PERFORMANCE AND ACCOUNTABILITY REPORT

Appalachian Regional Commission
Fiscal Year 2008

Appalachian Regional Commission
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APPALACHIAN REGIONAL COMMISSION
September 30, 2008

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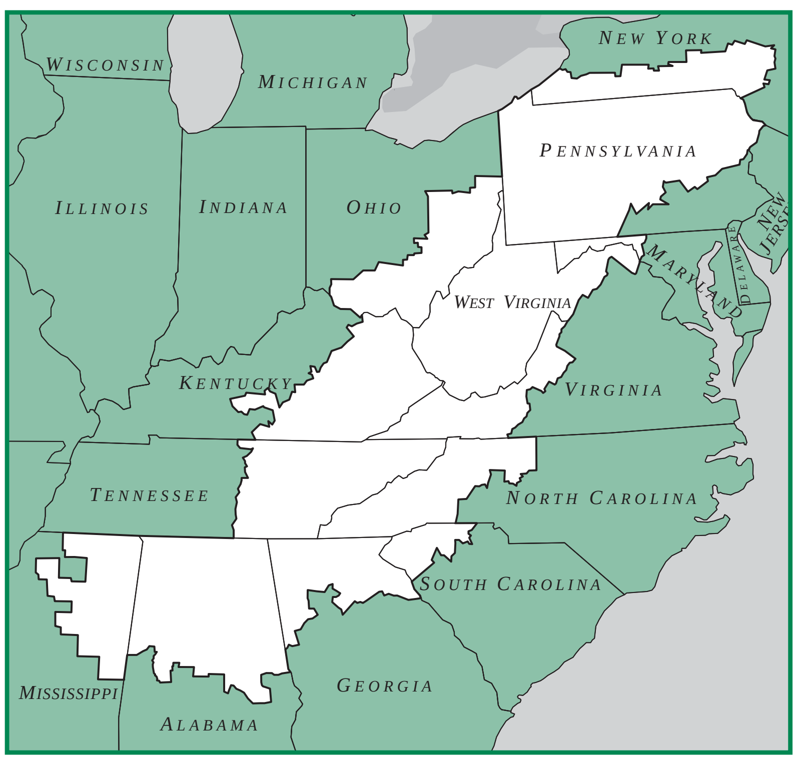
APPALACHIAN REGION, SEPTEMBER 30, 2008

The Appalachian Region includes all of West Virginia and parts of Alabama, Georgia, Kentucky, Maryland, Mississippi, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, and Virginia. The Region is home to nearly 23 million people and covers 410 counties and more than 200,000 square miles.



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Message from Federal Co-Chair Anne B. Pope and 2008 States' Co-Chair Haley Barbour

We are pleased to present the Appalachian Regional Commission's (ARC) Performance and Accountability Report for fiscal year (FY) 2008.

Federal Co-Chair
Anne B. Pope

The Commission approved $66.8 million in funding for 431 nonhighway projects during this fiscal year. Each of the projects advanced one or more of the four goals of ARC's 2005–2010 strategic plan: 1) increasing job opportunities and per capita income in the Appalachian Region to reach parity with the nation; 2) strengthening the capacity of the people of Appalachia to compete in the global economy; 3) developing and improving Appalachia's infrastructure to make the Region economically competitive; and 4) building the Appalachian Development Highway System to reduce Appalachia's isolation.

2008 States' Co-Chair
Haley Barbour,
Governor of Mississippi

ARC's FY 2008 grant funds attracted an additional $163.9 million in other project funding, an investment ratio of over 2 to 1, and $919.1 million in leveraged private investment, a ratio of almost 14 to 1. The projects funded during the year will create or retain an estimated 35,292 jobs and train an estimated 20,432 students and workers in new job skills.

To bolster the Region's physical infrastructure, the Commission invested $27.6 million in FY 2008 in 116 projects to bring new or upgraded water and sewer systems and other vital infrastructure to Appalachian communities. This investment was matched by $107.2 million in other funding, primarily state and local, and leveraged $780.9 million in non-project private investment. The projects resulted in 21,538 households and 2,241 businesses being served by new or improved water or sewer systems. Infrastructure projects are some of the primary generators of new jobs in the Region.

In addition, ARC invested $7.3 million in 43 telecommunications and technology projects in Appalachia during the year. Activities included support of distance-learning and telemedicine applications, along with promotion of broadband access through training workshops and rural deployment projects.

The Commission continued its emphasis on asset-based economic development in FY 2008, helping communities identify and leverage natural, cultural, structural, and leadership assets to create jobs while preserving the communities' character. During the fiscal year ARC held an unprecedented number of grant competitions in support of such development.

In July, the Commission selected nine projects for funding through a grant competition intended to help communities revitalize their economies by leveraging renewable-energy and energy-efficiency resources. This funding, totaling $546,000, is in addition to the $605,000 provided to 12 projects through a similar grant competition in FY 2007, for a total of almost $1.2 million in energy-related grants. The projects funded will help advance the production and use of renewable-energy products, such as biofuels, biomass, and solar or wind energy; expand the start-up of "clean energy" businesses; and promote the use of energy-efficient buildings. The grant competition was augmented by a series of ARC-sponsored workshops held in Virginia and North Carolina in FY 2008 to help local leaders make informed decisions about the viability of wind-energy production in their communities.

ARC's mission is to be a strategic partner and advocate for sustainable community and economic development in Appalachia.

In continued partnership with the National Endowment for the Arts (NEA), ARC held the second round of a grant competition to promote natural and cultural heritage tourism development in Appalachia's gateway communities (towns that border national and state parks and forests) to attract new visitors and help create jobs. The competition was part of the Appalachian Gateway Initiative, aimed at helping communities balance the need for economic growth with the desire to protect natural ecosystems, landscapes, and cultural heritage. ARC contributed $100,000, and the NEA contributed $30,000, to fund the nine selected projects in the Region.

ARC also developed the Gems of Appalachia grant competition this fiscal year, in partnership with the states of Tennessee and North Carolina, to help increase tourism in communities that are entry points to two of Appalachia's most important natural assets: the Great Smoky Mountains National Park and the Cherokee National Forest. Seven grants totaling $259,000 were awarded through the competition in September 2008.

Complementing the tourism grant competitions was the March release of the new *Driving Tours Appalachia* map, created in partnership with the National Geographic Society. The map, distributed in the April issue of *National Geographic Traveler* magazine as well as to target audiences in the Region, features 28 Appalachian driving trails including a broad array of historical, archaeological, cultural, and scenic sites. A companion Web site, www.visitappalachia.com, offers downloadable maps of the driving tours and other features to help travelers plan driving vacations in Appalachia.

Significant progress continues to be made on the Appalachian Development Highway System (ADHS): In FY 2008, 35.5 additional miles of the ADHS (net increase) were opened to traffic, strengthening Appalachia's commercial links to the rest of the nation. As of September 30, 2,672 miles of the 3,090-mile system were complete or under construction.

In June, ARC released a study—conducted jointly by Cambridge Systematics, Economic Development Research Group, and HDR Decision Economics—showing that completion of the ADHS by 2020 would generate 80,500 jobs in the Region by 2035, and $3.2 billion annually in increased wages for Appalachian workers. Savings in travel time, fuel and nonfuel operating costs, and increased safety would reach $1.6 billion annually by 2020. Completion of the ADHS would result in significant benefits from the national perspective as well; for the United States as a whole, the estimated total economic benefit impact of completing the system is 3.1 times the estimated cost.

ARC also continued its efforts this fiscal year to prepare the Region's workers to meet the challenges of today's global economy by supporting projects in early childhood education, K–12 math and science instruction, and workforce training, as well as efforts to increase college-going rates.

In July, ARC launched a major workforce initiative with a $2 million grant to the Mississippi Department of Education to upgrade and update the vocational-training programs in its distressed counties. And to foster a healthy workforce in Appalachia, the Commission announced a $250,000 grant competition in August to help communities improve their intervention and service programs addressing the issues of illegal drugs and prescription drug abuse.

In July ARC also held its 19th Summer Math-Science-Technology Institute at the U.S. Department of Energy's Oak Ridge National Laboratory. The institute was attended by 43 students and 19 teachers from 12 Appalachian states, providing them the opportunity to engage in research under the mentorship of world-renowned scientists. A total of 317 students and 145 teachers have graduated from the summer institute since 2000.

The Commission also funded a new Appalachian Higher Education Network center, in Mississippi, to increase the college-going rate in the Region. Serving nearly 10,000 high school seniors in eight states in FY 2008, the network's programs have reached over 36,000 high school students since 1999.

This fiscal year, in its ongoing efforts to improve rural health care in Appalachia, the Commission continued to expand its partnership with the Centers for Disease Control and Prevention on a diabetes education, prevention, and treatment program, which serves 59 economically distressed Appalachian counties. ARC also partnered with the Claude Worthington Benedum Foundation and the State of West Virginia to provide $500,000 in funding to Marshall University to help promote oral health for West Virginia schoolchildren. In addition, the Commission placed 11 health-care professionals in Health Professional Shortage Areas in the Region through J-1 Visa Waivers.

We are pleased to note that in FY 2008, Congress completed work on legislation reauthorizing the Commission for the next five years, through FY 2012. The legislation renews ARC's existing authorities and establishes a new economic and energy development initiative to focus on the creation of energy-related job opportunities as outlined in ARC's 2006 energy "blueprint," *Energizing Appalachia: A Regional Blueprint for Economic and Energy Development*. The legislation also requires the designation of economically "at-risk" counties in the Appalachian Region and permits ARC to fund up to 70 percent of the cost of projects in those counties. In addition, it stipulates that earmarks come out of the Appalachian states' funding allocations, and it adds ten counties to the Region (effective in FY 2009). President George W. Bush signed the legislation into law on October 8, 2008.

This report includes information on ARC's program actions and financial management during FY 2008. This was the second year the Commission's financial statements included financial activity related to funds allocated by ARC to other agencies, as required by an Office of Management and Budget directive regarding parent agency/child agency reporting. The directive, which took effect in FY 2007, necessitated a change in the financial reporting format ARC had used in prior years.

ARC's independent auditor, WithumSmith+Brown, issued a qualified opinion on ARC's FY 2008 financial statements due to the inability of the U.S. Department of Transportation, an ARC child agency, to properly support all of the recorded general ledger balances. The audit found no material weaknesses outside ARC's parent agency/child agency financial relationships.

ARC has made every effort to provide a complete and accurate report of its performance and stewardship of the public funds entrusted to it. This report is based on data that is as reliable and as comprehensive as possible. Congress and the American people can also be assured that the financial controls in place at the Commission reasonably meet the purposes of the Federal Managers' Financial Integrity Act of 1982.

The achievements reported here contribute significantly toward ARC's mission of helping the Region attain socioeconomic parity with the nation.

Sincerely,

Anne B. Pope
Federal Co-Chair

Haley Barbour
2008 States' Co-Chair
Governor of Mississippi

June 4, 2009

PART I:
MANAGEMENT DISCUSSION AND ANALYSIS

APPALACHIAN REGIONAL COMMISSION STRUCTURE AND PROGRAMS

Congress established the Appalachian Regional Commission (ARC) to address the profound economic and social problems in the Appalachian Region that made it a “region apart” from the rest of the nation.

The Commission was charged to

- Provide a forum for consideration of problems of the Region and proposed solutions, and establish and use citizens’ and special advisory councils and public conferences;
- Provide grants that leverage federal, state, and private resources to build infrastructure for economic and human resource development;
- Generate a diversified regional economy, develop the Region’s industry, and build entrepreneurial communities;
- Serve as a focal point and coordinating unit for Appalachian programs;
- Make the Region’s industrial and commercial resources more competitive in national and world markets;
- Improve the skills of the Region’s workforce;
- Adapt and apply new technologies for the Region’s businesses, including eco-industrial development technologies;
- Improve the access of the Region’s businesses to the technical and financial resources necessary to the development of business; and
- Coordinate the economic development activities of, and the use of economic development resources by, federal agencies in the Region.

The challenges confronting Appalachia today are complex. In some areas of the Region, basic needs in infrastructure, the environment, workforce training, and health care still exist. But because the nation and the Region now compete in the global economy, the threshold for success is higher than it once was: high-technology jobs rather than manual labor, college education rather than basic literacy, and telecommunications arteries in addition to highways.

Federal agencies are typically national in focus and narrow in scope, but ARC was created to be regional in focus and broad in scope. No other government agency is charged with the unique role of addressing Appalachian problems and opportunities. No other agency is charged with being simultaneously an advocate for the Region, a knowledge builder, an investor, and a partner at the federal, state, and local levels. These roles represent elements that are essential to making federal investments work to alleviate severe regional disparities in the country: responsiveness to regional needs with a view to global competitiveness, emphasis on the most distressed areas, breadth of scope to address both human and physical capital needs, and flexibility in funding.

The Commission by law directs at least half of its grant funds to projects that benefit economically distressed counties and areas in the Region. In part, ARC gauges its long-term progress toward helping the Region achieve economic parity with the nation in terms of the gradual reduction in the number of such counties and areas over time. The maps on page 19 show the Region's high-poverty counties in 1960 and in FY 2008. The change is dramatic.

ARC is a federal-state partnership, with a governing board composed of a federal co-chair and the governors of the 13 Appalachian states. Because of its partnership approach, ARC is able to identify and help fund innovative grassroots initiatives that might otherwise languish. In many cases, the Commission functions as a predevelopment agency, providing modest initial funding that is unavailable from other sources. ARC funds attract capital from the private sector and from other public entities.

Through the years, ARC support has helped address the problem of historically low public and private investment in Appalachia. ARC has effectively used its funds to help communities qualify for, and make better use of, limited resources from other federal agencies. These federal funds, combined with state, local, and private money, provide a broad program of assistance to the Region. In addition, substantial private investment in business facilities and operations has accompanied ARC development projects.

Two independent studies have found that ARC's coordinated investment strategy has paid off for the Region in ways that have not been evident in parts of the country without a regional development approach. A 1995 study funded by the National Science Foundation compared changes in Appalachian counties with their socioeconomic "twin" counties outside the Region over 26 years, from 1965 to 1991. This analysis, controlled for factors such as urbanization and industrial diversification, found that the economies of the Appalachian counties grew significantly faster than their non-Appalachian counterparts'. A more recent analysis by Economic Development Research Group extended this analysis to 2000 and confirmed the earlier findings on the impact of ARC's investment. The study found that, on average, the gap between Appalachian counties and their non-Appalachian twin counties grew significantly in the 1990s.

In FY 2008, Congress completed work on a five-year reauthorization of ARC (through FY 2012). The legislation creates a new economic and energy development initiative and add ten counties to the Appalachian Region (effective in FY 2009).

ARC's appropriation for FY 2008 nonhighway activities was $73.0 million. Appendix A provides a history of appropriations to the Commission.

The Commission is a performance-driven organization, evaluating progress and results on an ongoing basis and relying on clearly defined priorities and strategies for achieving them.

Organization: The ARC Partnership Model

The Appalachian Regional Commission has 14 members: the governors of the 13 Appalachian states and a federal co-chair, who is appointed by the president and confirmed by the Senate. Each year one governor is elected by his or her peers to serve as the states' co-chair. The partnership nature of ARC is evident in its policy making: the governors and the federal co-chair share responsibility for determining all policies and for the control of funds. On all Commission decisions, the federal co-chair has one vote, and the 13 governors share one vote. Accordingly, all program strategies, allocations, and other policy must be approved by both a majority of the governors and the federal co-chair. All projects are approved by a governor and by the federal co-chair. This consensus model ensures close collaboration between the federal and state partners in carrying out the mission of the agency. It also gives the Commission a nonfederal character that distinguishes it from typical federal executive agencies and departments.

