Great Lakes Protection Fund

2009 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 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 regional projects, member states' individual Great Lakes priorities and operations. 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 2009, the Fund has made a total of 229 grants and program-related investments, representing a $57.6 million commitment to protecting and restoring the ecological health of the Great Lakes ecosystem. Additionally, the Fund has paid more than $41 million directly to its seven member states to support their Great Lakes priorities. Over the course of the past 21 years, the Great Lakes ecosystem has benefited from the States' initial investment of $81 million with an overall commitment of more than $98.9 million to date.

Activities During 2009

Because of difficult economic conditions during 2009, the Fund realized a net loss of $3.3 million on its investments. For only the second time in its 21-year history, the Fund did not make state share payments for 2009. In response to the economic downturn, the Fund reduced its staff by over 35 percent and the Board reduced travel and outreach expenditures. The Fund also reduced the level of new grant awards for 2009.

Despite these poor economic conditions, the Fund had retained past earnings and was able to make grant payments of over $1.3 million. Furthermore, by the end of the year the value of the Fund increased by $17.6 million, due to appreciation of its investments. Audited financial statements can be found in Appendix 1.

The Fund entered 2009 with 14 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 $8.9 million.

Over the course of the year, work was completed on three 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 mission-related return on the Fund's investment.

During 2009, the Fund developed and supported eight new projects, maintaining the portfolio of active, supported work at just over $9.3 million. The projects support the Governors' non-regulatory water conservation and efficiency efforts under the Great Lakes–St. Lawrence River Basin Sustainable Water Resources Compact. The environmental consequences of reduced water use are to be evaluated, so that conservation actions can be focused in places where the Great Lakes benefit. The new projects explore different factors in the industrial use and pricing of Great Lakes water, and they will identify and demonstrate new methods and initiatives to manage basin waters. They are also creating ways to support new water uses while enhancing the health of the Great Lakes ecosystem. These projects will help to achieve the Governors' objective of adopting sustainable use practices that protect the Great Lakes water resources. The complete portfolio of supported work, including new projects awarded in 2009, can be found in Appendix 3.

Evaluation of the Corporation's Performance

Despite difficult economic conditions, the Fund met all of its obligations to its grantees. Because of the economic downturn the Fund did not make state share payments and laid off over 35 percent of its staff. In spite of these circumstances, regional projects were designed and funded to address key gubernatorial priorities—especially the use of better water management practices to increase the ecological health of the Great Lakes–St. Lawrence River Basin. Ongoing regional efforts were monitored, adjusted when required, and closed-out when appropriate.

Emerging Trends and Future Needs

The Governors have identified their priorities for Great Lakes Basin ecosystem protection and restoration. The Fund will continue its multi-year research agenda in support of these priorities. In the near term, the Fund is likely to focus on developing significant, new technological tools to help protect and restore the resources of the Great Lakes. These include Great Lakes resource feedback systems that show users real-time consequences of their choices, faster and more robust assessment techniques, new management frameworks that recognize connections in the hydrologic cycle, and/or methods to manage the important connection between water and energy.

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 2009

Governor of Illinois

Pat Quinn

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 2009

Wendy Abrams *(Highland Park, IL)*

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)*

Jack Kilroy *(Avon, OH)*

Pat Lupo, OSB *(Erie, PA)*

Matthew Millea *(Albany, NY)*

Craig Shaver *(Minneapolis, MN)*

Debra Shore *(Chicago, IL)*

Maureen Smyth *(Flint, MI)*

GREAT LAKES PROTECTION FUND STAFF

Amy Elledge – Communications Administrator

Laurence LaBoda – Director, Finance and Administration

Naureen Rana – Program Officer

David Rankin – Program Director

Russell Van Herik – Executive Director

APPENDIX 1

2009 AUDITED FINANCIAL STATEMENTS

Great Lakes Protection Fund

Financial Report
December 31, 2009

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, 2009 and 2008 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, 2009 and 2008 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 16, 2010

