equity-Method Investments) regarding these properties as of December 31, 2019:

	Properties	Beds	Square Footage	Purchase Price
SNF	4	337	109,306	$ 31,740,000
AL or AL/MC	3	221	136,765	25,525,000
Total Real Estate Properties	7	558	246,071	$ 57,265,000

Property	Location	Date Purchased	Type	Beds	2019 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	1,411,000
Pacific Health and Rehabilitation Center	Tigard, OR	December 24, 2012	SNF	73	968,000
Brookstone of Aledo	Aledo, IL	July 2, 2013	AL	66	764,000
Sundial Assisted Living	Redding, CA	December 18, 2013	AL	65	395,000
Pennington Gardens	Chandler, AZ	July 17, 2017	AL/MC	90	1,106,000
Total				558	

[1] Represents year-to-date revenue based on in-place leases, including straight-line rent, through December 31, 2019.

See Note 11 to the accompanying Notes to Consolidated Financial Statements regarding the sale of our four properties located in North Carolina. Additionally, see Form 8-K filed on February 21, 2019.

Summit Equity-Method Investment Portfolio Properties

We continue to believe that raising institutional equity to make acquisitions will be accretive to shareholder value. Our sole source of equity since 2015 has been institutional funds raised through a joint venture structure and accounted for as equity-method investments. We still believe this is a prudent strategy for growth; however, in the future, we may raise additional equity capital through alternative methods if warranted by market conditions.

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, 2019**	**December 31, 2018**
Total Assets	$ 421,268,000	$ 300,132,000
Total Liabilities	$ 318,150,000	$ 219,080,000
Members Equity:		
Summit	$ 13,245,000	$ 9,832,000
JV Partners	$ 89,873,000	$ 71,220,000
Total Members Equity	$ 103,118,000	$ 81,052,000

Condensed Combined Statements of Income:	**December 31, 2019**	**December 31, 2018**
Total Revenue:	$ 46,044,000	$ 33,599,000
Net Operating Income	$ 36,730,000	$ 27,802,000
Income from Operations	$ 22,441,000	$ 16,883,000
Net Income	$ 1,955,000	$ 3,988,000
Summit equity interest in Equity-Method Investments net income	$ 184,000	$ 455,000
JV Partners interest in Equity-Method Investments net income	$ 1,771,000	$ 3,533,000

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, 2019:

JV 2 Properties (Colorado, Oregon and Virginia) – April 2015	$ 1,059,000
Creative Properties (Texas) – October 2015	837,000
Cottage Properties (Wisconsin) – December 2015	613,000
Riverglen (New Hampshire) – April 2016	424,000
Delaware Properties – September 2016	1,846,000
Total investments	4,779,000
Income from equity-method investee	967,000
Distributions	(2,574,000)
Total investment at December 31, 2019	**$ 3,172,000**

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, 2019**	**December 31, 2018**
Real estate properties and intangibles, net	$ 135,038,000	$ 140,487,000
Cash and cash equivalents	4,928,000	4,238,000
Other assets	10,882,000	10,421,000
Total Assets:	**$ 150,848,000**	**$ 155,146,000**
Loans payable, net	$ 106,049,000	$ 109,165,000
Other liabilities	7,268,000	6,612,000
Members' equity:		
Best Years	34,245,000	35,886,000
Summit	3,286,000	3,483,000
Total Liabilities and Members' Equity	**$ 150,848,000**	**$ 155,146,000**

Condensed Consolidated Statements of Income of SUL JV:	**Year Ended December 31, 2019**	**Year Ended December 31, 2018**
Total revenue	$ 18,295,000	$ 16,676,000
Property operating expenses	(4,323,000)	(2,450,000)
Net operating income	**13,972,000**	**14,226,000**
General and administrative expense	(404,000)	(400,000)
Depreciation and amortization expense	(5,717,000)	(5,716,000)
Income from operations	**7,851,000**	**8,110,000**
Interest expense	(5,451,000)	(5,560,000)
Amortization of deferred financing costs	(264,000)	(223,000)
Other income (expense)	(852,000)	(495,000
Net Income	**$ 1,284,000**	**$ 1,832,000**
Summit equity interest in SUL JV net income	$ 128,000	$ 183,000

As of December 31, 2019, the 17 properties held by SUL JV, our unconsolidated 10% equity-method investment, 15 of which are leased on a triple net basis, and 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 35% 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 50% to Fantasia and 50% to the Operating Partnership for Fantasia I, 70% to Fantasia and 30% to the Operating Partnership for Fantasia 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, 2019:

Summit Fantasia Holdings, LLC – October 2016	$	2,524,000
Summit Fantasia Holdings II, LLC – February 2017	$	1,923,000
Summit Fantasia Holdings III, LLC – August 2017	$	1,953,000
Total investment		6,400,000
Income from Fantasia JVs		676,000
Distributions		(1,872,000)
Total Fantasia investments at December 31, 2019	**$**	**5,204,000**

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 35% equity interest, is as follows:

Condensed Combined Balance Sheets of Fantasia JVs:	**December 31, 2019**	**December 31, 2018**
Real estate properties, net	$ 104,244,000	$ 107,148,000
Cash and cash equivalents	5,893,000	5,492,000
Other assets	4,423,000	2,153,000
Total Assets:	**$ 114,560,000**	**$ 114,793,000**
Loans payable, net	$ 75,830,000	$ 75,893,000
Other liabilities	6,835,000	5,876,000
Members' equity:		
Fantasia JVs	26,691,000	27,541,000
Summit	5,204,000	5,483,000
Total Liabilities and Members' Equity	**$ 114,560,000**	**$ 114,793,000**

Condensed Combined Statements of Income of Fantasia JVs:	**Year Ended December 31, 2019**	**Year Ended December 31, 2018**
Total revenue	$ 14,721,000	$ 13,364,000
Property operating expenses	(4,466,000)	(2,840,000)
Net operating income	**10,255,000**	**10,524,000**
General and administrative expense	(478,000)	(553,000)
Depreciation and amortization expense	(2,906,000)	(2,905,000)
Income from operations	**6,871,000**	**7,066,000**
Interest expense	(4,520,000)	(4,626,000)
Amortization of debt issuance costs	(332,000)	(589,000)
Other income (expense)	(109,000)	
Net Income	**$ 1,910,000**	**$ 1,851,000**
Summit equity interest in Fantasia JVs net income	$ 205,000	$ 242,000

As of December 31, 2019, 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 is 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. The FPH JV paid 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 511 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, 2019:

Iowa properties – November 2017	$	929,000
Total investment		929,000
Income from equity-method investee		(36,000)
Distributions		(430,000)
Total Fantasia investments at December 31, 2019	**$**	**463,000**

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 Sheets of FPH JV:		**December 31, 2019**		**December 31, 2018**
Real estate properties, net	$	27,296,000	$	28,524,000
Cash and cash equivalents		1,186,000		635,000
Other assets		784,000		1,034,000
Total Assets:	**$**	**29,266,000**	**$**	**30,193,000**
Loans payable, net	$	21,600,000	$	20,761,000
Other liabilities		1,796,000		773,000
Members' equity:				
Fantasia JVs		5,407,000		7,793,000
Summit		463,000		866,000
Total Liabilities and Members' Equity	**$**	**29,266,000**	**$**	**30,193,000**

Condensed Consolidated Statements of Income of FPH JV:		**Year Ended December 31, 2019**		**Year Ended December 31, 2018**
Total revenue	$	3,564,000	$	3,559,000
Property operating expenses		(512,000)		(507,000)
Net operating income		3,052,000		3,052,000
General and administrative expense		(147,000)		(117,000)
Depreciation and amortization expense		(1,228,000)		(1,228,000)
Income from operations		1,677,000		1,707,000
Interest expense		(1,479,000)		(1,273,000)
Amortization of debt issuance costs		(414,000)		(129,000)
Other expense		(507,000)		-
Net Income	**$**	**(723,000)**	**$**	**305,000**
Summit equity interest in FPH JV net income	$	(72,000)	$	30,000

As of December 31, 2019, 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
Accura Healthcare of Bancroft	Bancroft, Iowa	SNF/AL	50
Accura Healthcare of Milford	Milford, Iowa	SNF/AL	94
Accura Healthcare of Carroll	Carroll, Iowa	SNF/IL	124
Accura Healthcare of Cresco	Cresco, Iowa	SNF	59
Accura Healthcare of Marshalltown	Marshalltown, Iowa	SNF	86
Accura Healthcare of Spirit Lake	Spirit Lake, Iowa	SNF	98
Total:			511

Indiana JV

On February 28, 2019 we formed a new joint venture, a Delaware limited liability company (the "Indiana JV"), and on March 13, 2019, we entered into a Limited Liability Company Agreement (the "Indiana JV Agreement") through our wholly-owned subsidiary, Summit Indiana, LLC, with two unrelated parties: a real estate holding company and a global institutional asset management firm, both Delaware limited liability companies. The Indiana JV is not consolidated in our consolidated financial statements and is accounted for under the equity-method.

On March 13, 2019, through the Indiana JV, we acquired a 15% interest in 14 skilled nursing facilities, located in Indiana. Indiana JV paid a total aggregate purchase price of approximately $128.7 million for the properties, which was funded through capital contributions from the members of the Indiana JV plus the proceeds from a collateralized loan. The facilities consist of a total of 1,133 licensed beds, and are operated by and leased to an affiliate of the real estate holding company.

Under the Indiana JV Agreement, net operating cash flow of the Indiana JV will be distributed monthly to the members *pari passu* in accordance with their respective capital percentages, and thereafter as defined in the Indiana JV Agreement.

The following reconciles our equity investment in the Indiana JV from inception through December 31, 2019:

Indiana properties – March 2019	$	4,908,000
Total investment		4,908,000
Loss from equity-method investee		(77,000)
Distributions		(539,000)
Total Indiana JV investment at December 31, 2019	**$**	**4,292,000**

A summary of the condensed consolidated financial data for the balance sheet and statements of operations for the unconsolidated Indiana JV is as follows:

Condensed Consolidated Balance Sheet of Indiana JV:		**December 31, 2019**
Real estate properties, net	$	122,343,000
Cash and cash equivalents		3,137,000
Other assets		1,114,000
Total Assets:	**$**	**126,594,000**
Loans payable, net	$	95,329,000
Other liabilities		3,443,000
Members' equity:		
Other Indiana JV members		23,530,000
Summit		4,292,000
Total Liabilities and Members' Equity	**$**	**126,594,000**

Condensed Consolidated Statement of Operations of Indiana JV:		Period Ended December 31, 2019
Total revenue	$	9,464,000
Property operating expenses		(13,000)
Net operating income		**9,451,000**
General and administrative expense		(548,000)
Depreciation and amortization expense		(2,861,000)
Income from operations		**6,042,000**
Interest expense		(6,317,000)
Amortization of debt issuance costs		(241,000)
Net Loss	**$**	**(516,000)**
Summit equity interest in Indiana JV net loss	**$**	**(77,000)**

As of December 31, 2019, the 14 properties of our unconsolidated equity-method investments in Indiana JV, all of which are 100% leased on a triple net basis, are as follows:

Property	Location	Type	Number of Beds
Bloomington Nursing and Rehab	Bloomington, IN	SNF	38
Summerfield Health Care Center	Cloverdale, IN	SNF	43
University Nursing and Rehab	Evansville, IN	SNF/AL	47/22
Sugar Creek Nursing and Rehab	Greenfield, IN	SNF	60
Hanover Nursing Center	Hanover, IN	SNF/AL	125/12
New Albany Nursing and Rehabilitation	New Albany, IN	SNF/AL	122/21
Willow Manor Nursing and Rehab	Vincennes, IN	SNF	170
North Ridge Village and Rehab Center	Albion, IN	SNF/AL	77/12
Greenhill Manor	Fowler, IN	SNF	64
Meridian Nursing and Rehab	Indianapolis, IN	SNF	44
Wintersong Village	Knox, IN	SNF	48
Essex Nursing and Rehab	Lebanon, IN	SNF	38
Washington Nursing Center	Washington, IN	SNF	140
Rural Health Care	Indianapolis, IN	SNF	50
Total:			**1,133**

Distributions from Equity-Method Investments

For the years ended December 31, 2019 and 2018, we recorded distributions and cash received for distributions from our Equity-Method Investments as follows:

	Years Ended December 31,			
	2019		2018	
Distributions	$	1,831,000	$	1,291,000
Cash received for distributions	$	1,667,000	$	1,183,000

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 owned by our Equity-Method Investments, as defined in the agreements. For the years ended December 31, 2019 and 2018, we recorded approximately $1.2 million and $0.7 million, respectively, in acquisition and asset management fees.

