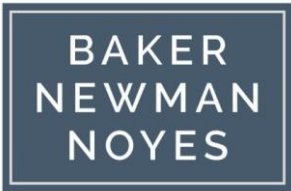


# **Penobscot Shores Association**

**Audited Financial Statements  
and Other Financial Information**

*Years Ended September 30, 2019 and 2018  
With Independent Auditors' Report*



**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Penobscot Shores Association

We have audited the accompanying financial statements of Penobscot Shores Association, which comprise the balance sheets as of September 30, 2019 and 2018, and the related statements of revenues and expenses, shareholders' equity and cash flows for the years 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.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 auditors' 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 Penobscot Shores Association as of September 30, 2019 and 2018, and the results of its operations, changes in its shareholders' equity and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Baker Newman + Noyes LLC*

Portland, Maine  
April 2, 2020

# PENOBSCOT SHORES ASSOCIATION

## BALANCE SHEETS

Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 328,639	\$ 847,151
Replacement reserve (note 2)	144,629	96,329
Accounts receivable	61,344	37,689
Prepays and other assets	108,087	17,202
Buildings and equipment, net of accumulated depreciation (note 3)	<u>2,925,266</u>	<u>2,905,839</u>
Total assets	<u>\$ 3,567,965</u>	<u>\$ 3,904,210</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Accounts payable and accrued expenses	\$ 37,054	\$ 100,119
Due to related parties (note 5)	217,707	537,061
Long-term debt (note 6)	<u>290,521</u>	<u>330,607</u>
Total liabilities	545,282	967,787
Shareholders' equity:		
Common stock, no par value, authorized 3,000 shares; issued and outstanding 54 shares	8,657,133	8,657,133
Retained earnings (deficit)	<u>(5,634,450)</u>	<u>(5,720,710)</u>
Total shareholders' equity	<u>3,022,683</u>	<u>2,936,423</u>
Total liabilities and shareholders' equity	<u>\$ 3,567,965</u>	<u>\$ 3,904,210</u>

See accompanying notes.

# PENOBSCOT SHORES ASSOCIATION

## STATEMENTS OF REVENUES AND EXPENSES

Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Revenues:		
Resident fees (notes 2 and 5)	\$1,097,479	\$1,095,330
Dining revenue	148,780	139,515
Refurbishment fees	137,764	79,082
Miscellaneous	<u>37,987</u>	<u>30,275</u>
Total revenues	1,422,010	1,344,202
Expenses:		
Contracted services and related benefits (note 5)	546,343	538,212
Management fee (note 5)	38,759	38,800
Land lease (note 5)	24,972	25,980
Supplies	109,002	90,358
Utilities and maintenance	151,871	177,643
Insurance	28,609	29,692
Real estate taxes	245,794	245,040
Purchased services	107,317	103,758
Legal and accounting	11,225	14,440
Other	<u>23,249</u>	<u>21,574</u>
Total expenses before depreciation	<u>1,287,141</u>	<u>1,285,497</u>
Excess of revenue over expenses before replacement reserve fund activity and depreciation	134,869	58,705
Replacement reserve fund activity:		
Assessments (notes 2 and 5)	200,532	142,488
Investment income	<u>—</u>	<u>180</u>
Net replacement reserve fund activity	200,532	142,668
Depreciation	<u>(249,141)</u>	<u>(242,545)</u>
Excess (deficiency) of revenues over expenses	\$ <u>86,260</u>	\$ <u>(41,172)</u>

See accompanying notes.

**PENOBSCOT SHORES ASSOCIATION**

**STATEMENTS OF SHAREHOLDERS' EQUITY**

Years Ended September 30, 2019 and 2018

	<u>Common Stock</u>		<u>Retained</u>	
	<u>Issued</u>		<u>Earnings</u>	
	<u>Shares</u>	<u>Amount</u>	<u>(Deficit)</u>	<u>Total</u>
Balances at October 1, 2017	54	\$8,657,133	\$(5,679,538)	\$2,977,595
Deficiency of revenues over expenses	<u>—</u>	<u>—</u>	<u>(41,172)</u>	<u>(41,172)</u>
Balances at September 30, 2018	54	8,657,133	(5,720,710)	2,936,423
Excess of revenues over expenses	<u>—</u>	<u>—</u>	<u>86,260</u>	<u>86,260</u>
Balances at September 30, 2019	<u>54</u>	<u>\$8,657,133</u>	<u>\$(5,634,450)</u>	<u>\$3,022,683</u>

See accompanying notes.

