



# Great Lakes Protection Fund

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In 1989, the Governors of the Great Lakes states created the Protection Fund to help them protect and restore their shared natural resources. The Fund is the nation's first multi-state endowment dedicated to the health of an ecosystem. The Governors designed the Fund to support the creative work of individuals, businesses and institutions who are willing to test ideas, take risks and take action to improve the health of the Great Lakes ecosystem. Seven of the Great Lakes states have contributed \$81 million to the Fund's permanent endowment. From its inception through December 1998, the Fund committed over \$44 million to state and regional environmental improvement.

# M I S S I O N



THE GREAT LAKES PROTECTION FUND'S MISSION IS TO  
IDENTIFY, DEMONSTRATE AND PROMOTE REGIONAL ACTION TO  
ENHANCE THE HEALTH OF THE GREAT LAKES ECOSYSTEM.

# Letter from the Chair and Executive Director

The Governors of the Great Lakes States created this corporation to protect and restore the ecological health of the Great Lakes. They have charged the Board and staff with two major responsibilities to accomplish that task:

First, allocate investment income to projects that will return the greatest benefit to the ecosystem; Second, responsibly invest the endowment to generate income for current and future projects.

In 1998 the Fund:

- Identified, developed and supported new and genuinely innovative projects;
- Awarded a record level of \$5,217,000 in regional program support for those projects;
- For the second consecutive year, earned a record amount on the endowment; and,
- Also for the second consecutive year, returned a record level of support — \$5,158,534 — to its member states to support their Great Lakes priorities.

None of these accomplishments could have occurred without the participation, encouragement, energy and persistence of the Fund's applicants, advisors, grantees and other project partners. During the course of 1998, the Fund received advice and counsel on a variety of project

topics, most notably the opportunities presented by a deregulated electricity market and the opportunities presented by understanding and actively managing the movement of water in the basin. While these opportunities are described later in this report, the Fund's Board and staff wish to thank all who have brought the Fund their ideas and shared their expertise.

The projects supported during the year are also identified later in this report. These projects, as a portfolio, possess the following characteristics:

*A focus on opportunity.* The Fund wants to apply its resources to efforts that identify and act on opportunities to improve the health of the resource. The Fund is not interested in investing scarce resources in documenting problems, but is committed to supporting tests of new solutions.

*Projected ecological impact.* Work must be designed to achieve specific outcomes and be of consequence to the entire ecosystem.

*Innovation and entrepreneurship.* Applicants are encouraged to test new and creative approaches to achieve ecological results. The Fund encourages the use of market approaches to create ecologi-

cal wealth. Projects must be truly new endeavors; they can not duplicate ongoing work.

*Collaboration among all interests.*

The Fund will not support advocacy, lobbying or one side of a debate. The Fund encourages creative partnerships that include the right mix of institutions, individuals, expertise and perspectives to ensure that the work is scientifically sound, institutionally relevant, and system-wide in scope.

Ultimately, project proposals are evaluated on their potential to benefit the Great Lakes ecosystem. The Board and staff of the Protection Fund remain open to new ideas, and encourage those who have them to contact us. Together, we are developing the tools to restore and protect the Great Lakes. We welcome your ideas, your suggestions and your solutions.

Gerald Mikol

CHAIR, BOARD OF DIRECTORS

Russell Van Herik

EXECUTIVE DIRECTOR



# Creating Ecological Wealth

The mission of the Great Lakes Protection Fund is to identify, demonstrate and promote action to enhance the health of the Great Lakes ecosystem. In 1998, the Fund used its grant making programs, its convening capacity, and its research abilities to explore new ways to accomplish that mission. The Fund's central strategy was to encourage new approaches that link creation of economic wealth with the creation of ecological improvements.

*The Fund's central strategy was to encourage new approaches that link creation of economic wealth with the creation of ecological improvements.*

The ecological wealth of the Great Lakes ecosystem is comprised of its component parts — native plants and animals, the natural communities they create, and the flows of material and energy that sustain them. This wealth forms the basis of our legacy to our children, their children and all who follow. We can choose to leave a legacy of wealth and increased security — a system that produces clean air, clean water, food, fiber and opportunity; or leave a legacy of debt and

increased need — a system that can not support the needs of the future, threatens the health of its residents, and makes increasing economic demands on subsequent generations.

Our challenge is to create ecological wealth and to leave the Great Lakes ecosystem healthier than it was left to us.

In 1998, the Fund explored a new set of approaches to create ecological wealth that not only prevent harm and allow the basin to sustain itself, but increase the ecological security of the basin. Just as basin businesses are not content to simply break even, the basin's residents should not be content to simply hold the line on environmental degradation. The Fund supports a portfolio of projects that prevent pollution, preserve natural habitat, and restore the key ecological processes that support the dynamic Great Lakes ecosystem. Every new project that builds on the lessons learned from previous grants maximizes the ecological return and allows the next steps to be easier, more beneficial, and less expensive.





Two key areas that best illustrate the Fund's programming approach to creating ecological wealth are water resources and new choices for electric power.

#### MANAGING WATER RESOURCES

The Great Lakes contain nearly one fifth of the world's fresh surface water. That water has been the basis for one of the world's most successful economies. Water is used not only for drinking, but

of the ecosystem. In fact, most uses were begun before there was a scientific basis to know that there even was an ecosystem. As we now know, the unintended consequences of these uses are significant — and the opportunities for restoration are enormous. For example, scientists estimate that removing the habitat impacts of hydroelectric operations on just one Lake Michigan tributary could eliminate the need to stock certain species of fish in the entire lake.

