Great Lakes Protection Fund

2008 Annual Report

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 first private endowment created to benefit a specific ecosystem. It is designed to support the creative work of collaborative teams that test new ideas, take risks, and share what they have learned. It is a source of financial support for groups that value innovation and entrepreneurship, focus on tangible benefits for the Great Lakes ecosystem, and learn by doing. Seven Great Lakes states have contributed $81 million to the Fund's permanent endowment.

The Fund does three things. First, it invests the endowment to produce income. This income supports operations, regional projects, and member states' individual Great Lakes priorities. Second, it designs and finances regional projects. These projects identify, demonstrate, and promote regional action to enhance the health of the Great Lakes ecosystem. Third, it monitors those regional projects to ensure that they are successful, modified when necessary, or terminated if they are not creating value for the ecosystem.

From its inception through December 2008, the Fund has made a total of 221 grants and program-related investments, representing a $56.5 million commitment to protecting and restoring the ecological health of the Great Lakes ecosystem. Additionally, the Fund has paid more than $41.3 million directly to its seven member states to support their Great Lakes priorities. Over the course of the past 20 years, the Great Lakes ecosystem has benefited from the States' initial investment of $81 million with an overall commitment of more than $97.8 million to date.

Activities During 2008

In the past year, the Fund generated over $2 million in net investment income from the endowment. The Fund returned more than $200,000 to its member states to support their Great Lakes priorities. The Fund paid $2.4 million to support regional projects. Audited financial statements can be found in Appendix 1.

The Fund entered 2008 with 16 active projects focused on efforts to prevent biological pollution, restore natural flow regimes, engage market forces, and provide leadership for ecosystem restoration in the Great Lakes Basin. These projects represented an investment by the Fund of $9.2 million.

Over the course of the year, work was completed on seven of these projects. These projects are identified in Appendix 2. All projects generated new and useful tools that will ultimately improve the health of the Great Lakes ecosystem. Each project provided a unique and positive return on the Fund's investment.

For example, the team led by the National Academies took an in-depth look at aquatic invasive species in the Great Lakes, the vectors by which they arrive here, and the methods and policies necessary to prevent further introductions while enhancing global trade in the region. This team was able to identify shortcomings in current regulations that could allow further introductions of invasive species and developed a nine-point action plan that lays the framework for further discussions concerning prevention. In another completed project, the Delta Institute-led team piloted an innovative financing tool to help facilitate pollution prevention and energy efficiency transactions. The on-bill financing program allows businesses to finance energy efficiency and pollution prevention efforts, to reduce their usage of power and water, and to make loan payments on their utility bill using a portion of the savings those efforts create.

During 2008, the Fund developed and supported five new projects, maintaining the portfolio of active, supported work at just over $8.9 million. Among the new projects is a grant made to a team led by the Oberlin College that will develop a system to provide users with real-time feedback on the costs and consequences of their water and electricity use. The team will install displays that show what is being consumed, how much it costs, and what the effect is upon air and water resources. In conjunction, they will build an automated monitoring network what will assess changes in flows, air quality, water withdrawal, and power sold. This project will help to achieve the Governors' objective of adopting sustainable use practices that protect environmental resources. The complete portfolio of supported work, including new projects awarded in 2008, can be found in Appendix 3.

Evaluation of the Corporation's Performance

The Fund accomplished its objectives in 2008. Regional projects were designed and funded to address key gubernatorial priorities—especially the sustainable use of Great Lakes water and stopping invasive species. Ongoing regional efforts were monitored, adjusted when required, and closed-out when appropriate. Despite difficult economic conditions, significant funds were paid directly to the member states to support their individual priorities.

Emerging Trends and Future Needs

The Governors have identified their priorities for Great Lakes Basin ecosystem protection and restoration. The Fund will continue to focus on those priorities that are not already the responsibility of governments or regulated entities. In the near term, the Fund is likely to focus on the identification and demonstration of better ways to manage basin waters so that the region can support new water uses and improve the health of the resource, the use of information technology to shape decisions and choices to improve the health of the ecosystem, and to map and reduce the impact of commerce and product lifecycles on the health of water resources.

Actions Taken by the Directors in Response to Public Comments

The Directors have sought, but not received, public comments on this report.

MEMBERS OF THE CORPORATION IN 2008

Governor of Illinois

Rod R. Blagojevich

Governor of Michigan

Jennifer M. Granholm

Governor of Minnesota

Tim Pawlenty

Governor of New York

David Paterson

Governor of Ohio

Ted Strickland

Governor of Pennsylvania

Edward G. Rendell

Governor of Wisconsin

James E. Doyle

BOARD OF DIRECTORS IN 2008

Todd Ambs *(Madison, WI)*

Ken DeBeaussaert *(Lansing, MI)*

Michael Elmendorf *(Albany, NY)*

Alan Fish *(Madison, WI)*

Caren Glotfelty *(Pittsburgh, PA)*

Edwin Hammett *(Toledo, OH)*

Scott Harrison *(Lutsen, MN)*

Pat Lupo, OSB *(Erie, PA)*

Matthew Millea *(Albany, NY)*

Pat Quinn *(Chicago, IL)*

Roy Ray *(Akron, OH)*

Craig Shaver *(Minneapolis, MN)*

Maureen Smyth *(Flint, MI)*

David Vaught *(Naperville, IL)*

GREAT LAKES PROTECTION FUND STAFF

Michael Davidson – Program Officer

Amy Elledge – Communications Administrator

Laurence LaBoda – Director, Finance and Administration

Erin McCallister – Program Officer

Naureen Rana – Program Officer

David Rankin – Program Director

Gloria Swanson – Executive Administrator

Russell Van Herik – Executive Director

APPENDIX 1

2008 AUDITED FINANCIAL STATEMENTS

McGladrey & Pullen
Certified Public Accountants

Great Lakes Protection Fund

Financial Report

December 31, 2008

Contents

McGladrey & Pullen
Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Great Lakes Protection Fund

