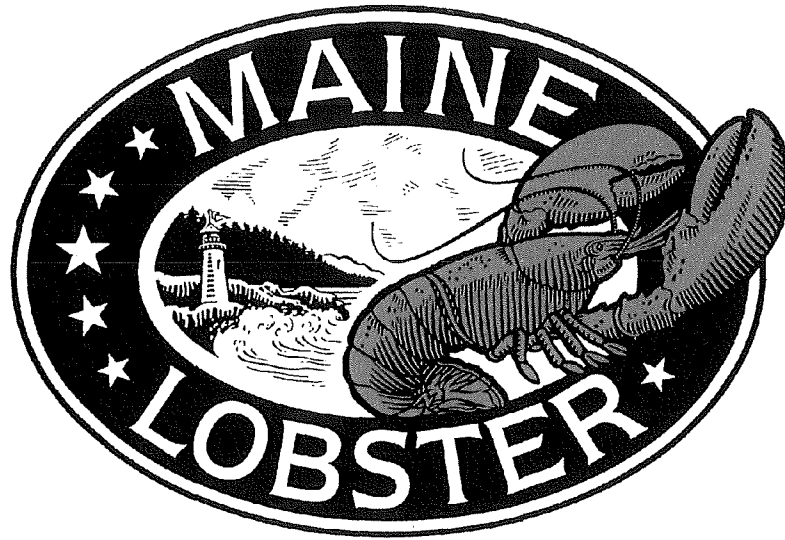


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***Maine Lobster
Promotion Council***

2005 Annual Report

Submitted January, 2006



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INTRODUCTION

The Maine Lobster Promotion Council markets and promotes the sale of Maine lobster in local, regional, national, and world markets year-round. The Council encourages education and training of all customers – including wholesale, retail and foodservice, and end-consumers – about how to handle, prepare, serve, promote, and sell Maine lobster.

The Maine State Legislature established the Maine Lobster Promotion Council in 1991 at the request of the Maine lobster industry. The MLPC is a public instrumentality of the state, funded primarily through assessments paid by lobster license holders.

This document, the Maine Lobster Promotion Council's 14th annual report, describes the marketing communications and programming activities of the MLPC over the course of calendar year 2005.

Copies of the annual report are provided to the Maine State Legislature's Joint Standing Committees on Marine Resources and Appropriations and Financial Affairs, and to all lobster industry associations, lobster co-ops, and lobster zone management councils. These organizations are encouraged to make the report available to members in an effort to further communicate industry-wide marketing initiatives. Comments on the report and activities of the council are welcome at any time.



2005 PROGRAMMING REVIEW: LOBSTER TOURISM/CONSUMER PROGRAMS

Outreach:

Maine Lobster Tailgate Party w/Boston Red Sox August
Boston, MA

The Council hosted thousands of visitors to a Maine Lobster Tailgate party held just outside Fenway Park on Maine Day. Several Maine companies were on site promoting Maine and Maine Lobster, including Down East Publishing, Shipyard Brewing and Morrison's Maine Course. The crowd was joined by Governor and Mrs. Baldacci, and the Governor unveiled a tremendous Maine lobsterbake and shucked lobsters for all, including Wally, the Green Monster. Sports radio station WEEI covered the event, and promoted it weeks in advance. The program was designed to generate media coverage and build brand preference for Maine lobster.

www.LobsterFromMaine.com August

The Council introduced a complete site redesign in August, with new imagery and brand positioning, updated industry and product information designed to make the site easy to navigate and interesting to read. The site communicates greater depth and range of information, and incorporated interactive components, including surveys, e-newsletters, recipe search, and language translation. LobsterFromMaine.com is utilized by a wide range of surfers, from home chefs wondering how long to boil lobsters, to journalists looking for industry data, to foodservice professionals seeking Maine distribution.