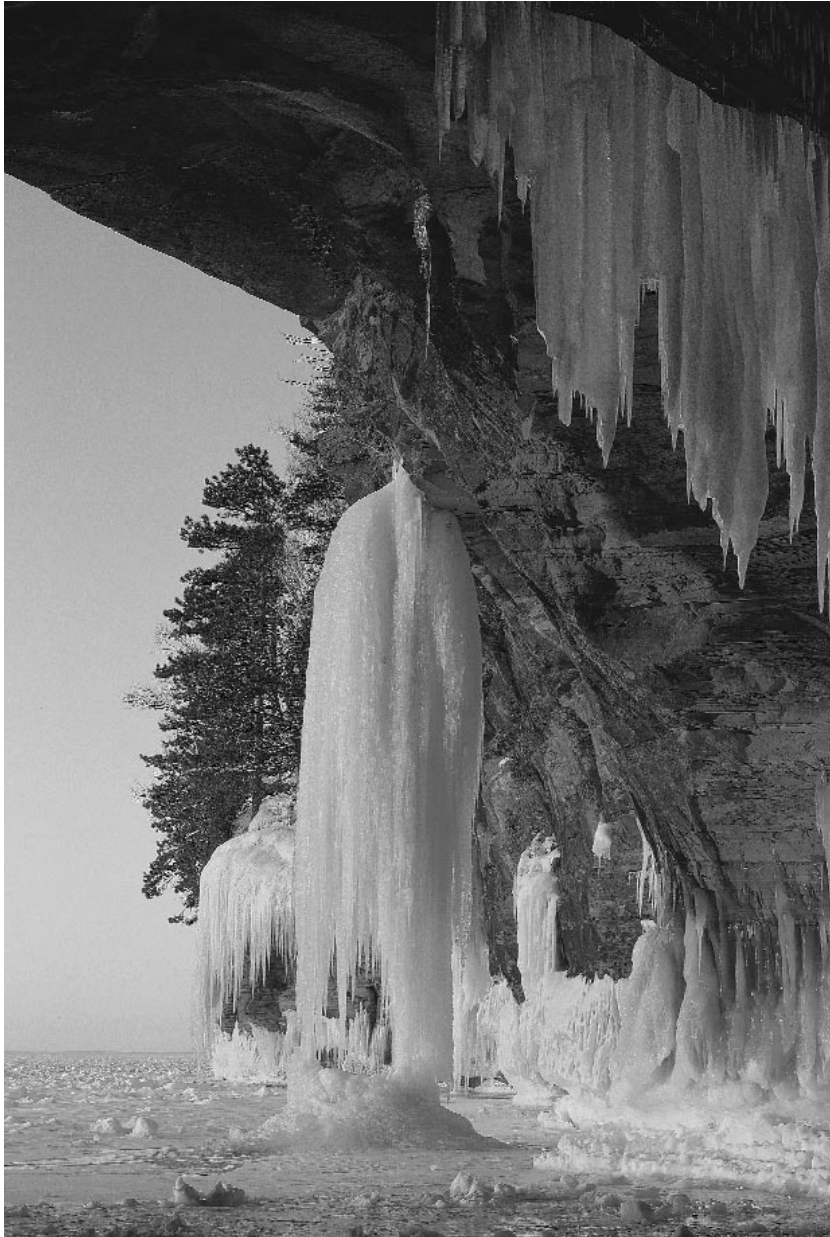
*Recent studies estimate that every gallon of water is used six times by the basin's population before it leaves through the St. Lawrence River.*

also for transportation, cooling, power generation, fisheries and recreation. This unique ecosystem also sustains a remarkable array of plants, animals and natural communities found nowhere else on earth.

Recent studies estimate that every gallon of water is used six times by the basin's population before it leaves through the St. Lawrence River. The vast majority of the uses were established before there was any scientific basis to believe that they would impact the health

New scientific information about the dynamics of water movement in the basin is changing the way we understand the Great Lakes system. Fund supported research demonstrated that the lakes' tributaries — and therefore the lakes themselves — are profoundly connected to underground sources of water. In its new study, *Indirect Contribution of Ground Water to the Great Lakes*, the United States Geological Survey estimates that approximately two-thirds of the water entering the lakes through tributary rivers and streams originates as ground water. What we do to the basin's ground water,





therefore, we do to the basin's tributaries and, in turn, to the lakes themselves.

Protecting the basin's groundwater resources by minimizing impervious surfaces, ensuring adequate recharge, and carefully monitoring use are emerging as important new strategies to restore the health of basin tributaries and the lakes themselves.

