

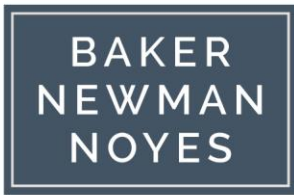
# **Penobscot Shores Association**

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

*For the Years Ended September 30, 2024 and 2023  
With Independent Accountants' Review Report*

Baker Newman & Noyes LLC  
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## 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, 2024 and 2023, 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  
March 5, 2025

**PENOBSCOT SHORES ASSOCIATION**

**BALANCE SHEETS**

September 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 257,592	\$ 130,079
Replacement reserve (note 2)	782,633	589,154
Accounts receivable	6,929	20,213
Prepays and other assets	59,579	104,366
Buildings and equipment, net of accumulated depreciation (note 3)	2,993,073	2,901,795
Right-of-use asset (note 9)	<u>717,382</u>	<u>719,371</u>
Total assets	\$ <u>4,817,188</u>	\$ <u>4,464,978</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Accounts payable and accrued expenses	\$ 76,459	\$ 51,195
Due to related parties (note 5)	494,073	434,491
Long-term debt, related party note payable (note 8)	91,400	125,675
Operating lease liability (note 9)	<u>717,382</u>	<u>719,371</u>
Total liabilities	1,379,314	1,330,732
Shareholders' equity:		
Common stock, no par value, authorized 3,000 shares; issued and outstanding 54 shares (note 7)	8,657,133	8,657,133
Retained earnings (deficit)	<u>(5,219,259)</u>	<u>(5,522,887)</u>
Total shareholders' equity	<u>3,437,874</u>	<u>3,134,246</u>
Total liabilities and shareholders' equity	\$ <u>4,817,188</u>	\$ <u>4,464,978</u>

See Independent Accountants' Review Report and accompanying notes.

**PENOBSCOT SHORES ASSOCIATION**

**STATEMENTS OF REVENUES AND EXPENSES**

Years Ended September 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Revenues:		
Resident fees (notes 2 and 5)	\$ 1,356,343	\$ 1,260,641
Dining revenue	270,262	160,929
Refurbishment fees	79,180	127,261
Miscellaneous	<u>8,540</u>	<u>8,150</u>
Total revenues	1,714,325	1,556,981
Expenses:		
Contracted services and related benefits (note 5)	439,990	600,244
Management fee (note 5)	80,381	71,800
Land lease (notes 5 and 9)	30,243	28,822
Supplies	54,788	76,454
Utilities and maintenance	172,889	339,940
Insurance	22,759	23,460
Real estate taxes	205,689	215,519
Purchased services	608,995	426,723
Legal and accounting	6,244	7,281
Other	<u>(2,620)</u>	<u>65</u>
Total expenses before depreciation	<u>1,619,358</u>	<u>1,790,308</u>
Excess (deficiency) of revenue over expenses before replacement reserve fund activity and depreciation	94,967	(233,327)
Replacement reserve fund activity:		
Assessments (notes 2 and 5)	508,792	320,118
Depreciation	<u>(300,131)</u>	<u>(282,975)</u>
Excess (deficiency) of revenues over expenses	\$ <u>303,628</u>	\$ <u>(196,184)</u>

See Independent Accountants' Review Report and accompanying notes.

# **PENOBSCOT SHORES ASSOCIATION**

## **STATEMENTS OF SHAREHOLDERS' EQUITY**

Years Ended September 30, 2024 and 2023

	<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, 2022	54	\$8,657,133	\$ (5,326,703)	\$3,330,430
Deficiency of revenues over expenses	<u>—</u>	<u>—</u>	<u>(196,184)</u>	<u>(196,184)</u>
Balances at September 30, 2023	54	8,657,133	(5,522,887)	3,134,246
Excess of revenues over expenses	<u>—</u>	<u>—</u>	<u>303,628</u>	<u>303,628</u>
Balances at September 30, 2024	<u>54</u>	<u>\$8,657,133</u>	<u>\$ (5,219,259)</u>	<u>\$3,437,874</u>

See Independent Accountants' Review Report and accompanying notes.