Best Maine Lobster Roll August
State-Wide

The Council's goals for this program were to obtain positive media coverage encouraging consumption of Maine lobster rolls and to engage the Maine restaurant community. The



contest solicited consumers to actively vote for their favorite Maine Lobster Roll; the program ran for the month of August. The program was well-received by the media, consumer and restaurant communities. Consumers placed more than 350 votes, and the winning restaurant was in Bob's Seafood Windham. Voters included their email addresses; the Council will correspond with these people on an ongoing basis through quarterly e-newsletters.

Research:

Market Research: Foodservice Trade

The research project's ultimate objective is to assist the Maine lobster industry in developing the market for and promoting the sale of Maine lobster with the best possible sustained return to the industry. There is much opportunity for new products and services, in addition to the traditional sale of live lobster. The Council would like to see Maine invest in, develop and commercialize new products as a way of differentiating the Maine lobster brand. This research project will help to identify opportunities for industry investment, and will ultimately aid in growing the industry's profitability.

Funding assistance for this project was made available through a grant by the Maine Technology Institute.

Collateral:

Maine Lobster Passport

July

In an effort to encourage "repeat" lobster eating occasions for out-of-state visitors, the Council developed the Maine Lobster Passport. Distributed via tourism centers throughout the state, the Passport included mouth-watering images of several ways to eat and enjoy Maine lobster, both innovative and traditional. Consumers entered to win a lobsterbake for six people by returning the tear-out postcard to the Council that included a survey about their lobster-eating experiences. Hundreds of consumers participated in the program, and from their surveys we



learned that an average of four lobster meals are eaten during a trip to Maine. Participants included their email addresses; the Council will correspond with these people on an ongoing basis through quarterly e-newsletters.

Direct Ship List

July

Designed to assist consumers in sourcing vendors who ship Maine lobster around the world, the Direct Ship List is updated annually and distributed at consumer events. The list is also available on our web site.

Media Relations:

Lobster Tourism Campaign

May – October

The Council sought to generate increased awareness in consumer media of the gourmet and health benefits of eating Maine lobster, by delivering the following broad messages:

Product: There is no lobster like Maine lobster in terms of taste, freshness, availability, convenience, quality and health.

Industry: The Maine lobster industry is a close-knit industry that is a critical component of Maine's economy, tradition and culture. Lobstermen are committed to sustainable harvesting practices.



2005 PROGRAMMING REVIEW: TRADE PROGRAMS

Outreach:

International Boston Seafood Show
Boston, MA

At the Boston show this year, the council promoted Maine lobster and in-state lobster dealers to buyer-attendees who represent foodservice, retail, distribution, and export markets. With approximately 14,000 attendees, the show served as an excellent venue for connecting with key seafood buyers.

American Culinary Federation: Maine Lobster Workshops

During spring 2005, at four regional conferences of the American Culinary Federation, the Council presented a workshop, Maine Lobster Bistro, to hundreds of chefs. Will Beriau, department chair of the Southern Maine Community College's culinary program and MLPC board member, conducted the interactive program, covering topics ranging from menu strategies to preparation techniques, and sharing consumer research on the importance of menuing lobster from Maine. The Council's objectives for the Maine Lobster Bistro workshops are to:

1. Obtain new menu placements of Maine lobster.
2. Communicate the features, advantages and benefits of menuing lobster from Maine, and the importance of ensuring origin.

Culinary Institute of America: Maine Lobster Online Education Course

In conjunction with the Culinary Institute of America, the MLPC launched an online Maine lobster course for chefs and culinary students. Through its website, prochef.com, the CIA will deliver key product and industry messages about Maine lobster. Streaming video depicts CIA chefs creating innovative Maine lobster preparations that leverage current menu trends. Having this third-party endorsement from the CIA adds tremendous legitimacy to the program



and, with thousands of unique visitors every month, prochef.com will provide excellent outreach for disseminating information about the benefits of menuing lobster from Maine.

