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, 2023

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

Commission file number: 000-52566

SUMMIT HEALTHCARE REIT, INC.

(Exact name of registrant as specified in its charter)

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

23382 Mill Creek Drive, Suite 125, Laguna Hills, CA 92653
(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

Securities registered pursuant to section 12(g) of the Act:
Common stock, $0.001 par value

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to § 240.10D-1(b). ☐

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, 2023 (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 April 8, 2024 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. ("Summit"), 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 Summit Healthcare Operating Partnership, L.P. ("Operating Partnership").

We are self-managed and have employees to directly manage our operations. At December 31, 2023, 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.

Summit and the Operating Partnership are managed and operated as one entity, and Summit has no significant assets other than its investment in the Operating Partnership. Summit, as the sole general partner of the Operating Partnership, controls the Operating Partnership and consolidates the assets, liabilities, and results of operations of the Operating Partnership.

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, 2023, our ownership interests in our 18 real estate properties of senior housing facilities was as follows: 100% ownership of 14 properties and 95.3% ownership interest in four properties held in a consolidated joint venture, Cornerstone Healthcare Partners LLC. See Note 14 "Subsequent Events" to the accompanying Notes to Consolidated Financial Statements for further information regarding the status of certain of our properties. Additionally, we have a 10% equity interest in an unconsolidated equity-method investment that holds 15 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 eight properties, and a 10% equity interest in an unconsolidated equity-method investment that holds six 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, and payroll processing).

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 within our financial statements and owns four properties (each, a "JV Property" and collectively, the "JV Properties").

As of December 31, 2023 and 2022, we own a 95.3% interest in the four JV Properties, and CHREF owns a 4.7% interest.

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, 2023 and 2022, we have a 10% interest in the SUL JV which owns 15 properties as of December 31, 2023 and owned 17 properties as of December 31, 2022.

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 I, LLC (the "Fantasia I JV").

On July 3, 2023, the majority member in the Fantasia I JV assigned its 65% interest, for no consideration, to Summit. As such, as of July 2023, Summit owned 100% of Fantasia I JV and it became a wholly-owned subsidiary of Summit. The Fantasia I JV consisted of the real estate of Summit Citrus Heights, LLC, and the operating assets and liabilities of its associated senior housing facility, Sun Oak Assisted Living ("Sun Oak" or "CH TRS") and was included in our consolidated financial statements from July 2023 through September 2023, when the property was sold. On September 29, 2023, we sold the real estate of Summit Citrus Heights, including the Sun Oak facility. As of December 31, 2023, our investment in the Fantasia I JV is no longer considered an equity-method investment. As of December 31, 2022, we had a 35% interest in the Fantasia I JV which owned one property.

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 our consolidated financial statements. As of December 31, 2023 and 2022, 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 our consolidated financial statements. As of December 31, 2023 and 2022, we have a 10% interest in the Fantasia III JV which owns eight and owned nine properties, respectively.

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 our consolidated financial statements. As of December 31, 2023 and 2022, we have a 10% interest in the FPH JV which owns six properties.

Taxable REIT Subsidiaries

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 I JV (through July 2023), Fantasia II JV, Fantasia III JV, and FPH JV , (collectively, our "Equity-Method Investments") and provide various services in exchange for fees and reimbursements. All acquisition fees and management fees are paid to SAM TRS and expenses incurred by us, as the manager, are reimbursed from SAM TRS.

SHOP TRS LLC

SHOP TRS LLC ("SHOP TRS") is our wholly-owned taxable REIT subsidiary that is the sole member for two of our 100% owned real estate properties that are leased to an affiliated subsidiary (see Note 3 under Pennington Gardens Operations LLC ("Pennington Gardens") and Sundial Operations LLC ("Sundial Assisted Living"), collectively, the "Operated Properties") and the operations are consolidated in our consolidated financial statements.

Investment Strategy

We intend to continue acquiring 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 financial condition of the joint venture partner, structure of the joint venture, and 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.

We continue to believe that raising institutional equity to make acquisitions will be accretive to shareholder value. Our sole source of equity funding 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 care.

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, including Patient-Driven Payment Model (PDPM) which was implemented in 2019. 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.

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.

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.

The Centers for Medicare and Medicaid Services ("CMS") is looking to finalize a nursing home minimum staffing proposal in 2024 that was issued on September 1, 2023. This proposal includes a staffing mandate for Medicare- and Medicaid-certified nursing homes to provide a minimum number of care hours per resident per day from registered nurses and nurse aids. Our tenants' operations may be affected by this or any other minimum staffing mandate due to chronic workforce challenges in certain geographic areas as well us upward pressure on wages.

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 23382 Mill Creek Drive, Suite 125, Laguna Hills, CA 92653. Our current lease, which covers approximately 5,241 square feet in a two-story office building, expires in December 2028. As of December 31, 2023, we have nine 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 further limiting any potential market.

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, 2023, our estimated per-share value of our common stock was $1.71 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 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. Stockholders should consider their stock as an illiquid investment, and they must be prepared to hold their stock for an indefinite period of time.

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. 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. A rising interest rate environment makes capital more expensive and more difficult to raise. 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 and financial condition. 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.

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

The timing of the sale of our company or 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 of our 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.

Cash distributions to our stockholders may be limited.

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 have not declared cash distributions per common share during the years ended December 31, 2023 and 2022.

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.

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.

We are subject to risks of damage from catastrophic weather and other natural or man-made disasters and the physical effects of climate change.

Natural and man-made disasters, including terrorist attacks and acts of nature such as hurricanes, tornadoes, earthquakes, flooding and wildfires, may cause damage to our properties or business disruption to our tenants and operators . These adverse weather and natural or manmade events could cause substantial damage or loss to our properties which could exceed applicable property insurance coverage. Such events could also have a material adverse impact on our tenants' operations and ability to meet their respective obligations to us. In the event of a loss in excess of insured limits, we could lose our capital invested in the affected property, as well as anticipated future revenue from that property. Any such loss could materially and adversely affect our business and our financial condition and results of operations. Climate change may also have indirect effects on our business by increasing the cost of (or making unavailable) property insurance on terms we find acceptable. To the extent that significant changes in the climate occur in areas where our properties are located, we may experience more frequent extreme weather events which may result in physical damage to or a decrease in demand for properties located in these areas or affected by these conditions. In addition, changes in federal and state legislation and regulation on climate change could result in increased capital expenditures to improve the energy efficiency of our existing properties without a corresponding increase in revenue. Should the impact of climate change be material in nature, including destruction of our properties, or occur for lengthy periods of time, our financial condition or results of operations may be adversely affected.

Our Audit Committee and management have identified a material weakness in our internal controls over financial reporting, and we may be unable to develop, implement, and maintain appropriate controls in future periods.

The Sarbanes-Oxley Act and SEC rules require that management report annually on the effectiveness of our internal control over financial reporting and our disclosure controls and procedures. Among other things, management must conduct an assessment of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Based on our management's assessment, we believe that, as of December 31, 2023, our internal controls over financial reporting were not effective. The specific material weakness is described in Part II — Item 9A, "Controls and Procedures" of this Annual Report on Form 10-K in "Management's Report on Internal Control over Financial Reporting". A "material weakness" is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements would not be prevented or detected. We have adopted a remediation plan to address the material weakness identified.

The material weakness in our internal control over financial reporting as of December 31, 2023 was attributed to insufficient technical accounting resources at the Company, especially with respect to significant and unusual transactions. We cannot assure you that additional material weaknesses in our internal control over financial reporting will not be identified in the future. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could result in additional material weaknesses, and create a reasonable possibility that a material misstatement to the consolidated financial statements will not be prevented or detected on a timely basis. This could cause us to fail to meet our reporting obligations.

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, and/or the failure to find new tenants after a lease expires or has been terminated, 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. For example, the tenants of certain of our properties in Georgia have been out of compliance with their consolidated minimum EBITDAR covenant for each quarter in 2023, which has in turn contributed to our lender, with respect to such properties, declaring an event of default with respect to such properties. Even if a lease is terminated or expires without a default or bankruptcy, we may incur costs in finding a new tenant. 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, or at all. 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.

We may have difficulty selling our 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.

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.

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 make lease payments to us or, in the case of our operated properties, negatively impacting resident fees and services revenues.

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. 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.

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:

- staffing shortages, minimum staffing level mandates, and continued reliance on higher-priced agency healthcare workers;
- increased costs and decreased occupancy due to potential future pandemics or contagious outbreaks;
- trends in the method of delivery of healthcare services, specifically expansion of home-based healthcare;
- increased acuity of care;
- competition among healthcare providers;
- nursing home reform mandates from state and federal governments without increases in reimbursement to fund the mandates;
- 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;
- liability and workers compensation insurance expense; and
- 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.

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, resident fees and services 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 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.

Under the current Patient-Driven Payment Model (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. We do not believe that PDPM has adversely affected 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 own or 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 own or 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 and our operated properties, 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.

Potential litigation and rising insurance costs may affect our tenants ability to obtain and maintain adequate liability and other insurance and their ability to make lease payments and fulfill their insurance and indemnification obligations to us.

Our tenants and the Company may be subject to lawsuits filed by advocacy groups that monitor the quality of care at healthcare facilities or by patients, facility residents or their families. Significant damage awards are possible in cases where neglect has been found. This litigation has increased our tenants costs of monitoring and reporting quality of care and has resulted in increases in the cost of liability and medical malpractice insurance. These increased costs may materially adversely affect our tenants ability to obtain and maintain adequate liability and other insurance; manage related risk exposures; fulfill their insurance, indemnification and other obligations to us under their leases or property management agreements, as applicable; or make lease payments to us, as applicable. In addition, from time to time, we may be subject to claims brought against us in lawsuits and other legal proceedings arising out of our alleged actions or the alleged actions of our tenants and operators for which such tenants or operators may have agreed to indemnify, defend and hold us harmless. An unfavorable resolution of any such pending or future litigation could materially adversely affect our liquidity, financial condition and results of operations and have a material adverse effect on us in the event that we are not ultimately indemnified by our tenants.

COVID-19 or another 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 the 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. There have been numerous examples of outbreaks at similar senior housing health care facilities. Such incidents have diminished 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 there is an outbreak at any of our facilities, 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, including COVID–19, 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. The COVID-19 pandemic has already impacted some of our tenants negatively. See Note 3 to the accompanying Notes to Consolidated Financial Statements for further information.

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 hire a third-party manager to operate and/or become the 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. Hiring a third-party manager to operate or 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. See Note 3 to the accompanying Notes to Consolidated Financial Statements for further information regarding financial issues for two of our owned properties and the impact 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 short term 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 short term 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 operations or 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 example, On March 13, 2024, we received a notice of default from one of our lenders due to our continuing failure to pay the full and timely interest payments due on the loan from December 2023 to March 2024. As a result of the default, the lender has exercised certain rights, such as, among other things, their right to act as attorney-in-fact of Summit Georgia Holdings, LLC, to appoint an independent manager over the GA8 Properties and their right to exercise any voting rights and to receive any distributions with respect to such properties. See Note 14 “Subsequent Events” to the accompanying Notes to Consolidated Financial Statements for further information.

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. Some of our mortgages contain cross-collateralization or cross-default provisions, a default on a single property could affect multiple properties.

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.

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 even if the market conditions at that time are not favorable for these borrowings or sales. Our payment of income tax would decrease the amount of our income available for distribution to our stockholders. 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.

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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 1C. CYBERSECURITY

Risk management and strategy

We have established policies and processes for assessing, identifying, and managing material risk from cybersecurity threats, and have integrated these processes into our overall risk management systems and processes. We routinely assess material risks from cybersecurity threats, including any potential unauthorized occurrence on or conducted through our information systems that may result in adverse effects on the confidentiality, integrity, or availability of our information systems or any information residing therein.

We conduct periodic risk assessments to identify cybersecurity threats, as well as assessments in the event of a material change in our business practices that may affect information systems that are vulnerable to such cybersecurity threats. These risk assessments include identification of reasonably foreseeable internal and external risks, the likelihood and potential damage that could result from such risks, and the sufficiency of existing policies, procedures, systems, and safeguards in place to manage such risks.

Following these risk assessments, we re-design, implement, and maintain reasonable safeguards to minimize identified risks; reasonably address any identified gaps in existing safeguards; and regularly monitor the effectiveness of our safeguards. Primary responsibility for assessing, monitoring and managing our cybersecurity risks rests with an IT consultant who reports to our Chief Financial Officer, to manage the risk assessment and mitigation process.

As part of our overall risk management system, we monitor and test our safeguards and train our employees on these safeguards, in collaboration with IT and management. Personnel at all levels and departments are made aware of our cybersecurity policies through trainings.

We engage consultants, or other third parties in connection with our risk assessment processes. These service providers assist us to design and implement our cybersecurity policies and procedures, as well as to monitor and test our safeguards. We require each third-party service provider to certify that it has the ability to implement and maintain appropriate security measures, consistent with all applicable laws, to implement and maintain reasonable security measures in connection with their work with us, and to promptly report any suspected breach of its security measures that may affect our company.

We have not encountered cybersecurity challenges that have materially impaired our operations or financial standing. For additional information regarding risks from cybersecurity threats, please refer to Item 1A, “Risk Factors,” in this annual report on Form 10-K.

Governance

One of the key functions of our board of directors is informed oversight of our risk management process, including risks from cybersecurity threats. Our board of directors is responsible for monitoring and assessing strategic risk exposure, and our executive officers are responsible for the day-to-day management of the material risks we face. Our board of directors administers its cybersecurity risk oversight function directly as a whole, as well as through the audit committee.

Our Chief Financial Officer is primarily responsible to assess and manage our material risks from cybersecurity threats with assistance from third-party service providers.

Our Chief Financial Officer oversees our cybersecurity policies and processes, including those described in “Risk Management and Strategy” above. The cybersecurity risk management program includes tools and activities to prevent, detect, and analyze current and emerging cybersecurity threats, and plans and strategies to address threats and incidents.

Our Chief Financial Officer and IT consultant provide periodic briefings to the audit committee regarding our Company’s cybersecurity risks and activities, including any recent cybersecurity incidents and related responses, cybersecurity systems testing, activities of third parties, and the like. Our Audit Committee provides regular updates to the Board of Directors on such reports.

ITEM 2. PROPERTIES

As of December 31, 2023, our portfolio consisted of 18 properties, 14 of which we own 100%, and four of which we own through a 95.3% interest in CHP LLC. 16 of the properties are 100% leased, on a triple net basis, to the tenants of the related facilities and the other two properties are each 100% leased to an affiliated subsidiary (see Note 3 to the accompanying Notes to Consolidated Financial Statements under Pennington Gardens Operations LLC ("Pennington Gardens") and Sundial Operations LLC ("Sundial") owned by our wholly-owned subsidiaries, Summit Chandler LLC and HP Redding LLC, respectively). The following table (excluding the 31 properties held by our unconsolidated Equity-Method Investments) provides summary information regarding these properties:

Property	Location	Date Purchased	Type(1)	Purchase Price(2)	Number of Beds
Sheridan Care Center	Sheridan, OR	August 3, 2012	SNF	$ 4,100,000	51
Fernhill Care Center	Portland, OR	August 3, 2012	SNF	4,500,000	63
Friendship Haven Healthcare and Rehabilitation Center	Galveston County, TX	September 14, 2012	SNF	15,000,000	150
Pacific Health and Rehabilitation Center	Tigard, OR	December 24, 2012	SNF	8,140,000	73
Brookstone of Aledo	Aledo, IL	July 2, 2013	AL	8,625,000	66
Sundial Assisted Living	Redding, CA	December 18, 2013	AL	3,500,000	65
Pennington Gardens	Chandler, AZ	July 17, 2017	AL/MC	13,400,000	90
Yucaipa Hill Post Acute	Yucaipa, CA	July 2, 2021	SNF	10,715,000	82
Creekside Post Acute	Yucaipa, CA	July 2, 2021	SNF	4,780,000	59
University Post Acute	Mentone, CA	July 2, 2021	SNF	4,560,000	50
Calhoun Health Center	Calhoun, GA	December 30, 2021	SNF	7,670,000	100
Maple Ridge Health Care Center	Cartersville, GA	December 30, 2021	SNF	13,548,000	74
Chatsworth Health Care Center	Chatsworth, GA	December 30, 2021	SNF	29,785,000	120
East Lake Arbor	Decatur, GA	December 30, 2021	SNF	15,640,000	103
Fairburn Health Care Center	Fairburn, GA	December 30, 2021	SNF	14,644,000	120
Grandview Health Care Center	Jasper, GA	December 30, 2021	SNF	10,061,000	60
Rosemont at Stone Mountain	Stone Mountain, GA	December 30, 2021	SNF	23,908,000	149
Willowwood Nursing Center & Rehab	Flowery Branch, GA	December 30, 2021	SNF	14,744,000	100
Total:				$ 207,320,000	1,575

(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.

(2) Excludes acquisition costs.

Portfolio Lease Expirations

The following table sets forth lease expiration information for the ten years and thereafter following December 31, 2023. 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 (%)
2027	1 [(1)]	1,538,000 [(1)]	12.5 %	7.1 %
2030	1	913,000	10.8 %	4.2 %
2033	3	2,522,000	11.5 %	11.7 %
2036	11	16,604,000	65.2 %	77.0 %
	16	$ 21,577,000	100.0 %	100.0 %

(1) Excludes the intercompany leases and related rental revenue. See Note 3 to the accompanying Notes to Consolidated Financial Statements for further information regarding the status of the tenant leases for Pennington Gardens and Sundial. These intercompany leases are eliminated in consolidation. Resident agreements for the operated properties, Pennington Gardens and Sundial, are short-term and excluded from the table above and revenue is included in resident fees and services in the accompanying statements of operations.

ITEM 3. LEGAL PROCEEDINGS

See Note 11 to the accompanying Notes to Consolidated Financial Statements for a summary of our material legal proceedings and Note 14 to the accompanying Notes to Consolidated Financial Statements for certain subsequent events.

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, 2023, the estimated common stock per-share value is $1.71 per share, adjusted from the previous estimated common stock per-share value of $2.73 established on December 31, 2022. The estimated value per share was based on the methodologies and assumptions described further below. The estimated per-share value determined below is not audited and does not represent 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, and these differences could be significant. 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, 2023 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, 2023. 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 2023 lease payments and applied the current market lease rates for each asset type to determine fair market value of our properties or for recently purchased properties, the current appraised values.

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, 2023.

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. 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 and then applying our ownership percentage in the individual equity-method investments after a sale to determine the amount of equity attributable to the Company.

Our estimated per-share value was calculated as follows:

	December 31, 2023
Investments in real estate	$ 9.19
Loans payable	(7.89)
Other assets and liabilities, net	0.22
Equity-Method Investments	0.19
Estimated net asset value per-share	$ 1.71
Estimated enterprise value premium	None applied
Estimated liquidity discount	None applied
Total estimated per-share value	$ 1.71

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 $1.71 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:

2023	$ 1.71
2022	$ 2.73
2021	$ 2.94
2020	$ 2.90
2019	$ 2.82

Stockholders

As of March 20, 2024 we had approximately 23.0 million shares of common stock outstanding held by 4,180 stockholders of record.

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.

Purchases of Company Equity Securities

The Company has not engaged in any repurchases of its equity securities during the year ended December 31, 2023 and does not currently have any repurchase or redemption plan or program in place.

ITEM 6. [RESERVED]

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, 2023, our ownership interests in our 18 real estate properties of senior housing facilities was as follows: 100% ownership of 14 properties and a 95.3% interest in four properties in a consolidated joint venture, Cornerstone Healthcare Partners LLC. See Note 14 *"Subsequent Events"* to the accompanying Notes to Consolidated Financial Statements for further information regarding the status of certain of our properties. Additionally, we have a 10% interest in an unconsolidated equity-method investment that owns 15 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 eight properties, and a 10% equity interest in an unconsolidated equity-method investment that holds six 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 16 real estate properties, including rents reported on a straight-line basis over the initial term of each tenant lease, resident fees and services from our two operated properties, 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.