Results of Operations

Our results of operations are described below:

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

	Years Ended December 31, 2019	Years Ended December 31, 2018	$ Change
Rental revenues	$ 6,862,000[2]	$ 8,264,000	$ (1,402,000)
Tenant reimbursements	-	1,128,000	(1,128,000)
Total rental revenues	6,862,000	9,392,000	(2,530,000)
Less expenses:			
Property operating costs	(862,000)	(1,223,000)	361,000
Net operating income [1]	6,000,000	8,169,000	(2,169,000)
Acquisition and asset management fees	1,174,000	702,000	472,000
Interest income from notes receivable	29,000	42,000	(13,000)
General and administrative	(4,476,000)	(4,004,000)	(472,000)
Depreciation and amortization	(1,750,000)	(3,000,000)	1,250,000
Income from equity-method investees	184,000	455,000	(271,000)
Other income	207,000	100,000	107,000
Interest expense	(2,612,000)	(3,625,000)	1,013,000
Gain on note receivable	-	186,000	(186,000)
Gain on sale of real estate properties	4,274,000	-	4,274,000
Income (loss) from continuing operations	3,030,000	(975,000)	4,005,000
Income from discontinued operations	-	109,000	(109,000)
Net income (loss)	3,030,000	(866,000)	3,896,000
Noncontrolling interests' share in losses (income)	83,000	(50,000)	133,000
Net loss applicable to common stockholders	$ 3,113,000	$ (916,000)	$ 4,029,000

(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 sale 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.

(2) Upon adoption of ASC 842, the Company combined rental revenues and tenant reimbursements. For the year ended December 31, 2019, tenant reimbursements were $773,000.

Total rental revenues for our properties includes rental revenues and tenant reimbursements for property taxes and insurance. Property operating costs include insurance, property taxes and other operating expenses. Net operating income decreased $2.1 million for the year ended December 31, 2019 compared to the year ended December 31, 2018 primarily due to the sale of our four NC Properties (see Note 11 to the accompanying Notes to Consolidated Financial Statements).

The net increase in acquisition and asset management fees of $0.5 million is primarily due to our investment in the Indiana JV in 2019.

The net increase in general and administrative expenses of $0.5 million is primarily due to an increase in executive bonuses of approximately $0.9 million and stock-based compensation of $0.1 million offset by a decrease in legal and other professional expenses of approximately $0.5 million.

The net decrease in depreciation and amortization and interest expense for the year ended December 31, 2019 compared to the year ended December 31, 2018 is primarily due to the sale of our four NC Properties (see Note 11 to the accompanying Notes to Consolidated Financial Statements).

The net decrease in income from equity-method investees of approximately $0.3 million is primarily due to the refinancing of the FPH JV properties and the related write off of fees and deferred financing costs from the previous lender, and the termination of two leases in our JV properties including the write off of certain costs associated with those terminations.

The gain on sale of real estate properties is due to the sale of our four NC Properties (see Note 11 to the accompanying Notes to Consolidated Financial Statements), and as of February 15, 2019, they are no longer consolidated in our consolidated financial statements.

Liquidity and Capital Resources

As of December 31, 2019, we had approximately $13.3 million in cash and cash equivalents on hand. 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 our facilities 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. In April 2019, we refinanced the Healthcare Financial Solutions, LLC note (see Note 4 to the accompanying Notes to Consolidated Financial Statements) that was scheduled to mature in July 2019 with a 35 year, HUD-insured loan through ORIX Real Estate Capital, LLC ("ORIX") (formerly Lancaster Pollard) that matures in 2054. In September 2018, we refinanced the Capital One loan that was scheduled to mature in January 2019 with a 35 year, HUD-insured loan through Capital One Multifamily Finance, LLC that matures in 2053. Additionally, in 2019 and 2017, as part of our responsibilities under the operating agreements as the manager of our Equity-Method Investments, we refinanced 11 existing loans of our Equity-Method Investments with ORIX (HUD-insured) loans.

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, 2019, we had debt obligations of approximately $47.0 million. The outstanding balance by loan agreement is as follows:

- CIBC Bank USA – approximately $10.7 million maturing March 2021
- Capital One Multifamily Finance, LLC (HUD-insured) – approximately $10.5 million maturing September 2053
- ORIX (HUD-insured) – approximately $25.8 million maturing from September 2039 through April 2054

As of December 31, 2019, approximately 77% of our total debt obligations were under fixed interest rates through our loans payable with ORIX and Capital One.

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 14 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. 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. 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, 2019 or 2018 for properties held and used.

Revenue Recognition

We collect rent from our tenants based on our lease agreements. We 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, we 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 are included within rental revenues and are based on the actual property tax and insurance incurred for the properties. Acquisition fees arise from contractual agreements with our joint venture partners and are earned and paid at the time we close an acquisition, therefore, satisfying our performance obligations at that time. 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 which own the properties. Asset management fees are recognized as a single performance obligation (managing the properties) comprised of a series of distinct services (handling issues with our tenants, etc.). We believe that the overall service of asset management is substantially the same each day and has the same pattern of performance over the term of the agreement. As a result, each day of service represents a performance obligation satisfied at that point in time. These fees are recognized at the end of each period for services performed during that period, billed monthly and paid quarterly.

Equity-Method Investments

We recognize 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. We initially record our investments based on our cash invested or for properties that we have contributed, at the carrying value of the 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, 2019 and 2018 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. Although not required, in 2018, we declared a distribution of approximately $1.5 million, which was paid on January 31, 2019. 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 Chief Executive Officer (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 Chief Executive Officer (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, 2019, our Chief Executive Officer (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 Chief Executive Officer (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 Chief Executive Officer 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 Chief Executive Officer (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, 2019.

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 73, 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 2020 Annual Meeting. Mr. Roush retired from PricewaterhouseCoopers (PWC) 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. He also is Chairman of the Board for Fieldpiece Instruments, Inc., a privately held manufacturer of hand held instruments for HVAC/R field service. Mr. Roush is also on the Board of Trustees of the Orange County Museum of Art and is the Treasurer and the Chairman of the Audit Committee. He is on the Board of Directors of the American Heart Association - Orange County and previously served six years on the Audit Committee of the National American Heart Association. Mr. Roush serves on the Corporate Cabinet of the Tocqueville Society of United Way – Orange County. He previously served as 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 59, 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 2020 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 25 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 over 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 50, currently serves as our Chief Executive Officer and Secretary. 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 2020 Annual Meeting. Mr. Eikanas has served on our Board since 2016.

Executive Officers

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

Kent Eikanas, age 50, currently serves as our Chief Executive Officer and Secretary. Mr. Eikanas has served as Chief Executive Officer since August 2019, President since September 2012, and previously served as Chief Operating Officer since July 2012. He has successfully transitioned the Company from industrial properties to senior housing, building the Company portfolio to 57 assets under management. 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. In 2019, Mr. Eikanas was a panelist on BDO's Adapting to Changing Market Winds Healthcare REITs and Private Equity and a speaker at Senior Living 100 Conference 2019.

Elizabeth Pagliarini, age 49, currently serves as our Chief Operating Officer, Chief Financial Officer and Treasurer and has been with the Company since June 2014. She has served as Chief Financial Officer and Treasurer since September 2014 and Chief Operating Officer since August 2019. 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. 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).

Ms. Pagliarini is a member of the Board of Directors of First Foundation Inc. (NASDAQ: FFWM), and serves on its audit, compensation and loan committees. She also sits on the City Council of Mission Viejo, California Investment Advisory Commission. In addition, she 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. In January 2020, Ms. Pagliarini was awarded with the Lifetime Achievement Award at the Orange County Business Journal's CFO of the Year Awards after receiving nominations for CFO of the Year in both 2019 and 2020. She has also been named one of "20 Women to Watch" by OC Metro magazine and nominated for The Orange County Business Journal's Women in Business Award. Additionally, she has been honored by Step Up Women's Network as the recipient of their prestigious Commitment to Philanthropy Volunteer Award and by Forever Footprints as the winner of their Compassion Award.

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 2019, except for the following reports:

Name	Title	Type of Form	Number of Late Reports
Kent Eikanas	Director, Chief Executive Officer and Secretary	Form 4	1
Elizabeth Pagliarini	Chief Financial Officer and Chief Operating Officer and Treasurer	Form 4	1
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 2019 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, 2019 and 2018.

Name and Principal Position	Year		Salary		Bonus		Option Awards(1)		All Other Comp		Total
Kent Eikanas											
Chief Executive	2019	$	350,660	$	312,978(7)	$	-	$	11,200(6)	$	674,838
Officer and Secretary	2018	$	339,410	$	110,424(2)	$	128,250(3)	$	43,308(4)	$	621,392
Elizabeth Pagliarini											
Chief Financial Officer, Chief											
Operating	2019	$	275,660	$	312,978(7)	$	-	$	11,200(6)	$	599,838
Officer and Treasurer	2018	$	238,160	$	98,616(2)	$	128,250(3)	$	31,000(5)	$	496,026

(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) Includes cash bonus relating to 2018 performance which was paid in 2019.
(3) Includes stock options to purchase 225,000 shares of stock which were granted in 2019 but relate to 2018 performance. The grant date fair value was $0.57.
(4) Included in this amount is $32,308 for unused paid time off earned in 2017 which was paid in 2018 and $11,000 for the employer matching 401 (K) contribution earned in 2018 which was paid in 2019.
(5) Included in this amount is $20,000 for unused paid time off earned in 2017 which was paid in 2018 and $11,000 for the employer matching 401 (K) contribution earned in 2018 which was paid in 2019.
(6) This amount relates to the employer matching 401(K) contributions earned in 2019 which were paid in 2020.
(7) Includes cash bonus relating to 2019 performance which will be paid in 2020.

Employment Agreements with Named Executive Officers

The Company has entered into employment agreements with each of its named executive officers, Kent Eikanas, Chief Executive Officer and Secretary, and Elizabeth Pagliarini, Chief Financial Officer, Chief Operating 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 base salaries for each of Mr. Eikanas and Ms. Pagliarini are subject to annual merit increases. Effective January 1, 2020, the Company's Compensation Committee approved an increase in the base salaries for each of Mr. Eikanas and Ms. Pagliarini to $367,500 and $288,750 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, 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 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 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, 2019.

