

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, 2020

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

Commission file number: 000-52566

**SUMMIT HEALTHCARE REIT, INC.**  
(Exact name of registrant as specified in its charter)

Maryland  
(State or other jurisdiction of  
incorporation or organization)

73-1721791  
(I.R.S. Employer  
Identification No.)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Ticker symbol(s)	Name of each exchange on which registered
N/A	N/A	N/A

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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.

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, 2020 (the last business day of the Registrant's second fiscal quarter), there were 23,027,978 shares of common stock held by non-affiliates of the Registrant. While there is no established trading market for the Registrant's shares of common stock, the last price paid to acquire a share in the Registrant's primary public offering, which was terminated on November 23, 2010, was \$8.00.

As of March 15, 2021 there were 23,027,978 shares of common stock of Summit Healthcare REIT, Inc. outstanding.

**SUMMIT HEALTHCARE REIT, INC.**  
**(A Maryland Corporation)**

**TABLE OF CONTENTS**

PART I

<a href="#">Item 1 Business</a>	<a href="#">2</a>
<a href="#">Item 1A Risk Factors</a>	<a href="#">8</a>
<a href="#">Item 1B Unresolved Staff Comments</a>	<a href="#">18</a>
<a href="#">Item 2 Properties</a>	<a href="#">19</a>
<a href="#">Item 3 Legal Proceedings</a>	<a href="#">20</a>
<a href="#">Item 4 Mine Safety Disclosures</a>	<a href="#">20</a>

PART II

<a href="#">Item 5 Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</a>	<a href="#">21</a>
<a href="#">Item 6 Selected Financial Data</a>	<a href="#">23</a>
<a href="#">Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">24</a>
<a href="#">Item 7A Quantitative and Qualitative Disclosures About Market Risk</a>	<a href="#">37</a>
<a href="#">Item 8 Financial Statements and Supplementary Data</a>	<a href="#">37</a>
<a href="#">Item 9 Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</a>	<a href="#">38</a>
<a href="#">Item 9A Controls and Procedures</a>	<a href="#">38</a>
<a href="#">Item 9B Other Information</a>	<a href="#">38</a>

PART III

<a href="#">Item 10 Directors, Executive Officers and Corporate Governance</a>	<a href="#">39</a>
<a href="#">Item 11 Executive Compensation</a>	<a href="#">41</a>
<a href="#">Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</a>	<a href="#">44</a>
<a href="#">Item 13 Certain Relationships and Related Transactions, and Director Independence</a>	<a href="#">45</a>
<a href="#">Item 14 Principal Accountant Fees and Services</a>	<a href="#">46</a>

PART IV

<a href="#">Item 15 Exhibits and Financial Statement Schedules</a>	<a href="#">47</a>
<a href="#">Item 16 Form 10-K Summary</a>	<a href="#">76</a>

## PART I

### SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

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

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

#### ITEM 1. BUSINESS

##### Our Company

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

We are self-managed and have employees to directly manage our operations. At December 31, 2020, we own a 99.88% general partner interest in the Operating Partnership while Cornerstone Realty Advisors, LLC (“CRA”), a former affiliate, owns a 0.12% limited partnership interest.

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

As of December 31, 2020, our ownership interests in our seven real estate properties of senior housing facilities was as follows: 100% ownership of three properties, and 95.3% ownership interest in four properties held in a consolidated joint venture, Cornerstone Healthcare Partners LLC. Additionally, we have a 10% equity interest in an unconsolidated equity-method investment that holds 17 properties, a 35% equity interest in an unconsolidated equity-method investment that holds two properties, a 20% equity interest in an unconsolidated equity-method investment that holds two properties, a 10% equity interest in an unconsolidated equity-method investment that holds nine properties, a 10% equity interest in an unconsolidated equity-method investment that holds six properties and a 15% equity interest in an unconsolidated equity-method investment that holds 14 properties.

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

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

#### ***Cornerstone Healthcare Partners LLC – Consolidated Joint Venture***

We own 95% of Cornerstone Healthcare Partners LLC (“CHP LLC”), which was formed in 2012, and the remaining 5% noncontrolling interest is owned by Cornerstone Healthcare Real Estate Fund, Inc. (“CHREF”), an affiliate of CRA. CHP LLC is consolidated within our financial statements and owns four properties (each, a “JV Property” and collectively, the “JV Properties”).

As of December 31, 2020 and 2019, we own a 95.3% interest in the four JV Properties, and CHREF owns a 4.7% interest. We also owned a 95% interest in the fifth JV Property, and CHREF owned a 5% interest in the fifth JV Property, which was sold in February 2019 (see Note 11 to the accompanying Notes to Consolidated Financial Statements).

#### ***Summit Union Life Holdings, LLC – Equity-Method Investment***

In April 2015, through our Operating Partnership, we entered into a limited liability company agreement (as amended, the “SUL LLC Agreement”) with Best Years, LLC (“Best Years”), an unrelated entity and a U.S.-based affiliate of Union Life Insurance Co, Ltd. (a Chinese corporation), and formed Summit Union Life Holdings, LLC (the “SUL JV”). The SUL JV is not consolidated in our consolidated financial statements and is accounted for under the equity-method in our consolidated financial statements. As of December 31, 2020 and 2019, we have a 10% interest in the SUL JV which owns 17 properties.

#### ***Summit Fantasia Holdings, LLC – Equity-Method Investment***

In September 2016, through our Operating Partnership, we entered into a limited liability company agreement (the “Fantasia LLC Agreement”) with Fantasia Investment III LLC (“Fantasia”), an unrelated entity and a U.S.-based affiliate of Fantasia Holdings Group Co., Limited (a Chinese corporation listed on the Stock Exchange of Hong Kong (HKEX)), and formed Summit Fantasia Holdings, LLC (the “Fantasia JV”). The Fantasia JV is not consolidated in our consolidated financial statements and is accounted for under the equity-method in our consolidated financial statements. As of December 31, 2020 and 2019, we have a 35% in the Fantasia JV which owns two properties.

#### ***Summit Fantasia Holdings II, LLC – Equity-Method Investment***

In December 2016, through our Operating Partnership, we entered into a limited liability company agreement (the “Fantasia II LLC Agreement”) with Fantasia, and formed Summit Fantasia Holdings II, LLC (the “Fantasia II JV”). The Fantasia II JV is not consolidated in our consolidated financial statements and is accounted for under the equity-method in the Company’s consolidated financial statements. As of December 31, 2020 and 2019, we have a 20% interest in the Fantasia II JV which owns two properties.

#### ***Summit Fantasia Holdings III, LLC – Equity-Method Investment***

In July 2017, through our Operating Partnership, we entered into a limited liability company agreement (“Fantasia III LLC Agreement”) with Fantasia and formed Summit Fantasia Holdings III, LLC (the “Fantasia III JV”). The Fantasia III JV is not consolidated in our consolidated financial statements and is accounted for under the equity-method in the Company’s consolidated financial statements. As of December 31, 2020 and 2019, we have a 10% interest in the Fantasia III JV which owns nine properties.

### ***Summit Fantasy Pearl Holdings, LLC – Equity-Method Investment***

In October 2017, through our Operating Partnership, we entered into a limited liability company agreement (“FPH LLC Agreement”) with Fantasia, Atlantis Senior Living 9, LLC, a Delaware limited liability company (“Atlantis”), and Fantasy Pearl LLC, a Delaware limited liability company (“Fantasy”), and formed Summit Fantasy Pearl Holdings, LLC (the “FPH JV”). The FPH JV is not consolidated in our consolidated financial statements and is accounted for under the equity-method in the Company’s consolidated financial statements. As of December 31, 2020 and 2019, we have a 10% interest in the FPH JV which owns six properties.

### ***Indiana JV – Equity-Method Investment***

In February 2019, through our wholly-owned subsidiary, Summit Indiana, LLC, we formed a new joint venture, a Delaware limited liability company (the “Indiana JV”). On March 13, 2019, we entered into a Limited Liability Company Agreement (the “Indiana JV Agreement”) with two unrelated parties: a real estate holding company and a global institutional asset management firm, both Delaware limited liability companies. The Indiana JV is not consolidated in our consolidated financial statements and is accounted for under the equity-method. As of December 31, 2020 and 2019, we have a 15% interest in the Indiana JV which owns 14 properties.

### ***Summit Healthcare Asset Management, LLC (TRS)***

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

### **Investment Strategy**

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

### **Acquisition Policies**

#### ***Primary Investment Focus***

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

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

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

#### ***Joint Ventures and Other Potential Investments***

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

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

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

### **Borrowing Policies**

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

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

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

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

### **Competition**

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

### **Government Regulations applicable to our Business**

#### ***Health Law Matters — Generally***

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

## ***Licensing and Certification***

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

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

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

## ***Reimbursement***

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

SNFs typically receive most of their revenues from the Medicare and Medicaid programs, with the balance representing payments from private payors, including private insurers. Consequently, changes in federal or state reimbursement policies may also adversely affect a tenant's ability to cover its expenses, 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.

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

#### ***Other Related Laws***

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

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

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

#### **Other information**

Our executive offices are located at 2 South Pointe Drive, Suite 100, Lake Forest, CA 92630. Our lease expires in April 2022 and covers approximately 4,100 square feet in a two-story office building. As of December 31, 2020, we have 10 full-time employees.

#### **Available Information**

Information about us is available on our website (<http://www.summithealthcarereit.com/>). We make available, free of charge on our internet website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with the Securities and Exchange Commission (“SEC”). Our filings with the SEC are available to the public over the internet at the SEC’s website at <http://www.sec.gov>.

## ITEM 1A. RISK FACTORS

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

### General Risks of the Company

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

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

We believe the value of our stock owned by our stockholders has declined substantially from the issue price. It may be difficult for our stockholders to sell their stock promptly or at all. If our stockholders are able to sell shares of stock, they may only be able to sell them at a substantial discount from the price they paid. This may be the result, in part, because the amount of funds available for investment was reduced by sales commissions, dealer manager fees, organization and offering expenses, and acquisition fees and expenses. As of December 31, 2020, our estimated per-share value of our common stock was \$2.90 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. It is also likely that their stock would not be accepted as the primary collateral for a loan. Stockholders should consider their stock as an illiquid investment, and they must be prepared to hold their stock for an indefinite period of time.

*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. Companies in the real estate industry have at times historically experienced limited availability of capital, and new capital sources may not be available on acceptable terms, if at all. We cannot be certain that sufficient funding will be available to us in the future on terms that are acceptable to us, if at all. If we cannot obtain sufficient funding on acceptable terms, or at all, we will not be able to operate and/or grow our business, which would likely have a negative impact on the value of our common stock and our ability to make distributions to our stockholders. In such an instance, a lack of sufficient liquidity would have a material adverse impact on our operations, cash flow, financial condition and our ability to continue as a going concern. We may be required to pursue certain measures in order to maintain or enhance our liquidity, including seeking the extension or replacement of our debt facilities, potentially selling assets at unfavorable prices and/or reducing our operating expenses. We cannot assure you that we will be successful in managing our liquidity.

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

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

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

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

***Cash distributions to our stockholders may 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.

***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.

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

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

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

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

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

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

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

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

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

*Costs incurred in complying with governmental laws and regulations or discovery of environmentally hazardous conditions may reduce our net income and cash to operate our business.*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### **Risks Related to Investments in Healthcare-Related Real Estate**

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

There have been and continue to be proposals by the federal government, state governments, regulators and third-party payors to control healthcare costs and, more generally, to reform the U.S. healthcare system. Our results of operations may be adversely affected by current and potential future healthcare reforms as our tenants' operations could be affected impacting their ability to meet their lease obligations to us.

Federal and state legislatures, health agencies and third-party payors continue to focus on containing the cost of healthcare. Legislative and regulatory proposals and enactments to reform healthcare insurance programs could significantly impact our properties and the manner in which our tenants are paid. For example, provisions of the PPACA, also known as “Obamacare,” have resulted in changes in the way healthcare is paid for by both governmental and private insurers. These changes have had, and are expected to continue to have, a significant impact on our business. In 2021, we may face uncertainties as a result of likely federal and administrative efforts to repeal, substantially modify or invalidate some or all of the provisions of the PPACA. There is no assurance that the PPACA, as currently enacted or as amended in the future, will not adversely affect our business and financial results, and we cannot predict how future federal or state legislative or administrative changes relating to healthcare reform will affect our business.

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

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

The healthcare service industry may be affected by the following:

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

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

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

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

Effective October 1, 2019, the current SNF PPS (RUG-IV) system was replaced with a new method for calculating reimbursement, the Patient-Driven Payment Model (PDPM). Under PDPM, therapy minutes are removed as the basis for payment in favor of resident classifications and anticipated resource needs during the course of a patient's stay. PDPM assigns every resident a case-mix classification that drives the daily reimbursement rate for that individual. Thus far, PDPM has not 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 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.

On October 7, 2020, a receiver assumed the responsibilities of operating and managing the health facility (the "Pennington Gardens Facility") owned by our wholly owned subsidiary Summit Chandler, LLC ("Summit Chandler") in Chandler, Arizona. Summit Chandler financed the Pennington Gardens Facility through a U.S. Department of Housing and Urban Development loan (the "Chandler HUD Loan"). If the receivership is not successful in operating and managing the Pennington Gardens Facility, including the full and timely payment of rent to Summit Chandler, we may not be able to meet all of our obligations under the Chandler HUD Loan. Additionally, failure of the receiver to successfully operate and manage the Pennington Gardens Facility may result in the diminution of the value of our investment in the Pennington Gardens Facility, and either such event could adversely impact our results of operations and cash flow.

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

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

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

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

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

***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. Such a crisis could diminish the public trust in healthcare facilities, especially facilities that fail to accurately or timely diagnose, or other facilities such as those where our tenants that are treating, have treated or otherwise have residents affected by these contagious diseases. If any of those residents or staff contracted such a contagious disease at one of our facilities, other residents or prospective residents might decline to use such facilities. Any of our tenants' infectious disease plans or policies 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.

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

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

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

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

## **Risks Associated with Financing**

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

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

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

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

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

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

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

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

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

#### **Federal Income Tax Risks**

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

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

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

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

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

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

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

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

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

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

***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 2. PROPERTIES

As of December 31, 2020, our portfolio consisted of seven properties, three of which we own 100%, and four of which we own through a 95.3% interest in CHP LLC. All of the properties are 100% leased on a triple net basis. The following table (excluding the 50 properties held by our unconsolidated Equity-Method Investments) provides summary information regarding these properties:

Property	Location	Date Purchased	Type <sup>(1)</sup>	Purchase Price	Loans Payable, Excluding Debt Issuance Costs	Number of Beds
Sheridan Care Center	Sheridan, OR	August 3, 2012	SNF	\$ 4,100,000	\$ 4,330,000	51
Fernhill Care Center	Portland, OR	August 3, 2012	SNF	4,500,000	3,798,000	63
Friendship Haven Healthcare and Rehabilitation Center	Galveston County, TX	September 14, 2012	SNF	15,000,000	11,746,000	150
Pacific Health and Rehabilitation Center	Tigard, OR	December 24, 2012	SNF	8,140,000	6,332,000	73
Brookstone of Aledo	Aledo, IL	July 2, 2013	AL	8,625,000	6,859,000	66
Sundial Assisted Living	Redding, CA	December 18, 2013	AL	3,500,000	3,792,000	65
Pennington Gardens	Chandler, AZ	July 17, 2017	AL/MC	13,400,000	10,330,000	90
Total:				<u>\$ 57,265,000</u>	<u>\$ 47,187,000</u>	<u>558</u>

(1) SNF is an abbreviation for skilled nursing facility.