We have audited the statements of financial position of Great Lakes Protection Fund (the Fund) as of December 31, 2008 and 2007 and the statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2008 and 2007 and its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Chicago, Illinois
March 31, 2009

Great Lakes Protection Fund

Statements of Financial Position
December 31, 2008 and 2007

	2008	2007
Assets		
Cash and cash equivalents	**$ 8,887,147**	$ 1,935,603
Receivable from broker for sales of securities	**30,847**	129,807
Investments	**78,665,073**	137,075,034
Accrued interest	**150,040**	156,811
Other assets	**20,520**	22,486
Furniture, equipment and leasehold improvements, net of accumulated depreciation of $276,349 and $252,096 in 2008 and 2007, respectively	**42,426**	63,501
	$ 87,796,053	$ 139,383,242
Liabilities and Net Assets		
Liabilities		
Grant commitments	**$ -**	$ 184,500
Member state shares	**200,620**	3,614,046
Liability to brokers for purchase of securities	**519**	58,884
Accrued expenses	**204,631**	232,641
Accrued pension contribution	**5,130**	4,611
Accrued postretirement health benefits	**144,855**	-
	555,755	4,094,682
Net assets		
Unrestricted		
Board designated	**4,038,478**	-
Undesignated	**(325,168)**	51,761,572
	3,713,310	51,761,572
Permanently restricted	**83,526,988**	83,526,988
	87,240,298	135,288,560
	$ 87,796,053	$ 139,383,242

See Notes to Financial Statements.

Great Lakes Protection Fund

Statements of Activities
Years Ended December 31, 2008 and 2007

	2008			2007		
	Unrestricted	Permanently Restricted	Total	Unrestricted	Permanently Restricted	Total
Revenue						
Investment income	$ 2,265,425	$ -	$ 2,265,425	$ 12,518,721	$ -	$ 12,518,721
Expenses						
Program grants	2,175,078	-	2,175,078	2,504,930	-	2,504,930
Member state shares	200,620	-	200,620	3,614,046	-	3,614,046
Investment management and advisory fees	302,700	-	302,700	364,500	-	364,500
Administrative expenses	1,360,864	-	1,360,864	1,312,085	-	1,312,085
	4,039,262	-	4,039,262	7,795,561	-	7,795,561
Increase (decrease) in net assets before unrealized loss on investments and adjustment to adopt FAS 158	(1,773,837)	-	(1,773,837)	4,723,160	-	4,723,160
Unrealized loss on investments	(46,143,507)	-	(46,143,507)	(1,638,320)	-	(1,638,320)
Adjustment to adopt FAS 158	(130,918)	-	(130,918)	-	-	-
Increase (decrease) in net assets	(48,048,262)	-	(48,048,262)	3,084,840	-	3,084,840
Net assets						
Beginning of year	51,761,572	83,526,988	135,288,560	48,676,732	83,526,988	132,203,720
End of year	$ 3,713,310	$ 83,526,988	$ 87,240,298	$ 51,761,572	$ 83,526,988	$ 135,288,560

See Notes to Financial Statements.

Great Lakes Protection Fund

Statements of Cash Flows
Years Ended December 31, 2008 and 2007

	2008	2007
Operating activities		
Increase (decrease) in net assets	**$ (48,048,262)**	$ 3,084,840
Depreciation and amortization	**24,253**	38,739
Realized (gain) loss on sales of investments	**3,751,301**	(3,943,006)
Unrealized loss on investments	**46,143,507**	1,638,320
Changes in:		
Accrued interest	**6,771**	23,203
Other assets	**1,966**	(3,843)
Grant commitments	**(184,500)**	(169,260)
Member state shares	**(3,413,426)**	1,081,372
Accrued expenses	**(28,010)**	78,097
Accrued pension contribution	**519**	665
Accrued post retirement health benefits	**144,855**	-
Net cash provided by (used in) operating activities	**(1,601,026)**	1,829,127
Investing activities		
Purchases of investments	**(47,035,876)**	(22,640,347)
Proceeds from sales of investments	**55,591,624**	20,782,354
Purchases of equipment and improvements	**(3,178)**	(4,236)
Net cash provided by (used in) investing activities	**8,552,570**	(1,862,229)
Increase (decrease) in cash and cash equivalents	**6,951,544**	(33,102)
Cash and cash equivalents		
Beginning of year	**1,935,603**	1,968,705
End of year	**$ 8,887,147**	$ 1,935,603
Supplemental schedule of noncash investing and financing activities		
Write-off and abandonment of fully depreciated equipment and improvements	**$ -**	$ 61,715

See Notes to Financial Statements.