Key messages of the ACF and CIA chef programs include the following elements:

- Maine Lobster: Front of the House Issues

- ✓ Taste profile
- ✓ Health Benefits & Nutritional Statements
- ✓ Consumer Demand
- ✓ Cooking Techniques
- ✓ Menu Suggestions

- Maine Lobster: The Industry

- ✓ Harvesting Basics
- ✓ Sustainable Practices
- ✓ Traditional heritage

- Maine Lobster: Back of the House Issues

- ✓ Seasonality/Hard Shell & New Shell
- ✓ Pricing Structure & Buying
- ✓ Meat yield

Collateral:

- Dealer Directory

The dealer directory, updated annually, lists contact information for all Maine lobster dealers in the state and is distributed at trade shows and to all sales inquiries. Both a print and online version are available.



MLPC ORGANIZATIONAL STRUCTURE

Organizational Management:

The MLPC is composed of nine appointed members, managed by an executive director, and operated by an office manager and marketing assistant. Marketing communications programs are developed and implemented by the staff and outside agencies with support from the council members.

Council Members:

The council is comprised of harvesters, dealers, and public members, one from each category from each of three state regions (east, mid-coast, west), totaling nine members. Members are nominated by the Lobster Advisory Council and appointed by the Commissioner of the Department of Marine Resources for three-year terms, with a maximum of two consecutive terms. The Commissioner of the Department of Marine Resources serves as an ex-officio member of the board.

Eastern Representatives

W. William Anderson, Harvester, South Trescott
Jay Burke, Dealer, Milbridge
Stephen Rappaport, Public Member, East Blue Hill

Midcoast Representatives

Clive Farrin, Harvester, Boothbay Harbor
Emily Lane, Dealer, Vinalhaven
Public Member, Tim Harkins, PM, Arrowsic

Western Representatives

Bob Putnam, Harvester, Chebeague Island
John Norton, Dealer, Portland
Wilfred Beriau, CEC, Public Member, Gray



Fiscal Management:

The organization strives to maximize market impact of its expenditures through strict adherence to conservative fiscal policy.

The majority (96%) of revenue is generated through an assessment on lobster licensees, and additional sources of funding are sought from outside sources, such as grants and co-op activity.

An annual audit is compiled by an external accounting firm; a copy of the 2005 fiscal year organization audit is attached to this report.

Maine Lobster Promotion Council

REPORT ON FINANCIAL STATEMENTS
(with supplemental material)

Year ended June 30, 2005

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Hollingsworth & Associates, CPA, P.A.

Douglas R. Hollingsworth, CPA
The Accessible Accountants

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Bangor, ME 04402-2181
(207) 262-2181

Independent Auditor's Report

To the Board of Directors
Maine Lobster Promotion Council

We have audited the accompanying basic financial statements of the Maine Lobster Promotion Council, as of and for the year ended June 30, 2005 as listed in the table of contents. These basic financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly in all material respects, the financial position of the Maine Lobster Promotion Council, as of June 30, 2005, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the other required supplemental information on pages 4 through 6, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Maine Lobster Promotion Council. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Hollingsworth & Associates, CPA, P.A.

September 28, 2005
Bangor, Maine

Maine Lobster Promotion Council
Financial Management Discussion & Analysis
Year Ended June 30, 2005

Overview & Analysis

This document is designed to provide information regarding the financial health and well-being of the Maine Lobster Promotion Council for its fiscal year ended June 30, 2005, with specific comparisons made to prior-year variances for the sake of relevance.

Since the MLPC is comprised of a single governmental fund, no fund-level financial statements are shown.

The income statement, Schedule 2, presents data on revenues and expenses, and the difference between the two is shown as net assets. Net assets were \$401,827.29 at the close of fiscal year 2005.

Significant Events in Revenue & Expense Accounts

Worth noting is the Council's re-categorization of expense account line items according to programming. As such, line items are listed for 2005 that were not in existence in 2004. While these changes make year-to-year comparisons challenging for 2004/2005, it will help to better assess programming expenditures in future years.

Revenue Accounts

Total 2005 revenue increased by \$3,691 over prior year; the most significant changes in line items are detailed below:

- Grant income increased 91%, or \$30,327, a result of funding from Maine Technology Institute to research consumer and trade markets.
- Sales of promotional materials declined 21%; this differential can be attributed to reduced sales prices and overall lower sales volume.