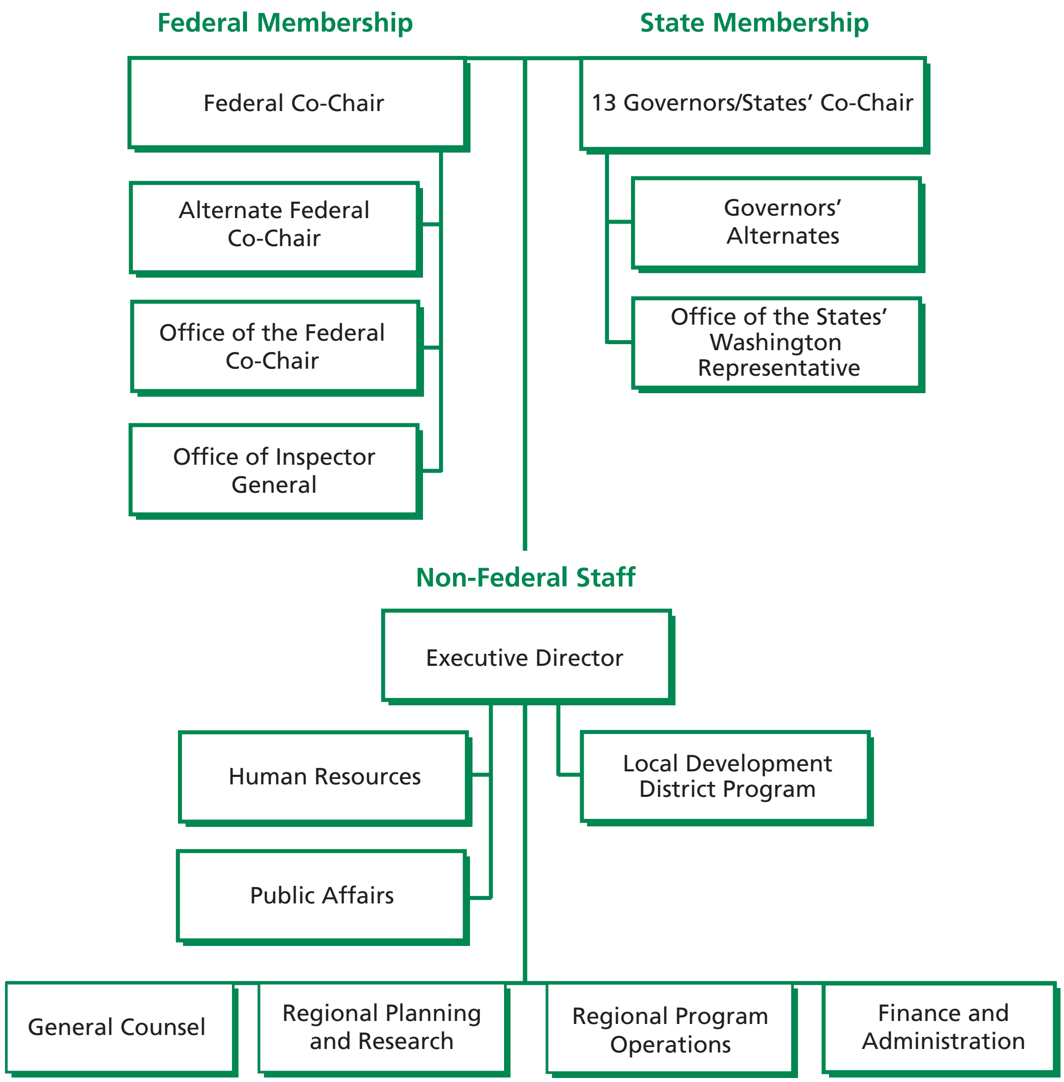
An alternate federal co-chair, who is appointed by the president and confirmed by the Senate, has authority to act as the federal co-chair in his or her absence. State alternates appointed by the governors oversee state ARC business and serve as state-level points of contact for those seeking ARC assistance.

By law, there is an inspector general for the Commission. The inspector general is under the general supervision of the federal co-chair and has a dual and independent reporting relationship to both the federal co-chair and Congress.

In all, there are only 11 federal employees of the Commission, including the federal co-chair's staff and the staff of the Office of Inspector General.

The Commission members appoint an executive director to serve as the chief executive, administrative, and fiscal officer. The executive director and staff are not federal employees. The 48 nonfederal Commission staff are charged with serving both the federal and the state members impartially in carrying out ARC programs and activities, and they provide the legal support, technical program management, planning and research, and financial/administrative management necessary for ARC's programs.

ARC Organization Chart



Public and Private Partnerships

ARC promotes economic and community development through a framework of joint federal and state initiatives. ARC's limited resources are necessary, but obviously not sufficient, for Appalachia to reach parity with the rest of the nation. Therefore, ARC continues a long tradition of building alliances among private and public organizations to focus technical, financial, and policy resources on regional problems. ARC's programs involve not only Appalachian governors' offices and state agencies, which control other substantial investment resources, but also 72 multi-county development districts in the Region, up to 20 federal agencies, and a host of private organizations and foundations. The Commission further helps create alliances through research, regional forums, advisory councils, and community meetings. One such alliance is ARC's partnership with the Centers for Disease Control and Prevention to implement programs in cancer control and diabetes education, prevention, and treatment.

In FY 2008, across all investment areas, each dollar of ARC funding was matched by $2.45 in non-ARC project funding (public and private) and leveraged $13.76 in private investment attracted as a result of the project. ARC continues its efforts to increase leveraged private investment through partnerships and collaborations with the private sector wherever possible, as in recent initiatives with the Ford Foundation, the eBay Foundation, Microsoft Corporation, the National Geographic Society, the Claude Worthington Benedum Foundation, Parametric Technology Corporation, and American Electric Power, Southern Company, and other utilities.

ARC is often a predevelopment resource, especially in economically distressed areas, providing modest amounts of initial funding that are unavailable from other sources because the community cannot qualify for the support or raise adequate matching funds. Congress recognized, and subsequent experience has shown, that Appalachia for many reasons has been relatively less likely to use the grant resources of large federal agencies. ARC has helped other federal agencies better deploy their programs in the Region through joint funding. The Commission can also allow other federal agencies to use ARC funds under their statutory authorities when their own funds are insufficient for projects; in effect, ARC can provide sufficient match for federal grants on behalf of the poorest Appalachian communities.

A special provision of the Appalachian Regional Development Act authorizes ARC to operate in part as a supplemental grant program. This authority allows ARC funds to be used to increase the allowable participation under federal grant programs, enabling grantees to participate in programs for which they would otherwise be ineligible. In addition, it involves appropriate federal entities to ensure not only program coordination but also compliance with all applicable laws, such as environmental and labor requirements. Accordingly, about half of past ARC grants have been administered under agreements with federal agencies, mainly the Economic Development Administration, Rural Development, the Tennessee Valley Authority, the U.S. Department of Housing and Urban Development, and the Federal Highway Administration. Other agreements have involved such agencies as the Army Corps of Engineers, the U.S. Environmental Protection Agency, and the U.S. Departments of Energy, Labor, and Health and Human Services.

Commission Activities: Getting the Job Done

Congress gave the Commission very broad program discretion to address problems and opportunities in the Region. Accordingly, ARC has emphasized a wide-ranging set of priorities in its grant activities. Projects in recent years have focused on business development, telecommunications and technology infrastructure and use, educational attainment, access to health care, and tourism development. ARC has consistently maintained a focus on the construction of development highways and basic water and waste management facilities.

Ann Hawthorne

ARC Strategic Plan

FY 2008 was ARC's fourth year of operating under its strategic plan, *Moving Appalachia Forward: Appalachian Regional Commission Strategic Plan 2005–2010*, which outlined ARC's mission to be a strategic partner and advocate for sustainable community and economic development in Appalachia, and identified four strategic goals to help Appalachia reach socioeconomic parity with the rest of the nation:

Ann Hawthorne

- *Increase job opportunities and per capita income in Appalachia to reach parity with the nation.*
- *Strengthen the capacity of the people of Appalachia to compete in the global economy.*
- *Develop and improve Appalachia's infrastructure to make the Region economically competitive.*
- *Build the Appalachian Development Highway System to reduce Appalachia's isolation.*

Ken Murray

As reported in Part II, the Commission demonstrated progress in FY 2008 toward achieving the 10-year performance goals set out in that plan.

Area Development Program

Area development funds are largely allocated to the Appalachian states by formula to provide flexible assistance for individual community projects. In FY 2008, the Commission allocated by formula $62.2 million, 85.2 percent of the total ARC appropriation, for use by the states in their area development activities. The states have wide discretion in the use of these funds, within the framework of the strategic plan. Priorities for area development funding are set forth in the Commission's strategic plan, and state and community leaders work together to package funding from public and private organizations to implement those priorities. All ARC nonhighway grants are approved by a governor and by the federal co-chair. See Appendix B for ARC grants approved in FY 2008, by state and category.

Special Focus on Distressed Counties

The Commission targets special resources to the most economically distressed counties and areas in the Region, using a very conservative measure of economic distress based on three economic indicators: three-year average unemployment rates, per capita market income, and poverty rates.

ARC uses an index-based classification system to compare each county in the nation with national averages on the three economic indicators. Based on that comparison, each Appalachian county is classified within one of five economic status designations—distressed, at-risk, transitional, competitive, or attainment.

- *Distressed counties* are those that rank in the worst 10 percent of the nation's counties.
- *At-Risk counties* rank between the worst 10 percent and the worst 25 percent of the nation's counties.
- *Transitional counties* rank between the worst 25 percent and the best 25 percent of the nation's counties.
- *Competitive counties* rank between the best 10 percent and the best 25 percent of the nation's counties.
- *Attainment counties* are those that rank in the best 10 percent of the nation's counties.

In FY 2008, 78 counties were designated distressed, 78 were designated at-risk, 226 were designated transitional, 22 were designated competitive, and 6 were designated attainment. ARC policy stipulates that competitive counties may receive limited assistance, while attainment counties are generally not eligible for funding.

See page 20 for a map of Appalachian counties classified by economic status.

Besides allocating funding to benefit distressed counties and areas, ARC has established other policies to reduce economic distress. ARC normally limits its maximum project funding contribution to 50 percent of costs, but it can increase its funding share to as much as 80 percent in distressed counties.

Regional Initiatives

Each year, the ARC partners identify a limited number of strategic objectives as regional initiatives. These initiatives support ARC's strategic plan by coordinating a concerted effort by the 13 Appalachian states and the federal government to address an area of critical importance. The initiatives can support and promote innovation in a particular goal area or focus on a sector of unique opportunity or underperformance. In FY 2008, in addition to providing special support for distressed counties, ARC supported regional initiatives on asset-based development and telecommunications. The initiatives were supported by a total allocation of $3.4 million.

The Asset-Based Development Initiative seeks to help communities identify and leverage local assets to create jobs and build prosperity. A focus under this initiative in FY 2008 was the promotion of energy-related job opportunities in Appalachia, as outlined in the Commission's strategic framework *Energizing Appalachia: A Regional Blueprint for Economic and Energy Development*. Another focus was travel and tourism, with investments aimed at protecting and promoting Appalachia's natural, cultural, and historic assets through projects in community assessment, hospitality training, trail development, and product branding. Other asset-based development strategies include the promotion of value-added agricultural development and hardwood products exports.

ARC's Telecommunications Initiative aims to bridge the digital divide between Appalachia and the nation, focusing on projects that increase affordable access to broadband services, promote technology training and the use of technology in education and workforce training programs, increase e-commerce development, and promote technology-sector job creation. In FY 2008, ARC funded projects that support telemedicine and distance-learning applications, workforce development, and e-commerce development in the government and the private sector. ARC also funded projects that directly help communities and commercial-industrial areas gain access to high-speed telecommunications services.

Business Development Revolving Loan Fund Grants

Business development revolving loan funds (RLFs) have been used by ARC since 1977 as an effective tool for economic development. The funds are pools of money used by grantees for the purpose of making loans to local businesses to create and retain jobs. As loans are repaid, money is returned to the fund and made available for additional loans.

The primary objective of ARC's business development RLF grants is creating and retaining private-sector jobs. Limited access to credit is one of the major problems in local business development in Appalachia, and is a significant contributing factor to local economic distress. In areas where credit is not available, or where the cost and terms of the credit are beyond the reach of local businesses, the result may be a community's loss of jobs, tax revenues, and private investment. RLFs are designed to fill gaps in existing local financial markets and to provide or attract capital that otherwise would not be available for economic development.

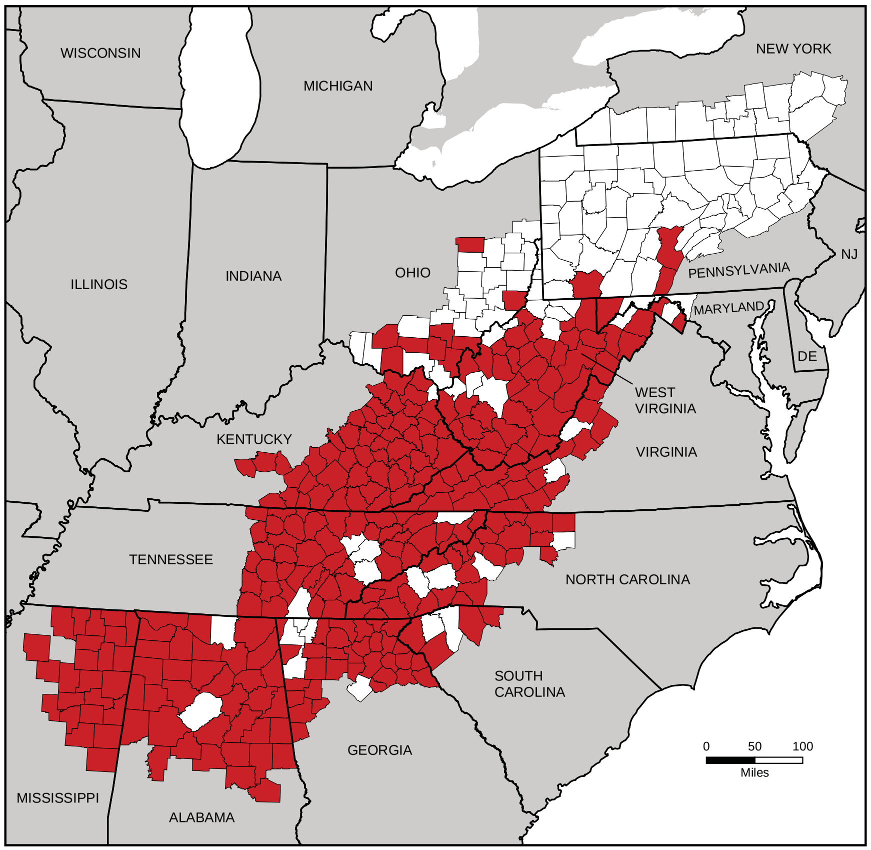
Since the first RLF grants were awarded, ARC-supported revolving loan funds have disbursed $132 million in 1,984 loans, resulting in 77,225 jobs created or retained and leveraging $1.1 billion in private investment for the Appalachian Region.

High-Poverty Counties in the Appalachian Region

(Counties with Poverty Rates at Least 1.5 Times the U.S. Average)

1960

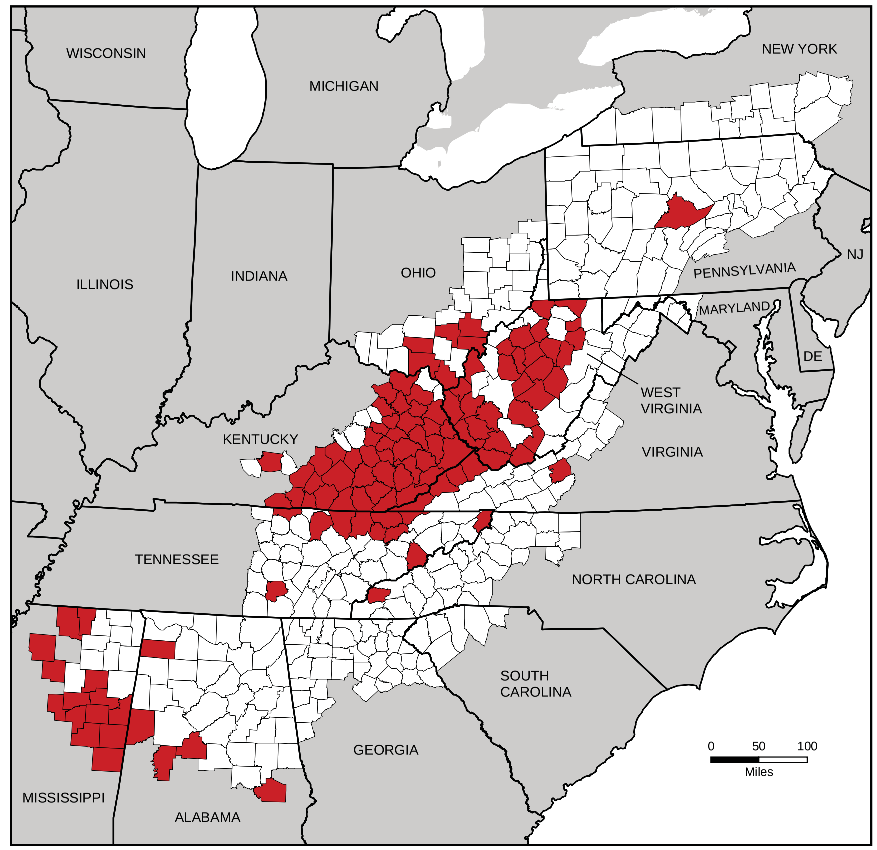
289 High-Poverty Counties



Data Source: Office of Economic Opportunity data from U.S. Department of Agriculture, Economic Research Service, 1960.