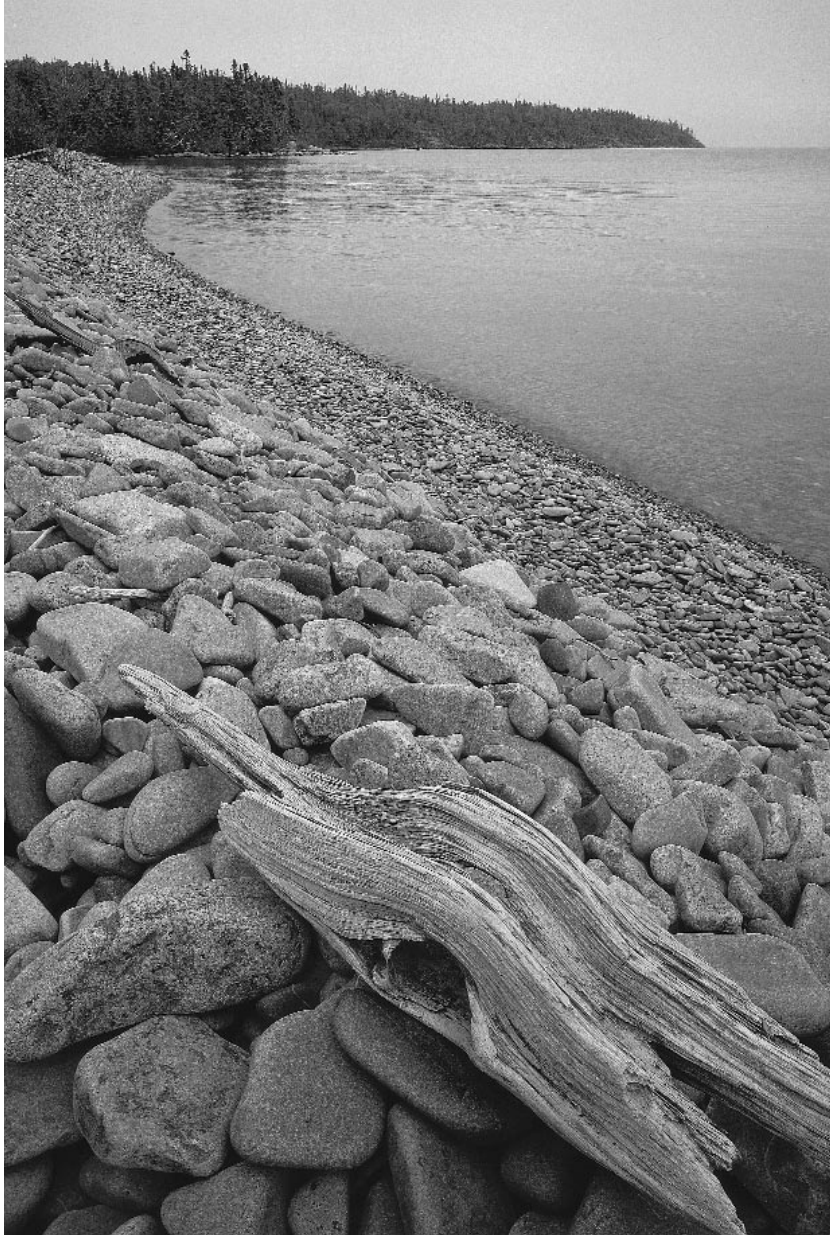
*What we do to the basin's ground water, therefore, we do to the basin's tributaries and, in turn, to the lakes themselves.*

The interaction of ground water, surface water, material and biota create the "flow regime" of the basin's waters. New research shows that the flow regime of an aquatic ecosystem — the amount, timing, frequency, duration, and rates of change in the movement of water, biota and material — may be a powerful tool in restoring its ecological integrity. The restoration of flow regime in the Great Lakes ecosystem complements the successful approaches to control chemical pollution and restore biological structure to the

open lake communities.

At a Fund-supported roundtable discussion, scientific experts, restoration practitioners, policy makers and others discussed how best to restore more natural flow regimes in the Great Lakes basin. Participants acknowledged the impossibility of returning to pre-settlement conditions and emphasized the opportunities for restoring a more natural flow regime by improving land use practices and water management. They identified three significant areas of opportunity:

- 1) demonstrate the economic and ecological benefits of considering ecological effects in making future water and land use decisions;
- 2) eliminate ecologically harmful uses such as obsolete dams that provide little or no economic benefits for basin residents and restore more productive uses such as habitat for native plants, animals and natural communities; and
- 3) couple economically valuable water uses such as hydroelectric generation, drainage, and transportation with ecologically valuable uses such as improved



fisheries, healthy wetlands, and improved water quality.

Such opportunities could generate the next major expansion of ecological wealth in the basin. These previously unknown or underappreciated opportunities are likely to hold as much ecological promise as controlling nutrients, cleaning up contamination and building fish hatcheries held thirty years ago. In anticipation of this, the Fund issued a special Request

and operated for decades before its environmental consequences were understood.

Now we know that generating power is not without environmental consequences. Burning fossil fuels to produce electricity creates sulfur oxide emissions that contribute to acid rain, nitrogen oxides that contribute to smog formation, and trace contaminants such as mercury that are toxic to people and the environment. The production of nuclear energy generates toxic waste that requires safe storage for thousands of years. Nothing is free — even the so-called “clean” generation sources have environmental consequences. Wind turbines can impact flyways used by migratory birds, hydroelectric generation can impact streams, bio-fuels generate sulfur, nitrogen and carbon oxides. Power transmission also leads to ecological impacts. Power is lost along the way, requiring more energy to be produced to serve the same demand. Transmission lines can also fragment natural communities.