Great Lakes Protection Fund

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Great Lakes Protection Fund (the Fund) is a nonprofit organization designed to have as its members the governors of the eight states bordering on the Great Lakes. Seven of the states have joined the Fund and have made contributions, as specified in the Fund's articles of incorporation, to establish their membership in the Fund. 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.

Basis of Accounting: Under accounting principles generally accepted in the United States of America, not-for-profit organizations report net assets in each of the three classes: permanently restricted, temporarily restricted, or unrestricted based on the existence or absence of donor-imposed restrictions.

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

The Fund maintains cash accounts at financial institutions, which at times, may exceed $250,000. The accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. A significant portion of cash equivalents is invested in money market accounts. Such amounts are insured by the Securities Investors Protection Company up to $500,000. Amounts in excess of those levels are insured by the manager to the balance of the account. The Fund has not experienced any losses in such accounts. Management believes that the Fund is not exposed to any significant credit risk on cash and cash equivalents.

Investments: Investments are reflected at current market value based on quoted market prices. Realized gains for mutual funds are computed using the specific-identification method. Realized gains for all other investments are computed using the first-in, first-out method.

The Fund invests in various investments. Such investments are exposed to various risks such as interest rate, market and credit risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Furniture, Equipment and Leasehold Improvements: Furniture, equipment and leasehold improvements are stated at cost. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets ranging from five to seven years. Leasehold improvements are amortized over the remaining lease term.

Grant Commitments: Payment of grants beyond the initial installments is contingent on the satisfaction by the recipients of agreed-upon requirements. Unpaid amounts are accrued only if the contingencies have been met.

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 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 1. Nature of Activities and Significant Accounting Policies (continued)

Postretirement Benefits: The Fund provides certain health care benefits for its retired employees that meet eligibility requirements. The Fund's share of the estimated costs that will be paid after retirement is generally being accrued by charges to expense over the employees' active service periods to the dates they are fully eligible for benefits.

New Accounting Pronouncements: The Fund adopted SFAS No. 157, *Fair Value Measurements* (SFAS 157) effective January 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. The adoption of SFAS 157 did not have a material impact on the financial statements or results of operations of the Fund. In accordance with Financial Accounting Standards Board Staff Position (FSP) No. 157-2, *Effective Date of FASB Statement No. 157*, the Fund will delay application of SFAS 157 for non-financial assets and non-financial liabilities until January 1, 2009. SFAS 157 applies to all assets and liabilities that are measured and reported on a fair value basis. The adoption of the remaining provisions of SFAS No. 157 is not expected to have a material impact on the Fund's financial position, results of operations or cash flows.

In August 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds.* FSP No. FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). This FSP also improves disclosures about an organization's endowment funds (both donor-restricted endowments and board-designated endowment funds) whether or not the organization is subject to UPMIFA. As of December 31, 2008, the UPMIFA has not been enacted in Illinois. The Fund has adopted the requirements of this FSP No. FAS 117-1 as it applies to Illinois law as of December 31, 2008.

Note 2. Investments

Investments consist of the following:

	2008	
	Cost	Market
Common stocks and stock equivalents	$ 15,336,890	$ 8,586,432
Common stock mutual funds	64,771,535	46,143,900
Bond mutual funds	24,308,708	23,934,741
	$ 104,417,133	$ 78,665,073

	2007	
	Cost	Market
Common stocks and stock equivalents	$ 27,348,143	$ 30,432,807
Common stock mutual funds	60,164,050	77,012,513
Bond mutual funds	29,171,396	29,629,714
	$ 116,683,589	$ 137,075,034

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

Great Lakes Protection Fund

Notes to Financial Statements

Note 3. Fair Value Disclosures

Effective January 1, 2008, the Fund adopted FASB Statement No. 157, *Fair Value Measurements* (FAS No. 157), which provides a framework for measuring fair value under generally accepted accounting principles. FAS No. 157 applies to all financial instruments that are being measured and reported on a fair value basis.

As defined in FAS No. 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Fund uses various methods including market, income and cost approaches. Based on these approaches, the Fund often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Fund utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used on the valuation techniques, the Fund is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1. Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2. Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3. Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

For the fiscal year ended December 31, 2008, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments at fair value:

Investment Securities

The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

In determining the appropriate levels, the Fund performs a detailed analysis of the assets and liabilities that are subject to FAS No. 157. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs would be classified as Level 3.

Great Lakes Protection Fund

Notes to Financial Statements

Note 3. Fair Value Disclosures (continued)

Fair Value on a Recurring Basis

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis:

	December 31, 2008			
	Total	Level 1	Level 2	Level 3
Common stocks and stock equivalents	$ 8,586,432	$ 8,586,432	$ -	$ -
Common stock mutual funds	46,143,900	46,143,900	-	-
Bond mutual funds	23,934,741	23,934,741	-	-
Total assets	$ 78,665,073	$ 78,665,073	$ -	$ -

Gains and losses (realized and unrealized) included in earnings above are reported in operating revenue and in other revenue as follows:

	Operating Revenue	Other Revenue
Interest and dividends	$ 6,016,726	$ -
Realized losses on securities sold	(3,751,301)	-
Total investment income included in operating revenue	$ 2,265,425	$ -
Change in unrealized losses relating to assets still held at December 31, 2008	$ -	$ (46,143,507)

Note 4. 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, excluding grants. 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 state's respective contribution. Accrued member state shares were $200,620 and $3,614,046 at December 31, 2008 and 2007, respectively.