Great Lakes Protection Fund

Statements of Financial Position
December 31, 2009 and 2008

	2009	2008
Assets		
Cash and cash equivalents	**$ 8,825,966**	$ 8,887,147
Receivable from broker for sales of securities	**-**	30,847
Investments	**96,806,264**	78,665,073
Accrued interest	**104,466**	150,040
Other assets	**15,304**	20,520
Furniture, equipment and leasehold improvements, net of accumulated depreciation of $294,496 and $276,349 in 2009 and 2008, respectively	**24,279**	42,426
	$ 105,776,279	$ 87,796,053
Liabilities and Net Assets		
Liabilities		
Grant commitments	**$ 588,140**	$ -
Member state shares	**-**	200,620
Liability to brokers for purchase of securities	**-**	519
Accrued expenses	**160,696**	204,631
Accrued pension contribution	**6,719**	5,130
Accrued postretirement health benefits	**188,957**	144,855
	944,512	555,755
Net assets		
Unrestricted	**3,759,861**	3,713,310
Temporarily restricted	**17,544,918**	-
Permanently restricted	**83,526,988**	83,526,988
	104,831,767	87,240,298
	$ 105,776,279	$ 87,796,053

See Notes to Financial Statements.

Great Lakes Protection Fund

Statements of Activities
Years Ended December 31, 2009 and 2008

	2009				2008		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Permanently Restricted	Total
Revenue:							
Investment income (loss)	$ 46,551	$ (3,361,275)	$ -	$ (3,314,724)	$ 2,265,425	$ -	$ 2,265,425
Expenses:							
Program grants	-	1,899,930	-	1,899,930	2,175,078	-	2,175,078
Member state shares	-	-	-	-	200,620	-	200,620
Investment management and advisory fees	-	126,700	-	126,700	302,700	-	302,700
Administrative expenses	-	1,162,599	-	1,162,599	1,360,864	-	1,360,864
	-	3,189,229	-	3,189,229	4,039,262	-	4,039,262
Decrease in net assets before unrealized gain (loss) on investments and changes in postretirement benefit obligation	46,551	(6,550,504)	-	(6,503,953)	(1,773,837)	-	(1,773,837)
Unrealized gain (loss) on investments	-	24,106,707	-	24,106,707	(46,143,507)	-	(46,143,507)
Change in other postretirement benefit obligation	-	(11,285)	-	(11,285)	-	-	-
Adjustment to record other postretirement benefit obligation	-	-	-	-	(130,918)	-	(130,918)
Increase (decrease) in net assets	46,551	17,544,918	-	17,591,469	(48,048,262)	-	(48,048,262)
Net assets:							
Beginning of year	3,713,310	-	83,526,988	87,240,298	51,761,572	83,526,988	135,288,560
End of year	$ 3,759,861	$ 17,544,918	$ 83,526,988	$ 104,831,767	$ 3,713,310	$ 83,526,988	$ 87,240,298

See Notes to Financial Statements.

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Great Lakes Protection Fund

Statements of Cash Flows
Years Ended December 31, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities		
Increase (decrease) in net assets	**$ 17,591,469**	$ (48,048,262)
Depreciation and amortization	**18,147**	24,253
Realized loss on sales of investments	**5,936,883**	3,751,301
Unrealized (gain) loss on investments	**(24,106,707)**	46,143,507
Changes in:		
Accrued interest	**45,574**	6,771
Other assets	**5,216**	1,966
Grant commitments	**588,140**	(184,500)
Member state shares	**(200,620)**	(3,413,426)
Accrued expenses	**(43,935)**	(28,010)
Accrued pension contribution	**1,589**	519
Accrued post retirement health benefits	**44,102**	144,855
Net cash used in operating activities	**(120,142)**	(1,601,026)
Cash Flows from Investing Activities		
Purchases of investments	**(14,016,799)**	(47,035,876)
Proceeds from sales of investments	**14,075,760**	55,591,624
Purchases of equipment and improvements	**-**	(3,178)
Net cash provided by investing activities	**58,961**	8,552,570
Increase (decrease) in cash and cash equivalents	**(61,181)**	6,951,544
Cash and cash equivalents:		
Beginning of year	**8,887,147**	1,935,603
End of year	**$ 8,825,966**	$ 8,887,147

See Notes to Financial Statements.

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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.

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.

The Board has set aside $5,038,808 and $4,038,478 at December 31, 2009 and 2008, respectively, as a reserve for future obligations of the Fund.

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.

Great Lakes Protection Fund

Notes to Financial Statements

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.