**PENOBSCOT SHORES ASSOCIATION**

**STATEMENTS OF CASH FLOWS**

Years Ended September 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Excess (deficiency) of revenues over expenses	\$ 303,628	\$(196,184)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:		
Depreciation	300,131	282,975
Changes in operating assets and liabilities:		
Accounts receivable	13,284	221
Prepays and other assets	44,787	(40,629)
Accounts payable and accrued expenses	25,264	(113,217)
Due to related parties	<u>59,582</u>	<u>293,661</u>
Net cash provided by operating activities	746,676	226,827
Cash flows from investing activities:		
Purchases of buildings and equipment	(391,409)	(408,646)
Net change in replacement reserve	<u>(193,479)</u>	<u>879</u>
Net cash used by investing activities	(584,888)	(407,767)
Cash flows from financing activities:		
Proceeds from long-term debt	—	137,100
Payments on long-term debt	<u>(34,275)</u>	<u>(11,425)</u>
Net cash (used) provided by financing activities	<u>(34,275)</u>	<u>125,675</u>
Increase (decrease) in cash and cash equivalents	127,513	(55,265)
Cash and cash equivalents at beginning of year	<u>130,079</u>	<u>185,344</u>
Cash and cash equivalents at end of year	\$ <u>257,592</u>	\$ <u>130,079</u>
Noncash investment and financing activities:		
Right-of-use asset obtained in exchange for lease liability	\$ <u>—</u>	\$ <u>748,193</u>
Supplemental information:		

See Independent Accountants' Review Report and accompanying notes.

# **PENOBSCOT SHORES ASSOCIATION**

## **NOTES TO FINANCIAL STATEMENTS**

Years Ended September 30, 2024 and 2023

### **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, 2024 and 2023, 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 \$2,087 to \$2,913 for the year ended September 30, 2024 and \$1,970 to \$2,586 for the year ended September 30, 2023; 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, 2024 and 2023

### 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>2024</u>	<u>2023</u>
Balance, beginning of year	\$ 589,154	\$ 590,033
Replacement reserve assessments and transfer	527,792	457,300
Loan payments and fees	(34,275)	—
Disbursements for repairs	<u>(300,038)</u>	<u>(458,179)</u>
Balance, end of year	<u>\$ 782,633</u>	<u>\$ 589,154</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, 2024 and 2023

### 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 \$79,180 and \$127,261 in 2024 and 2023, 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, 2024 and 2023. Accounts are charged off when they are deemed uncollectible. Accounts receivable totaled \$6,929, \$20,213 and \$20,434 as of September 30, 2024, 2023 and 2022, respectively.

#### Leases

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, which requires that lease arrangements longer than twelve months result in an entity recognizing an asset and liability. The pronouncement is effective for the Community beginning October 1, 2022. Under Accounting Standards Codification (ASC) Topic 842, an entity may elect, as a practical expedient, not to reassess the lease classification for expired or existing leases. The Community has elected to adopt this practical expedient; as such, the lease classification of the transition lease will not be reassessed, and this lease will remain as an operating lease upon the Community's adoption of ASC Topic 842. See notes 5, 6 and 9 for a description of the Community's leases.

The Community determines if an arrangement is a lease at the inception of a contract. A lease is a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration.

The right-of-use asset represents the Community's right to use an underlying asset during the lease term and the lease liability represents the Community's obligation to make lease payments arising from the lease. The right-of-use asset and liability are recognized at the commencement date, based on the net present value of fixed lease payments over the lease term.

The Community determines the present value of future lease payments using the risk free rate as the discount rate as the Community's operating lease does not provide an implicit rate.

Operating lease expense is recognized on a straight-line basis over the lease term.

See Independent Accountants' Review Report.

# PENOBSCOT SHORES ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2024 and 2023

### 2. **Significant Accounting Policies (Continued)**

#### **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 March 5, 2025, the date the financial statements are available to be issued.

### 3. **Buildings and Equipment**

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

	<u>2024</u>	<u>2023</u>
Land improvements	\$ 1,907,654	\$ 1,881,230
Buildings and improvements	6,759,425	6,562,626
Equipment	2,942,320	2,928,151
Construction in progress	<u>186,867</u>	<u>32,850</u>
	11,796,266	11,404,857
Less accumulated depreciation	<u>(8,803,193)</u>	<u>(8,503,062)</u>
	<u>\$ 2,993,073</u>	<u>\$ 2,901,795</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, 2024.

See Independent Accountants' Review Report.

# **PENOBSCOT SHORES ASSOCIATION**

## **NOTES TO FINANCIAL STATEMENTS**

Years Ended September 30, 2024 and 2023

### **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, 2024, WCHMC owned seven units/shares, respectively, of the Community.

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. Rent paid to WCHMC was \$30,243 and \$28,822, respectively, for the years ended September 30, 2024 and 2023.

Amounts due to MaineHealth Services and subsidiaries totaled \$494,073 and \$434,491 at September 30, 2024 and 2023, 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, 2024 and 2023, the Community recorded expenses of \$520,371 and \$672,044, respectively, for management fees, contract labor and benefits purchased from WCHMC. For the years ended September 30, 2024 and 2023, the Community recorded approximately \$241,000 and \$235,000, respectively, from WCHMC for monthly fees, benefits assessments and replacement reserve fund assessment with respect to unsold units.