Great Lakes Protection Fund

Notes to Financial Statements

Note 5. Grants Committed

Grant activity for 2008 and 2007 is as follows:

	Grants Approved	Grants Paid	Grants Committed December 31
2008	$ 3,467,300	$ 2,359,578	$ -
2007	2,928,000	2,674,189	184,500

As of December 31, 2008, total grants approved since the Fund's inception amounted to $56,571,513, of which $5,522,992 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.

Note 6. Net Assets

Permanently Restricted

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.

With the exception of Indiana, all states have made their required contributions, which were as follows:

Illinois	$ 15,000,000
Michigan	25,000,000
Minnesota	1,500,000
New York	12,000,000
Ohio	14,000,000
Pennsylvania	1,500,000
Wisconsin	12,000,000
	$ 81,000,000

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. No such interest was charged in 2008. No interest is due from the State of Indiana until such time as it elects to join the Fund and to determine the time to make its required contributions.

Board Designated

In 2008, the Board designated $5,000,000 from unrestricted net assets to create a separate fund to provide for commitments and obligations of the Fund. At December 31, 2008, the balance in this fund was $4,038,478.

Note 7. Endowment Net Assets

The Fund's endowment net assets are comprised of restricted contributions made by the eight member states, as well as the net effect of the realized and unrealized investment returns and losses on those investments and the operating expenses of the Fund. As the original contributions were made for the purpose of establishing a fund of assets to provide income for the Fund, the Fund's net assets are considered an endowment, as defined by FASB Statement of Accounting Standards No. 117-1, *Financial Statements of Not-for-Profit Organizations.*

Interpretation of Relevant Law

As of December 31, 2008, the relevant Illinois law related to endowments is based on the Uniform Management of Institutional Funds Act of 1972 (UMIFA). This law specifies that the Board may invest and reinvest the endowment funds in any real or personal property deemed advisable by the governing board, including mortgages, stocks and bonds, debentures, and other securities. In making investment decisions, the UMIFA also states that the Board should exercise ordinary business care and prudence under the circumstances prevailing at the time of the action or decision. In doing so, the Board should consider long and short-term needs of the Fund in carrying out its established purposes, its present and anticipated financial requirements, expected return on its investments, price level trends, and general economic conditions. The UMIFA also specifies that the Board may appropriate for expenditure so much of the net appreciation, realized and unrealized, in the fair value of the assets of the endowment fund in excess of the original restricted contributions made to establish it, as is considered prudent.

The Board has interpreted the UMIFA as requiring the preservation of the fair value of the original contributions as of the contribution date. As a result of this interpretation, the Fund classifies the original value of the contributions made by the member states as permanently restricted net assets. All other accumulations to the Fund's net assets are classified as unrestricted net assets, absent explicit donor stipulations to the contrary.

Endowment Composition

The Fund's endowment net assets are as follows:

	2008 Permanently Restricted	2007 Permanently Restricted
Donor-restricted funds	$ 83,526,988	$ 83,526,988
Board designated funds	-	-
Undesignated funds	-	-
	$ 83,526,988	$ 83,526,988

Note 7. Endowment Net Assets (continued)

Changes in Endowment Net Assets

There were no changes in endowment net assets in 2008 or 2007.

Return Objectives and Risk Parameters

The Fund has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to its programs while ensuring that the original value of the endowment contributions is preserved. Assets are invested in a manner intended to achieve an annualized nominal return of 8 percent and a real return of 4 percent in excess of the Consumer Price Index. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Fund relies on a total return strategy in which returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Fund targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. Overall target asset allocation for the fund is as follows:

Asset Class	Target Allocation
Domestic and foreign stocks	60-70%
Fixed income (U.S. Bonds), cash and cash equivalents	30-40%

Spending Policy

The Fund has a policy of appropriating an estimate of expenditures each year as part of a formal, annual budget. Changes to appropriations are also approved during the year as unexpected needs arise.

Note 8. Commitments

The Fund is obligated under an office lease expiring in December 2010.

Rent expense totaled $167,616 and $163,603 for 2008 and 2007, respectively.

Minimum payments required under the lease are as follows:

2009	$ 153,090
2010	155,600
	$ 308,690

Note 9. 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 percent of each employee's compensation. Employees cannot contribute to the plan. The Fund contributed $58,699 and $55,412 to the plan for 2008 and 2007, respectively.

Note 10. Postretirement Health Benefits

On July 1, 2008, the Fund established a retiree health plan to provide certain health care benefits to retired employees. Employees who retire with at least 10 cumulative years of service are eligible to participate in the plan.