Name	Fees Earned or Paid in Cash in 2019	Stock Awards (1)	Total
J. Steven Roush	$ 82,000	$ 42,000	$ 124,000
Suzanne Koenig	$ 62,000	$ 24,000	$ 86,000

(1) On March 20, 2019, Mr. Roush and Ms. Koenig each received a stock option grant for 70,000 and 40,000 shares of common stock, respectively, related to 2018 performance. The options had a grant date fair value of $42,000 and $24,000, respectively. As of December 31, 2019, Mr. Roush had 833 unvested stock options which vest monthly through January 2020, 26,667 unvested stock options which vest monthly through April 2021 and 52,500 unvested stock options which vest monthly through March 2022. As of December 31, 2019, Ms. Koenig had 833 unvested stock options which vest monthly through January 2020, 17,778 unvested stock options which vest monthly through April 2021 and 30,000 unvested stock options which vest monthly through March 2022. 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 2019, we paid each of our independent directors' compensation as follows:

- $50,000 annual retainer, paid pro-rata 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, 2019

The following table presents information regarding the outstanding equity awards held by each of our named executive officers as of December 31, 2019, 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	109,678	-	$ 2.02	12/1/2026
Kent Eikanas	100,000	-	$ 2.04	4/1/2027
Kent Eikanas	26,167	-	$ 2.26	11/7/2027
Kent Eikanas	106,600	13,400(1)	$ 2.24	4/1/2028
Kent Eikanas	130,781	94,219(2)	$ 2.26	3/1/2029
Elizabeth Pagliarini	100,000	-	$ 1.72	12/17/2025
Elizabeth Pagliarini	73,118	-	$ 2.02	12/1/2026
Elizabeth Pagliarini	70,000	-	$ 2.04	4/1/2027
Elizabeth Pagliarini	17,445	-	$ 2.26	11/7/2027
Elizabeth Pagliarini	71,067	8,933(3)	$ 2.24	4/1/2028
Elizabeth Pagliarini	130,781	94,219(2)	$ 2.26	3/1/2029

(1) 3,350 stock options vest monthly and become fully vested on April 1, 2020
(2) 6,281 stock options vest monthly and become fully vested on March 1, 2021
(3) 2,233 stock options vest monthly and become fully vested on April 1, 2020

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, 2019 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	1,444,624	$ 2.04	1,173,092
Equity compensation plans not approved by security holders	—	—	—
Total	1,444,624	$ 2.04	1,173,092

OWNERSHIP OF EQUITY SECURITIES

Security Ownership of Certain Beneficial Owners

The following table sets forth information as of March 16, 2020, 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 16, 2020.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percentage of Class
MacKenzie Capital Management, LP 1640 School Street Moraga CA 94556	1,752,261(1)	7.6%

(1) This information is based on information received from the Company's transfer agent regarding the holdings of MacKenzie Realty Capital, Inc. and its affiliates (collectively, "MacKenzie"), which stated that MacKenzie held an aggregate of approximately 1,752,261 shares as of January 29, 2020.

Security Ownership of Management

The following table sets forth information as of March 15, 2020, 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 16, 2020.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percentage of Class
Kent Eikanas	818,033	3.6%
Elizabeth Pagliarini	502,751	2.2%
J. Steven Roush	98,889	*
Suzanne Koenig	73,333	*
All current directors and executive officers as a group (4 persons)	1,493,006	6.5%

* 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 16, 2020. 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 2019, 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 six 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, 2019, we received approximately $1.2 million 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 Chief Executive Officer, 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 2019 and 2018:

Services	2019	2018
Audit Fees[1]	$ 454,193	$ 390,587
Total	$ 454,193	$ 390,587

[1] Audit fees billed in 2019 and 2018 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:

(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 Fernhill Estates, LLC, Pacific Gardens, LLC and Sheridan Care Center, LLC, which operate under a single master lease, and are a significant lessee to us.

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. (the "Company") as of December 31, 2019 and 2018, 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 at December 31, 2019 and 2018, and the results of its operations and its 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 25, 2020

SUMMIT HEALTHCARE REIT, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2019 and 2018

	December 31, 2019	December 31, 2018
ASSETS		
Cash and cash equivalents	$ 13,260,000	$ 11,463,000
Restricted cash	2,817,000	3,493,000
Real estate properties, net	46,513,000	67,002,000
Notes receivable	575,000	730,000
Tenant and other receivables, net	3,812,000	4,666,000
Deferred leasing commissions, net	607,000	1,133,000
Other assets, net	594,000	319,000
Equity-method investments	13,131,000	9,719,000
Total assets	$ 81,309,000	$ 98,525,000
LIABILITIES AND EQUITY		
Accounts payable and accrued liabilities	$ 2,504,000	$ 3,901,000
Security deposits	664,000	1,208,000
Loans payable, net of debt issuance costs	45,577,000	64,050,000
Total liabilities	48,745,000	69,159,000
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, $0.001 par value; 10,000,000 shares authorized; no shares issued or outstanding at December 31, 2019 and 2018	—	—
Common stock, $0.001 par value; 290,000,000 shares authorized; 23,027,978 shares issued and outstanding at December 31, 2019 and 2018	23,000	23,000
Additional paid-in capital	116,184,000	115,950,000
Accumulated deficit	(83,843,000)	(86,956,000)
Total stockholders' equity	32,364,000	29,017,000
Noncontrolling interests	200,000	349,000
Total equity	32,564,000	29,366,000
Total liabilities and equity	$ 81,309,000	$ 98,525,000

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, 2019 and 2018

	2019	2018
Revenues:		
Rental revenues	$ 6,862,000	$ 8,264,000
Tenant reimbursements	-	1,128,000
Total rental revenues	6,862,000	9,392,000
Acquisition and asset management fees	1,174,000	702,000
Interest income from notes receivable	29,000	42,000
Total operating revenue	8,065,000	10,136,000
Expenses:		
Property operating costs	862,000	1,223,000
General and administrative	4,476,000	4,004,000
Depreciation and amortization	1,750,000	3,000,000
Total operating expenses	7,088,000	8,227,000
Other operating income:		
Gain on sale of real estate properties	4,274,000	-
Operating income	5,251,000	1,909,000
Income from equity-method investees	184,000	455,000
Other income	207,000	100,000
Interest expense	(2,612,000)	(3,625,000)
Gain on notes receivable	-	186,000
Income (loss) from continuing operations	3,030,000	(975,000)
Discontinued operations:		
Gain on disposition of Friendswood TRS	-	109,000
Income from discontinued operations	-	109,000
Net income (loss)	3,030,000	(866,000)
Noncontrolling interests' share in net (income) loss	83,000	(50,000)
Net income (loss) applicable to common stockholders	$ 3,113,000	$ (916,000)
Earnings per common share:		
Basic:		
Income (loss) from continuing operations	$ 0.14	$ (0.04)
Net income (loss) applicable to common stockholders	$ 0.14	$ (0.04)
Diluted:		
Income (loss) from continuing operations	$ 0.13	$ (0.04)
Net income (loss) applicable to common stockholders	$ 0.13	$ (0.04)
Weighted average shares used to calculate earnings per common share:		
Basic	23,027,978	23,027,978
Diluted	23,506,478	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, 2019 and 2018

	Common Stock						
	Number of Shares	**Common Stock Par Value**	**Additional Paid-In Capital**	**Accumulated Deficit**	**Total Stockholders' Equity**	**Noncontrolling Interests**	**Total Equity**
Balance — January 1, 2018	**23,027,978**	**$ 23,000**	**$ 117,349,000**	**$ (86,040,000)**	**$ 31,332,000**	**$ 564,000**	**$ 31,896,000**
Stock-based compensation	—	—	100,000	—	100,000	—	100,000
Distributions declared	—	—	(1,499,000)	—	(1,499,000)	—	(1,499,000)
Distributions paid to noncontrolling interests	—	—	—	—	—	(265,000)	(265,000)
Net income (loss)	—	—	—	(916,000)	(916,000)	50,000	(866,000)
Balance — December 31, 2018	**23,027,978**	**$ 23,000**	**$ 115,950,000**	**$ (86, 956,000)**	**$ 29,017,000**	**$ 349,000**	**$ 29,366,000**
Stock-based compensation	—	—	234,000	—	234,000	—	234,000
Distributions paid to noncontrolling interests	—	—	—	—	—	(66,000)	(66,000)
Net income (loss)	—	—	—	3,113,000	3,113,000	(83,000)	3,030,000
Balance — December 31, 2019	**23,027,978**	$ **23,000**	**$ 116,184,000**	$ **(83,843,000)**	**$ 32,364,000**	**$ 200,000**	**$ 32,564,000**

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, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Net income (loss)	$ 3,030,000	$ (866,000)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of debt issuance costs	134,000	214,000
Depreciation and amortization	1,750,000	3,000,000
Straight line rents	(357,000)	(629,000)
Write-off of debt issuance costs	-	94,000
Stock-based compensation expense	234,000	100,000
Gain on sale of real estate properties	(4,274,000)	-
Gain on disposition of Friendswood TRS	-	(109,000)
Gain on note receivable	-	(186,000)
Income from equity-method investees	(184,000)	(455,000)
Change in operating assets and liabilities:		
Tenant and other receivables, net	332,000	632,000
Other assets	(91,000)	(94,000)
Accounts payable and accrued liabilities	261,000	404,000
Net cash provided by operating activities	835,000	2,105,000
Cash flows from investing activities:		
Proceeds from sale of real estate properties, net of transaction costs	24,852,000	-
Real estate acquisition	-	(715,000)
Real estate additions	-	(75,000)
Issuance of notes receivable	(253,000)	-
Investments in equity-method investees	(5,060,000)	(1,313,000)
Distributions received from equity-method investees	1,224,000	728,000
Payments from notes receivable	408,000	4,282,000
Net cash provided by investing activities	21,171,000	2,907,000
Cash flows from financing activities:		
Proceeds from issuance of loans payable	3,872,000	21,369,000
Payments of loans payable	(22,982,000)	(17,876,000)
Distributions paid	(1,499,000)	-
Distributions paid to noncontrolling interests	(66,000)	(265,000)
Debt issuance costs	(210,000)	(582,000)
Net cash (used in) provided by financing activities	(20,885,000)	2,646,000
Net increase in cash, cash equivalents and restricted cash	1,121,000	7,658,000
Cash, cash equivalents and restricted cash — beginning of year	14,956,000	7,298,000
Cash, cash equivalents and restricted cash – end of year	$ 16,077,000	$ 14,956,000
Supplemental disclosure of cash flow information:		
Cash paid for interest:	$ 2,289,000	$ 3,002,000
Supplemental disclosure of non-cash financing activities:		
Distributions declared not paid	$ -	$ 1,499,000

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 three properties, 95.3% of four properties, a 10% equity interest in an unconsolidated equity-method investment that holds 17 properties, a 35% equity interest in an unconsolidated equity-method investment that holds two properties, a 20% equity interest in an unconsolidated equity-method investment that holds two properties, a 10% equity interest in an unconsolidated equity-method investment that holds nine properties, a 10% equity interest in an unconsolidated equity-method investment that holds six properties and a 15% equity interest in an unconsolidated equity-method investment that holds 14 properties. 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. 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% noncontrolling 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 four properties (the "JV Properties") with another partially owned subsidiary. As of December 31, 2019, we own a 95.3% interest in the four JV Properties, and CHREF owns a 4.7% interest. See Note 11 for the disposition of real estate properties which includes one of the JV Properties.

Summit Union Life Holdings, LLC – Equity-Method Investment

In April, 2015, through our Operating Partnership, we entered into a limited liability company 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, 2019 and 2018, we have a 10% interest in the SUL JV which owns 17 properties.

Summit Fantasia Holdings, LLC – Equity-Method Investment

In September 2016, through our Operating Partnership, we entered into a limited liability company 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, 2019 and 2018, we have a 35% interest in the Fantasia JV which owns two properties.

Summit Fantasia Holdings II, LLC – Equity-Method Investment

In December 2016, through our Operating Partnership, we entered into a limited liability company 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, 2019 and 2018, we have a 20% interest in the Fantasia II JV which owns two properties.

Summit Fantasia Holdings III, LLC – Equity-Method Investment

In July 2017, through our Operating Partnership, we entered into a limited liability company 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, 2019 and 2018, we have a 10% interest in the Fantasia III JV which owns nine properties.

Summit Fantasy Pearl Holdings, LLC – Equity-Method Investment

In October 2017, through our Operating Partnership, we entered into a limited liability company 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, 2019 and 2018, we have a 10% interest in the FPH JV which owns six properties.

Indiana JV– Equity-Method Investment

In February 2019, through our wholly-owned subsidiary, Summit Indiana, LLC, we formed a new joint venture, a Delaware limited liability company (the "Indiana JV"). On March 13, 2019, we entered into a Limited Liability Company Agreement (the "Indiana JV Agreement") with two unrelated parties: a real estate holding company and a global institutional asset management firm, both Delaware limited liability companies. The Indiana JV is not consolidated in our consolidated financial statements and is accounted for under the equity-method. As of December 31, 2019, we have a 15% interest in the Indiana JV which owns 14 properties.

Summit Healthcare Asset Management, LLC (TRS)

Summit Healthcare Asset Management, LLC ("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 management services in exchange for fees and reimbursements. All acquisition fees and asset management fees earned by us are paid to SAM TRS and expenses incurred by us, as the manager, are reimbursed from SAM TRS. See Notes 5 and 7 for further information.