Current Market and Economic Conditions

The world was, and continues to be, impacted by the COVID-19 pandemic. The healthcare industry was among those most adversely affected by the COVID-19 pandemic. Two of our tenants experienced a material adverse effect on their operations related to COVID-19, and that affected their ability to make rent payments in early 2023 and 2022 (see Note 3 to the accompanying Notes to Consolidated Financial Statements for further information on its impact to us and see below for the impact on our Equity-Method Investments). We expect the COVID-19 pandemic will continue to adversely affect our tenants' and our Company's financial condition and results of operations, including but not limited to, occupancy, resident leases and related resident fees and service revenues, and additional labor and operating expenses. The 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, including recording impairments, lease modifications and credit losses in future periods.

Throughout 2023, the broader economy experienced increased levels of inflation, higher interest rates and tightening monetary and fiscal policies. The Federal Reserve continued to increase its targeted range for the federal funds rate in 2023, leading to increased interest rates. Even though the Federal Reserve has ceased increasing the federal funds rate and has signaled the potential for lowering the federal funds rate in 2024, we have no certainty if or when this may happen. We currently have fixed and variable interest rates for our loans. The rise in overall interest rates has caused an increase in our variable rate borrowing costs and our overall cost of capital, resulting in an increase in interest expense. The higher interest rates imposed by the Federal Reserve to address inflation may also adversely impact real estate asset values. In addition, a prolonged period of high and persistent inflation could cause an increase in our expenses. The current market and economic conditions could have a material impact on our business, cash flow and results of operations. It could also impact our ability to find suitable acquisitions, sell properties, and raise equity and debt capital.

Summit Portfolio Properties

At December 31, 2023, as noted above in Overview, 16 of our 18 properties are 100% leased to the tenants of the related facilities. The other two properties are each 100% leased to an affiliated subsidiary (see Note 3 to the accompanying Notes to Consolidated Financial Statements under Pennington Gardens Operations LLC ("Pennington Gardens") and Sundial Operations LLC ("Sundial"), collectively, the "Operated Properties") which are operated directly and earn resident fees and service revenue.

The following table provides summary information (excluding the 31 properties held by our unconsolidated Equity-Method Investments) regarding these properties as of December 31, 2023:

	Properties	Beds	Square Footage	Purchase Price
SNF	15	1,354	406,135	$ 181,795,000
AL or AL/MC	3	221	136,765	25,525,000
Total Real Estate Properties	18	1,575	542,900	$ 207,320,000

Property	Location	Date Purchased	Type	Beds	2023 Lease Revenue [1]
Sheridan Care Center	Sheridan, OR	August 3, 2012	SNF	51	$ 517,000
Fernhill Care Center	Portland, OR	August 3, 2012	SNF	63	552,000
Friendship Haven Healthcare and Rehabilitation Center	Galveston County TX	September 14, 2012	SNF	150	1,412,000
Pacific Health and Rehabilitation Center	Tigard, OR	December 24, 2012	SNF	73	1,015,000
Brookstone of Aledo	Aledo, IL	July 2, 2013	AL	66	765,000
Sundial Assisted Living [2]	Redding, CA	December 18, 2013	AL	65	—
Pennington Gardens [2]	Chandler, AZ	July 17, 2017	AL/MC	90	—
Yucaipa Hill Post Acute	Yucaipa, CA	July 2, 2021	SNF	82	1,065,000
Creekside Post Acute	Yucaipa, CA	July 2, 2021	SNF	59	475,000
University Post Acute	Mentone, CA	July 2, 2021	SNF	50	453,000
Calhoun Health Center	Calhoun, GA	December 30, 2021	SNF	100	479,000
Maple Ridge Health Care Center	Cartersville, GA	December 30, 2021	SNF	74	1,894,000
Chatsworth Health Care Center	Chatsworth, GA	December 30, 2021	SNF	120	3,459,000
East Lake Arbor	Decatur, GA	December 30, 2021	SNF	103	902,000
Fairburn Health Care Center	Fairburn, GA	December 30, 2021	SNF	120	1,447,000
Grandview Health Care Center	Jasper, GA	December 30, 2021	SNF	60	1,065,000
Rosemont at Stone Mountain	Stone Mountain, GA	December 30, 2021	SNF	149	2,735,000
Willowwood Nursing Center & Rehab	Flowery Branch, GA	December 30, 2021	SNF	100	1,031,000
Total				1,575	

(1) Represents lease revenue for the year ended December 31, 2023, based on in-place leases, including straight-line rent and excluding $2.2 million in tenant reimbursement revenue, $3.8 million in write off of straight-line rent, $0.06 million in above-market lease amortization and $0.4 million in security deposits from terminated leases.

(2) See Note 3 to the accompanying Notes to Consolidated Financial Statements for further information on these two properties. Lease revenue due under the Pennington Gardens and Sundial intercompany leases are eliminated in consolidation and revenue is reflected in resident fees and services in the accompanying consolidated statements of operations for these Operated Properties.

As of December 31, 2023, our eight properties located in Georgia (the "GA8 Properties") Properties are considered to be a significant asset concentration as the aggregate net assets of the GA8 Properties were greater than 20% of our total assets due to cross-default provisions in the leases. Audited financial statements are attached as an Exhibit to this Form 10-K.

On March 13, 2024, we received a notice of default from one of our lenders with respect to the GA8 Properties, primarily from our continuing failure to pay the full and timely interest payments due on the loan from December 2023 to March 2024. As a result of the default, the lender exercised certain rights under its loan agreement, such as, among other things, their right to act as attorney-in-fact of Summit Georgia Holdings, LLC, to appoint an independent manager over the GA8 Properties and their right to exercise any voting rights and to receive any distributions with respect to such properties. The notice of default also constitutes an event of default under the GA8 Properties subordinated term loan and the mortgage loan. We are currently analyzing this contractual change and any impact on our continued consolidation of Summit Georgia and the underlying GA8 Properties. See Note 14 "Subsequent Events" to the accompanying Notes to Consolidated Financial Statements for further information regarding the status of the GA8 Properties.

Summit Equity-Method Investment Portfolio Properties

We continue to believe that raising institutional capital to make acquisitions will be accretive to shareholder value. Our primary source of capital 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 capital through alternative methods if warranted by market conditions.

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 our consolidated financial statements. As of December 31, 2023 and 2022, the balance of our equity-method investment related to the SUL JV was approximately $1.8 million and $2.4 million, respectively.

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 JV"), Summit Fantasia Holdings II, LLC ("Fantasia II JV") and Summit Fantasia Holdings III, LLC ("Fantasia III JV") (collectively, the "Fantasia JVs").

On July 3, 2023, the majority member in the Fantasia I JV assigned its 65% interest, for no consideration, to Summit. As such, as of July 2023, Summit owned 100% of Fantasia I JV. As of December 31, 2023, we no longer have any equity-method interest in the Fantasia I JV.

In June 2023, the tenants of the two properties in the Fantasia II JV filed for a receivership with the state of Rhode Island. In September 2023, due to the ongoing receivership issues, the Fantasia II JV recorded an impairment of approximately $1.6 million on the two properties and we recorded our 20% share of the impairment of approximately $0.3 million which is recorded in the loss from equity-method investees in the accompanying consolidated statements of operations. Additionally, as of September 30, 2023, due to the continuing issues, we determined the fair value of our equity-method investment in the Fantasia II JV to be impaired and recorded a $0.5 million impairment charge which is recorded in the loss from equity-method investees in the accompanying consolidated statements of operations. Due to our intention to fund a capital call, if needed, we recorded additional losses of $0.1 million and as of December 31, 2023 and 2022, the balance of our equity-method investment related to the Fantasia II JV was ($0.1) million and $1.2 million, respectively.

In September 2023, the Fantasia III JV deeded the ownership in a transfer of one of the properties in the Fantasia III JV to the tenant for no contractual consideration, however as part of the transfer agreement, the Fantasia III JV will receive a monthly payment of the base rent of the transferred property that was in place at the time of the transfer, through the end of the lease term, August 2032, from one of the other tenants in the JV. The Fantasia III JV recorded a loss of approximately $3.9 million on the transaction and we recorded our 10% share of the loss of approximately $0.4 million As of December 31, 2023 and 2022, the balance of our equity-method investment related to the Fantasia III JV was approximately $1.2 million and $1.6 million, respectively.

The Fantasia JVs are not consolidated in our consolidated financial statements and are accounted for under the equity-method in our consolidated financial statements. Through the Fantasia JVs as of December 31, 2023, we own a 20% interest in two skilled nursing facilities located in Rhode Island and a 10% interest in eight skilled nursing facilities located in Connecticut. Through the Fantasia JVs as of December 31, 2022: we owned a 35% interest in one senior housing facility located in California, a 20% interest in two skilled nursing facilities located in Rhode Island; and a 10% interest in nine skilled nursing facilities located in Connecticut.

Summit Fantasy Pearl Holdings, LLC

In October 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 our consolidated financial statements. Due to ongoing issues with the tenant in 2023 and 2022, we determined the fair value of our equity-method investment in the FPH JV to be impaired and recorded a $0.2 million impairment charge which is recorded in the loss from equity-method investees in the accompanying consolidated statements of operations as of December 31, 2022. As of December 31, 2023 and 2022, the balance of our equity-method investment related to the FPH JV was $0.

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

Condensed Combined Balance Sheets:	December 31, 2023 (2)	December 31, 2022
Total Assets	$ 180,934,000	$ 249,540,000
Total Liabilities	$ 138,938,000	$ 185,857,000
Members Equity:		
Summit	$ 2,972,000 (1)	$ 5,676,000
JV Partners	$ 39,024,000	$ 58,007,000
Total Members Equity	$ 41,996,000	$ 63,683,000

(1) At December 31, 2023 and December 31, 2022, the aggregate balance of our equity method investments in our consolidated financial statements for each period presented of approximately $2.9 million and $5.2 million, respectively, is lower by approximately $0.1 million and $0.5 million, respectively, than the equity recognized in the underlying Equity-Method Investments financial statements mainly due to impairment losses we have recorded on our basis in the equity-method investments that are not reflected in members equity at the underlying equity-method investee level.

(2) The decrease in assets, liabilities and equity of our equity-method investments in 2023 are mainly due to the transfer of the Fantasia I JV to Summit in July 2023, the transfer of one of the properties in the Fantasia III JV to the tenant in September 2023, and the sale of two properties in the SUL JV in December 2023.

Condensed Combined Statements of Operations:	December 31, 2023	December 31, 2022
Total revenue:	$ 33,097,000	$ 35,374,000
Income (loss) from operations	$ 10,475,000	$ (1,864,000)
Net income (loss)	$ 703,000	$ (8,936,000)
Summit equity interest in Equity-Method Investments net loss	$ (285,000)	$ (2,281,000)
JV Partners interest in Equity-Method Investments net income (loss)	$ 988,000	$ (6,655,000)

Distributions from Equity-Method Investments

For the years ended December 31, 2023 and 2022, we recorded distributions and cash received for distributions from our Equity-Method Investments as follows:

	Years Ended December 31,	
	2023	2022
Distributions	$ 1,946,000	$ 1,140,000
Cash received for distributions	$ 1,854,000	$ 1,116,000

Results of Operations

Our results of operations are described below:

Year Ended December 31, 2023 Compared to Year Ended December 31, 2022

	December 31, 2023	December 31, 2022	$ Change
Total rental revenues (excludes security deposits below)	$ 17,652,000	$ 21,957,000	$ (4,305,000)
Property operating costs	(3,773,000)	(3,139,000)	(634,000)
Resident fees and services income	6,823,000	3,678,000	3,145,000
Resident costs	(5,772,000)	(3,713,000)	(2,059,000)
Net operating income (1)	14,930,000	18,783,000	(3,853,000)
Asset management fees	554,000	659,000	(105,000)
Security deposits from terminated leases	420,000	—	420,000
General and administrative	(5,171,000)	(4,580,000)	(591,000)
Depreciation and amortization	(7,318,000)	(7,311,000)	(7,000)
Loss from equity-method investees	(754,000)	(2,898,000)	2,144,000
Impairment of real estate properties and intangible assets	(11,387,000)	—	(11,387,000)
Gain on consolidation of interest in unconsolidated equity-method investment	1,066,000	—	1,066,000
Other income	399,000	252,000	147,000
Interest expense	(17,521,000)	(13,534,000)	(3,987,000)
Net loss	(24,782,000)	(8,629,000)	(16,153,000)
Noncontrolling interests’ share in (income) loss	(19,000)	(64,000)	45,000
Net loss applicable to common stockholders	$ (24,801,000)	$ (8,693,000)	(16,108,000)

(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 total rental revenues, resident fees and service income less property operating costs and resident costs. NOI excludes asset management fees, security deposits from terminated leases, general and administrative expense, depreciation and amortization, income (loss) from equity-method investees, impairment of real estate properties, other income, and interest expense. We believe NOI provides investors relevant and useful information because it measures the operating performance of the REIT’s real estate at the property level on an unleveraged basis. We use NOI to make decisions about resource allocations and to assess and compare property-level performance. We believe that net income (loss) is the most directly comparable GAAP measure to NOI. NOI should not be viewed as an alternative measure of operating performance to net income (loss) as defined by GAAP since it does not reflect the aforementioned excluded items. Additionally, NOI as we define it may not be comparable to NOI as defined by other REITs or companies, as they may use different methodologies for calculating NOI.

Total rental revenues for our properties includes rental revenues and tenant reimbursements for property taxes and insurance. Resident fees and services income are generated from the Operated Properties. Property operating costs include insurance, property taxes and other operating expenses, and resident costs are related to the Operated Properties. Net operating income decreased approximately $3.8 million for the year ended December 31, 2023 compared to the year ended December 31, 2022 primarily due to the $3.8 million write off of straight-line rents related to the change in three tenants in September 2023. The $0.4 million increase in security deposits from terminated leases are also a result of the change in the three tenants.

Asset management fees decreased approximately $0.1 million for the year ended December 31, 2023 compared to the year ended December 31, 2022 due primarily to the issues with our Fantasia II JV and FPH JV (see Note 5 to the accompanying Notes to Consolidated Financial Statements).

The net increase of approximately $0.6 million in general and administrative expense is primarily due to an increase in payroll related expense of approximately $0.3 million, an increase in legal fees of $0.3 million, an increase in rent expense of $0.1 million, offset by a decrease in audit-related fees of $0.1 million.

The net decrease of approximately $2.2 million in loss from our Equity-Method Investments for the year ended December 31, 2023 is primarily due to our current year impairments offset by our 10% portion of the gain from the sale of two properties in SUL JV for $0.7 million versus the impairment of the assets and losses in equity of the Fantasia I JV and SUL JV for the year ended December 31, 2022 of approximately $2.5 million.

The impairment of real estate properties and intangible assets for the year ended December 31, 2023 of $11.4 million is related to the impairment of eight of our real estate properties. See Note 3 to the accompanying Notes to Consolidated Financial Statements for further information.

The increase in gain on consolidation of interest in unconsolidated equity-method investment of approximately $1.1 million is due to the consolidation of a variable interest entity (Fantasia I JV) in July 2023 and the related gain and then the subsequent sale of the real estate in September 2023.

The increase in other income of approximately $0.1 million is mainly due to the increase in interest rates on our money market accounts.

The increase in interest expense of $4.0 million for the year ended December 31, 2023 compared to the year ended December 31, 2022 is due to an increase in interest rates on approximately $139.0 million of debt for the CA3 and GA8 Properties.

Liquidity and Capital Resources

As of December 31, 2023, we had approximately $11.0 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, equity-method investment distributions 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.

Seven of our debt obligations are long-term, fixed rate U.S. Department of Housing and Urban Development ("HUD")-insured loans that mature between 2039 and 2055. The other debt obligations are short-term loans that mature in July 2024 through December 2026 with variable interest rates (see Note 4 to the accompanying Notes to Consolidated Financial Statements). Due to the current environment of increasing interest rates, this may have a negative effect on our results of operations, which could result in foreclosure by our lenders if our cash is insufficient to meet our obligations under our loans payable that will mature in 2024 through 2025, and for that reason, we may refinance these short-term loans with long-term, fixed rate HUD-insured debt, other long-term debt or restructure of the current debt, a combination of debt and equity or sale of the real estate in 2024, which may or may not be favorable to us. 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. In regard to our Operated Properties, our intent is to stabilize the operations of the facilities and market them for sale due to the significantly reduced willingness of AL manager/operators to execute long-term triple-net leases.

Credit Facilities and Loan Agreements

As of December, 2023, we had debt obligations of approximately $182.6 million. The outstanding balance by lender is as follows (see Note 4 to the accompanying Notes to Consolidated Financial Statements for further information regarding our financing arrangements):

- Capital One Multifamily Finance, LLC (HUD-insured) – approximately $9.8 million maturing September 2053
- Lument Capital (formerly ORIX Real Estate Capital, LLC) (HUD-insured) – approximately $34.0 million maturing from September 2039 through April 2055
- CIBC Bank, USA - approximately $106.0 million maturing from July 2024 to December 2024
- Oxford Finance LLC – approximately $32.8 million maturing from March 2025 to December 2026
- CIBC Bank, USA - $1 million Master Letter of Credit Agreement with two outstanding letters of credit for approximately $0.2 million

Debt Service Requirements

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

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, 2023 and 2022:

	Year Ended December 31	
	2023	2022
Net loss applicable to common stockholders (GAAP)	$ (24,801,000)	$ (8,693,000)
Adjustments:		
Depreciation and amortization	7,261,000	7,282,000
Depreciation and amortization related to noncontrolling interests	(53,000)	(44,000)
Depreciation related to Equity-Method Investments	729,000	859,000
Impairment on real estate property in Equity-Method Investments (included in loss from Equity-Method Investments)	423,000	3,294,000
Gain on sale of property in SULH JV (2023) and Fantasia I JV (2022) (included in loss from Equity-Method Investments)	(704,000)	(437,000)
Impairment on real estate properties	11,387,000	—
Gain on consolidation of interest in unconsolidated equity-method investment	(1,066,000)	—
Funds (used in) provided by operations (FFO) applicable to common stockholders	$ (6,824,000)	$ 2,261,000
Weighted-average number of common shares outstanding – basic	23,027,978	23,027,978
FFO per weighted average common shares - basic	$ (0.30)	$ 0.10
Weighted-average number of common shares outstanding – diluted	23,027,978	23,528,120
FFO per weighted average common shares - diluted	$ (0.30)	$ 0.10

Subsequent Events

See Note 14 to the accompanying Notes to Consolidated Financial Statements for further information regarding 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. 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 and estimates, 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

In accordance with Accounting Standards Codification ("ASC") 805, Business Combinations, our acquisitions of real estate investments generally do not meet the definition of a business, and are treated as asset acquisitions. The assets acquired and liabilities assumed are measured at their acquisition date relative fair values. Acquisition costs are capitalized as incurred. We allocate the acquisition costs to the tangible assets, identifiable intangible assets/liabilities and assumed liabilities on a relative fair value basis. Purchase price allocations contain uncertainties because they require management to make significant estimates and assumptions and to apply judgment to allocate the purchase price of real estate acquired among its components. We assess fair value based on available market information, including comparable transactions, rental rates, discount rates, and capitalization rates.

The fair value of land is derived from comparable sales of land within the same submarket and/or region. The fair value of buildings and improvements and furniture and fixtures considers the value of the property as if it was vacant as well as replacement costs, depreciation factors, and other relevant market information.