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

On January 1, 2009, the Fund adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Fund may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Fund and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. At December 31, 2009, there were no unrecognized tax benefits identified or recorded as liabilities.

Subsequent events: The Fund has evaluated subsequent events for potential recognition and/or disclosure through March 16, 2010, the date the financial statements were issued.

Reclassifications: Certain December 31, 2008 amounts have been reclassified to conform with the current year presentation without affecting previously reported net assets or changes in net assets.

Note 2. Investments

Investments consist of the following:

	2009	
	Cost	Market
Common stocks and stock equivalents	$ 11,864,071	$ 11,360,073
Common stock mutual funds	62,278,840	59,990,487
Bond mutual funds	24,308,708	25,455,704
	$ 98,451,619	$ 96,806,264

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

Great Lakes Protection Fund

Notes to Financial Statements

Note 2. Investments (Continued)

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

	2009	2008
Interest and dividends	$ 2,622,159	$ 6,016,726
Realized losses on securities sold	(5,936,883)	(3,751,301)
Total investment income included in operating revenue	$ (3,314,724)	$ 2,265,425
Change in unrealized losses relating to assets still held at end of year	$ 24,106,707	$ (46,143,507)

Note 3. Fair Value Disclosures

Effective for 2008, the Fund adopted new accounting guidance related to fair value measurements, which provides a framework for measuring fair value under generally accepted accounting principles. This guidance defines fair value as 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 and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under this guidance as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy under this guidance are described below:

Level 1. Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 assets primarily include listed equities and mutual funds.

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 2 assets primarily include equities traded in over-the-counter markets.

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.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Fund's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment. The following section describes the valuation techniques used by the Fund to measure different financial instruments at fair value and includes the level within the fair value hierarchy in which the financial instrument is categorized.

Great Lakes Protection Fund

Notes to Financial Statements

Note 3. Fair Value Disclosures (Continued)

Investments in securities traded on a national securities exchange, or reported on the NASDAQ national market, are stated at the last reported sales price on the day of valuation. These financial instruments are classified as Level 1 in the fair value hierarchy.

Securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are stated at the last quoted bid price. These financial instruments are classified as Level 2 in the fair value hierarchy.

For the year ended December 31, 2009, the application of valuation techniques applied to similar assets and liabilities has been consistent. The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized dealer brokers.

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

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Common stocks and stock equivalents	$ 10,221,780	$ 1,138,293	$ -	$ 11,360,073
Common stock mutual funds	59,990,487	-	-	59,990,487
Bond mutual funds	25,455,704	-	-	25,455,704
Total assets	$ 95,667,971	$ 1,138,293	$ -	$ 96,806,264

The carrying amounts of financial instruments, including cash and cash equivalents, receivables, investments, accrued interest receivable, other assets, member state shares payable, and accrued expenses approximates fair value due to the short maturity of these instruments.

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. No member state shares were accrued at December 31, 2009. Accrued member state shares were $200,620 at December 31, 2008.

Great Lakes Protection Fund

Notes to Financial Statements

Note 5. Grants Committed

Grant activity for 2009 and 2008 is as follows:

	Grants Approved	Grants Paid	Grants Committed December 31
2009	$ 1,046,000	$ 1,311,790	$ 588,140
2008	3,467,300	2,359,578	-

As of December 31, 2009, total grants approved since the Fund's inception amounted to $57,617,513, of which $4,260,453 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

Unrestricted

Unrestricted net assets represent amounts that are not subject to externally-imposed purpose or time restrictions.

Temporarily Restricted

In 2009, after the passage of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), unappropriated endowment earnings were required to be classified as temporarily restricted net assets. At December 31, 2009, temporarily restricted net assets are comprised of endowment fund earnings that have not yet been appropriated for expenditure by the Fund.

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.

Note 6. Net Assets (Continued)

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 2009 or 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.

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 accounting guidance related to financial statement presentation for not-for-profit organizations.

On June 30, 2009, the governor of the State of Illinois signed into law the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA differs from laws previously in place in a few key areas. It eliminates the historic dollar value rule with respect to endowment fund spending, it updates the prudence standard for the management and investment of charitable funds, and it amends the provisions governing the release and modification of restrictions on charitable funds.