Expense Accounts

Total spending increased by \$110,516 over prior year. The following individual accounts saw spending increases over 2002:

- Substantial market research was conducted in 2005 to identify key trends in the marketplace and industry itself. The Council had never before conducted market research, and as such this shows as a new line item on the statement.

The following individual accounts saw spending decreases over 2004:

- Office operations were 30% lower as a result of cost-saving initiatives.
- Expenditures related to in-state travel were 32% lower as Council members and staff chose not to submit all travel expenses for reimbursement.
- MAP contributions were \$4,452.00 less because the Council did not participate in MAP in 2005.

Submitted by: Kristen Millar, Executive Director

Maine Lobster Promotion Council

Statement of Net Assets
Years Ended June 30,

| ASSETS | 2005 | 2004 |
|-------------------------------------------------|-----------------------|-----------------------|
| Cash | \$ 355,250.70 | \$ 459,459.98 |
| Due from State of Maine | 24,342.50 | 20,312.55 |
| Accounts receivable | 17,737.73 | 2,930.27 |
| Capital assets, net of accumulated depreciation | <u>8,678.69</u> | <u>8,822.64</u> |
| Total assets | <u>406,009.62</u> | <u>491,525.44</u> |
| LIABILITIES | | |
| Accounts payable | 60.65 | 9,494.62 |
| Accrued employee benefits | <u>4,121.68</u> | <u>5,139.66</u> |
| Total liabilities | <u>4,182.33</u> | <u>14,634.28</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 8,678.69 | 8,822.64 |
| Restricted for capital projects | 19,707.66 | 23,789.37 |
| Reserved for contingencies | 117,759.75 | 116,211.50 |
| Unrestricted | <u>255,681.19</u> | <u>328,067.65</u> |
| | <u>\$ 401,827.29</u> | <u>\$ 476,891.16</u> |

Schedule 2

Maine Lobster Promotion Council
Changes in Net Assets
For the Years Ended June 30,

| | 2005 | 2004 |
|-----------------------------------|----------------------|----------------------|
| REVENUES | | |
| Intergovernmental revenue | \$ 403,967.50 | \$ 405,104.55 |
| Sale of promotional materials | 9,237.98 | 11,748.08 |
| Grants | 33,217.30 | 2,890.20 |
| Interest income | 3,888.84 | 3,097.39 |
| Other revenues | - | 23,780.69 |
| Total revenues | <u>450,311.62</u> | <u>446,620.91</u> |
| EXPENSES: | | |
| Personnel services | 184,007.27 | 174,522.91 |
| Office operations | 38,120.44 | 51,462.76 |
| Legislative requirements | 2,040.43 | 1,945.55 |
| Instate travel | 3,989.87 | 5,862.88 |
| Promotions | - | 29,275.73 |
| Chef programs | 108,343.22 | - |
| Public relations | 21,968.00 | 22,182.85 |
| Advertising | - | 59,634.99 |
| Retail programs | 33,313.41 | - |
| Photography | - | 3,600.00 |
| Consumer programs | 60,724.20 | - |
| Promotional projects | - | 14,065.15 |
| Public relations consultant | - | 4,964.30 |
| Eco-Logo campaign | - | 11,189.29 |
| Resource/reference books | - | 102.65 |
| MAP contributions | - | 4,452.02 |
| Lobster festivals | - | 6,174.28 |
| Trade shows | - | 17,903.95 |
| Conferences | - | 3,411.94 |
| Depreciation | 4,548.26 | 4,107.83 |
| Market research | 68,320.39 | - |
| Total expenditures | <u>525,375.49</u> | <u>414,859.08</u> |
| Change in net assets | (75,063.87) | 31,761.83 |
| Net assets, beginning of the year | <u>476,891.16</u> | <u>445,129.33</u> |
| Net assets, end of the year | <u>\$ 401,827.29</u> | <u>\$ 476,891.16</u> |