# PENOBSCOT SHORES ASSOCIATION

## STATEMENTS OF CASH FLOWS

Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Excess (deficiency) of revenues over expenses	\$ 86,260	\$ (41,172)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash (used) provided by operating activities:		
Depreciation	249,141	242,545
Changes in operating assets and liabilities:		
Accounts receivable	(23,655)	(10,086)
Prepays and other assets	(90,885)	3,555
Accounts payable and accrued expenses	(63,065)	(57,101)
Due to/from related parties	<u>(319,354)</u>	<u>585,740</u>
Net cash (used) provided by operating activities	(161,558)	723,481
Cash flows from investing activities:		
Purchases of buildings and equipment	(268,568)	(123,243)
Net change in replacement reserve	<u>(48,300)</u>	<u>(60,993)</u>
Net cash used by investing activities	(316,868)	(184,236)
Cash flows from financing activities:		
Repayments of long-term debt	<u>(40,086)</u>	<u>(38,498)</u>
Net cash used by financing activities	<u>(40,086)</u>	<u>(38,498)</u>
(Decrease) increase in cash and cash equivalents	(518,512)	500,747
Cash and cash equivalents at beginning of year	<u>847,151</u>	<u>346,404</u>
Cash and cash equivalents at end of year	<u>\$ 328,639</u>	<u>\$ 847,151</u>
Supplemental information:		
Cash paid for interest on long-term debt totaled		
\$12,666 and \$14,255 in 2019 and 2018, respectively.		

See accompanying notes.

# PENOBSCOT SHORES ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2019 and 2018

### 1. Nature of Organization

Penobscot Shores Association (the Community) is a cooperative housing corporation incorporated in the State of Maine on April 5, 1996. The Community began operations on September 27, 1996. The Community owns the retirement community of the same name located in Belfast, Maine. The community consists of twenty-six cottages and twenty-eight apartments. The primary purpose of the Community is to manage the operations of the retirement community and maintain the common elements.

### 2. Significant Accounting Policies

The accounting policies that affect the more significant elements of the financial statements of the Community are summarized below:

#### Use of Estimates

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

#### Cash and Cash Equivalents

Highly liquid savings deposits and debt investments with maturities of three months or less when purchased are considered cash equivalents. For the years ended September 30, 2019 and 2018, the Community maintained cash balances in financial institutions exceeding federal depository insurance limits. However, management believes the credit risk related to these investments is minimal. The Community has not experienced any losses in such accounts.

#### Resident Fees and Replacement Reserve Fund Assessment

The replacement reserve consists of cash and cash equivalents.

Residents are subject to monthly fees and meal plan charges to provide funds for the Community's operating expenses and routine capital acquisitions. Any excess fees at year end are retained by the Community for use in future years.

Additionally, the Community assessed monthly fees per unit to resident to fund a replacement reserve. For the years ended September 30, 2019 and 2018, monthly fees ranged from \$225 to \$260 and \$203 to \$235, respectively, based on unit type. The replacement reserve will be utilized to fund future significant equipment and building repairs and replacement.

# PENOBSCOT SHORES ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2019 and 2018

### 2. Significant Accounting Policies (Continued)

The Community's governing documents require that funds be segregated for future major repairs and replacements to ensure that sufficient amounts are available to make repairs as needed. Such amounts are determined by the Board of Directors on an annual basis and a portion of residents' fees are allocated to the replacement reserve by the Board. The Community is responsible for the preservation and maintenance of all of the owned property.

The replacement reserve account, which is invested in a money market account, is comprised of the following at September 30:

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 96,329	\$ 35,336
Replacement reserve assessments	200,532	142,488
Loan payments and fees	(52,752)	(52,753)
Disbursements for repairs	<u>(99,480)</u>	<u>(28,742)</u>
Balance, end of year	<u>\$144,629</u>	<u>\$ 96,329</u>

Management has estimated the remaining useful lives and the replacement costs of the units which have been completed and are owned by the Community. The table included in the unaudited supplementary information of Future Major Repairs and Replacements is based on these estimates. Management will review its funding plan periodically and will make necessary changes in estimates and funding level as required to meet replacement costs. If management changes such estimates, funding levels of the replacement reserve may be different in order to meet the estimated replacement costs as incurred. Actual replacement expenditures may differ from amounts set aside in the replacement reserve and those variations may be material.

#### Revenue Recognition and Accounts Receivable

Residents' fees are based upon an annual budget determined by the Board of Directors. Residents are billed monthly for their share of the total residents' fees. Residents' fees are used to pay operating expenses of the Community and also are used to fund the replacement reserve account.

Additional services are available to residents upon request and are billed directly to each resident requesting such services. Revenues for such services are recorded on an accrual basis.

Upon resale of units, the Waldo County Healthcare Management Company (WCHMC) retains a portion of the sale proceeds to use towards refurbishment of the unit. When the refurbishment work has been completed and recorded in the Community's accounting records, WCHMC transfers the cash collected at resale to the Community to cover this cost. Occasionally shareholders request upgrades for their units, which they fund. The revenue for unit refurbishment and upgrades totaled \$137,764 and \$79,082 in 2019 and 2018, respectively.