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, 2019, 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

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown on the consolidated statements of cash flows:

	December 31, 2019	December 31, 2018
Cash and cash equivalents	$ 13,260,000	$ 11,463,000
Restricted cash	2,817,000	3,493,000
Total cash, cash equivalents, and restricted cash shown on the consolidated statements of cash flows	$ 16,077,000	$ 14,956,000

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 an asset acquisition of a property, we allocate the purchase price of the property based upon the relative fair value of the tangible and intangible assets acquired and liabilities assumed, which generally consists of land, buildings, site improvements, and furniture and fixtures. We allocate the purchase price to 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. 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 fully 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 2019 and 2018.

Fair Value Measurements

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 or liabilities measured at fair value on a nonrecurring basis during the year ended December 31, 2019.

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 Friendswood TRS 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, 2019 and 2018, the fair value of the Friendswood TRS note receivable (see Note 6) was $505,000 compared to the carrying value of $484,000. The fair value of the note receivable was estimated based on cash flow analysis at a weighted-average discount rate of 4.6%. 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, 2019 and 2018, the fair value of loans payable was $47.4 million and $66.5 million, compared to the principal balance (excluding debt discount) of $47.0 million and $66.1 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, 2019, we utilized discount rates ranging from 4.2% to 6.0% and a weighted average discount rate of 4.6%. As the inputs to our valuation estimate are neither observable in nor supported by market activity, our loans payable are classified as Level 3 liabilities within the fair value hierarchy.

At December 31, 2019 and 2018, 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 tenant reimbursement billings due from tenants, the cumulative amount of future adjustments necessary to present rental income on a straight-line basis, asset management fees and distributions receivable. Tenant receivables for rental revenues are recorded at the original amount earned. Management assesses the likelihood of realizing other receivables on an ongoing basis and provides for allowances as such balances, or portions thereof, are estimated to become uncollectible.

Deferred Financing Costs

Costs incurred with potential financing arrangements are recorded as deferred debt issuance 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, 2019 and 2018, total costs incurred were $1.1 million and $1.9 million, respectively, and the unamortized balance was approximately $0.6 million and $1.1 million, respectively. Amortization expense for the years ended December 31, 2019 and 2018 was approximately $51,000 and $140,000, respectively .

Other Assets

Other assets consist primarily of deferred financing costs, prepaid insurance, property taxes and other. 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, 2019 and 2018.

Revenue Recognition

On January 1, 2018, the Company adopted ASC 606, *Revenue from Contracts with Customers (Topic 606)*. Our adoption of this new revenue recognition standard did not have a significant impact on our consolidated financial statements as our rental revenue, including tenant reimbursements, relates to triple net leases, which are excluded from this standard. Additionally, interest income from our notes receivable is excluded from this standard.

Acquisition fees arise from contractual agreements with our joint venture partners and are earned and paid at the time we close an acquisition, therefore, satisfying our performance obligations at that time. 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 which own the properties. Asset management fees are recognized as a single performance obligation (managing the properties) comprised of a series of distinct services (handling issues with our tenants, etc.). We believe that the overall service of asset management is substantially the same each day and has the same pattern of performance over the term of the agreement. As a result, each day of service represents a performance obligation satisfied at that point in time. These fees are recognized at the end of each period for services performed during that period, billed monthly and paid quarterly.

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. Forfeitures are recognized as they occur. 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, 2019 and 2018, the noncontrolling 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, 2016 and subsequent years, and state income tax returns are subject to audit for the year ended December 31, 2015 and subsequent years.

We have elected to treat SAM TRS as a taxable REIT subsidiary, which generally may engage in any business, including the provision of customary or non-customary services for our tenants. SAM TRS is treated as a regular corporation and is subject to federal income tax and applicable state income and franchise taxes at regular corporate rates. SAM TRS has deferred tax assets related to their NOL (which expires in or after 2035 for federal and state) for a total of $1,586,000, which has a full valuation allowance as of December 31, 2019 and 2018. Due to the losses incurred and the full valuation allowance on deferred tax assets, there was no tax provision related to SAM TRS in 2019 and 2018.

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 Income (Loss) and Distributions per Common Share

Basic earnings per share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income (loss) by the weighted-average number of common shares and dilutive potential common shares outstanding during the period. Dilutive potential common shares are calculated in accordance with the treasury stock method, which assumes that proceeds from the exercise of all stock options are used to repurchase common stock at our NAV value. See Note 12 for further information.

Recently Adopted Accounting Pronouncements

On January 1, 2019, the Company adopted the FASB Accounting Standards Update ("ASU") 2016-02, *Leases* ("Topic 842"), using the modified retrospective approach and have elected the package of practical expedients permitted under the transition guidance within the new standard, which, among other things, permits us to carry forward our prior conclusions for lease classification, the ability not to reassess whether any existing or expired contracts contain leases, lease classifications for existing or expired leases, and initial direct costs on existing leases. We also made an accounting policy election to keep short-term leases less than twelve months off the balance sheet for all classes of underlying assets. The new standard requires a lessor to classify leases as either sales-type, finance or operating leases. A lease will be treated as a sales-type lease 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.

After evaluating our tenant leases, we have concluded that these are operating-type leases. Additionally, lessors were provided with the option to elect a practical expedient, which we elected, allowing them to not separate lease and nonlease components in a contract for the purpose of revenue recognition and disclosure. This practical expedient is limited to circumstances in which: (i) the timing and pattern of transfer are the same for the nonlease component and the related lease component and (ii) the lease component, if accounted for separately, would be classified as an operating lease. This practical expedient causes an entity to assess whether a contract is predominantly lease or service based and recognize the entire contract under the relevant accounting guidance (i.e., predominantly lease-based would be accounted for under ASU 2016-02 and predominantly service-based would be accounted for under the Revenue ASUs).

The FASB also issued ASU 2018-20 "Leases (Topic 842) - Narrow Improvements for Lessors," which provides lessors the ability to make an accounting policy election not to evaluate whether certain sales taxes and other similar taxes imposed by a governmental authority on a specific lease revenue producing transaction are the primary obligation of the lessor as owner of the underlying leased asset. A lessor that makes this election will exclude these taxes from the measurement of lease revenue and the associated expense. Upon adoption of ASC 842, we utilized this practical expedient in cases where real estate taxes were paid directly by our tenants to taxing authorities. For triple-net leasing arrangements in which the tenant remits payment for real estate taxes to us and we pay the taxing authority, we have included the associated revenue and expense in total rental revenues and property operating costs on the consolidated statements of operations. This reporting had no impact on our net income.

Additionally, under Topic 842, we must assess if all payments due under the lease are likely to be collected. If tenant lease payments are not likely to be collected, then the revenues will be recognized on a cash basis (or if the answer changes at a later date, the revenues are adjusted to reflect what it would have been on a cash basis) and the adjustments will be recorded through rental revenues, rather than bad debt expense. We did not have any collectability issues related to our leases for the year ended December 31, 2019.

As generally accepted accounting principles for lessors remains mostly unchanged, the adoption of Topic 842 did not have a material impact on the total amount of revenues recognized from our leases from our tenants, however, as of January 1, 2019, the presentation of our rental revenues and tenant reimbursements were combined into one line item on our consolidated statements of operations under lease revenue. All tenant leases prior to January 1, 2019 will be presented under ASC 840.

During the years ended December 31, 2019 and 2018, the Company received $0.8 million and $1.1 million, respectively, from its tenants for reimbursement of property taxes and insurance.

Lake Forest Lease

We have entered into a lease agreement, as amended, for corporate office space located in Lake Forest, California, which expires in April 2022 (the "LF Lease"). On January 1, 2019, the Company adopted Topic 842 and recorded a right-of-use asset and lease liability equal to the present value of the remaining lease payments within the consolidated balance sheet. As a result, the Company recognized a right-of-use asset ("ROU") of $0.3 million and a lease liability of $0.3 million on its consolidated balance sheet as of January 1, 2019. Comparative periods are presented in accordance with ASC Topic 840 and do not include any retrospective adjustments to comparative periods to reflect the adoption of Topic 842. The adoption of this standard did not have any impact on the Company's consolidated statement of operations or the consolidated statement of cash flows.

The LF Lease has fixed lease payments. We make separate payments to the lessor based on the lessor's property and casualty insurance costs and the property taxes assessed on the property, as well as a portion of the common area maintenance associated with the property. We have elected the practical expedient not to separate lease and nonlease components for our corporate office lease.

As of December 31, 2019, the Company had a ROU operating lease asset of $0.2 million recorded in other assets in our consolidated balance sheets and a lease liability of $0.2 million recorded in our consolidated balance sheets in accrued liabilities.

The Company will recognize lease expense, calculated as the remaining cost of the lease allocated over the remaining lease term on a straight-line basis. Lease expense will be presented as part of continuing operations within general and administrative expenses in the consolidated statement of operations. For the year ended December 31, 2019, the Company recognized $100,000 in lease expense.

For the year ended December 31, 2019, the Company paid $100,000 in rent relating to the LF Lease. As a payment arising from an operating lease, the $100,000 is classified within operating activities in the consolidated statements of cash flows.

As of December 31, 2019, the remaining lease term for LF Lease is 28 months. Because we do not have access to the discount rate implicit in the lease, we have utilized our estimated incremental borrowing rate as the discount rate. The estimated discount rate associated with our corporate operating lease is 5%.

Pursuant to ASC 842, lease payments on the LF Lease for each of the following years ending December 31 are as follows:

Year		**Lease payments**
2020		104,000
2021		108,000
2022		36,000
Total lease payments	$	248,000
Less effect of discounting		(15,000)
Total lease liability		233,000

Pursuant to ASC 840, lease payments on the LF Lease as of December 31, 2018 were as follows:

Year		**Lease payments**
2019		100,000
2020		104,000
2021		108,000
2022		36,000
	$	348,000

For the year ended December 31, 2018, the Company recognized $100,000 in lease expense.

Recently Issued Accounting Pronouncements

In January 2020, the FASB issued ASU 2020-01 (“Update”) to clarify the interaction among the accounting standards for equity securities, equity method investments and certain derivatives. The new ASU clarifies that a company should consider observable transactions that require a company to either apply or discontinue the equity method of accounting under Topic 323, Investments—Equity Method and Joint Ventures, for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. The Company is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which requires that entities use a new forward looking "expected loss" model that generally will result in the earlier recognition of allowance for credit losses. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. In November 2018, the FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments—Credit Losses ("ASU 2018-19"), which amends ASU 2016-13 to clarify that receivables arising from operating leases are not within the scope of Subtopic 326-20, and instead, impairment of such receivables should be accounted for in accordance with Topic 842, Leases. ASU 2016-13 and ASU 2018-19 are effective for fiscal years and interim periods within those years beginning after December 15, 2019, with early adoption permitted as of the fiscal years beginning after December 15, 2018. An entity will apply the amendments in these updates through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). The adoption of the new standard on January 1, 2020 did not have a material effect on the Company's financial position, results of operations, or cash flows.

3. Investments in Real Estate Properties

As of December 31, 2019 and 2018, investments in real estate properties including those held by our consolidated subsidiaries:

	2019	2018
Land	$ 6,237,000	$ 8,003,000
Buildings and improvements	48,295,000	69,284,000
Less: accumulated depreciation	(8,444,000)	(11,162,000)
Buildings and improvements, net	39,851,000	58,122,000
Furniture and fixtures	4,230,000	6,829,000
Less: accumulated depreciation	(3,805,000)	(5,952,000)
Furniture and fixtures, net	425,000	877,000
Real estate properties, net	$ 46,513,000	$ 67,002,000

Depreciation expense (excluding leasing commission amortization) for the years ended December 31, 2019 and 2018 was approximately $1.7 million and $2.9 million, respectively.