The Fund adopted the provisions of Statement of Financial Accounting Standards No. 158 (FAS 158), *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans*. The provisions of this statement require employers to recognize the overfunded or underfunded positions (the difference between the costs funded to date and the benefit obligation) of postretirement plans as an asset or liability in the statement of financial position and to recognize changes in that funded status in changes in unrestricted net assets in the year in which the changes occur. The adoption of this standard resulted in a $130,918 decrease in unrestricted net assets for the year ended December 31, 2008 and consisted of the following:

	2008
Unrecognized prior service cost	$ 111,512
Amortization of prior service cost	(5,559)
Unrecognized net loss	24,965
	$ 130,918

Note 10. Postretirement Health Benefits (continued)

Net periodic benefit cost is recognized in the statement of activities is as follows:

	2008
Service cost	$ 4,531
Interest cost	3,847
Amortization of unrecognized prior service cost	5,559
	$ 13,937

Additional information is as follows:

	2008
Accumulated postretirement benefit obligation, beginning of year	$ -
Service cost	4,531
Interest cost	3,847
Plan amendments	111,512
Actuarial loss	24,965
Accumulated postretirement benefit obligation, end of year	$ 144,855
Plan assets at fair value, end of year	$ -
Fair value of plan assets	$ -
Accumulated postretirement benefit obligation	(144,855)
Funded status	$ (144,855)

At December 31, 2008, the postretirement benefit obligation of $144,855 is accrued as a liability in the statement of financial position.

The estimated prior service cost for the postretirement benefit plan that will be amortized into net periodic benefit cost during 2009 is $11,118.

The Fund intends to fund the plan with operating revenue.

Note 10. Postretirement Health Benefits (continued)

Weighted average assumptions used in the calculation of the net periodic postretirement benefit cost and the postretirement benefit obligation are as follows:

	2008
Discount rate at July 1, 2008	6.90%
Discount rate at December 31, 2008	6.10%
Expected return on assets	N/A
Health care cost trend rate before age 65	12.00%
Health care cost trend rate after age 65	12.00%
Ultimate trend rate	5.00%
Year of ultimate trend rate	2018

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage point change in assumed health care cost trend rates would have the following effects:

	1% Increase	1% Decrease
Effect on postretirement benefit obligation	$ 29,463	$ (23,891)
Effect on service cost and interest cost	$ 1,774	$ (1,427)

Estimated future benefit payments are as follows:

	Postretirement Benefits
2009	$ -
2010	-
2011	-
2012	-
2013	1,764
2014-2019	51,707
	$ 53,471

APPENDIX 2

PROJECTS COMPLETED IN 2008

PREVENTING BIOLOGICAL POLLUTION

St. Lawrence Seaway: Issues and Options – Phase II

The goal of this project was to identify options to eliminate further introductions of non-indigenous aquatic species into the Great Lakes by vessels transiting the St. Lawrence Seaway, while also enhancing the potential for global trade in the region. The project's advisory committee included experts in decision analysis, political science, international trade, and economic development. An "innovation cell," comprised of the advisory committee plus other experts, commissioned eight scholarly papers to inform the development of options to promote international commerce while also preventing the introduction of invasive species and pathogens into the Great Lakes from ocean-going vessels transiting the Seaway. The advisory committee published a peer-reviewed report containing its final recommendations for action, as well as an exploration and evaluation of alternative solutions. Among its recommendations, the team identified that using the Seaway is a privilege and not a right, that all traffic—including presently unregulated vessels traveling from U.S. and Canadian seaports to the Great Lakes—be subject to ballast water management requirements, and that to support the Seaway the United States and Canada must develop and deploy programs to detect and rapidly respond to new invasions.

The National Academies $875,000
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MARKET MECHANISMS

A Regional Finance Strategy to Restore the Health of the Great Lakes Ecosystem

The goal of this project was to stop the contamination of streams, rivers, beaches, and coastlines by the release of untreated or partially treated waters from sanitary, storm, and combined sewer systems or other sources of run-off. The team, consisting of lawyers, finance experts, agency representatives, and others, sought to create new financing tools to support the upgrading of water treatment infrastructure and/or the implementation of other priority actions identified in the Regional Collaboration's Strategy to Restore and Protect the Great Lakes. Ultimately, the team recommended the creation of an overarching new national program to establish "Watershed Restoration Zones" (WRZs) to restore damaged watersheds. Under such a program, two different financing approaches would be implemented to pay for restoration activities within WRZs—one would utilize federal tax credit bonds to finance critical water and wastewater projects, and the other would encourage state governments to create individual bond fund programs to help finance important water and sewer improvements within their respective states.

Bricker & Eckler LLP $685,000
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Developing New Financing Products for Great Lakes Ecosystem Restoration

The goal of this project was to achieve healthier Areas of Concern (AOCs) around the Great Lakes Basin. A project team of ecological and financial professionals explored the use of various financial tools to generate revenue for AOC remediation and other ecosystem restoration activities. One such tool is tax increment financing (TIF), which could be used to support the cleanup of contaminated sediment, the construction of wet-weather discharge controls, and the restoration of wetlands. The project team pursued options for working with local governments to use TIF districts to support sediment clean-up activities. They discussed the possibility of testing two models on the revenue-generation side: one linked to a planned development, and the other linked to a linear, riparian TIF district that would divert a small percentage of tax revenues to a dedicated fund. The team also proposed to run two models for the uses of the funds: one where the funds would be used for sediment cleanup (a high cost option); and one where the funds would be used for a more modest stream restoration or wetland creation project (lower cost option). While the team was not able to deploy these approaches, they have compiled their research and ideas regarding creative financing for ecosystem restoration and have shared this information via a high-level listening session in Washington, D.C. and a webpage on the Northeast Midwest Institute's website.