AL is an abbreviation for assisted living facility.

MC is an abbreviation for memory care facility.

See Note 11 to the accompanying Notes to Consolidated Financial Statements regarding the sale of our four properties located in North Carolina in 2019.

### Portfolio Lease Expirations

The following table sets forth lease expiration information for the ten years and thereafter following December 31, 2020. We expect that, prior to maturity, we will negotiate new terms of a lease to either the current tenant or another qualified operator.

Year Ending December 31	No. of Leases Expiring	Base Rent In Final Year of Expiring Leases (Annual \$)	Percent of Total Leasable Area Expiring (%)	Percent of Total Annual Base Rent Expiring (%)
2023	1	\$ 444,000	10.5%	6.7%
2027	1	1,538,000	23.2%	23.4%
2029	3	2,418,000	21.3%	36.7%
2030 -2032	2	2,181,000	45.0%	33.2%
	<u>7</u>	<u>\$ 6,581,000</u>	<u>100.0%</u>	<u>100.0%</u>

**ITEM 3. LEGAL PROCEEDINGS**

See Note 9 to the accompanying Notes to Consolidated Financial Statements for a summary of our material legal proceedings.

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, 2020, the estimated common stock per-share value is \$2.90 per share, adjusted from the previous estimated common stock per-share value of \$2.82 established on December 31, 2019. The estimated value per share was based on the methodologies and assumptions described further below. The estimated per-share value determined below neither represents the fair value according to U.S. generally accepted accounting principles ("GAAP") of our assets less liabilities, nor does it represent the amount our shares would trade at on a national securities exchange or the amount a stockholder would obtain if he or she tried to sell his or her shares or if we liquidated our assets.

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

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

Our December 31, 2020 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, 2020. 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 2020 lease payments and applied the current market lease rates for each asset type to determine fair market value of our properties.

*Loans Payable.* We reduced the fair value of our investments by the total amount due of our loans payable based on the current book value at December 31, 2020.

*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 after applying our ownership percentage in the individual equity-method investments.

Our estimated per-share value was calculated as follows:

	<b>December 31, 2020</b>
Investments in real estate	\$ 2.97
Loans payable	(2.00)
Other assets and liabilities, net	0.83
Equity-Method Investments value	1.10
Estimated net asset value per-share value	\$ 2.90
Estimated enterprise value premium	None applied
Estimated liquidity discount	None applied
Total estimated per-share value	<u>\$ 2.90</u>

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

Our board of directors reviewed the report prepared by management which recommended an estimated per-share value, and considering all information provided in light of its own knowledge regarding our assets and unanimously agreed upon an estimated value of \$2.90 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:

2020	\$ 2.90
2019	\$ 2.82
2018	\$ 2.83
2017	\$ 2.80
2016	\$ 2.53

#### **Stockholders**

As of March 15, 2021 we had approximately 23.0 million shares of common stock outstanding held by 4,409 stockholders of record.

#### **Funds from Operations**

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

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

The following is the reconciliation from net income (loss) applicable to common stockholders, the most direct comparable financial measure calculated and presented with GAAP, to FFO for the years ended December 31, 2020 and 2019:

	<b>Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Net (loss) income applicable to common stockholders (GAAP)	\$ (613,000)	\$ 3,113,000
<b>Adjustments:</b>		
Depreciation and amortization	1,667,000	1,750,000
Depreciation and amortization related to noncontrolling interests	(40,000)	(42,000)
Depreciation related to Equity-Method Investments	2,226,000	2,050,000
Gain on sale of real estate properties	-	(4,274,000)
Funds provided by operations (FFO) applicable to common stockholders	<u>\$ 3,240,000</u>	<u>\$ 2,597,000</u>
Weighted-average number of common shares outstanding – basic	23,027,978	23,027,978
FFO per weighted average common shares - basic	\$ 0.14	\$ 0.11
Weighted-average number of common shares outstanding – diluted	23,027,978	23,506,478
FFO per weighted average common shares - diluted	\$ 0.14	\$ 0.11

#### **Recent Sales of Unregistered Securities**

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

#### **Equity Compensation Plans**

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

#### **ITEM 6. SELECTED FINANCIAL DATA**

Not applicable.

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

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

### Overview

As of December 31, 2020, our ownership interests in our seven real estate properties of senior housing facilities was as follows: 100% ownership of three properties and a 95.3% interest in four properties in a consolidated joint venture, Cornerstone Healthcare Partners LLC. Additionally, we have a 10% interest in an unconsolidated equity-method investment that owns 17 properties, a 35% equity interest in an unconsolidated equity-method investment that holds two properties, a 20% equity interest in an unconsolidated equity-method investment that holds two properties, a 10% equity interest in an unconsolidated equity-method investment that holds nine properties, a 10% equity interest in an unconsolidated equity-method investment that holds six properties and a 15% equity interest in an unconsolidated equity-method investment that holds 14 properties (collectively, our "Equity-Method Investments"). As used in this report, the "Company," "we," "us" and "our" refer to Summit Healthcare REIT, Inc. and its consolidated subsidiaries, except where the context otherwise requires.

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

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

### Coronavirus (COVID-19)

Since first being reported in December 2019, COVID-19 has spread globally, including to every state in the United States and more than 200 countries. It has been reported that COVID-19 appears most dangerous for seniors, and the mortality rate increases with age. Some of the properties in which we have an interest are located in states that have seen or are currently seeing a high level of COVID-19 infections. The occupancy at our properties could significantly decrease if COVID-19 or another public health outbreak results in resident deaths, early resident move-outs, a delay accepting new residents due to quarantines or otherwise, or potential residents postpone moving to a senior housing facility. A decrease in occupancy or increase in costs is likely to have a material adverse effect on the ability of our tenants to meet their financial and other contractual obligations to us, including the payment of rent. This may result in a material adverse effect on our cash flow and results of operations. In addition, actions our tenants have taken and are expected to continue to take to address COVID-19, increased their operating costs, including costs related to enhanced health and safety precautions among other measures, which could also have a material adverse effect on the ability of our tenants to meet their financial and other contractual obligations to us, including the payment of rent. Furthermore, infections at our facilities could lead to material increases in litigation costs for which our tenants, or possibly we, may be liable. We have not seen a material impact on rental revenue from any of our consolidated properties or debt payments from borrowers on notes receivable. Some of our Equity-Method Investment tenants have experienced decreased occupancy and increased operating costs related to COVID-19, however, this has not had a material effect on our operations. If these types of developments continue or increase in severity, or arise with more frequency, they are likely to have a material adverse effect on our business and results of operations. The extent to which COVID-19 could impact our business and results of operations will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information that may emerge concerning the severity of COVID-19 and the actions taken to contain COVID-19 or treat its impact, among others.

The healthcare industry was among those most adversely affected by the COVID-19 pandemic. During 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act was created to provide approximately \$2.1 trillion in direct economic stimulus assistance to business owners to help maintain on-going operations. Federally funded grants and forgivable loan programs under the CARES Act have become available to those operators and businesses that qualify. These programs include the Paycheck Protection Program (PPP), a SBA-backed loan program that helps businesses keep their workforce employed during the COVID-19 crisis with a forgivable loan feature if certain qualifications are met. The Department of Health and Human Service's Provider Relief Fund (HHS) is a fund distributing \$150 billion to hospitals and healthcare providers on the front line of the COVID-19 outbreak. Also, the Treasury's Coronavirus Relief Fund (CRF) provides \$150 billion federal funded grants to individual states and local agencies to disburse to its providers that meet relevant COVID-related criteria. The skilled nursing and assisted living operators in the Company's portfolio have been able to benefit from these federal and state government assistance programs.

The Centers for Disease Control and Prevention ("CDC") recommends that healthcare personnel and residents of long-term care facilities, including SNF, AL, and MC facilities, be included among those offered the first supply of the COVID-19 vaccines. Many of our consolidated and Equity Method Investments facilities have administered the vaccine to residents and employees. It is too early to assess the total effect of the vaccinations on the industry, but it is believed they will help save the lives of those who are most at risk, as well as lessen the operational and financial burden on our facilities and their employees.

### Summit Portfolio Properties

At December 31, 2020, our portfolio consisted of seven real estate properties as noted above. All of the properties are 100% leased on a triple net basis. The following table provides summary information (excluding the 50 properties held by our unconsolidated Equity-Method Investments) regarding these properties as of December 31, 2020:

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

Property	Location	Date Purchased	Type	Beds	2020 Rental Revenue <sup>1</sup>
Sheridan Care Center	Sheridan, OR	August 3, 2012	SNF	51	\$ 492,000
Fernhill Care Center	Portland, OR	August 3, 2012	SNF	63	525,000
Friendship Haven Healthcare and Rehabilitation Center	Galveston County TX	September 14, 2012	SNF	150	1,412,000
Pacific Health and Rehabilitation Center	Tigard, OR	December 24, 2012	SNF	73	968,000
Brookstone of Aledo	Aledo, IL	July 2, 2013	AL	66	765,000
Sundial Assisted Living	Redding, CA	December 18, 2013	AL	65	395,000
Pennington Gardens	Chandler, AZ	July 17, 2017	AL/MC	90	1,111,000
Total				558	

<sup>1</sup> Represents year-to-date rental revenue based on in-place leases, including straight-line rent, through December 31, 2020 and excluding \$780,000 in tenant reimbursement revenue.

See Note 11 to the accompanying Notes to Consolidated Financial Statements regarding the sale of our four properties located in North Carolina in 2019.

In October 2020, under a court order, a receiver assumed the responsibilities of operating and managing the Pennington Gardens facility in Chandler, Arizona. Based upon need and request, we may provide rent relief, either in the form of a temporary rent reduction to be paid back over time or permanent abatement of rent for a specific time period. No relief has been requested as of December 31, 2020.

### ***Summit Equity-Method Investment Portfolio Properties***

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

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

<b>Condensed Combined Balance Sheets:</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Total Assets	\$ 415,591,000	\$ 421,268,000
Total Liabilities	\$ 324,414,000	\$ 318,150,000
Members Equity:		
Summit	\$ 11,489,000	\$ 13,245,000
JV Partners	\$ 79,688,000	\$ 89,873,000
Total Members Equity	\$ 91,177,000	\$ 103,118,000

  

<b>Condensed Combined Statements of Income:</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Total Revenue:	\$ 49,221,000	\$ 46,044,000
Net Operating Income	\$ 38,371,000	\$ 36,730,000
Income from Operations	\$ 23,608,000	\$ 22,441,000
Net Income	\$ 4,939,000	\$ 1,955,000
Summit equity interest in Equity-Method Investments net income	\$ 555,000	\$ 184,000
JV Partners interest in Equity-Method Investments net income	\$ 4,384,000	\$ 1,771,000

### ***Summit Union Life Holdings, LLC***

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

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

The following reconciles our 10% equity investment in the SUL JV from inception through December 31, 2020:

JV 2 Properties (Colorado, Oregon and Virginia) – April 2015	\$ 1,059,000
Creative Properties (Texas) – October 2015	837,000
Cottage Properties (Wisconsin) – December 2015	613,000
Riverglen (New Hampshire) – April 2016	424,000
Delaware Properties – September 2016	1,846,000
Total investments	<u>4,779,000</u>
Income from equity-method investee	1,312,000
Distributions	(3,441,000)
<b>Total investment at December 31, 2020</b>	<b><u>\$ 2,650,000</u></b>

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

<b>Condensed Consolidated Balance Sheets of SUL JV:</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Real estate properties and intangibles, net	\$ 129,793,000	\$ 135,038,000
Cash and cash equivalents	6,548,000	4,928,000
Other assets	11,932,000	10,882,000
<b>Total Assets:</b>	<b><u>\$ 148,273,000</u></b>	<b><u>\$ 150,848,000</u></b>
Loans payable, net	\$ 104,552,000	\$ 106,049,000
Other liabilities	9,115,000	7,268,000
Members' equity:		
Best Years	31,841,000	34,245,000
Summit	2,765,000	3,286,000
<b>Total Liabilities and Members' Equity</b>	<b><u>\$ 148,273,000</u></b>	<b><u>\$ 150,848,000</u></b>

<b>Condensed Consolidated Statements of Income of SUL JV:</b>	<b>Year Ended December 31, 2020</b>	<b>Year Ended December 31, 2019</b>
Total revenue	\$ 18,247,000	\$ 18,295,000
Property operating expenses	(4,685,000)	(4,323,000)
<b>Net operating income</b>	<b><u>13,562,000</u></b>	<b><u>13,972,000</u></b>
General and administrative expense	(401,000)	(404,000)
Depreciation and amortization expense	(5,330,000)	(5,717,000)
<b>Income from operations</b>	<b><u>7,831,000</u></b>	<b><u>7,851,000</u></b>
Interest expense	(4,748,000)	(5,451,000)
Amortization of deferred financing costs	(213,000)	(264,000)
Other income (expense)	595,000	(852,000)
<b>Net income</b>	<b><u>\$ 3,465,000</u></b>	<b><u>\$ 1,284,000</u></b>
Summit equity interest in SUL JV net income	<u>\$ 346,000</u>	<u>\$ 128,000</u>

As of December 31, 2020, the 17 properties held by SUL JV, our unconsolidated 10% equity-method investment, 15 of which are leased on a triple net basis, and are as follows:

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

#### ***Equity-Method Partner - Fantasia Investment III LLC***

In 2016 and 2017, through our Operating Partnership, we entered into three separate limited liability company agreements (collectively, the “Fantasia Agreements”) with Fantasia Investment III LLC (“Fantasia”), an unrelated entity and a U.S.-based affiliate of Fantasia Holdings Group Co., Limited (a Chinese corporation listed on the Stock Exchange of Hong Kong (HKEX)), and formed three separate companies, Summit Fantasia Holdings, LLC (“Fantasia I”), Summit Fantasia Holdings II, LLC (“Fantasia II”) and Summit Fantasia Holdings III, LLC (“Fantasia III”) (collectively, the “Fantasia JVs”). The Fantasia JVs are not consolidated in our consolidated financial statements and are accounted for under the equity-method in the Company’s consolidated financial statements. Through the Fantasia JVs, we own a 35% interest in two senior housing facilities, one located in California and one located Oregon; a 20% interest in two skilled nursing facilities located in Rhode Island; and a 10% interest in nine skilled nursing facilities located in Connecticut.