Fiscal Year 2008

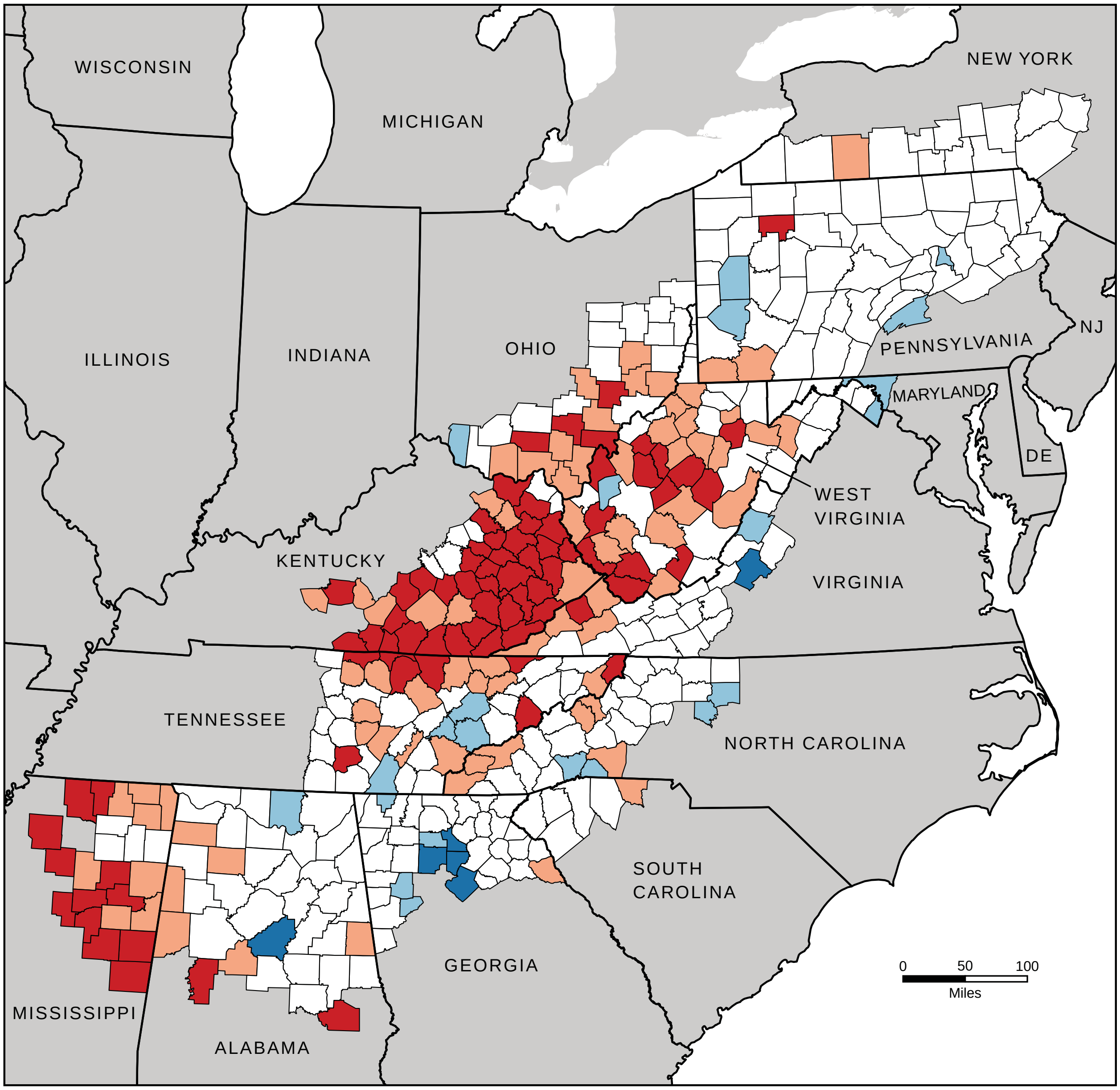
114 High-Poverty Counties



Data Source: U.S. Department of Commerce, Census Bureau, 2000.

County Economic Status in Appalachia, Fiscal Year 2008

(Effective October 1, 2007, through September 30, 2008)



The Appalachian Regional Commission uses an index-based county economic classification system to identify and monitor the economic status of Appalachian counties.

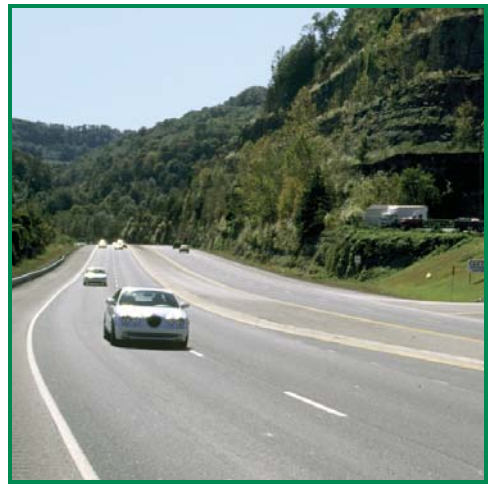
County Economic Levels

- Distressed (78)
- At-Risk (78)
- Transitional (226)
- Competitive (22)
- Attainment (6)

Map Created October 2007.
Data Sources: U.S. Bureau of Labor Statistics, LAUS, 2003–2005;
U.S. Bureau of Economic Analysis, REIS, 2004;
U.S. Census Bureau, 2000 Census, SF3.

Highway Program: The Appalachian Development Highway System

Congress created the Appalachian Development Highway System (ADHS) expressly to provide growth opportunities for the residents of Appalachia—the same benefits afforded the rest of the nation through the construction of the interstate highway system, which largely bypassed Appalachia because of the high cost of building roads through the Region's mountainous terrain. The ADHS, a 3,090-mile system of modern highway corridors that replaces a network of worn, winding two-lane roads, was designed to generate economic development in previously isolated areas, supplement the interstate system, and provide access to areas within the Region as well as to markets in the rest of the nation. (See the map of the ADHS on page 22.)



Ken Murray

Authorizations for the ADHS in FY 2008 were provided through the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). SAFETEA-LU authorizes $470 million per year through FY 2009 for the ADHS. Portions of some ADHS corridors have been identified as high priority and will receive additional funding. Although the funds are authorized from the Highway Trust Fund, ARC exercises policy control over the system and the allocation of funds to individual states. This ensures that the governors and the federal co-chair continue to determine where and how the money is used on ADHS highways. Appendices A and C provide information on ADHS authorizations and funding.

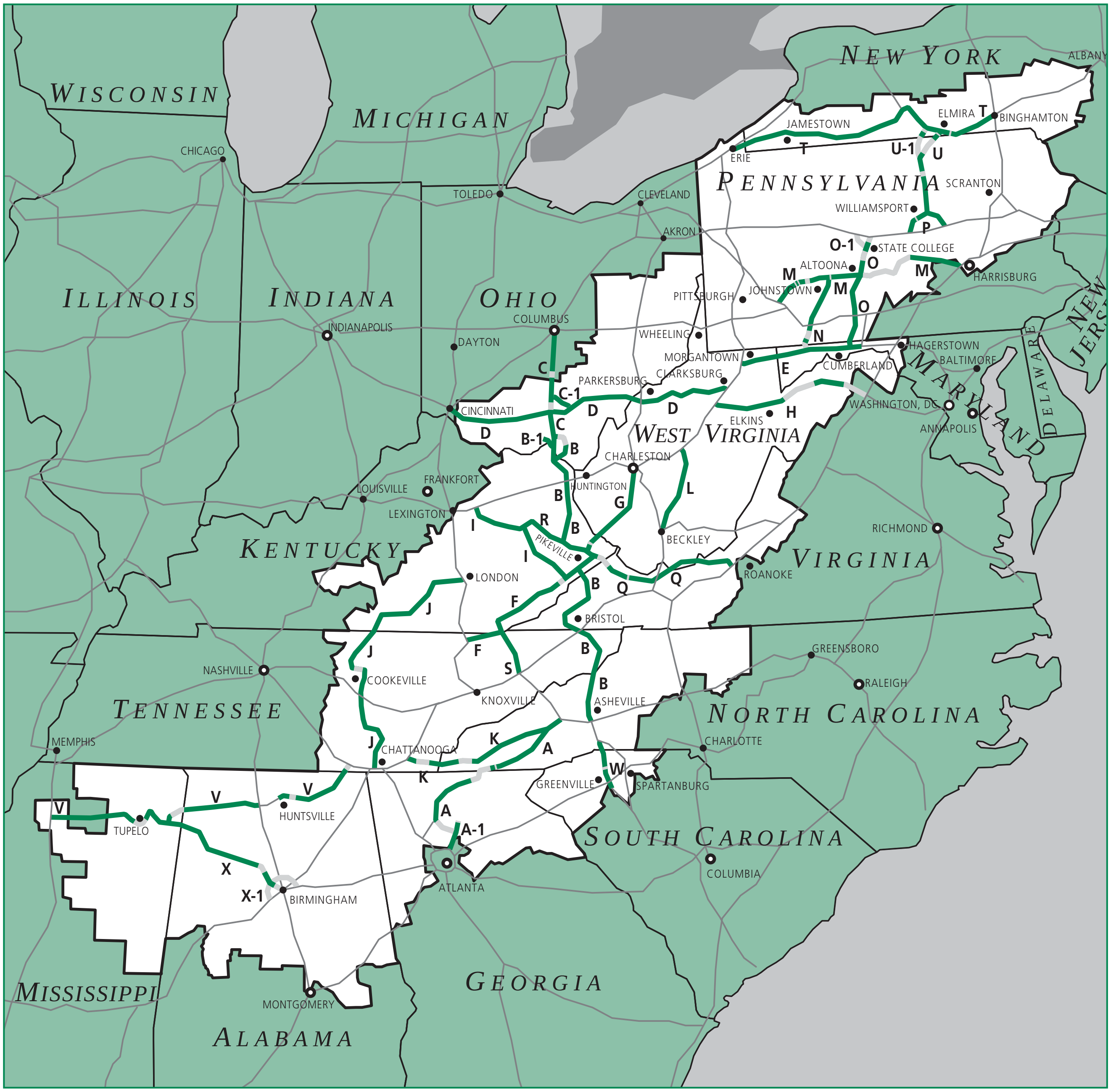
Ken Murray

Local Development Districts

ARC's statute underlines the importance of supporting local development districts (LDDs) in the Region. These multi-county planning and development organizations serve as local partners for ARC across the Region and are essential contributors in the development of projects and activities that support ARC's mission. Every county in the Region is served by an LDD.

Each LDD is governed by a board of directors composed of both local elected officials and nonelected individuals. Many of these state-chartered entities were originally created by state executive orders, but over half are now authorized in state legislation. Some also have 501(c)(3) nonprofit status, enabling

Appalachian Development Highway System as of September 30, 2008



ADHS Miles Open to Traffic—September 30, 2008

ADHS Miles Not Open to Traffic

Interstate Highway System

them to access support from foundations and other nonpublic sources. The LDDs play four key roles in the development of the Region:

- Providing area-wide planning and program development, and coordination of federal and state funding sources;
- Assisting local governments in providing services, especially in poorer, more isolated communities;
- Promoting public-private partnerships and assisting in business development; and
- Helping communities assess, plan, and conduct a wide range of activities such as job training, business development, telecommunications planning and implementation, and municipal government support.

The Commission has also supported the training and technical assistance activities of the Development District Association of Appalachia (DDAA), an organization of the Region's LDDs. These activities improve member districts' organizational structure and operations, and their ability to effectively implement ARC's strategic plan and regional initiatives.

Appendix D provides a map and list of local development districts serving Appalachia.

Research and Technical Assistance Activities

ARC funds research and evaluation studies that produce specific information on socioeconomic and demographic conditions in the Region, including baseline data and trend analysis, economic impact analysis, project evaluation, and regional economic and transportation modeling. ARC-funded research focuses on strategic analyses of key economic, demographic, and quality-of-life factors that affect Appalachia's current and future development prospects. The aim of this research is to help policy makers, administrators, and staff target resources efficiently, and to provide high-quality research for the general public and research specialists.

ARC also funds project evaluations by outside researchers or consultants to assess whether Commission-funded projects have made a measurable difference in specific social or economic outcomes. The purpose of these evaluations is to determine the extent to which the projects have contributed to the attainment of economic development objectives identified in ARC's strategic plan. In addition, evaluations are used to verify project results and to assess the validity of specific performance measurements for monitoring and evaluating specific types of projects.

Reports and data products are distributed in print and posted on ARC's Web site.

Research started in FY 2008 includes:

- An analysis of oral health disparities and access to services in the Appalachian Region; and

- Energy training and management planning for water and wastewater treatment facilities.

Research completed or under way in 2008 includes:

- An analysis of ARC's tourism and asset-based economic development projects;
- An analysis of policy incentives for adoption of energy-efficiency measures, and potential gains from those incentives;
- An analysis of wind and solar industrial supply-chain opportunities in the Appalachian Region;
- An assessment of alternative measures for determining economically distressed counties and areas in the Appalachian Region; and
- An evaluation of ARC's Entrepreneurship Initiative from 1997 to 2005.

Impediments to Progress

Despite recent progress, Appalachia still does not enjoy the same economic vitality and living conditions as the rest of the nation. The Region continues to battle economic distress, concentrated areas of high poverty, unemployment, poor health, educational disparities, and population outmigration that are among the worst in the nation. Appalachia trails the rest of the nation by 17.9 percent in per capita income. Sixty-three percent of Appalachian counties have unemployment rates higher than the national average, and one-fourth of the Region's 410 counties have poverty rates more than 150 percent of the national average.

The Region's isolation and its difficulty in adapting to economic changes over past decades are major factors contributing to the gap in living standards and economic achievement between the Region and the rest of the nation.

The role of the Commission is to help Appalachia reach parity with the rest of the nation. In an era of global competition, that requires a special emphasis on helping the people of Appalachia become a globally competitive workforce.

Civic Capacity

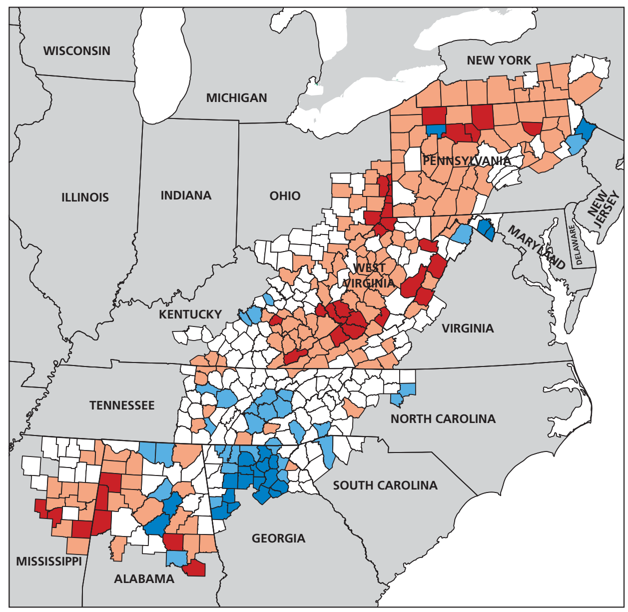
Civic capacity is vital for communities to be strategically ready to take advantage of economic opportunities. Weakness in civic capacity in Appalachia has inhibited the leadership, broad citizen involvement, local strategic planning, and collaboration that are necessary for a sense of empowerment and civic engagement. Low levels of per-capita private foundation funding have contributed to the lack of support for civic capacity, particularly the low rates of formation and survival of community-based nonprofit organizations in the Region.

Economic and Demographic Shifts

A rising number of counties in Appalachia experienced net population loss between 2000 and 2007. Net population loss occurred in 176 counties over that period, compared with 83 counties in the period 1990–2000. As a result, there is continued concern over the decline in Appalachia's "prime age" workforce—workers between the ages of 25 and 55.

The Appalachian Region has been battered by job losses and structural economic shifts because of global competition and because of the Region's disproportionate reliance on extractive industries and manufacturing.

Percent Change in Population in Appalachian Counties, 2000–2007



Counties with Population Gain of More than 20 Percent
Counties with Population Gain of 10.1 Percent to 20 Percent
Counties with Population Gain of Up to 10 Percent
Counties with Population Loss of Up to 5 Percent
Counties with Population Loss of More than 5 Percent

Data Source: U.S. Department of Commerce, Census Bureau, Population Division, 2007 Population Estimates.

- Regional restructuring of the manufacturing sector has led to a recovery in durable goods production and jobs, particularly in automotive supply chain employment in southern and central Appalachia; however, the non-durable manufacturing sector posted net losses of more than 22,000 jobs between 2001 and 2006. During that period the Appalachian apparel industry lost 6,500 jobs, the textile industry lost 7,300 jobs, and the chemicals production industry lost 7,400 jobs.