In allocating the fair value of the identified intangible assets and liabilities of an acquired property, above-market and below-market lease values are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be received pursuant to the leases and (ii) management's estimate of the amount that would be received using fair market lease rates over the remaining non-cancelable term of the lease and, for below-market leases, we also evaluate any renewal options associated with that lease to determine if the intangible should include those periods. The capitalized above-market lease values are amortized as a reduction of rental income over the remaining non-cancelable terms of the respective leases. The capitalized below-market lease values, also referred to as acquired lease obligations, are amortized as an increase to rental income over the initial terms of the respective leases.

The value of in-place leases consisting of tenant origination and absorption costs and leasing commissions avoided is based on our evaluation of the specific characteristics of each tenant's lease. Factors considered include estimates of carrying costs during expected lease-up periods, current market conditions, discount rates, and costs to execute similar leases. The value of in-place leases are amortized over the remaining term of the respective leases and included in depreciation and amortization in the consolidated statements of operations. If a tenant vacates its space prior to its contractual expiration date, any unamortized balance of their related intangible asset is expensed in the consolidated statements of operations.

Impairment of Real Estate Properties

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 changes in our use of property or the strategy for its overall business, plans to sell a property before its depreciable life has ended, occupancy changes, significant near-term lease expirations, significant deteriorations of the underlying cash flows of the property, and other market factors indicate that the carrying amount of the property may not be recoverable. Impairment 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.

There were no material changes in the accounting methodology we use to assess impairment charges during the year ended December 31, 2023.

During 2023, we recorded an impairment of $11.4 million related to eight real estate properties, which is included in impairment of real estate properties and intangible assets in the consolidated statements of operations. The impairment was recorded due to the tenants experiencing issues affecting their ability to continue to pay their lease obligations. We utilized a market approach for the fair value estimate of the real estate properties and based our impairment on an estimated yield of 10.8%. We considered these inputs as Level 3 measurements within the fair value hierarchy.

We did not record any impairment charges during the year ended December 31, 2022.

Revenue Recognition

Revenue Recognition – Rental Revenue

We collect rent from our tenants based on our lease agreements. We recognize revenues on an accrual basis as earned. 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. 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. Tenant reimbursements that are collected from the tenants are included within rental revenues and are based on the actual property tax and insurance incurred for the properties. 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.

Revenue Recognition - Resident Fees and Services

We recognize resident fees and services revenue at the amount that we expect to be entitled to in exchange for providing resident care and services. Resident fees are recognized and billed monthly based on the contracted rate in the resident lease agreements and the reimbursements from Medicaid are based on contracted reimbursement rates. These amounts are paid directly from the residents and/or third-party payors (currently only Medicaid). Revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by us. The majority of resident fees and services is attributable to the portion of the base monthly lease fee in the resident lease agreement. We elected the lessor practical expedient within ASC 842, Leases (“ASC 842”) and recognize the resident fee revenue based upon the predominant component, either the lease or non-lease component, of the contracts. We have determined that the lease component is the predominant component and the services included under the resident agreements have the same timing and pattern of transfer and are performance obligations that are satisfied over time. Resident services consist of care level services and certain other ancillary services (i.e., housekeeping, laundry, etc.). These services are provided and paid for in addition to the standard fees included in each resident lease (i.e., room and board, standard meals, etc.).

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 be other than temporarily impaired and when the carrying value may exceed the fair value. The fair value is estimated based on discounted cash flows models that include all estimated cash flows and terminal values based on an estimated hold period. The discounted cash flows are based on several assumptions including terminal capitalization rates, terminal lease rates, stabilized occupancy, stabilized operating margin, and discount rates. The assumptions are generally based on management’s experience in its real estate markets, and the effects of current market conditions, which are subject to economic and market uncertainties. If we believe that there is an other-than temporary decline in the value of an equity method investment, we would record an impairment loss to the extent that the carrying value exceeds the estimated fair value of such equity-method investment.

For the years ended December 31, 2023 and 2022, we recorded impairment of $0.5 million and $0.4 million, respectively, of our Equity-Method Investments. See Note 5 to the accompanying Notes to Consolidated Financial Statements for further information.

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, 2023, our Chief Executive Officer (Principal Executive Officer) and our Chief Financial Officer (Principal Financial Officer) have concluded that these disclosure controls and procedures were not effective due to the material weakness in our internal control over financial reporting as described below.

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.

Notwithstanding the material weaknesses in our internal control over financial reporting as of December 31, 2023 described below, we believe that the consolidated financial statements contained in this report present our financial condition, results of operations, and cash flows for the fiscal years covered thereby in all material respects.

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).

Internal control over financial reporting is a process designed 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. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

Based on their evaluation, our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer) have concluded that our internal control over financial reporting was not effective as of December 31, 2023. As part of the fiscal year 2023 audit, management identified a material weakness. Specifically, the Company failed to design, maintain and monitor certain financial reporting controls specific to significant and unusual transactions, as a result of insufficient technical accounting resources at the Company. Consequently, the Company failed to properly analyze and assess certain events for technical accounting implications in a timely fashion.

Remediation Plan

We have taken, and continue to take, steps to remediate the control deficiencies contributing to the material weakness described in this Item 9A. These remediation actions include hiring consultants to assist the Company in the design, maintenance and monitoring of certain financial reporting controls that will prevent such deficiencies in the future, as well as to provide technical accounting resources when the Company may not have such resources within the accounting function at the Company, especially when complex transactions are entered into. Management will report regularly to our Audit Committee on the progress and results of our remediation plan, and we may take additional measures to address these control deficiencies, or we may modify certain of the remediation measures described above.

Management is committed to taking the necessary steps to ensure that our internal control over financial reporting is designed and operating effectively, and we intend to remediate the material weakness cited above as soon as possible and believe the measures described above will do so. This material weakness will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded through testing that the controls are operating effectively. We anticipate that the remediation will be completed during 2024.

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

10b5-1 Plans

During the three months ended December 31, 2023, no director or officer adopted or terminated any contract, instruction or written plan for the purchase or sale of securities of the registrant intended to satisfy the affirmative defense conditions of Rule 10b5–1(c) or any "non-Rule 10b5-1 trading arrangement" as defined in paragraph (c) of Item 408 of Regulation S-K.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not Applicable.

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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, Mr. J. Steven Roush, Ms. Suzanne Koenig, and Ms. Elizabeth Pagliarini, of which, J. Steven Roush and Suzanne Koenig are independent directors.

J. Steven Roush, CPA, age 77, serves on our Audit, Independent Directors, Compensation and Investment Committees. Mr. Roush chairs our Board of Directors and our Audit Committee. Mr. Roush’s terms on our Board and the Committees noted above expire on the date of the 2024 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 an Executive 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 previously served 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 andChairman of the Board and Chairman of the Audit Committee for Fieldpiece Instruments, Inc., a privately held manufacturer of hand held instruments for HVAC/R field service. Mr. Roush also serves on the Board of Trustees of the Orange County Museum of Art and is the Treasurer and the Chairman of the Finance 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. Mr. Roush is a founding member of the Private Directors Association-Southern California chapter. 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 63, serves on our Audit, Independent Directors, Compensation and Investment Committees. Ms. Koenig’s terms on our Board and the Committees noted above expire on the date of the 2024 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 over 20 years. With over 35 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, 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 40 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 former Co-Chair of the American Bankruptcy Institute's Health Care Insolvency Committee and Ms. Koenig is a Board of Director for the Global Turnaround Management Association 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.

Elizabeth Pagliarini, age 53, currently serves as our Chief Executive Officer and Secretary. Further information regarding Ms. Pagliarini's business experience and specific skills that qualify her to serve as a director of the Company is set forth below in the "Executive Officers" section. Ms. Pagliarini has served on our Board since July 2023.

Executive Officers

Ms. Elizabeth Pagliarini is our Chief Executive Officer and Secretary. Our Chief Financial Officer and Treasurer is Ms. Sharyn Grant.

Elizabeth Pagliarini, age 53, was appointed as our Chief Executive Officer and Secretary, as well as a member of our Board of Directors, in July 2023, the term of which expires on the date of the 2024 Annual Meeting, and has been with the Company since June 2014. She previously served as our Chief Financial Officer and Treasurer since September 2014 and Chief Operating Officer since August 2019. Ms. Pagliarini is a seasoned executive with over 30 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. (NYSE: FFWM), and serves on its risk, compensation and nominating and governance committees. She has served as Chairwoman of the Mission Viejo, California Investment Advisory Commission and is an advisory board member of The CFO Executive Summit of Southern California. 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 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.

Sharyn Grant, age 61, was appointed as Summit's Chief Financial Officer and Treasurer in July 2023. She has been with the Company since 2015 and previously served as our Controller. Ms. Grant has over 25 years of experience in accounting and finance in real estate, healthcare and technology. Ms. Grant's responsibilities include corporate strategy, budgeting, forecasting and financial analysis, treasury, audit, SEC reporting and tax functions. Ms. Grant holds an active Certified Public Accountant (CPA) license, which she attained during her 10-year career at BDO USA, LLP, and is a member of the American Institute of Certified Public Accountants. Ms. Grant received her Bachelor of Arts in Business Administration with a concentration in Accounting, with high honors, from Cal State University, Fullerton.

Eikanas Litigation

On July 14, 2023 (the "Termination Date"), the Board of Directors terminated, for cause, Kent Eikanas from his position as Chief Executive Officer and Secretary of the Company, after Mr. Eikanas was given written notice of and failed to cure various deficiencies in his performance during a 60-day cure period. The Board had concluded that Mr. Eikanas had materially breached his duties and responsibilities as set forth in his Amended and Restated Employment Agreement dated October 19, 2021. On June 5, 2023, while the cure period provided for in his Employment Agreement was still pending, Mr. Eikanas had also filed a claim against the Company in the Superior Court of California for among other things, wrongful termination. Per the terms of his Employment Agreement, upon Mr. Eikanas' termination for cause, Mr. Eikanas is also deemed to have resigned, as of the Termination Date, from all positions with the

Company and its subsidiaries, the Board and any boards of directors or managers of any of Company's subsidiaries and affiliates. Mr. Eikanas did not serve on any committees of the Board. On April 8, 2024, Mr. Eikanas amended his Complaint to add additional causes of action and three new defendants – Steven Roush, Board Member; Suzanne Koenig, Board Member; and Elizabeth Pagliarini, Chief Executive Officer and Board Member.

Delinquent Section 16(a) Reports

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 2023, except that the Form 3 filed by Sharyn Grant on July 21, 2023 inadvertently omitted certain options to purchase common stock held by Ms. Grant. This Form 3 has since been amended.

Name	Title	Type of Form	Number of Late Reports
Sharyn Grant	Chief Financial Officer	Form 3	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 2023 Annual Meeting, there have been 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 and Suzanne Koenig. 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, 2023 and 2022.

Name and Principal Position	Year	Salary	Bonus	Option Awards(4)	All Other Comp	Total
Elizabeth Pagliarini Chief Executive Officer and Secretary as of July 15, 2023, and	2023	$ 489,033	$ 425,000 (3)	$ —	$ 13,200 (1)	$ 927,233
Chief Operating Officer and Treasurer (through July 14, 2023)	2022	$ 433,260	$ 15,000	$ —	$ 12,200 (2)	$ 460,460
Kent Eikanas Chief Executive	2023	$ 254,583	$ 25,000 (3)	$ —	$ 10,200 (1)	$ 289,783
Officer and Secretary (through July 14, 2023)	2022	$ 458,260	$ 15,000	$ —	$ 12,200 (2)	$ 485,460
Sharyn Grant Chief Financial Officer and Treasurer (effective July 15, 2023)	2023	$ 227,835	$ 40,000	$ 22,750	$ 10,714 (1)	301,299

(1) This amount relates to the employer matching 401(K) contributions which were paid in 2023.

(2) This amount relates to the employer matching 401(K) contributions earned in 2022 which were paid in 2023.

(3) $25,000 relates to discretionary MBO bonuses earned in 2022 which were paid in 2023.
(4) 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 12 to the accompanying Notes to Consolidated Financial Statements for assumptions made in the valuation for option awards.

Employment Agreements with Named Executive Officers

The Company has entered into an employment agreement with Elizabeth Pagliarini, former Chief Operating Officer, Chief Financial Officer, and Treasurer and current Chief Executive Officer and Secretary, which was approved by the Company's Compensation Committee and Board of Directors. Ms. Pagliarini's employment agreement was entered into in October 2021, 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 termination without cause or a change in control of the Company, as discussed in greater detail below. The base salary for Ms. Pagliarini is subject to annual merit increases.

The Company was also party to an employment agreement with Mr. Eikanas, the Company's former Chief Executive Officer and Secretary, which was terminated in July 2023 upon Mr. Eikanas's termination as Chief Executive Officer.

Equity Awards

See Note 12 to the accompanying Notes to Consolidated Financial Statements for further information regarding the terms of the option award granted to our named executive officer.

Potential Payments upon Termination or Change in Control

Under Ms. Pagliarini's employment agreement, if there is a termination of her employment by the Company without cause or by her 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. 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 she becomes eligible to enroll in comparable coverage with another employer.

If the Company undergoes a change in control during Ms. Pagliarini's term of employment or within six months after the termination of her employment, other than for cause, then the Company will pay a cash bonus in the amount equal to three (3) times base salary. 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.

Mr. Eikanas's employment agreement, which was terminated in July 2023, had substantially similar terms.

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, 2023.

Name	Fees Earned or Paid in Cash in 2023	Stock Awards	Total
J. Steven Roush	$ 82,000	$ —	$ 82,000
Suzanne Koenig	$ 62,000	$ —	$ 62,000

During fiscal year 2023, 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, 2023

The following table presents information regarding the outstanding equity awards held by each of our named executive officers as of December 31, 2023, 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
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	80,000	—	$ 2.24	4/1/2028
Elizabeth Pagliarini	225,000	—	$ 2.26	3/1/2029
Sharyn Grant	10,000	—	$ 2.02	12/31/2026
Sharyn Grant	10,000	—	$ 2.24	12/31/2027
Sharyn Grant	12,000	—	$ 2.26	12/31/2028
Sharyn Grant	12,000	—	$ 2.26	12/31/2029
Sharyn Grant	13,889	11,111 (1)	$ 2.35	3/31/2032
Sharyn Grant	5,556	19,444 (2)	$ 2.18	3/31/2033

(1) 695 stock options vest monthly and become fully vested on April 1, 2025
(2) 695 stock options vest monthly and become fully vested on April 1, 2026

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, 2023 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	1,148,063	$ 2.16	1,851,937
Equity compensation plans not approved by security holders	—	—	—
Total	1,148,063	$ 2.16	1,851,937

OWNERSHIP OF EQUITY SECURITIES

Security Ownership of Certain Beneficial Owners

There are no persons known to the Company to beneficially own 5% or more of our outstanding common stock.

Security Ownership of Management

The following table sets forth information as of March 15, 2024, 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 15, 2024.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percentage of Class
Elizabeth Pagliarini	565,563	2.5 %
J. Steven Roush	160,000	*
Suzanne Koenig	110,000	*
Sharyn Grant	70,389	*
All current directors and executive officers as a group (4 persons)	905,952	3.9 %

* 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 15, 2024. 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 2023, 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 four 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 annual asset management fee based on the properties in the portfolios, as defined in the agreements. All 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, 2023, we recorded approximately $0.6 million in asset management fees as the manager of the Equity-Method Investments.

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 Stock Exchange listing standards.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table lists the aggregate fees billed for services rendered by BDO USA, P.C., our principal accountant, for 2023 and 2022:

Services	2023	2022
Audit Fees[(1)]	$ 449,000	$ 394,000
Total	$ 449,000	$ 394,000

(1) Audit fees for 2023 and 2022 consisted of the audit of our annual consolidated financial statements, reviews of our quarterly consolidated financial statements, consents, and other audit 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.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors
Summit Healthcare REIT, Inc
Laguna Hills, 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, 2023 and 2022, the related consolidated statements of operations, equity (deficit), 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, 2023 and 2022, 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.

Subsequent Event Related to the GA8 Properties Loan

As discussed in Note 14 to the consolidated financial statements, the Company received a notice of default from Oxford Financing LLC, ("Oxford") for the mezzanine loan dated March 12, 2024, whereby the mezzanine lender has exercised certain rights, including, their right to act as attorney-in-fact of Summit Georgia Holdings LLC, appointment of an independent manager over the underlying eight properties located in Georgia (the "GA8 Properties"), thereby removing the Company as the manager and removing the Company's voting rights and rights to receive any distributions with respect to such properties. The Oxford notice of default also constitutes an event of default under the GA8 Properties subordinated term loan with Oxford and the mortgage loan with CIBC Bank, USA.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Indicators of Impairment of Real Estate Properties and Related Intangible Lease Assets

At December 31, 2023, the Company’s real estate properties, net and related intangible lease assets, net were approximately $157.0 million and $11.7 million, respectively. As discussed in Note 2 to the consolidated financial statements, the Company reviews their real estate properties and related intangible lease assets for recoverability when events or circumstances, including changes in the Company’s use of a property or the strategy for its overall business, plans to sell a property before its depreciable life has ended, occupancy changes, significant near-term lease expirations, significant deteriorations of the underlying cash flows of the property, and other market factors indicate that the carrying amount of the property and related intangible lease assets may not be recoverable. During the year ended December 31, 2023, the Company recorded an impairment of $11.4 million ($10.3 million for real estate properties and $1.1 million for intangible lease assets) related to eight real estate properties and related intangible lease assets.

We identified the evaluation of potential indicators of impairment as a critical audit matter. The Company’s evaluation of potential impairment indicators was complex due to a high degree of subjectivity in the identification of events or changes in circumstances that may indicate an impairment of its consolidated real estate properties and related intangible lease assets. Auditing these elements involved increased auditor judgment and effort.

Our procedures performed to address this critical audit matter included:

- Performing inquiries with executive management regarding their intent for the use of the real estate properties, including their consideration of the historical operating results of the real estate properties and current market conditions, and evaluating the reasonableness of internally prepared data used by management to identify and assess potential impairment indicators.

- Performing testing procedures over management's assessment of potential impairment indicators utilizing supporting evidence, such as third-party industry reports.

- Examining the Company's internal documentation relevant to the impairment analysis for the real estate properties and related intangible lease assets, including minutes of Board of Director meetings and letters of intent to sell, on a property-by-property basis to assess whether additional indicators of impairment were present.

/s/ BDO USA, P.C.