# PENOBSCOT SHORES ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2019 and 2018

### 2. Significant Accounting Policies (Continued)

Accounts receivable are carried at billed amounts, less an allowance for doubtful accounts (where necessary) which is recorded based on an analysis by management of the collectibility of outstanding balances. Management considers the age of outstanding balances and past collection efforts in determining the allowance for doubtful accounts. There was no allowance for doubtful accounts at September 30, 2019 and 2018. Accounts are charged off when they are deemed uncollectible.

#### Buildings and Equipment

Buildings and equipment are recorded at cost at date of acquisition. Depreciation is calculated on a straight-line basis based upon lives which are intended to approximate the estimated useful life of the property.

#### New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases* (ASU 2016-02), which was issued to increase transparency and comparability among organizations by requiring reporting entities to recognize all leases, including operating leases, as lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. The amendments in ASU 2016-02 are effective October 1, 2021. The Community is currently reviewing ASU 2016-02 to determine the future impact on its financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which requires revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the Community expects to be entitled in exchange for those goods and services. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. ASU 2014-09 is effective for the Community on October 1, 2019. ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. The Community does not anticipate that ASU 2014-09 will have a significant impact on the financial statements and related disclosures.

#### Subsequent Events

Events occurring after the balance sheet date are evaluated by management to determine whether such events should be recognized or disclosed in the financial statements. The Community evaluates events subsequent to the balance sheet date and through April 2, 2020, the date the financial statements are available to be issued.

On March 11, 2020, the World Health Organization declared the outbreak of coronavirus (COVID-19) a pandemic. The recent COVID-19 outbreak could negatively impact, for some period of time, the overall economy as well as certain business segments. Investment markets have experienced increased volatility which may negatively affect the carrying value of the Community's investments. Any potential future impact on Community's operation is unknown at this time.

# PENOBSCOT SHORES ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2019 and 2018

### 3. Buildings and Equipment

Buildings and equipment are recorded at cost and consist of the following at September 30:

	<u>2019</u>	<u>2018</u>
Land improvements	\$ 1,623,457	\$ 1,618,498
Buildings and improvements	5,735,210	5,538,973
Equipment	2,878,234	2,889,332
Construction in progress	<u>78,468</u>	<u>—</u>
	10,315,369	10,046,803
Less accumulated depreciation	<u>(7,390,103)</u>	<u>(7,140,964)</u>
	<u>\$ 2,925,266</u>	<u>\$ 2,905,839</u>

### 4. Income Taxes

The Community generally is taxed only on nonmembership income, such as interest income and earnings from commercial operations. Earnings from tenant-shareholders, if any, may be excluded from taxation if certain annual elections are made. Losses for tax purposes are expected to continue and tax loss carryforwards are not expected to be realized. Therefore, all deferred tax benefits otherwise recordable have been offset by a valuation allowance.

Under guidance issued by the Financial Accounting Standards Board (FASB), assets and liabilities are established for uncertain tax positions taken or positions expected to be taken in income tax returns when such positions are judged to not meet the "more-likely-than-not" threshold, based upon the technical merits of the position. Estimated interest and penalties, if applicable, related to uncertain tax positions are included as a component of income tax expense.

The Community has evaluated the positions taken on its filed tax returns and has concluded no uncertain income tax positions exist at September 30, 2019.

### 5. Transactions With Coastal Healthcare Alliance

WCHMC, a subsidiary of Coastal Healthcare Alliance (CHA), served as the developer of the Community. Upon completion of a unit, WCHMC transferred the unit and related land improvements at its cost to the Community. The Community issued a stock certificate to WCHMC. WCHMC began activities to sell the stock to the ultimate resident of the respective unit. The resident does not own the specific unit, however, the share of stock entitles the individual to occupy the unit under a proprietary lease which is not transferable. Profit or loss on the initial sale of the stock was realized by WCHMC. When a resident wishes to leave the unit, sales of stock (unit) to a new resident are brokered by WCHMC. Upon sale, the Community cancels the share of stock to the original owner, issues a new share to the new owner and signs a new lease agreement. Gain or loss on resale is earned or incurred by the seller of the stock, and such gain or loss is, therefore, not reflected in the Community's financial statements. At September 30, 2019 and 2018, WCHMC owned sixteen shares of the Community.

# PENOBSCOT SHORES ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2019 and 2018

### 5. Transactions With Coastal Healthcare Alliance

The Community has a 99-year operating lease agreement with WCHMC to lease the land on which the retirement community is situated. The lease will expire on September 27, 2095, at which time the Community may buy the land at its fair market value. Rental payments may be adjusted for inflation based on the Consumer Price Index for all Urban Consumers, Boston Average yearly on the anniversary date of the lease; the current rate is \$2,081 per unit per year. Rent paid to WCHMC was \$24,972 and \$25,980, respectively, for the years ended September 30, 2019 and 2018.