Effective January 1, 2009, the Fund adopted new accounting guidance related to net asset classification and disclosure for endowment funds. In accordance with the provisions of this guidance and the change in the State of Illinois laws as described above, the Fund was required to evaluate classifications of certain net assets among restriction categories; unrestricted, temporarily restricted; and permanently restricted. There were no reclassifications of the Fund's net assets as a result of the adoption of the UPMIFA provisions.

Interpretation of Relevant Law – The Fund has interpreted the Illinois UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Fund classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, the Fund considers the following factors in making a determination to appropriate or accumulate earnings on donor-restricted endowment funds:

1) The duration and preservation of the fund;
2) The purpose of the Fund and the donor-restricted endowment fund;
3) General economic conditions;
4) The possible effect of inflation and deflation;
5) The expected total return from income and the appreciation of investments;
6) Other resources of the Fund, and;
7) The investment policies of the Fund.

Great Lakes Protection Fund

Notes to Financial Statements

Note 7. Endowment Net Assets (Continued)

The changes in endowment net assets for the Fund were as follows for 2009 and 2008:

	2009			2008
	Temporarily Restricted	Permanently Restricted	Total	Permanently Restricted
Endowment net assets, beginning of year	$ -	$ 83,526,988	$ 83,526,988	$ 83,526,988
Investment loss	(3,361,275)	-	(3,361,275)	-
Unrealized gains on investments	24,106,707	-	24,106,707	-
Amounts appropriated for expenditure	(3,200,514)	-	(3,200,514)	-
Endowment net assets, end of year	$ 17,544,918	$ 83,526,988	$ 101,071,906	$ 83,526,988

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 and How the Investment Objectives Relate to 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 2019.

Rent expense totaled $170,002 and $167,616 for 2009 and 2008, respectively.

Note 8. Commitments (Continued)

Minimum payments required under the lease are as follows:

2010	$	125,550
2011		128,061
2012		130,572
2013		133,083
2014		135,594
Thereafter		778,410
	$	1,431,270

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 and additional contributions at the discretion of the Board of Directors. Employees cannot contribute to the plan. The Fund contributed $90,682 and $97,699 to the plan for 2009 and 2008, respectively.

Note 10. Deferred Compensation Plan

The Fund maintains a deferred compensation plan under the provisions of the Internal Revenue Code applicable to governmental retirement plans. All employees are eligible to participate upon commencement of employment. Participants can elect to participate in the deferred compensation plan. The Fund matches employee contributions up to six percent of salary. The Fund contributed $33,613 and $25,780 to the plan for 2009 and 2008, respectively.

Note 11. 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 accounting guidance requiring revised accounting and disclosure for defined benefit pension and other postretirement plans. The provisions of this guidance 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.

Note 11. Postretirement Health Benefits (Continued)

Change in other postretirement benefit obligation:

	2009	2008
Unrecognized prior service cost	$ -	$ 111,512
Amortization of prior service cost	(11,118)	(5,559)
Amortization of net loss	(1,142)	-
Net loss experienced during the year	23,545	24,965
	$ 11,285	$ 130,918

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

	2009	2008
Service cost	$ 11,721	$ 4,531
Interest cost	8,836	3,847
Amortization of unrecognized prior service cost	11,118	5,559
Amortization of net loss	1,142	-
	$ 32,817	$ 13,937

Additional information is as follows:

	2009	2008
Accumulated postretirement benefit obligation, beginning of year	$ 144,855	$ -
Service cost	11,721	4,531
Interest cost	8,836	3,847
Plan amendments	-	111,512
Actuarial loss	23,545	24,965
Accumulated postretirement benefit obligation, end of year	$ 188,957	$ 144,855
Plan assets at fair value, end of year	$ -	$ -
Fair value of plan assets	$ -	$ -
Accumulated postretirement benefit obligation	(188,957)	(144,855)
Funded status	$ (188,957)	$ (144,855)

The postretirement benefit obligation of $188,957 and 144,855 is accrued as a liability in the statement of financial position at December 31, 2009 and 2008, respectively.

The estimated prior service cost for the postretirement benefit plan that will be amortized into net periodic benefit cost during 2010 is $11,118.

The Fund intends to fund the plan with operating revenue.