### **6. 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.

See Independent Accountants' Review Report.

# PENOBSCOT SHORES ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2024 and 2023

### 7. 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.

### 8. Long-Term Debt

In June 2023, the Community obtained a noninterest bearing note from WCHMC in the amount of \$137,100 for the purpose of funding the shorefront erosion control project. The promissory note is payable in monthly installments of \$2,856 from June 2023 to May 2027 with a 0% interest rate.

Future repayments of the obligations under long-term debt are scheduled as follows:

2025	\$ 34,275
2026	34,275
2027	<u>22,850</u>
	<u>\$91,400</u>

### 9. Operating Lease

As noted in Note 5, the Community has a 99-year operating lease agreement with WCHMC to lease the land on which the retirement community is situated. The lease agreement requires the Community to pay maintenance, repairs, property taxes and insurance costs, which are variable amounts based on actual costs incurred during each applicable period. Such costs are not included in the determination of the right-of-use asset or lease liability. Variable lease cost also includes escalating rent payments that are not fixed at commencement but are based on an index that is determined in future periods over the lease term based on changes in the Consumer Price Index or other measure of cost inflation.

The following table presents the lease-related asset and liability at September 30:

	<u>2024</u>	<u>2023</u>
Assets:		
Right-of-use asset	<u>\$717,382</u>	<u>\$719,371</u>
Liabilities:		
Operating lease liability	<u>\$717,382</u>	<u>\$719,371</u>

See Independent Accountants' Review Report.

**PENOBSCOT SHORES ASSOCIATION**

**NOTES TO FINANCIAL STATEMENTS**

Years Ended September 30, 2024 and 2023

**9. Operating Lease (Continued)**

The components of lease cost and rent expense are as follows for the years ended September 30:

	<u>2024</u>	<u>2023</u>
Operating lease expense	\$ <u>28,822</u>	\$ <u>28,822</u>

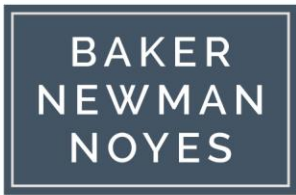
Lease term and discount rate is as follows at September 30:

	<u>2024</u>	<u>2023</u>
Remaining lease term in years	72	73
Discount rate	3.73%	3.73%

Future minimum operating lease payments under operating obligations at September 30, 2024 are as follows:

2025	\$ 28,822
2026	28,822
2027	28,822
2028	28,822
2029	28,822
Thereafter	<u>1,931,062</u>
Total minimum future payments	2,075,172
Less imputed interest	<u>(1,357,790)</u>
Total lease payments	\$ <u>717,382</u>

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  
March 5, 2025

# PENOBSCOT SHORES ASSOCIATION

## SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS

September 30, 2024

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>
Site:		
Landscaping	3	\$ 8,125
Pavement overlay	1, 8 & 9	613,415
Utilities (electric vehicle charging station)	1	10,000
Utilities (underground storage tank)	4	<u>75,000</u>
		706,540
Structural/building envelope:		
Ocean House - doors	2 & 11	18,750
Ocean House – railings and decking	1-11	55,000
Ocean House – retaining wall	1	10,000
Ocean House – roofing	10	307,500
Ocean House – siding and trim	1-8	697,500
Ocean House – windows	1-11	138,500
Cottages - doors	1-11	119,167
Cottages – railings and decking	1-11	47,000
Cottages – roofing	1 & 10	721,625
Cottages – siding and trim	1-9	810,000
Cottages – windows	1-11	<u>549,250</u>
		3,474,292
Mechanical/electrical:		
Ocean House – HVAC (BAS)	1 & 3	91,400
Ocean House – HVAC (boilers and tanks)	1 & 2	68,750
Ocean House – plumbing (boilers)	1	23,125
Ocean House – plumbing (fittings)	1 & 2	20,000
Ocean House – plumbing (DWH heaters and pump)	2,5 & 11	36,875
Cottages – HVAC (boilers and tanks)	1-3	132,000
Cottages – HVAC (DHW heaters)	6-10	113,750
Electrical – replace emergency generator	10	<u>106,250</u>
		592,150
Interior elements:		
Appliance replacement	1	20,000
Kitchen / dining room – replace equipment	4 & 5	25,000
Kitchen / dining room – replace furniture	1 & 3-6	<u>17,000</u>
		62,000
Additional equipment/repairs:		
Kubota tractor	1	35,000
Pick-up truck	1	25,000
Sander for truck	1	6,000
Solar panels	1	50,000
Transport vehicle	1	<u>45,000</u>
		<u>161,000</u>
Total uninflated		<u>\$4,995,982</u>