Northeast-Midwest Institute $593,000
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Achieving Ecosystem Benefits through Pollution Prevention and Energy Efficiency Transactions

The goal of this project was the conservation of Great Lakes water and reductions in solid and hazardous waste, criteria air pollutants, and emissions associated with climate change. In the process of working with a number of different facilities (private companies and public utilities) and forest landowners in Michigan, the project team developed a series of tools to track and measure the full extent of environmental impacts associated with specific pollution prevention, energy efficiency, and carbon sequestration actions. Such tools include investment grade audits, efficiency contracts, carbon offset transactions, and facility footprint mapping. Ultimately, the team developed a total of 308 transactions (12 pollution prevention/energy efficiency (P2/E2) projects and 296 carbon transactions) and created a green procurement consortium. Some of the P2/E2 transactions were part of an on-bill financing pilot, which allowed industrial facilities to finance the implementation of P2/E2 measures with a line of credit that had been secured by the Delta Institute specifically for this purpose. The facilities receiving this assistance will pay back the implementation costs, plus fees, via their energy bill. In turn, the electric utility is putting the efficiency charge on their bill, collecting the monthly efficiency charge, and repaying the Delta Institute and the bank.

Delta Institute $435,000
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NATURAL FLOW REGIMES

Lake Ontario Resource Improvement Opportunity Assessment

The goal of this project was the expansion of the geographic scope of Cornell University's GIS-based Hydroecological and Conservation Mapping Tool (the Tool), which was developed under a previous Fund grant, to all of Lake Ontario to inform the development of resource improvement projects and to create methods to capture the benefits accrued by those projects over space and time. The project team built several new modules into the Tool to respond to priorities identified by various stakeholders and experts, and tested the revised Tool's capabilities in several Lake Ontario subwatersheds in New York and Ontario. Among other things, the expanded Tool allows users to: create maps that depict the extent of habitat degradation, riparian degradation, habitat fragmentation, and streamflow alteration; identify the likely causes of resource impairments; and, virtually test various management practices and assess their financial costs and resource benefits.

Natural Heritage Institute $544,000
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Identifying and Valuing Restoration Opportunities at Watershed and Subwatershed Scales

The goal of this project was the development, testing, validation, and application of a suite of integrated GIS watershed and hydrologic assessment tools and metrics that link hydrologic impairments with restoration opportunities within four pilot watersheds within the Great Lakes Basin—the Milwaukee River (WI); the Paw Paw River (MI); the Shiawassee River (MI); and the St. Joseph River (IN, MI, OH). The project team focused on producing a set of tools and metrics that, when combined with GIS coverages, could relate hydrologic and ecological change to practices on the land and in the water. The tools they developed are: a "stream power" tool that assesses the spatial distribution of energy (i.e. stream power) within a watershed as a function of change in land cover and can be used to identify areas of maximum hydrologic restoration potential; a wetlands water retention/storage tool that identifies potential hydrologic restoration opportunities associated with wetland restoration sites and estimates the volume of water retained or stored by those wetlands; and, a method of conducting water use/pathway assessments that identifies and examines the potential effects of flow path changes on hydrologic parameters as water moves across or through a watershed.

Applied Ecological Services $499,000
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Great Lakes Cities Permeability Index Planning

The goal of this planning effort was the development of a detailed project plan for the creation of an operational Great Lakes Cities Permeability Index (GLCPI), an assessment tool aimed at measuring and advancing the use of green infrastructure and its impacts on improving the water quality of the Great Lakes. To that end, the project team focused on defining the scope and components of the GLCPI, associated data requirements, modeling approaches, outreach strategies to encourage wide participation, and the monitoring techniques required to evaluate impacts on the Great Lakes. As described in the team's final plan, a fully functioning GLCPI would include: a registry of green infrastructure improvements (including rain barrels, rain gardens, green roofs, vegetated filter strips, greenways, and other methods of capturing stormwater on-site); a Geographic Information System to display permeable and impermeable land cover, soils, stormwater infrastructure, and stormwater problem areas for each participating municipality; and a "green values" calculator to quantify the cost-effectiveness of registered and potential green infrastructure improvements and the amount of pollutant(s) removed by each feature.

Center for Neighborhood Technology $70,000
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APPENDIX 3

PORTFOLIO OF PROJECTS AS OF DECEMBER, 2008

PREVENTING BIOLOGICAL POLLUTION

Building a Framework to Advance Aquatic Nuisance Species Management of Organisms in Trade in the Great Lakes Region

This planning effort will result in an implementation plan for a project to reduce the threats to the Great Lakes Basin ecosystem presented by the trade in live organisms. In this initial phase, the team will engage a series of public agencies and private commercial interests to plan an effort to design and test actions that prevent the release of invasive plants and animals that could disrupt key ecological processes and out-compete native organisms. The team expects to identify high risk activities in the aquarium and pet trade, nursery and water garden trade, and the aquaculture and bait industries; develop action plans to minimize those risks; and assemble a project team to do the work.