Note 11. 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:

	2009	2008
Discount rate, beginning of year	6.10%	6.90%
Discount rate, end of year	6.10%	6.10%
Expected return on assets	N/A	N/A

	2009
Health care cost trend rate	
2010	11.22%
2011	10.44%
2012	9.67%
2013	8.89%
2014	8.11%
2015	7.33%
2016	6.55%
2017	5.78%
2018 and beyond	5.00%

	2008
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	$ 38,326	$ (31,063)
Effect on service cost and interest cost	$ 4,317	$ (3,468)

Great Lakes Protection Fund

Notes to Financial Statements

Note 11. Postretirement Health Benefits (Continued)

Estimated future benefit payments are as follows:

	Postretirement Benefits
2010	$ -
2011	-
2012	-
2013	-
2014	2,077
2015-2020	59,431
	$ 61,508

Great Lakes Protection Fund

Management Comment on the Notes to Financial Statements

Retirement Plan & Deferred Compensation Plan

It should be noted that the amount of the employer contribution for the Retirement Plan was incorrectly stated in the fiscal year 2009 audit financial report Note 9 as $90,682; and the amount of the employer contribution for the Deferred Compensation Plan was incorrectly stated in the fiscal year 2009 audit financial report Note 10 as $33,613. This was due to an incorrect allocation of employer contributions between the Deferred Compensation Plan and the Retirement Plan. The sum of the employer contributions to the Deferred Compensation Plan and the Retirement Plan, $124,302, was accurate.

The audit financial report has not been restated, as the amounts are deemed immaterial.

The Board, at its discretion, contributed an additional $13,000 each to the Retirement Plan accounts of three executives (total: $39,000) in both 2009 and 2008.

APPENDIX 2

PROJECTS COMPLETED IN 2009

PREVENTING BIOLOGICAL POLLUTION

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

The planning stage is now complete for an effort to address the risks presented by live organism trade in the Great Lakes Basin ecosystem. The Great Lakes Commission worked with a team of public agencies and private commercial interests to plan the design and testing stages of methods to prevent the release of invasive plants and animals. These invaders are also called nuisance species because they could disrupt key ecological processes and out-compete native organisms.

The team identified high risk activities in the aquarium and pet trade, nursery and water garden trade, and the aquaculture and bait industries. Five industry teams addressed the scope, risks, management efforts, and opportunities for further work related to each industry. Plans to minimize those risks were created, as was an action team to do the work.

The team also organized an advisory committee including state and provincial governmental representatives, private parties engaged in organism trade, tribal authorities, sea grant programs, and NGOs. The committee approved a comprehensive risk assessment for potential aquatic nuisance species in the Great Lakes. The team will examine how to implement that idea in a future project proposal.

Great Lakes Commission $77,000
Contact: Timothy Eder
(734) 971-9135
teder@glc.org

Market Mechanisms

Great Lakes Green Purchasing Consortium:

Leveraging Purchasing Power to Improve Environmental Quality

This project sought to create a network of environmentally preferable purchasing consortiums across the basin. The year-long effort built on the team's previous success with purchasers in Grand Rapids, MI to expand to purchasing groups in Chicago, west Michigan and Milwaukee-Racine, WI. Based on the types of products it promotes, the team claimed cleaner effluent streams at the point of discharge and reduced water use by basin facilities. While ineffective in linking the replacement of certain environmentally damaging products to healthier Great Lakes, the project was successful in scaling the purchasing consortium model to other cities, establishing a business model and creating an interactive web interface to introduce purchasers to new products.

The Delta Institute $495,000
Contact: Abigail Corso
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Leadership for Ecosystem Restoration

Water Conservation and Efficiency Initiative

The Great Lakes Governors made a joint commitment in the Great Lakes Charter Annex to develop an enhanced water management system that is simple, effective, authoritative and restorative. A project team from the Council of Great Lakes Governors set out to support this commitment by presenting a definitive set of water conservation and efficiency goals for the entire basin. Once created, these goals were applied to develop an individual state conservation program for the state of Wisconsin. The project team hopes that representatives from other states and provinces will use the information learned in Wisconsin as a reference in developing their respective programs.