- The information services industry in Appalachia, once forecast to be a source of job growth, actually lost 3,000 jobs between 2001 and 2006, in both call center jobs and high-tech information jobs.

- The Region's computer and electronic equipment manufacturing industries lost 11,000 jobs between 2001 and 2006. Many of these losses were the result of imports and of plants relocating overseas.

- Appalachian coal-mining employment experienced a slight recovery in 2005, when total employment rose to over 53,000 jobs, up from 49,000 in 2004. However, more recent state data indicate some retrenchment in 2006, especially in central Appalachia.

Access to Capital and Credit

Access to capital and credit is essential to finance and nurture new and existing businesses and entrepreneurs. Chronic gaps in access to capital and credit have often stifled business formation in rural areas, including parts of Appalachia. Despite signs of progress, significant disparities continue to exist in small-business lending in Appalachia. Small-business lending is less accessible in Appalachia's non-metropolitan counties and in counties experiencing economic distress. In addition, the smallest businesses (those with assets under $1 million) and businesses in low- and moderate-income communities experience the least access to credit.

Underinvestment

Research preceding the creation of ARC found that for many reasons, including dearth of leadership and lack of financial and technical resources, Appalachia had not been in a position to take advantage of many federal programs that could help mitigate long-standing problems, much less concentrate a range of investments on the greatest needs. In addition, many programs better addressed mitigation of growth in parts of the nation rather than basic stimulation of growth. This situation has improved over time, but the Region still receives federal economic development assistance disproportionately smaller than its population and its needs. Analyses of the *Consolidated Federal Funds Report for Fiscal Year 2002* by ARC and U.S. Census Bureau staff found that per capita total direct federal expenditures and obligations in Appalachia were $783 less than the national average. In federal grants alone, the Region falls short of parity with the nation as a whole by $5.4 billion each year.

Water and Wastewater Systems

Most Americans don't realize that access to basic water and wastewater systems remains a critical issue in many smaller, poorer communities in Appalachia. Twenty percent of Appalachian households are still not reached by community water systems, compared with 10 percent nationwide. Forty-seven percent of Appalachian households are not served by public sewer systems, compared with a national average of 24 percent. Appalachian counties require an investment of $26 billion to $40 billion for drinking water and wastewater system infrastructure needs, according to an ARC-funded study published in August 2005.

Small, rural Appalachian communities also face higher investment requirements to address pressing economic development needs while meeting environmental standards. Communities experiencing declining customer bases and low household incomes cannot rely on construction loans (and the resulting rate increases) to meet capital investment needs. The local ability to pay is particularly low in 123 Appalachian counties where the average household income is two-thirds or less of the national average, according to the 2000 Census. These communities need additional technical, managerial, and financial assistance to meet their future needs.

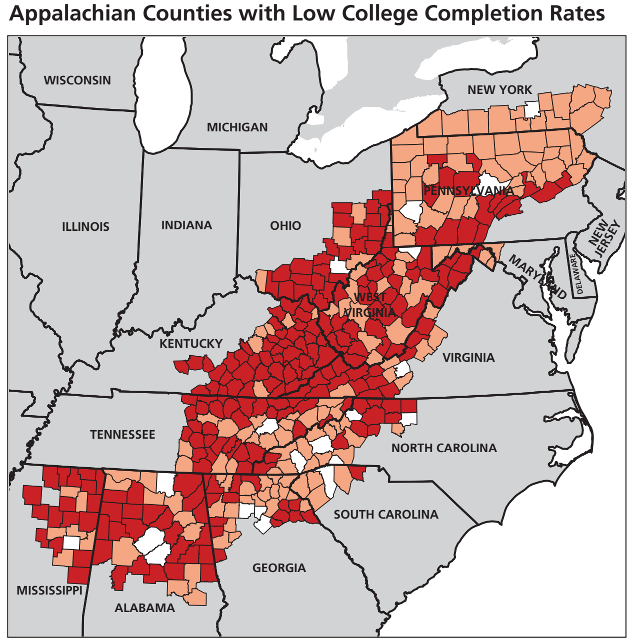
Telecommunications

The Appalachian Region continues to lag behind the rest of the nation in access to affordable broadband telecommunications, which is essential to today's commerce. Without special advocacy, technical support, and financial assistance, rural Appalachia will continue to struggle with access to affordable telecommunications services.

Education and Workforce Skills

Vigorous job growth will not occur in areas that lack an educated workforce. Global competition is reinforcing the economic premium on workers in knowledge-based industries, leaving low-skilled or unskilled U.S. workers increasingly vulnerable. ARC seeks to increase the employ-

Appalachian Counties with Low College Completion Rates



Percent of Adults Completing a Bachelor's Degree or Higher

Counties below Half the U.S. Average

Counties between 50 and 99 Percent of the U.S. Average

Counties at or above the U.S. Average

Data Source: U.S. Department of Commerce, Census Bureau, Census 2000, Summary File 3.

ment rate and productivity of Appalachia's workers, and to attract educated and skilled workers to the Region. Doing so will require considerable improvement in both educational attainment and educational achievement at all levels.

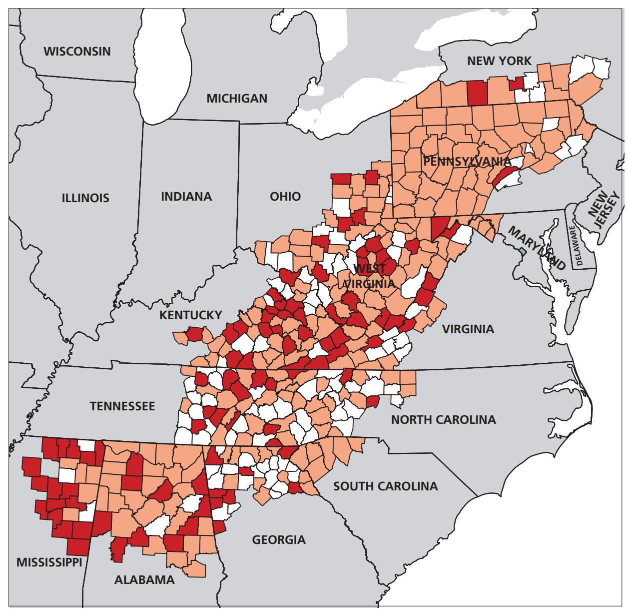
According to the Bureau of Labor Statistics, the 30 fastest-growing occupations will require post-secondary educational attainment levels, special post-secondary certification, or moderate–to–short-term training. The Region is not equipped to prepare its workforce for these high-growth occupations.

In the last decade, the education attainment gap between Appalachia and the rest of the nation has widened: in 1990 the difference between the Region and the nation's share of adults with college degrees was 6.0 percentage points; in 2000 the gap widened to 6.7 percentage points.

Health Care

Health problems continue to impede quality of life as well as economic prospects in some areas of the Region. More than two-thirds of the Region's counties are fully or partially designated by the U.S. Department of Health and Human Services as health professional shortage areas. Most Appalachian counties have had difficulty attracting or retaining basic services such as dentistry, outpatient alcohol treatment, outpatient drug treatment, and outpatient mental health services. In addition, Appalachia suffers from disproportionately high rates of chronic diseases such as cardiovascular disease, cancer, and diabetes.

Appalachian Counties Lacking Access to Health Care



Counties Fully Designated as a Health Professional Shortage Area (HPSA)
Counties Partially Designated as a HPSA
Counties Not Designated as a HPSA

Data Source: U.S. Department of Health and Human Services, Health Resources and Services Administration, Bureau of Health Professions, November 2008.

Program Assessment Rating Tool

In 2004, the Office of Management and Budget (OMB) conducted its first review of the ARC program using the Program Assessment Rating Tool (PART) and issued a score of adequate. ARC received high scores for clarity of purpose, planning, and management. OMB noted ARC's progress in developing outcome-related measures, but acknowledged the difficulty of performance measurement since ARC co-funds projects with other agencies. ARC revised its metrics to include performance goals for targeting resources to areas of greatest distress, and for leveraging other public and private funds. The agency continues to share performance data and research to clarify the links between federal investment and community change. Part II of this report includes updates to PART information.

SUMMARY OF ACHIEVEMENTS

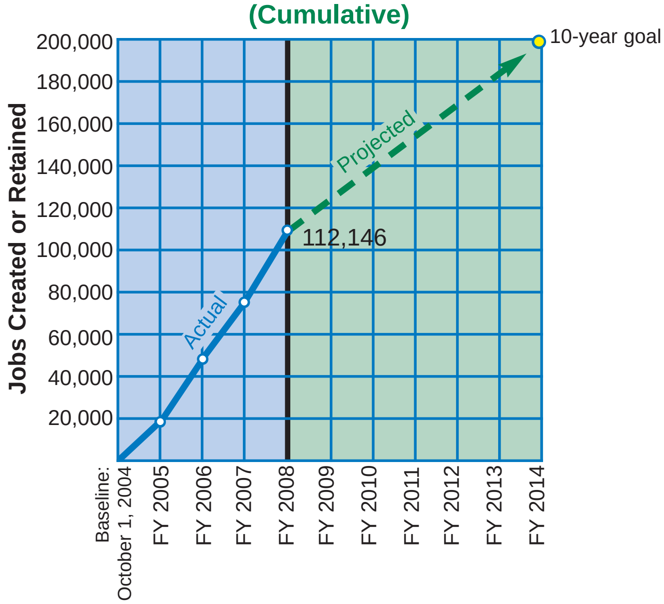
Performance Goals and Results for Fiscal Year 2008 Projects

ANNUAL PERFORMANCE GOALS	FISCAL YEAR 2008 INTERMEDIATE ESTIMATES	RESULTS ACHIEVED
Jobs and Income		
Outcome Goal: 20,000 jobs created or retained	35,292 jobs created or retained	Exceeded goal
Leveraging Goal: Achieve a 4:1 ratio of leveraged private investment to ARC investment for projects in General Goal 1	Achieved a 7:1 ratio	Exceeded goal
Targeting Goal: Direct 50% of grant funds to benefit distressed counties or areas for projects in General Goal 1	Directed 49% of funds*	Met 98% of goal
Competitiveness		
Outcome Goal: 20,000 students/ trainees with improvements	20,432 students/trainees with improvements	Exceeded goal
Matching Goal: Achieve a 1:1 ratio of non-ARC to ARC investment for projects in General Goal 2	Achieved a 2:1 ratio	Exceeded goal
Targeting Goal: Direct 50% of grant funds to benefit distressed counties or areas for projects in General Goal 2	Directed 66% of funds*	Exceeded goal
Infrastructure		
Outcome Goal: 20,000 households served	21,538 households served	Exceeded goal
Matching Goal: Achieve a 2:1 ratio of non-ARC to ARC investment for projects in General Goal 3	Achieved a 4:1 ratio	Exceeded goal
Targeting Goal: Direct 50% of grant funds to benefit distressed counties or areas for projects in General Goal 3	Directed 64% of funds*	Exceeded goal
Highways		
Outcome Goal: 25 additional miles (net increase) of the ADHS opened to traffic	Opened 35.5 additional miles (net increase) of the ADHS to traffic	Exceeded goal

** ARC exceeded its overall goal of investing 50% of total ARC nonhighway funds in projects that benefit distressed counties or areas. Project funds are included if the project* primarily *or* substantially *benefits distressed counties or areas.*

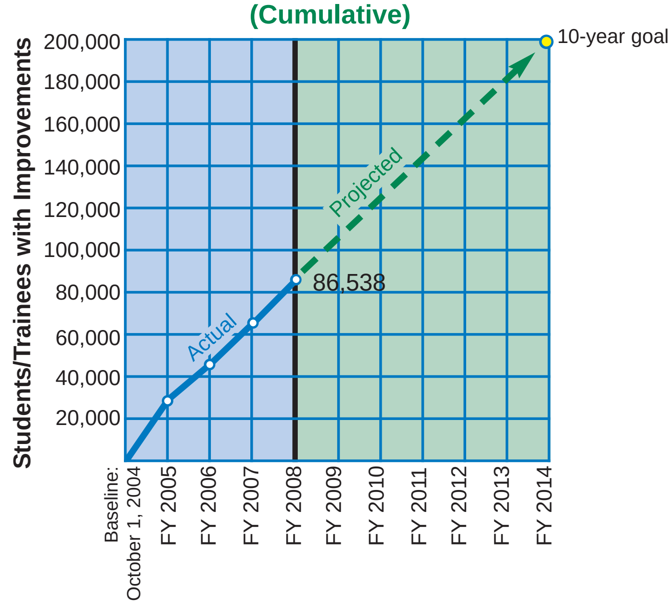
Progress toward ARC Strategic Plan Ten-Year Performance Goals
Fiscal Years 2005–2014

Goal 1: Jobs Created or Retained (Cumulative)



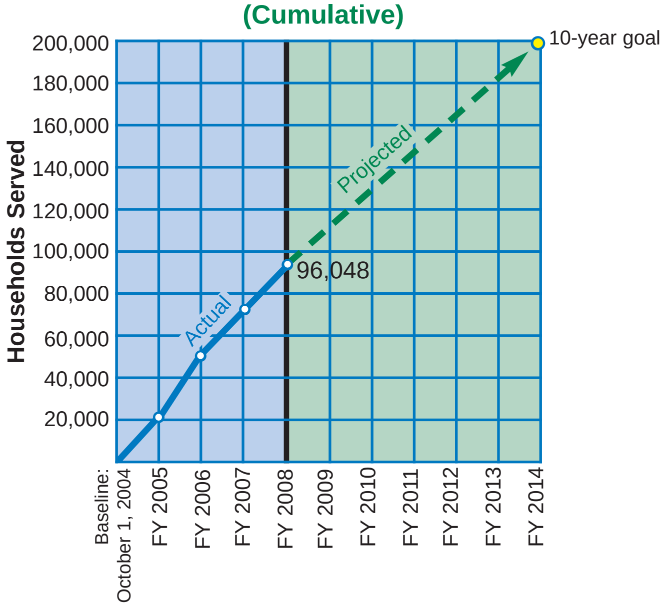
Ten-Year Performance Goal:
200,000 jobs will be created or retained.

Goal 2: Students/Trainees with Improvements (Cumulative)



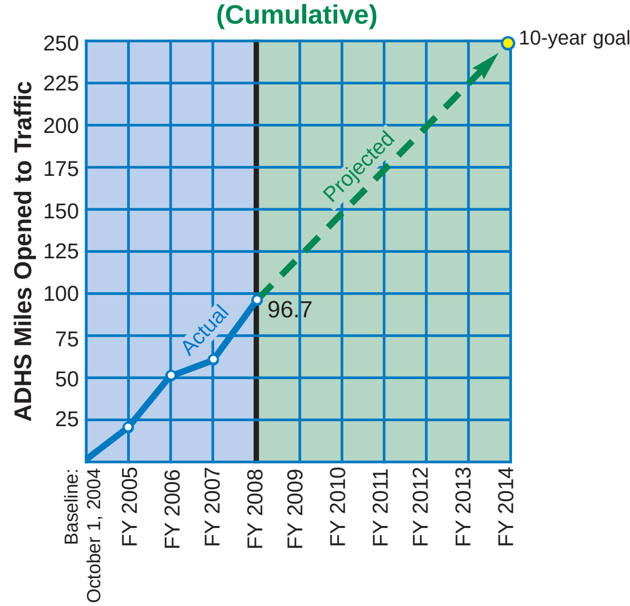
Ten-Year Performance Goal:
200,000 citizens will benefit from enhanced education and job-related skills.

Goal 3: Households Served (Cumulative)



Ten-Year Performance Goal:
200,000 households will be served with new or improved water and sewer infrastructure.

Goal 4: ADHS Miles Opened to Traffic (Cumulative)



Ten-Year Performance Goal:
250 additional miles (net increase) of the Appalachian Development Highway System will be opened to traffic.

FINANCIAL MANAGEMENT

Financial Management System

The Appalachian Regional Commission uses a commercial off-the-shelf core accounting system, GLOWS, that is intended for government financial management. The GLOWS system incorporates capabilities to manage obligations, disbursements, the general ledger, and financial reporting. This system, however, is no longer considered a Financial Systems Integration Office–certified financial management system. During FY 2007, ARC began to evaluate viable options for replacing its current system with a cost-efficient solution that meets required standards and the Commission's needs. ARC finalized its selection in FY 2008 and will implement the new system in FY 2009.

ARC supplements the GLOWS system with a management information system, ARC.net, that provides real-time funding, grant status, and performance measurement information, as well as grant-related financial data, in an intranet environment available to staff and key state officials. ARC.net applications are built using off-the-shelf software.