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

Costa Mesa, California

April 15, 2024

SUMMIT HEALTHCARE REIT, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2023 and 2022

	December 31, 2023	December 31, 2022
ASSETS		
Cash and cash equivalents	$ 10,997,000	$ 11,572,000
Restricted cash	3,186,000	2,591,000
Real estate properties, net (Note 14)	156,966,000	173,127,000
Intangible lease assets, net (Note 14)	11,653,000	13,704,000
Tenant and other receivables, net	2,590,000	5,020,000
Other assets, net	1,552,000	2,107,000
Equity-method investments	2,852,000	5,182,000
Total assets	$ 189,796,000	$ 213,303,000
LIABILITIES AND EQUITY (DEFICIT)		
Accounts payable and accrued liabilities	$ 8,079,000	$ 5,585,000
Security deposits	3,705,000	4,651,000
Loans payable, net of debt issuance costs (Note 14)	179,929,000	180,169,000
Total liabilities	191,713,000	190,405,000
Commitments and contingencies (Note 11)		
Stockholders’ Equity (Deficit)		
Preferred stock, $0.001 par value; 10,000,000 shares authorized; no shares issued or outstanding at December 31, 2023 and 2022	—	—
Common stock, $0.001 par value; 290,000,000 shares authorized; 23,027,978 shares issued and outstanding at December 31, 2023 and 2022	23,000	23,000
Additional paid-in capital	116,473,000	116,432,000
Accumulated deficit	(118,535,000)	(93,734,000)
Total stockholders’ (deficit) equity	(2,039,000)	22,721,000
Noncontrolling interests	122,000	177,000
Total (deficit) equity	(1,917,000)	22,898,000
Total liabilities and equity (deficit)	$ 189,796,000	$ 213,303,000

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, 2023 and 2022

	2023	2022
Revenues:		
Total rental revenues	$ 18,072,000	$ 21,957,000
Resident fees and services	6,823,000	3,678,000
Asset management fees	554,000	659,000
Total operating revenue	25,449,000	26,294,000
Expenses:		
Property operating costs	3,773,000	3,139,000
Resident costs	5,772,000	3,713,000
General and administrative	5,171,000	4,580,000
Depreciation and amortization	7,318,000	7,311,000
Impairment of real estate properties and intangible assets	11,387,000	—
Total operating expenses	33,421,000	18,743,000
Operating (loss) income	(7,972,000)	7,551,000
Loss from equity-method investees	(754,000)	(2,898,000)
Other income	399,000	252,000
Interest expense	(17,521,000)	(13,534,000)
Gain on consolidation of interest in unconsolidated equity-method investment	1,066,000	—
Net loss	(24,782,000)	(8,629,000)
Noncontrolling interests' share in net (income) loss	(19,000)	(64,000)
Net loss applicable to common stockholders	$ (24,801,000)	$ (8,693,000)
Earnings per common share:		
Basic and diluted:		
Net loss applicable to common stockholders	$ (1.08)	$ (0.38)
Weighted average shares used to calculate earnings per common share:		
Basic and diluted	23,027,978	23,027,978

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

SUMMIT HEALTHCARE REIT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY (DEFICIT)
For the Years Ended December 31, 2023 and 2022

	Common Stock						
	Number of Shares	Common Stock Par Value	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity	Noncontrolling Interests	Total Equity (Deficit)
Balance — January 1, 2022	**23,027,978**	**$ 23,000**	**$ 116,401,000**	**$ (85,041,000)**	**$ 31,383,000**	**$ 171,000**	**$ 31,554,000**
Stock-based compensation	—	—	31,000	—	31,000	—	31,000
Distributions paid to noncontrolling interests	—	—	—	—	—	(58,000)	(58,000)
Net (loss) income	—	—	—	(8,693,000)	(8,693,000)	64,000	(8,629,000)
Balance — December 31, 2022	**23,027,978**	**$ 23,000**	**$ 116,432,000**	**$ (93,734,000)**	**$ 22,721,000**	**$ 177,000**	**$ 22,898,000**
Stock-based compensation	—	—	41,000	—	41,000	—	41,000
Distributions paid to noncontrolling interests	—	—	—	—	—	(74,000)	(74,000)
Net (loss) income	—	—	—	(24,801,000)	(24,801,000)	19,000	(24,782,000)
Balance — December 31, 2023	**23,027,978**	**$ 23,000**	**$ 116,473,000**	**$ (118,535,000)**	**$ (2,039,000)**	**$ 122,000**	**$ (1,917,000)**

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, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Net loss	$ (24,782,000)	$ (8,629,000)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Amortization of debt issuance costs	914,000	912,000
Depreciation and amortization	7,063,000	7,311,000
Amortization of above-market lease intangible	59,000	64,000
Straight-line rents	(1,282,000)	(1,467,000)
Write off of straight-line rent receivables	3,749,000	—
Stock-based compensation expense	41,000	31,000
Write-off of leasing commissions	255,000	—
Write off of deferred financing costs	176,000	—
Impairment of real estate properties and intangible assets	11,387,000	—
Gain on consolidation of interest in unconsolidated equity-method investment	(1,066,000)	—
Loss from equity-method investees	754,000	2,898,000
Change in operating assets and liabilities, net of consolidated interest in unconsolidated equity-method investment:		
Tenant and other receivables, net	816,000	(2,000)
Other assets, net	126,000	(143,000)
Accounts payable and accrued liabilities	2,141,000	2,223,000
Security deposits	(946,000)	—
Net cash (used in) provided by operating activities	(595,000)	3,198,000
Cash flows from investing activities:		
Proceeds from sale of real estate properties assigned	3,839,000	—
Cash assumed in consolidation of interest in unconsolidated equity-method investment	770,000	—
Additions to real estate and other assets	(318,000)	(506,000)
Investments in equity-method investees	(370,000)	(1,111,000)
Distributions received from equity-method investees	1,093,000	769,000
Net cash provided by (used in) investing activities	5,014,000	(848,000)
Cash flows from financing activities:		
Payments of loans payable	(1,154,000)	(1,113,000)
Repayment of loan payable assigned	(3,171,000)	—
Distributions paid to noncontrolling interests	(74,000)	(58,000)
Deferred financing costs	—	(177,000)
Net cash used in financing activities	(4,399,000)	(1,348,000)
Net increase in cash, cash equivalents and restricted cash	20,000	1,002,000
Cash, cash equivalents and restricted cash — beginning of year	14,163,000	13,161,000
Cash, cash equivalents and restricted cash – end of year	$ 14,183,000	$ 14,163,000
Supplemental disclosure of cash flow information:		
Cash paid for interest:	$ 15,753,000	$ 11,318,000
Supplemental disclosure of non-cash financing and investing activities:		
Consolidation of assets, net, in connection with our acquisition of partner's interest in unconsolidated equity-method investment	$ 313,000	$ —

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

SUMMIT HEALTHCARE REIT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2023 and 2022

1. Organization

Summit Healthcare REIT, Inc. ("Summit") is a real estate investment trust that owns 100% of 14 properties, 95.3% of four properties, a 10% equity interest in an unconsolidated equity-method investment that holds 15 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 eight properties, and a 10% equity interest in an unconsolidated equity-method investment that holds six 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, including Summit Healthcare Operating Partnership, L.P. (the "Operating Partnership"), except where the context otherwise requires.

We conduct substantially all of our operations through 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.

Summit and the Operating Partnership are managed and operated as one entity, and Summit has no significant assets other than its investment in the Operating Partnership. Summit, as the general partner of the Operating Partnership, controls the Operating Partnership and consolidates the assets, liabilities, and results of operations of the Operating Partnership.

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 within our financial statements and owns four properties (the "JV Properties") with another partially owned subsidiary.

As of December 31, 2023 and 2022, we own a 95.3% interest in the four JV Properties, and CHREF owns a 4.7% interest.

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, 2023 and 2022, we have a 10% interest in the SUL JV which owns 15 properties as of December 31, 2023 and owned 17 properties as of December 31, 2022.

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 I, LLC (the "Fantasia I JV").

On July 3, 2023, the majority member in the Fantasia I JV assigned its 65% interest, for no consideration, to Summit. As such, as of July 2023, Summit owned 100% of Fantasia I JV and it became a wholly-owned subsidiary of Summit. The Fantasia I JV consisted of the real estate of Summit Citrus Heights, LLC ("Summit Citrus Heights"), and the operating assets and liabilities of its associated senior housing facility, Sun Oak Assisted Living ("Sun Oak") and was included in our consolidated financial statements from July 2023 through September 2023, when the property was sold. On September 29, 2023, we sold the real estate of Summit Citrus Heights, including the Sun Oak facility. As of December 31, 2023, our investment is no longer considered an equity-method interest in the Fantasia I JV. As of December 31, 2022, we had a 35% interest in the Fantasia I JV which owned one property. See Note 3 for further information.

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 our consolidated financial statements. As of December 31, 2023 and 2022, 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 our consolidated financial statements. As of December 31, 2023 and 2022, we have a 10% interest in the Fantasia III JV which owns eight and owned nine properties, respectively.

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 our consolidated financial statements. As of December 31, 2023 and 2022, we have a 10% interest in the FPH JV which owns six properties.

Taxable REIT Subsidiaries

Summit Healthcare Asset Management, LLC

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 I JV (through July 2023), 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 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.

SHOP TRS LLC

SHOP TRS LLC (“SHOP TRS”) is our wholly-owned taxable REIT subsidiary that is the sole member for two of our real estate properties that no longer have a lease with an unrelated tenant. Each of these properties are leased to an affiliated subsidiary (see Note 3 under Pennington Gardens Operations LLC (“Pennington Gardens”) and Sundial Operations LLC (“Sundial”), collectively, the “Operated Properties”) which are operated directly and earn resident fees and service revenue and the operations are consolidated in our financial statements.

2. Summary of Significant Accounting Policies

The summary of significant accounting policies presented below 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, and its consolidated companies and are prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”).

All intercompany accounts and transactions have been eliminated in consolidation.

Accounting Standard Codification ("ASC") 810, *Consolidation* 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.

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 broadly defined as an entity with one or more of the following characteristics: (a) the total equity investment at risk is insufficient to finance the entity's activities without additional subordinated financial support; (b) as a group, the holders of the equity investment at risk lack (i) the ability to make decisions about the entity's activities through voting or similar rights, (ii) the obligation to absorb the expected losses of the entity, or (iii) the right to receive the expected residual returns of the entity; and (c) the equity investors have voting rights that are not proportional to their economic interests, and substantially all of the entity's activities either involve, or are conducted on behalf of, an investor that has disproportionately few voting rights. In determining whether we are the primary beneficiary, we consider, among other things, whether we have 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. We evaluated our wholly and partially-owned subsidiaries, the Operating Partnership and CHP, LLC and equity method investments to determine if they are a VIE, and if such VIE should be consolidated. The Operating Partnership and CHP, LLC are consolidated as the Company is deemed the primary beneficiary. Our Operating Partnership's equity investment in SUL JV, Fantasia I JV (through July 2023), Fantasia II JV, Fantasia III JV, and FPH JV met the definition and criteria of VIEs. However, as we do not have power to direct the activities that most significantly impact economic performance of these VIEs, they are accounted for under the equity method of accounting and are reflected as Equity-Method Investments.

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. The most significant estimates made include that of real estate acquisition valuation and the allocation of property purchase price to tangible and intangible assets acquired and liabilities assumed at relative fair value, the evaluation of potential impairment of long-lived assets and equity method investments, and the estimated useful lives of real estate assets and intangibles.

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, 2023, we had cash accounts in excess of FDIC-insured limits. To date, the Company has not experienced losses or lack of access to cash in its cash and cash equivalent accounts.

Restricted Cash

Restricted cash represent restricted cash held by our lenders in interest bearing accounts related to impound reserve accounts for property taxes, insurance and capital funds as required under the terms of the loan agreements.

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, 2023	December 31, 2022
Cash and cash equivalents	$ 10,997,000	$ 11,572,000
Restricted cash	3,186,000	2,591,000
Total cash, cash equivalents, and restricted cash shown on the consolidated statements of cash flows	$ 14,183,000	$ 14,163,000

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, furniture and fixtures and intangible assets. The determination of fair value involves the use of significant judgment and estimation. We value land based on various inputs, which may include internal analysis of recently acquired properties, existing comparable properties within our portfolio, or third party appraisals or valuations based on comparable sales. 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.

In allocating the purchase price to identified intangible assets and liabilities of an acquired property, the value of above/below-market leases and in-place leases are estimated as follows:

The value of above/below market leases is based on the differences between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) estimated fair market lease rates from the perspective of a market participant for the corresponding in-place leases, measured, for above-market leases, over a period equal to the remaining non-cancelable term of the lease and, for below-market leases, over a period equal to the initial term plus any below market fixed rate renewal periods. The above/below market leases are amortized as an adjustment to rental revenue over the remaining term of the respective leases.

The value of in-place leases consisting of tenant origination and absorption costs and leasing commissions avoided is based on the Company's evaluation of the specific characteristics of each tenant's lease. Factors considered include estimates of carrying costs during expected lease-up periods, current market conditions, discount rates, and costs to execute similar leases. The value of in-place leases are amortized over the remaining term of the respective leases and included in depreciation and amortization in the consolidated statements of operations. If a tenant vacates its space prior to its contractual expiration date, any unamortized balance of the related intangible asset is recorded in the consolidated statements of operations.

Held for Sale

We consider properties to be assets held for sale when (1) management commits to a plan to sell the property, (2) it is unlikely that the disposal plan will be significantly modified or discontinued; (3) the property is available for immediate sale in its present condition; (4) actions required to complete the sale of the property have been initiated; (5) sale of the property is probable and we anticipate the completed sale will occur within one year; and (6) the property is actively being marketed for sale at a price that is reasonable given our estimate of current market value. Upon designation of a property as an asset held for sale, we record the property's value at the lower of its carrying value or its estimated fair value, less estimated transaction costs. Depreciation and amortization of the property are discontinued. If a property subsequently no longer meets the criteria to be classified as held for sale, it is reclassified as held and used and measured at the lower of i) its original carrying amount before the asset was classified as held for sale, adjusted for any depreciation expense not recognized while it was classified as held for sale, and ii) its fair value.

Impairment of Real Estate Properties and Related Intangible Lease Assets

We evaluate the recoverability of the carrying value of our real estate properties and related intangible lease assets on a property-by-property basis. We review our real estate properties and related intangible lease assets for recoverability when events or circumstances, including changes in the Company's use of property or the strategy for its overall business, plans to sell a property before its depreciable life has ended, occupancy changes, significant near-term lease expirations, significant deteriorations of the underlying cash flows of the property, and other market factors indicate that the carrying amount of the property may not be recoverable. Impairment is measured as the amount by which the carrying amount of the real estate properties and related intangible lease assets exceeds the fair value of the property.

During 2023, we recorded an impairment of $11.4 million ($10.3 million for real estate properties and $1.1 million for intangible lease assets) related to eight real estate properties and related intangible lease assets, which is included in impairment of real estate properties and intangible assets in the consolidated statements of operations for the year ended December 31, 2023. The impairment was recorded due to the tenants experiencing issues affecting their ability to continue to pay their full lease obligations. We utilized a market approach for the fair value estimate of the real estate properties and based our impairment on an estimated yield of 10.8%. We considered these inputs as Level 3 measurements within the fair value hierarchy. We did not record any impairments during the year ended December 31, 2022.

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.

As of and for the year ended December 31, 2023, our equity method investment in the Fantasia II JV was measured at fair value, on a nonrecurring basis using unobservable (level 3) inputs. We estimated the fair value of our equity-method investments based on discounted future cash flows. As a result, we recognized an impairment loss of $0.5 million (see Note 5).

As of and for the year ended December 31, 2022, our equity method investment in the Fantasia I JV and FPH JV was measured at fair value, on a nonrecurring basis using unobservable (level 3) inputs. We estimated the fair value of our equity-method investments based on discounted future cash flows. As a result, we recognized an impairment loss of $0.4 million (see Note 5).

See above under Impairment of Real Estate Properties for further information.

Fair Value Measurement of Financial Instruments

Our consolidated balance sheets include the following financial instruments: cash and cash equivalents, restricted cash, tenant and other receivables, certain other assets, accounts payable and accrued liabilities, security deposits and loans payable. With the exception of the 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. These are considered a Level I inputs.

As of December 31, 2023 and 2022, the fair value of our fixed rate U.S. Department of Housing and Urban Development ("HUD")-insured loans payable was $36.4 million and $38.9 million, compared to the principal balance (excluding debt issuance costs) of $43.9 million and $45.0 million, respectively. The fair value of loans payable was estimated using lending rates available to us for financial instruments with similar terms and maturities. The fair value of our fixed and variable rate loans payable was estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. As the inputs to our valuation estimate are neither observable in nor supported by market activity, our loans payable are classified as Level 3 liability within the fair value hierarchy. As of December 31, 2023 and 2022, we believe the carrying amounts of our variable rate loans payable are reasonably estimated at their carrying amounts as there have been minimal changes to the fixed spread portion of interest rates for similar loans observed in the market, and as the variable portion of our interest rates fluctuate with the associated market indices. We believe the fair value of our variable rate mezzanine loan payable which is currently in default approximates the carrying amount based on the contractual rights of the mezzanine loan payable holders. See Note 14 for additional discussion.

At December 31, 2023 and 2022, 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.

Tenant and Other Receivables

Tenant and other receivables are comprised mainly of the cumulative amount of future adjustments necessary to present tenant rental income on a straight-line basis, accounts receivable due from residents for our Operated Properties, asset management fees and distributions receivable.

Allowance for Credit Losses

The allowance for credit losses is maintained on all receivables except for lease receivables and is maintained at a level believed adequate to absorb potential losses in our receivables. The determination of the credit allowance is based on a quarterly evaluation of each of these receivables, including general economic conditions and estimated collectability. We evaluate the collectability of our receivables based on a combination of credit quality indicators, including, but not limited to, payment status, historical charge-offs, and financial strength of the equity method investment. A receivable is considered to have deteriorated in credit quality when, based on current information and events, it is probable that we will be unable to collect all amounts due. As of December 31, 2023 and 2022, the allowance for credit losses is immaterial.

Deferred Financing Costs

Costs incurred with potential financing arrangements are recorded as deferred financing costs. Costs incurred in connection with completed debt financing are recorded as debt issuance costs. Debt issuance costs are amortized using the straight-line basis which approximates the effective interest rate method, over the contractual terms of the respective financings, and are presented net of loans payable in loans payable, net of debt issuance costs, in the consolidated balance sheets. Costs incurred in connection with an unexercised debt financing are recorded as expense when financing is no longer deemed probable. For the year ended December 31, 2023, we recorded approximately $0.7 million in property operating costs expense in the consolidated statements of operations for deferred financing costs associated with a terminated refinancing related to the CA3 Properties.

Other Assets

Other assets consist primarily of deferred financing costs, deposits, prepaid insurance, property taxes and other and corporate assets. 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. For the year ended December 31, 2023, we recorded impairment of approximately $0.5 million related to our equity-method investments. For the year ended December 31, 2022, we recorded impairment of approximately $0.4 million related to our equity-method investments. See Note 5 for further information.

Rental Revenue

We recognize rental revenue based on ASC 842, *Leases* ("Topic 842"). This requires a lessor to classify leases as either sales-types, 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 leases. Additionally, as lessors we elected to not separate lease and nonlease components in a contract for the purpose of revenue recognition and disclosure.

Additionally, where real estate taxes and insurance expenses were paid directly by our tenants to taxing authorities or insurance companies, respectively, we do not record any revenue or expense. For our triple-net leasing arrangements in which the tenant remits payment for certain costs to us and we pay the vendor, we have reported the gross amounts in total rental revenues and property operating costs on the consolidated statements of operations.

Additionally, under Topic 842, we must assess if substantially 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. During 2022, we determined that two of our leases were uncollectible and therefore, we recorded rental revenue received from those tenants on the cash basis.

Resident Fees and Services Revenue

We recognize resident fees and services revenue at the amount that we expect to be entitled to in exchange for providing resident care and services. Resident fees are recognized and billed monthly based on the contracted rate in the resident lease agreements and the reimbursements from Medicaid are based on contracted reimbursement rates. These amounts are paid directly from the residents and/or third-party payors (currently only Medicaid). Revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by us. The majority of resident fees and services is attributable to the portion of the base monthly lease fee in the resident lease agreement. The Company recognizes the resident fee revenue based upon the predominant component, either the lease or non-lease component, of the contracts. The Company has determined that the lease component is the predominant component and the services included under the resident agreements have the same timing and pattern of transfer and are performance obligations that are satisfied over time. Resident services consist of care level services and certain other ancillary services (i.e., housekeeping, laundry, etc.). These services are provided and paid for in addition to the standard fees included in each resident lease (i.e., room and board, standard meals, etc.).

Asset Management Fees

We record asset management fee revenue based on ASC 606, *Revenue from Contracts with Customers (Topic 606)*. 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 the 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 12 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, 2023 and 2022, 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 loss 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, 2020 and subsequent years, and state income tax returns are subject to audit for the year ended December 31, 2019 and subsequent years.

We have elected to treat SAM TRS and SHOP TRS as taxable REIT subsidiaries (collectively, the “TRS Subsidiaries”), which generally may engage in any business, including the provision of customary or non-customary services for our tenants. The TRS Subsidiaries are treated as a regular corporation and are subject to federal income tax and applicable state income and franchise taxes at regular corporate rates. As of December 31, 2023 and 2022, respectively, the TRS Subsidiaries have net deferred tax assets, related primarily to their net operating losses (collectively “NOL”), of $1,142,000 and $683,000, for which there is a full valuation allowance recorded.