The team used input from regional stakeholders to develop the basin-wide goals which were then reviewed by the Regional Body consisting of Great Lakes governors and premiers or their designees. Once the Body adopted the efficiency goals, the project team and a Wisconsin workgroup altered them to address state-specific water use issues and their subsequent ecological impact. The team shared their results with Conservation Committee representatives from other Great Lakes states.

Council of Great Lakes Governors $169,000
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APPENDIX 3

PORTFOLIO OF PROJECTS AS OF DECEMBER, 2009

PREVENTING BIOLOGICAL POLLUTION

Developing and Applying a Portable Real-Time Genetic Probe for Detecting Aquatic Invasive Species in Ships' Ballast

The Great Lakes will have a new line of defense against the "next set" of invasive species, when a new detection technology is unveiled by a team of researchers from the University of Notre Dame. This team will work with experts in invasive species biology, nanotechnology and molecular ecology, as well as Canadian and U.S. agencies 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 for onboard or in port
- Establish a network to communicate the technology's progress and application

If successful, decision-makers will be able to know the invasive species threat posed by a particular vessel within two hours of taking a ballast water sample.

University of Notre Dame $805,000
Contact: David Lodge
574-631-6094
lodge.1@nd.edu

Genetic Biocontrol of Invasive Fish and Mollusks (Awarded in 2009)

A team from the University of Minnesota is considering the possibilities of controlling or eradicating invasive fish and mollusk species by genetically modifying members of their populations. Genetic biocontrol is the release of genetically-manipulated organisms in order to disrupt the survival or reproduction of a targeted invasive species.

While biocontrol strategies can be particularly effective and targeted methods, creating practical biocontrol tools involves identifying and addressing the risks inherent to such an approach. The team will identify these obstacles with the help of focus groups including Great Lakes resource managers, researchers and NGOs. To address issues, the team will host an international symposium including scientists from fish genetics and biotechnology to risk assessment science and ecology, as well as managers of aquatic invasive species. The team will produce research papers to inform future work and an action plan for other groups to work toward safe methods of genetic biocontrol.

University of Minnesota $75,000
Contact: Jeffrey Gunderson
(218) 726-8715
jgunder1@umn.edu

Risk Assessment and Management of Great Lakes Species

Research by this project team will speed up efforts to eliminate new introductions of invasive species into the Great Lakes. It will also help to stop the further spread of invasive, non-native species from the Great Lakes to other waters in North America. Work goals include:

- providing a sound scientific basis for assessing the relative invasion risk of vessels entering the Great Lakes, based on ports they have previously visited
- accelerating the creation of rapid genetic tests to identify ballast tank content
- identifying the best places and strategies to stop the spread of invasive species by recreational boaters

University of Notre Dame $1,090,000
Contact: David Lodge
574-631-6094
lodge.1@nd.edu

Ship-Mediated Harmful Microbes: Protecting the Great Lakes Ecosystem

"Microbial stowaways" on Great Lakes ships will be the target of this research, which seeks to:

- Develop, test, and make widely available a set of new research techniques for microorganisms that threaten human health, wildlife health, or are otherwise ecologically or economically important
- Inventory the bacteriological content of ships' ballast water; and develop an institutional blueprint for monitoring microbes in the Great Lakes Basin

In parallel, and without Fund support, the Great Ships Initiative will start to test disinfection methods to create a "rapid treatment response" capacity to prevent ships operating in the Lakes from releasing harmful microbes. All of these actions will improve the ability of the Great Lakes region to identify and respond to threats posed by such stowaways on vessels or in basin ports.

Northeast-Midwest Institute $1,029,000
Contact: Allegra Cangelosi
202-464-4007
acangelo@nemw.org

A Phosphorus Soil Test Metric for Reducing Dissolved Phosphorus Loads

The objectives of this project are to:

- Develop a surficial phosphorous (SurP) soil test to measure the level of phosphorous currently available in the soil
- With certified crop advisors, the fertilizer community and local farmers, create management options for taking action based on detected phosphorous levels
- Measure phosphorous inputs to tributaries in Ohio, and share the results and lessons learned with groups in Saginaw Bay, MI; Green Bay, WI; and Ontario
- 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 should motivate changes that lead to ecosystem improvements in the Lakes)