Amounts due to CHA and subsidiaries totaled \$217,707 and \$537,061 at September 30, 2019 and 2018, respectively. Included in these amounts are unpaid charges for management fees, contract labor, and employee benefits that CHA provided to the Community. WCHMC also processes certain cash disbursements and receipts for the Community. The parent of WCHMC, CHA, advances various expenses of the Community. For the years ended September 30, 2019 and 2018, the Community recorded expenses of \$585,102 and \$577,012, respectively, for management fees, contract labor and benefits purchased from WCHMC. For the years ended September 30, 2019 and 2018, the Community recorded approximately \$421,000 and \$416,000, respectively, from WCHMC for monthly fees, benefits assessments and replacement reserve fund assessment with respect to unsold units.

### 6. Long-Term Debt

In December 2015, the Community obtained an unsecured term loan in the amount of \$432,500 for the purpose of refinancing the existing term loans and borrowing additional proceeds. The term loan is payable in monthly installments of \$4,396 with any amounts outstanding in December 2020 due in full. The loan has a fixed interest rate of 4% and is guaranteed by CHA.

Remaining payments are as follows:

2020	\$ 41,713
2021	<u>248,808</u>
	<u>\$290,521</u>

### 7. Proprietary Lease

Completed units owned by the Community are leased to shareholders under an open ended proprietary lease agreement. The terms of the lease allow the residents to enjoy all of the rights and privileges of the community as long as they continue to meet residency requirements set forth in the lease agreement and shareholders' agreement. Monthly residents' fees are established at the beginning of each year at a level which will allow the annual budgeted expenses to be met. The lease is not transferable.

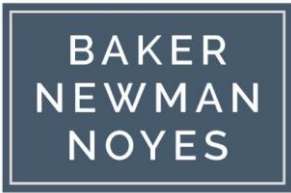
# **PENOBSCOT SHORES ASSOCIATION**

## **NOTES TO FINANCIAL STATEMENTS**

Years Ended September 30, 2019 and 2018

### **8. Common Stock**

All of the Community's shares are subject to restrictions on ownership and transfer as provided in the Community's bylaws. WCHMC shall act as the exclusive sales agent for the stock. In order to maintain residency status, shareholders must meet and maintain certain eligibility standards as set forth in the articles of incorporation, bylaws and shareholder agreement. The Community has a first lien and security agreement in each issued share of stock, except in the case where the shareholder has granted a first mortgage to a lending institution in which case the Community would retain a second lien and security agreement.



**INDEPENDENT AUDITORS' REPORT  
ON OTHER FINANCIAL INFORMATION**

Board of Directors  
Penobscot Shores Association

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Baker Newman + Noyes LLC*

Portland, Maine  
April 2, 2020

## PENOBSCOT SHORES ASSOCIATION

### SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS (Unaudited)

September 30, 2019

Management has estimated the remaining useful lives and the replacement costs of the components of the buildings, land improvements and equipment for the project. These component parts include estimated replacement amounts for both common areas as well as individual residential units. The following table presents significant information about the estimated replacement costs of the respective components.

	<u>Estimated Future Cost</u>	<u>Estimated Replacement Date</u>
Create larger fitness room	\$ 15,000	2020
Ocean house roof repair	25,000	2020
Pickup truck	40,000	2021
3 Ocean house domestic boilers	65,000	2021
Common area erosion remediation	75,000	2021
Ocean house entrance door	4,000	2023
Kitchen equipment	15,000	2023
Kitchen dishwasher	10,000	2025
Dining room tableware/furniture	20,000	2025
Kubota tractor	35,000	2025
Ocean house underground oil tank	75,000	2026
Cottages oil tanks	26,000	2027
Ocean house fire panel	30,000	2027
Membrane roofing	90,000	2027
Ocean house and cottages vehicle charging stations	2,000	2039
Update second floor bathrooms	4,000	2039
Ocean house and cottages update master key system	10,000	2039
Gazebo refurbishing (safety)	20,000	2039
Ocean house solar roof panels	100,000	2039
Garage	150,000	2039
Roofing, ocean house and cottages	415,000	2039
Ocean house carpeting/flooring common areas	50,000	2020-2021
Ocean house boilers (lifetime warranty)	168,000	2020-2025
Cottage windows	550,000	2020-2030
Ocean house and cottages appliances	46,000	2020-2039
Cottage and ocean house deck and railings repair	106,000	2020-2039
Cedar shingle siding	1,000,000	2021-2030
Ocean house windows	<u>350,000</u>	2024-2030
Totals	<u>\$3,496,000</u>	