Over the next several years, the markets for electric power in the

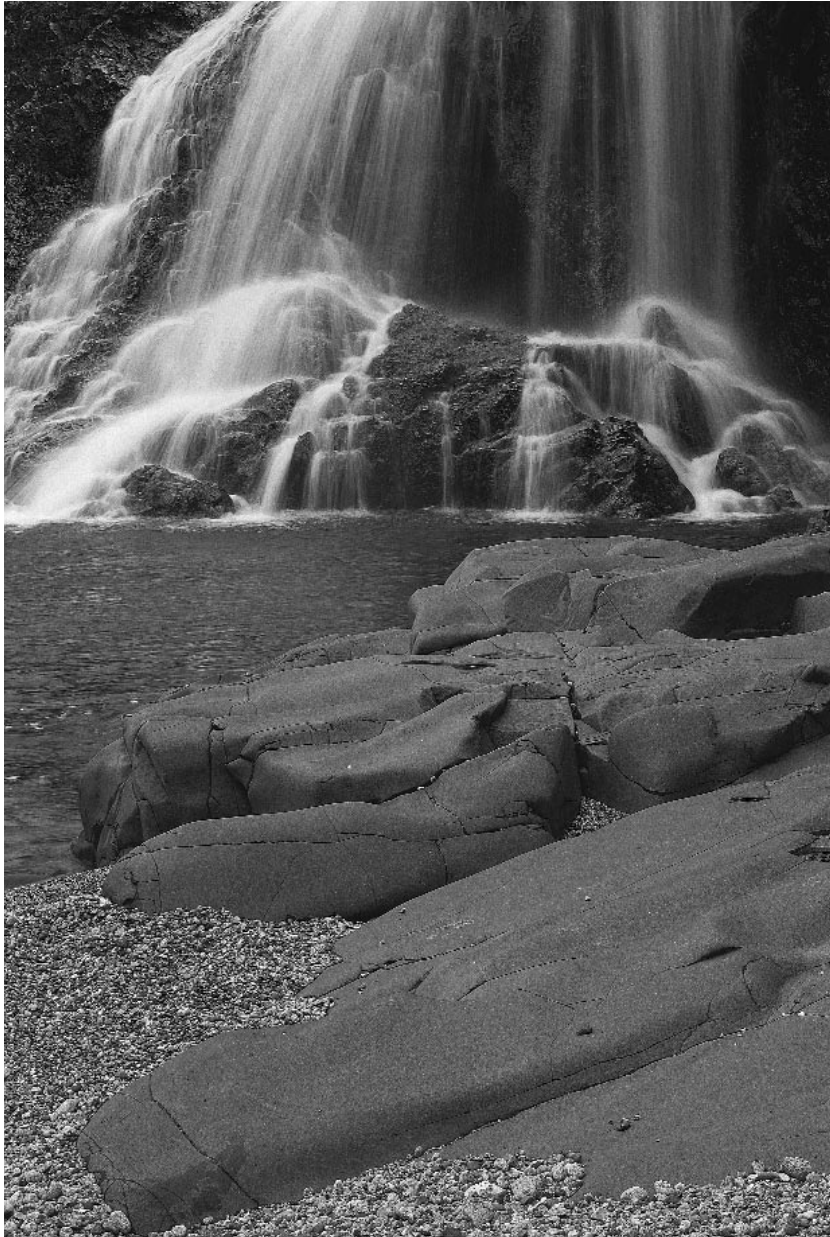
for Proposals for the 1999 funding cycle to support actions to test the best next steps.

#### NEW CHOICES FOR ELECTRIC POWER

In America, we have created an integrated power generation and transmission system whose complexity is belied by its ease of use and reliability. At the flick of a switch our homes are cooled, our food preserved, and our streets lit. This system was designed, built

*Nothing is free — even the so-called “clean” generation sources have environmental consequences.*







basin will be opened to competition. In 1998, the Fund supported two creative efforts to minimize the environmental impacts described above. Each project will employ market forces to create ecological improvements in the basin.

The Environmental Resources Trust, in partnership with regional utilities, the Environmental Defense Fund, and other conservation groups, is developing and

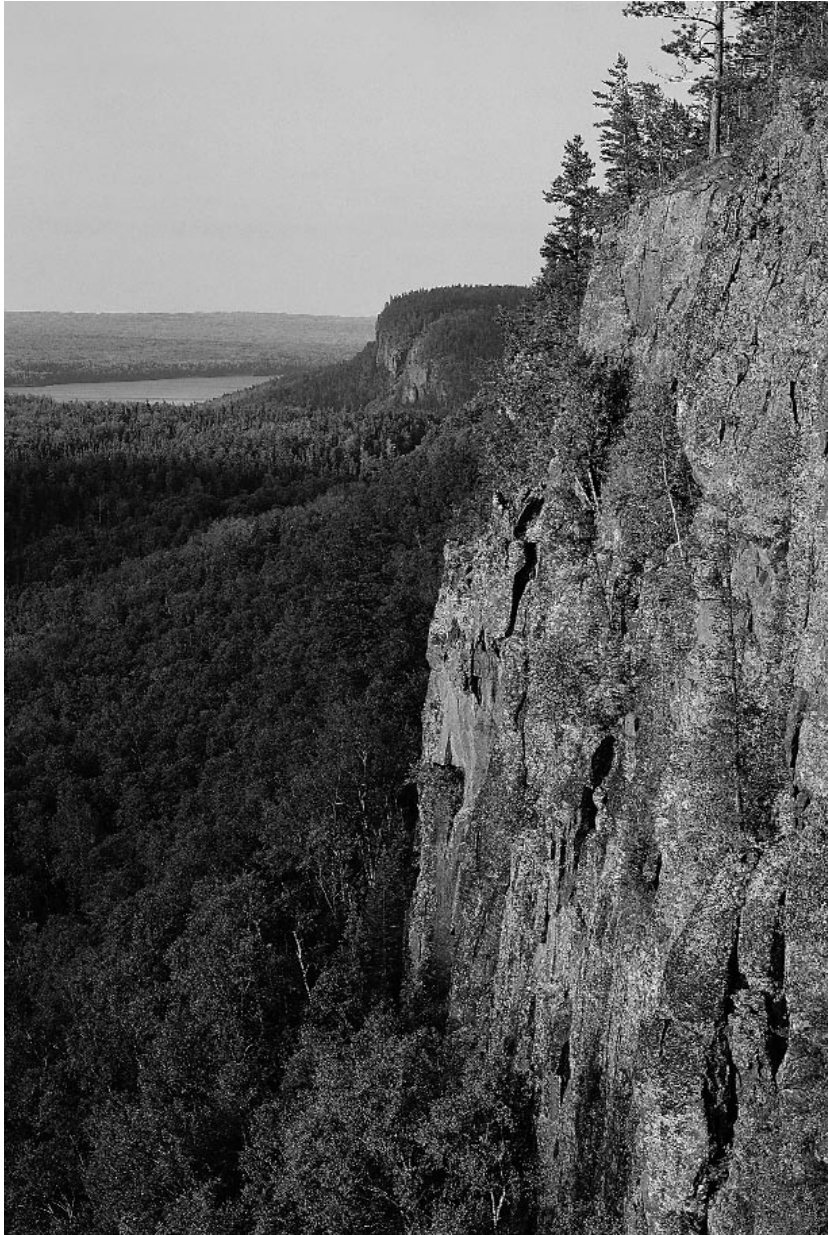
*For the first time, customers will be able to design their energy package — the type of generation coupled with specific environmental investment such as habitat restoration, emission offsets, or renewable energy developments.*