The Company regularly assesses the ability to realize deferred tax assets recorded based upon the weight of available evidence, including such factors as recent earnings history and expected future taxable income on a jurisdiction-by-jurisdiction basis. If the Company changes its determination as to the amount of realizable deferred tax assets, the Company will adjust its valuation allowance with a corresponding impact to the provision for income taxes in the period in which such determination is made. The Company's management believes that, based on a number of factors, it is more likely than not, that all or some portion of the deferred tax assets will not be realized; and accordingly, for the year ended December 31, 2023, the Company continues to provide a full valuation allowance against the TRS Subsidiaries net deferred tax assets.

The net change in the valuation allowance for the year ended December 31, 2023 was an increase of $457,000. As of December 31, 2023, the TRS Subsidiaries have NOL carryforwards for federal income tax purposes of approximately $4.2 million that will begin to expire in 2035 with approximately $2.4 million of the federal net operating loss carryforward lasting indefinitely. As of December 31, 2023, the TRS Subsidiaries had net operating loss carryforwards for state income tax purposes of approximately $4.4 million that will begin to expire at various dates beginning in 2035.

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. For the years ended December 31, 2023 and 2022, all stock options outstanding were considered to be anti-dilutive.

3. Investments in Real Estate Properties

As of December 31, 2023 and 2022, consolidated investments in real estate properties(excluding the 31 properties owned by our unconsolidated Equity-Method Investments) are set forth below:

	December 31, 2023	December 31, 2022
Land	$ 14,905,000	$ 15,565,000
Buildings and improvements	157,875,000	166,989,000
Less: accumulated depreciation	(20,439,000)	(15,985,000)
Buildings and improvements, net	137,436,000	151,004,000
Furniture and fixtures	12,106,000	12,440,000
Less: accumulated depreciation	(7,481,000)	(5,882,000)
Furniture and fixtures, net	4,625,000	6,558,000
Real estate properties, net	$ 156,966,000	$ 173,127,000

Depreciation and amortization expense (excluding intangible lease amortization and leasing commission amortization) for the years ended December 31, 2023 and 2022 was approximately $6.1 million and $6.3 million, respectively.

As of December 31, 2023, our portfolio consisted of 18 real estate properties, 16 of which were 100% leased to the tenants of the related facilities. The other two properties are each 100% leased to an affiliated subsidiary (see below under Pennington Gardens Operations LLC and Sundial Operations LLC).

Fantasia I JV Transfer of Interest and Sale

On July 3, 2023, the majority member in the Fantasia I JV assigned its 65% interest, for no consideration, to Summit. As such, as of July 2023, Summit owned 100% of Fantasia I JV. The Fantasia I JV consisted of the real estate of Summit Citrus Heights, LLC, our wholly-owned subsidiary and the operating assets and liabilities of its associated senior housing facility, Sun Oak. As such, the operations of Sun Oak are consolidated in our financial statements beginning July 3, 2023, through September 29, 2023 (date of the sale), and all intercompany transactions have been eliminated. For the period from July 3, 2023 through September 29, 2023, revenues from Sun Oak are recorded under resident fees and services and costs are recorded under resident costs in the consolidated statements of operations.

The following summarizes the fair value of the assets and liabilities consolidated in our condensed consolidated financial statements beginning in July 2023: cash of $0.8 million, real estate of $3.8 million, other assets of $0.1 million, loan payable of $3.2 million and other liabilities of $0.4 million. Prior to the assignment, the Fantasia I JV was considered an equity method investment and the consolidation of the entity resulted in a gain of approximately $1.1 million, which is recorded in gain on consolidation of interest in unconsolidated equity-method investment in the consolidated statements of operations. Additionally, on September 29, 2023, we sold the real estate of Summit Citrus Heights, including the Sun Oak facility for net cash of approximately $0.6 million (which consists of the $3.8 million sale price and the payoff of the loan payable of approximately $3.2 million) and recorded a loss of approximately $0.01 million, which is recorded in gain on consolidation of interest in unconsolidated equity-method investment in the consolidated statements of operations.

Pennington Gardens Operations LLC

In February 2022, our former tenant’s lease was terminated and we received approximately $0.2 million under a settlement agreement which is recorded in total rental revenues in the consolidated statements of operations. Concurrently, we entered into a management agreement with a new operator that began operating the facility, Pennington Gardens, and we entered into a new lease agreement with Pennington Gardens Operations LLC, the newly formed operating company for Pennington Gardens, which is a wholly owned subsidiary of SHOP TRS. As such, the operations of Pennington Gardens are consolidated in our financial statements beginning February 11, 2022, and all intercompany transactions have been eliminated. For the year ended December 31, 2023 and for the period from February 11, 2022 through December 31, 2022, revenues from Pennington Gardens Operations are recorded under resident fees and services and costs are recorded under resident costs in the consolidated statements of operations.

Sundial Operations LLC

In June 2022, our former tenant’s lease was terminated and we entered into a management agreement with a new operator that began operating the facility, Sundial Assisted Living. Concurrently, we entered into a new lease agreement with Sundial Operations LLC, the newly formed operating company for Sundial Assisted Living, which is a wholly owned subsidiary of SHOP TRS. As such, for the year ended December 31, 2023 and for the period from June 7, 2022 through December 31, 2022, the operations of Sundial Assisted Living are consolidated in our financial statements and revenues from Sundial Assisted Living are recorded under resident fees and services and costs are recorded under resident costs in the consolidated statements of operations.

The following table provides summary information regarding our portfolio (excluding the 31 properties owned by our unconsolidated Equity-Method Investments and the $12.75 million mezzanine loan from Oxford (see Note 4) with Summit Georgia Holdings LLC ("Summit Georgia"), our wholly-owned subsidiary) as of December 31, 2023:

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	$ 3,829,000
Fernhill Care Center	Portland, OR	August 3, 2012	SNF	4,500,000	3,359,000
Friendship Haven Healthcare and Rehabilitation Center	Galveston County, TX	September 14, 2012	SNF	15,000,000	11,109,000
Pacific Health and Rehabilitation Center	Tigard, OR	December 24, 2012	SNF	8,140,000	5,600,000
Brookstone of Aledo	Aledo, IL	July 2, 2013	AL	8,625,000	6,461,000
Sundial Assisted Living	Redding, CA	December 18, 2013	AL	3,500,000	3,626,000
Pennington Gardens	Chandler, AZ	July 17, 2017	AL/MC	13,400,000	9,877,000
Yucaipa Hill Post Acute	Yucaipa, CA	July 2, 2021	SNF	10,715,000	8,014,000
Creekside Post Acute	Yucaipa, CA	July 2, 2021	SNF	4,780,000	3,575,000
University Post Acute	Mentone, CA	July 2, 2021	SNF	4,560,000	3,411,000
Calhoun Health Center	Calhoun, GA	December 30, 2021	SNF	7,670,000	6,549,000
Maple Ridge Health Care Center	Cartersville, GA	December 30, 2021	SNF	13,548,000	11,568,000
Chatsworth Health Care Center	Chatsworth, GA	December 30, 2021	SNF	29,785,000	25,432,000
East Lake Arbor	Decatur, GA	December 30, 2021	SNF	15,640,000	13,354,000
Fairburn Health Care Center	Fairburn, GA	December 30, 2021	SNF	14,644,000	12,503,000
Grandview Health Care Center	Jasper, GA	December 30, 2021	SNF	10,061,000	8,591,000
Rosemont at Stone Mountain	Stone Mountain, GA	December 30, 2021	SNF	23,908,000	20,414,000
Willowwood Nursing Center & Rehab	Flowery Branch, GA	December 30, 2021	SNF	14,744,000	12,589,000
Total:				$ 207,320,000	$ 169,861,000

(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.

Tenant/Operator Changes

In September 2023, three of our wholly-owned properties and their related facilities, Rivers Edge Rehabilitation and Care (f.k.a. Sheridan Care Center), Fernhill Care Center, and Pacific Health and Rehabilitation Center, replaced the tenant/operator. The previous tenant requested the lease be terminated and on September 1, 2023, HUD approved the change. As a result of the lease termination, we wrote off the straight-line rent receivable of approximately $1.3 million, which is included in rental revenues in our consolidated statements of operations, wrote off leasing commissions of approximately $0.3 million, which is included in depreciation and amortization in our consolidated statements of operations, and recognized income from retained security deposits of approximately $0.4 million, which is included in total rental revenue in our consolidated statements of operations. The new tenant leases are structured under a master lease at the same lease rates for a 10-year term through August 2033, with two five-year renewal options.

Other Tenant Issues

During the fourth quarter of 2023, we wrote off the straight-line rent receivable of approximately $2.4 million related to eight real estate properties, which is included in rental revenues in our consolidated statements of operations for the year ended December 31, 2023. The write off was recorded due to the tenants experiencing issues affecting their ability to continue to pay their full lease obligations.

Future Minimum Lease Payments

The future minimum lease payments to be received under existing tenant operating leases (excluding the 31 properties owned by our unconsolidated Equity-Method Investments and the intercompany leases for Pennington Gardens and Sundial Assisted Living as well as the related resident fees and services) for our consolidated properties as of December 31, 2023 are as follows:

Years ending December 31,		
2024		18,272,000
2025		18,566,000
2026		18,865,000
2027		19,168,000
2028		17,909,000
Thereafter		137,999,000
	$	230,779,000

There were no acquisitions in the years ended December 31, 2023 and 2022.

4. Loans Payable

As of December 31, 2023 and 2022, loans payable consisted of the following

		December 31, 2023		December 31, 2022
Loans payable to Lument (insured by HUD) in monthly installments of approximately $183,000, including interest, ranging from a fixed rate of 2.79% to 4.2%, due in September 2039 through April 2055, and as of December 31, 2023 and 2022, collateralized by Sheridan, Fernhill, Pacific Health, Aledo, Sundial and Friendship Haven.	$	33,984,000	$	34,976,000
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.		9,877,000		10,039,000
Loan payable to CIBC Bank, USA in monthly installments of approximately $106,000 including cash collateral fund payments, variable interest rate as noted below (9.45% and 8.17% at December 31, 2023 and 2022, respectively), due in July 2024 and collateralized by Yucaipa Hills Post Acute, Creekside Post Acute and University Post Acute.		15,000,000		15,000,000
Loan payable to CIBC Bank, USA in monthly installments of approximately $680,000 (interest only through December 2023) variable interest rate as noted below (8.85% and 7.68% at December 31, 2023 and 2022, respectively), due in December 2024, and collateralized by Calhoun Health Center, Maple Ridge Health Care Center, Chatsworth Health Care Center, East Lake Arbor, Fairburn Health Care Center, Grandview Health Care Center, Rosemont at Stone Mountain, and Willowwood Nursing Center & Rehab.		91,000,000		91,000,000
Loan payable to Oxford Finance, LLC in monthly installments of approximately $280,000 (interest only through maturity), variable interest rate as noted below (16.4% and 15.1% at December 31, 2023 and 2022, respectively) due in March 2025, collateralized in second position by Calhoun Health Center, Maple Ridge Health Care Center, Chatsworth Health Care Center, East Lake Arbor, Fairburn Health Care Center, Grandview Health Care Center, Rosemont at Stone Mountain, and Willowwood Nursing Center & Rehab.		20,000,000		20,000,000
Mezzanine Loan payable to Oxford Finance, LLC in monthly installments of approximately $168,000 (interest only through maturity), variable interest rate as noted below (16.4% and 15.1% at December 31, 2023 and 2022, respectively) due in December 2026, secured by the equity interests of Summit Georgia, the parent holding company for the GA8 Properties.		12,750,000		12,750,000
		182,611,000		**183,765,000**
Less debt issuance costs		**(2,682,000)**		**(3,596,000)**
Total loans payable	**$**	**179,929,000**	**$**	**180,169,000**

As of December 31, 2023, we have total debt obligations of approximately $182.6 million that will mature between 2024 and 2055. 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, 2023, we were in compliance with all of our debt covenants except for the GA8 Properties. See below under GA8 Properties for further information.

During the years ended December 31, 2023 and 2022, we incurred approximately $16.6 million and $12.0 million of interest expense, respectively (excluding debt issuance costs amortization and interest expense related to the Oxford mezzanine loan as noted below ("Oxford Monthly Fee")), related to our loans payable.

During the years ended December 31, 2023 and 2022, we incurred approximately $0 million and $0.6 million of interest expense, respectively, related to the Oxford Monthly Fee, which is included in interest expense in our consolidated statements of operations.

As of December 31, 2023 and 2022, the unamortized balance of the debt issuance costs was approximately $2.7 million and $3.6 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, 2023 and 2022, approximately $0.9 million, of debt issuance costs were amortized and included in interest expense in our consolidated statements of operations.

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

Year	Principal Amount	
2024	139,951,000	(1)
2025	1,246,000	
2026	1,292,000	
2027	1,341,000	
2028	1,391,000	
Thereafter	37,390,000	
	$ 182,611,000	

(1) This includes the Oxford $20.0 million subordinated debt and $12.75 million mezzanine loan.

The following information notes our loan activity:

GA8 Properties

In 2021, we acquired our interest in the GA8 Properties subject to a $91.0 million first priority mortgage loan with CIBC collateralized by those properties, a $20.0 million subordinated term loan with Oxford Financing LLC ("Oxford") collateralized by those properties and a $12.75 million mezzanine loan with Oxford secured by the equity interests of the wholly-owned subsidiary, Summit Georgia, the parent holding company for the GA8 Properties.

As of December 31, 2023, we were out of compliance with our debt covenants due to the tenants being out of compliance with their consolidated minimum EBITDAR covenant for each quarter in 2023. Additionally, in October, November and December 2023, Oxford agreed to defer a portion of our interest payments on the mezzanine loan payable totaling approximately $0.6 million, which is included in accrued liabilities on the consolidated balance sheet until we can confirm a plan of action. In March 2024, we received a notice of default from Oxford for the mezzanine loan (see Note 14 for further information). The Oxford notice of default also constitutes an event of default under the GA8 Properties subordinated term loan with Oxford and the mortgage loan with CIBC. Additionally, we are including the subordinated loan and the mezzanine loan principal payments in the 2024 period in the table above due to the noncompliance with the loan covenant.

HUD-insured loans

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.

Master Letter of Credit Agreement

In June 2023, we entered into a $1.0 million Master Letter of Credit Agreement with CIBC. As of December 31, 2023, there were two letters of credit totaling approximately $0.2 million under this agreement.

5. Equity-Method Investments

As of December 31, 2023 and 2022, the aggregate balances of our Equity-Method Investments were approximately $2.9 million and $5.2 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%.

For the years ended December 31, 2023 and 2022, we invested approximately $370,000 and $821,000 related to capital calls for the SUL JV.

In December 2023, the SUL JV sold two properties for a gain of approximately $7.0 million. Our 10% share of the gain of approximately $0.7 million is included in loss from equity-method investees in the consolidated statements of operations. Additionally, we received approximately $1.1 million in cash from the sale.

In 2023, the SUL JV recorded an aggregate impairment charge of approximately $1.1 million on one of the properties in the SUL JV and our 10% share of the impairment of approximately $0.1 million is included in loss from equity-method investees in the consolidated statements of operations for the year ended December 31, 2023. In 2022, the SUL JV recorded an aggregate impairment charge of approximately $6.8 million on several of the properties in the SUL JV and our 10% share of the impairment of approximately $0.7 million is included in loss from equity-method investees in the consolidated statements of operations for the year ended December 31, 2022.

As of December 31, 2023 and 2022, the balance of our equity-method investment related to the SUL JV was approximately $1.8 million and $2.4 million, respectively.

Summit Fantasia Holdings, LLC

For the year ended December 31, 2022, we invested approximately $290,000 related to capital calls for the Fantasia JV. In 2022, the Fantasia JV recorded an impairment charge of approximately $6.4 million on one of the properties in the Fantasia JV and our 35% share of the impairment of approximately $2.2 million is included in loss from equity-method investees in the consolidated statements of operations. Additionally, we determined our investment in the Fantasia JV to be impaired and recorded an aggregate impairment of $0.2 million and wrote off distributions receivable of approximately $0.2 million in 2022, which is recorded in the loss from equity-method investees in the consolidated statements of operations for the year ended December 31, 2022, and consequently, reduced our equity-method investment balance to $0.

On July 3, 2023, the majority member in the Fantasia I JV assigned its 65% interest, for no consideration, to Summit. As such, as of July 2023, we no longer have any equity-method interest in the Fantasia I JV. See Note 3 under Fantasia I JV Transfer of Interest and Sale for further information.

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.

In June 2023, the tenant for the two properties in the Fantasia II JV filed for receivership. The two properties are currently being operated by the receivership estate in conjunction with a third-party manager under a one-year management agreement. As of December 31, 2023, there has been no termination of the tenant leases and the Fantasia II JV is currently communicating with the receiver regarding ongoing lease terms and payments. The Fantasia II JV has not received any rent payments since May 2023. In September 2023, the Fantasia II JV recorded an impairment of approximately $1.6 million on the two properties and our 20% share of the impairment of approximately $0.3 million is included in loss from equity-method investees in the consolidated statements of operations. Additionally, in September 2023, due to the ongoing issues with the receivership, we determined our investment in the Fantasia II JV to be impaired and recorded a $0.5 million impairment charge which is recorded in the loss from equity-method investees in the consolidated statements of operations for the year ended December 31, 2023. Due to our intention to fund a capital call, if needed, we recorded additional losses of $0.1 million.

As of December 31, 2023 and 2022, the balance of our equity-method investment related to the Fantasia II JV was approximately ($0.1) million and $1.2 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.

In September 2023, the Fantasia III JV deeded the ownership in a transfer of one of the properties in the Fantasia III JV to the tenant for no contractual consideration, however as part of the transfer agreement, the Fantasia III JV will receive a monthly payment of the base rent of the transferred property that was in place at the time of the transfer, through the end of the lease term, August 2032, from one of the other tenants in the Fantasia III JV. The Fantasia III JV recorded a loss of approximately $3.9 million on the transaction and our 10% share of the loss of approximately $0.4 million is included in loss from equity-method investees in the consolidated statements of operations for the year ended December 31, 2023.

As of December 31, 2023 and 2022, the balance of our equity-method investment related to the Fantasia III JV was approximately $1.2 million and $1.6 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.

In December 2022, we recorded an impairment of approximately $0.2 million of our equity method investment in the FPH JV due to issues related to tenant operations which continued through June 2023, and is recorded in the loss from equity-method investees in the consolidated statements of operations for the year ended December 31, 2022, and consequently, reduced our equity-method investment balance to $0.

As of December 31, 2023 and 2022, the balance of our equity-method investment related to the FPH JV was approximately $0.

None of our Equity-Method Investments are significant equity-method investments.

Distributions from Equity-Method Investments

As of December 31, 2023 and 2022, we have distributions receivable, which is included in tenant and other receivables in our consolidated balance sheets, as follows:

	December 31, 2023	December 31, 2022
SULH JV	$ 311,000	$ 259,000
Fantasia II JV	30,000	55,000
Fantasia III JV	87,000	22,000
FPH JV	64,000	64,000
Total	$ 492,000	$ 400,000

For the years ended December 31, 2023 and 2022, 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, 2023			Year Ended December 31, 2022		
	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	$ 1,706,000	$ 760,000	$ 946,000	$ 615,000	$ —	$ 615,000
Fantasia JV	—	—	—	—	—	—
Fantasia II JV	135,000	—	135,000	311,000	213,000	98,000
Fantasia III JV	12,000	—	12,000	134,000	134,000	—
FPH JV	—	—	—	56,000	—	56,000
Total	$ 1,853,000	$ 760,000	$ 1,093,000	$ 1,116,000	$ 347,000	$ 769,000

6. Receivables

Tenant and Other Receivables, net

Tenant and other receivables, net consists of:

	December 31, 2023	December 31, 2022
Straight-line rent receivables	$ 1,396,000	$ 3,862,000
Distribution receivables from Equity-Method Investments	492,000	400,000
Asset management fees	327,000	375,000
Other receivables	375,000	383,000
Total	$ 2,590,000	$ 5,020,000

7. Related Party Transactions

Equity-Method Investments

See Notes 5 and 6 for further discussion of distributions and asset management fees related to our Equity-Method Investments.