Great Lakes Commission — $77,000
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Developing and Applying a Portable Real-Time Genetic Probe for Detecting Aquatic Invasive Species in Ships' Ballast

The goals of this project are to: build five species-specific molecular probes—four for potentially invasive species (Chinese mitten crab, killer shrimp, golden mussel and predatory water flea) and one to detect zebra mussels; develop a ship-scale, laboratory independent detection platform that can be used onboard or in port; and establish an end-user network to communicate the technology's progress and application. Led by experts in the fields of invasive species biology, molecular ecology, and nanotechnology, this project team will produce a novel detection technology for the "next set" of invasive species in the Great Lakes. If successful, the tools developed will give decision makers the ability to know the invasive species threat posed by a particular vessel within two hours of obtaining a ballast water sample.

University of Notre Dame — $805,000
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Eco-Pro: An Intelligence System for Shipping to Protect the Ecosystem of the Great Lakes

Ultimately, the goal of this project is the elimination of the introduction of aquatic invasive species and pathogens via ocean-going ships entering the Great Lakes. In order to achieve this end, the project team will create a first-of-its-kind information system that integrates biological, commercial, and transportation information. The resulting "proof of concept" prototype system will display shipping routes and generate detailed profiles of each vessel transiting the St. Lawrence Seaway, including identification of cargo owners, future destinations, prior ports of call, and the ecological and public health conditions existing at those locales. The team will also develop a searchable computerized system that collects relevant information on the likely risks presented by a particular vessel. In order to build robust risk profiles for each vessel, the system will be vetted by invasion biologists, resource managers, and public health experts.

University of Illinois at Chicago $435,000
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Risk Assessment and Management of Great Lakes Species

The ultimate goal of this project is to move towards the elimination of new introductions of invasive species into the Great Lakes. It also aims to halt the further spread of invasive, non-native species from the Great Lakes to other waters of North America. As part of this effort, the project team will: provide the scientific basis for assessing the relative invasion risk of vessels entering the Great Lakes based on ports they have previously visited; accelerate the development of rapid genetic tests to determine the content of ballast tanks; and identify the best places and strategies to stop the spread of invasive species by recreational boaters.

University of Notre Dame $1,090,000
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Ship-Mediated Harmful Microbes: Protecting the Great Lakes Ecosystem

The goals of this project are to: develop, test, and make widely available a set of new quantitative analytic techniques for microorganisms that threaten human health, wildlife health, or are otherwise ecologically or economically important; inventory the bacteriological content of ships' ballast water; develop ship-based and harbor monitoring protocols for viruses and bacteria; and convene monitoring programs to develop an institutional blueprint for microbial monitoring in the Great Lakes Basin. In parallel, and without Fund support, the Great Ships Initiative will initiate tests of disinfection methods to create a "rapid treatment response" capacity to prevent the release of harmful microbes from ships operating in the Lakes. These efforts will improve the region's ability to identify and respond to the threats posed by "microbial stowaways" on vessels or in basin ports.

Northeast-Midwest Institute $1,029,000
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LEADERSHIP FOR ECOSYSTEM RESTORATION

A Phosphorus Soil Test Metric for Reducing Dissolved Phosphorus Loads

The goals of this project are to: develop a surficial phosphorous (SurP) soil test to measure the level of phosphorous currently available in the soil; work with certified crop advisors, the fertilizer community, and local farmers to build a toolbox of management options that allow them to take action on the land based upon detected phosphorous levels; measure phosphorous inputs to tributaries in Ohio; work with groups in Saginaw Bay (MI), Green Bay (WI) and Ontario to share the results and lessons learned in Ohio; and develop a SurP metric that describes the level of reactive phosphorous in the soil and the likelihood of increased phosphorous loads into nearby tributaries. This metric will drive changes on the land that lead to ecosystem improvements in the Lakes. The project team will work with all members of the agricultural supply chain to reduce dissolved, reactive phosphorous in the Ohio Lake Erie Basin by fifty percent within the next ten years and deliver the tools to achieve similar results in Saginaw Bay, Green Bay, and Ontario. This phosphorous reduction will drive down eutrophication in Lake Erie, reduce the outbreak of harmful algal blooms, and improve aquatic health.

Heidelberg College $947,000
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Great Lakes Water Use Information Initiative

(Awarded in 2008)

The goal of this project is to make recommendations to inform the development of protocols and procedures for the Great Lakes States and the Provinces of Ontario and Quebec regarding: the collection, sharing, and dissemination of comparable water use information; improved access to timely information on how Great Lakes water is being used; improved scientific understanding of the waters of the Great Lakes basin, including the impacts of withdrawals and the role of groundwater in the ecosystem; and, improved decision-making and resource management.

Council of Great Lakes Governors $199,300
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Implementing Real-Time Resource Use Feedback to Motivate and Empower Conservation

(Awarded in 2008)

The goal of this project is to restore stream flows and reduce air emissions by reducing residential power and water use. The project team will develop, deploy and evaluate a system that provides users' feedback on the costs and consequences of their water and electricity use. They propose to work in Plum Creek (the main watercourse that runs through Oberlin, OH, which is part of the Black River watershed that drains into Lake Erie) and with the city's municipal power utility. The project team will install displays in student dormitories, apartment buildings, and mixed-use housing that show what is being consumed, how much it costs, and what the effect is upon air and water resources. They will also build an automated monitoring network that will assess changes in flows due to water withdrawals and discharges, air quality, water withdrawn and treated, and power sold. The team expects to provide information at the residence, neighborhood, city, and watershed scales.