Under the Fantasia Agreements, net operating cash flow of the Fantasia JVs will be distributed monthly, first to the Operating Partnership and Fantasia *pari passu* (8% for Fantasia I and II and 9% for Fantasia III) until each member has received an amount equal to its accrued, but unpaid return, and thereafter 50% to Fantasia and 50% to the Operating Partnership for Fantasia I, 70% to Fantasia and 30% to the Operating Partnership for Fantasia II, and 75% to Fantasia and 25% to the Operating Partnership for Fantasia III. All capital proceeds from the sale of the properties held by the Fantasia JVs, a refinancing or another capital event, will be paid first to the Operating Partnership and Fantasia *pari passu* as noted above until each has received an amount equal to its accrued but unpaid return plus its total capital contribution, and thereafter to Fantasia and to the Operating Partnership, as noted above.

The following reconciles our equity investments in the Fantasia JVs from inception through December 31, 2020:

Summit Fantasia Holdings, LLC – October 2016	\$ 2,524,000
Summit Fantasia Holdings II, LLC – February 2017	\$ 1,923,000
Summit Fantasia Holdings III, LLC – August 2017	\$ 1,953,000
Total investment	6,400,000
Income from Fantasia JVs	1,035,000
Distributions	(2,411,000)
<b>Total Fantasia investments at December 31, 2020</b>	<b>\$ 5,024,000</b>

A summary of the consolidated financial data for the balance sheets and statements of income for the unconsolidated Fantasia JVs, of which we own a 10% to 35% equity interest, is as follows:

<b>Condensed Combined Balance Sheets of Fantasia JVs:</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Real estate properties, net	\$ 101,351,000	\$ 104,244,000
Cash and cash equivalents	7,497,000	5,893,000
Other assets	6,526,000	4,423,000
<b>Total Assets:</b>	<b>\$ 115,374,000</b>	<b>\$ 114,560,000</b>
Loans payable, net	\$ 75,661,000	\$ 75,830,000
Other liabilities	8,359,000	6,835,000
Members' equity:		
Fantasia JVs	26,330,000	26,691,000
Summit	5,024,000	5,204,000
<b>Total Liabilities and Members' Equity</b>	<b>\$ 115,374,000</b>	<b>\$ 114,560,000</b>

<b>Condensed Combined Statements of Income of Fantasia JVs:</b>	<b>Year Ended December 31, 2020</b>	<b>Year Ended December 31, 2019</b>
Total revenue	\$ 15,651,000	\$ 14,721,000
Property operating expenses	(5,659,000)	(4,466,000)
<b>Net operating income</b>	<b>9,992,000</b>	<b>10,255,000</b>
General and administrative expense	(436,000)	(478,000)
Depreciation and amortization expense	(2,907,000)	(2,906,000)
<b>Income from operations</b>	<b>6,649,000</b>	<b>6,871,000</b>
Interest expense	(3,803,000)	(4,520,000)
Amortization of debt issuance costs	(247,000)	(332,000)
Other income (expense)	133,000	(109,000)
<b>Net income</b>	<b>\$ 2,732,000</b>	<b>\$ 1,910,000</b>
Summit equity interest in Fantasia JVs net income	\$ 358,000	\$ 205,000

As of December 31, 2020, the 13 properties in Fantasia JVs, our unconsolidated equity-method investments, are all 100% leased on a triple net basis, and are as follows:

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

#### **Summit Fantasy Pearl Holdings, LLC**

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

In November 2017, through the FPH JV, we acquired a 10% interest in six senior housing facilities, located in Iowa. The FPH JV paid a total aggregate purchase price of \$29.5 million for the properties, which was funded through capital contributions from the members of the FPH JV plus the proceeds from a collateralized loan. The facilities consist of a total of 511 licensed beds, and are operated by and leased to a third party operator.

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

The following reconciles our equity investment in the FPH JV from inception through December 31, 2020:

Iowa properties – November 2017	\$ 929,000
Total investment	929,000
Loss from equity-method investee	(114,000)
Distributions	(570,000)
<b>Total Fantasia investments at December 31, 2020</b>	<b>\$ 245,000</b>

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

<b>Condensed Consolidated Balance Sheets of FPH JV:</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Real estate properties, net	\$ 26,068,000	\$ 27,296,000
Cash and cash equivalents	1,430,000	1,186,000
Other assets	1,079,000	784,000
<b>Total Assets:</b>	<b>\$ 28,577,000</b>	<b>\$ 29,266,000</b>
Loans payable, net	\$ 21,195,000	\$ 21,600,000
Other liabilities	3,407,000	1,796,000
Members' equity:		
Fantasia JVs	3,730,000	5,407,000
Summit	245,000	463,000
<b>Total Liabilities and Members' Equity</b>	<b>\$ 28,577,000</b>	<b>\$ 29,266,000</b>

<b>Condensed Consolidated Statements of Operations of FPH JV:</b>	<b>Year Ended December 31, 2020</b>	<b>Year Ended December 31, 2019</b>
Total revenue	\$ 3,537,000	\$ 3,564,000
Property operating expenses	(485,000)	(512,000)
<b>Net operating income</b>	<b>3,052,000</b>	<b>3,052,000</b>
General and administrative expense	(143,000)	(147,000)
Depreciation and amortization expense	(1,228,000)	(1,228,000)
<b>Income from operations</b>	<b>1,681,000</b>	<b>1,677,000</b>
Interest expense	(1,035,000)	(1,479,000)
Amortization of debt issuance costs	(62,000)	(414,000)
Other expense	(1,363,000)	(507,000)
<b>Net loss</b>	<b>\$ (779,000)</b>	<b>\$ (723,000)</b>
<b>Summit equity interest in FPH JV net loss</b>	<b>\$ (78,000)</b>	<b>\$ (72,000)</b>

As of December 31, 2020, the six properties of our unconsolidated equity-method investments in FPH JV, all of which are 100% leased on a triple net basis, are as follows:

<b>Property</b>	<b>Location</b>	<b>Type</b>	<b>Number of Beds</b>
Accura Healthcare of Bancroft	Bancroft, Iowa	SNF/AL	50
Accura Healthcare of Milford	Milford, Iowa	SNF/AL	94
Accura Healthcare of Carroll	Carroll, Iowa	SNF/IL	124
Accura Healthcare of Cresco	Cresco, Iowa	SNF	59
Accura Healthcare of Marshalltown	Marshalltown, Iowa	SNF	86
Accura Healthcare of Spirit Lake	Spirit Lake, Iowa	SNF	98
Total:			<u>511</u>

#### **Indiana JV**

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

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

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

The following reconciles our equity investment in the Indiana JV from inception through December 31, 2020:

Indiana properties – March 2019	\$ 4,908,000
Total investment	4,908,000
Loss from equity-method investee	(149,000)
Distributions	(1,304,000)
<b>Total Indiana JV investment at December 31, 2020</b>	<b>\$ 3,455,000</b>

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

<b>Condensed Consolidated Balance Sheets of Indiana JV:</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Real estate properties, net	\$ 115,438,000	\$ 122,343,000
Cash and cash equivalents	3,528,000	3,137,000
Other assets	4,401,000	1,114,000
<b>Total Assets:</b>	<b>\$ 123,367,000</b>	<b>\$ 126,594,000</b>
Loans payable, net	\$ 95,633,000	\$ 95,329,000
Other liabilities	6,492,000	3,443,000
Members' equity:		
Indiana JV	17,787,000	23,530,000
Summit	3,455,000	4,292,000
<b>Total Liabilities and Members' Equity</b>	<b>\$ 123,367,000</b>	<b>\$ 126,594,000</b>

<b>Condensed Consolidated Statements of Operations of Indiana JV:</b>	<b>Year Ended December 31, 2020</b>	<b>Period Ended December 31, 2019</b>
Total revenue	\$ 11,786,000	\$ 9,464,000
Property operating expenses	(21,000)	(13,000)
<b>Net operating income</b>	<b>11,765,000</b>	<b>9,451,000</b>
General and administrative expense	(703,000)	(548,000)
Depreciation and amortization expense	(3,615,000)	(2,861,000)
<b>Income from operations</b>	<b>7,447,000</b>	<b>6,042,000</b>
Interest expense	(7,622,000)	(6,317,000)
Amortization of debt issuance costs	(304,000)	(241,000)
<b>Net loss</b>	<b>\$ (479,000)</b>	<b>\$ (516,000)</b>
<b>Summit equity interest in Indiana JV net loss</b>	<b>\$ (71,000)</b>	<b>\$ (77,000)</b>

As of December 31, 2020, the 14 properties of our unconsolidated equity-method investments in Indiana JV, all of which are 100% leased on a triple net basis, are as follows:

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

#### *Distributions from Equity-Method Investments*

For the years ended December 31, 2020 and 2019, we recorded distributions and cash received for distributions from our Equity-Method Investments as follows:

	<b>Years Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Distributions</b>	\$ 2,311,000	\$ 1,831,000
<b>Cash received for distributions</b>	\$ 1,620,000	\$ 1,667,000

#### *Acquisition and Asset Management Fees*

We serve as the manager of our Equity-Method Investments and provide management services in exchange for fees and reimbursements. As the manager, we are paid an acquisition fee, as defined in the agreements. Additionally, we are paid an annual asset management fee for managing the properties owned by our Equity-Method Investments, as defined in the agreements. For the years ended December 31, 2020 and 2019, we recorded approximately \$1.3 million and \$1.2 million, respectively, in acquisition and asset management fees.

#### *Results of Operations*

Our results of operations are described below:

*Year Ended December 31, 2020 Compared to Year Ended December 31, 2019*

	Years Ended December 31,		\$ Change
	2020	2019	
Total rental revenues	\$ 6,448,000	\$ 6,862,000	\$ (414,000)
Less expenses:			
Property operating costs	(947,000)	(862,000)	(85,000)
Net operating income <sup>(1)</sup>	5,501,000	6,000,000	(499,000)
Acquisition and asset management fees	1,312,000	1,174,000	138,000
Interest income from notes receivable	27,000	29,000	(2,000)
General and administrative	(4,063,000)	(4,476,000)	413,000
Depreciation and amortization	(1,667,000)	(1,750,000)	83,000
Income from equity-method investees	555,000	184,000	371,000
Other income	58,000	207,000	(149,000)
Interest expense	(2,280,000)	(2,612,000)	332,000
Gain on sale of real estate properties	-	4,274,000	(4,274,000)
Net (loss) income	(557,000)	3,030,000	(3,587,000)
Noncontrolling interests' share in net (income) loss	(56,000)	83,000	(139,000)
Net loss (income) applicable to common stockholders	\$ (613,000)	\$ 3,113,000	\$ (3,726,000)

(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 less property operating costs. NOI excludes acquisition and asset management fees, interest income from notes receivable, general and administrative expense, depreciation and amortization, income from equity-method investees, other income, interest expense, and gain on sale of real estate. 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. Property operating costs include insurance, property taxes and other operating expenses. Net operating income decreased \$0.5 million for the year ended December 31, 2020 compared to the year ended December 31, 2019 primarily due to the sale of our four NC Properties (see Note 11 to the accompanying Notes to Consolidated Financial Statements).

The net increase in acquisition and asset management fees of \$0.1 million is primarily due to the increase in asset management fees related to our investment in the Indiana JV which was acquired in March 2019.

The net decrease in general and administrative expenses of \$0.4 million is primarily due to a decrease in executive bonuses of approximately \$0.5 million and stock-based compensation of \$0.1 million offset by an increase in legal and other professional expenses of approximately \$0.2 million.

The net decrease in depreciation and amortization and interest expense for the year ended December 31, 2020 compared to the year ended December 31, 2019 is primarily due to the sale of our four NC Properties (see Note 11 to the accompanying Notes to Consolidated Financial Statements).

The net increase in income from equity-method investees of approximately \$0.4 million is primarily due to the following transactions in 2019: (i) refinancing of the FPH JV properties and the related write-off of fees and deferred financing costs from the previous lender; (ii) the termination of two leases in our JV properties; and (iii) the write-off of certain costs associated with those lease terminations. Additionally, we have benefited from the decline in applicable interest rates on the loans with variable interest rates in 2020.

The gain on sale of real estate properties is due to the sale of our four NC Properties in 2019 (see Note 11 to the accompanying Notes to Consolidated Financial Statements).

### **Liquidity and Capital Resources**

As of December 31, 2020, we had approximately \$14.7 million in cash and cash equivalents on hand. Based on current conditions, we believe that we have sufficient capital resources to sustain operations.

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

We pursued options for refinancing debt obligations with long-term, fixed rate U.S. Department of Housing and Urban Development (“HUD”)-insured loans. In April 2020 and 2019 and September 2018, , we refinanced our remaining outstanding loans with HUD-insured loans that mature between 2053 and 2055, respectively.

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.

### ***CARES Act***

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act was enacted and was modified in December 2020 (the “CARES Act”). The CARES Act is a stimulus package that provides various forms of relief through, among other things, grants, loans and tax incentives to certain businesses and individuals. In particular, the CARES Act created an emergency lending facility known as the Paycheck Protection Program (PPP), which is administered by the Small Business Administration (SBA) and provides federally insured and, in some cases, forgivable loans to certain eligible businesses so that those businesses can continue to cover certain of their near-term operating expenses and retain employees. We did not obtain a PPP loan. We have evaluated the CARES Act and determined that there was no impact to the Company for the year ended December 31, 2020. We will continue to evaluate and monitor the CARES Act, and any new COVID-19-related legislation to determine the ultimate impact and benefits, if any, to the Company.

### ***Credit Facilities and Loan Agreements***

As of December 31, 2020, we had debt obligations of approximately \$47.2 million. The outstanding balance by loan agreement is as follows:

- Capital One Multifamily Finance, LLC (HUD-insured) – approximately \$10.3 million maturing September 2053
- Lument Capital (formerly ORIX Real Estate Capital, LLC) (HUD-insured) – approximately \$36.9 million maturing from September 2039 through April 2055

As of December 31, 2020, 100% of our total debt obligations were under fixed interest rates.

### ***Debt Service Requirements***

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

## **Other Liquidity Needs**

### *Off-Balance Sheet Arrangements*

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

### *Inflation*

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

## **Subsequent Events**

None.

## **Critical Accounting Policies and Estimates**

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

### *Real Estate Purchase Price Allocation and Useful Lives*

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

### *Impairment of Real 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 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 property exceeds the fair value of the property. A change in any one or more of these factors could materially impact whether a property is impaired as of any given valuation date.

We did not record any impairment charges during the years ended December 31, 2020 or 2019 for properties held and used.

#### *Revenue Recognition*

We collect rent from our tenants based on our lease agreements. We recognize revenues on an accrual basis as earned. Revenue from minimum lease payments under our leases is recognized on a straight-line basis to the extent that future lease payments are considered collectible. Tenant reimbursements are included within rental revenues and are based on the actual property tax and insurance incurred for the properties. Acquisition fees arise from contractual agreements with our joint venture partners and are earned and paid at the time we close an acquisition, therefore, satisfying our performance obligations at that time. We earn our asset management fees based on a percentage of the purchase price or equity raised. As the manager, our duty is to manage the day-to-day operations of the special-purpose entities which own the properties. Asset management fees are recognized as a single performance obligation (managing the properties) comprised of a series of distinct services (handling issues with our tenants, etc.). We believe that the overall service of asset management is substantially the same each day and has the same pattern of performance over the term of the agreement. As a result, each day of service represents a performance obligation satisfied at that point in time. These fees are recognized at the end of each period for services performed during that period, billed monthly and paid quarterly.

