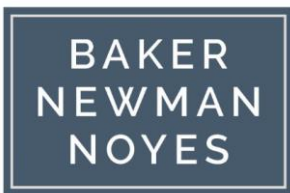


# **Penobscot Shores Association**

## **Financial Statements and Other Financial Information**

*Years Ended September 30, 2022 and 2021  
With Independent Accountants' Review Report*



## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Board of Directors  
Penobscot Shores Association

We have reviewed the accompanying financial statements of Penobscot Shores Association, which comprise the balance sheets as of September 30, 2022 and 2021, the related statements of revenues and expenses, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

### 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.

### Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with *Statements on Standards for Accounting and Review Services* promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of Penobscot Shores Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

### Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

*Baker Newman & Noyes LLC*

Portland, Maine  
February 3, 2023

# PENOBSCOT SHORES ASSOCIATION

## BALANCE SHEETS

September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 185,344	\$ 271,457
Replacement reserve (note 2)	590,033	251,530
Accounts receivable	20,434	20,741
Prepays and other assets	63,737	40,315
Buildings and equipment, net of accumulated depreciation (note 3)	<u>2,776,124</u>	<u>2,861,424</u>
Total assets	<u>\$ 3,635,672</u>	<u>\$ 3,445,467</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Accounts payable and accrued expenses	\$ 164,412	\$ 90,327
Due to related parties (note 5)	<u>140,830</u>	<u>77,557</u>
Total liabilities	305,242	167,884
Shareholders' equity:		
Common stock, no par value, authorized 3,000 shares; issued and outstanding 54 shares (note 8)	8,657,133	8,657,133
Retained earnings (deficit)	<u>(5,326,703)</u>	<u>(5,379,550)</u>
Total shareholders' equity	<u>3,330,430</u>	<u>3,277,583</u>
Total liabilities and shareholders' equity	<u>\$ 3,635,672</u>	<u>\$ 3,445,467</u>

See Independent Accountants' Review Report and accompanying notes.

**PENOBSCOT SHORES ASSOCIATION**

**STATEMENTS OF REVENUES AND EXPENSES**

Years Ended September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Revenues:		
Resident fees (notes 2 and 5)	\$ 1,223,026	\$ 1,184,366
Dining revenue	164,538	174,756
Refurbishment fees	129,289	77,703
Miscellaneous	<u>8,035</u>	<u>8,498</u>
Total revenues	1,524,888	1,445,323
Expenses:		
Contracted services and related benefits (note 5)	643,281	538,155
Management fee (note 5)	69,965	68,839
Land lease (note 5)	26,623	25,560
Supplies	114,335	103,514
Utilities and maintenance	383,958	341,090
Insurance	22,291	34,068
Real estate taxes	222,879	239,281
Purchased services	132,856	134,372
Legal and accounting	6,773	12,227
Other	<u>9,682</u>	<u>11,753</u>
Total expenses before depreciation	<u>1,632,643</u>	<u>1,508,859</u>
Deficiency of revenue over expenses before replacement reserve fund activity and depreciation	(107,755)	(63,536)
Replacement reserve fund activity: Assessments (notes 2 and 5)	447,734	531,304
Depreciation	<u>(287,132)</u>	<u>(306,756)</u>
Excess of revenues over expenses	<u>\$ 52,847</u>	<u>\$ 161,012</u>

See Independent Accountants' Review Report and accompanying notes.

**PENOBSCOT SHORES ASSOCIATION**

**STATEMENTS OF SHAREHOLDERS' EQUITY**

Years Ended September 30, 2022 and 2021

	<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 September 30, 2020	54	\$8,657,133	\$(5,540,562)	\$3,116,571
Excess of revenues over expenses	<u>—</u>	<u>—</u>	<u>161,012</u>	<u>161,012</u>
Balances at September 30, 2021	54	8,657,133	(5,379,550)	3,277,583
Excess of revenues over expenses	<u>—</u>	<u>—</u>	<u>52,847</u>	<u>52,847</u>
Balances at September 30, 2022	<u>54</u>	<u>\$8,657,133</u>	<u>\$(5,326,703)</u>	<u>\$3,330,430</u>

See Independent Accountants' Review Report and accompanying notes.