Oberlin College $812,000
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Networked-Neighborhoods for Eco-conservation

(Awarded in 2008)

The goal of this project is to conserve water, manage run-off, and lead Great Lakes communities to adopt various watershed improvement activities. The project team will test a way to "network" individual environmental improvement activities on a neighborhood level in order to achieve results that matter at local and regional scales. First, they will develop a set of guides containing information on desired actions, such as the installation of rain barrels, timing of water uses, use of rain gardens, and expanded use of permeable pavements and landscaping. Next, they will partner with neighborhood groups to undertake these actions in the Grand Rapids, MI and Toledo, OH (Swan Creek) areas. They will provide a way for individual participants to monitor their own actions and effectiveness, as well as the actions and effectiveness of their neighbors via the Internet. The team will employ sophisticated modeling to help neighborhoods identify where practices could be most effectively implemented, and what the consequences are likely to be. Finally, the team will evaluate the ability of their neighborhood network strategy to achieve ecological results.

Michigan State University $481,000
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Water Conservation and Efficiency Initiative

The goal of this project is to help meet the commitments set forth by the Great Lakes Governors in the Great Lakes Charter Annex through the development of basin-wide water conservation and efficiency goals. These goals will be used to help shape individual state conservation programs. The Council of Great Lakes Governors (CGLG) will engage regional stakeholders to develop goals and objectives for the Regional Body's review and consideration. (The Regional Body was created by the Great Lakes-St. Lawrence River Basin Sustainable Water Resources Agreement and consists of the Great Lakes Governors and Premiers or their designees.) Based on this review, CGLG staff will work with the State of Wisconsin to develop its program to meet those water conservation goals and objectives.

Council of Great Lakes Governors $169,000
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MARKET MECHANISMS

Great Lakes Green Purchasing Consortium:
Leveraging Purchasing Power to Improve Environmental Quality (Awarded in 2008)

The goal of this project is to create a network of environmentally preferable purchasing consortiums across the basin. The project team will work with purchasing groups in Chicago, West Michigan and either Milwaukee, WI, Cleveland, OH or a similarly representative Great Lakes city over the course of three years. This effort will build upon the success the team has had with purchasing representatives in Grand Rapids, MI under a previous Fund grant. It will scale the purchasing consortium model to other cities, establish a self-sustaining business model, and create an interactive web interface that allows purchasers in different parts of the basin to provide feedback on the attributes of environmentally preferable purchases. Based on the types of products it hopes to promote, the project team believes that this project will lead to cleaner effluent streams at the point of discharge and reduced water use by basin facilities.

Delta Institute $495,000
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NATURAL FLOW REGIMES

Implementing and Documenting the Benefits and Costs of "Stormwater Treatment Trains" in Three Model Conservation (Watershed Sensitive) Developments

The goal of this project is to monitor the effectiveness of "stormwater treatment trains" in improving water quality and flow during and after construction. "Stormwater treatment trains" include vegetated swales that convey runoff, wetlands that remove nutrients and sediment, and sedimentation basins with staged release outlets. They will be constructed at three developments in southeast Wisconsin. The project team will evaluate the ecological impacts of, and costs associated with, these watershed sensitive developments and compare them to pre- and post-development conditions and traditional residential developments.

Applied Ecological Services, Inc. $369,000
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Innovative Outreach to Absentee Landowners in the Great Lakes

The goal of this project is to reach out to an untapped audience in the Great Lakes Basin—absentee agricultural landowners—to encourage the implementation of conservation practices on their properties that will ultimately restore stream and river health, increase riparian habitat, improve water quality, and generally reduce the negative impacts of agriculture on the Great Lakes ecosystem. The project team is working in three Great Lakes watersheds: Manitowoc County, WI; Orleans County, NY; and Saginaw Bay, MI. They are informing over 1,200 absentee landowners of conservation opportunities and as a result, hope to stimulate the conversion of at least 1,600 acres of production land to vegetative filter strips. If such a result can be achieved, the annual amounts of sediment, phosphorus, and nitrogen entering the Great Lakes will be reduced by 2,320 tons, 3,840 pounds, and 7,600 pounds, respectively. Local agencies will work with landowners and operators to ensure the installation, maintenance, and ecological evaluation of conservation practices.

M&M Divide Resource Conservation & Development $542,000
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Real-Time System Optimization for Sustainable Water Transmission and Distribution (Awarded in 2008)

The goal of this project is to optimize water movements within the Detroit Water and Sewerage District's supply, collection, and treatment system to minimize the air emissions created to power the system's pumps. Project team members also indicate that they can reduce the impacts of water withdrawals, unintentional releases (via overflows), and perhaps even effluent discharges. The team believes that using in-system storage capacity will allow the utility to alter the timing and magnitude of water withdrawals, shifting the demand for electricity away from peak times when the power system requires the use of high-emission generating sources. The team will install pump monitors and flow meters to provide real-time information on the hydraulic characteristics of the system and couple this to software that will optimize the use of pumps and track the resulting changes in power demand, energy costs, withdrawal timing, storm-holding capacity, and other measures.

Wayne State University $1,480,000
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