#### *Equity-Method Investments*

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

We evaluate our equity-method investments for impairment whenever events or changes in circumstances indicate that the carrying value of our investments may be other than temporarily impaired and when the carrying value may exceed the fair value. No events or changes have occurred as of December 31, 2020 and 2019 that would affect the carrying value of our equity-method investments.

#### *Income Taxes*

We have elected to be taxed as a REIT for federal income tax purposes beginning with our taxable year ended December 31, 2006. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to currently distribute at least 90% of the REIT's ordinary taxable income to stockholders. We believe that we are organized and operate in such a manner as to qualify for treatment as a REIT, and we intend to operate in the foreseeable future in such a manner so that we will remain qualified as a REIT in subsequent tax years for federal income tax purposes. We have elected to treat each of our taxable REIT subsidiaries ("TRS"), which generally may engage in any business (including the provision of customary or non-customary services for our tenants) as a corporation. As a result, each TRS is subject to federal income tax and applicable state income and franchise taxes at regular corporate rates.

#### **New Accounting Pronouncements**

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

#### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

Not applicable.

#### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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

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

None.

### **ITEM 9A. CONTROLS AND PROCEDURES**

#### **Disclosure Controls and Procedures**

Management, under the supervision of our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), periodically evaluate the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities and Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our senior management, including our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), as appropriate, to allow timely decisions regarding required disclosure. Based upon this evaluation, as of December 31, 2020, our Chief Executive Officer (Principal Executive Officer) and our Chief Financial Officer (Principal Financial Officer) have concluded that these disclosure controls and procedures are effective.

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

#### **Management's Report on Internal Control over Financial Reporting**

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

Based on their evaluation, our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer) have concluded that we maintained effective internal control over financial reporting as of December 31, 2020.

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

#### **Changes in Internal Control over Financial Reporting**

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

### **ITEM 9B. OTHER INFORMATION**

None.

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

#### Board of Directors

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

**J. Steven Roush**, CPA, age 74, 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 2021 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 currently serves as Chairman of the Board and Chairman of the Audit Committee of W.E. Hall Company, a privately held manufacturer and distributor of corrugated pipe and related drainage products. He also is Chairman of the Board for Fieldpiece Instruments, Inc., a privately held manufacturer of hand held instruments for HVAC/R field service. Mr. Roush is also on the Board of Trustees of the Orange County Museum of Art and is the Treasurer and the Chairman of the Audit Committee. He is on the Board of Directors of the American Heart Association - Orange County and previously served six years on the Audit Committee of the National American Heart Association. Mr. Roush serves on the Corporate Cabinet of the Tocqueville Society of United Way – Orange County. He previously served as a member of the Board and Chairman of the Audit committee of AirTouch Communications, Inc., a public telecommunication device company and Staar Surgical Company, a public manufacturer of implantable lenses for the eye. Our Board has determined that Mr. Roush satisfies the SEC’s requirements of an “audit committee financial expert.”

**Suzanne Koenig**, age 60, 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 2021 Annual Meeting. Ms. Koenig is president and founder of SAK Management Services LLC, a nationally recognized long-term care management and healthcare consulting services company, where she has worked for 18 years. With over 25 years of extensive experience as an owner and operator, Ms. Koenig offers specialized skills in operations improvement, staff development and quality assurance with particular expertise in marketing, census development and operations enhancement for the whole spectrum of senior housing, long-term care and other healthcare entities requiring turnaround services. Ms. Koenig has served on our Board since 2015.

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

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

Ms. Koenig also serves as an officer and director for several of the states' long term care provider associations. Ms. Koenig is the 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.

**Kent Eikanas**, age 51, currently serves as our Chief Executive Officer and Secretary. Further information regarding Mr. Eikanas' business experience and specific skills that qualify him to serve as a director of the Company is set forth below in the "Executive Officers" section. Mr. Eikanas' term on our Board expires on the date of the 2021 Annual Meeting. Mr. Eikanas has served on our Board since 2016.

## **Executive Officers**

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

**Kent Eikanas**, age 51, currently serves as our Chief Executive Officer and Secretary. Mr. Eikanas has served as Chief Executive Officer since August 2019, President since September 2012, and previously served as Chief Operating Officer since July 2012. He has successfully transitioned the Company from industrial properties to senior housing, building the Company portfolio to 57 assets under management. From 2008 to 2012, Mr. Eikanas served as Vice President of Senior Housing for a private equity group, where he closed over \$100 million in senior housing real estate refinances, dispositions and acquisitions. In addition, Mr. Eikanas was responsible for asset management of over \$700 million in senior housing assets, was a key contributor to the launch of a skilled nursing operating company based in Dallas, Texas, as well as helped grow the operating company from 14 facilities to 35 facilities. From 2003 to 2008, Mr. Eikanas was the Vice President of Acquisitions for a private real estate company and closed over \$200 million in senior housing real estate. Mr. Eikanas has overseen licensing for skilled nursing facilities, assisted living facilities and memory care facilities in California, Texas, Rhode Island, Oregon and Pennsylvania. Mr. Eikanas graduated from California State University Sacramento with a Bachelor of Arts Degree in Psychology and a minor in Business Administration. Mr. Eikanas is often asked to speak and has presented at industry conferences and events both in the United States and abroad.

**Elizabeth Pagliarini**, age 50, currently serves as our Chief Operating Officer, Chief Financial Officer and Treasurer and has been with the Company since June 2014. She has served as Chief Financial Officer and Treasurer since September 2014 and Chief Operating Officer since August 2019. Ms. Pagliarini is a seasoned executive with over 25 years of experience in financial services and investment banking having held positions including chief executive officer, president, chief financial officer and chief compliance officer. Ms. Pagliarini successfully broke the "glass ceiling" in her mid-twenties as chief executive officer and chairwoman of the board of an investment brokerage subsidiary of a public company in Beverly Hills, California. She also co-founded a boutique investment bank and registered broker-dealer. Prior to working at Summit, Ms. Pagliarini was a principal at a securities litigation and financial consulting firm since 2001 and chief compliance officer and FINOP (financial and operations principal) at a Los Angeles-based investment bank from 2005-2008. Ms. Pagliarini received her Bachelor of Science in Business Administration with a concentration in Finance from Valparaiso University where she was honored with their highest academic award, the Presidential Scholarship. She is also a Certified Fraud Examiner (CFE).

Ms. Pagliarini is a member of the Board of Directors of First Foundation Inc. (NASDAQ: FFWM), and serves on its audit, compensation, and nominating and governance committees. She also sits on the City Council of Mission Viejo, California Investment Advisory Commission. In addition, she proudly serves on the Emeritus Board of Directors for Forever Footprints, a non-profit organization that provides support to families that have suffered the loss of a baby during pregnancy or infancy and educates the medical community to improve quality of care and response. In January 2020, Ms. Pagliarini was awarded with the Lifetime Achievement Award at the Orange County Business Journal's CFO of the Year Awards after receiving nominations for CFO of the Year in both 2019 and 2020. She has also been named one of "20 Women to Watch" by OC Metro magazine and nominated for The Orange County Business Journal's Women in Business Award. Additionally, she has been honored by Step Up Women's Network as the recipient of their prestigious Commitment to Philanthropy Volunteer Award and by Forever Footprints as the winner of their Compassion Award.

## 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](http://www.summithealthcarereit.com/code-of-business-conduct-and-ethics).

## No Changes to Director Nomination Procedures

Since the date of our proxy statement for our 2020 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, Suzanne Koenig and Kent Eikanas. J. Steven Roush serves as the Chairman of the Audit Committee and satisfies the SEC's requirements of an "audit committee financial expert."

## ITEM 11. EXECUTIVE COMPENSATION

### Executive Compensation

The following table provides certain information concerning compensation for services rendered in all capacities by our named executive officers during the fiscal years ended December 31, 2020 and 2019.

Name and Principal Position	Year	Salary	Bonus	Option Awards	All Other Comp	Total
Kent Eikanas Chief Executive Officer and Secretary	2020	\$ 368,160	\$ 120,000	\$ -	\$ 11,400(3)	\$ 499,560
	2019	\$ 350,660	\$ 312,978(1)	\$ -	\$ 11,200(2)	\$ 674,838
Elizabeth Pagliarini Chief Financial Officer, Chief Operating Officer and Treasurer	2020	\$ 289,410	\$ 120,000	\$ -	\$ 11,400(3)	\$ 420,810
	2019	\$ 275,660	\$ 312,978(1)	\$ -	\$ 11,200(2)	\$ 599,838

(1) Includes \$35,000 cash bonus relating to 2019 performance which was paid in 2020.

(2) This amount relates to the employer matching 401(K) contributions earned in 2019 which were paid in 2020.

(3) This amount relates to the employer matching 401(K) contributions earned in 2020 which were paid in 2021.

## Employment Agreements with Named Executive Officers

The Company has entered into employment agreements, as amended, with each of its named executive officers, Kent Eikanas, Chief Executive Officer and Secretary, and Elizabeth Pagliarini, Chief Financial Officer, Chief Operating Officer and Treasurer which expire in October 2021. These employment agreements were approved by the Company's Compensation Committee and Board of Directors. Each employment agreement has a three-year term and contains standard terms relating to salary, bonus, position, duties and benefits (including eligibility for equity compensation), as well as a special cash payment following a change in control of the Company. The base salaries for each of Mr. Eikanas and Ms. Pagliarini are subject to annual merit increases. Effective January 1, 2021, the Company's Compensation Committee approved an increase in the base salaries for each of Mr. Eikanas and Ms. Pagliarini to \$425,000 and \$400,000 per year, respectively.

## Potential Payments upon Termination or Change in Control

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

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

## Director Compensation

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

The following table summarizes the annual compensation received by our independent directors for the fiscal year ended December 31, 2020.

Name	Fees Earned or Paid in Cash in 2020	Stock Awards	Total
J. Steven Roush	\$ 82,000	\$ -	\$ 82,000
Suzanne Koenig	\$ 62,000	\$ -	\$ 62,000

During fiscal year 2020, 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, 2020

The following table presents information regarding the outstanding equity awards held by each of our named executive officers as of December 31, 2020, including the vesting dates for the portions of these awards that had not vested as of that date.

Name	Option Awards			
	Number of Securities Underlying Unexercised Options - Exercisable	Number of Securities Underlying Unexercised Options - Unexercisable	Option Exercise Price	Option Expiration Date
Kent Eikanas	300,000	-	\$ 1.72	12/22/2025
Kent Eikanas	109,678	-	\$ 2.02	12/1/2026
Kent Eikanas	100,000	-	\$ 2.04	4/1/2027
Kent Eikanas	26,167	-	\$ 2.26	11/7/2027
Kent Eikanas	120,000	-	\$ 2.24	4/1/2028
Kent Eikanas	206,156	18,844(1)	\$ 2.26	3/1/2029
Elizabeth Pagliarini	100,000	-	\$ 1.72	12/17/2025
Elizabeth Pagliarini	73,118	-	\$ 2.02	12/1/2026
Elizabeth Pagliarini	70,000	-	\$ 2.04	4/1/2027
Elizabeth Pagliarini	17,445	-	\$ 2.26	11/7/2027
Elizabeth Pagliarini	80,000	-	\$ 2.24	4/1/2028
Elizabeth Pagliarini	206,156	18,844(1)	\$ 2.26	3/1/2029

(1) 6,281 stock options vest monthly and become fully vested on March 1, 2021

**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, 2020 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	1,871,908	\$ 2.09	1,128,092
Equity compensation plans not approved by security holders	—	—	—
<b>Total</b>	<b>1,871,908</b>	<b>\$ 2.09</b>	<b>1,128,092</b>

**OWNERSHIP OF EQUITY SECURITIES**

**Security Ownership of Certain Beneficial Owners**

The following table sets forth information as of March 15, 2021, regarding the beneficial ownership of our common stock by each person known by us to own 5% or more of the outstanding shares of common stock. The percentage of beneficial ownership is calculated based on 23,027,978 shares of common stock outstanding as of March 15, 2021.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percentage of Class
MacKenzie Capital Management, LP 1640 School Street Moraga CA 94556	1,691,157 <sup>(1)</sup>	7.6%

(1) This information is based on information received from the Company’s transfer agent regarding the holdings of MacKenzie Realty Capital, Inc. and its affiliates (collectively, “MacKenzie”), which stated that MacKenzie held an aggregate of approximately 1,691,157 shares as of February 2, 2021.

## Security Ownership of Management

The following table sets forth information as of March 15, 2021, 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, 2021.

<b>Name of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership <sup>(1)</sup></b>	<b>Percentage of Class</b>
Kent Eikanas	880,845	3.8%
Elizabeth Pagliarini	565,563	2.5%
J. Steven Roush	140,556	*
Suzanne Koenig	98,889	*
All current directors and executive officers as a group (4 persons)	1,685,853	7.3%

\* 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, 2021. 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 2020, as well as any such currently proposed transactions. Set forth below is a description of such transactions.

### Our Relationship with Our Equity-Method Investments

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

For the year ended December 31, 2020, we recorded approximately \$1.3 million in asset management fees as the manager of the Equity-Method Investments.

### Our Relationships with CRA, our former advisor

Until April 1, 2014, and subject to certain restrictions and limitations, our business was managed pursuant to an advisory agreement (the “Advisory Agreement”) with CRA. See Note 9 to the accompanying Notes to Consolidated Financial Statements for more information regarding current legal proceedings involving CRA and the Company.

## Our Policy regarding Transactions with Affiliates

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

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

## Director Independence

Our charter contains detailed criteria for determining the independence of our directors and requires a majority of the members of our Board to qualify as independent. Our Board consults with our legal counsel to ensure that its independence determinations are consistent with our charter and applicable securities and other laws and regulations. Consistent with these considerations, after reviewing all relevant transactions or relationships between each director, or any of his family members and the Company, our senior management and our independent registered public accounting firm, our Board has determined that a majority of our Board is independent. Furthermore, although our shares are not listed on a national securities exchange, our Board reasonably believes that a majority of our Board and, thus, a majority of our Audit Committee, Independent Directors Committee, Compensation Committee and Investment Committee are independent under the Nasdaq 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, LLP, our principal accountant, for 2020 and 2019:

Services	2020	2019
Audit Fees <sup>(1)</sup>	\$ 363,501	\$ 365,773
Audit Related Fees <sup>(2)</sup>	82,104	88,420
Total	<u>\$ 445,605</u>	<u>\$ 454,193</u>

(1) Audit fees billed in 2020 and 2019 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.

(2) Audit related fees billed in 2020 and 2019 consisted of property level audits for U.S. Department of Housing and Urban Development (“HUD”) compliance and related fees.