As of December 31, 2019, our portfolio consisted of seven 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 50 properties owned by our unconsolidated Equity-Method Investments) as of December 31, 2019:

Property	Location	Date Purchased	Type(1)	Purchase Price	Loans Payable, Excluding Debt Issuance Costs
Sheridan Care Center	Sheridan, OR	August 3, 2012	SNF	$ 4,100,000	$ 4,485,000
Fernhill Care Center	Portland, OR	August 3, 2012	SNF	4,500,000	3,934,000
Friendship Haven Healthcare and Rehabilitation Center	Galveston County, TX	September 14, 2012	SNF	15,000,000	10,725,000
Pacific Health and Rehabilitation Center	Tigard, OR	December 24, 2012	SNF	8,140,000	6,559,000
Brookstone of Aledo	Aledo, IL	July 2, 2013	AL	8,625,000	6,983,000
Sundial Assisted Living	Redding, CA	December 18, 2013	AL	3,500,000	3,843,000
Pennington Gardens	Chandler, AZ	July 17, 2017	AL/MC	13,400,000	10,473,000
Total:				$ 57,265,000	$ 47,002,000

(1) 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 our consolidated properties as of December 31, 2019 are as follows:

Years ending December 31,		
2020		5,400,000
2021		5,511,000
2022		5,626,000
2023		5,742,000
2024		5,441,000
Thereafter		28,890,000
	$	56,610,000

2019 Acquisitions

None

2018 Acquisitions

Land Purchase – Redding, CA

On March 30, 2018, we purchased the land under the HP Redding facility, Sundial Assisted Living, for $685,000 plus approximately $30,000 in acquisition costs. Additionally, the existing lease agreement for the Sundial Assisted Living tenant was amended to increase the annual rental payment by $36,000.

4. Loans Payable

As of December 31, 2019 and 2018, loans payable consisted of the following:

		December 31, 2019		**December 31, 2018**
Loan payable to CIBC Bank USA in monthly installments of approximately $75,000, including cash collateral and interest at LIBOR plus 3.75% (5.45% and 6.12% at December 31, 2019 and 2018, respectively), due in March 2021, and collateralized by Friendship Haven.	$	10,725,000	$	10,725,000
Loan payable to Capital One Multifamily Finance, LLC (insured by HUD) in monthly installments of approximately $49,000, including interest at a fixed rate of 4.23%, due in September 2053, and collateralized by Pennington Gardens.	$	10,473,000	$	10,610,000
Loan payable to Healthcare Financial Solutions, LLC (refinanced with HUD-insured loan in April 2019) was due in monthly installments of approximately $21,000, including cash collateral and interest at LIBOR (floor of 0.50%) plus 4.0% (6.4% at December 31, 2018, respectively), and was collateralized by Sundial Assisted Living.	$	-	$	2,800,000
Loans payable to ORIX Real Estate Capital, LLC (formerly Lancaster Pollard) (insured by HUD) in monthly installments of approximately $139,000, including interest, ranging from a fixed rate of 3.70% to 4.2%, due in September 2039 through April 2054, and as of December 31, 2019, collateralized by Sheridan, Fernhill, Pacific Health, Aledo and Sundial Assisted Living. As of December 31, 2018, collateralized by Sheridan, Fernhill, Pacific Health, Shelby, Hamlet, Carteret, Aledo and Danby.	$	25,804,000	$	41,977,000
		47,002,000		**66,112,000**
Less debt issuance costs		**(1,425,000)**		**(2,062,000)**
Total loans payable	**$**	**45,577,000**	**$**	**64,050,000**

As of December 31, 2019, we have total debt obligations of approximately $47.0 million that will mature between 2021 and 2054. 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, 2019, we were in compliance with all of our debt covenants.

In connection with our loans payable, we incurred debt issuance costs. As of December 31, 2019 and 2018, the unamortized balance of the debt issuance costs was approximately $1.4 million and $2.1 million, respectively. 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, 2019 and 2018, approximately $0.1 million and $0.3 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, 2019 and 2018, we incurred approximately $2.5 million and $3.3 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**
2020	836,000
2021	11,594,000
2022	903,000
2023	939,000
2024	976,000
Thereafter	31,754,000
	$ 47,002,000

The following information notes the loan activity for the years ended December 31, 2019 and 2018:

CIBC Bank USA

On March 30, 2018, CHP Friendswood SNF, LLC entered into a $10,725,000, three-year term loan and security agreement with CIBC Bank USA, which is collateralized by the Friendship Haven facility. We incurred approximately $0.2 million in debt issuance costs.

The monthly payments, commencing in May 2018, consist of interest plus approximately $18,000 of cash loan guarantee payments, (increasing to $19,000 for year 2 and $20,000 for year 3), which will be held in a cash loan guarantee fund until maturity date. 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. As of December 31, 2019 and 2018, the total amount in the cash loan guarantee fund was approximately $375,000 and $147,000, respectively, and is included in restricted cash in our consolidated balance sheet.

The loan may be prepaid with no penalty if the property is refinanced through a United States Department of Housing and Urban Development ("HUD")-insured loan; otherwise we will be required to pay a prepayment premium of 2% of the loan balance prior to the first anniversary and 1% thereafter through maturity.

See table above listing loans payable for further information.

Capital One

We had a secured term loan agreement with Capital One, National Association collateralized by the Pennington Gardens facility that was terminated on September 27, 2018 as the loan was refinanced with Capital One Multifamily Finance, LLC and insured by HUD ("HUD Pennington Loan"). We expensed the unamortized balance of approximately $15,000 of debt issuance costs related to the original Capital One loan, which is included in interest expense in our consolidated statements of operations.

The HUD Pennington Loan is collateralized by the Pennington Gardens facility. The loan bears interest at a fixed rate of 4.23%, plus 0.65% for mortgage insurance premiums, for the term of the loan. The loan matures in September 2053 and amortizes over 35 years. We incurred approximately $0.3 million in debt issuance costs. The note contains a prepayment penalty of 10% in year 1, which reduces each year by 100 basis points, until there is no longer a prepayment penalty beginning in year 11. See table above listing loans payable for further information.

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

We had an amended loan agreement for the Sundial Assisted Living property located in Redding, California, with Healthcare Financial Solutions, LLC ("HFS") that was terminated on April 24, 2019 as the loan was refinanced with a HUD-insured loan ("HUD Redding Loan") through ORIX Real Estate Capital, LLC) ("ORIX") (formerly Lancaster Pollard Mortgage Company). See below under ORIX for further information regarding the HUD Redding Loan.

See table above listing loans payable for further information as of December 31, 2018.

ORIX Real Estate Capital, LLC (formerly Lancaster Pollard Mortgage Company)

We have several properties with HUD-insured loans from ORIX. See table above listing loans payable for further information.

As noted above, in April 2019, we entered into the HUD Redding Loan, which is collateralized by the Sundial Assisted Living facility. The loan bears interest at a fixed rate of 4.2%, plus 0.65% for mortgage insurance premiums, for the term of the loan. The loan matures in April 2054 and amortizes over 35 years. We incurred approximately $210,000 in debt issuance costs. The note contains a prepayment penalty of 10% in year 1, which reduces each year by 100 basis points, until there is no longer a prepayment penalty beginning in year 11.

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, 2019 and 2018, the balances of our Equity-Method Investments were approximately $13.1 million and $9.7 million, respectively, and are as follows:

Summit Union Life Holdings, LLC

The SUL JV will exist until an event of dissolution occurs, as defined in the limited liability company agreement of the SUL JV (the "SUL LLC Agreement").

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 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 2017, we received approximately $178,000 to pay down the distribution receivable from two of the JV 2 properties. As of December 31, 2019 and 2018, the receivable of $184,000, due from the JV 2 properties is included in tenant and other receivables on our consolidated balance sheets.

As of December 31, 2019 and 2018, we had a receivable balance of $0 and $105,000, respectively, included in tenant and other receivables in our consolidated balance sheets from one of the SUL JV properties related to cash retained by the property to be used for additional capital. In April 2019, approximately $54,000 was converted to capital and the remaining balance was refunded to us in cash.

As of December 31, 2019 and 2018, the balance of our equity-method investment related to the SUL JV was approximately $3.1 million and $3.3 million, respectively.

Summit Fantasia Holdings, LLC

The Fantasia JV will exist until an event of dissolution occurs, as defined in the limited liability company agreement of the Fantasia JV (the "Fantasia LLC Agreement").

In April 2018, we made an additional capital contribution of $1.25 million to the Fantasia JV. As a result of this capital contribution, as of April 27, 2018, the Operating Partnership has a 35% equity investment and each member will receive a distribution of net operating cash flow and capital proceeds of 50% (instead of 70% for Fantasia and 30% for the Operating Partnership) after the Operating Partnership and Fantasia receive their accrued, but unpaid, returns.

Under the Fantasia LLC Agreement, as amended in April 2018, 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 50% to Fantasia and 50% 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 50% to Fantasia and 50% to the Operating Partnership.

As of December 31, 2019 and 2018, the balance of our equity-method investment related to the Fantasia JV was approximately $2.1 million and $2.2 million, respectively.

Summit Fantasia Holdings II, LLC

The Fantasia II JV will exist until an event of dissolution occurs, as defined in the limited liability company agreement of the Fantasia II JV (the "Fantasia II LLC Agreement").

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, 2019 and 2018, the balance of our equity-method investment related to the Fantasia II JV was approximately $1.5 million and $1.6 million, respectively.

Summit Fantasia Holdings III, LLC

The Fantasia III JV will continue until an event of dissolution occurs, as defined in the limited liability company agreement of the Fantasia III JV (the "Fantasia III LLC Agreement").

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, 2019 and 2018, the balance of our equity-method investment related to the Fantasia III JV was approximately $1.6 million and $1.7 million, respectively.

Summit Fantasy Pearl Holdings, LLC

The FPH JV will continue until an event of dissolution occurs, as defined in the limited liability company agreement of the FPH JV (the "FPH LLC Agreement").

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, 2019 and 2018, the balance of our equity-method investment related to the FPH JV was approximately $0.5 million and $0.9 million, respectively.

Indiana JV

On February 28, 2019 we formed a new joint venture ("Indiana JV"), and on March 13, 2019, we entered into a Limited Liability Company Agreement ("Indiana JV Agreement") through our wholly-owned subsidiary, Summit Indiana, LLC, with two unrelated parties: a real estate holding company and a global institutional asset management firm, both Delaware limited liability companies. We have a 15% membership interest in the Indiana JV.

On March 13, 2019, through the Indiana JV, we acquired a 15% interest in 14 skilled nursing facilities, located in Indiana. Indiana JV paid a total aggregate purchase price of approximately $128.7 million for the properties, which was funded through capital contributions from the members of the Indiana JV plus the proceeds from a collateralized loan. The facilities will be operated by and leased to an affiliate of the real estate holding company.

The Indiana JV will continue until an event of dissolution occurs, as defined in the Indiana JV Agreement.

Under the Indiana JV Agreement, net operating cash flow of the Indiana JV will be distributed monthly to the members *pari passu* in accordance with their respective capital percentages, and thereafter as defined in the Indiana JV Agreement.

