Financial Statements
December 31, 2016

Christian Care Surprise, Inc.

Independent Auditor's Report

Board of Directors
Christian Care Surprise, Inc.
Surprise, Arizona

Report on the Financial Statements
We have audited the accompanying financial statements of Christian Care Surprise, Inc. (the Organization), which comprise the statement of financial position as of December 31, 2016, and the related statement of cash flows for the year then ended, and the related notes to the financial statements.

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

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

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Christian Care Surprise, Inc., as of December 31, 2016, and the changes in its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Eide Bailly LLP

Phoenix, Arizona
April 20, 2017

Assets		
Current Assets		
Cash and cash equivalents	$	487,196
Due from related party		2,998
Total current assets		490,194
Long-Term Assets		
Restricted deposits under bond indenture		66,853,552
Property and equipment, net		10,486,089
Due from related party		348,499
Total assets	$	78,178,334
Liabilities and Net Assets (Deficit)		
Current Liabilities		
Accounts payable	$	83,297
Accrued expenses		1,229,973
Due to related party		1,900,151
Total current liabilities		3,213,421
Long-Term Liabilities, Less Current Portion		
Due to related party		639,655
Notes payable		1,375,000
Affiliate loan payable		11,780,858
Bonds payable		64,250,000
Bond discount		(235,341)
Bond issuance costs, net of accumulated amortization of $15,256		(2,845,303)
Total long-term liabilities		74,964,869
Total liabilities		78,178,290
Net Assets		
Unrestricted net assets		44
Total net assets		44
Total liabilities and net assets	$	78,178,334

Cash Flows from Operating Activities	
Change in net assets	$ -
Cash Flows Used for Investing Activities	
Investing activities with related parties	(307,499)
Increase in restricted deposits under bond indenture	(66,853,552)
Purchase of property and equipment	(3,212,584)
Net Cash Used for Investing Activities	(70,373,635)
Cash Flows Used for Financing Activities	
Financing activities with related parties	639,655
Principal payments on note payable	(2,886,765)
Issuance of bond payable	64,250,000
Bond discount	(235,341)
Issuance of affiliate loan payable	11,780,858
Bond issuance costs	(2,860,559)
Net Cash from Financing Activities	70,687,848
Net Change in Cash and Cash Equivalents	314,213
Cash and Cash Equivalents, Beginning of Year	172,983
Cash and Cash Equivalents, End of Year	$ 487,196
Supplemental Disclosure of Cash Flows Information	
Property and equipment additions through increase in accounts payable	$ 57,335
Property and equipment additions through increase in accrued expenses	$ 1,173,113
Property and equipment additions through increase in due to/from related parties	$ 307,501
Capitalization of property and equipment through amortization of bond issuance costs	$ 15,256

Note 1 - Nature of Operations and Significant Accounting Policies

Christian Care Surprise, Inc. (the Organization) purchased 14.6 acres of land in Surprise, Arizona to develop and operate 313 units for independent living, assisted living, and memory support. Construction of Fellowship Square Surprise began in December 2016.

See Note 2 for description of related party organizations and disclosures.

Basis of Accounting and Presentation

The financial statement presentation of the Organization is prepared on the accrual basis and, accordingly, reflects all significant receivables, payables, and other liabilities. The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents

The Organization considers all highly-liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents excluding deposits restricted under bond indenture. The Organization maintains cash in banks which, at times, may exceed federally insured limits.

Restricted Deposits

Restricted deposits include assets set aside for payments of debt service interest, debt service principal, bond reserves, replacement reserves, and tax and insurance escrow funds under a bond indenture agreement. Restricted deposits consist of money market funds, which are carried at cost.

Property and Equipment

Property and equipment acquisitions are recorded at cost, if purchased, or at estimated fair market value, if received as a donation. Additions, renewals, and betterments greater than $1,000 are generally capitalized, whereas expenditures for maintenance and repairs are charged to expense. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets.

The Organization reviews its property and equipment whenever events indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recorded when the sum of the future cash flows is less than the carrying amount of the asset. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value. No impairment loss was recorded for property and equipment for the year ended December 31, 2016.

Bond Issuance Costs

The Organization is currently amortizing bond issuance costs on a straight-line basis over a period of 31 years, the life of the bond. The straight-line method is a reasonable estimate of the effective interest method. Bond issuance costs are included with long-term debt on the statement of financial position.

Income Taxes

The Organization is organized as an Arizona non-profit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), and has been determined not to be a private foundation under Section 509(a)(2). Accordingly, contributions to it qualify for the charitable contribution deduction under Section 170(b)(1)(A). The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is generally subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. Management has determined the Organization has no taxable unrelated business income and it has not filed Exempt Organization Business Income Tax Returns (IRS Forms 990-T).

Management believes that it has appropriate support for any income tax positions taken, and, as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Advertising

Advertising costs are expensed as incurred. There was no advertising expense for the year ended December 31, 2016.

Estimates

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

Subsequent Events

The Organization has evaluated subsequent events through April 20, 2017, the date which the financial statements were available to be issued.