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

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

#### (a)(1) Financial Statements

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

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2020 and 2019

Consolidated Statements of Operations for the Years Ended December 31, 2020 and 2019

Consolidated Statements of Equity for the Years Ended December 31, 2020 and 2019

Consolidated Statements of Cash Flows for the Years Ended December 31, 2020 and 2019

Notes to Consolidated Financial Statements

#### (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

<a href="#">Report of Independent Registered Public Accounting Firm</a>	<a href="#">49</a>
<a href="#">Consolidated Balance Sheets</a>	<a href="#">50</a>
<a href="#">Consolidated Statements of Operations</a>	<a href="#">51</a>
<a href="#">Consolidated Statements of Equity</a>	<a href="#">52</a>
<a href="#">Consolidated Statements of Cash Flows</a>	<a href="#">53</a>
<a href="#">Notes to Consolidated Financial Statements</a>	<a href="#">54</a>

## Report of Independent Registered Public Accounting Firm

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

### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Summit Healthcare REIT, Inc. (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of operations, equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of 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.

### 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 a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

### Asset Impairment – Identification of Triggering Events for Real Estate Properties

The Company has recorded real estate properties, net of accumulated depreciation and amortization, of \$44.9 million as of December 31, 2020. As discussed in Note 2 to the consolidated financial statements, the Company evaluates real estate properties for impairment on a property-by-property basis when events or circumstances indicate that the carrying value might not be recoverable. Impairment is measured as the amount by which the carrying amount of the property exceeds the fair value of the property.

We identified management's evaluation of impairment triggering events for real estate properties as a critical audit matter due to the subjectivity required in evaluating potential impairment indicators 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, which may indicate that the carrying amount of the property may not be recoverable. Auditing these elements and assumptions involved increased auditor judgment and effort in performing our procedures.

The primary procedures we performed to address this critical audit matter included:

- Evaluating management's identification and assessment of potential impairment triggering events, including changes in the nature of the property, plans to sell a property before its depreciable life has ended, changes in occupancy, significant near-term lease expirations, and declining property performance against historical operating results.
- Discussing intended holding periods with management and reviewing internal documentation, including executed leases, property operational information, and Board of Director minutes, to assess if indicators of impairment were present.
- Evaluating third party market information, including capitalization rates and the impacts of the COVID-19 pandemic on the industry, to assess if indicators of impairment were present.

/s/ BDO USA, LLP

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



**SUMMIT HEALTHCARE REIT, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
December 31, 2020 and 2019

	December 31, 2020	December 31, 2019
<b>ASSETS</b>		
Cash and cash equivalents	\$ 14,658,000	\$ 13,260,000
Restricted cash	2,933,000	2,817,000
Real estate properties, net	44,921,000	46,513,000
Notes receivable	262,000	575,000
Tenant and other receivables, net	4,677,000	3,812,000
Deferred leasing commissions, net	536,000	607,000
Other assets, net	1,203,000	594,000
Equity-method investments	11,375,000	13,131,000
Total assets	<u>\$ 80,565,000</u>	<u>\$ 81,309,000</u>
<b>LIABILITIES AND EQUITY</b>		
Accounts payable and accrued liabilities	\$ 2,530,000	\$ 2,504,000
Security deposits	664,000	664,000
Loans payable, net of debt issuance costs	45,274,000	45,577,000
Total liabilities	<u>48,468,000</u>	<u>48,745,000</u>
Commitments and contingencies (Note 9)		
Stockholders' Equity		
Preferred stock, \$0.001 par value; 10,000,000 shares authorized; no shares issued or outstanding at December 31, 2020 and 2019	—	—
Common stock, \$0.001 par value; 290,000,000 shares authorized; 23,027,978 shares issued and outstanding at December 31, 2020 and 2019	23,000	23,000
Additional paid-in capital	116,335,000	116,184,000
Accumulated deficit	(84,456,000)	(83,843,000)
Total stockholders' equity	<u>31,902,000</u>	<u>32,364,000</u>
Noncontrolling interests	195,000	200,000
Total equity	<u>32,097,000</u>	<u>32,564,000</u>
Total liabilities and equity	<u>\$ 80,565,000</u>	<u>\$ 81,309,000</u>

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, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>Revenues:</b>		
Total rental revenues	\$ 6,448,000	\$ 6,862,000
Acquisition and asset management fees	1,312,000	1,174,000
Interest income from notes receivable	27,000	29,000
<b>Total operating revenue</b>	<b>7,787,000</b>	<b>8,065,000</b>
<b>Expenses:</b>		
Property operating costs	947,000	862,000
General and administrative	4,063,000	4,476,000
Depreciation and amortization	1,667,000	1,750,000
<b>Total operating expenses</b>	<b>6,677,000</b>	<b>7,088,000</b>
<b>Other operating income:</b>		
Gain on sale of real estate properties	-	4,274,000
<b>Operating income</b>	<b>1,110,000</b>	<b>5,251,000</b>
Income from equity-method investees	555,000	184,000
Other income	58,000	207,000
Interest expense	(2,280,000)	(2,612,000)
<b>Net (loss) income</b>	<b>(557,000)</b>	<b>3,030,000</b>
Noncontrolling interests' share in net (income) loss	(56,000)	83,000
<b>Net (loss) income applicable to common stockholders</b>	<b>\$ (613,000)</b>	<b>\$ 3,113,000</b>
<b>Earnings per common share:</b>		
<b>Basic:</b>		
(Loss) income from continuing operations	\$ (0.03)	\$ 0.14
<b>Net (loss) income applicable to common stockholders</b>	<b>\$ (0.03)</b>	<b>\$ 0.14</b>
<b>Diluted:</b>		
(Loss) income from continuing operations	\$ (0.03)	\$ 0.13
<b>Net (loss) income applicable to common stockholders</b>	<b>\$ (0.03)</b>	<b>\$ 0.13</b>
<b>Weighted average shares used to calculate earnings per common share:</b>		
Basic	23,027,978	23,027,978
Diluted	23,027,978	23,506,478

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

**SUMMIT HEALTHCARE REIT, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF EQUITY**  
**For the Years Ended December 31, 2020 and 2019**

	Common Stock			Accumulated Deficit	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
	Number of Shares	Common Stock Par Value	Additional Paid-In Capital				
<b>Balance — January 1, 2019</b>	23,027,978	\$ 23,000	\$ 115,950,000	\$ (86,956,000)	\$ 29,017,000	\$ 349,000	\$ 29,366,000
Stock-based compensation	—	—	234,000	—	234,000	—	234,000
Distributions paid to noncontrolling interests	—	—	—	—	—	(66,000)	(66,000)
Net income (loss)	—	—	—	3,113,000	3,113,000	(83,000)	3,030,000
<b>Balance — December 31, 2019</b>	<u>23,027,978</u>	<u>\$ 23,000</u>	<u>\$ 116,184,000</u>	<u>\$ (83,843,000)</u>	<u>\$ 32,364,000</u>	<u>\$ 200,000</u>	<u>\$ 32,564,000</u>
Stock-based compensation	—	—	151,000	—	151,000	—	151,000
Distributions paid to noncontrolling interests	—	—	—	—	—	(61,000)	(61,000)
Net (loss) income	—	—	—	(613,000)	(613,000)	56,000	(557,000)
<b>Balance — December 31, 2020</b>	<u>23,027,978</u>	<u>\$ 23,000</u>	<u>\$ 116,335,000</u>	<u>\$ (84,456,000)</u>	<u>\$ 31,902,000</u>	<u>\$ 195,000</u>	<u>\$ 32,097,000</u>

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, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities:</b>		
Net (loss) income	\$ (557,000)	\$ 3,030,000
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Amortization of debt issuance costs	90,000	134,000
Depreciation and amortization	1,667,000	1,750,000
Straight line rents	(227,000)	(357,000)
Write-off of debt issuance costs	77,000	-
Stock-based compensation expense	151,000	234,000
Gain on sale of real estate properties	-	(4,274,000)
Income from equity-method investees	(555,000)	(184,000)
Change in operating assets and liabilities:		
Tenant and other receivables, net	700,000	332,000
Other assets	(703,000)	(91,000)
Accounts payable and accrued liabilities	117,000	261,000
<b>Net cash provided by operating activities</b>	<b>760,000</b>	<b>835,000</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of real estate properties, net of transaction costs	-	24,852,000
Issuance of notes receivable	-	(253,000)
Investments in equity-method investees	-	(5,060,000)
Distributions received from equity-method investees	972,000	1,224,000
Payments from notes receivable	313,000	408,000
<b>Net cash provided by investing activities</b>	<b>1,285,000</b>	<b>21,171,000</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of loans payable	11,863,000	3,872,000
Payments of loans payable	(11,677,000)	(22,982,000)
Distributions paid	-	(1,499,000)
Distributions paid to noncontrolling interests	(61,000)	(66,000)
Debt issuance costs	(656,000)	(210,000)
<b>Net cash used in financing activities</b>	<b>(531,000)</b>	<b>(20,885,000)</b>
Net increase in cash, cash equivalents and restricted cash	1,514,000	1,121,000
Cash, cash equivalents and restricted cash — beginning of year	16,077,000	14,956,000
Cash, cash equivalents and restricted cash — end of year	\$ 17,591,000	\$ 16,077,000
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest:	\$ 1,828,000	\$ 2,289,000

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, 2020 and 2019**

**1. Organization**

Summit Healthcare REIT, Inc. (“Summit”) is a real estate investment trust that owns 100% of three properties, 95.3% of four properties, a 10% equity interest in an unconsolidated equity-method investment that holds 17 properties, a 35% equity interest in an unconsolidated equity-method investment that holds two properties, a 20% equity interest in an unconsolidated equity-method investment that holds two properties, a 10% equity interest in an unconsolidated equity-method investment that holds nine properties, a 10% equity interest in an unconsolidated equity-method investment that holds six properties and a 15% equity interest in an unconsolidated equity-method investment that holds 14 properties. Summit is a Maryland corporation, formed in 2004 under the General Corporation Law of Maryland for the purpose of investing in and owning real estate. As used in these notes, the “Company”, “we”, “us” and “our” refer to Summit and its consolidated subsidiaries, 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. Therefore, the assets and liabilities of Summit and the Operating Partnership are the same.

***Cornerstone Healthcare Partners LLC***

We own 95% of Cornerstone Healthcare Partners LLC (“CHP LLC”), which was formed in 2012, and the remaining 5% noncontrolling interest is owned by Cornerstone Healthcare Real Estate Fund, Inc. (“CHREF”), an affiliate of CRA. CHP LLC is consolidated within our financial statements and owns four properties (the “JV Properties”) with another partially owned subsidiary. As of December 31, 2020, we own a 95.3% interest in the four JV Properties, and CHREF owns a 4.7% interest. See Note 11 for the disposition of real estate properties which includes one of the JV Properties.

***Summit Union Life Holdings, LLC – Equity-Method Investment***

In April, 2015, through our Operating Partnership, we entered into a limited liability company agreement with Best Years, LLC (“Best Years”), an unrelated entity and a U.S.-based affiliate of Union Life Insurance Co, Ltd. (a Chinese corporation), and formed Summit Union Life Holdings, LLC (the “SUL JV”). The SUL JV is not consolidated in our consolidated financial statements and is accounted for under the equity-method in our consolidated financial statements (see Note 5). As of December 31, 2020 and 2019, we have a 10% interest in the SUL JV which owns 17 properties.

***Summit Fantasia Holdings, LLC – Equity-Method Investment***

In September 2016, through our Operating Partnership, we entered into a limited liability company agreement with Fantasia Investment III LLC (“Fantasia”), an unrelated entity and a U.S.-based affiliate of Fantasia Holdings Group Co., Limited (a Chinese corporation listed on the Stock Exchange of Hong Kong (HKEX)), and formed Summit Fantasia Holdings, LLC (the “Fantasia JV”). The Fantasia JV is not consolidated in our consolidated financial statements and is accounted for under the equity-method in our consolidated financial statements. As of December 31, 2020 and 2019, we have a 35% interest in the Fantasia JV which owns two properties.

***Summit Fantasia Holdings II, LLC – Equity-Method Investment***

In December 2016, through our Operating Partnership, we entered into a limited liability company agreement with Fantasia, and formed Summit Fantasia Holdings II, LLC (the “Fantasia II JV”). The Fantasia II JV is not consolidated in our consolidated financial statements and is accounted for under the equity-method in our consolidated financial statements. As of December 31, 2020 and 2019, we have a 20% interest in the Fantasia II JV which owns two properties.

### ***Summit Fantasia Holdings III, LLC – Equity-Method Investment***

In July 2017, through our Operating Partnership, we entered into a limited liability company agreement with Fantasia and formed Summit Fantasia Holdings III, LLC (the “Fantasia III JV”). The Fantasia III JV is not consolidated in our consolidated financial statements and is accounted for under the equity-method in the Company’s consolidated financial statements. As of December 31, 2020 and 2019, we have a 10% interest in the Fantasia III JV which owns nine properties.

### ***Summit Fantasy Pearl Holdings, LLC – Equity-Method Investment***

In October 2017, through our Operating Partnership, we entered into a limited liability company agreement with Fantasia, Atlantis Senior Living 9, LLC, a Delaware limited liability company (“Atlantis”), and Fantasy Pearl LLC, a Delaware limited liability company (“Fantasy”), and formed Summit Fantasy Pearl Holdings, LLC (the “FPH JV”). The FPH JV is not consolidated in our consolidated financial statements and is accounted for under the equity-method in the Company’s consolidated financial statements. As of December 31, 2020 and 2019, we have a 10% interest in the FPH JV which owns six properties.

### ***Indiana JV– Equity-Method Investment***

In February 2019, through our wholly-owned subsidiary, Summit Indiana, LLC, we formed a new joint venture, a Delaware limited liability company (the “Indiana JV”). On March 13, 2019, we entered into a Limited Liability Company Agreement (the “Indiana JV Agreement”) with two unrelated parties: a real estate holding company and a global institutional asset management firm, both Delaware limited liability companies. The Indiana JV is not consolidated in our consolidated financial statements and is accounted for under the equity-method. As of December 31, 2020 and 2019, we have a 15% interest in the Indiana JV which owns 14 properties.

### ***Summit Healthcare Asset Management, LLC (TRS)***

Summit Healthcare Asset Management, LLC (“SAM TRS”) is our wholly-owned taxable REIT subsidiary (“TRS”). We serve as the manager of the SUL JV, Fantasia JV, Fantasia II JV, Fantasia III JV and FPH JV (collectively, our “Equity-Method Investments”), and provide management services in exchange for fees and reimbursements. All acquisition fees and asset management fees earned by us are paid to SAM TRS and expenses incurred by us, as the manager, are reimbursed from SAM TRS. See Notes 5 and 7 for further information.

## **2. Summary of Significant Accounting Policies**

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

### ***Principles of Consolidation and Basis of Presentation***

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, the Operating Partnership, 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.