Management's Responsibility for Internal Control

ARC implemented a process for providing audited financial statements in fiscal year 2002, following the guidance of the Accountability of Tax Dollars Act of 2002. ARC, strictly speaking, is not a federal agency as defined in Titles 5 and 31 of the U.S. Code; it is a 501(c)(3) organization with a quasi-federal character. While the Accountability of Tax Dollars Act applies only to executive branch agencies, the Commission has elected to comply with OMB guidance because full disclosure of financial information is consistent with the governmental nature of ARC's mission and operations and its stewardship of public funds. ARC also follows OMB and Department of the Treasury financial reporting requirements, as appropriate.

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) represents sound management practice for managing federal appropriations. FMFIA establishes specific requirements with regard to management controls. The agency must establish controls that reasonably ensure that (1) obligations and costs comply with applicable law; (2) assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and (3) revenues and expenditures are properly accounted for and recorded. In addition, the agency annually must evaluate and report on the control and financial systems that protect the integrity of federal programs. The FMFIA encompasses program, operational, and administrative areas as well as accounting and financial management. In addition, OMB Circular A-123 directs agencies to "take systematic and proactive measures to (1) develop and implement appropriate, cost-effective management controls for results-oriented management; (2) assess the adequacy of management controls in federal programs and operations; (3) identify needed improvements; (4) take corresponding corrective action; and (5) report annually on management controls." Management controls are the organizational structures, policies, and procedures used to help program and financial managers achieve results and safeguard the integrity of their programs.

ARC maintains a written plan of internal control development and testing. The agency's approach is to make management controls an integral part of the entire cycle of planning, budgeting, management, accounting, and auditing. Testing procedures are based on a team approach and are designed to provide feedback to management on a continuing basis throughout the cycle. ARC recognizes that an appropriate balance of controls must exist in programs and operations. Managers should benefit from controls, not be encumbered by them. Too many controls, especially in an organization as small as the Commission, can result in inefficient and ineffective government. ARC strives to maintain an environment of accountability in which all employees help ensure that government resources are used efficiently and effectively to achieve intended program results with minimal potential for waste, fraud, and mismanagement.

The Office of Inspector General (OIG) conducts independent program reviews and audits. Weekly management team meetings provide an opportunity to address control issues. Finance staff conduct pre-payment examinations of approved payments, as well as oversight reviews of program account obligation and payment details. Finally, the annual financial audit of the agency provides independent assessments of the adequacy of internal controls. The internal control plan assigns responsibility within the organization for follow-up action on any deficiencies.

ARC is authorized to allocate budget authority to other federal agencies to assist the Commission in performing its mission. Before FY 2007, the financial activity related to these allocated funds was reported by the agencies that received the allocation (the “child” agencies). Starting in FY 2007, an Office of Management and Budget directive required “parent” agencies to report activity related to allocated funds in their financial statements. In FY 2007, ARC experienced difficulty obtaining financial information from its much larger child agencies. Because of the inadequate information, ARC's independent auditor, WithumSmith+Brown, issued a disclaimer on the Commission's FY 2007 financial statements.

ARC made progress during FY 2008 in addressing child agency reporting deficiencies noted in the prior year. The Commission was able to obtain internal control and financial information from its child agencies, and to provide the auditors with information and representations from the child agencies necessary for ARC to assert it has implemented controls ensuring fair presentation of activity related to the allocated funds. ARC will implement further controls to enable it to identify improper balances and explain transactions recorded by some of the agencies.

WithumSmith+Brown issued a qualified opinion on ARC's FY 2008 financial statements due to the inability of the U.S. Department of Transportation (DOT), an ARC child agency, to properly support all of the recorded general ledger balances. DOT was unable to provide a detailed schedule of grant balances supporting the total recorded in the general ledger. In addition, DOT records showed a $1.2 million liability, which DOT has acknowledged as an error.

Management Follow-Up to Inspector General Recommendations

At the start of the fiscal year, all but two of the audit reports issued by the OIG in previous years had been addressed by ARC management. During fiscal year 2008, the OIG issued 14 reports concerning internal controls, grants, and other activities. The total dollar value of grants and programs audited during fiscal year 2008 was $2.5 million. The inspector general identified $747,065 of this amount as questioned costs. At the end of the fiscal year, management decisions regarding two prior-year reports involving $351,875 in questioned costs were still pending.

The OIG worked closely with ARC staff to prepare for the production of audited financial statements, and served as an important resource for workshops and meetings in the field to promote sound financial management on the part of ARC grantees. The semi-annual reports of the ARC inspector general, along with contact information, are available to the public at www.arc.gov.

Funding Waivers

As mentioned in the section "Appalachian Regional Commission Structure and Programs," the Commission restricts project funding for economically strong counties. Section 14526 of the Appalachian Regional Development Act authorizes the Commission to grant waivers under certain conditions. In FY 2008, no waivers were granted.

SUMMARY OF FINANCIAL STATUS

Part III of this Performance and Accountability Report includes information about the financial status of the Appalachian Regional Commission. In FY 2007, ARC's financial statements underwent substantial and material changes as a result of new requirements under OMB Circular A-136. ARC is authorized to allocate budget authority to other agencies to assist the Commission in performing its mission. In prior years, the financial activity related to the allocated funds was reported by the agencies receiving the allocation ("child" agencies). Starting in FY 2007, "parent" agencies (those making the allocation) were required to report the activity in their financial statements.

This new requirement regarding "parent" and "child" agency reporting necessitated a change in ARC's financial reporting format, and in FY 2007 the Commission began reporting under the Federal Accounting Standards Advisory Board (FASAB) requirements. However, ARC experienced difficulty obtaining financial information from its much larger child agencies, and its independent auditor, WithumSmith+Brown, issued a disclaimer on the Commission's FY 2007 financial statements because of the inadequacy of child agency reporting. ARC made progress in FY 2008 in addressing child agency reporting deficiencies noted in FY 2007. It was able to obtain internal control and financial information from its child agencies, and to provide the auditors with information and representations from the child agencies necessary for ARC to assert it has implemented controls ensuring fair presentation of activity related to the allocated funds. ARC will implement further controls to enable it to identify improper balances and explain transactions recorded by some of the agencies.

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Assets on September 30, 2008, totaled $197.9 million, and liabilities equaled $6.7 million, versus $203.0 million in assets and $9.5 million in liabilities on September 30, 2007. Seventy-eight percent of ARC's assets were in the United States Treasury. In addition, 16 percent, or $30.9 million, represented advances to grantees and grant funds held by intermediary organizations in Appalachia for the operation of revolving loan funds promoting business development. The federal government retains a residual interest in the loan funds. ARC also advanced funds equaling $11.9 million to child agencies for the purpose of servicing grants. Remaining assets are cash.

Liabilities included $3.6 million in payments due to grantees to finance program expenditures and $2.4 million in accrued leave, pension liability, accrued salaries and benefits, and accrued health and flexible spending benefits. The remaining liabilities included $658,072 in intragovernmental advances and $96,167 in other agency transactions.

Net cost of operations for FY 2008 totaled $70.3 million. The statement of changes in net position was broken down between an earmarked fund and all other funds. The earmarked fund represents the operating costs of the Commission, of which 50 percent is paid by ARC's congressional appropriation and 50 percent by the 13 Appalachian states. Commission operating costs exclude costs for the Office of the Federal Co-Chair and the Office of Inspector General, which are fully covered by congressional appropriations. The net position of the earmarked fund is -$398,346, due to an account payable on the Commission's defined benefit retirement plan. The consolidated net position was $191.2 million.

ARC receives most of its resources from congressional appropriations, which totaled $73.032 million in FY 2008. In addition, ARC received $3.608 million from the 13 member states to pay for the Commission's operating costs. The statement of budgetary resources reported net outlays of $76.6 million. ARC incurred obligations of $86.2 million in FY 2008 and has an unpaid obligated balance (net end of period) of $126.3 million. Of FY 2008 obligations, $74 million funded ARC's Area Development Program, and the remainder was directed to the Appalachian Development Highway System.

The Commission must rely on congressionally appropriated funds to continue its operations, make grants, and meet its liabilities.

Notes are attached to the financial statements to describe and explain important disclosure information about line items in the statements and related financial policies and programs.

PART II:
FISCAL YEAR 2008 PERFORMANCE REPORT

INTRODUCTION

The Government Performance and Results Act of 1993 (GPRA) requires all federal agencies to submit a report to Congress on actual program results at the end of each fiscal year. This report documents the Appalachian Regional Commission's (ARC) progress toward fulfilling its mission and goals. The report

- Compares ARC performance goals to estimated results reported by the projects of the 13 Appalachian states;
- Summarizes the findings of several ARC-initiated evaluations and project validation endeavors; and
- Describes unmet performance goals and explains why those goals were not met, and, if goals are impractical or infeasible, identifies steps to be taken to address the problem.

To meet GPRA requirements, ARC has defined performance measures and goals for all major ARC operations. In FY 2008, ARC

- Collected and entered state estimates of results for FY 2008 into a database as part of daily operations and project management;
- Evaluated the planned and actual results of a sample of projects funded in FY 2005 and FY 2006 through field visits and interviews with those managing the projects; and
- Conducted independent evaluations to ascertain the benefits of projects.

ARC uses performance data as a management tool to inform the management process. In addition, staff use ARC.net, ARC's management information system, to track critical project performance information. ARC staff review performance measurement data generated by projects throughout the fiscal year to analyze trends and validate data. ARC routinely shares such information with partners through "best practices" conferences and on-site validation visits with grantees. ARC's Policy Development Committee has also used research, evaluations, validation visits, and staff monitoring to develop and revise guidelines for program activities.

The four general goals from ARC's 2005–2010 strategic plan, *Moving Appalachia Forward*, were used to evaluate performance in FY 2008.

FY 2008 Outcome Goals and Intermediate Results	
ANNUAL OUTCOME GOAL	INTERMEDIATE ESTIMATES
20,000 Jobs Created or Retained	35,292 Jobs Created or Retained
20,000 Students/Trainees with Improvements	20,432 Students/Trainees with Improvements
20,000 Households Served	21,538 Households Served
25 Additional Miles (Net Increase) of the ADHS Opened to Traffic	35.5 Additional Miles (Net Increase) of the ADHS Opened to Traffic

The following sections of this report present an overview of the Appalachian Regional Commission, a list of ARC goals and objectives, a description of the methodology employed to monitor project outcomes in compliance with the GPRA, the estimated outcomes for projects funded in FY 2008 and each of the three prior fiscal years, and the results of project validation samplings and project evaluations.

OVERVIEW OF ARC

ARC's vision is that Appalachia will achieve socioeconomic parity with the nation.

ARC's mission is to be a strategic partner and advocate for sustainable community and economic development in Appalachia.

Organizational Structure

The Appalachian Regional Commission is a regional economic development agency representing a unique partnership of federal, state, and local governments designed to address local needs in Appalachia. ARC was established by an act of Congress and operates under congressional authorizations. In FY 2008, Congress completed work on legislation that reauthorizes the Commission for five years, through FY 2012, and adds ten counties to the Region (effective in FY 2009).

The Commission is composed of the governors of the 13 Appalachian states and a federal co-chair, who is appointed by the president. Grassroots participation is provided through multi-county local development districts, with boards made up of elected officials and other local public and private leaders. Each year Congress appropriates funds for the Commission's programs, which ARC allocates among its member states. At the beginning of their terms in office, Appalachian governors submit development plans for the Appalachian counties in their states. The Commission votes to approve these plans. The governors also submit annual strategy statements developed from the plans, and must select projects for ARC approval and funding based on these statements.

Project Funding

ARC funds more than 400 projects annually throughout the 13-state Appalachian Region. All of the projects must address one of the four goals in ARC's 2005–2010 strategic plan: increase job opportunities and per capita income in Appalachia to reach parity with the nation; strengthen the capacity of the people of Appalachia to compete in the global economy; develop and improve Appalachia's infrastructure to make the Region economically competitive; and build the Appalachian Development Highway System to reduce Appalachia's isolation. The Commission's strategic plan identifies the goal areas as the basic building blocks of sustainable economic development in the Region.

All projects are approved by a governor and by ARC's federal co-chair. ARC provides technical assistance to grantees in an effort to increase the likelihood that the project will be successful.

One of the key differences between ARC and typical federal executive agencies and departments is the flexibility given to the states in determining how their allocated funds will be spent. This flexibility exists within a framework: funds must be spent in counties designated as part of the Appalachian Region; projects must address one or more of the Commission's four goals; and a specified amount of the funds allocated to each state can be used only on projects that benefit counties and areas the Commission has designated as economically distressed.

GENERAL GOALS AND OBJECTIVES

In accordance with its 2005–2010 strategic plan, ARC organizes its funding policies and administration around four goals to carry out its mission. Strategic objectives under each goal embody core ARC policies.

GENERAL GOAL 1: Increase Job Opportunities and Per Capita Income in Appalachia to Reach Parity with the Nation.

Strategic Objectives

1.1: Foster Civic Entrepreneurship
1.2: Diversify the Economic Base
1.3: Enhance Entrepreneurial Activity in the Region
1.4: Develop and Market Strategic Assets for Local Economies
1.5: Increase the Domestic and Global Competitiveness of the Existing Economic Base
1.6: Foster the Development and Use of Innovative Technologies
1.7: Capitalize on the Economic Potential of the Appalachian Development Highway System

Outcome measure: Number of jobs created or retained.

GENERAL GOAL 2: Strengthen the Capacity of the People of Appalachia to Compete in the Global Economy.

Strategic Objectives

2.1: Foster Civic Entrepreneurship
2.2: Enhance Workforce Skills through Training
2.3: Increase Access to Quality Child Care and Early Childhood Education
2.4: Increase Educational Attainment and Achievement
2.5: Provide Access to Health-Care Professionals
2.6: Promote Health through Wellness and Prevention

Outcome measure: Number of students/trainees with improvements.

GENERAL GOAL 3: Develop and Improve Appalachia's Infrastructure to Make the Region Economically Competitive.

Strategic Objectives

3.1: Foster Civic Entrepreneurship

3.2: Build and Enhance Basic Infrastructure

3.3: Increase the Accessibility and Use of Telecommunications Technology

3.4: Build and Enhance Environmental Assets

3.5: Promote the Development of an Intermodal Transportation Network

Outcome measure: Number of households served with new or improved water and/or sewer infrastructure, and number of jobs created or retained.

GENERAL GOAL 4: Build the Appalachian Development Highway System to Reduce Appalachia's Isolation.

Strategic Objectives

4.1: Foster Civic Entrepreneurship

4.2: Promote On-Schedule Completion of the Appalachian Development Highway System (ADHS)

4.3: Coordinate Work on ADHS State-Line Crossings

Outcome measure: Net increase in the number of miles of the ADHS open to traffic.

PERFORMANCE MEASUREMENT METHODOLOGY

Overview of ARC's Performance Measurement System

ARC's performance measurement system was designed to accomplish two primary objectives: compliance with the GPRA in measuring the outcomes of ARC projects, and creation of a process that allowed for both feedback from grantees and analysis of funded projects, in an effort to improve programming.

ARC's performance measurement system has three components:

- Project data collection and analysis through use of a management information system;
- Site visits to validate actual outcomes of a sample of projects; and
- Independent project evaluations.

These three components work together to allow GPRA reporting and compliance and to help ARC glean "lessons learned" from previously funded grants. By structuring the measurement system in this manner, ARC has made the GPRA a management tool and a valuable resource in determining program effectiveness.

This report presents performance goal results for each of ARC's four general goal areas. It is important to note that two outcome measures cut across general goal areas. To simplify the reporting of these measures, results from each general goal area are totaled and reported under the general goal that most closely aligns with the outcome measure. For example, one of ARC's outcome measures is jobs created or retained. ARC measures results for jobs created or retained by projects funded under General Goals 1, 2, and 3. For clarity, this outcome measure is discussed, and results from all three general goal areas are reported, under General Goal 1: "Increase job opportunities and per capita income in Appalachia to reach parity with the nation."

Project Data Collection and Analysis

Annual Performance Goals and Measures

Each fiscal year, ARC submits to the Office of Management and Budget (OMB) annual performance goals for projects to be funded in coming years, as required in the budget submission process. In determining these goals, ARC develops likely investment scenarios for the 13 Appalachian states, anticipating how each state will direct ARC funds in addressing the four general goal areas. The scenarios are based on state development plans, strategy statements, historical trends, and communication with the states. ARC uses these scenarios to project results; however, the states have flexibility in spending decisions, although all projects are reviewed and approved by the federal co-chair and must pursue one of ARC's four general goals. The states' spending flexibility is a critical element of the ARC federal-state partnership but poses challenges in setting performance goals. Each state's priorities will shift from year to year, occasionally producing unanticipated results.