marketing a set of power products that incorporate specific ecological improvements selected by the customer. For the first time, customers will be able to design their energy package — the type of generation coupled with a specific environmental investment such as habitat restoration, emission offsets, or renewable energy developments.

The Center for Neighborhood Technology is leading a team of utilities, school districts, agency

personnel and energy services experts to create the Great Lakes Energy Network. The Network will, for the first time, explicitly link energy efficiency to reduced demand and environmental improvement. The Network will improve the energy efficiency of school buildings and generate pollution reduction allowances. Both the financial savings and the emission allowances attributed to the reduced energy use will be deposited in “energy banks.” These banks will direct the financial savings to educational activities, additional efficiency improvements, and retire emission allowances to ensure environmental benefits.

These efforts illustrate how newly deregulated markets present opportunities to create ecological value in addition to financial value. The work underway is creative and ambitious. It is likely to have its greatest success in areas we can not yet anticipate, and fall short in places we least expect. This learning-by-doing will help us all understand how to capitalize on similar opportunities that emerge in the future.



#### PROJECT PORTFOLIO

The water resources initiative and the electric power projects are just two examples of how the Fund is working to ensure that project investments create ecological wealth in the basin. In 1998, the Fund supported seven innovative projects totaling \$5,217,000 in grants and loans. In addition to creating options for cleaner electric power, these projects will reduce mercury contamination, protect near shore habitat from

pollution prevention, and exploring new ways to harness the power of the financial markets to make the Great Lakes healthier. Potential grantees are encouraged to explore these topics and build on work already underway.

The Fund also knows that there will be project opportunities in areas we have not anticipated. The Fund seeks innovative projects that improve the ecological wealth of the Great Lakes and that do not simply document known problems. Characteristics of successful projects include specific ecological outcomes supported by pragmatic work plans and project teams that represent the full range of perspectives. Potential grantees are encouraged to identify new project areas and to contact the Fund to discuss them.

*In 1998, the Fund supported 7 innovative projects totaling \$5,217,000 in grants and loans.*

erosion, improve the health of forest and aquatic habitat and expand the capacity of community foundations to undertake local environmental improvement initiatives.

The Fund looks forward to supporting projects that build on the successes and lessons learned from previous work. These areas include emerging energy markets, managing the movement of water to produce ecological outcomes, sustainable forest management,



## COUNCIL OF MICHIGAN FOUNDATIONS

\$250,000

Eighteen shoreline community foundations will undertake locally developed projects to protect local watersheds, redevelop brownfields, and preserve open space to improve the quality of Great Lake tributaries, coastlines and natural areas in this second phase of the Great Lakes Community Foundation Environmental Collaborative, managed by the Council of Michigan Foundations.

Contact: Rob Collier 616-842-7080

## THE UNIVERSITY OF MICHIGAN, ANN ARBOR

\$472,000

The University of Michigan will lead a team from Wisconsin, Ohio and Michigan to protect Great Lakes coastal marshes, wetlands, and near shore fish spawning and nursery habitats. The team will develop and disseminate a shoreline erosion model for use in guiding shoreline management and development decisions.

Contact: Guy Meadows 734-764-6470

## THE UNIVERSITY OF MICHIGAN, ANN ARBOR

\$215,000

The University of Michigan will reduce mercury contamination of Great Lakes air, soils and waters. The project team will measure and account for mercury losses at closed chlorine gas manufacturing facilities, and will work with industry and government agencies to reduce emissions from both closed and operational facilities.

Contact: Jerome Nriagu 734-936-0706

## THE MINNESOTA OFFICE OF ENVIRONMENTAL ASSISTANCE

\$305,000

The Minnesota Office of Environmental Assistance will work with the Illinois Waste Management & Research Center, the Ecology Center of Ann Arbor, the University of Wisconsin, Madison, and the American Hospital Association to reduce levels of hazardous air emissions from health care facilities. The team will design, test and implement a pollution prevention method for evaluating and altering hospital purchasing practices so that less harmful products are used and ultimately disposed of.