The talents of all members of the agricultural supply chain will be tapped to accomplish a significant goal: a fifty percent reduction of dissolved, reactive phosphorous in the Ohio Lake Erie Basin within the next ten years. The team will also deliver the tools needed to achieve similar results in Saginaw Bay, Green Bay and Ontario. The successful reduction of phosphorous levels 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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419-448-2941
dbaker@heidelberg.edu

Great Lakes Water Use Information Initiative

The Council of Great Lakes Governors will make recommendations to assist in the creation of water use protocols for the Great Lakes States and the Provinces of Ontario and Quebec. These recommendations will address:

- The collection, sharing and dissemination of comparable water use information
- Improved access to timely information on how Great Lakes water is being used
- Better scientific understanding of the Great Lakes basin, including impacts of water withdrawals and the role of groundwater in the ecosystem
- Improved decision-making and resource management

Council of Great Lakes Governors $199,300
Contact: David Naftzger
312-407-0177
dnaftzger@cglg.org

Great Lakes Watershed Ecological Sustainability Strategy

(Awarded in 2009)

Limno-Tech will work to produce an effective and scientifically sound plan for ecological sustainability in Great Lakes watersheds. The team will create and demonstrate a Watershed Ecological Sustainability Strategy for the Great Lakes Basin (WESS), including:

- Water conservation actions like leakage control, water re-use and demand reduction
- Improved water quality through better agricultural management and waste treatment

The team will apply the strategy to two pilot watersheds—one agricultural, one urban. In workshops and on a website, the team hopes to effectively demonstrate the feasibility and utility of the WESS for restoring and sustaining the health of watersheds throughout the basin.

Limno-Tech, Inc. $125,000
Contact: Joseph DePinto
(734) 332-1200
jdepinto@limno.com

Implementing Real-Time Resource Use Feedback to Motivate and Empower Conservation

Water and electricity users will experience a new and immediate connection to the consequences of their actions, as a result of this project which seeks to change individual activity through social accountability. The project team seeks to "engage, educate, motivate and empower" resource consumers to change their behavior in 138 residential and commercial spaces on or near the Oberlin College campus.

The team will develop, deploy and evaluate a monitoring system that provides users real-time feedback on the amount of water and electricity they use, as well as direct consequences of that use. They propose that this will reduce residential power and water use, and in turn, reduce air emissions and restore stream flows in the Plum Creek watershed, which runs through Oberlin and is part of the Black River watershed that drains into Lake Eerie.

The 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 flow due to water withdrawals and discharges, as well as air quality and power sold. The team expects to provide information at the residence, neighborhood, city and watershed scales.

Oberlin College $812,000
Contact: John Petersen
440-775-6692
john.petersen@oberlin.edu

Integrating Energy and Water Resources Decision Making

(Awarded in 2009)

The Great Lakes Commission will incorporate ecological factors into the planning and siting of new power production facilities, to limit negative impacts on aquatic habitats and resources. The project team will do this through modeling and macro-level analysis, seeking the assistance of energy and environment decision makers. A future pilot project will seek to apply the regional and sub-regional results of this project to future energy production practices and decisions. Long-term ecological outcomes could include:

- Protection of aquatic habitats from the impacts of power generation technologies
- Reductions in water use from power production sectors
- Environmental benefits resulting from such reductions

Great Lakes Commission $207,000
Contact: Victoria Pebbles
(734) 971-9135
vpebbles@glc.org

Launching GLIN Labs

This project will begin the redesign of the Great Lakes Information Network (GLIN), a creation ultimately intended to lead to positive results for the Great Lakes such as decreased invasions of exotic species, less harmful runoff from farms and cities, and reduced air and water pollution. The team will begin this effort by launching an innovation platform called “GLIN Labs” that will:

- Create new software
- Help users create new information products
- Host a small set of strategy experiments for what GLIN should become

The project team will upgrade how the network’s data is made available and coordinate a series of design and piloting workshops to explore the potential capabilities of a re-energized GLIN. The team will update its strategic and operating plans for GLIN to incorporate what has been learned in this work and pursue next steps in a future proposal.

Great Lakes Commission $81,000
Contact: Tim Eder
(734) 971-9135
teder@glc.org

Networked-Neighborhoods for Eco-conservation

Michigan State will encourage Great Lakes communities to conserve water, manage runoff and adopt various watershed improvement activities in this project. The project team will introduce environmental improvement activities and then test a way to "network" individual activities on a neighborhood level in order to achieve results at local and regional scales.