# PENOBSCOT SHORES ASSOCIATION

## STATEMENTS OF CASH FLOWS

Years Ended September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Excess of revenues over expenses	\$ 52,847	\$ 161,012
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation	287,132	306,756
Changes in operating assets and liabilities:		
Accounts receivable	307	(9,379)
Prepays and other assets	(23,422)	73,306
Accounts payable and accrued expenses	74,085	69,709
Due to related parties	<u>63,273</u>	<u>(130,984)</u>
Net cash provided by operating activities	454,222	470,420
Cash flows from investing activities:		
Purchases of buildings and equipment	(201,832)	(157,903)
Proceeds from sale of building and equipment	—	3,034
Net change in replacement reserve	<u>(338,503)</u>	<u>(85,366)</u>
Net cash used by investing activities	(540,335)	(240,235)
Cash flows from financing activities:		
Repayments of long-term debt	<u>—</u>	<u>(248,808)</u>
Net cash used by financing activities	<u>—</u>	<u>(248,808)</u>
Decrease in cash and cash equivalents	(86,113)	(18,623)
Cash and cash equivalents at beginning of year	<u>271,457</u>	<u>290,080</u>
Cash and cash equivalents at end of year	<u>\$ 185,344</u>	<u>\$ 271,457</u>

### Supplemental information:

Cash paid for interest on long-term debt totaled \$1,662 in 2021.

See Independent Accountants' Review Report and accompanying notes.

# PENOBSCOT SHORES ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2022 and 2021

### 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, 2022 and 2021, 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 residents from \$1,888 to \$2,507 for the year ended September 30, 2022 and \$1,815 to \$2,451 for the year ended September 30, 2021; a portion of assessed fees are used to fund a replacement reserve. The replacement reserve will be utilized to fund future significant equipment and building repairs and replacement.

See Independent Accountants' Review Report.

# PENOBSCOT SHORES ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2022 and 2021

### 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>2022</u>	<u>2021</u>
Balance, beginning of year	\$ 251,530	\$ 166,164
Replacement reserve assessments and transfer	462,734	531,304
Loan payments and fees	-	(250,470)
Disbursements for repairs	<u>(124,231)</u>	<u>(195,468)</u>
Balance, end of year	<u>\$ 590,033</u>	<u>\$ 251,530</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.

#### 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. The Community's policy is to capitalize expenditures over \$2,500 with a life of more than one year and charge maintenance and repairs for expenditures which do not extend the lives of the related assets.

#### 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.

See Independent Accountants' Review Report.



# PENOBSCOT SHORES ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2022 and 2021

### 2. Significant Accounting Policies (Continued)

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 \$129,289 and \$77,703 in 2022 and 2021, respectively.

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, 2022 and 2021. Accounts are charged off when they are deemed uncollectible. Accounts receivable totaled \$20,434, \$20,741 and \$11,862 for the years ended September 30, 2022, 2021 and 2020, respectively.

#### Proposed Accounting Pronouncement

In February 2016, the FASB issued 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, 2022. The Community is currently evaluating the impact of the pending adoption of ASU 2016-02 on the Community's financial statements and does not anticipate that there will be a material impact.

#### 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 February 3, 2023, the date the financial statements are available to be issued.

See Independent Accountants' Review Report.

# PENOBSCOT SHORES ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2022 and 2021

### 3. Buildings and Equipment

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

	<u>2022</u>	<u>2021</u>
Land improvements	\$ 1,641,699	\$ 1,641,699
Buildings and improvements	6,357,333	6,227,109
Equipment	2,928,151	2,918,336
Construction in progress	<u>69,027</u>	<u>7,234</u>
	10,996,210	10,794,378
Less accumulated depreciation	<u>(8,220,086)</u>	<u>(7,932,954)</u>
	<u>\$ 2,776,124</u>	<u>\$ 2,861,424</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 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.