Contact: Fran Kurk 651-215-0242

## SAND COUNTY FOUNDATION

\$300,000

The Sand County Foundation will reduce the impact of deer browse on forest regeneration and will improve the health of Great Lakes' forests and tributaries. The Foundation will develop four large Quality Hunting Ecology sites in collaboration with hunters, state wildlife agencies and private landowners. Quality Hunting Ecology is a technique to reduce the overall number of deer and the rate of population growth.

Contact: Brent Haglund 608-242-5319

## ENVIRONMENTAL RESOURCES TRUST (ERT)

\$425,000 GRANT/\$3,000,000 LOAN

ERT will market "net environmental benefit" electricity that improves the health of the Great Lakes ecosystem. ERT will acquire power from regional utilities and energy providers in order to design energy product packages that include activities to offset the environmental impacts of electric production on the Great Lakes ecosystem (such as retiring emissions allowances, sequestering carbon, restoring habitat). These packages will be marketed to industrial and commercial customers.

Contact: Zach Willey 541-317-8424

## CENTER FOR NEIGHBORHOOD TECHNOLOGY (CNT)

\$250,000

CNT will create the Great Lakes Energy Network to link energy efficiency to environmental improvement. The Network will work with school systems to reduce energy use in schools; and state and federal agencies to develop methods to quantify the emissions reductions realized through energy efficiency improvements. The Network will work with utilities to obtain rights to these emissions and create a banking mechanism for schools to hold these emissions rights. This banking mechanism will also allow the savings attributable to reduced energy use to be reinvested in energy efficiency.

Contact: Bob Lieberman  
773-278-4800





One third of the Fund's net earnings are paid to member states in proportion to their share of the permanent endowment. Each state uses its share to support local Great Lakes priorities. More information, including funding guidelines and application procedures, can be obtained from the individuals listed below.

## MICHIGAN

Michigan received \$1,887,711 in 1998. The Office of the Great Lakes administers the Michigan Great Lakes Protection Fund. In 1998, Michigan awarded \$1.2 million to 18 projects that focus on pollution prevention, non-point source pollution, and land use.

*Coordinator:* Mark Coscarelli  
517-335-4227  
coscarem@state.mi.us

## MINNESOTA

Minnesota received \$113,262 in 1998. The Legislative Commission on Minnesota Resources allocates the funds for Great Lakes projects. In 1998, the Commission contributed to the purchase and renovation of *R/V Blue Heron*, a training and research vessel.

*Coordinator:* Marilyn D. Lundberg  
651-296-0676

## NEW YORK

New York received \$906,100 in 1998. The New York Department of Environmental Conservation (DEC) administers the New York Great Lakes Protection Fund. The four priority areas for 1998 were human health and populations at risk, containment sources and fate, aquatic habitat, and public participation and policy.

*Coordinator:* Gerald F. Mikol  
716-851-7200

## OHIO

Ohio received \$1,057,117 in 1998. The Lake Erie Resources Fund and the Lake Erie Protection Fund are both supported in part by the Ohio state share and are overseen by the Lake Erie Commission and administered by the Ohio Lake Erie Office. In 1998, the Ohio Protection Fund awarded over \$566,000 in large research grant projects in the areas of Lake Erie ecosystem changes, coastal management, non-point pollution and pollution prevention. The small grants program awarded over \$142,000 to 21 small grants. The Lake Erie Resources Fund provided support for the production of the 1998 *Lake Erie Quality Index* and the *Lake Erie Protection and Restoration Plan*, and sponsored over 50 Coastweeks events.

*Coordinator:* Jeffrey L. Busch  
419-245-2514

## PENNSYLVANIA

Pennsylvania received \$113,262 in 1998. The Office of the Great Lakes in the Department of Environmental Protection administers the state share. In 1998, Pennsylvania supported a brown bullhead study in Presque Isle Bay, the *Governor's Regional School of Excellence* summer program, and the development of a watershed and technology curriculum designed to bring science and technology together to better understand the ecological diversity of Presque Isle State Park and Lake Erie.

*Coordinator:* Kelvin A. Burch  
814-332-6816

## WISCONSIN

Wisconsin received \$906,100 in 1998. The Watershed Management Program in the Department of Natural Resources manages the Wisconsin state share. In 1998, the program supported research on the decline of yellow perch in Lake Michigan, integrated ecosystem management projects in Wisconsin's Great Lakes river basins, and a storm water management system to protect Lake Superior water quality. Wisconsin continued to support agricultural clean sweeps in Great Lakes basin counties and the Native American Pre-College Youth Studies Program in the Lake Superior Basin.

*Coordinator:* Greg Hill  
608-267-9353

# Application Procedures

Individuals, not-for-profits organizations, government agencies and businesses which have identified a significant opportunity to improve the health of the Great Lakes and have a pragmatic plan to exploit that opportunity are encouraged to apply to the Fund for support.

The first step in the Fund's formal review process is the submission of a brief preproposal that summarizes the proposed project. The Fund accepts preproposals at any time. Following favorable review of a preproposal, a full proposal is invited. Staff and a panel of independent technical reviewers evaluate full proposals. The Fund's Board of Directors expects to make award decisions at their March, June, September and December meetings.