First, they will develop informational guides on positive items such as rain barrel installation, water use timing, rain gardens, and permeable pavements and landscaping. Next, they will distribute the information and lead the positive actions with neighborhood groups in Grand Rapids, MI, Toledo, OH, Racine, WI and an 8-county region in west Michigan.

In addition to this, individual participants will be socially motivated toward action by monitoring and comparing their own and their neighbors' water use via the Internet. Modeling will help neighborhoods identify where practices could be most effective by displaying results on local watershed or neighborhood websites.

Michigan State University $481,000
Contact: Jon Bartholic
517-353-3742
bartholi@msu.edu

Optimizing Industry Water Use

(Awarded in 2009)

The connection between industrial water use and environmental impact will be examined in this project. The project team will attempt to identify industrial water use practices that support production, optimize costs and minimize ecosystem impacts. The team will also determine which assessment tools best measure the impacts specific to the Great Lakes, and which industrial actions will ensure water use efficiency to satisfy industrial needs while minimizing impacts to the ecosystem. The team will also decide on how to implement the findings in a future project proposal to inform policy and action.

Council of Great Lakes Industries $20,000
Contact: George Kuper
(734) 663-1944
ghk@cgli.org

Water Management Program Efficiency and Effectiveness Initiative

(Awarded in 2009)

The Council of Great Lakes Governors will offer broad support to the non-regulatory work of the Great Lakes-St. Lawrence River Basin Water Resources Council (Compact Council) and the Great Lakes-St. Lawrence River Water Resources Regional Body (Regional Body). Project work will include a variety of planning and management elements in support of the Compact Council and the Regional Body. This ongoing work will continue to develop the region's water management regime and lay the foundation for longer-term institutional and programmatic arrangements. Results will include information, analysis and options needed for the Regional Body and Compact Council to decide how to effectively tackle future work related to the sustainable use and management of Great Lakes water.

Council of Great Lakes Governors $200,000
Contact: David Naftzger
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MARKET MECHANISMS

Value of Great Lakes Water Initiative

(Awarded in 2009)

This project will consider:

- The potential use of efficiency-oriented pricing for Great Lakes water resources
- How pricing could be combined with other conservation practices
- How pricing can relate to regional water management issues including the availability of water for use, and impacts on the Great Lakes ecosystem

The team will explore cost drivers and revenue models for water utilities, identify areas where water conservation can make a critical difference in ecological and public health, and design one or more pilot projects to explore the role of pricing in meeting these outcomes.

Great Lakes Commission $167,000
Contact: Tom Crane
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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

This project will 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
- 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
Contact: Steven Apfelbaum
608-897-8547
steve@appliedeco.com

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
Contact: Patricia Axman
712-792-4415
patricia.axman@ia.usda.gov

Real-Time System Optimization for Sustainable Water Transmission and Distribution

To minimize air emissions created by the Detroit Water and Sewerage Department (DWSD), this project seeks to optimize water movements within the supply, collection and treatment system. This effort could also reduce water withdrawals, effluent discharges and impacts of overflows that cause unintentional releases.

Proposed in-system storage capacity will allow the utility to alter the timing and magnitude of water withdrawals, shifting the system pumps' demand for electricity away from peak times when the power system requires the use of high-emission generating sources.

The team will also install pump monitors and flow meters for real-time information on the hydraulic characteristics of the system. New software will use this information to 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
Contact: Carol Miller
313-577-3790
cmiller@eng.wayne.edu

Water Use Impacts and Conservation Benefits

(Awarded in 2009)

This project will address the negative effects of changing the Great Lakes hydrologic systems. The team expects this effort to result in better understanding of the benefits of water conservation and how they can be characterized, captured, and/or monetized. The project will be completed in three steps:

- Examining the environmental, economic and energy impacts of altering flow paths of water based on source and discharge
- Identifying pilot areas where activities and carbon offsets can be demonstrated and measured
- Developing a work plan to measure environmental impacts as well as addressing the potential for trading water conservation-based carbon credits

Environmental Consulting & Technology, Inc. $171,000
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