Schedule 3

Maine Lobster Promotion Council
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2005

| | Budgeted Amounts | | Actual Amounts | Variance With Final Budget Favorable (Unfavorable) |
|-------------------------------------------------------------------------------|--------------------|--------------------|----------------------|-------------------------------------------------------------|
| | Original | Final | | |
| REVENUES | | | | |
| Intergovernmental revenue | \$ 410,000.00 | \$ 410,000.00 | \$ 403,967.50 | \$ (6,032.50) |
| Sales of promotional material | 12,500.00 | 12,500.00 | 9,237.98 | (3,262.02) |
| Grants | 35,000.00 | 37,500.00 | 33,217.30 | (4,282.70) |
| Interest income | 3,000.00 | 3,000.00 | 3,888.84 | 888.84 |
| Miscellaneous revenue | 7,500.00 | 7,500.00 | - | (7,500.00) |
| Total revenues | <u>468,000.00</u> | <u>470,500.00</u> | <u>450,311.62</u> | <u>(20,188.38)</u> |
| EXPENDITURES | | | | |
| Personnel services | 182,300.00 | 194,850.00 | 189,429.56 | 5,420.44 |
| Office operations | 42,535.00 | 42,535.00 | 38,120.44 | 4,414.56 |
| Legislative requirements | 2,100.00 | 2,100.00 | 2,040.43 | 59.57 |
| Instate travel | 5,250.00 | 5,250.00 | 3,989.87 | 1,260.13 |
| Chef programs | 113,500.00 | 113,500.00 | 108,343.22 | 5,156.78 |
| Retail programs | 32,000.00 | 32,000.00 | 33,313.41 | (1,313.41) |
| Public relations | 24,000.00 | 24,000.00 | 21,968.00 | 2,032.00 |
| Consumer programs | 63,700.00 | 63,700.00 | 60,724.20 | 2,975.80 |
| Market research | 42,615.00 | 75,115.00 | 68,320.39 | 6,794.61 |
| Total expenditures | <u>508,000.00</u> | <u>553,050.00</u> | <u>526,249.52</u> | <u>26,800.48</u> |
| Excess of revenues over (under) expenditures | <u>(40,000.00)</u> | <u>(82,550.00)</u> | <u>(75,937.90)</u> | <u>6,612.10</u> |
| FUND BALANCE - BEGINNING OF YEAR | | | <u>480,917.98</u> | |
| Adjustment for error in prior period See footnotes to financial statements | | | (7,709.80) | |
| FUND BALANCE - BEGINNING - RESTATED | | | <u>473,208.18</u> | |
| FUND BALANCE - END OF YEAR | | | <u>\$ 397,270.28</u> | |

Maine Lobster Promotion Council

Statement of Net Assets

June 30, 2005

ASSETS

| | | |
|-------------------------------------------------|----|-------------------|
| Cash | \$ | 355,250.70 |
| Due from State of Maine | | 24,342.50 |
| Accounts receivable | | 17,737.73 |
| Capital assets, net of accumulated depreciation | | <u>8,678.69</u> |
| Total assets | | <u>406,009.62</u> |

LIABILITIES

| | | |
|---------------------------|--|-----------------|
| Accounts payable | | 60.65 |
| Accrued employee benefits | | <u>4,121.68</u> |
| Total liabilities | | <u>4,182.33</u> |

NET ASSETS

| | | |
|-------------------------------------------------|----|-------------------|
| Invested in capital assets, net of related debt | | 8,678.69 |
| Restricted for capital projects | | 19,707.66 |
| Reserved for contingencies | | 117,759.75 |
| Unrestricted | | <u>255,681.19</u> |
| | \$ | <u>401,827.29</u> |

The accompanying notes are an integral part of this statement.