Before FY 2005, ARC focused on assessing progress toward reaching outcome performance goals. As a result of OMB's 2004 review of the ARC program using the Program Assessment Rating Tool, ARC established measurements for assessing progress toward reaching two additional performance goals: (1) leveraging non-ARC project funding and private non-project investments resulting from the completion of ARC-funded projects, and (2) targeting ARC funds to benefit distressed counties and areas. ARC now measures progress in reaching all three performance goals. Both non-ARC funds used as a match in projects and non-project leveraged private investments have been recorded by ARC in the past; however, in FY 2005 ratios of these funds to ARC funding were established as annual goals.

To address reporting requirements, ARC reports results toward reaching these three performance goals in four program categories (jobs and income, competitiveness, infrastructure, and highways) that reflect priorities within the Commission's four general goals. Although the projects funded by ARC each year generate many more measures than those reported for GPRA compliance, the measures reported relate uniquely to ARC's four general goals and to its mission (see table on page 45).

Program Category One: Jobs and Income. The following measures are presented in General Goal 1.

1) *Outcome Measures:* The number of jobs created and the number of jobs retained.

"Jobs created" includes any direct hires that will be made as a result of the project's operation, not including highway or building construction jobs. Also included are private-sector jobs that will be created within three years after ARC-funded services or projects are complete. These jobs are usually related to additional investments in manufacturing plants and equipment, and retail and commercial real estate development. Part-time jobs are converted to full-time equivalents and rounded up to whole numbers.

"Jobs retained" refers to the number of workers actually enrolled in specific training programs, or to the number of jobs at businesses that will be retained because of an investment that is needed to keep the businesses and jobs in the area or in continued operation.

These two measures are combined and reported together as "jobs created/retained."

2) *Leveraging Measure:* The ratio of leveraged private investment (LPI) to ARC investment for all General Goal 1 projects.

LPI represents private-sector, non-project financial commitments that follow and are the result of the completion of an ARC-supported project or the delivery of services under an ARC-supported project. Leveraged private investment is a performance measurement because it is a desired outcome; and it represents the private investment supporting job creation. It is generally estimated for the three-year period following the completion of a project and is separate from any direct private contribution to ARC-supported project funding.

3) *Targeting Measure:* The percentage of nonhighway ARC funds used for projects that benefit distressed counties or areas.

Program Category Two: Competitiveness. The following measures are presented in General Goal 2.

1) *Outcome Measures:* The number of students with improvements and the number of workers/trainees with improvements.

"Students with improvements" is the number of students who, as a result of an ARC-funded project, receive a career credential or obtain a job in the field for which they were specifically trained, or are certified or passed to the next grade or level necessary to continue their education.

"Workers/trainees with improvements" is the total number of participants that obtain new employment or enhanced employment (e.g., receive higher pay or better positions) as a result of ARC-funded projects.

These two measures are combined and recorded together as "students/trainees with improvements."

2) *Matching Measure:* The ratio of non-ARC to ARC investment for projects in General Goal 2.

This ratio sets a goal for non-ARC matching project funds. Ratios showing the amount of ARC funding to other project investment sources help illustrate the impact ARC's relatively small, flexible grants can have in the Appalachian Region.

3) *Targeting Measure:* The percentage of nonhighway ARC funds used for projects that benefit distressed counties or areas.

Program Category Three: Infrastructure. The following measures are presented in General Goal 3.

1) *Outcome Measure:* The number of households served.

Infrastructure projects measured in this category include general water and/or sewer projects. "Households served" encompasses the number of households with either new or improved service.

2) *Matching Measure:* The ratio of non-ARC to ARC investment for projects in General Goal 3.

This ratio sets a goal for non-ARC matching project funds. Ratios showing the amount of ARC funding to other project investment sources help illustrate the impact ARC's relatively small, flexible grants can have in the Appalachian Region.

3) *Targeting Measure:* The percentage of nonhighway ARC funds used for projects that benefit distressed counties or areas.

Program Category Four: Highways. The following measure is presented in General Goal 4.

Outcome Measure: The net increase in the number of miles of the Appalachian Development Highway System (ADHS) open to traffic.

Progress on the ADHS is measured by the net increase in the number of miles open to traffic each year. ARC also prepares a separate annual report, *Status of the Appalachian Development Highway System*, which provides detailed information on the portions of highways moving through the various stages of work in each Appalachian state, as well as an analysis of funding and remaining work.

Intermediate Results

Intermediate results presented in this report are derived from estimates in project applications, as reported by grantees. When projects are closed, actual results to date are recorded; however, some estimates are based on three-year projections. More accurate results are obtained when ARC staff validate a sample of projects two to three years after initial funding. The validity of final numbers is sampled during periodic project evaluations (see page 46).

Data Analysis

Critical data from projects submitted to ARC for funding are entered into the Commission's management information system, ARC.net, to facilitate monitoring of projects. At quarterly intervals throughout the fiscal year, ARC staff review performance measurement data in ARC.net to better understand emerging trends, improve data integrity, and shape policy to improve the ARC programs. At the close of each fiscal year, ARC staff review results and prepare the data for submission to OMB and Congress.

ARC Performance Measurement Framework Fiscal Year 2008

Program Category	**JOBS AND INCOME**	**COMPETITIVENESS**	**INFRASTRUCTURE**	**HIGHWAYS**
Six-Year Goals	**Increase job opportunities and per capita income in Appalachia to reach parity with the nation.** **Outcome Goal 2005–2010:** Create or retain 120,000 jobs.	**Strengthen the capacity of the people of Appalachia to compete in the global economy.** **Outcome Goal 2005–2010:** Provide 120,000 Appalachian citizens with enhanced education/skills.	**Develop and improve Appalachia's infrastructure to make the Region economically competitive.** **Outcome Goal 2005–2010:** Provide new or improved water/sewer services to 120,000 households.	**Build the Appalachian Development Highway System to reduce Appalachia's isolation.** **Outcome Goal 2005–2010:** Open 150 additional miles (net increase) of the ADHS to traffic.
FY 2008 Goals	***Performance Goals*** **Outcome Goal:** Create or retain 20,000 jobs for Appalachians. **Leveraging Goal:** Achieve a 4:1 ratio of leveraged private investment (non-project investment) to ARC project funding. **Targeting Goal:** Direct 50% of grant funds to projects that benefit distressed counties or areas.	***Performance Goals*** **Outcome Goal:** Position 20,000 Appalachians for enhanced employability. **Matching Goal:** Achieve a 1:1 ratio of non-ARC project funding to ARC project funding. **Targeting Goal:** Direct 50% of grant funds to projects that benefit distressed counties or areas.	***Performance Goals*** **Outcome Goal:** Provide 20,000 households with basic infrastructure services. **Matching Goal:** Achieve a 2:1 ratio of non-ARC project funding to ARC project funding. **Targeting Goal:** Direct 50% of grant funds to projects that benefit distressed counties or areas.	***Performance Goal*** **Outcome Goal:** Open 25 additional miles (net increase) of the ADHS to traffic.
Input and Activities	**Key Strategies and Activities:** Promote economic diversification through advocacy, regional forums, information sharing, training, and cooperative funding. Target entrepreneurship development and business support.	**Key Strategies and Activities:** Increase employability by identifying and replicating exemplary projects, expanding alliances with other organizations, and providing funding leadership. Focus on college-going rates, worker skills, science/math education, school readiness, and high school completion rates. Address health access issues.	**Key Strategies and Activities:** Seek highly leveraged and collaborative funding for basic infrastructure projects, emphasizing clean water and waste disposal. Expand telecommunications infrastructure through advocacy, knowledge sharing, and targeted funding.	**Key Strategy:** Work to complete the ADHS in close cooperation with state and federal partners as Highway Trust Fund financing becomes available.

Project Validation

Staff validation visits, confirming actual project outcomes, have become a critical part of ARC's GPRA compliance. As a general rule, in each fiscal year ARC validates the outcomes of 40 to 60 projects funded two to three years earlier. The two- or three-year lag allows time for most projects to be completed, resulting in a more accurate sampling of outcomes.

The validation visits performed by ARC staff yield far more than project outcomes. Grantees are asked a series of questions aimed at providing insight into why their projects were or were not successful in reaching their stated outcomes. This feedback allows ARC to better understand the consequences of its programming and make policy or procedural changes as the need arises.

In situations where a project failed to meet proposed goals, ARC staff consider mitigating circumstances and look for possible trends in an effort to assist other projects faced with similar challenges. Likewise, when a project has exceeded proposed goals, ARC staff attempt to determine why. Analyses from the validation visits are compiled in an annual internal report.

Project Evaluations: Final Results

Another critical component of ARC's GPRA compliance is independent or external evaluation of ARC initiatives and sub-programs. Evaluations confirm both the outcomes and the overall effectiveness of projects. Evaluations focus on the extent to which the projects have achieved, or contributed to the attainment of, their objectives. Particular emphasis is placed on assessing the utility and validity of the outcome measures. The findings of these project evaluations are summarized and made available to state and local organizations engaged in carrying out projects under the four general goals in ARC's strategic plan, and are typically published on ARC's Web site. Summaries of recent evaluations are included in this report under each general goal area.

GENERAL GOAL 1: INCREASE JOB OPPORTUNITIES AND PER CAPITA INCOME IN APPALACHIA TO REACH PARITY WITH THE NATION.

In partnership with other agencies, ARC will help local and state leaders diversify local economies, support entrepreneurship, increase domestic and global markets, and foster new technologies in order to address job shifts throughout the Region. In addition, ARC will encourage local leaders to build on the opportunities presented by Appalachian Development Highway System corridors and to examine natural, cultural, structural, and leadership assets that can create job opportunities while preserving the character of the Region's communities.

Strategic Objective 1.1: Foster Civic Entrepreneurship. This objective supports selected strategies including broad-based leadership, collaboration, partnerships, regional initiatives, strategic planning, training, and consultation.

Strategic Objective 1.2: Diversify the Economic Base. This objective supports selected strategies including development of new businesses and products, modernization and strengthening of existing businesses and their workforce, and increasing awareness of available economic development tools.

Strategic Objective 1.3: Enhance Entrepreneurial Activity in the Region. This objective supports selected strategies including access to investment capital, entrepreneurship training, and technical assistance for businesses.

Strategic Objective 1.4: Develop and Market Strategic Assets for Local Economies. This objective supports selected strategies including identifying local and regional assets, creating strategies for local businesses to capitalize on these assets, and specifically maximizing economic benefits of heritage tourism and craft industries.

Strategic Objective 1.5: Increase the Domestic and Global Competitiveness of the Existing Economic Base. This objective supports selected strategies including research in global and domestic development, aiding small businesses in connecting to national and global markets, and promoting foreign investment in the Region.

Strategic Objective 1.6: Foster the Development and Use of Innovative Technologies. This objective supports selected strategies including expansion and creation of high-tech operations and research, increased support for public-sector science and technology programs, and commercialization of new technologies.

Strategic Objective 1.7: Capitalize on the Economic Potential of the Appalachian Development Highway System. This objective supports selected strategies including strategic planning and development initiatives along completed and future sections of the ADHS, and promoting cooperation between highway and economic development officials.

Per Capita Income

While ARC sets a performance goal for increasing job opportunities in Appalachia, addressing increases in per capita income resulting directly from specific projects is much more difficult. For this reason, ARC depends on tracking trends in per capita market income, as well as on census poverty measures and comparisons between the Appalachian Region and the nation.

ARC uses an index-based county economic classification system to identify and monitor the economic status of Appalachian counties. The system compares each county in the nation with national averages on three economic indicators: three-year average unemployment rates, per capita market income, and poverty rates. Each county is then ranked, and each Appalachian county is classified in one of five economic status designations—distressed, at-risk, transitional, competitive, or attainment—based on its position in the national ranking.

- *Distressed counties* are those that rank in the worst 10 percent of the nation's counties.
- *At-Risk counties* rank between the worst 10 percent and the worst 25 percent of the nation's counties.
- *Transitional counties* rank between the worst 25 percent and the best 25 percent of the nation's counties.
- *Competitive counties* rank between the best 10 percent and the best 25 percent of the nation's counties.
- *Attainment counties* are those that rank in the best 10 percent of the nation's counties.

In FY 2008, 78 counties were designated distressed, 78 were designated at-risk, 226 were designated transitional, 22 were designated competitive, and 6 were designated attainment.

Performance Goals and Results

General Goal 1 is aligned with the annual performance goals listed under the program category "jobs and income." (See page 45.)

Outcome Goal

ARC's strategic plan describes the major outcome measure for the "jobs and income" program category as the number of jobs created or retained. Because General Goal 1 is most closely aligned with the annual performance goals listed under the "jobs and income" program category, results for "jobs and income" projects from General Goals 1, 2, and 3 are reported under this goal. "Jobs created or retained" is an outcome measure under all three goals. This measure is referred to as "jobs created/retained."

Annual outcome goal for FY 2008: Create/retain 20,000 jobs for Appalachians.

Results for FY 2008: Exceeded goal.

Outcome Goal: Create/Retain 20,000 Jobs for Appalachians	
ANNUAL OUTCOME GOAL	INTERMEDIATE ESTIMATES
FY 2005: 20,000 Jobs Created/Retained	FY 2005: 19,346 Jobs Created/Retained
FY 2006: 20,000 Jobs Created/Retained	FY 2006: 28,866 Jobs Created/Retained
FY 2007: 20,000 Jobs Created/Retained	FY 2007: 28,642 Jobs Created/Retained
FY 2008: 20,000 Jobs Created/Retained	**FY 2008: 35,292 Jobs Created/Retained**

Leveraging Goal

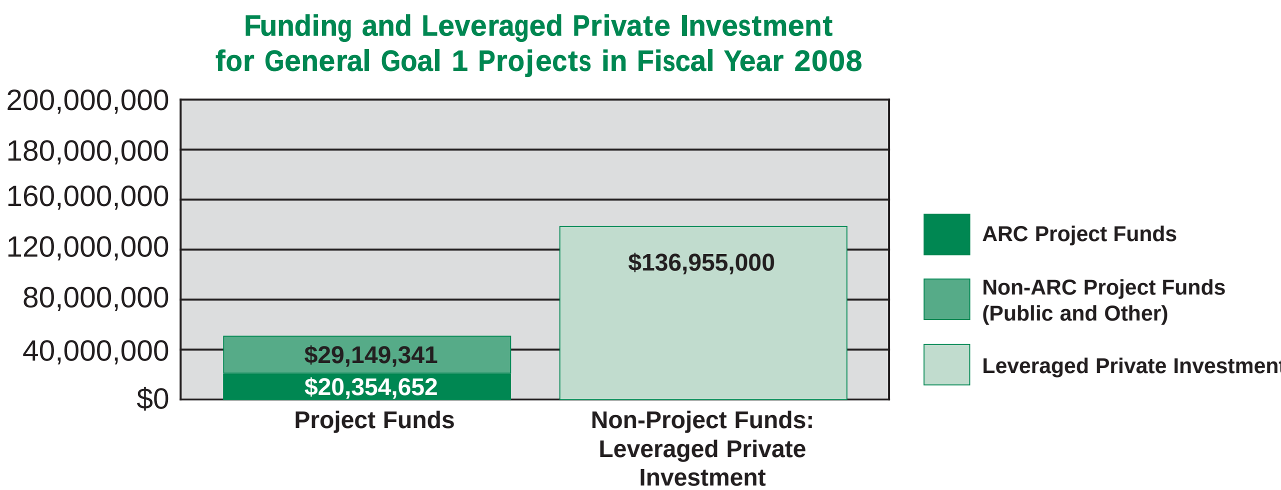
The leveraging performance goal for General Goal 1 projects is a ratio of leveraged private investment to ARC investment.

Annual leveraging goal for FY 2008: Achieve a 4:1 ratio of leveraged private investment to ARC investment.

Results for FY 2008: Exceeded goal.

Leveraging Goal: Achieve a 4:1 Ratio of Leveraged Private Investment to ARC Investment	
ANNUAL LEVERAGING GOAL	INTERMEDIATE ESTIMATES
FY 2005: Achieve a 4:1 ratio of leveraged private investment to ARC investment.	**FY 2005:** Achieved a 7:1 ratio.
FY 2006: Achieve a 4:1 ratio of leveraged private investment to ARC investment.	**FY 2006:** Achieved a 7:1 ratio.
FY 2007: Achieve a 4:1 ratio of leveraged private investment to ARC investment.	**FY 2007:** Achieved a 10:1 ratio.
FY 2008: Achieve a 4:1 ratio of leveraged private investment to ARC investment.	**FY 2008:** Achieved a 7:1 ratio.

In FY 2008, ARC's General Goal 1 grant funds of $20,354,652 attracted non-project leveraged private investment of $136,955,000, and $29,149,341 in matching project funds from public and other sources.



Targeting Goal

The targeting performance goal for General Goal 1 projects is the percentage of funds targeted to distressed counties or areas.

Annual targeting goal for FY 2008: Direct 50 percent of all ARC grant funds to projects that benefit distressed counties or areas.