8. Intangible Lease Assets

Intangible lease assets as of December 31, 2023 and 2022 are as follows:

	December 31, 2023	December 31, 2022
In-place leases	$ 12,680,000	$ 13,778,000
Less: accumulated amortization	(1,831,000)	(937,000)
In-place leases, net	10,849,000	12,841,000
Above-market leases	959,000	959,000
Less: accumulated amortization	(155,000)	(96,000)
Above-market leases, net	804,000	863,000
Total intangible lease assets, net	$ 11,653,000	$ 13,704,000

For each of the years ended December 31, 2023 and 2022, amortization expense for intangible lease assets was approximately $1.0 million, of which approximately $0.1 million relates to the amortization of above-market leases which is included within rental revenues in the accompanying consolidated statements of operations.

Expected future amortization of the intangible lease assets as of December 31, 2023 and for each of the five following years and thereafter ending December 31 are as follows:

Years ending December 31,	
2024	900,000
2025	900,000
2026	900,000
2027	900,000
2028	900,000
Thereafter	7,153,000
	$ 11,653,000

9. Right of Use Asset – Operating Lease

In November 2022, we entered into an operating lease for office space ("Office Lease") for a period of sixty-six (66) months, with a five-year renewal option. The office space subject to the Office Lease is located in Laguna Hills, California. The Office Lease provides for the abatement of the base rent for the second full calendar month (January 2023) through the seventh full calendar month of the lease term (June 2023). The initial annual base rent is $204,399 and increases three percent (3%) each year on the anniversary date of the commencement of the Office Lease.

The Office Lease is classified as an operating lease. A "right to use" or "ROU asset" represents the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The Office Lease did not provide an explicit rate of interest; therefore we used an estimated incremental borrowing rate of 5% based on a fully collateralized and fully amortizing loan with a maturity date of the same length as the lease that is based on information available at the commencement date in determining the present value of lease payments. At inception, we recorded an ROU asset and lease liability of approximately $0.9 million. As a result, the Company had non-cash activity of $0.9 million for the ROU asset obtained in exchange for new operating lease liabilities during 2022. The Office Lease does not contain material residual value guarantees or material restrictive covenants.

Supplemental balance sheet information related to the Office Lease as of December 31, 2023 is as follows:

Component	Consolidated Balance Sheet Caption		
Right of use asset - operating	Other assets, net	$	698,000
Lease liability - operating	Accounts payable and accrued liabilities	$	877,000

Lease expense is presented as part of continuing operations within general and administrative expenses in the consolidated statements of operations. For the year ended December 31, 2023 and 2022, we recognized approximately $182,000 and $87,000, respectively, in lease expense related to this lease. The lease payments are classified within operating activities in the consolidated statements of cash flows. As of December 31, 2023 and 2022, we paid approximately$103,000 and $26,000, respectively, in lease payments and the weighted average remaining lease term is 4.3 years.

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

Year		Lease payments
2024		211,000
2025		217,000
2026		224,000
2027		231,000
2028		98,000
Total lease payments	$	981,000
Less imputed interest		(104,000)
Total lease liability	$	877,000

10. Concentration of Risk

As of December 31, 2023, we owned eight properties in Georgia, four properties in California, three properties in Oregon, one property in Texas, one property in Illinois, and one property in Arizona (excluding the 31 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, 2023, we leased our 16 real estate properties to 14 different tenants under long-term triple net leases. For the year ended December 31, 2023, three of the 14 tenants each had rental revenue greater than 10% (17%, 14% and 10%).

As of December 31, 2022, we leased our 16 real estate properties to 14 different tenants under long-term triple net leases. For the year ended December 31, 2022, three of the 14 tenants each had rental revenue greater than 10% (16%, 14%, and 10%).

As of December 31, 2023, our GA8 Properties are considered to be a significant asset concentration as the aggregate net assets of the GA8 Properties were greater than 20% of our total assets due to cross-default provisions in the leases.

11. 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.

Legal Proceedings

HCRE

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 held a status conference on February 4, 2021, and subsequently entered scheduling orders to govern discovery and pretrial matters. The parties filed dispositive motions, including a motion filed by the Company and the petitioning creditors for judgment on the pleadings. On February 4, 2022, the Bankruptcy Court entered an order denying the motion for judgment on the pleadings on the basis that the Bankruptcy Court would consider the points raised therein after trial. The Bankruptcy Court also entered an order denying HCRE's motion to dismiss certain counterclaims and severing certain other counterclaims asserted by the petitioning creditors and the Company against HCRE on jurisdictional grounds, with the effect that such counterclaims may be pursued in the United States District Court. Trial in the Bankruptcy Court was conducted on January 9 and 10, 2023, with final concluding arguments presented on January 19, 2023. On May 12, 2023, the Court issued an opinion to award the plaintiffs $75,000 for reimbursement of legal fees related to the filing of the involuntary bankruptcy petition plus $517,000 for reimbursement of attorney's fees related to the stay violation. Several additional motions have been filed and were heard in September 2023. On November 14, 2023, the Bankruptcy Court entered a further Memorandum Opinion, which modified the award for reimbursement of attorneys' fees for the stay violation from $517,000 to $665,000, though a final judgment has not yet been entered by the Bankruptcy Court. Subject to entry of judgment, the Company has filed an appeal of the fee award related to the stay violation and also asserts that any award should be offset by the Company's counterclaims that remain pending in the district court. Based on the assessment by management, as of December 31, 2023, the Company has accrued $75,000 for the reimbursement of legal fees related to the involuntary petition filing and $0 for the $665,000 in attorney's fees related to the stay violation as we believe that a loss is currently not probable under Accounting Standards Codification 450, "Contingencies."

Eikanas Dispute

On May 15, 2023, the Board of Directors of the Company sent Kent Eikanas, the then-Chief Executive Officer, written notice of various deficiencies in his performance , thereby initiating the 60-day cure period required by Mr. Eikanas' Amended and Restated Employment Agreement, dated October 19, 2021. On July 14, 2023 (the "Termination Date"), after the expiration of the 60-day cure period, the Board of Directors (the "Board") of the Company terminated, for cause, Mr. Eikanas from his position as Chief Executive Officer and Secretary of the Company. Per the terms of his employment agreement, upon Mr. Eikanas' termination for cause, Mr. Eikanas is also deemed to have resigned, as of the Termination Date, from all positions with the Company and its subsidiaries, the Board and any boards of directors or managers of any of Company's subsidiaries and affiliates.

On June 5, 2023, Mr. Eikanas filed a lawsuit against the Company in the Superior Court of California for, among other things, wrongful termination and breach of contract, and seeking unspecified monetary damages. On April 8, 2024, Mr. Eikanas amended his Complaint to add additional causes of action and three new defendants – Steven Roush, Board Member; Suzanne Koenig, Board Member; and Elizabeth Pagliarini, Chief Executive Officer and Board Member. Based on the assessment by management, the Company believes that a loss is currently not probable or estimable under ASC 450, "Contingencies", and as of December 31, 2023, no accrual has been made with regard to the claim.

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.

Management of our Equity-Method Investments

As the manager of our Equity-Method Investments, we are responsible for managing the day-to-day operations. Additionally, we could be subject to a capital call from our Equity-Method Investments.

12. Equity

Distributions

The Company declared no cash distributions per common share during the years ended December 31, 2023 and 2022.

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 1,851,937 is available for future issuances as of December 31, 2023.

On April 1, 2023, we granted 80,000 stock options to our non-executive employees under our Summit Healthcare REIT, Inc. 2015 Omnibus Incentive Plan ("Incentive Plan"). The stock options vest monthly beginning on May 1, 2023 and continuing over a three-year period through April 1, 2025. The options expire 10 years from the grant date. The weighted-average fair value per share of the stock options granted was $0.91.

In October 2023, 880,845 vested shares were forfeited due to the termination of an employee.

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

	2023
Stock options granted	80,000
Expected volatility	37.34 %
Expected term	5.75 years
Risk-free interest rate	3.65 %
Dividend yield	0 %
Fair value per stock option	$ 0.91

The following table summarizes our stock options as of December 31, 2023:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding at January 1, 2022	1,867,908	$ 2.09		
Granted	81,000	2.35		
Exercised	—			
Cancelled/forfeited				
Options outstanding at December 31, 2022	1,948,908	$ 2.10		
Granted	80,000	2.18		
Exercised	—			
Cancelled/forfeited	880,845	2.02		
Options outstanding at December 31, 2023	1,148,063	$ 2.16	4.79	$ —
Options exercisable at December 31, 2023	1,049,840	$ 2.15	4.41	$ —

For our outstanding non-vested options as of December 31, 2023, the weighted average grant date fair value per share was $0.91. As of December 31, 2023, we have unrecognized stock-based compensation expense related to unvested stock options which is expected to be recognized as follows:

Years Ending December 31,	
2024	49,000
2025	32,000
2026	8,000
	$ 89,000

The stock-based compensation expense reported for the years ended December 31, 2023 and 2022 was approximately $41,000 and $31,000, respectively, and is included in general and administrative expense in the consolidated statements of operations.

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, 2023 and 2022, 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

CA3 Properties

In February 2024, we entered into a Purchase and Sale Agreement (“PSA”) to sell our CA3 Properties. The aggregate purchase price is $30.0 million and the transaction is expected to close in the second quarter of 2024. Either party may terminate the agreement for non-satisfaction or failure of a condition to the obligation of either party to consummate the transaction contemplated by this PSA, unless such matter has been satisfied or waived by the date specified in this PSA or by the closing date.

GA8 Properties

On March 13, 2024, we received a notice of default, dated March 12, 2024, from Oxford for the mezzanine loan, whereby the mezzanine lender has exercised certain rights, including, their right to act as attorney-in-fact of Summit Georgia Holdings LLC, appointment of an independent manager over the GA8 Properties, thereby removing the Company as the manager and removing the Company’s voting rights and rights to receive any distributions with respect to such properties. The Oxford notice of default also constitutes an event of default under the GA8 Properties subordinated term loan with Oxford and the mortgage loan with CIBC Bank, USA.

We are currently analyzing this contractual change and the impact on our continued consolidation of Summit Georgia and the underlying GA8 Properties that included the following in our consolidated balance sheet as of December 31, 2023: $98.4 million in real estate properties, net, $10.4 million in intangible lease assets, net, and $122.8 million of loans payable, net, and the following in our statement of operations for the year ended December 31, 2023: $11.8 million in total rental revenues, $1.3 million in property operating costs, $5.1 million in depreciation and amortization and $13.2 million in interest expense.

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: April 15, 2024	By:	/s/ Elizabeth A. Pagliarini
		Elizabeth A. Pagliarini
		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 April 15, 2024.

Name	Title
/s/ Elizabeth A. Pagliarini Elizabeth A. Pagliarini	Chief Executive Officer and Secretary (Principal Executive Officer)
/s/ Sharyn Grant Sharyn Grant	Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)
/s/ J. Steven Roush J. Steven Roush	Director
/s/ Suzanne Koenig Suzanne Koenig	Director
/s/ Elizabeth A. Pagliarini Elizabeth A. Pagliarini	Director

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EXHIBIT INDEX

Ex.	Description
3.1	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).
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")).
4.1	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).
4.5	Description of the Registrant's Common Stock (incorporated by reference to the Company's Annual Report on Form 10-K filed on March 25, 2021).
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	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).
10.5	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).
10.6	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).
10.7	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).
10.8	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).
10.9	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).
10.10	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).
10.11	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).
10.12	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).
10.13	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).
10.14	Healthcare Facility Note with respect to HUD – insured loans between CHP Friendswood, LLC and ORIX Real Estate Capital, LLC, dated April 1, 2020 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 28, 2020).
10.15	Healthcare Regulatory Agreement – Borrower between CHP Friendswood, LLC and HUD, dated April 1, 2020 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on April 28, 2020).
10.16	Term Loan and Security Agreement between Summit Creekside LLC, a Delaware limited liability company ("Creekside"), Summit Yucaipa LLC, a Delaware limited liability company ("Yucaipa"), and Summit Mentone LLC , as

	borrowers and CIBC Bank USA dated July 2, 2021 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 9, 2021).
10.17	Amended and Restated Employment Agreement dated October 19, 2021 by and between the Company and Kent Eikanas (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 10-Q filed on November 12, 2021).
10.18	Amended and Restated Employment Agreement dated October 19, 2021 by and between the Company and Elizabeth Pagliarini (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 10-Q filed on November 12, 2021).
10.19	Term Loan and Security Agreement between Summit Calhoun LLC, a Georgia limited liability company ("Calhoun"), Summit Cartersville LLC, a Georgia limited liability company ("Cartersville"), Summit Chatsworth LLC, a Georgia limited liability company ("Chatsworth"), Summit Decatur LLC, a Georgia limited liability company ("Decatur"), Summit Fairburn LLC, a Georgia limited liability company ("Fairburn"), Summit Flowery Branch LLC, a Georgia limited liability company ("Flowery Branch"), Summit Jasper LLC, a Georgia limited liability company ("Jasper"), Summit Stone Mountain LLC, a Georgia limited liability company ("Stone Mountain") , as borrowers and CIBC Bank USA dated December 30, 2021 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 6, 2022).
10.20	Subordinated Term Loan and Security Agreement between Summit Calhoun LLC, a Georgia limited liability company ("Calhoun"), Summit Cartersville LLC, a Georgia limited liability company ("Cartersville"), Summit Chatsworth LLC, a Georgia limited liability company ("Chatsworth"), Summit Decatur LLC, a Georgia limited liability company ("Decatur"), Summit Fairburn LLC, a Georgia limited liability company ("Fairburn"), Summit Flowery Branch LLC, a Georgia limited liability company ("Flowery Branch"), Summit Jasper LLC, a Georgia limited liability company ("Jasper"), Summit Stone Mountain LLC, a Georgia limited liability company ("Stone Mountain") , as borrowers and Oxford Finance LLC, dated December 30, 2021 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on January 6, 2022).
10.21	Mezzanine Term Loan and Security Agreement between Summit Georgia Holdings LLC, a Georgia limited liability company, as borrower, and Oxford Finance LLC, dated December 30, 2021 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on January 6, 2022).
10.22	Standard Office lease between Lakehills CM-CG LLC, a Delaware limited liability company, as landlord, and Summit Healthcare REIT, Inc., as tenant, dated April 1, 2022 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 7, 2022).
10.23	2015 Omnibus Incentive Plan dated October 28, 2015 (incorporated by reference to Appendix A to the Definitive Proxy Statement on Schedule 14A filed on September 28, 2015).
10.24	Form of Stock Option Agreement under 2015 Omnibus Incentive Plan (filed herewith)
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, P.C. (filed herewith).
23.2	Consent of Warren Averett, LLC (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	Combined Financial Statements of GA8 Tenants as of and for the years ended December 31, 2023 and 2022 (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
104	Cover Page Interactive Data File - The cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document

Exhibit 10.24

SUMMIT HEALTHCARE REIT, INC.

2015 OMNIBUS INCENTIVE PLAN

INCENTIVE STOCK OPTION AWARD AGREEMENT
(Employee)

Summit Healthcare REIT, Inc., a Maryland corporation (the "**Company**"), and ______ the "**Optionee**") hereby agree as follows:

Section 1. ***Grant of Option***. In conformity with the Summit Healthcare REIT, Inc. 2015 Omnibus Incentive Plan, as amended and supplemented (the "**Plan**"), on and effective as of April 1, 2023 ("**Date of Grant**"), the Company granted to the Optionee, subject to the conditions and limitations hereinafter stated in this Agreement, the option to purchase at the price and according to the vesting schedule specified in Section 2 hereof, up to 25,000 shares ("**Option Shares**") of the common stock of the Company ("**Common Stock**") reserved for options under the Plan during a period commencing on the Date of Grant and ending the day before the tenth (10th) anniversary of the Date of Grant ("**Expiration Date**"). The Company grants this option as an incentive stock option that satisfies the requirements of Section 422 of the Internal Revenue Code of 1986, as amended ("**Code**").

Section 2. ***Price and Vesting of Option***.

(a) *Option Price*. The purchase price per Option Share shall be __________ ($_____).

(b) *Vesting Schedule*. The Option Shares shall be exercisable by Optionee only to the extent that they have vested according to the following sentence. The Option Shares shall vest in equal monthly installments commencing with _______ and continuing on the first day of each month thereafter over a three-year period, with all such Option Shares being fully vested as of __________.

Section 3. ***Conditions and Limitations on Right to Exercise Option***. Notwithstanding the provisions of Section 1 hereof:

(a) *Latest Time for Exercise.* This option may not, in any event, be exercised after its Expiration Date.

(b) *Exercise While on a Leave of Absence.* This option may not be exercised by the Optionee while on a leave of absence until the Optionee has returned to active employment with the Company, unless such exercise is expressly approved in writing by the Committee.

(c) *Exercise if No Longer an Employee.*

(i) Termination. Except as set forth in Sections 3(c)(ii), (iii) and (iv) below, the option herein granted must be exercised by the Optionee only while the Optionee is an employee of the Company or one of its subsidiaries as defined in Section 424(f) of the Code during the period beginning with the Date of Grant and ending on the Expiration Date. Options that have not become exercisable in accordance with Section 2 at the time of termination of employment shall terminate and never become exercisable.

(ii) Termination with Consent or Without Cause. If the Optionee has been an employee at all times beginning with the Date of Grant and terminates employment (1) voluntarily with the written consent of the Company, or (2) involuntarily other than Termination for Cause (as defined in this Section 3(c)(ii)), and the Optionee's voluntary termination is not in violation of any employment contract with the Company or a subsidiary, the Optionee may exercise this option to the extent the Optionee was entitled to exercise it at the date of the Optionee's termination of employment at any time within three (3) months after such termination but not after the Expiration Date. For purposes of this Section 3(c)(ii), Termination for Cause shall mean termination of employment for "Cause" as such term is defined in the Plan.

(iii) Termination on Account of Disability. If the Optionee has been an employee at all times beginning with the Date of Grant and terminates employment on account of Disability, the Optionee may exercise such option to the extent the Optionee was entitled to exercise it at the date of such termination of employment at any time within twelve (12) months after such termination but not after the Expiration Date. For purposes of this Section 3(c)(iii), Disability shall mean "Disability" as such term is defined in the Plan.

(iv) Death. If the Optionee dies while employed by the Company or one of its subsidiaries, this option may be exercised to the extent the Optionee was entitled to exercise it at the date of the Optionee's death, by a legatee or legatees of the Optionee under the Optionee's last will, or by the Optionee's personal representatives or distributees, at any time within twelve (12) months after the Optionee's death but not after the Expiration Date.

If the Optionee dies within three (3) months after terminating employment in accordance with (c)(ii) above, this option may be exercised to the extent the Optionee was entitled to exercise it at the Optionee's date of death, by a legatee or legatees of the Optionee under the Optionee's last will, or by the Optionee's personal representatives or distributees, at any time within three (3) months of the Optionee's date of death, but not after the Expiration Date.

If the Optionee dies within twelve (12) months after termination of employment in accordance with Section 3(c)(iii) above, this option may be exercised to the extent the Optionee was entitled to exercise it at the date of the Optionee's death, by a legatee or legatees of the Optionee under the Optionee's last will, or by the Optionee's personal representatives or distributees, at any time within the remainder of such twelve (12) month period, or three (3) months from the date of death if longer, but not after the Expiration Date.