As of December 31, 2019, the balance of our equity-method investment related to the Indiana JV was approximately $4.3 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, 2019 are summarized below:

	SUL JV	Fantasia JV	Fantasia II JV	Fantasia III JV	FPH JV	Indiana JV	Combined Total
Revenue	$ 18,295,000	$ 3,271,000	$ 3,536,000	$ 7,914,000	$ 3,564,000	$ 9,464,000	$ 46,044,000
Net Operating Income	$ 13,972,000	$ 1,488,000	$ 2,859,000	$ 5,908,000	$ 3,052,000	$ 9,451,000	$ 36,730,000
Income from Operations	$ 7,851,000	$ 824,000	$ 1,912,000	$ 4,135,000	$ 1,677,000	$ 6,042,000	$ 22,441,000
Net Income	$ 1,284,000	$ (315,000)	$ 923,000	$ 1,302,000	$ (723,000)	$ (516,000)	$ 1,955,000
Summit interest in Equity-Method Investments net income	$ 128,000	$ (110,000)	$ 185,000	$ 130,000	$ (72,000)	$ (77,000)	$ 184,000

The results of operations of our Equity-Method Investments for the year ending December 31, 2018 are summarized below:

	SUL JV	Fantasia JV	Fantasia II JV	Fantasia III JV	FPH JV	Combined Total
Revenue	$ 16,676,000	$ 2,043,000	$ 3,509,000	$ 7,812,000	$ 3,559,000	$ 33,599,000
Net Operating Income	$ 14,226,000	$ 1,769,000	$ 2,844,000	$ 5,911,000	$ 3,052,000	$ 27,802,000
Income from Operations	$ 8,110,000	$ 1,009,000	$ 1,922,000	$ 4,135,000	$ 1,707,000	$ 16,883,000
Net Income	$ 1,832,000	$ 34,000	$ 459,000	$ 1,358,000	$ 305,000	$ 3,988,000
Summit interest in Equity-Method Investments net income	$ 183,000	$ 14,000	$ 92,000	$ 136,000	$ 30,000	$ 455,000

Distributions from Equity-Method Investments

As of December 31, 2019 and 2018, we have distributions receivable, which is included in tenant and other receivables in our consolidated balance sheets, as follows:

	December 31, 2019	**December 31, 2018**
SUL JV	$ 97,000	$ 168,000
Fantasia JV	180,000	156,000
Fantasia II JV	48,000	52,000
Fantasia III JV	117,000	90,000
FPH JV	39,000	13,000
Indiana JV	162,000	-
Total	$ 643,000	$ 479,000

For the years ended December 31, 2019 and 2018, we received cash distributions, which are included in our cash flows from operating activities in the change in tenant and other receivables, and cash flows from investing activities, using the cumulative earnings approach, as follows:

	Year Ended December 31, 2019			**Year Ended December 31, 2018**		
	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	$ 548,000	$ 128,000	$ 420,000	$ 494,000	$ 183,000	$ 311,000
Fantasia JV	-	-	-	45,000	14,000	31,000
Fantasia II JV	276,000	185,000	91,000	259,000	92,000	167,000
Fantasia III JV	160,000	130,000	30,000	300,000	136,000	164,000
FPH JV	306,000	-	306,000	85,000	30,000	55,000
Indiana JV	377,000	-	377,000	-	-	-
Total	$ 1,667,000	$ 443,000	$ 1,224,000	$ 1,183,000	$ 455,000	$ 728,000

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, 2019 and 2018, we recorded approximately $1.2 million and $0.7 million, respectively, in acquisition and asset management fees from our Equity-Method Investments.

6. Receivables

Notes Receivable

Friendswood TRS Note

The Operating Partnership entered into an amended and restated promissory note dated January 1, 2018, with Friendswood TRS for approximately $1.1 million. 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%. As of December 31, 2019 and 2018, the balance on the note was approximately $0.5 million and $0.7 million, respectively .

Tenant and Other Receivables, net

Tenant and other receivables, net consists of:

	December 31, 2019	December 31, 2018
Straight-line rent receivables	$ 2,546,000	$ 3,675,000
Distribution receivables from Equity-Method Investments	643,000	479,000
Receivable from JV 2 properties	184,000	184,000
Asset management fees	430,000	214,000
Other receivables	9,000	114,000
Total	$ 3,812,000	$ 4,666,000

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, 2019 and 2018, 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, 2019 and 2018, 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	$ 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

As of December 31, 2019, we owned one property in California, three properties in Oregon, one property in Texas, one property in Illinois, and one property in Arizona (excluding the 50 properties held by our Equity-Method Investments). Accordingly, there is a geographic concentration of risk subject to economic conditions in certain states.

Additionally, as of December 31, 2019, we leased our seven real estate properties to five different tenants under long-term triple net leases. For the year ended December 31, 2019, four of the five tenants each had rental revenue greater than 10% (32%, 22%, 18% and 14%). As of December 31, 2019, we have one tenant that constitutes a significant asset concentration, as the net assets of the tenant are approximately 20% of our total assets.

As of December 31, 2018, we leased our 11 real estate properties to five different tenants under long-term triple net leases. For the year ended December 31, 2018, four of the five tenants each had rental revenue greater than 10% (41%, 23%, 17% and 13%). As of December 31, 2018, we had one tenant that constituted a significant asset concentration, however, four of the properties that made up that concentration were sold in February 2019 (see Note 11) and as such, this tenant no longer constitutes a significant asset concentration.

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 former directors, one of its officers and one of its former 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. On May 29, 2018, the Company filed a motion for terminating and monetary sanctions against CRA, Cornerstone Ventures, Inc. and their counsel, Winget Spadafora & Schwartzberg. On November 30, 2018, the new trial judge vacated the trial date, pending resolution of the Company's motion for terminating and monetary sanctions against CRA and Cornerstone Ventures, Inc. and denied the Company's motion for sanctions against Winget Spadafora & Schwartzberg. On February 13, 2019, the trial judge held another hearing on the Company's motion for terminating and monetary sanctions and indicated that it intended to grant the Company's motion for terminating sanctions and award the Company monetary sanctions. On March 14, 2019, the Court entered an Order and Judgment granting the Company's motion for terminating sanctions, awarding the Company monetary sanctions in the amount of $588,672, and dismissing CRA and Cornerstone Ventures Inc.'s Complaint with prejudice. On May 21, 2019, CRA and Cornerstone Ventures, Inc. filed a notice of appeal from the Judgment and, on June 3, 2019, the Company filed a notice of cross-appeal from the Judgment. On July 9, 2019, the California Court of Appeal, Fourth District dismissed CRA and Cornerstone Ventures, Inc.'s appeal with prejudice. The Company's appeals against CRA, Cornerstone Ventures, Inc and Winget Spadafora & Schwartzberg are currently pending before the Court of Appeal, Fourth District.

In September 2015, 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 for approximately $0.9 million. 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 which affirmed the Bankruptcy Court's dismissal of the complaint in a decision dated September 9, 2018. On October 11, 2018, HCRE appealed the District Court's decision affirming the Bankruptcy Court's dismissal of the complaint to the United States Court of Appeals for the Third Circuit. On October 22, 2019, the Third Circuit granted HCRE's appeal, reversing the District Court and holding that HCRE could assert the adversary complaint seeking damages for violation of the automatic stay. The Company filed a Petition for Rehearing on November 5, 2019 asserting that HCRE is not entitled to assert a claim for damages for violation of the automatic stay. This Petition was denied and the mandate was issued sending the matter back to the Bankruptcy Court. The Bankruptcy Court has not taken any action on the matter since the Third Circuit remanded the case. We believe that all of HCRE's remaining alleged claims are without merit and will vigorously defend ourselves.

Delbert Freeman and his company, Freescan Ventures, Inc. (collectively, "Freeman"), filed an action against us and Mr. Eikanas, our Chief Executive Officer, 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 in June of 2016, thereby releasing us from our obligation. 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. Freeman also alleged that he was promised consulting fees of $270,000 from us arising out of an alleged oral agreement to pay consulting fees of $10,000 per month. On May 8, 2019, Freeman agreed to voluntarily dismiss all claims in their complaint, with prejudice. In return, the Company agreed to dismiss its claims with prejudice as well. Accordingly, the Court has dismissed this action in its entirety, with prejudice.

Indemnification and Employment Agreements

We have entered into indemnification agreements with certain of our executive officers and directors which indemnify them 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, effective October 1, 2018, we amended our employment agreements with our executive officers to extend the term of each agreement for an additional three years. These employment agreements 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.

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

The Company declared a cash distribution per common share in November 2018, which was paid on January 31, 2019 to shareholders of record as of January 15, 2019. The $1.5 million distribution was recorded as a distribution payable as of December 31, 2018 which is included in accounts payable and accrued liabilities in our consolidated balance sheets. The Company declared no cash distributions per common share during the year ended December 31, 2019.

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 our distribution reinvestment plan.

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 book value of our liabilities, utilizing a discount for the fact that the shares are not currently traded on a national securities exchange and a lack of a control premium, and divided 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 the simplified method as we do not have sufficient historical exercise data. The risk-free interest rate was based on the U.S. Treasury yield curve at the date of grant using the expected life 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 1,173,092 is available for future issuances as of December 31, 2019.

On January 1, 2019, the Compensation Committee of the Board of Directors approved the issuance of 45,000 stock options under our Summit Healthcare REIT, Inc. 2015 Omnibus Incentive Plan ("Incentive Plan") to our non-executive employees. The stock options vest monthly beginning on February 1, 2019 and continuing over a three-year period through January 1, 2022. The options expire 10 years from the grant date. The weighted-average fair value per share of the stock options granted was $0.61.

On March 20, 2019, the Compensation Committee of the Board of Directors approved the issuance of 450,000 stock options under our Incentive Plan, 225,000 to each of our executives. 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 April 1, 2019 and continuing over a two-year period through March 1, 2021. The options expire 10 years from the grant date. The weighted-average fair value per share of the stock options granted was $0.57.

On March 20, 2019, the Compensation Committee of the Board of Directors approved the issuance of 110,000 stock options under our Incentive Plan to our directors. The stock options vest monthly beginning on April 1, 2019 and continuing over a three-year period through March 1, 2022. The options expire 10 years from the grant date. The weighted-average fair value per share of the stock options granted was $0.60.

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

	2019
Stock options granted	605,000
Expected volatility	21.75%
Expected term	5.5 years
Risk-free interest rate	2.38%
Dividend yield	0%
Fair value per share	$ 0.58

The following table summarizes our stock options as of December 31, 2019:

	Options	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term**	**Aggregate Intrinsic Value**
Options outstanding at January 1, 2019	1,230,908	$ 1.99		
Granted	605,000	2.26		
Exercised	—			
Cancelled/forfeited	(9,000)	2.17		
Options outstanding at December 31, 2019	1,826,908	$ 2.09	7.76	$ 1,349,000
Options exercisable at December 31, 2019	1,444,624	$ 2.04	7.44	$ 1,133,000

For our outstanding non-vested options as of December 31, 2019, the weighted average grant date fair value per share was $0.54. As of December 31, 2019, we have unrecognized stock-based compensation expense related to unvested stock options which is expected to be recognized as follows:

Years Ending December 31,	
2020	144,000
2021	58,000
2022	6,000
	$ 208,000

The stock-based compensation expense reported for the years ended December 31, 2019 and 2018 was approximately $234,000 and $100,000, 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.

Sale of Four North Carolina Properties

On February 14, 2019, our wholly-owned subsidiaries HP Shelby, LLC, HP Hamlet, LLC, HP Carteret, LLC, and our 95%-owned subsidiary, HP Winston-Salem, LLC, pursuant to a Purchase and Sale Agreement (the "Agreement") with Agemark Acquisition, LLC (the "Purchaser"), sold to the Purchaser (the "Sale") the following four properties located in North Carolina ("NC Properties"): The Shelby House, an assisted living facility located in Shelby, North Carolina; The Hamlet House, an assisted living facility located in Hamlet, North Carolina, The Carteret House, an assisted living facility located in Newport, North Carolina and Danby House, an assisted living and memory care facility located in Winston-Salem, North Carolina.

The total consideration received by the Company and its subsidiaries pursuant to the Agreement was $27.0 million in cash. The Company incurred approximately $1.2 million is transaction costs, mainly for the prepayment penalty related to the HUD-insured loans (the "HUD Loans"). On the date of the Sale, the total assets of the NC Properties were approximately $22.1 million, and liabilities were approximately $19.5 million, including approximately $19.4 million of outstanding principal to the HUD Loans. The HUD Loans were paid off in full using the proceeds of the Sale. As a result of the Sale, as of February 15, 2019, the NC Properties are no longer included in our consolidated financial statements.

For the year ended December 31, 2019, we recorded a gain of approximately $4.3 million on the sale of the NC Properties.

TRS Disposition

Friendswood TRS ("Friendswood TRS") was our wholly-owned TRS, and is the licensed operator and tenant of Friendship Haven Healthcare and Rehabilitation Center ("Friendship Haven"). Effective as of January 1, 2018, we assigned our interest in Friendswood TRS to HMG Park Manor of Friendswood, LLC ("HMG"), the management company of Friendship Haven. Therefore, as of January 1, 2018, Friendswood TRS is no longer consolidated in our consolidated financial statements. In January 2018, we recorded a gain of $109,000 on the disposition of Friendswood TRS, which is recorded in discontinued operations in the consolidated statements of operations.