Results for FY 2008: In FY 2008, 60 percent of all ARC nonhighway project funds were directed to projects that benefit distressed counties or areas. ARC tracks the percentage of funds targeted to distressed counties separately in General Goals 1, 2, and 3 for management purposes only.

Targeting Goal: Direct 50 Percent of General Goal 1 Grant Funds to Distressed Counties or Areas

ANNUAL TARGETING GOAL	INTERMEDIATE ESTIMATES*
FY 2005: Direct 50% of grant funds to projects that benefit distressed counties or areas.	**FY 2005:** Directed 45% of General Goal 1 funds.
FY 2006: Direct 50% of grant funds to projects that benefit distressed counties or areas.	**FY 2006:** Directed 46% of General Goal 1 funds.
FY 2007: Direct 50% of grant funds to projects that benefit distressed counties or areas.	**FY 2007:** Directed 45% of General Goal 1 funds.
FY 2008: Direct 50% of grant funds to projects that benefit distressed counties or areas.	**FY 2008:** Directed 49% of General Goal 1 funds.

** Includes projects that primarily benefit distressed counties or areas, and projects where most beneficiaries of the project are in distressed counties or areas.*

Project Validation Sampling

In FY 2008, members of ARC's field validation team surveyed twenty-four FY 2005 and FY 2006 projects with goals for jobs created/retained to compare estimated and actual results.

Number of Projects Surveyed	Projected Number of Jobs Created/Retained	Actual Number of Jobs Created/Retained	Results Achieved
24	2,629	3,036	115%

As shown above, the projects surveyed achieved 115 percent of projected results for jobs created/retained.

Project Evaluation: Final Results

Entrepreneurship

In FY 2008, the Appalachian Regional Commission issued the report *Creating an Entrepreneurial Appalachian Region: Findings and Lessons from an Evaluation of the ARC's Entrepreneurship Initiative 1997–2005,* prepared by the Rural Policy Research Institute (RUPRI), the RUPRI Center for Rural Entrepreneurship, EntreWorks Consulting, and RTI International. The report evaluated ARC's Entrepreneurship Initiative (EI) in terms of both outcomes achieved by a sample of funded projects and broader policy impacts across the Region.

As identified through project final reports submitted to ARC, the EI led to the creation of at least 9,156 jobs, the retention of a further 3,022 jobs, the formation of 1,787 new businesses, and the provision of services to 8,242 businesses. The cost per job created was $4,693, which compares favorably with other economic development efforts.

From 1997 to 2005, the EI made investments in 340 unique projects across the Region at an average investment of $3.3 million per state and a per capita investment of $1.82. The EI investment in projects that were completed as of 2005 leveraged an additional $72.8 million in private investment. When all the projects in the study have been completed, the leveraging figure is expected to rise to $109.9 million.

A sample of 88 projects was selected for in-depth investigation of outcomes. Additional metrics were reported for these projects, including the following: more than 11,500 students and teachers participated in or received training in entrepreneurship education projects; 1,500 entrepreneurs took part in sector-focused activities; and another 1,620 entrepreneurs received training and technical assistance.

The evaluation team assessed the qualitative impacts of the sample projects through interviews with project leaders familiar with the investments, and from regional stakeholders and entrepreneurship experts with deep experience both in the Region and in entrepreneurship development. Common themes identified were that ARC EI investments

- raised the profile of entrepreneurship as a development strategy in the Region;
- provided start-up funding for innovative projects;
- leveraged additional resources that helped some projects achieve scale and impact;
- facilitated networking and collaboration among practitioners; and
- helped change attitudes, particularly among youths and their teachers.

The evaluation team offered three sets of recommendations for ARC:

- Entrepreneurship development initiatives should include assessments of existing capacity and capacity-building activities as part of the project design; they should be designed with a focus on the long term; they should be market driven and practice continuous improvement; and they should emphasize forming regional partnerships and collaborations.

- The use of job creation as the sole performance measurement for entrepreneurship development investments paints an incomplete picture of the outcomes, and should be replaced by a set of metrics designed for entrepreneurship projects.

- ARC's "regional initiative" process should be regularized so that state program managers can more effectively plan for and promote the use of the resources; ARC should apply its proven experience to developing and delivering effective, regionwide education programs that help make the case for entrepreneurship as a core economic development strategy; and ARC should invest long-term in a "next generation entrepreneurship innovation initiative" using lessons learned from the original EI and building on its momentum.

Tourism and Asset-Based Development

In FY 2007, Regional Technology Strategies (RTS) undertook a program evaluation of ARC's tourism, cultural heritage, and asset-based development projects. The evaluation will verify project outcomes and assess the utility and validity of specific performance measurements for monitoring and evaluating these types of projects; and will identify future policy options, reporting concerns, and lessons learned. RTS has completed examinations of approximately 100 tourism, cultural heritage, and asset-based development projects through surveys, interviews with ARC staff and stakeholders in the 13 Appalachian states, and visits to selected sites. A draft report of the evaluation will be completed in 2009.

Capacity Building

In FY 2004, the Appalachian Regional Commission issued the report *Evaluation of the Appalachian Regional Commission's Community Capacity–Building Projects*, prepared by the Westat Corporation. The purpose of the evaluation was to assess factors associated with successful capacity–building projects and to recommend a range of performance measures that could be used to document the impact of successful initiatives. One hundred projects were examined in the study, all of which were funded by ARC between 1995 and 2003. Total ARC funding for the projects was roughly $7 million. The report's evaluation includes both quantitative and qualitative findings on outcomes, based on multiple sources (i.e., documentary evidence, interviews, and case studies) and incorporated lessons learned about community capacity building, including studies conducted by various foundations, private nonprofits, academic researchers, and federal agencies. Findings of the study are summarized below.

Findings: Most (70 percent) of the 179 outcomes proposed by interviewed projects were successfully achieved. Of the remaining outcomes, 9 percent had not been achieved, 10 percent were still open, and 11 percent lacked information on attainment.

Recommendations: ARC application materials for community capacity–building projects should provide information and examples to help applicants execute and document their approach and outcomes more accurately; ARC should work more closely with applicants during this process. In addition, ARC should provide grantees with written materials on data collection and analysis practices.

GENERAL GOAL 2: STRENGTHEN THE CAPACITY OF THE PEOPLE OF APPALACHIA TO COMPETE IN THE GLOBAL ECONOMY.

ARC will continue to support local efforts to make all of the Region's citizens productive participants in the global economy. The Commission's focus will be to address a range of educational issues, such as workforce skills, early childhood education, dropout prevention, and improved college attendance; and health issues, such as the recruitment and retention of health-care professionals in areas with documented shortages and the promotion of better health through wellness and prevention measures. In addition, ARC will develop partnerships with other organizations to address the high incidence of life-threatening diseases in the Region.

Strategic Objective 2.1: Foster Civic Entrepreneurship. This objective supports selected strategies that include collaboration between businesses and training institutions, youth civic education and participation, and community dialogue on local health issues.

Strategic Objective 2.2: Enhance Workforce Skills through Training. This objective supports selected strategies including new and innovative workforce training and vocational education, and modernization and expansion of existing programs.

Strategic Objective 2.3: Increase Access to Quality Child Care and Early Childhood Education. This objective supports selected strategies including access to, and expansion of, early childhood education programs, and access to quality child care.

Strategic Objective 2.4: Increase Educational Attainment and Achievement. This objective supports selected strategies including preparation for post-secondary-level training, expansion of the Appalachian Higher Education Network, and programs for dropout prevention and increasing the college-going rate.

Strategic Objective 2.5: Provide Access to Health-Care Professionals. This objective supports selected strategies including access to health-care programs, the J-1 Visa Waiver Program, health-care professional training programs, and primary-care systems.

Strategic Objective 2.6: Promote Health through Wellness and Prevention. This objective supports selected strategies including promotion of nutrition, physical activity, and early screening; and programs that promote healthy lifestyles, and help eliminate drug and/or alcohol abuse.

Performance Goals and Results

General Goal 2 is aligned with the annual performance goals listed under the program category "competitiveness." (See page 45.)

Outcome Goal

The outcome goal for the "competitiveness" program category is the number of citizens in the Region that have been positioned for enhanced employability through education or job-related skills. The outcome measure for this goal is students/trainees with improvements. Because General Goal 2 is most closely aligned with the annual performance goals listed under the "competitiveness" program category, results for "competitiveness" projects from General Goals 1, 2, and 3 are reported under this goal. "Competitiveness" is an outcome measure under all three goals. This outcome measure combines the measures "students with improvements" and "workers/trainees with improvements," and is referred to as "students/trainees with improvements."

Annual outcome goal for FY 2008: Position 20,000 Appalachians for enhanced employability.

Results for FY 2008: Exceeded goal.

Outcome Goal: Position 20,000 Appalachians for Enhanced Employability	
ANNUAL OUTCOME GOAL	INTERMEDIATE ESTIMATES
FY 2005: 20,000 Students/Trainees with Improvements	FY 2005: 27,652 Students/Trainees with Improvements
FY 2006: 20,000 Students/Trainees with Improvements	FY 2006: 17,578 Students/Trainees with Improvements
FY 2007: 20,000 Students/Trainees with Improvements	FY 2007: 20,876 Students/Trainees with Improvements
FY 2008: 20,000 Students/Trainees with Improvements	**FY 2008: 20,432 Students/Trainees with Improvements**

Matching Goal

The matching performance goal for General Goal 2 projects is the ratio of non-ARC project matching funds to ARC investment.

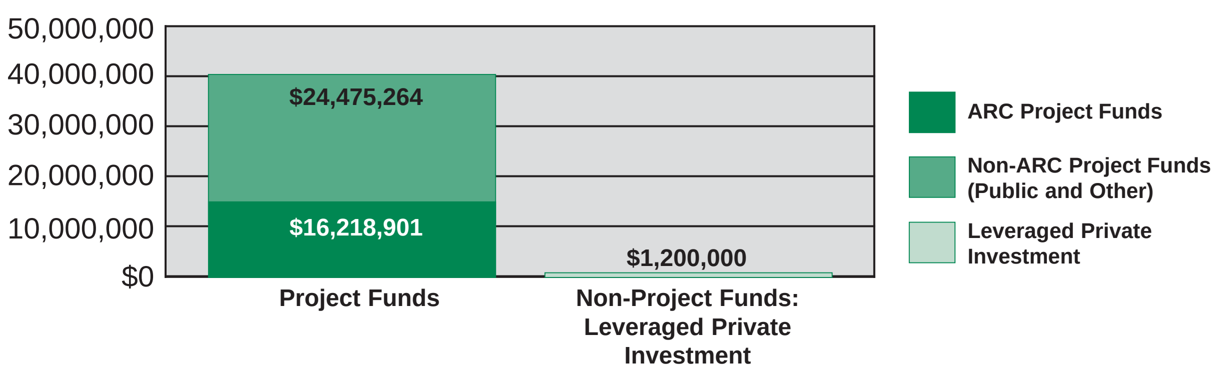
Annual matching goal for FY 2008: Achieve a 1:1 ratio of non-ARC matching funds to ARC investment.

Results for FY 2008: Exceeded goal.

Matching Goal: Achieve a 1:1 Ratio of Non-ARC Matching Project Funds to ARC Investment	
ANNUAL MATCHING GOAL	**INTERMEDIATE ESTIMATES**
FY 2005: Achieve a 1:1 ratio of non-ARC matching project funds to ARC investment.	**FY 2005:** Achieved a 2:1 ratio.
FY 2006: Achieve a 1:1 ratio of non-ARC matching project funds to ARC investment.	**FY 2006:** Achieved a 2:1 ratio.
FY 2007: Achieve a 1:1 ratio of non-ARC matching project funds to ARC investment.	**FY 2007:** Achieved a 2:1 ratio.
FY 2008: Achieve a 1:1 ratio of non-ARC matching project funds to ARC investment.	**FY 2008:** Achieved a 2:1 ratio.

In FY 2008, ARC General Goal 2 grant funds of $16,218,901 attracted $24,475,264 in matching project funds from public and other sources and $1,200,000 in non-project leveraged private investment.

Funding and Leveraged Private Investment for General Goal 2 Projects in Fiscal Year 2008



Targeting Goal

The targeting performance goal for General Goal 2 projects is the percentage of funds targeted to distressed counties or areas.

Annual targeting goal for FY 2008: Direct 50 percent of all ARC grant funds to projects that benefit distressed counties or areas.

Results for FY 2008: In FY 2008, 60 percent of all ARC nonhighway project funds were directed to projects that benefit distressed counties or areas. ARC tracks the percentage of funds targeted to distressed counties separately in General Goals 1, 2, and 3 for management purposes only.

Targeting Goal: Direct 50 Percent of General Goal 2 Grant Funds to Distressed Counties or Areas	
ANNUAL TARGETING GOAL	INTERMEDIATE ESTIMATES*
FY 2005: Direct 50% of grant funds to projects that benefit distressed counties or areas.	**FY 2005:** Directed 60% of General Goal 2 funds.
FY 2006: Direct 50% of grant funds to projects that benefit distressed counties or areas.	**FY 2006:** Directed 71% of General Goal 2 funds.
FY 2007: Direct 50% of grant funds to projects that benefit distressed counties or areas.	**FY 2007:** Directed 75% of General Goal 2 funds.
FY 2008: Direct 50% of grant funds to projects that benefit distressed counties or areas.	**FY 2008:** Directed 66% of General Goal 2 funds.

** Includes projects that primarily benefit distressed counties or areas, and projects where most beneficiaries of the project are in distressed counties or areas.*

Project Validation Sampling

In FY 2008, members of ARC's field validation team surveyed twenty-five FY 2005 and FY 2006 projects funded under General Goal 2 to compare estimated and actual results.

Number of Projects Surveyed	Projected Number of Students/Trainees with Improvements	Actual Number of Students/Trainees with Improvements	Results Achieved
25	8,315	19,046	229%

As shown above, the projects achieved 229 percent of projected results for students/trainees with improvements.

Project Evaluation: Final Results

Vocational Education and Workforce Training

In FY 2002, the Appalachian Regional Commission issued the report *Evaluation of the Appalachian Regional Commission's Vocational Education and Workforce Training Projects*, prepared by the Westat Corporation. The study examined 92 projects started and completed during the 1995–2000 period. This sample constituted about one-third of the project universe during the period, after adjusting for continuation projects. A mail survey collected data on project implementation, monitoring, and impact. In addition, five case study site visits were conducted. A two-tier sample of projects was developed to assess the impact before and after full implementation of ARC's performance measurement system in FY 2000. Tier 1 selected 67 projects from the 1995–1999 period; Tier 2 selected 25 projects funded in 2000.

Types of Performance Measured

- Skills obtained; e.g., projects helped participants improve basic skills, academic skills, vocational skills, or employability habits.
- Individual employment gains; e.g., projects helped laid-off workers or underemployed workers obtain new work; helped those without full-time job experience gain initial full-time jobs; helped employed individuals increase skills, responsibilities, wages, and position.

Project Outcomes

- Forty-five percent of the Tier 1 (1995–1999) projects achieved all of their objectives; 27 percent achieved all but one objective.
- Only 9 percent (six projects) achieved fewer than half of their objectives.
- The vast majority of projects had quantifiable outcome measurements, but a higher proportion of the Tier 2 (2000) projects had clear and quantifiable outcomes.

Education

A March 2006 evaluation of the ARC–Oak Ridge National Laboratory Math-Science-Technology Summer Institute by the Academy for Educational Development assessed the effectiveness of the program in encouraging more Appalachian high school students to continue their studies beyond high school and to pursue careers in science, technology, engineering, and math. It also assessed how the program helped participating high school teachers raise the level of math, science, and technology instruction in their schools. The findings are based on data collected from eight groups of participants attending the summer institute between 1997 and 2004.

The study found that participation in the summer institute influenced 24 percent of students to take more science classes and 22 percent to take more math classes when they returned to high school. Slightly more than half the students reported that their summer institute experience reinforced prior decisions about the science and math courses they had already chosen to take. Students also reported that the summer institute had reinforced their intention to go to college and reduced some of the barriers. Ninety-six percent of the student participants who had graduated from high school at the time of the survey had continued their formal education beyond high school, with more than half receiving degrees in science, technology, engineering, or math fields. Of the 23 students who attended the institute in 1997 and 1998, all reported attending college: 26 percent had attended college but had not earned a bachelor's degree, 39 percent had earned a bachelor's degree, and 35 percent had earned a bachelor's degree and begun graduate work.

Participating teachers reported that they had incorporated activities and approaches learned at the summer institute into their classrooms: 77 percent reported that they drew on the experience for explanations and examples; 52 percent reported that they drew on the experience for classroom demonstrations; and 50 percent reported that they had incorporated new knowledge into their lab experiments.