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

### *Use of Estimates*

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

### *Cash and Cash Equivalents*

We consider all short-term, highly liquid investments that are readily convertible to cash with a maturity of three months or less at the time of purchase to be cash equivalents. As of December 31, 2020, we had cash accounts in excess of FDIC-insured limits. We do not believe we are exposed to any significant credit risk on cash and cash equivalents.

### *Restricted Cash*

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

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Cash and cash equivalents	\$ 14,658,000	\$ 13,260,000
Restricted cash	2,933,000	2,817,000
Total cash, cash equivalents, and restricted cash shown on the consolidated statements of cash flows	<u>\$ 17,591,000</u>	<u>\$ 16,077,000</u>

### *Investments in Real Estate and Depreciation*

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

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

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

### ***Impairment of Real Estate Properties***

We evaluate the recoverability of the carrying value of our real estate properties on a property-by-property basis. We review our properties for recoverability when events or circumstances, including 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 property exceeds the fair value of the property.

We recorded no impairment charges in 2020 and 2019.

### ***Fair Value Measurements***

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

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

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

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

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

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

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

There were no assets or liabilities measured at fair value on a nonrecurring basis during the year ended December 31, 2020.

### ***Fair Value Measurement of Financial Instruments***

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

As of December 31, 2020 and 2019, the fair value of loans payable was \$52.6 million and \$47.4 million, compared to the principal balance (excluding debt discount) of \$47.2 million and \$47.0 million, respectively. The fair value of loans payable was estimated using lending rates available to us for financial instruments with similar terms and maturities. To estimate fair value as of December 31, 2020, we utilized discount rates ranging from 2.8% to 4.2% and a weighted average discount rate of 2.8%. As the inputs to our valuation estimate are neither observable in nor supported by market activity, our loans payable are classified as Level 3 liabilities within the fair value hierarchy.

At December 31, 2020 and 2019, we do not have any significant financial assets or financial liabilities that are measured at fair value on a recurring basis in our consolidated financial statements.

#### ***Variable Interest Entities***

We analyze our contractual and/or other interests to determine whether such interests constitute an interest in a 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, 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 JV, Fantasia II JV, Fantasia III JV, FPH JV and Indiana 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 investment.

#### ***Tenant and Other Receivables***

Tenant and other receivables are comprised of rental and tenant reimbursement billings due from tenants, the cumulative amount of future adjustments necessary to present rental income on a straight-line basis, asset management fees and distributions receivable. Tenant receivables for rental revenues are recorded at the original amount earned.

#### ***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 lessee or 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, 2020, the allowance for credit losses is immaterial.

#### ***Deferred Financing Costs***

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

#### ***Deferred Leasing Commissions***

Leasing commissions (paid to CRA prior to April 1, 2014) were capitalized at cost and are being amortized on a straight-line basis over the related lease term. As of December 31, 2020 and 2019, total costs incurred were \$1.1 million, and the unamortized balance was approximately \$0.5 million and \$0.6 million, respectively. Amortization expense for the years ended December 31, 2020 and 2019 was approximately \$70,000 and \$51,000, respectively.

### ***Other Assets***

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

### ***Equity-Method Investments***

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

We evaluate our equity-method investments for impairment whenever events or changes in circumstances indicate that the carrying value of our investments may exceed the fair value. If it is determined that a decline in the fair value of our investments is not temporary, and if such reduced fair value is below its carrying value, an impairment is recorded. Determining fair value involves significant judgment. Our estimates consider available evidence including the present value of the expected future cash flows discounted at market rates, general economic conditions and other relevant factors. We did not record any impairments related to our equity-method investments for the years ended December 31, 2020 and 2019.

### ***Rental Revenue***

On January 1, 2019, the Company adopted the FASB Accounting Standards Update ("ASU") 2016-02, *Leases* ("Topic 842"), using the modified retrospective approach and have elected the package of practical expedients permitted under the transition guidance within the new standard, which, among other things, permits us to carry forward our prior conclusions for lease classification, the ability not to reassess whether any existing or expired contracts contain leases, lease classifications for existing or expired leases, and initial direct costs on existing leases. We also made an accounting policy election to keep short-term leases less than twelve months off the balance sheet for all classes of underlying assets. The new standard requires a lessor to classify leases as either sales-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-type leases. Additionally, lessors were provided with the option to elect a practical expedient, which we elected, allowing them to not separate lease and nonlease components in a contract for the purpose of revenue recognition and disclosure. This practical expedient is limited to circumstances in which: (i) the timing and pattern of transfer are the same for the nonlease component and the related lease component and (ii) the lease component, if accounted for separately, would be classified as an operating lease. This practical expedient causes an entity to assess whether a contract is predominantly lease or service based and recognize the entire contract under the relevant accounting guidance (i.e., predominantly lease-based would be accounted for under ASU 2016-02 and predominantly service-based would be accounted for under ASC 606).

The FASB also issued ASU 2019-20 "Leases (Topic 842) - Narrow Improvements for Lessors," which provided lessors the ability to make an accounting policy election not to evaluate whether certain sales taxes and other similar taxes imposed by a governmental authority on a specific lease revenue producing transaction are the primary obligation of the lessor as owner of the underlying leased asset. A lessor that makes this election will exclude these taxes from the measurement of lease revenue and the associated expense. Upon adoption of ASC 842, we utilized this practical expedient in cases where real estate taxes were paid directly by our tenants to taxing authorities. For triple-net leasing arrangements in which the tenant remits payment for real estate taxes to us and we pay the taxing authority, we have included the associated revenue and expense in total rental revenues and property operating costs on the consolidated statements of operations. This reporting had no impact on our net income.

Additionally, under Topic 842, we must assess if all payments due under the lease are likely to be collected. If tenant lease payments are not likely to be collected, then the revenues will be recognized on a cash basis (or if the answer changes at a later date, the revenues are adjusted to reflect what it would have been on a cash basis) and the adjustments will be recorded through rental revenues, rather than bad debt expense. We did not have any collectability issues for the year ended December 31, 2020.

### ***Acquisition and Asset Management Fees***

The Company records acquisition and asset management fee revenue based on ASC 606, *Revenue from Contracts with Customers (Topic 606)*. Acquisition fees arise from contractual agreements with our joint venture partners and are earned and paid at the time we close an acquisition, therefore, satisfying our performance obligations at that time. We earn our asset management fees based on a percentage of the purchase price or equity raised. As the manager, our duty is to manage the day-to-day operations of the special-purpose entities which own the properties. Asset management fees are recognized as a single performance obligation (managing the properties) comprised of a series of distinct services (handling issues with our tenants, etc.). We believe that the overall service of asset management is substantially the same each day and has the same pattern of performance over the term of the agreement. As a result, each day of service represents a performance obligation satisfied at that point in time. These fees are recognized at the end of each period for services performed during that period, billed monthly and paid quarterly.

### ***Stock-Based Compensation***

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

### ***Noncontrolling Interest in Consolidated Subsidiary***

Noncontrolling interest relates to the interest in the consolidated entities that are not wholly-owned by us. As of December 31, 2020 and 2019, the noncontrolling interest mainly relates to CHP, LLC.

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

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

### ***Income Taxes***

We have elected to be taxed as a REIT, under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code") beginning with our taxable year ending December 31, 2006. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to currently distribute at least 90% of the REIT's ordinary taxable income to stockholders. As a REIT, we generally will not be subject to federal income tax on taxable income that we distribute to our stockholders. If we fail to qualify as a REIT in any taxable year, we will then be subject to federal income taxes on our taxable income at regular corporate rates and will not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year during which qualification is lost unless the Internal Revenue Service were to grant us relief under certain statutory provisions. Such an event could materially and adversely affect our net income and net cash available for distribution to stockholders. However, we believe that we will be organized and operate in such a manner as to qualify for treatment as a REIT and intend to operate for the foreseeable future in such a manner so that we will remain qualified as a REIT for federal income tax purposes. Given the applicable statute of limitations, we generally are subject to audit by the Internal Revenue Service ("IRS") for the year ended December 31, 2016 and subsequent years, and state income tax returns are subject to audit for the year ended December 31, 2015 and subsequent years.

We have elected to treat SAM TRS as a taxable REIT subsidiary, which generally may engage in any business, including the provision of customary or non-customary services for our tenants. SAM TRS is treated as a regular corporation and is subject to federal income tax and applicable state income and franchise taxes at regular corporate rates. SAM TRS has deferred tax assets related to their NOL (which expires in or after 2035 for federal and state) for a total of \$1,493,000, which has a full valuation allowance as of December 31, 2020 and 2019. Due to the losses incurred and the full valuation allowance on deferred tax assets, there was no tax provision related to SAM TRS in 2020 and 2019.

#### ***Uncertain Tax Positions***

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

#### ***Basic and Diluted Net Income (Loss) and Distributions per Common Share***

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

#### ***Lake Forest Lease***

We have entered into a lease agreement, as amended, for corporate office space located in Lake Forest, California, which expires in April 2022 (the “LF Lease”). In 2019, based on Topic 842, we recorded a right-of-use asset and lease liability equal to the present value of the remaining lease payments within the consolidated balance sheet. As a result, the Company recognized a right-of-use asset (“ROU”) of \$0.3 million and a lease liability of \$0.3 million on its consolidated balance sheet as of January 1, 2019.

As of December 31, 2020 and 2019, the Company had a ROU operating lease asset of \$0.1 million and \$0.2 million, respectively, recorded in other assets in our consolidated balance sheets and a lease liability of \$0.1 million and \$0.2 million, respectively, recorded in our consolidated balance sheets in accrued liabilities.

The Company recognized lease expense, calculated as the remaining cost of the lease allocated over the remaining lease term on a straight-line basis. Lease expense is presented as part of continuing operations within general and administrative expenses in the consolidated statements of operations. For the years ended December 31, 2020 and 2019, the Company recognized approximately \$0.1 million in lease expense.

For the years ended December 31, 2020 and 2019, the Company paid \$100,000 in rent relating to the LF Lease. As a payment arising from an operating lease, the \$0.1 million is classified within operating activities in the consolidated statements of cash flows.

As of December 31, 2020, the remaining lease term for LF Lease is 16 months. Because we do not have access to the discount rate implicit in the lease, we have utilized our estimated incremental borrowing rate as the discount rate. The estimated discount rate associated with our corporate operating lease is 5%.

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

<b>Year</b>	<b>Lease payments</b>
2021	\$ 108,000
2022	36,000
Total lease payments	\$ 144,000
Less effect of discounting	(5,000)
Total lease liability	<u>\$ 139,000</u>

#### ***Recently Issued Accounting Pronouncements***

In January 2020, the FASB issued ASU 2020-01 (“Update”) to clarify the interaction among the accounting standards for equity securities, equity method investments and certain derivatives. The new ASU clarifies that a company should consider observable transactions that require a company to either apply or discontinue the equity method of accounting under Topic 323, Investments—Equity Method and Joint Ventures, for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. The Company believes the implementation of the new standard will not have a material effect on its financial position, results of operations, and cash flows.

#### ***Recently Adopted Accounting Pronouncements***

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). ASU 2016-13 requires that a financial asset (or a group of financial assets) measured at amortized cost basis be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The amendments in ASU 2016-13 are an improvement because they eliminate the probable initial recognition threshold under current GAAP and, instead, reflect an entity’s current estimate of all expected credit losses. Previously, when credit losses were measured under GAAP, an entity generally only considered past events and current conditions in measuring the incurred loss. In November 2018, the FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments—Credit Losses (“ASU 2018-19”), which amends ASU 2016-13 to clarify that receivables arising from operating leases are not within the scope of Subtopic 326-20, and instead, impairment of such receivables should be accounted for in accordance with ASU 2016-02, Leases, as amended by subsequent ASUs (“Topic 842”). In November 2019, the FASB issued ASU 2019-11, Codification Improvements to Topic 326, Financial Instruments—Credit Losses (“ASU 2019-11”), which amends ASU 2016-13 to clarify or address stakeholders’ specific issues about certain aspects of ASU 2016-13. ASU 2016-13, ASU 2018-19 and ASU 2019-11 are effective for fiscal years and interim periods within those years beginning after December 15, 2019, with early adoption permitted as of the fiscal years beginning after December 15, 2018. The Company adopted ASU 2016-13, ASU 2018-19 and ASU 2019-11 (collectively, “Topic 326”) on January 1, 2020. The adoption of the new standard on January 1, 2020 did not have a material effect on the Company’s financial position, results of operations, or cash flows.

### ***Coronavirus (COVID-19)***

Since first being reported in December 2019, COVID-19 has spread globally, including to every state in the United States and more than 200 countries. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic, and on March 13, 2020, the United States declared a national emergency with respect to COVID-19. The outbreak has led governments and other authorities around the world, including federal, state and local authorities in the United States, to impose measures intended to control its spread, including restrictions on freedom of movement and business operations such as travel bans, border closings, business closures, quarantines and shelter-in-place orders. The COVID-19 pandemic and measures to prevent its spread negatively impacted senior housing and skilled nursing facilities in a number of ways, including but not limited to:

- Decreased occupancy and increased operating costs for the Company's tenants and borrowers, which may adversely impact their ability to make full and timely rental and debt payments to the Company. As of and for the year ended December 31, 2020, the Company has not provided any rental concessions. However, the Company may have to restructure tenants' long-term rent obligations in the future and may not be able to do so on terms that are as favorable to the Company as those currently in place. Reduced or modified rental and debt amounts could result in the determination that the full amounts of the Company's real estate properties and notes receivable are not recoverable, which could result in an impairment charge.
- Decreased occupancy and increased operating costs for the Company's Equity-Method Investments that own senior housing and skilled nursing facilities, which may negatively impact the operating results of these investments. As of and for the year ended December 31, 2020, the Equity-Method Investments have not provided any rental concessions. However, the Equity-Method Investments may have to restructure tenants' long-term rent obligations and may not be able to do so on terms that are as favorable to the Equity-Method Investments as those currently in place. Prolonged deterioration in the operating results for these investments could result in the determination that the full amounts of the Company's investments are not recoverable, which could result in an impairment charge.

It is impossible to predict the effect and ultimate impact of the COVID-19 pandemic on our operations and results as the situation is continuing to evolve. We have not seen a material impact on rental revenue from any of our consolidated properties or debt payments from borrowers on notes receivable. However, under a court order, a receiver assumed the responsibilities of operating and managing the Pennington Gardens facility in Chandler, Arizona. Based upon need and request, the Company may provide rent relief, either in the form of a temporary rent reduction to be paid back over time or permanent abatement of rent for a specific time period. Additionally, some of our Equity-Method Investment tenants have also experienced decreased occupancy and increased operating costs related to COVID-19, however, this has not had a material effect on our consolidated financial statements. The rapid development and fluidity of this situation precludes any prediction as to the ultimate material adverse impact on the demand for senior housing and skilled nursing and presents material uncertainty and risk with respect to our business, operations, financial condition and liquidity, including recording impairments, lease modifications and credit losses associated with notes receivable in future periods.