12. Earnings Per Share

The following table presents the calculation of basic and diluted earnings per share ("EPS") for the Company's common stock for the years ended December 31, 2019 and 2018, and reconciles the weighted-average common shares outstanding used in the calculation of basic EPS to the weighted-average common shares outstanding used in the calculation of diluted EPS:

	2019	2018
Numerator:		
Income (loss) from continuing operations	$ 3,030,000	$ (975,000)
Income (loss) from continuing operations attributable to noncontrolling interest	83,000	(50,000)
Income (loss) applicable to common stockholders, before discontinued operations	3,113,000	(1,025,000)
Income from discontinued operations	-	109,000
Net income (loss) applicable to common stockholders	$ 3,113,000	$ (916,000)
Denominator:		
Basic:		
Denominator for basic EPS - weighted average shares	23,027,978	23,027,978
Effect of dilutive shares:		
Stock options	478,500	-
Denominator for diluted EPS – adjusted weighted average shares	23,506,478	23,027,978
Basic EPS	$ 0.14	$ (0.04)
Diluted EPS	$ 0.13	$ (0.04)

Basic and diluted EPS for income from discontinued operations was $0.00 for the years ended December 31, 2019 and 2018.

13. Segment Reporting

ASC 280, *Segment Reporting*, establishes standards for reporting financial and descriptive information about an enterprise's reportable segments. As of December 31, 2019 and 2018, we operate in one reportable segment: healthcare real estate and although our portfolio is located throughout the United States, we do not distinguish or group our operations on a geographical basis for purposes of allocating resources or measuring performance. We are managed as one segment, rather than multiple segments for internal purposes and for internal decision making.

14. Subsequent Events

Issuance of Stock Options

On January 1, 2020, the Compensation Committee of the Board of Directors approved the issuance of 45,000 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.

Novel Coronavirus (COVID-19) Update

The outbreak of the novel coronavirus (or COVID-19) continues to grow both in the U.S. and globally. It is impossible to predict the effect and ultimate impact of the COVID-19 pandemic on our operations and results as the situation is rapidly evolving. Our rental revenue and operating results depend significantly on the demand for senior housing and skilled nursing and our tenants ability to pay us rent. While we have not seen a direct impact on the demand for senior housing and skilled nursing resulting from the COVID-19 outbreak as of the date of this report, the rapid development and fluidity of this situation precludes any prediction as to the ultimate material adverse impact on the demand for senior housing and skilled nursing and presents material uncertainty and risk with respect to our business, operations, financial condition and liquidity.

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 25, 2020	By: /s/ Kent Eikanas Kent Eikanas *Chief Executive Officer and Secretary*

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 25, 2020.

Name	Title
/s/ Kent Eikanas Kent Eikanas	Chief Executive Officer and Secretary (Principal Executive Officer)
/s/ Elizabeth A. Pagliarini Elizabeth A. Pagliarini	Chief Financial Officer, Chief Operating Officer and Treasurer (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).
4.5	Description of the Registrant's Common Stock (filed herewith)
10.1	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).
10.2	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).
10.3	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	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).
10.5	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).

10.6	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).
10.7	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).
10.8	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).
10.9	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).
10.10	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).
10.11	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).
10.12	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).
10.13	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).
10.14	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).
10.15	Term Loan and Security Agreement between CHP Friendswood SNF, LLC, as borrower, and CIBC Bank USA, dated March 30, 2018 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 4, 2018).
10.16	Healthcare Facility Note with respect to HUD – insured loans between Summit Chandler, LLC and Capital One Multifamily Finance, LLC, dated September 27, 2018 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 1, 2018).
10.17	Healthcare Regulatory Agreement – Borrower between Summit Chandler, LLC and HUD, dated September 27, 2018 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 1, 2018).
10.18	Amendment No. 2 to Employment Agreement, dated as of October 1, 2018, 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 October 2, 2018).
10.19	Amendment No. 2 to Employment Agreement, dated as of October 1, 2018, between Elizabeth Pagliarini and the Company (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 2, 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 BDO USA, LLP (filed herewith).
23.2	Consent of Boldt Carlisle & Smith Certified Public Accountants (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	Fernhill Estates, LLC, Pacific Gardens Estates, LLC, and Sheridan Care Center, LLC Combined Financial Statements as of and for the year ended December 31, 2019 (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 4.5

SUMMIT HEALTHCARE REIT, INC.
DESCRIPTION OF SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934

The common stock, par value $0.001 per share, of Summit Healthcare REIT, Inc., a Maryland corporation (the "Company" or "us"), is registered pursuant to Section 12(g) of the Securities Exchange Act of 1934, as amended. All of the outstanding shares of common stock are validly issued, fully paid and nonassessable.

The following summary describes certain of the material provisions of our common stock, but does not purport to be complete and is subject to and qualified in its entirety by the Maryland General Corporation Law, the Company's Second Articles of Amendment and Restatement of Articles of Incorporation filed as Exhibit 3.4 to our Form 10-K filed on March 20, 2015 (the "Charter") and the Company's Amended and Restated Bylaws filed as Exhibit 3.3 to the Company's Form S-11/A filed December 23, 2005 (the "Bylaws").

Voting Rights

Subject to our Charter restrictions regarding the transfer of our stock and except as may otherwise be specified in the terms of any class or series of common stock, the holders of common stock are entitled to one vote per share on all matters voted on by stockholders, including election of our directors. A majority of the votes cast at a meeting of stockholders duly called and at which a quorum is present shall be sufficient to approve any matter which may properly come before the meeting, unless more than a majority of the votes cast is required by statute or by our Charter. Our Charter does not provide for cumulative voting in the election of our directors. Therefore, the holders of a majority of our outstanding shares of common stock can elect our entire board of directors. An annual meeting of the stockholders for the election of directors and the transaction of any business within the powers of the Company shall be held on a date and at the time set by our board of directors. Special meetings of the stockholders may be called by our President/Chief Executive Officer, a majority of our board of directors or a majority of our independent directors.

Dividend and Liquidation Rights

Subject to any preferential rights of any outstanding series of preferred stock, the holders of our common stock are entitled to such distributions as may be authorized from time to time by our board of directors and declared by the Company out of legally available funds and, upon liquidation, are entitled to receive all assets available for distribution to our stockholders. While our board of directors endeavors to authorize the Company to make such distributions as are necessary for us to continue to qualify as a Real Estate Investment Trust (REIT) under United States law, stockholders have no right to any distribution unless and until authorized by the board of directors and declared by the Company.

Other Rights

Holders of shares of our common stock do not have preemptive rights, which means that stockholders do not have an automatic option to purchase any new shares issued by the Company. In addition, holders of shares of our common stock have no preference, conversion, exchange, sinking fund, redemption or appraisal rights. Subject to our Charter restrictions regarding transfer of our stock, all shares of our common stock have equal distribution, liquidation and other rights. Our common stock is non-assessable by us upon our receipt of the consideration for which our board of directors has authorized its issuance.

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 Friendswood SNF, LLC	Delaware
CHP Tigard, LLC	Delaware
Healthcare Property Holding Co., LLC	Delaware
NHP Holding Co., LLC	Delaware
HP Aledo, LLC	Delaware
HP Redding, LLC	Delaware
Summit Healthcare Asset Management, LLC	Delaware
Summit Chandler, LLC	Delaware

Exhibit 23.1

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 25, 2020, relating to the consolidated financial statements which appears in this Form 10-K.

/s/ BDO USA, LLP

Costa Mesa, California
March 25, 2020

Exhibit 23.2

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 February 28, 2020, with respect to the combined financial statements of Fernhill Estates, LLC, Pacific Gardens Estates, LLC and Sheridan Care Center, LLC as of and for the year ended December 31, 2019.

/s/ Boldt Carlisle & Smith

Boldt Carlisle & Smith
Certified Public Accountants
Salem, Oregon

February 28, 2020

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.

Date: March 25, 2020

/s/ Kent Eikanas
Kent Eikanas
Chief Executive Officer
(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.

Date: March 25, 2020	/s/ Elizabeth A. Pagliarini 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, 2019 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.

	/s/ Kent Eikanas
Date: March 25, 2020	Kent Eikanas *Chief Executive Officer* *(Principal Executive Officer)*
	/s/ Elizabeth A. Pagliarini
Date: March 25, 2020	Elizabeth A. Pagliarini *Chief Financial Officer* *(Principal Financial Officer)*

Exhibit 99.1

FERNHILL ESTATES, LLC
PACIFIC GARDENS ESTATES, LLC
SHERIDAN CARE CENTER, LLC
Oregon

COMBINED FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

FERNHILL ESTATES, LLC, PACIFIC GARDENS ESTATES, LLC,
AND SHERIDAN CARE CENTER, LLC

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For the Year Ended December 31, 2019

Boldt Carlisle + Smith
CERTIFIED PUBLIC ACCOUNTANTS
The right people. The right answers.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
Dakavia Management Corp
Salem, Oregon

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Fernhill Estates LLC, Pacific Garden LLC, and Sheridan Care Center LLC, subsidiaries of Dakavia Management Corp, which comprise the combined balance sheet as of December 31, 2019, and the related combined statements of income and changes in members' 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 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 audits. We conducted our audits 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.

INDEPENDENT AUDITOR'S REPORT (Continued)

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Fernhill Estates LLC, Pacific Garden LLC, and Sheridan Care Center LLC as of December 31, 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only Fernhill Estates LLC, Pacific Garden LLC, and Sheridan Care Center LLC, and do not purport, and do not, present fairly the financial position of Dakavia Management, Inc. as of December 31, 2019 and results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplemental combining information is presented for purposes of additional analysis and 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 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 information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Boldt Carlisle & Smith

Boldt Carlisle + Smith
Certified Public Accountants
Salem, Oregon
February 28, 2020

FINANCIAL STATEMENTS

FERNHILL ESTATES, LLC, PACIFIC GARDENS ESTATES, LLC,
AND SHERIDAN CARE CENTER, LLC

COMBINED BALANCE SHEET
December 31, 2019

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	244,751
Accounts receivable, net		1,634,095
Inventory		5,873
Prepaid expenses		92,578
Escrow accounts held by landlords		140,008
Other current assets		3,958
TOTAL CURRENT ASSETS		2,121,263
NONCURRENT ASSETS		
Receivables from related parties		2,511,417
Deposits		420,000
Property and equipment, net		951,120
TOTAL NONCURRENT ASSETS		3,882,537
TOTAL ASSETS	$	6,003,800
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	$	391,838
Accrued expenses		518,147
Current portion of long-term debt		5,023
TOTAL CURRENT LIABILITIES		915,008
LONG-TERM LIABILITIES		
Long-term debt		2,208
TOTAL LIABILITIES		917,216
EQUITY		
Member's equity		5,086,584
TOTAL EQUITY		5,086,584
TOTAL LIABILITIES AND EQUITY	$	6,003,800

See accompanying notes

**FERNHILL ESTATES, LLC, PACIFIC GARDENS ESTATES, LLC,
AND SHERIDAN CARE CENTER, LLC**

**COMBINED STATEMENT OF INCOME AND CHANGES IN
MEMBERS' EQUITY
For the Year Ended December 31, 2019**

REVENUES	$ 14,400,202
EXPENSES	
Administration and general	1,824,181
Environmental services	962,045
Dietary	816,044
Social services	140,367
Activities	82,853
Nursing	6,839,261
Property and related	2,133,111
Depreciation	90,167
TOTAL EXPENSES	12,888,029
OPERATING INCOME	1,512,173
OTHER INCOME AND EXPENSES	
Miscellaneous income	52,882
Oregon provider tax	(997,769)
Miscellaneous expenses	(18,070)
TOTAL OTHER INCOME AND EXPENSES	(962,957)
Net income	549,216
Member's equity - beginning	4,637,368
Distributions to member	(100,000)
Member's equity - ending	$ 5,086,584

See accompanying notes

FERNHILL ESTATES, LLC, PACIFIC GARDENS ESTATES, LLC, AND SHERIDAN CARE CENTER, LLC

COMBINED STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$	549,216
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense		90,167
(Increase) decrease in assets:		
Accounts receivable		(67,321)
Prepaid expenses		(5,279)
Escrow accounts held by Summit		(2,956)
Due from related parties		(120,368)
Other current assets		(23,206)
Increase (decrease) in liabilities:		
Accounts payable		44,439
Accrued expenses		(58,891)
Net cash provided by operating activities		405,801
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for purchases of property and equipment		(309,992)
Net cash (used in) investing activities		(309,992)
CASH FLOWS FROM FINANCING ACTIVITIES		
Distributions		(100,000)
Principal payments on long term debt		(7,683)
Net cash (used in) financing activities		(107,683)
(Decrease) in cash		(11,874)
Cash - beginning of year		256,625
Cash - end of year	$	244,751
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Interest paid	$	5,440

See accompanying notes

1. Summary of business operations and significant accounting principles and policies

(a) Description of business

Fernhill Estates, LLC, Pacific Gardens Estates, LLC, and Sheridan Care Center, LLC (the Companies) are single-member LLC's wholly owned by Dakavia Management Corp. The Companies operate skilled nursing facilities within Oregon.