Note 2 - Related Party Transactions

The Organization is a component of the Christian Care Companies. The Christian Care Companies are comprised of non-profit corporations sponsored by the non-denominational Christian Churches of Arizona. The corporations are governed by a common Board of Directors and share administrative facilities and employees. Related entities include the following: Christian Care Foundation, Christian Care Retirement Apartments, Inc.; Christian Care Assisted Living (Phoenix), Inc.; Christian Care Mesa, Inc.; Christian Care Mesa II, Inc.; Christian Care Mesa III, Inc.; Christian Care Nursing Center, Inc.; Christian Care Manor I, Inc.; Christian Care Manor II, Inc.; Christian Care Manor III, Inc.; Christian Housing Mesa, Inc.; Christian Housing Cottonwood, Inc.; Christian Care Cottonwood, Inc.; Christian Care Cottonwood III, Inc.; Christian Care Cottonwood IV, Inc.; Christian Care Cottonwood V, Inc.; Christian Care Cottonwood VI, Inc.; Christian Care Cottonwood VII, Inc.; Christian Care Cottonwood VIII, Inc.; Christian Care California, Inc.; Christian Care Management, Inc. (MGT); Christian Care Management II, Inc.; Christian Care Holding Company, Inc. (HC); and Christian Care Tucson, Inc.

In the normal course of business, the Organization can repay shared expenses paid on its behalf and short-term advances extended by MGT, and receive payments for shared expenses paid from and to MGT, Christian Care Retirement Apartments, Inc.; Christian Care Mesa, Inc.; and Christian Care Assisted Living, Inc. Shared expenses are repaid monthly.

As a result of the related party transactions described above, due to affiliates was $2,539,806 as of December 31, 2016. All amounts due to affiliates are unsecured and there are no specific due dates.

During the year ended December 31, 2016, the Organization entered into an affiliate loan from Christian Care Retirement Apartments, Inc.; Christian Care Assisted Living (Phoenix), Inc.; and Christian Care Mesa, Inc., through the 2016C bond issuance by the affiliates, for the purpose of financing a portion of the cost of acquiring, constructing and equipping a 313-unit senior living facility. The affiliate loan will be repaid in agreement with the loan agreement on January 2041. The effective loan balance on November 1, 2016 was $11,785,000.

Net cash advanced from affiliates to the Corporation totaled $263,488 for 2016.

Note 3 - Restricted Deposits Under Bond Indenture

As a requirement of the 2016 Senior Living Facilities Revenue Bonds (see Note 6), certain trustee-held funds were established. Their use is restricted to retiring bond principal and interest, bond reserve, and funding for various items. The reserve funds consist of cash held by the trustee and may exceed federally insured limits at times.

The balances of the funds were as follows at December 31, 2016:

Debt service reserve fund	$ 4,657,352
Cost of issuance fund	429,124
Benevolent trust fund	200,007
Capitalized interest fund	9,368,930
Project fund	48,722,350
Tax and insurance escrow fund	80,009
Capitalized operating account	2,110,069
Construction contingency	1,285,711
	$ 66,853,552

Note 4 - Property and Equipment

The balances of major classes of property and equipment were as follows at December 31, 2016:

Land and land improvements	$ 3,934,928
Construction in progress	6,551,161
	$ 10,486,089

There was no depreciation expense charged to operations in 2016.

Substantially all of the property and equipment has been pledged as collateral with regard to the bonds payable.

Note 5 - Notes Payable

Notes payable consisted of the following at December 31, 2016:

Fourteen separate unsecured loan agreements with Directors and Key Executives, with 8% interest, maturing November and December 2022.	$ 1,375,000
	$ 1,375,000

Future minimum payments on notes payable are as follows at December 31, 2016:

2017	$ -
2018	-
2019	-
2020	-
2021	-
Thereafter	1,375,000
	$ 1,375,000

Interest capitalized was $110,301 for the year ended December 31, 2016.

Note 6 - Bonds Payable

During 2016, the Industrial Development Authority of the County of Maricopa (Maricopa IDA) issued 2016A series $64,250,000 of Senior Living Facility Revenue Bonds. The bonds have rates between 5% and 6% and were issued at a discount, which is being amortized over the life of the bond. Bond issuance costs were $2,860,559 and are also being amortized over the life of the bond.

The bonds are secured by the real and personal property of the Organization.

The bond principal amounts, interest rates, and maturities are as follows at December 31, 2016:

Series 2016A bonds, at variable rates capped at 6%, final maturity date of January 1, 2048.	$ 64,250,000
Unamortized discount	(235,341)
	$ 64,014,659

The bond agreement obligates the Organization to pay to a trustee, for the account of the issuer, ratable monthly payments equal to the amounts required to pay the interest coming due on each interest payment date with respect to the bonds, plus the principal amounts on the bonds maturing or required to be redeemed.

Under the terms of the bond agreement, the Organization is required to make monthly payments to specified reserve accounts.

The principal sinking fund requirements for the bonds are as follows at December 31, 2016:

2017	$ -
2018	-
2019	-
2020	400,000
2021	925,000
Thereafter	62,925,000
	$ 64,250,000

Interest capitalized was $489,250 for the year ended December 31, 2016.

Note 7 - Affiliate Loan Payable

During 2016, the Organization entered into an affiliate loan agreement with Christian Care Retirement Apartments, Inc., Christian Care Mesa, Inc., and Christian Care Assisted Living (Phoenix), Inc. (Lenders). Maricopa IDA issued 2016C series $11,785,000 of Senior Living Facility Revenue Bonds to finance a portion of the cost of acquiring, constructing, and equipping the Surprise facility. The affiliate loan bears interest at a rate of 3.75% and has a maturity date of January 1, 2041. Payments do not start on the loan until January 1, 2040. Interest capitalized was $58,097 for the year ended December 31, 2016.

Note 8 - Property Taxes

The Organization has an agreement with Maricopa County for an exemption from property taxes. The Organization applies annually for the exemption.