### ***CARES Act***

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act was enacted and amended in December 2020 (the "CARES Act"). The CARES Act is a stimulus package that provides various forms of relief through, among other things, grants, loans and tax incentives to certain businesses and individuals. In particular, the CARES Act created an emergency lending facility known as the Paycheck Protection Program (PPP), which is administered by the Small Business Administration (SBA) and provides federally insured and, in some cases, forgivable loans to certain eligible businesses so that those businesses can continue to cover certain of their near-term operating expenses and retain employees. We did not obtain a PPP loan. We have evaluated the CARES Act and determined that there was no impact on the Company for the year ended December 31, 2020. We will continue to evaluate and monitor the CARES Act, and any new COVID-19-related legislation to determine the ultimate impact and benefits, if any, to the Company.

### 3. Investments in Real Estate Properties

As of December 31, 2020 and 2019, investments in real estate properties including those held by our consolidated subsidiaries (excluding the 50 properties owned by our unconsolidated Equity-Method Investments) are set forth below:

	2020	2019
Land	\$ 6,237,000	\$ 6,237,000
Buildings and improvements	48,295,000	48,295,000
Less: accumulated depreciation	(9,853,000)	(8,444,000)
Buildings and improvements, net	38,442,000	39,851,000
Furniture and fixtures	4,230,000	4,230,000
Less: accumulated depreciation	(3,988,000)	(3,805,000)
Furniture and fixtures, net	242,000	425,000
Real estate properties, net	<u>\$ 44,921,000</u>	<u>\$ 46,513,000</u>

Depreciation expense (excluding leasing commission amortization) for the years ended December 31, 2020 and 2019 was approximately \$1.6 million and \$1.7 million, respectively.

As of December 31, 2020, our portfolio consisted of seven real estate properties which were 100% leased to the tenants of the related facilities. See Note 11 for further information regarding the February 2019 disposition of our four properties located in North Carolina. On October 7, 2020, a receiver assumed the responsibilities of operating and managing the healthcare facility (the “Pennington Gardens Facility”) owned by our wholly owned subsidiary Summit Chandler, LLC (“Summit Chandler”) in Chandler, Arizona.

The following table provides summary information regarding our portfolio (excluding the 50 properties owned by our unconsolidated Equity-Method Investments) as of December 31, 2020:

Property	Location	Date Purchased	Type <sup>(1)</sup>	Purchase Price	Loans Payable, Excluding Debt Issuance Costs
Sheridan Care Center	Sheridan, OR	August 3, 2012	SNF	\$ 4,100,000	\$ 4,330,000
Fernhill Care Center	Portland, OR	August 3, 2012	SNF	4,500,000	3,798,000
Friendship Haven Healthcare and Rehabilitation Center	Galveston County, TX	September 14, 2012	SNF	15,000,000	11,746,000
Pacific Health and Rehabilitation Center	Tigard, OR	December 24, 2012	SNF	8,140,000	6,332,000
Brookstone of Aledo	Aledo, IL	July 2, 2013	AL	8,625,000	6,859,000
Sundial Assisted Living	Redding, CA	December 18, 2013	AL	3,500,000	3,792,000
Pennington Gardens	Chandler, AZ	July 17, 2017	AL/MC	13,400,000	10,330,000
Total:				<u>\$ 57,265,000</u>	<u>\$ 47,187,000</u>

(1) SNF is an abbreviation for skilled nursing facility.

AL is an abbreviation for assisted living facility.

MC is an abbreviation for memory care facility.

### ***Future Minimum Lease Payments***

The future minimum lease payments to be received under existing operating leases for our consolidated properties as of December 31, 2020 are as follows:

#### **Years ending December 31,**

2021	5,547,000
2022	5,662,000
2023	5,778,000
2024	5,441,000
2025	5,549,000
Thereafter	23,341,000
	<u>\$ 51,318,000</u>

#### ***2020 Acquisitions***

*None.*

#### ***2019 Acquisitions***

*None.*

### **4. Loans Payable**

As of December 31, 2020 and 2019, loans payable consisted of the following:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Loan payable to CIBC Bank USA refinanced in April 2020 and as of December 31, 2019, collateralized by Friendship Haven.	\$ -	\$ 10,725,000
Loan payable to Capital One Multifamily Finance, LLC (insured by HUD) in monthly installments of approximately \$49,000, including interest at a fixed rate of 4.23%, due in September 2053, and collateralized by Pennington Gardens.	\$ 10,330,000	\$ 10,473,000
Loans payable to Lument (formerly ORIX Real Estate Capital, LLC) (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, 2020, collateralized by Sheridan, Fernhill, Pacific Health, Aledo, Sundial Assisted Living and Friendship Haven. As of December 31, 2019, collateralized by Sheridan, Fernhill, Pacific Health, Aledo and Sundial Assisted Living.	\$ 36,857,000	\$ 25,804,000
	<u>47,187,000</u>	<u>47,002,000</u>
<b>Less debt issuance costs</b>	<b>(1,913,000)</b>	<b>(1,425,000)</b>
<b>Total loans payable</b>	<b>\$ 45,274,000</b>	<b>\$ 45,577,000</b>

As of December 31, 2020, we have total debt obligations of approximately \$47.2 million that will mature between 2039 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, 2020, we were in compliance with all of our debt covenants.

In connection with our loans payable, we incurred debt issuance costs. As of December 31, 2020 and 2019, the unamortized balance of the debt issuance costs was approximately \$1.9 million and \$1.4 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, 2020 and 2019, approximately \$0.2 million and \$0.1 million, respectively, of debt issuance costs were amortized and included in interest expense in our consolidated statements of operations.

During the years ended December 31, 2020 and 2019, we incurred approximately \$2.1 million and \$2.5 million, respectively, of interest expense related (excluding debt issuance cost amortization) to our loans payable.

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

<b>Year</b>	<b>Principal Amount</b>
2021	1,076,000
2022	1,116,000
2023	1,158,000
2024	1,201,000
2025	1,246,000
Thereafter	41,390,000
	<u>\$ 47,187,000</u>

The following information notes the loan activity for the years ended December 31, 2020 and 2019:

***CIBC Bank USA***

In March 2019, CHP Friendswood SNF, LLC entered into a \$10,725,000, three-year term loan and security agreement with CIBC Bank USA, which was collateralized by the Friendship Haven facility. On April 23, 2020, we refinanced the existing CIBC loan with a Lument Capital (“Lument”) HUD-insured loan. See below under Lument for further information.

***Lument Capital (formerly ORIX Real Estate Capital, LLC)***

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

On April 23, 2020, we refinanced our outstanding \$10,725,000 loan payable for CHP Friendswood, LLC with a HUD-insured loan through Lument Capital. The loan bears interest at a fixed rate of 2.79%, plus 0.65% for mortgage insurance premiums for the term of the loan and is collateralized by Friendship Haven. The loan matures in April 2055 and amortizes over 35 years. The loan proceeds of approximately \$11.9 million were used to pay down the outstanding loan balance of approximately \$10.8 million to CIBC, to fund certain HUD reserves and to pay debt issuance costs of approximately \$0.7 million. The note contains a prepayment penalty of 10% in year 1, which reduces each year by 100 basis points, until there is no longer a prepayment penalty beginning in year 11.

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

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

## **5. Equity-Method Investments**

As of December 31, 2020 and 2019, the balances of our Equity-Method Investments were approximately \$11.4 million and \$13.1 million, respectively, and are as follows:

### ***Summit Union Life Holdings, LLC***

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

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

In April 2015, the Operating Partnership recorded a receivable for approximately \$362,000 for distributions that could not be paid prior to the contribution of the original six properties contributed in April 2015 ("JV 2 Properties") due to cash restrictions related to the loans payable for the contributed JV 2 Properties. In 2017, we received approximately \$178,000 to pay down the distribution receivable from two of the JV 2 properties. In 2020, we received approximately \$173,000 to pay down the distribution receivable from three of the JV 2 properties. As of December 31, 2020 and 2019, the receivable of \$11,000 and \$184,000, respectively, due from the JV 2 properties is included in tenant and other receivables on our consolidated balance sheets.

As of December 31, 2020 and 2019, the balance of our equity-method investment related to the SUL JV was approximately \$2.7 million and \$3.1 million, respectively.

### ***Summit Fantasia Holdings, LLC***

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

Under the Fantasia LLC Agreement, as amended in April 2018, net operating cash flow of the Fantasia JV will be distributed quarterly, first to the Operating Partnership and Fantasia *pari passu* until each member has received an amount equal to its accrued, but unpaid 8% return, and thereafter 50% to Fantasia and 50% to the Operating Partnership. All capital proceeds from the sale of the properties held by the Fantasia JV, a refinancing or another capital event, will be paid first to the Operating Partnership and Fantasia *pari passu* until each has received an amount equal to its accrued but unpaid 8% return plus its total capital contribution, and thereafter 50% to Fantasia and 50% to the Operating Partnership.

As of December 31, 2020 and 2019, the balance of our equity-method investment related to the Fantasia JV was approximately \$2.0 million and \$2.1 million, respectively.

### ***Summit Fantasia Holdings II, LLC***

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

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

As of December 31, 2020 and 2019, the balance of our equity-method investment related to the Fantasia II JV was approximately \$1.4 million and \$1.5 million, respectively.

#### ***Summit Fantasia Holdings III, LLC***

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

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

As of December 31, 2020 and 2019, the balance of our equity-method investment related to the Fantasia III JV was approximately \$1.6 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.

As of December 31, 2020 and 2019, the balance of our equity-method investment related to the FPH JV was approximately \$0.2 million and \$0.5 million, respectively.

#### ***Indiana JV***

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

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

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

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

As of December 31, 2020 and 2019, the balance of our equity-method investment related to the Indiana JV was approximately \$3.5 million and \$4.3 million, respectively.

#### **Summarized Financial Data for Equity-Method Investments**

Our Equity-Method Investments are significant equity-method investments in the aggregate.

The results of operations of our Equity-Method Investments for the year ending December 31, 2020 are summarized below:

	SUL JV	Fantasia JV	Fantasia II JV	Fantasia III JV	FPH JV	Indiana JV	Combined Total
Revenue	\$ 18,247,000	\$ 4,112,000	\$ 3,557,000	\$ 7,982,000	\$ 3,537,000	\$ 11,786,000	\$ 49,221,000
Income from Operations	\$ 7,831,000	\$ 557,000	\$ 1,960,000	\$ 4,132,000	\$ 1,681,000	\$ 7,447,000	\$ 23,608,000
Net Income	\$ 3,465,000	\$ (55,000)	\$ 992,000	\$ 1,795,000	\$ (779,000)	\$ (479,000)	\$ 4,939,000
Summit interest in Equity-Method Investments net income	\$ 346,000	\$ (19,000)	\$ 198,000	\$ 179,000	\$ (78,000)	\$ (71,000)	\$ 555,000

The results of operations of our Equity-Method Investments for the year ending December 31, 2019 are summarized below:

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

#### **Distributions from Equity-Method Investments**

As of December 31, 2020 and 2019, we have distributions receivable, which is included in tenant and other receivables in our consolidated balance sheets, as follows:

	December 31, 2020	December 31, 2019
SULH JV	\$ 466,000	\$ 97,000
Fantasia JV	36,000	180,000
Fantasia II JV	51,000	48,000
Fantasia III JV	257,000	117,000
FPH JV	26,000	39,000
Indiana JV	498,000	162,000
Total	\$ 1,334,000	\$ 643,000

For the years ended December 31, 2020 and 2019, 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, 2020			Year Ended December 31, 2019		
	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	\$ 499,000	\$ 346,000	\$ 153,000	\$ 548,000	\$ 128,000	\$ 420,000
Fantasia JV	144,000	-	144,000	-	-	-
Fantasia II JV	292,000	198,000	94,000	276,000	185,000	91,000
Fantasia III JV	104,000	104,000	-	160,000	130,000	30,000
FPH JV	152,000	-	152,000	306,000	-	306,000
Indiana JV	429,000	-	429,000	377,000	-	377,000
Total	\$ 1,620,000	\$ 648,000	\$ 972,000	\$ 1,667,000	\$ 443,000	\$ 1,224,000

#### *Acquisition and Asset Management Fees*

We serve as the manager of our Equity-Method Investments and provide management services in exchange for fees and reimbursements. As the manager, we are paid an acquisition fee, as defined in the agreements. Additionally, we are paid an annual asset management fee for managing the properties held by our Equity-Method Investments, as defined in the agreements. For the years ended December 31, 2020 and 2019, we recorded approximately \$1.3 million and \$1.2 million, respectively, in acquisition and asset management fees from our Equity-Method Investments.

## 6. Receivables

### Notes Receivable

#### *Friendswood TRS Note*

The Operating Partnership entered into an amended and restated promissory note dated January 1, 2018, with Friendswood TRS for approximately \$1.1 million. The note does not bear interest and is due in 48 equal payments of approximately \$22,000. We recorded a discount of approximately \$95,000 on the note using an imputed interest rate of 4.25%. As of December 31, 2020 and 2019, the balance on the note was approximately \$0.2 million and \$0.5 million, respectively.

### Tenant and Other Receivables, net

Tenant and other receivables, net consists of:

	December 31, 2020	December 31, 2019
Straight-line rent receivables	\$ 2,772,000	\$ 2,546,000
Distribution receivables from Equity-Method Investments	1,334,000	643,000
Receivable from JV 2 properties	11,000	184,000
Asset management fees	432,000	430,000
Other receivables	128,000	9,000
Total	\$ 4,677,000	\$ 3,812,000

## 7. Related Party Transactions

### CRA

Prior to the termination of our advisory agreement on April 1, 2014 with CRA (our former advisor, a related party), we incurred costs related to fees paid and costs reimbursed for services rendered to us by CRA through March 31, 2014. Some of the fees we had paid to CRA were considered to be in excess of allowed amounts and, therefore, CRA was required to reimburse us for the amount of the excess costs we paid to them. As of December 31, 2020 and 2019, the receivables from CRA are fully reserved due to the uncertainty of collectability and are included in tenant and other receivables in our consolidated balance sheets (see Note 9).

As of December 31, 2020 and 2019, we had the following receivables and reserves:

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

### Equity-Method Investments

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

## 8. Concentration of Risk

As of December 31, 2020, we owned one property in California, three properties in Oregon, one property in Texas, one property in Illinois, and one property in Arizona (excluding the 50 properties held by our Equity-Method Investments). Accordingly, there is a geographic concentration of risk subject to economic conditions in certain states.

Additionally, as of December 31, 2020, we leased our seven real estate properties to five different tenants under long-term triple net leases. For the year ended December 31, 2020, four of the five tenants each had rental revenue greater than 10% (35%, 24%, 20% and 15%). As of December 31, 2020, we did not have any tenants that constituted a significant asset concentration as none of the net assets of the tenants were greater than 20% of our total assets.