Complete funding guidelines can be obtained from the Fund's office or found at <http://www.glpf.org>

## FUND STAFF

Laurence LaBoda  
Christine Newell  
David Rankin  
Russell Van Herik  
Karsen Wick

The Fund wishes to acknowledge the contribution of Kimberly Stone who left the organization at the end of 1998.

# STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 1998 AND 1997

<b>Assets</b>	1998	1997
Cash and Equivalent	\$ 2,499,775	\$ 2,170,676
Receivable from Broker for Sales of Securities	15,512	560,128
Investments (Notes 1 and 2)	124,591,540	117,005,285
Accrued Interest	416,428	475,720
Other Assets	24,685	105,884
Equipment and Improvements (net of accumulated depreciation of \$122, 664 in 1998 and \$92,690 in 1997)	65,896	95,871
	<u>\$ 127,613,836</u>	<u>\$ 120,413,564</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Member state shares (Note 3)	\$ 1,966,805	\$ 3,135,745
Grants committed (Note 4)	79,200	329,663
Liability to brokers for purchases of securities	145,162	595,691
Accrued expenses	296,524	179,300
Accrued pension contribution	22,465	31,952
	<u>2,510,156</u>	<u>4,272,351</u>
Net Assets:		
Unrestricted	43,526,604	38,764,137
Permanently restricted (Note 5)	81,577,076	77,377,076
	<u>125,103,680</u>	<u>116,141,213</u>
	<u>\$ 127,613,836</u>	<u>\$ 120,413,564</u>

The accompanying notes are an integral part of this statement.

# STATEMENT OF ACTIVITIES

YEARS ENDED DECEMBER 31, 1998 AND 1997

	1998			1997		
	Unrestricted	Permanently Restricted	Total	Unrestricted	Permanently Restricted	Total
<b>Revenue:</b>						
Investment income (including realized gains of \$12,828,339 and \$10,078,591 on sales of investments in 1998 and 1997)	\$ 17,162,021		\$ 17,162,021	\$ 14,100,578		\$ 14,100,578
Member state contribution (Note 5)		\$ 4,200,000	4,200,000			0
	17,162,021	4,200,000	21,362,021	14,100,578		14,100,578
<b>Expenses:</b>						
Program grants	2,405,370		2,405,370	3,384,855		3,384,855
Member state shares (Note 3)	5,158,534		5,158,534	4,282,563		4,282,563
Investment management and advisory fees	628,525		628,525	527,391		527,391
Administrative expenses	1,057,894		1,057,894	725,500		725,500
	9,250,323		9,250,323	8,920,309		8,920,309
Increase in Net Assets before Change in Unrealized Appreciation of Investments	7,911,698	4,200,000	12,111,698	5,180,269		5,180,269
Change in Unrealized Appreciation of Investments	(3,149,231)		(3,149,231)	9,797,913		9,797,913
Increase in Net Assets	4,762,467	4,200,000	8,962,467	14,978,182		14,978,182
Net Assets, Beginning of Year	38,764,137	77,377,076	116,141,213	23,785,955	\$ 77,377,076	101,163,031
Net Assets, End of Year	\$ 43,526,604	\$ 81,577,076	\$125,103,680	\$ 38,764,137	\$ 77,377,076	\$116,141,213

The accompanying notes are an integral part of this statement.



# STATEMENT OF CASH FLOWS

YEARS ENDED DECEMBER 31, 1998 AND 1997

	1998	1997
<b>Cash Flows from Operating Activities:</b>		
Increase in net assets	\$ 8,962,467	\$ 14,978,182
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation	29,975	31,535
Realized gains on sales of investments	(12,828,339)	(10,078,591)
Change in unrealized appreciation of investments	3,149,231	(9,797,913)
Changes in assets and liabilities:		
Decrease in accrued interest	59,292	65,715
(Increase) Decrease in other assets	81,199	(14,102)
Increase (Decrease) in accrued expenses	117,226	(7,258)
Increase (Decrease) in liability for member state shares	(1,168,940)	994,704
Increase (Decrease) in grants committed	(250,463)	22,315
Increase (Decrease) in accrued pension contribution	(9,487)	1,448
Contribution restricted for long-term investment	(4,200,000)	0
Net cash used in operating activities	(6,057,839)	(3,803,965)
<b>Cash Flows from Investing Activities:</b>		
Purchases of investments	(89,906,642)	(52,115,653)
Proceeds from sales of investments	92,093,580	54,935,912
Additions to equipment and improvements	0	(16,805)
Net cash provided by investing activities	2,186,938	2,803,454
<b>Cash Flows from Financing Activities:</b>		
Contribution restricted for long-term investment	4,200,000	0
Net Increase (Decrease) in Cash and Equivalent	329,099	(1,000,511)
Cash and Equivalent, Beginning of Year	2,170,676	3,171,187
Cash and Equivalent, End of Year	\$ 2,499,775	\$ 2,170,676

The accompanying notes are an integral part of this statement.

# NOTE 1 — NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Great Lakes Protection Fund is a nonprofit organization designed to have as its members the governors of the eight states bordering on the Great Lakes. Each state is required to make a contribution, as specified in the Fund's articles of incorporation, to establish its membership in the Fund (Note 5). Income earned on the contributions is used to provide grants which finance projects advancing the goals of the Great Lakes Toxic Substances Control Agreement and the binational Great Lakes Water Quality Agreement, so as to advance the health of the ecosystem of the Great Lakes Basin.

The Fund is exempt from income taxes under Section 115 (1) of the Internal Revenue Code and applicable state law.