Section 4. ***Method of Exercise of Option***. The option herein granted may be exercised (in whole or in part) at any time or from time to time after the right to exercise said option arises and before termination of said right, by delivering to the Secretary of the Company or by sending by registered mail, postage prepaid, to the Company to the attention of the Secretary: (a) a written request designating the number of shares of Common Stock to be purchased, signed by the Optionee, or the purchaser acting under Section 3(c)(iv) hereof, and (b) payment to the Company of the full purchase price of the shares of Common Stock with respect to which the option is exercised, in accordance with the Plan. As promptly as practicable after such exercise of the option, the Company shall issue the shares of Common Stock to said Optionee or purchaser, as the case may be. Payment may be made in accordance with the Plan.

Section 5. ***Delivery of Shares***. The Company shall not be required to issue or deliver any certificates for shares of Common Stock, pursuant to the exercise of this option, prior to (a) the admission of such shares to listing on any stock exchange on which the Company's Common Stock may then be listed, (b) the completion of any registration and/or qualification of such shares of Common Stock under any state or federal laws or ruling or regulations of any governmental regulatory body, which the Company shall determine to be necessary or advisable, or (c) if the Company so requests, the filing with the Company by the Optionee, or the purchaser acting under Section 3(c)(iv) hereof, of a representation in writing as provided in Section 6 hereof that at the time of such exercise it is the Optionee's present intention to acquire the shares being purchased for investment and not for resale or distribution.

Section 6. ***Conditions to Exercise of Option*.** Upon the acquisition of any shares of Common Stock pursuant to the exercise of this option, the Optionee will enter into such written representations, warranties and agreements as the Company may reasonably request in order to comply with applicable securities laws or with this agreement. In addition, issuance of such Common Stock may be subject to and conditioned upon, at the Company's option, the Optionee's execution of a restrictive or shareholder agreement. The certificates representing the shares of Common Stock purchased by exercising of this option may be stamped or otherwise imprinted with a legend in such form as the Company or its counsel may require with respect to any applicable restrictions on sale or transfer and the stock transfer records of the Company may reflect stop-transfer instructions with respect to such share of Common Stock.

Section 7. ***Miscellaneous***.

(a) *Rights in Shares Prior to Issuance.* Prior to issuance of certificates for shares of Common Stock, neither the Optionee, nor the legatees, personal representatives or distributees of the Optionee, shall be deemed to be a holder of any shares of Common Stock subject to option.

(b) *Adjustment Upon Changes in Capitalization.* In the event that each of the outstanding shares of Common Stock of the Company shall be changed into or exchanged for a different number or kind of shares of stock or other securities of the Company or of another corporation, whether by reason of stock dividend, recapitalization, merger, consolidation, spin off, split up, combination, exchange of shares and the like, there shall be substituted for each share of Common Stock subject to the option herein granted the number and kind of shares of stock or other securities into which each outstanding share of Common Stock of the Company shall be so changed or for which each such share shall be exchanged. If the Board of Directors of the Company determines that such change equitably requires an adjustment in the number, or kind, or option price of the shares covered by the option granted herein, an adjustment to effect such determination will be made by the Committee.

(c) *Non-Assignability.* This option shall not be transferable or assignable by the Optionee otherwise than by will or by the laws of descent and distribution. This option may be exercised, during the Optionee's lifetime, only by the Optionee.

(d) *Right to Continued Employment*. Nothing in this Option Agreement shall confer on any individual any right to continue in the employ of the Company or a subsidiary or interfere with the right of the Company or a subsidiary to terminate the Optionee's employment at any time.

(e) *Interpretation.* This option granted herein shall in all respects be subject to and governed by the provisions of the Plan, and capitalized terms herein shall be given the meaning set forth in the Plan. This Agreement shall in all respects be so interpreted and construed as to be consistent with this intention.

(f) *Tax Withholding.* The Company shall not be required to issue or deliver any certificates for shares of Common Stock until the Optionee pays to the Company in cash the amount necessary to enable the Company to remit to the appropriate government entity or entities on behalf of the Optionee the amount required to be withheld from wages with respect to such transaction. Alternately, the Optionee may elect to have such withholding satisfied by a reduction of the number of shares otherwise deliverable, with the reduction based on the Fair Market Value of the Common Stock on the date of such notice.

[The signature page follows.]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the ___ day of _____, 20__.

Company: SUMMIT HEALTHCARE REIT, INC.

By: ______________________________
Title:

Optionee: ______________________________

Exhibit 21.1

Summit Healthcare Operating Partnership, L.P.	Delaware
Summit Healthcare Asset Management, LLC	Delaware
SHOP TRS LLC	Delaware
Healthcare Properties	
Cornerstone Healthcare Partners, LLC	Delaware
Cornerstone Healthcare Holdings 1, LLC	Delaware
CHP Sheridan 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 Chandler, LLC	Delaware
Summit Yucaipa LLC	Delaware
Summit Creekside LLC	Delaware
Summit Mentone LLC	Delaware
Summit Georgia Holdings LLC	Georgia
Summit Calhoun LLC	Georgia
Summit Cartersville LLC	Georgia
Summit Chatsworth LLC	Georgia
Summit Decatur LLC	Georgia
Summit Fairburn LLC	Georgia
Summit Flowery Branch LLC	Georgia
Summit Jasper LLC	Georgia
Summit Stone Mountain LLC	Georgia

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

Summit Healthcare REIT, Inc.
Laguna Hills, 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 April 15, 2024, relating to the consolidated financial statements, which appears in this Annual Report on Form 10-K.

/s/ BDO USA, P.C.

Costa Mesa, California
April 15, 2024

Exhibit 23.2

Consent of Independent Auditor

We consent to the incorporation by reference in this Form 10-K of Summit Healthcare REIT, Inc. of our report dated March 27, 2024, with respect to the combined financial statements of the GA8 Tenants as of and for the years ended December 31, 2023 and 2022.

/s/ Warren Averett, LLC

Warren Averett
Certified Public Accountants
Birmingham, Alabama
March 27, 2024

Exhibit 31.1

CERTIFICATIONS

I, Elizabeth A. Pagliarini, certify that:

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

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

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

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

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

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

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

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

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

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

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

	/s/ Elizabeth A. Pagliarini
Date: April 15, 2024	Elizabeth A. Pagliarini *Chief Executive Officer* *(Principal Executive Officer)*

Exhibit 31.2

CERTIFICATIONS

I, Sharyn Grant, 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: April 15, 2024	/s/ Sharyn Grant Sharyn Grant *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

Elizabeth A. Pagliarini and Sharyn Grant, 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, 2023 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-K fairly presents in all material respects the financial condition and results of operations of Summit Healthcare REIT, Inc.

Date: April 15, 2024	/s/ Elizabeth A. Pagliarini Eilzabeth A. Pagliarini *Chief Executive Officer* *(Principal Executive Officer)*
Date: April 15, 2024	/s/ Sharyn Grant Sharyn Grant *Chief Financial Officer* *(Principal Financial Officer)*

Exhibit 99.1

GA8 TENANTS

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

GA8 TENANTS
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DECEMBER 31, 2023 AND 2022

INDEPENDENT AUDITORS' REPORT

COMBINED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Owners and Management
GA8 Tenants

Opinion

We have audited the accompanying combined financial statements of GA8 Tenants, which comprise the combined balance sheets as of December 31, 2023 and 2022, and the related combined statements of operations and changes in members' equity (deficit) and cash flows for the years then ended, and the related notes to the combined financial statements.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of GA8 Tenants as of December 31, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Combined Financial Statements section of our report. We are required to be independent of GA8 Tenants and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about GA8 Tenants' ability to continue as a going concern within one year after the date that the combined financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit 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 GA8 Tenants' internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about GA8 Tenants' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control related matters that we identified during the audit.

/s/ Warren Averett, LLC
Birmingham, Alabama
March 27, 2024

GA8 TENANTS
COMBINED BALANCE SHEETS
DECEMBER 31, 2023 AND 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash	$ 1,286,151	$ 4,047,322
Patient accounts receivable, net	10,978,617	13,571,787
Prepaid expenses and other current assets	1,152,999	929,060
Other receivables	2,843,585	4,694,190
Total current assets	16,261,352	23,242,359
NONCURRENT ASSETS		
Right-of-use asset, net	115,729,068	124,631,303
Property and equipment, net	1,131,204	511,080
Deposits	2,939,953	3,462,085
Total noncurrent assets	119,800,225	128,604,468
TOTAL ASSETS	$ 136,061,577	$ 151,846,827
LIABILITIES AND MEMBERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	$ 17,948,949	$ 9,400,775
Accrued payroll and benefits	386,892	438,591
Current lease liabilities	5,766,416	6,273,189
Total current liabilities	24,102,257	16,112,555
LONG-TERM LEASE LIABILITIES	117,649,203	123,428,432
MEMBERS' EQUITY (DEFICIT)	(5,689,883)	12,305,840
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 136,061,577	$ 151,846,827

See notes to the combined financial statements.

GA8 TENANTS
COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN MEMBERS' EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
REVENUES		
Net patient service revenue	$ 74,324,449	$ 77,151,042
COVID-19 Relief Funds revenue	—	1,446,482
Total revenues	74,324,449	78,597,524
OPERATING EXPENSES		
Administrative and general services	11,394,563	11,250,387
Management services	3,844,095	4,219,897
Employee health and welfare	1,510,972	2,224,942
Plant operations	2,980,829	2,215,290
Dietary services	6,952,683	5,276,659
Housekeeping and laundry	6,176,304	2,200,473
Nursing services	30,165,143	27,863,663
Social services	276,505	290,972
Medical services	1,031,140	874,615
Rehabilitative therapies	8,639,664	8,507,704
Recreation	600,695	531,077
Provision for bad debt	2,742,782	2,153,854
Amortization of ROU assets	8,902,235	8,902,235
Interest on lease liabilities	6,577,310	6,843,573
Depreciation	238,412	149,011
Property insurance	122,166	118,813
Total operating expenses	92,155,498	83,623,165
LOSS FROM OPERATIONS	(17,831,049)	(5,025,641)
OTHER INCOME		
Other income	70,326	246,145
Gain on forgiveness of debt	—	3,812,300
Insurance proceeds from business interruption	—	949,006
Total other income	70,326	5,007,451
NET LOSS	(17,760,723)	(18,190)
MEMBERS' EQUITY AT BEGINNING OF YEAR	12,305,840	12,734,030
DISTRIBUTIONS	(235,000)	(410,000)
MEMBERS' EQUITY (DEFICIT) AT END OF YEAR	$ (5,689,883)	$ 12,305,840

See notes to the combined financial statements.

GA8 TENANTS
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (17,760,723)	$ (18,190)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	238,412	149,011
Provision for bad debt expense	2,742,782	2,153,854
Amortization of right-of-use asset	8,902,235	8,902,235
Gain on forgiveness of debt	—	(3,812,300)
Change in deposits	522,132	—
Change in patient accounts receivable, net	(149,612)	(2,830,761)
Change in estimated third-party payor settlements	—	513,153
Change in prepaid expenses	(223,939)	(350,434)
Change in other receivables	1,850,605	1,063,589
Change in accounts payable	8,548,174	2,163,392
Change in accrued expenses	—	(324,384)
Change in accrued payroll and benefits	(51,699)	(226,606)
	22,379,090	7,400,749
Net cash provided by operating activities	4,618,367	7,382,559
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(858,536)	(203,035)
Net cash used in investing activities	(858,536)	(203,035)
CASH FLOWS FROM FINANCING ACTIVITIES		
Distributions	(235,000)	(410,000)
Principal payment on lease liabilities	(6,286,002)	(3,881,429)
Repayment of Medicare advance payment loan	—	(1,955,625)
Net cash used in financing activities	(6,521,002)	(6,247,054)
INCREASE (DECREASE) IN CASH	(2,761,171)	932,470
CASH AT BEGINNING OF YEAR	4,047,322	3,114,852
CASH AT END OF YEAR	$ 1,286,151	$ 4,047,322

	2023	2022
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 6,577,310	$ 6,843,570
SUPPLEMENTAL DISCLOSURES OF NONCASH OPERATING, INVESTING AND FINANCING ACTIVITIES		
Right-of-use asset and lease liability associated with implementation of ASC 842	$ —	$ 133,533,538
Vehicle acquired through financing lease	$ —	$ 49,512
Deposits released for lease payment	$ 525,950	$ —

See notes to the combined financial statements.

GA8 TENANTS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

GA8 Tenants (the Company) operates eight nursing facilities located in Georgia, which includes, GACalhoun SNF LLC, GAChatsworth SNF LLC, GAFairburn SNF LLC, GADecatur SNF LLC, GACartersville SNF LLC, GAJasper SNF LLC, GAStone Mountain SNF LLC, and Willowwood PAC LLC, collectively known as GA8 Tenants.

Principles of Combination

The accompanying combined financial statements include GACalhoun SNF LLC, GAChatsworth SNF LLC, GAFairburn SNF LLC, GADecatur SNF LLC, GACartersville SNF LLC, GAJasper SNF LLC, GAStone Mountain SNF LLC, and Willowwood PAC LLC. Upon combination, all material intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of the combined financial statements in conformity with generally accepted accounting principles (U.S. GAAP) 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 combined financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from residents, third-party payors and others for services rendered.

Revenue under third-party payor agreements is paid on a prospective basis and is subject to audit by the third-party payor. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued, and interim and final settlements, are reported in operations in the year final settlements are determined.

GA8 TENANTS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

The promise to provide quality care is accounted for as a single performance obligation. The Company has concluded that the contracts with patients and residents represent a bundle of distinct services that are substantially the same, with the same pattern of transfer to the customer. The Company uses the portfolio approach as a practical expedient to group patient contracts with similar characteristics, such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. These analyses incorporated consideration of reimbursements at varying rates from Medicaid, Medicare, Private Pay and other commercial payments for services. In order to determine the transaction price, the Company estimates the amount of variable consideration at the beginning of the contract using the expected value method. Changes in the Company's expectation of the amount it will receive from the patient or third-party payors will be recorded in revenue unless there is a specific event that suggests the patient or third-party payor no longer has the ability and intent to pay the amount due and, therefore, the changes in its estimate of variable consideration represents an impairment, or bad debt. The Company satisfies its performance obligation by providing quality of care services to its patients and residents on a daily basis until termination of the contract.

The following tables summarize revenue from contracts with customers by payor source for the periods presented:

	2023				
	Medicare	Medicaid	Other Third-Party Payors	Patients	Total of All Payors
Patient service revenue					
(net of contractual allowances, discounts and implicit price concessions)	$ 17,993,383	$ 32,417,496	$ 13,552,471	$ 10,361,099	$ 74,324,449

	2022				
	Medicare	Medicaid	Other Third-Party Payors	Patients	Total of All Payors
Patient service revenue					
(net of contractual allowances, discounts and implicit price concessions)	$ 26,460,749	$ 42,040,945	$ 6,289,774	$ 2,359,574	$ 77,151,042

Accounts Receivable

Accounts receivable is reported in the combined balance sheet at the outstanding balance net of an estimated allowance for doubtful accounts. Billing terms usually provide for payment within 30 days. An allowance for doubtful accounts is estimated based upon review of outstanding receivables, historical collection information and existing economic conditions. Bad debts are charged against the allowance when substantially all collection efforts cease. Recovery of bad debts previously charged off are recorded when received. The Company's billing arrangements generally do not provide for interest on past due amounts. At December 31, 2023, 2022 and 2021, the allowance for doubtful accounts totaled $2,094,463, $1,450,735 and $1,115,435, respectively. Accounts receivables totaled $13,073,080, $15,022,522 and $14,010,314 at December 31, 2023, 2022 and 2021, respectively.

Concentration of Credit Risk

The Company grants credit without collateral to its patients, most of whom are local residents in relation to the nursing home in which they reside and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows at December 31:

	2023	2022
Medicare	24 %	42 %
Medicaid	44 %	38 %
Other insurance	18 %	9 %
Private pay	14 %	11 %
	100 %	100 %

Property and Equipment

Property and equipment acquisitions are recorded at cost less accumulated depreciation. The Company's policy is to capitalize individual acquisitions of property and equipment greater than $5,000. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method.

Income Taxes

As a limited liability company, income or loss generated by the Company is passed on to the members of the Company and taxed at their individual rates. Therefore, no provision or liability for income taxes has been included in the accompanying combined financial statements.

The Company assessed guidance relating to uncertainty in income taxes. This guidance requires entities to assess their uncertain tax positions for the likelihood that they would be overturned upon Internal Revenue Service examination or upon examination by state taxing authorities. The Company has determined that it does not have any positions at December 31, 2023 and 2022, that it would be unable to substantiate. The Company has filed its tax returns for all years through December 31, 2022.

Leases

The Company leases certain nursing facilities. Management determines if an arrangement is a lease at inception. Financing leases are included in right-of-use (ROU) assets, current liabilities, and long-term lease liability on the combined balance sheets. The Company does not have any operating leases.

ROU assets represent the Company's right to use an underlying asset for the lease term, and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Financing lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The Company uses their incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The financing lease ROU asset also includes any lease payments made and excludes lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Company has elected to apply the short-term lease exemption to leases with an initial term of twelve months or less.

In evaluating contracts to determine if they qualify as a lease, the Company considers factors such as if the Company has obtained substantially all the rights to the underlying asset through exclusivity, if the Company can direct the use of the asset by making decisions about how and for what purpose the asset will be used, and if the lessor has substitution rights. This evaluation may require significant judgement.

Insurance

The Company maintains insurance programs including workers' compensation, employees' medical care, property, casualty, directors' and officers' liability, and automobile. The Company believes its insurance programs are adequate and, where there has been a direct transfer of risk to the insurance carrier, the Company does not recognize a liability in the combined financial statements. The Company maintains a claims-made insurance program for general and professional liability and provides an estimated reserve for incurred but not reported claims. In the opinion of management, insurance coverage and estimated reserves for incurred but not reported claims are adequate to cover significant losses, if any.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on members, the change in members' equity or cash flows as previously stated.

Subsequent Events

Management has evaluated subsequent events and their potential effects on these combined financial statements through March 27, 2024, which is the date the combined financial statements were available to be issued.

GA8 TENANTS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance (Accounting Standards Codification [ASC] 842, *Leases*) to increase transparency and comparability among organizations by requiring the recognition of ROU assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The Company adopted the standard effective January 1, 2022, and recognized and measured leases existing at, or entered into after, January 1, 2022, with certain practical expedients available.

The Company elected the available practical expedients to account for its existing operating leases as operating leases, under the new guidance, without reassessing (1) whether the contracts contain leases under the new standard, (2) whether classification of capital leases or operating leases would be different in accordance with new guidance, or (3) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Company recognized on January 1, 2022, a lease liability of $133,583,051, which represents the present value of the remaining financing lease payments, discounted using the incremental borrowing rate of 5.25% for leases, and a right-of-use asset of $133,533,538.

The standard had a material impact on the combined balance sheets but did not have an impact on the combined income statements, nor combined statements of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

2. PROPERTY AND EQUIPMENT

A summary of property and equipment as of December 31, is as follows:

	2023	2022
Furniture and equipment	$ 438,598	$ 210,490
Software and website	185,236	4,745
Minor movable equipment	247,121	191,777
Motor vehicles	51,127	51,127
Major leasehold improvements	754,213	359,620
	1,676,295	817,759
Less accumulated depreciation	545,091	306,679
	$ 1,131,204	$ 511,080

Depreciation charged to operations was $238,412 and $149,011 in 2023 and 2022, respectively.

GA8 TENANTS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

3. FINANCING LEASES

The Company has financing leases for vehicles and nursing facilities. The Company's leases have remaining lease terms through December 31, 2036, some of which may include options to extend the leases and some of which may include options to terminate the leases.