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

## 9. Commitments and Contingencies

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

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

On April 1, 2014, CRA and Cornerstone Ventures, Inc. filed a complaint in the Superior Court of California for the County of Orange-Central Justice Center, Case No. 30-2014-00714004-CU-BT-CJC, naming the Company, its former directors, one of its officers and one of its former officers as defendants, seeking declaratory and injunctive relief and compensatory and punitive damages. On September 17, 2014, we filed a First Amended Cross-Complaint seeking compensatory damages and an accounting pursuant to Sections 10(c)(i) and 17(c)(ii) of the Advisory Agreement and including any monies Plaintiffs and Terry Roussel directly or indirectly received from or paid to the Company. On February 22, 2018, the action was assigned to a different trial judge. On May 29, 2018, the Company filed a motion for terminating and monetary sanctions against CRA, Cornerstone Ventures, Inc. and their counsel, Winget Spadafora & Schwartzberg. On November 30, 2018, the new trial judge vacated the trial date, pending resolution of the Company's motion for terminating and monetary sanctions against CRA and Cornerstone Ventures, Inc. and denied the Company's motion for sanctions against Winget Spadafora & Schwartzberg. On February 13, 2019, the trial judge held another hearing on the Company's motion for terminating and monetary sanctions and indicated that it intended to grant the Company's motion for terminating sanctions and award the Company monetary sanctions. On March 14, 2019, the Court entered an Order and Judgment granting the Company's motion for terminating sanctions, awarding the Company monetary sanctions in the amount of \$588,672, and dismissing CRA and Cornerstone Ventures Inc.'s Complaint with prejudice. On May 21, 2019, CRA and Cornerstone Ventures, Inc. filed a notice of appeal from the Judgment and, on June 3, 2019, the Company filed a notice of cross-appeal from the Judgment. On July 9, 2019, the California Court of Appeal, Fourth District dismissed CRA and Cornerstone Ventures, Inc.'s appeal with prejudice. The briefing to the Court of Appeal, Fourth District on the Company's appeals against CRA, Cornerstone Ventures, Inc and Winget Spadafora & Schwartzberg was completed on April 27, 2020. On October 28, 2020, the Court of Appeal issued an opinion affirming in part, and reversing, in part, the trial court's opinion and remanded the action back to the trial court. On February 11, 2021, the trial court issued an order awarding an additional \$189,645 in monetary sanctions for the period prior to July 12, 2016 in favor of the Company and against CRA and CVI.

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 the parties are discussing entry of a scheduling order to govern discovery and pretrial matters, and are also considering whether to explore settlement options. We believe that all of HCRE’s remaining alleged claims are without merit and will vigorously defend ourselves.

### ***Indemnification and Employment Agreements***

We have entered into indemnification agreements with certain of our executive officers and directors which indemnify them against all judgments, penalties, fines and amounts paid in settlement and all expenses actually and reasonably incurred by him or her in connection with any proceeding. Additionally, effective October 1, 2018, we amended our employment agreements with our executive officers to extend the term of each agreement for an additional three years. These employment agreements include customary terms relating to salary, bonus, position, duties and benefits (including eligibility for equity compensation), as well as a cash payment following a change in control of the Company, as defined in such agreements.

### ***Management of our Equity-Method Investments***

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

## **10. Equity**

### ***Common Stock***

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

### ***Distributions***

The Company declared no cash distributions per common share during the years ended December 31, 2020 and 2019.

Our distribution reinvestment plan was suspended indefinitely effective December 31, 2010. At this time, we cannot provide any assurance as to if or when we will resume our distribution reinvestment plan.

## Share-Based Compensation Plans

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

The fair value of each grant is estimated on the date of grant using the Black-Scholes option-pricing model. Assumptions required by the model include the risk-free interest rate, the expected life of the options, the expected stock price volatility over the expected life of the options, and the expected distribution yield. Compensation expense for employee stock options is recognized ratably over the vesting term. The expected life of the options was based on the simplified method as we do not have sufficient historical exercise data. The risk-free interest rate was based on the U.S. Treasury yield curve at the date of grant using the expected life of the options at the date of grant. Volatility was based on historical volatility of the stock prices for a sample of publicly traded companies with risk profiles similar to ours. The valuation model applied in this calculation utilizes highly subjective assumptions that could potentially change over time, including the expected stock price volatility and the expected life of an option.

### *Summit Healthcare REIT, Inc. 2015 Omnibus Incentive Plan*

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

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

The Incentive Plan provides that the total number of shares of common stock that may be issued is 3,000,000, of which 1,128,092 is available for future issuances as of December 31, 2020.

On January 1, 2020, the Compensation Committee of the Board of Directors approved the issuance of 45,000 stock options under our Summit Healthcare REIT, Inc. 2015 Omnibus Incentive Plan (“Incentive Plan”) to our non-executive employees. The stock options vest monthly beginning on February 1, 2020 and continuing over a three-year period through January 1, 2023. The options expire 10 years from the grant date.

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

	2020
Stock options granted	45,000
Expected volatility	22.31%
Expected term	5.75 years
Risk-free interest rate	1.72%
Dividend yield	0%
Fair value per stock option	\$ 0.57

The following table summarizes our stock options as of December 31, 2020:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding at January 1, 2020	1,826,908	\$ 2.09		
Granted	45,000	2.26		
Exercised	—			
Cancelled/forfeited	—			
Options outstanding at December 31, 2020	<u>1,871,908</u>	<u>\$ 2.09</u>	<u>6.81</u>	<u>\$ 1,524,000</u>
Options exercisable at December 31, 2020	<u>1,729,876</u>	<u>\$ 2.07</u>	<u>6.69</u>	<u>\$ 1,433,000</u>

For our outstanding non-vested options as of December 31, 2020, the weighted average grant date fair value per share was \$0.58. As of December 31, 2020, we have unrecognized stock-based compensation expense related to unvested stock options which is expected to be recognized as follows:

**Years Ending December 31,**

2021	66,000
2022	15,000
2023	1,000
	<u>\$ 82,000</u>

The stock-based compensation expense reported for the years ended December 31, 2020 and 2019 was approximately \$151,000 and \$234,000, respectively, and is included in general and administrative expense in the consolidated statements of operations.

**11. Dispositions**

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

***Sale of Four North Carolina Properties***

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

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

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

## 12. Earnings Per Share

The following table presents the calculation of basic and diluted earnings per share (“EPS”) for the Company’s common stock for the years ended December 31, 2020 and 2019, and reconciles the weighted-average common shares outstanding used in the calculation of basic EPS to the weighted-average common shares outstanding used in the calculation of diluted EPS:

	2020	2019
<b>Numerator:</b>		
(Loss) income from continuing operations	\$ (557,000)	\$ 3,030,000
(Loss) income from continuing operations attributable to noncontrolling interest	(56,000)	83,000
Net (loss) income applicable to common stockholders	<u>\$ (613,000)</u>	<u>\$ 3,113,000</u>
<b>Denominator:</b>		
Basic:		
Denominator for basic EPS - weighted average shares	23,027,978	23,027,978
Effect of dilutive shares:		
Stock options	-	478,500
Denominator for diluted EPS – adjusted weighted average shares	23,027,978	23,506,478
Basic EPS	\$ (0.03)	\$ 0.14
Diluted EPS	\$ (0.03)	\$ 0.13

## 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, 2020 and 2019, 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.

## ITEM 16. FORM 10-K SUMMARY

None

**SIGNATURES**

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

SUMMIT HEALTHCARE REIT, INC.

Date: March 26, 2021

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 26, 2021.

<u>Name</u>	<u>Title</u>
<u>/s/ Kent Eikanas</u> Kent Eikanas	Chief Executive Officer and Secretary (Principal Executive Officer)
<u>/s/ Elizabeth A. Pagliarini</u> Elizabeth A. Pagliarini	Chief Financial Officer, Chief Operating Officer and Treasurer (Principal Financial Officer)
<u>/s/ J. Steven Roush</u> J. Steven Roush	Director
<u>/s/ Suzanne Koenig</u> Suzanne Koenig	Director
<u>/s/ Kent Eikanas</u> Kent Eikanas	Director

## EXHIBIT INDEX

<u>Ex.</u>	<u>Description</u>
<u>3.1</u>	<u><a href="#">Amendment and Restatement of Articles of Incorporation (incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K filed on March 24, 2006).</a></u>
<u>3.2</u>	<u><a href="#">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")).</a></u>
<u>3.3</u>	<u><a href="#">Articles of Amendment of Cornerstone Core Properties REIT, Inc. dated October 16, 2013 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on October 22, 2013).</a></u>
<u>3.4</u>	<u><a href="#">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).</a></u>
<u>4.1</u>	<u><a href="#">Subscription Agreement (incorporated by reference to Appendix A to the prospectus included on Post-Effective Amendment No. 2 to the Registration Statement on Form S-11 (No. 333-155640) filed on April 16, 2010 ("Post-Effective Amendment No. 2")).</a></u>
<u>4.2</u>	<u><a href="#">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).</a></u>
<u>4.3</u>	<u><a href="#">Amended and Restated Distribution Reinvestment Plan (incorporated by reference to Appendix B to the prospectus dated April 16, 2010 included on Post-Effective Amendment No. 2).</a></u>
<u>4.4</u>	<u><a href="#">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).</a></u>
<u>4.5</u>	<u><a href="#">Description of the Registrant's Common Stock (incorporated by reference to the Company's Annual Report on Form 10-K filed on March 25, 2020).</a></u>
<u>10.1</u>	<u><a href="#">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).</a></u>
<u>10.2</u>	<u><a href="#">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).</a></u>
<u>10.3</u>	<u><a href="#">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).</a></u>
<u>10.4</u>	<u><a href="#">Employment Agreement, dated as of September 23, 2015, between Kent Eikanas and the Company (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 28, 2015).</a></u>
<u>10.5</u>	<u><a href="#">Employment Agreement, dated as of September 23, 2015, between Elizabeth Pagliarini and the Company (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on September 28, 2015).</a></u>

- [10.6](#) [Healthcare Facility Note with respect to HUD – insured loans between HP Aledo, LLC and Lancaster Pollard Mortgage Company, LLC dated October 1, 2015 \(incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on October 9, 2015\).](#)
- [10.7](#) [Healthcare Regulatory Agreement – Borrower between HP Aledo, LLC and HUD dated October 1, 2015 \(incorporated by reference to Exhibit 10.2 to the Company’s Current Report on Form 8-K filed on October 9, 2015\).](#)
- [10.8](#) [Second Amendment to Limited Liability Company Agreement of Summit Union Life Holdings, LLC dated as of December 21, 2015 \(incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on December 30, 2015\).](#)
- [10.9](#) [Agreement of Limited Partnership of Cornerstone Operating Partnership, L.P. \(incorporated by reference to Exhibit 10.2 to Pre-Effective Amendment No. 4 to the Registration Statement on Form S-11 \(No. 333-121238\) filed on August 30, 2005\).](#)
- [10.10](#) [Indemnification Agreement dated July 31, 2014 by and between the Company and Kent Eikanas \(incorporated by reference to the form of such agreement on Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on August 1, 2014\).](#)
- [10.11](#) [Indemnification Agreement dated September 2, 2014 by and between the Company and Elizabeth Pagliarini \(incorporated by reference to the form of such agreement on Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on September 3, 2014\).](#)
- [10.12](#) [Lease Agreement between CHP Portland, LLC, CHP Tigard, LLC and Sheridan Care Center LLC, and SNF Management, LLC dated September 1, 2014 \(incorporated by reference on Exhibit 10.29 to the Company’s Annual Report on Form 10-K filed on March 20, 2015\).](#)
- [10.13](#) [Amended and Restated Lease between CHP Friendswood SNF, LLC and Friendswood TRS, LLC dated January 1, 2018 \(incorporated by reference to Exhibit 10.2 to the Company’s Current Report on Form 8-K filed on January 5, 2018\).](#)
- [10.14](#) [Amended and Restated Promissory Note between Friendswood TRS, LLC and Summit Healthcare Operating Partnership, L.P. dated January 1, 2018 \(incorporated by reference to Exhibit 10.3 to the Company’s Current Report on Form 8-K filed on January 5, 2018\).](#)
- [10.15](#) [Healthcare Facility Note with respect to HUD – insured loans between Summit Chandler, LLC and Capital One Multifamily Finance, LLC, dated September 27, 2018 \(incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on October 1, 2018\).](#)
- [10.16](#) [Healthcare Regulatory Agreement – Borrower between Summit Chandler, LLC and HUD, dated September 27, 2018 \(incorporated by reference to Exhibit 10.2 to the Company’s Current Report on Form 8-K filed on October 1, 2018\).](#)
- [10.17](#) [Amendment No. 2 to Employment Agreement, dated as of October 1, 2018, between Kent Eikanas and the Company \(incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on October 2, 2018\).](#)
- [10.18](#) [Amendment No. 2 to Employment Agreement, dated as of October 1, 2018, between Elizabeth Pagliarini and the Company \(incorporated by reference to Exhibit 10.2 to the Company’s Current Report on Form 8-K filed on October 2, 2018\).](#)
- [10.19](#) [Healthcare Facility Note with respect to HUD – insured loans between CHP Friendswood, LLC and ORIX Real Estate Capital, LLC, dated April 1, 2020 \(incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on April 28, 2020\).](#)

- [10.20](#) [Healthcare Regulatory Agreement – Borrower between CHP Friendswood, LLC and HUD, dated April 1, 2020 \(incorporated by reference to Exhibit 10.2 to the Company’s Current Report on Form 8-K filed on April 28, 2020\).](#)
- [14.1](#) [Code of Business Conduct and Ethics \(incorporated by reference to Exhibit 14.1 to the Company’s Annual Current Report on Form 8-K filed on June 23, 2014\).](#)
- [21.1](#) [List of Subsidiaries \(filed herewith\).](#)
- [23.1](#) [Consent of BDO USA, LLP \(filed herewith\).](#)
- [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 \(filed herewith\).](#)
- 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



**Consent of Independent Registered Public Accounting Firm**

**Summit Healthcare REIT, Inc.**  
**Lake Forest, California**

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-212231) of Summit Healthcare REIT, Inc. of our report dated March 26, 2021, relating to the consolidated financial statements which appears in this Form 10-K.

*/s/ BDO USA, LLP*

Costa Mesa, California  
March 26 , 2021

---

## CERTIFICATIONS

I, Kent Eikanas, certify that:

1. I have reviewed this annual report on Form 10-K of Summit Healthcare REIT, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; and
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 26, 2021

/s/ Kent Eikanas  
\_\_\_\_\_  
Kent Eikanas  
Chief Executive Officer  
(Principal Executive Officer)

---

## 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

Elizabeth A. Pagliarini

Chief Financial Officer

(Principal Financial Officer)

Date: March 26, 2021

---

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

Kent Eikanas and Elizabeth A. Pagliarini, do each hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his or her knowledge, the Annual Report of Summit Healthcare REIT, Inc. on Form 10-K for the year ended December 31, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-K fairly presents in all material respects the financial condition and results of operations of Summit Healthcare REIT, Inc.

Date: March 26, 2021

/s/ Kent Eikanas  
Kent Eikanas  
*Chief Executive Officer*  
*(Principal Executive Officer)*

Date: March 26, 2021

/s/ Elizabeth A. Pagliarini  
Elizabeth A. Pagliarini  
*Chief Financial Officer*  
*(Principal Financial Officer)*

---