The Community has evaluated the positions taken on its filed tax returns and has concluded no uncertain income tax positions exist at September 30, 2022.

### 5. Transactions With MaineHealth Services

WCHMC, a subsidiary of MaineHealth Services, 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, 2022 and 2021, WCHMC owned fourteen shares of the Community.

See Independent Accountants' Review Report.

# PENOBSCOT SHORES ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2022 and 2021

### 5. Transactions With MaineHealth Services (Continued)

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 \$2,123 per unit per year. Rent paid to WCHMC was \$26,623 and \$25,560, respectively, for the years ended September 30, 2022 and 2021.

Amounts due to MaineHealth Services and subsidiaries totaled \$140,830 and \$77,557 at September 30, 2022 and 2021, respectively. Included in these amounts are unpaid charges for management fees, contract labor, and employee benefits that MaineHealth Services provided to the Community. WCHMC also processes certain cash disbursements and receipts for the Community. For the years ended September 30, 2022 and 2021, the Community recorded expenses of \$713,246 and \$606,994, respectively, for management fees, contract labor and benefits purchased from WCHMC. For the years ended September 30, 2022 and 2021, the Community recorded approximately \$324,000 and \$381,000, 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 had a fixed interest rate of 4% and was guaranteed by MaineHealth Services. The loan was fully repaid in November 2020.

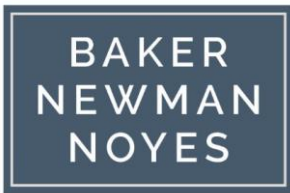
### 7. Proprietary Lease

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.

### 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.

See Independent Accountants' Review Report.



**INDEPENDENT ACCOUNTANTS' REVIEW REPORT  
ON OTHER FINANCIAL INFORMATION**

Board of Directors  
Penobscot Shores Association

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 supplementary information has been subjected to the review procedures applied in our review of the financial statements. We are not aware of any material modifications that should be made to the supplementary information. We have not audited the supplementary information and do not express an opinion on such information.

*Baker Newman & Noyes LLC*

Portland, Maine  
February 3, 2023

**PENOBSCOT SHORES ASSOCIATION**

**SUPPLEMENTARY INFORMATION ON FUTURE  
MAJOR REPAIRS AND REPLACEMENTS**

September 30, 2022

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>Item Description</u>	<u>Years</u>	<u>Total</u>
<b>Site:</b>		
Pavement overlay	10-11	\$ 609,000
Landscaping	4	8,000
Erosion control (stabilize beachfront)	1	166,000
Utilities (underground storage tank)	5	<u>75,000</u>
		858,000
<b>Structural/building envelope:</b>		
Ocean House – decking	1-15	137,000
Ocean House - doors	1, 2, 5 & 8	28,000
Ocean House – roofing	1 & 14	488,000
Ocean House – siding, windows, etc.	1-8	981,000
Cottages – decking	1-15	67,000
Cottages - doors	1-15	154,000
Cottages – roofing	1, 2 & 13	721,000
Cottages – siding, windows, etc.	1-15	<u>1,036,000</u>
		3,612,000
<b>Mechanical/electrical:</b>		
Plumbing	1-15	166,000
HVAC	1-15	441,000
Electrical	1-15	<u>156,000</u>
		763,000
<b>Interior elements:</b>		
Library fireplace (remedy issues)	1	3,000
Kitchen equipment	1-2	25,000
Dining room and common furniture	3 & 5-8	17,000
Appliance replacement	1-15	<u>160,000</u>
		205,000
<b>Additional equipment/repairs:</b>		
Kubota tractor	3	<u>35,000</u>
<b>Total uninflated</b>		<u><b>\$5,473,000</b></u>