**Cash and Equivalent** — For purposes of the statement of cash flows, the Fund considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

**Investments** — Investments are reflected at current market value.

**Depreciation** — Depreciation is being computed on the basis of estimated useful lives using the straight-line method.

**Grant Commitments** — Payment of grants beyond the initial installments is contingent on the recipients' satisfaction of agreed-upon requirements. Unpaid amounts are accrued only if the contingencies have been met (Note 4).

**Membership Contributions** — Required contributions and accrued interest thereon for each state are recognized as an increase in permanently restricted net assets when the payments are received. Contributions and interest are recognized when collected because payments thereof cannot be made until they have been appropriated by the legislatures of the respective states.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from the estimates.

# NOTE 2 — INVESTMENTS

Investments consisted of the following:

		1998
	Cost	Market
U.S. Government bonds and notes	\$ 9,073,481	\$ 9,213,603
Corporate bonds and notes	13,651,243	14,021,206
Common stock and stock equivalents	77,773,948	101,356,731
	<u>\$100,498,672</u>	<u>\$124,591,540</u>

		1997
	Cost	Market
U.S. Government bonds and notes	\$ 9,333,365	\$ 9,438,820
Corporate bonds	16,027,632	16,323,870
Common stock and stock equivalents	64,402,188	91,242,595
	<u>\$ 89,763,185</u>	<u>\$117,005,285</u>

The market value of the investments was based on quoted market prices at the respective year-ends.

# NOTE 3 — MEMBER STATE SHARES

In accordance with the articles of incorporation, the Fund is required to disburse to the member states one-third of its realized investment income after deducting operating expenses. Amounts paid to the states are to be used for the furtherance of the Fund's activities and are allocated on the basis of the amount and time the states' contributions were invested by the Fund.

# NOTE 4 — GRANTS COMMITTED

Grant activity for 1998 and 1997 was as follows:

	Grants Approved	Grants Paid	Grants Committed at December 31
1998	\$5,217,000	\$2,659,600	\$ 79,200
1997	2,536,965	3,366,299	329,663

As of December 31, 1998, total grants approved since the Fund's inception in 1989 amounted to \$26,903,213, of which \$6,238,312 related to grants for which the contingencies have not been met and, therefore, the grant expenses have not been recognized. Upon satisfaction of the contingencies by the recipients, the Fund will recognize the grant expenses and disburse the remaining payments.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5 — PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets represent the contributions received from member states in accordance with the Fund's articles of incorporation, along with interest on delayed payments. These amounts cannot be expended. Earnings on permanently restricted net assets are to be used for the payment of grants, state shares and operating expenses.

Required contributions and contributions received as of December 31, 1998, were as follows:

	Required	Received	Balance
Illinois	\$15,000,000	\$15,000,000	\$ 0
Indiana	16,000,000	0	16,000,000
Michigan	25,000,000	25,000,000	0
Minnesota	1,500,000	1,500,000	0
New York	12,000,000	12,000,000	0
Ohio	14,000,000	14,000,000	0
Pennsylvania	1,500,000	1,500,000	0
Wisconsin	12,000,000	12,000,000	0
	\$97,000,000	\$81,000,000	\$16,000,000

The final payment of \$4,200,000 from Illinois was received in August 1998. There is no due date for the contribution payable by Indiana, which has not yet joined the Fund.

In accordance with its articles of incorporation, the Fund charges interest to states electing to extend the time to make the required contributions. Annual interest was being charged at 8% on the unpaid balances due from the State of Illinois and amounted to approximately \$214,000 in 1998 and \$336,000 in 1997. Because unpaid contributions are not reflected as assets in the Fund's financial statements, the accrued interest due from Illinois (totaling \$1,949,911 at December 31, 1998) has also been excluded. No interest is due from the State of Indiana until such time as it elects to join the Fund and to extend the time to make the required contributions.

### NOTE 6 — COMMITMENTS

The Fund occupies its offices under a lease expiring in 2000 and providing for increasing monthly base rentals plus a proportionate share of increases in the cost of operating the property.

Rent expense totaled \$57,945 and \$58,152 (including \$18,215 and \$21,847 of contingent rent expense) for 1998 and 1997.

Minimum payments required under the lease are as follows:

1999	\$43,155
2000	\$46,580
	<u>\$89,735</u>

### NOTE 7 — RETIREMENT PLAN

The Fund maintains a retirement plan under the provisions of the Internal Revenue Code applicable to governmental retirement plans. All employees are eligible to participate upon commencement of employment. The Fund makes contributions equal to 10% of each employee's compensation. Employees cannot contribute to the plan. The Fund contributed \$35,105 and \$31,952 to the plan for 1998 and 1997.

### INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Great Lakes Protection Fund:

We have audited the statement of financial position of Great Lakes Protection Fund as of December 31, 1998 and 1997 and the statements of activities and of cash flows for the years then ended. The financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Great Lakes Protection Fund as of December, 31, 1998 and 1997 and its activities and cash flows for the years then ended in conformity with generally accepted accounting principles.

*Altschuler, Melvoin & Glasser LLP*

Altschuler, Melvoin and Glasser LLP  
Chicago, Illinois  
February 17, 1999

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The Board wishes to thank Craig Blacklock of Blacklock Nature Photography for generously providing the photographs for this year's annual report. The images illustrate the grandeur of the Great Lakes ecosystem that the Fund is designed to protect and restore. For more information on the Blacklock's photography, visit the Blacklock Gallery at [www.blacklockgallery.com](http://www.blacklockgallery.com).

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