Maine Lobster Promotion Council
Statement of Activities
For the Year Ended June 30, 2005

| | |
|-----------------------------------------------|--------------------------|
| EXPENSES: | |
| Personnel services | \$ 184,007.27 |
| Office operations | 38,120.44 |
| Legislative requirements | 2,040.43 |
| Instate travel | 3,989.87 |
| Chef programs | 108,343.22 |
| Retail programs | 33,313.41 |
| Public relations | 21,968.00 |
| Consumer programs | 60,724.20 |
| Depreciation | 4,548.26 |
| Market research | <u>68,320.39</u> |
| Total program expenses | <u>525,375.49</u> |
| PROGRAM REVENUES: | |
| Intergovernmental revenue | <u>403,967.50</u> |
| Net program expenses | <u>121,407.99</u> |
| GENERAL REVENUES: | |
| Sale of promotional materials | 9,237.98 |
| Grants | 33,217.30 |
| Interest income | <u>3,888.84</u> |
| Total general revenues | <u>46,344.12</u> |
| Increase in net assets | (75,063.87) |
| NET ASSETS - BEGINNING OF THE YEAR | <u>476,891.16</u> |
| NET ASSETS - END OF THE YEAR | <u>\$ 401,827.29</u> |

The accompanying notes are an integral part of this statement.

Maine Lobster Promotion Council
Governmental Funds
Balance Sheet
June 30, 2005

ASSETS

| | |
|-------------------------|--------------------------|
| Cash | \$ 355,250.70 |
| Due from State of Maine | 24,342.50 |
| Accounts receivable | <u>17,737.73</u> |
| Total assets | <u>\$ 397,330.93</u> |

LIABILITIES AND FUND BALANCES

| | |
|------------------------------------------------|--------------------------|
| Sales tax payable | <u>60.65</u> |
| Total liabilities | <u>60.65</u> |
| Designated fund balance - capital projects | 19,707.66 |
| Designated fund balance - contingencies | 117,759.75 |
| Undesignated fund balance | <u>259,802.87</u> |
| Total fund balances | <u>397,270.28</u> |
| Total liabilities and fund balances | <u>\$ 397,330.93</u> |

The accompanying notes are an integral part of this statement.

Maine Lobster Promotion Council
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

| | Governmental Fund Types |
|-------------------------------------------------------------------------------|----------------------------|
| | General |
| REVENUES | |
| Intergovernmental revenue | \$ 403,967.50 |
| Sales of promotional material | 9,237.98 |
| Grants | 33,217.30 |
| Interest income | 3,888.84 |
| Total revenues | 450,311.62 |
| EXPENDITURES | |
| Personnel services | 189,429.56 |
| Office operations | 38,120.44 |
| Legislative requirements | 2,040.43 |
| Instate travel | 3,989.87 |
| Chef programs | 108,343.22 |
| Retail programs | 33,313.41 |
| Public relations | 21,968.00 |
| Consumer programs | 60,724.20 |
| Market research | 68,320.39 |
| Total expenditures | 526,249.52 |
| Excess of revenues over (under) expenditures | (75,937.90) |
| FUND BALANCE - BEGINNING OF YEAR | 480,917.98 |
| Adjustment for error in prior period See footnotes to financial statements | (7,709.80) |
| FUND BALANCE - BEGINNING - RESTATED | 473,208.18 |
| FUND BALANCE - END OF YEAR | \$ 397,270.28 |

The accompanying notes are an integral part of this statement.

Maine Lobster Promotion Council
Reconciliation of the Statement of Revenues, Expenditures,
And Changes in Fund Balances - All Governmental Fund Types
To the Statement of Activities
For the Year Ended June 30, 2005

| | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|
| Net change in fund balances - total governmental funds (Exh. D) | \$ (75,937.90) |
| Amounts reported for governmental activities in the statement of activities (Exh. B) are different due to the following items: | |
| Depreciation expense recorded on statement of activities, yet not required to be recorded as expenditures on governmental funds | (4,548.26) |
| Accrued employee benefits recorded as a liability in the statement of net assets (Exh. A), however this particular obligation not considered for purposes of governmental funds | <u>5,422.29</u> |
| Changes in net assets of governmental activities (see Exh. B) | <u>\$ (75,063.87)</u> |

The accompanying notes are an integral part of this statement.