The following is a schedule of future minimum lease payments under all financing leases having initial or remaining noncancelable lease terms in excess of one year:

Financing lease expense		
Amortization of ROU assets	$	8,902,235
Interest on lease liabilities		6,577,310
Total financing lease expense	$	15,745,807
Weighted average remaining lease term		12.93 years
Cash paid for financing lease liabilities		
Interest paid	$	6,577,310
Principal paid		5,298,190
Total cash paid for financing lease liabilities	$	11,875,500
Reported as of December 31, 2023:		
Other current liabilities	$	5,766,416
Other long-term liabilities	$	117,649,203
2024	$	12,080,334
2025		12,234,437
2026		12,417,954
2027		12,604,223
2028		12,793,286
Thereafter		109,501,980
		171,632,214
Less imputed interest		(48,216,595)
Total	$	123,415,619

Associated with the leases, the Company was required to make $3,394,180 in deposits and prepayments related to operating leases. During 2023, $525,950 of the deposit was used to pay lease payments, reducing the deposits to $2,868,230. This amount is included in deposits in the accompanying December 31, 2023 and 2022, combined balance sheets.

GA8 TENANTS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

4. CONTINGENCIES AND COMMITMENTS

Pursuant to legislative directives and authorizations from Congress, the Centers for Medicare and Medicaid Services (CMS) has developed and instituted various Medicare audit programs under which CMS contracts with private companies to conduct audits on claims and medical records. In the ordinary course of business, the Company is subject to inquiries, investigations and audits by these private companies, or other federal and state agencies that oversee applicable healthcare program participation and payment regulations. Audits may include enhanced medical necessity reviews pursuant to the Medicare, Medicaid and SCHIP Extension Act of 2007 and audits under the CMS Recovery Audit Contractor (RAC) program. The Company makes significant efforts through training and education to ensure compliance with all programs.

5. LITIGATION

There are several lawsuits pending against the Company. The ultimate outcome of these claims is uncertain at this time; however, management believes that the liability resulting from the claims, if any, will not have a material adverse effect on the combined financial statements.

6. COVID-19 RELIEF FUNDS REVENUE

As part of the response to the coronavirus pandemic, the federal government passed legislation, referred to as the Coronavirus Aid, Relief, and Economic Security Act, in March 2020, and the America Rescue Plan Act in March of 2021, that included, among other things, financial assistance to offset some of the financial burden incurred by providers in responding to the pandemic. As a result of this legislation, the Company received $123,735 in 2022 from funds established under the CARES Act in the form of a grant that, as long as certain terms and conditions are met by the Company, is not required to be repaid. The Company met the terms and conditions as required by the grants and recognized $123,735 in 2022 of the relief funds to offset lost revenues and additional expenses incurred for the year ended December 31, 2022, due to the coronavirus pandemic. This amount is recorded as other operating income in the accompanying combined statements of income and changes in members' equity (deficit).

In addition to the above, the Company also received various state grants to help mitigate the coronavirus pandemic. The funds were required to be used for necessary expenditures incurred due to COVID-19. The Company met the terms and conditions of use and recognized the amounts into income. The Company received $1,322,747 in 2022.

GA8 TENANTS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

7. RELATED PARTIES

The Company pays management fees to a related party that provides general and administrative services to the nursing home operators. Management fee expenses incurred for the years ended December 31, 2023 and 2022, totaled $3,844,095 and $4,219,897, respectively. Management fees are presented as an expense and included in management services in the accompanying combined financial statements. At December 31, 2023, the Company had $697,831 due from the related party ($521,602 due from the related party in 2022) included in other receivables in the accompanying combined financial statements. The Company also had $1,733,453 due to the related entity ($633,934 in 2022) included in accounts payable in the accompanying combined financial statements.

The Company also had other net advances outstanding from related parties totaling $800,835 and $501,649 as of December 31, 2023, and 2022.

8. PAYCHECK PROTECTION LOAN

During 2020, the nursing homes were granted loans (the Loan) from a financial institution in the aggregate amount of $3,812,300 pursuant to the Paycheck Protection Program (the PPP) under Division A, Title I of the CARES Act, which was enacted on March 27, 2020. Under the terms of the PPP, certain amounts of the Loan may be forgiven if they are used for qualifying expenses and if certain other requirements as described in the CARES Act are met. The Company used the entire loan amount for qualifying expenses. The Company applied for and received forgiveness from the lender and the Small Business Administration, and as such the amount has been recorded as other income in the accompanying 2022 combined financial statements.

9 EMPLOYEE RETENTION TAX CREDIT

In December 2020, the Consolidated Appropriations Act, 2021 (CAA) was signed into law which included additional COVID-19 related relief. The CAA substantially and retroactively expended the Employee Retention Tax Credit (ERTC) for eligible companies. Under the revised terms of the ERTC, companies are eligible to claim the payroll tax credit if the company was fully or partially suspended by a COVID-19 government order or if calendar 2021 gross receipts were less than 20% compared to the same quarter in 2019. For the period January 1, 2021, through September 30, 2021, the Company qualified for $6,876,330 in payroll tax credits in 2021. The uncollected balance has been recorded as a receivable (included in other receivables) on the accompanying combined balance sheets of $1,027,170 and $2,566,883 as of December 31, 2023 and 2022, respectively.

SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY INFORMATION

To the Owners and Management
GA8 Tenants

We have audited the accompanying combined financial statements of GA8 Tenants as of and for the years ended December 31, 2023 and 2022, and our report thereon dated March 27, 2024, which expressed an unmodified opinion on those combined financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining balance sheets as of December 31, 2023 and 2022, and the related combining statements of operations and members' equity (deficit) for the years then ended, are presented for purposes of additional analysis and are 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.

/s/ Warren Averett, LLC

Birmingham, Alabama
March 27, 2024

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GA8 TENANTS
COMBINING BALANCE SHEET
DECEMBER 31, 2023

ASSETS

	GACalhoun SNF LLC	GAChatsworth SNF LLC	GAFairburn SNF LLC	GADecatur SNF LLC	GACartersville SNF LLC	GAJasper SNF LLC	GAStone Mountain SNF LLC	Willowwood PAC LLC	Eliminations	TOTAL
CURRENT ASSETS										
Cash	$ 9,804	$ 39,335	$ 121,742	$ 31,907	$ 366,147	$ (184,027)	$ 452,213	$ 449,030	$ —	$ 1,286,151
Patient accounts receivable, net	371,561	1,046,886	989,350	1,279,715	943,510	857,429	3,810,278	1,679,888	—	10,978,617
Intercompany receivables	8,826,181	1,587,271	1,799,045	3,604,550	1,169,167	118,453	1,828,552	1,130,036	(20,063,255)	—
Prepaid expenses and other current assets	340,767	108,424	(6,747)	138,565	75,039	100,059	264,642	132,250		1,152,999
Other receivables	1,746,476	589,290	66,389	48,369	26,247	43,317	17,665	305,832	—	2,843,585
Total current assets	11,294,789	3,371,206	2,969,779	5,103,106	2,580,110	935,231	6,373,350	3,697,036	(20,063,255)	16,261,352
NONCURRENT ASSETS										
Right-of-use asset, net	4,257,939	30,762,567	12,873,523	8,024,476	16,847,482	9,471,089	24,322,689	9,169,303	—	115,729,068
Property and equipment, net	151,618	60,978	131,441	140,258	115,573	54,168	310,667	166,501	—	1,131,204
Deposits	156,350	726,473	331,414	224,816	415,336	240,699	601,837	243,028	—	2,939,953
Total noncurrent assets	4,565,907	31,550,018	13,336,378	8,389,550	17,378,391	9,765,956	25,235,193	9,578,832	—	119,800,225
TOTAL ASSETS	$ 15,860,696	$ 34,921,224	$ 16,306,157	$ 13,492,656	$ 19,958,501	$ 10,701,187	$ 31,608,543	$ 13,275,868	$ (20,063,255)	$ 136,061,577
LIABILITIES AND MEMBERS' EQUITY (DEFICIT)										
CURRENT LIABILITIES										
Accounts payable	$ 2,280,152	$ 2,226,751	$ 2,676,917	$ 1,957,015	$ 1,423,781	$ 1,505,730	$ 3,215,562	$ 2,663,204	$ —	$ 17,949,112
Accrued payroll and benefits	51,355	74,877	39,322	37,938	72,449	23,626	46,198	40,964	—	386,729
Current lease liabilities	212,160	1,532,802	641,447	399,834	839,457	471,915	1,211,923	456,878	—	5,766,416
Intercompany payables	9,443,291	1,903,949	1,364,645	1,208,408	2,529,406	857,760	2,589,964	165,832	(20,063,255)	—
Total current liabilities	11,986,958	5,738,379	4,722,331	3,603,195	4,865,093	2,859,031	7,063,647	3,326,878	(20,063,255)	24,102,257
LONG-TERM LEASE LIABILITIES	4,365,781	31,263,212	13,083,034	8,155,071	17,119,823	9,625,225	24,718,529	9,318,528	—	117,649,203
MEMBERS' EQUITY (DEFICIT)	(492,043)	(2,080,367)	(1,499,208)	1,734,390	(2,026,415)	(1,783,069)	(173,633)	630,462	—	(5,689,883)
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 15,860,696	$ 34,921,224	$ 16,306,157	$ 13,492,656	$ 19,958,501	$ 10,701,187	$ 31,608,543	$ 13,275,868	$ (20,063,255)	$ 136,061,577

See independent auditors' report on supplementary information.

GA8 TENANTS
COMBINING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2023

	GACalhoun SNF LLC	GAChatsworth SNF LLC	GAFairburn SNF LLC	GADecatur SNF LLC	GACartersville SNF LLC	GAJasper SNF LLC	GAStone Mountain SNF LLC	Willowwood PAC LLC	TOTAL
REVENUES									
Net patient service revenue	$ 8,139,471	$ 10,247,929	$ 8,806,244	$ 9,098,697	$ 8,376,043	$ 5,902,376	$ 14,677,164	$ 9,076,525	$ 74,324,449
OPERATING EXPENSES									
Administrative and general services	1,246,376	1,379,773	1,829,711	1,457,925	1,114,529	994,843	2,073,355	1,298,051	11,394,563
Management services	469,255	512,738	453,395	455,180	448,823	295,207	757,016	452,481	3,844,095
Employee health and welfare	179,675	251,617	125,820	123,766	183,091	61,964	457,517	127,522	1,510,972
Plant operations	227,063	325,427	882,218	300,322	264,801	187,773	503,006	290,219	2,980,829
Dietary services	849,564	1,019,808	891,826	845,369	641,770	549,300	1,265,154	889,892	6,952,683
Housekeeping and laundry	998,445	1,005,406	408,275	772,389	535,580	489,299	1,159,770	807,140	6,176,304
Nursing services	4,246,581	3,969,324	3,691,849	3,744,013	2,904,820	2,695,366	5,162,407	3,750,783	30,165,143
Social services	33,813	49,127	40,007	—	24	42,321	75,576	35,637	276,505
Medical services	140,804	171,489	81,278	120,502	91,116	92,644	193,681	139,626	1,031,140
Rehabilitative therapies	773,490	1,079,040	1,191,246	981,953	1,071,662	850,213	1,476,857	1,215,203	8,639,664
Recreation	39,034	99,761	91,955	74,353	120,436	34,193	96,925	44,038	600,695
Provision for bad debt	200,334	306,927	199,356	719,095	189,247	115,432	676,193	336,198	2,742,782
Amortization of ROU assets	327,534	2,366,351	990,271	617,267	1,295,960	728,545	1,870,976	705,331	8,902,235
Interest on lease liabilities	241,994	1,748,350	731,650	456,061	957,505	538,277	1,382,348	521,125	6,577,310
Depreciation	41,562	10,754	24,584	37,072	20,183	9,630	66,234	28,393	238,412
Property insurance	15,172	18,213	18,213	15,635	11,228	9,101	22,620	11,984	122,166
TOTAL OPERATING EXPENSES	10,030,696	14,314,105	11,651,654	10,720,902	9,850,775	7,694,108	17,239,635	10,653,623	92,155,498
LOSS FROM OPERATIONS	(1,891,225)	(4,066,176)	(2,845,410)	(1,622,205)	(1,474,732)	(1,791,732)	(2,562,471)	(1,577,098)	(17,831,049)
OTHER INCOME	3,332	3,951	2,794	3,014	21,171	4,547	24,484	7,033	70,326
NET LOSS	$ (1,887,893)	$ (4,062,225)	$ (2,842,616)	$ (1,619,191)	$ (1,453,561)	$ (1,787,185)	$ (2,537,987)	$ (1,570,065)	$ (17,760,723)

See independent auditors' report on supplementary information

GA8 TENANTS
COMBINING BALANCE SHEET
DECEMBER 31, 2022

ASSETS

	GACalhoun SNF LLC	GAChatsworth SNF LLC	GAFairburn SNF LLC	GADecatur SNF LLC	GACartersville SNF LLC	GAJasper SNF LLC	GAStone Mountain SNF LLC	Willowwood PAC LLC	Eliminations	TOTAL
CURRENT ASSETS										
Cash	$ 294,538	$ 772,355	$ 43,881	$ 1,248,746	$ 154,809	$ 123,365	$ 116,188	$ 1,293,440	$ —	$ 4,047,322
Patient accounts receivable, net	1,167,173	998,491	1,000,906	2,092,376	1,436,376	736,318	4,641,300	1,498,847	—	13,571,787
Intercompany receivables	1,410,434	728,794	1,387,432	1,504,148	311,284	15,997	(326,819)	712,397	(5,743,667)	—
Prepaid expenses and other current assets	203,579	68,018	73,977	132,981	60,555	76,785	216,444	96,721	—	929,060
Other receivables	2,220,469	626,111	338,574	28,779	609,759	38,167	511,810	320,521	—	4,694,190
Total current assets	5,296,193	3,193,769	2,844,770	5,007,030	2,572,783	990,632	5,158,923	3,921,926	(5,743,667)	23,242,359
NONCURRENT ASSETS										
Right-of-use asset, net	4,585,473	33,128,918	13,863,794	8,641,743	18,143,442	10,199,634	26,193,665	9,874,634	—	124,631,303
Property and equipment, net	139,843	25,006	44,789	94,726	38,787	20,448	84,272	63,209	—	511,080
Deposits	175,703	851,521	387,871	263,623	490,229	285,919	723,311	283,908	—	3,462,085
Total noncurrent assets	4,901,019	34,005,445	14,296,454	9,000,092	18,672,458	10,506,001	27,001,248	10,221,751	—	128,604,468
TOTAL ASSETS	$ 10,197,212	$ 37,199,214	$ 17,141,224	$ 14,007,122	$ 21,245,241	$ 11,496,633	$ 32,160,171	$ 14,143,677	$ (5,743,667)	$ 151,846,827
LIABILITIES AND MEMBERS' EQUITY (DEFICIT)										
CURRENT LIABILITIES										
Accounts payable	$ 1,004,217	$ 670,168	$ 1,302,182	$ 1,211,459	$ 997,282	$ 700,935	$ 1,809,788	$ 1,704,746	$ —	$ 9,400,775
Accrued payroll and benefits	36,747	83,660	50,618	50,920	61,001	35,431	67,726	52,488	—	438,591
Current lease liabilities	230,806	1,667,510	669,155	434,973	879,752	638,511	1,255,454	497,030	—	6,273,189
Intercompany payables	2,918,685	—	47,384	311,284	1,880,437	—	712,397	(126,520)	(5,743,667)	—
Total current liabilities	4,190,454	2,421,338	2,069,338	2,008,636	3,818,471	1,374,877	3,845,364	2,127,744	(5,743,667)	16,112,555
LONG-TERM LEASE LIABILITIES	4,588,908	32,796,015	13,724,481	8,554,905	17,961,124	10,097,140	25,930,453	9,775,406	—	123,428,432
MEMBERS' EQUITY (DEFICIT)	1,417,850	1,981,861	1,347,405	3,443,581	(534,354)	24,616	2,384,354	2,240,527	—	12,305,840
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 10,197,212	$ 37,199,214	$ 17,141,224	$ 14,007,122	$ 21,245,241	$ 11,496,633	$ 32,160,171	$ 14,143,677	$ (5,743,667)	$ 151,846,827

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GA8 TENANTS
COMBINING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2022

	GACalhoun SNF LLC	GAChatsworth SNF LLC	GAFairburn SNF LLC	GADecatur SNF LLC	GACartersville SNF LLC	GAJasper SNF LLC	GAStone Mountain SNF LLC	Willowwood PAC LLC	TOTAL
REVENUES									
Net patient service revenue	$ 7,025,557	$ 11,096,658	$ 9,223,563	$ 9,896,772	$ 8,918,861	$ 6,644,205	$ 14,923,171	$ 9,422,255	$ 77,151,042
COVID-19 Relief Funds revenue	164,962	288,697	164,962	164,962	164,963	164,962	164,962	168,012	1,446,482
	7,190,519	11,385,355	9,388,525	10,061,734	9,083,824	6,809,167	15,088,133	9,590,267	78,597,524
OPERATING EXPENSES									
Administrative and general services	1,149,119	1,437,006	1,573,565	1,698,887	1,104,270	941,228	2,103,834	1,242,478	11,250,387
Management services	406,406	601,133	495,511	549,235	488,129	376,645	817,640	485,198	4,219,897
Employee health and welfare	264,756	310,662	243,169	224,838	237,611	182,322	544,824	216,760	2,224,942
Plant operations	251,268	263,070	241,426	271,836	261,491	132,208	482,984	311,007	2,215,290
Dietary services	569,408	778,628	666,974	670,589	563,648	448,237	984,931	594,244	5,276,659
Housekeeping and laundry	202,700	344,527	225,924	298,427	269,093	231,532	377,316	250,954	2,200,473
Nursing services	2,592,783	3,452,398	3,892,260	3,611,919	2,690,121	2,877,724	5,203,621	3,542,837	27,863,663
Social services	44,949	49,156	32,544	—	—	33,713	90,300	40,310	290,972
Medical services	86,136	155,982	31,694	117,942	83,666	90,502	170,425	138,268	874,615
Rehabilitative therapies	783,321	977,446	1,291,734	987,476	981,728	793,954	1,598,068	1,093,977	8,507,704
Recreation	26,712	84,855	81,233	82,644	117,307	36,641	60,487	41,198	531,077
Provision for bad debt	237,924	306,664	215,574	297,688	172,231	136,452	531,012	256,309	2,153,854
Amortization of ROU assets	327,534	2,366,351	990,271	617,267	1,295,960	728,545	1,870,976	705,331	8,902,235
Interest on lease liabilities	251,791	1,819,126	761,271	474,523	996,266	560,067	1,438,308	542,221	6,843,573
Depreciation	28,434	10,261	9,576	31,190	11,152	7,062	33,138	18,198	149,011
Property insurance	12,089	15,589	13,633	10,403	13,734	10,534	20,665	22,166	118,813
TOTAL OPERATING EXPENSES	7,235,330	12,972,854	10,766,359	9,944,864	9,286,407	7,587,366	16,328,529	9,501,456	83,623,165
INCOME (LOSS) FROM OPERATIONS	(44,811)	(1,587,499)	(1,377,834)	116,870	(202,583)	(778,199)	(1,240,396)	88,811	(5,025,641)
OTHER INCOME									
Other Income	70,534	14,125	15,577	38,523	26,658	69,218	4,176	7,334	246,145
Gain on forgiveness of debt	407,600	519,500	407,600	502,700	377,800	278,800	721,400	596,900	3,812,300
Insurance proceeds from business interruption	949,006	—	—	—	—	—	—	—	949,006
TOTAL OTHER INCOME	1,427,140	533,625	423,177	541,223	404,458	348,018	725,576	604,234	5,007,451
NET INCOME (LOSS)	$ 1,382,329	$ (1,053,874)	$ (954,657)	$ 658,093	$ 201,875	$ (430,181)	$ (514,820)	$ 693,045	$ (18,190)

See independent auditors' report on supplementary information.