The combined financial statements include the accounts of the three companies which operate under a single master lease with three wholly-owned subsidiaries of Summit Healthcare REIT, Inc. as landlords. All significant intercompany accounts and transactions have been eliminated in combination.

(b) Concentration of credit risk

The Companies have deposits with one financial institution which are insured by the Federal Deposit Insurance Corporation up to $250,000. Account balances did not exceed federally insured limits during 2019.

(c) Cash equivalents

For purposes of reporting cash flows, cash includes cash on hand, checking, savings, and money market accounts.

(d) Receivables

The Companies maintain allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Management uses a set percentage of billings to determine the amount of allowances to accrue. Balances that remain outstanding after the Company has used reasonable collection efforts are written off through a charge to the allowance and a credit to accounts receivable.

(e) Inventory

Inventory consists of supplies which are stated at cost.

(f) Depreciation of property and equipment

Property and equipment are stated at cost less accumulated depreciation computed using the straight-line and accelerated methods over 3 to 39 years.

(g) Income taxes

As limited liability companies, the Companies are not taxpaying entities for federal income tax purposes. Accordingly, the Companies' taxable income or loss are allocated to their members in accordance with their respective percentage ownership. Therefore, no provision or liability for income taxes has been included in the accompanying financial statements.

1. Summary of business operations and significant accounting principles and policies (continued)

(h) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(i) Risk management

The Companies are exposed to various risks of loss related to errors and omissions; automobile; damage to and destruction of assets; bodily injury; and worker's compensation for which the Companies carry commercial insurance. There has been no significant reduction in insurance coverage from the prior year and settled claims have not reached the level of commercial coverage in any of the past three fiscal years.

(j) Revenue recognition

Effective January 1, 2018, the Companies adopted accounting guidance, issued by the Financial Accounting Standards Board ("FASB") in May 2014, clarifying the principles for recognizing revenue from certain contracts with customers. Management has evaluated the nature of services provided by the Companies and has determined the adoption of this guidance was not material to the Company's financial statements.

(k) Subsequent events

Management has evaluated events subsequent to year end through February 28, 2020 which is the date that the financial statements were available to be issued, for possible disclosure in the financial statements.

2. Receivables

Accounts receivables	$ 1,644,092
Other receivables	7,364
Allowance for doubtful accounts	(17,361)
	$ 1,634,095

Receivables accounts over 90 days past due at December 31, 2019 were $245,555.

3. Property and equipment

Leasehold improvements	$	969,274
Furniture and fixtures		119,511
Machinery and equipment		226,502
		1,315,287
Less accumulated depreciation		(364,167)
	$	951,120

Depreciation charged to operations for 2019 amounted to $90,167.

4. Related party balances and transactions

The Companies are wholly owned by Dakavia Management Corp to whom they pay a management fee. The management fee effective from January 1, 2019 to February 28, 2019 was 6 percent of gross revenue and 5 percent effective March 1, 2019. Management fees for 2019 were $742,309.

The Companies also had receivables at year-end with Kent Emry, a shareholder in Dakavia Management Corp, and Myrtle Point Care Center, LLC, a subsidiary of Dakavia Management Corp as follows:

Dakavia Management Corp	$	2,485,802
Kent Emry		25,158
Myrtle Point Care Center, LLC		457
	$	2,511,417

The daughter of a shareholder of Dakavia Management Corp, was the Administrator at Fernhill Estates, LLC and was paid $70,000 in wages and $1,230 in bonuses during the year.

5. Long-term debt

The Companies entered into a loan to finance the purchase of equipment with monthly payments of $450 including interest at 7.6 percent.

Balance at December 31, 2019	$	7,231
Current portion		(5,023)
Noncurrent portion	$	2,208

Future maturities are as follows:

December 31, 2020	$	5,023
December 31, 2021		2,208

6. Lease

The Companies lease their respective facilities under a master lease agreement with Summit Healthcare REIT. The lease expires on July 31, 2027. Lease payments increase 2 percent annually.

The following is a schedule of the future minimum lease payments:

Year	Amount
2020	$ 1,927,251
2021	1,965,796
2022	2,005,112
2023	2,045,214
2024	2,086,118
2025 and thereafter	12,520,759
	$ 22,550,250

Rent expense for the year was $1,900,024.

7. Retirement plan

As of May 2019, Dakavia Management Corp sponsored a 401(k) retirement plan which covers the employees of the Companies, as well as employees of other Dakavia Management Corp subsidiaries. Substantially all employees are eligible and are automatically enrolled. Employee deferrals are matched at 100 percent for the first percent and half a percent of any additional contributions up to 6 percent. Employer matching contributions of $34,298 were made for 2019.

8. Concentration

The Companies provide services to residents of Oregon who are Medicaid or Medicare recipients and receives approximately 94 percent of revenue from these programs. Accordingly, the company is subject to a concentration of revenue risks related to the Oregon Medicaid and Medicare Programs.

FERNHILL ESTATES, LLC, PACIFIC GARDENS ESTATES, LLC, AND SHERIDAN CARE CENTER, LLC

COMBINING BALANCE SHEET
December 31, 2019

	Fernhill Estates, LLC	Pacific Gardens Estates, LLC	Sheridan Care Center, LLC	Subtotals	Eliminations	Totals
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	$ 87,712	$ 61,844	$ 95,195	$ 244,751	$ -	$ 244,751
Accounts receivable, net	401,280	727,997	504,818	1,634,095	-	1,634,095
Inventory	1,441	1,701	2,731	5,873	-	5,873
Prepaid expenses	25,317	42,032	25,229	92,578	-	92,578
Escrow accounts held by landlords	58,615	27,108	54,285	140,008	-	140,008
Other current assets	-	1,826	2,132	3,958	-	3,958
TOTAL CURRENT ASSETS	574,365	862,508	684,390	2,121,263	-	2,121,263
NONCURRENT ASSETS						
Receivables from related parties	1,296,506	480,197	2,388,570	4,165,273	(1,653,856)	2,511,417
Deposits	113,706	205,000	101,294	420,000	-	420,000
Property and equipment, net	302,114	318,522	330,484	951,120	-	951,120
				-		
TOTAL NONCURRENT ASSETS	1,712,326	1,003,719	2,820,348	5,536,393	(1,653,856)	3,882,537
TOTAL ASSETS	$ 2,286,691	$ 1,866,227	$ 3,504,738	$ 7,657,656	$ (1,653,856)	$ 6,003,800
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Accounts payable	$ 59,218	$ 189,427	$ 143,193	$ 391,838	$ -	$ 391,838
Accrued expenses	143,198	241,397	133,552	518,147	-	518,147
Due to related parties	-	1,323,719	330,137	1,653,856	(1,653,856)	-
Current portion of long-term debt	-	5,023	-	5,023	-	5,023
TOTAL CURRENT LIABILITIES	202,416	1,759,566	606,882	2,568,864	(1,653,856)	915,008
LONG-TERM LIABILITIES						
Long-term debt	-	2,208	-	2,208	-	2,208
TOTAL LIABILITIES	202,416	1,761,774	606,882	2,571,072	(1,653,856)	917,216
EQUITY						
Member's equity	2,084,275	104,453	2,897,856	5,086,584	-	5,086,584
TOTAL EQUITY	2,084,275	104,453	2,897,856	5,086,584	-	5,086,584
TOTAL LIABILITIES AND EQUITY	$ 2,286,691	$ 1,866,227	$ 3,504,738	$ 7,657,656	$ (1,653,856)	$ 6,003,800

FERNHILL ESTATES, LLC, PACIFIC GARDENS ESTATES, LLC, AND SHERIDAN CARE CENTER, LLC

COMBINING STATEMENT OF INCOME AND CHANGES IN MEMBERS' EQUITY
For the Year Ended December 31, 2019

	Fernhill Estates, LLC	Pacific Gardens Estates, LLC	Sheridan Care Center, LLC	Totals
REVENUES	$ 3,715,300	$ 6,549,666	$ 4,135,236	$ 14,400,202
EXPENSES				
Administration and general	478,796	797,928	547,457	1,824,181
Environmental services	267,479	453,655	240,911	962,045
Dietary	203,916	363,156	248,972	816,044
Social services	41,388	71,680	27,299	140,367
Activities	24,723	41,151	16,979	82,853
Nursing	1,774,914	3,148,995	1,915,352	6,839,261
Property and related	568,410	1,038,554	526,147	2,133,111
Depreciation	23,384	43,040	23,743	90,167
TOTAL EXPENSES	3,383,010	5,958,159	3,546,860	12,888,029
OPERATING INCOME	332,290	591,507	588,376	1,512,173
OTHER INCOME AND EXPENSES				
Miscellaneous income	15,929	26,133	10,820	52,882
Oregon provider tax	(268,593)	(451,043)	(278,133)	(997,769)
Miscellaneous expenses	(9,706)	(6,561)	(1,803)	(18,070)
TOTAL OTHER INCOME AND EXPENSES	(262,370)	(431,471)	(269,116)	(962,957)
Net income	69,920	160,036	319,260	549,216
Member's equity - beginning	2,064,355	(55,583)	2,628,596	4,637,368
Distributions to member	(50,000)	-	(50,000)	(100,000)
Member's equity - ending	$ 2,084,275	$ 104,453	$ 2,897,856	$ 5,086,584

COMBINING STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2019

	Fernhill Estates, LLC	Pacific Gardens Estates, LLC	Sheridan Care Center, LLC	Eliminations	Totals
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income	$ 69,920	$ 160,036	$ 319,260	$ -	$ 549,216
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation expense	23,384	43,040	23,743	-	90,167
(Increase) decrease in assets:					
Accounts receivable	30,584	(90,841)	(7,064)	-	(67,321)
Prepaid expenses	(1,819)	(4,153)	693	-	(5,279)
Escrow accounts held by Summit Healthcare REIT	(8,518)	37,842	(32,280)	-	(2,956)
Receivable from related parties	21,193	102,586	(175,500)	(68,647)	(120,368)
Other current assets	-	(22,574)	(632)	-	(23,206)
Increase (decrease) in liabilities:					
Accounts payable	(19,735)	37,339	26,835	-	44,439
Accrued expenses	(27,363)	(8,657)	(22,871)	-	(58,891)
Due to related parties	-	(116,647)	48,000	68,647	-
Net cash provided by operating activities	87,646	137,971	180,184	-	405,801
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash paid for purchases of property and equipment	(27,943)	(110,949)	(171,100)	-	(309,992)
Net cash (used in) investing activities	(27,943)	(110,949)	(171,100)	-	(309,992)
CASH FLOWS FROM FINANCING ACTIVITIES					
Distributions	(50,000)	-	(50,000)	-	(100,000)
Principal payments on long term debt	(3,027)	(4,656)	-	-	(7,683)
Net cash (used in) financing activities	(53,027)	(4,656)	(50,000)	-	(107,683)
Increase (decrease) in cash	6,676	22,366	(40,916)	-	(11,874)
Cash - beginning of year	81,036	39,478	136,111	-	256,625
Cash - end of year	$ 87,712	$ 61,844	$ 95,195	$ -	$ 244,751
SUPPLEMENTAL CASH FLOW DISCLOSURE					
Interest paid	$ 1,181	$ 2,853	$ 1,406	$ -	$ 5,440