**MAINE LOBSTER PROMOTION COUNCIL
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - The Maine Lobster Promotion Council, which is administratively referred to as the (Maine) Lobster Promotion Council (MLPC), was established in October, 1991, for the purpose of promoting the Maine lobster industry. On July 1, 1994, the Maine Lobster Promotion Council became a public instrumentality of the State, and as such operates as a quasi-governmental entity. For financial reporting purposes, the MLPC is a component unit of the state of Maine as defined by GASB 14. There are no component units included in the accompanying financial statements.

Basis of Accounting - The MLPC prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America for governmental funds. Accordingly, revenues are recorded when earned and expenses are recorded when incurred.

The assets, liabilities, and net assets of the MLPC are reported in a self-balancing set of accounts, which include restricted and unrestricted resources, representing funds available for support.

Cash and Cash Equivalents – For purposes of the statement of Net Assets and the Balance Sheet, demand deposit accounts with commercial banks and cash invested in commercial money market funds (included restricted assets) are considered cash equivalents.

Investments – The Maine Lobster Promotions Council has valued its investments at fair value as of June 30, 2005. The fair value of its investments was based on market prices at the time of valuation. No valuation allowance has been recorded.

Restricted Assets - Restricted assets of the MLPC represent cash available for capital projects and other contingencies expenditures.

Capital Assets -

Cost Basis – All capital assets are recorded at historical cost.

Depreciation Policy - Depreciation of capital assets is computed using the Straight-line method over the estimated useful lives of the assets as follows:

| | |
|----------------------|----------|
| Computer equipment | 5 years |
| Furniture & fixtures | 10 years |
| Signs | 15 years |

Accrued Vacation and Sick Leave Payable - Accrued vacation and sick leave payable includes accumulated vacation pay, vested sick pay, and other compensation payable to employees and is recorded as a payable in the accompanying balance sheet.

Restricted Net Assets – Restricted net assets are comprised of assets, net of related liabilities, that are required to be set aside for capital projects or contingencies.

Budgets and Budgetary Accounting - All money received from the State of Maine is subject to allocation by the Legislature. A non-appropriated budget is prepared by the Executive Director of the Council, reviewed by the Finance Committee, and approved by the Board of Directors of the Council.

**MAINE LOBSTER PROMOTION COUNCIL
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

2. CASH AND INVESTMENTS

DEPOSITS

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Council's deposits may not be returned or the Council will not be able to recover collateral securities in the possession of a third party. The Council's deposits are covered up to \$100,000 by Federal Deposit Insurance Corporation (FDIC) insurance per bank.

3. CAPITAL ASSETS

Changes in fixed assets during the year ended June 30, 2005 were as follows:

| | Balance 7/1/04 | Additions | Deletions | Balance 6/30/05 |
|--------------------------------|---------------------------|--------------------|------------------|----------------------------|
| Computer equipment | \$ 19,258.44 | \$ - | \$ - | \$ 19,258.44 |
| Furniture and fixtures | 15,197.82 | 4,404.31 | - | 19,602.13 |
| Signs | 3,004.00 | - | - | 3,004.00 |
| | 37,460.26 | 4,404.31 | - | 41,864.57 |
| Less: accumulated depreciation | (28,637.62) | (4,548.26) | - | (33,185.88) |
| Total capital assets | \$ 8,822.64 | \$ (143.95) | \$ - | \$ 8,678.69 |

4. RETIREMENT PLAN:

The Council maintains a Simplified Employee Pension Plan (SEP) for the benefit of eligible employees. Employees must be full-time employees and employed on the last day of the fiscal year to be eligible to participate in the plan the following year. The Council's contributions are made at the discretion of the board. Discretionary contributions were made during the year ended June 30, 2005, at the rate of 15% of full-time employee wages.

6. CONTINGENT LIABILITIES

There is no litigation pending against the Council as of the date of this audit.

7. RESTATEMENT OF BEGINNING FUND BALANCES

Beginning fund balances on Exhibit D and Schedule 3 of the financial statements were restated to \$473,208.18. The restatement is the result of a prior period adjustment made for an error in classifying donated and disposed fixed assets in prior periods.