In fiscal year 2001, ARC issued the report *Evaluation of the Appalachian Regional Commission's Educational Projects*, by the Westat Corporation, which assessed the implementation and impact of 84 education projects funded by ARC during the 1990s. The study examined the type of activities projects used to enhance learning opportunities, the extent to which these activities were implemented, the accomplishments associated with these activities, and whether or not the projects were able to sustain themselves beyond the ARC grant period. Of particular interest was the extent to which projects achieved the outcomes set forth in their original proposals to ARC. In addition, site visits were conducted at eight projects that had successfully provided community residents with a new or enhanced educational service.

Types of Performance Measured

- Increased educational attainment; e.g., increased high school completion rates, increased college-going rates.
- Increased economic well-being; e.g., improved job skills, increased wages.
- Increased family/individual well-being; e.g., improved family stability.
- Reduced barriers; e.g., decreased student behavior problems, increased access to educational support.

Project Outcomes

Study findings indicate that most of the projects in the study reached those segments of Appalachia that are most economically disadvantaged or geographically isolated. Most projects were successful in achieving or exceeding the outcomes they set forth in their original requests for ARC support (just under half met expectations and nearly one-third achieved more than planned). Thirteen percent achieved less than planned.

College-Going Rates

In FY 2007, the University of Kentucky completed a report on college-going and perseverance rates in Appalachia that analyzed school-level data on college-going rates and college-going plans for schools participating in the Appalachian Higher Education (AHE) Network, and for non-participating schools in peer counties in the same Appalachian states. In addition, it examined national evaluations of similar programs in order to benchmark regional outcomes. The findings show that AHE Network results mirror national trends. It should be noted that privacy concerns prevented the contractors from being able to conduct student-level analysis.

ARC launched the AHE Network in 1999 to raise the levels of educational attainment in Appalachia. The network provides funding, training, and assistance to participating high schools for programs to encourage students to obtain a post-secondary education. From 2000 to 2007, more than 36,500 high school seniors were served by AHE Network centers. In FY 2008, centers operated in Georgia, Kentucky, Mississippi, North Carolina, Ohio, Tennessee, Virginia, and West Virginia.

GENERAL GOAL 3: DEVELOP AND IMPROVE APPALACHIA'S INFRASTRUCTURE TO MAKE THE REGION ECONOMICALLY COMPETITIVE.

ARC will address the lack of adequate water and sewer systems and telecommunications systems and services in the Region, and will build partnerships to address the critical issue of intermodal connections to improve access to global markets.

Strategic Objective 3.1: Foster Civic Entrepreneurship. This objective supports selected strategies including building capacity to address infrastructure challenges, partnerships and regional efforts, local community infrastructure projects, and strategic planning for capitalizing on ADHS economic development opportunities.

Strategic Objective 3.2: Build and Enhance Basic Infrastructure. This objective supports selected strategies including strategic investments to leverage other funding for water and wastewater systems and expansion of safe, affordable housing stock.

Strategic Objective 3.3: Increase the Accessibility and Use of Telecommunications Technology. This objective supports selected strategies including strategic telecommunications infrastructure, information technology training, e-commerce, telemedicine, and combining telecommunications development with other public infrastructure development.

Strategic Objective 3.4: Build and Enhance Environmental Assets. This objective supports selected strategies including brownfield redevelopment in industrial areas and redevelopment of mine-impacted land, eco-industrial development, and planning and development policies promoting good stewardship of natural resources.

Strategic Objective 3.5: Promote the Development of an Intermodal Transportation Network. This objective supports selected strategies including intermodal economic development studies, inland port location analysis, regional forums, and organizational development to support intermodal connectivity.

Performance Goals and Results

General Goal 3 is aligned with the annual performance goals listed under the program category "infrastructure." (See page 45.) All projects with these annual performance goals are in General Goal 3.

Outcome Goal

The strategic plan describes the performance measure for the "infrastructure" program category as the number of citizens served. The major outcome measure used in this category is the number of households served with new or improved water or sewer infrastructure. The outcome measure for General Goal 3 projects is referred to as "households served."

Annual outcome goal for FY 2008: Provide 20,000 households with basic infrastructure services.

Results for FY 2008: Exceeded goal. In addition to the numbers recorded below, ARC in FY 2008 funded water storage tank construction and improvement projects that will serve a total of 10,587 households.

Outcome Goal: Provide 20,000 Households with Basic Infrastructure Services	
ANNUAL OUTCOME GOAL	INTERMEDIATE ESTIMATES*
FY 2005: 20,000 Households Served	FY 2005: 21,255 Households Served
FY 2006: 20,000 Households Served	FY 2006: 30,148 Households Served
FY 2007: 20,000 Households Served	FY 2007: 23,107 Households Served
FY 2008: 20,000 Households Served	**FY 2008: 21,538 Households Served**

**Intermediate estimates do not include households served by ARC-funded water storage tank construction and improvement projects.*

Matching Goal

The matching performance goal for General Goal 3 projects is the ratio of non-ARC project matching funds to ARC investment.

Annual matching goal for FY 2008: Achieve a 2:1 ratio of non-ARC matching funds to ARC investment.

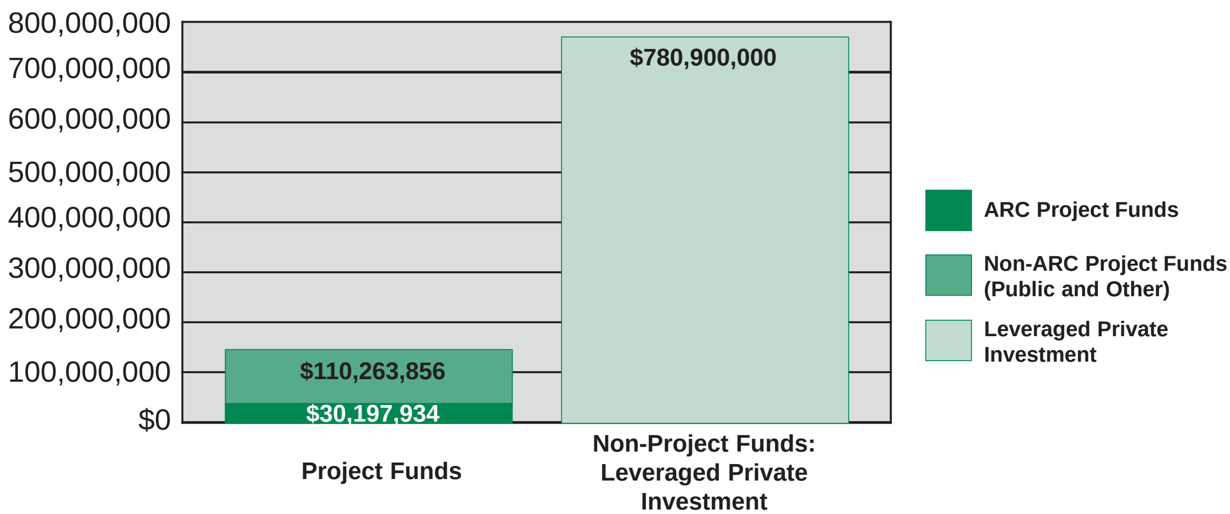
Results for FY 2008: Exceeded goal.

Matching Goal: Achieve a 2:1 Ratio of Non-ARC Matching Project Funds to ARC Investment	
ANNUAL MATCHING GOAL	**INTERMEDIATE ESTIMATES**
FY 2005: Achieve a 2:1 ratio of non-ARC matching project funds to ARC investment.	**FY 2005:** Achieved a 4:1 ratio.
FY 2006: Achieve a 2:1 ratio of non-ARC matching project funds to ARC investment.	**FY 2006:** Achieved a 5:1 ratio.
FY 2007: Achieve a 2:1 ratio of non-ARC matching project funds to ARC investment.	**FY 2007:** Achieved a 5:1 ratio.*
FY 2008: Achieve a 2:1 ratio of non-ARC matching project funds to ARC investment.	**FY 2008:** Achieved a 4:1 ratio.

** Three large-scale projects that had limited ARC participation were not included in the calculations for this ratio.*

ARC FY 2008 General Goal 3 grant funds of $30,197,934 attracted $110,263,856 in matching project funds from public and other sources, and $780,900,000 in non-project leveraged private investment.

Funding and Leveraged Private Investment for General Goal 3 Projects in Fiscal Year 2008



Targeting Goal

The targeting performance goal for General Goal 3 projects is the percentage of funds targeted to distressed counties or areas.

Annual targeting goal for FY 2008: Direct 50 percent of all ARC grant funds to projects that benefit distressed counties or areas.

Results for FY 2008: In FY 2008, 60 percent of all ARC nonhighway project funds were directed to projects that benefit distressed counties or areas. ARC tracks the percentage of funds targeted to distressed counties separately in General Goals 1, 2, and 3 for management purposes only.

Targeting Goal: Direct 50 Percent of General Goal 3 Grant Funds to Distressed Counties or Areas	
ANNUAL TARGETING GOAL	INTERMEDIATE ESTIMATES*
FY 2005: Direct 50% of grant funds to projects that benefit distressed counties or areas.	**FY 2005:** Directed 63% of General Goal 3 funds.
FY 2006: Direct 50% of grant funds to projects that benefit distressed counties or areas.	**FY 2006:** Directed 70% of General Goal 3 funds.
FY 2007: Direct 50% of grant funds to projects that benefit distressed counties or areas.	**FY 2007:** Directed 65% of General Goal 3 funds.
FY 2008: Direct 50% of grant funds to projects that benefit distressed counties or areas.	**FY 2008:** Directed 64% of General Goal 3 funds.

** Includes projects that primarily benefit distressed counties or areas, and projects where most beneficiaries of the project are in distressed counties or areas.*

Project Validation Sampling

In FY 2008, members of ARC's field validation team surveyed eight FY 2005 and FY 2006 projects funded under General Goal 3 to compare estimated and actual results.

Number of Projects Surveyed	Projected Number of Households Served	Actual Number of Households Served	Results Achieved
8	16,066	15,923	99%

The projects surveyed achieved 99 percent of projected results for households served. The performance goal was set at an approximate target level, and the deviation from that level was slight. There was no effect on overall performance.

Project Evaluation: Final Results

Infrastructure and Public Works

In FY 2007, the Brandow Company and Economic Development Research Group completed the ARC report *Evaluation of the Appalachian Regional Commission's Infrastructure and Public Works Program Projects, 2006*. The evaluation examined a sample of 104 completed ARC infrastructure projects that had been funded between 1998 and 2004, including industrial parks and other industrial sites, access roads, business incubators, water and sewer systems, housing, and telecommunications. The sample projects represent 25 percent of the completed infrastructure projects that had been funded during this period. Of the 104 projects sampled, 78 were non-residential economic development projects; 22 were community development projects, including residential water and sewer projects; and four were housing projects. The number of infrastructure projects funded during this period accounted for about 49 percent of ARC area development projects.

Findings of the evaluation included the following:

- *Jobs.* The sampled projects, which received $29.4 million in ARC funding, directly produced 17,795 new jobs and retained 9,580. In addition, an estimated 25,341 new jobs were created by the indirect effects of the project. ARC funds created an average of one new direct job for every $1,652 of ARC investment. On average, industrial parks created 1,086 jobs per project; commercial water and sewer improvements created 304 jobs per project; business incubators created 271 jobs per project; telecommunications created 230 jobs per project; and access roads created 212 new jobs per project.

- *Personal Income.* The new jobs created or retained by these projects led to an increase of $638 million annually in new wages for the jobs created directly by the projects, $325 million annually in wages for retained jobs, and another $692 million in wages from indirect jobs.

- *Tax Revenue.* The new projects yield $13.3 million per year in state income tax revenue, $16.5 million per year in state and local sales tax revenue, and $14.2 million per year in local property tax revenue. The total of annual state income tax and local property tax revenue almost equals the amount of the ARC investment.

- *Private Investment.* The new projects have leveraged total private-sector investment of $1.7 billion: $947 million in direct private non-project investment and $753 million in induced non-project private investment.

Water and Sewer Infrastructure Gaps Study

In August 2005, ARC issued the report *Drinking Water and Wastewater Infrastructure in Appalachia: An Analysis of Capital Funding and Funding Gaps* by the University of North Carolina Environmental Finance Center. This report analyzes the conditions of water and wastewater services in the Appalachian Region and attempts to assess the financial requirements and strategies available to improve the quality of drinking water and wastewater services in the Region, particularly in the areas that face chronic economic distress and clear deficiencies in these services. The analyses are based on major data sources compiled by the Environmental Protection Agency (EPA), the U.S. Geological Survey, and the U.S. Census Bureau, as well as private credit-rating agencies. In addition, detailed case studies are developed to examine specific community-level services, issues, and practices.

The analysis shows that, on average, community water systems in distressed counties have greater needs per person served ($497) than systems in non-distressed counties ($191–$353). Based on an analysis of EPA needs-survey data, communities in Appalachia report approximately $26 billion in water and wastewater infrastructure needs. However, there is ample evidence that communities will actually have to pay far more than this to ensure services that meet basic public health and environmental standards since the estimate does not include the additional funds needed to address operation and maintenance costs or the thousands of sub-standard and failing individual wells and on-site sanitation systems (septic systems to straight pipes). Including these other factors could raise the total capital needs to the range of $35 billion to $40 billion.

The study also demonstrates that needs identified by the EPA's *Clean Watersheds Needs Survey* were significantly and positively related to the distribution of water and wastewater infrastructure funding in Appalachia. The relationship between funding distributions and National Pollutant Discharge Elimination System compliance violations was significant and positive. Likewise, the relationships between funding distributions and waterborne diseases were significant and positive. The relationship between septic system density and funding, although significant, was negative; on average, counties with higher densities of septic systems received less public funding than counties with lower densities of septic systems. This latter finding is likely attributable to a fundamental characteristic of infrastructure funding: it tends to flow to communities with existing large public systems.

GENERAL GOAL 4: BUILD THE APPALACHIAN DEVELOPMENT HIGHWAY SYSTEM TO REDUCE APPALACHIA'S ISOLATION.

Some of the Region's most persistent economic problems stem from geographic isolation brought about by mountainous terrain. The Appalachian Development Highway System (ADHS) was designed to connect Appalachia to the national interstate system and provide access to areas within the Region as well as to markets in the rest of the nation. The strong partnership of ARC, the U.S. Department of Transportation (U.S. DOT), and state departments of transportation will continue to oversee the planning and construction of the Appalachian Development Highway System. ARC will work to identify and overcome barriers to the timely completion of the ADHS.

Strategic Objective 4.1: Foster Civic Entrepreneurship. This objective supports selected strategies including local and multi-jurisdictional forums to reduce barriers to completion of the ADHS and collaboration among state departments of transportation, the U.S. DOT, and other state and federal agencies involved in economic development.

Strategic Objective 4.2: Promote On-Schedule Completion of the ADHS. This objective supports selected strategies including working with federal and state DOTs to identify and overcome barriers in the location-study and design phases, supporting efforts to obligate the maximum amount of the annual appropriation for ADHS construction, accelerating construction of final phases, and promoting development that preserves cultural and natural resources of the Region while enhancing economic opportunity.

Strategic Objective 4.3: Coordinate Work on ADHS State-Line Crossings. This objective supports selected strategies including coordination of technical information, funding disbursements, and construction scheduling between adjoining states to complete state-line crossings of ADHS corridors.

Performance Goal and Results

General Goal 4 is aligned with the annual performance goal listed under the program category "highways." (See page 45.)

Outcome Goal

The strategic plan describes the outcome measure in the program category "highways" as the net increase in the number of miles of the ADHS open to traffic. The outcome measure for General Goal 4 projects is referred to as "net increase in the number of miles of the ADHS open to traffic."

Annual outcome goal for FY 2008: Open 25 additional miles (net increase) of the ADHS to traffic.

Result for FY 2008: Exceeded goal. At the end of FY 2008, a total of 2,574.9 miles, or 83.3 percent, of the 3,090 miles authorized for the ADHS were open to traffic, and 97.5 more were under construction. Another 138.7 miles were in the final design or right-of-way acquisition phase, and 279.0 miles were in the location study phase.

Outcome Goal: Open 25 Additional Miles (Net Increase) of the ADHS to Traffic	
ANNUAL OUTCOME GOAL	**INTERMEDIATE ESTIMATES**
FY 2005: Open 25 additional miles (net increase) of the ADHS to traffic.	**FY 2005:** Opened 19.3 additional miles (net increase) of the ADHS to traffic.
FY 2006: Open 25 additional miles (net increase) of the ADHS to traffic.	**FY 2006:** Opened 30.8 additional miles (net increase) of the ADHS to traffic.
FY 2007: Open 25 additional miles (net increase) of the ADHS to traffic.	**FY 2007:** Opened 11.1 additional miles (net increase) of the ADHS to traffic.
FY 2008: Open 25 additional miles (net increase) of the ADHS to traffic.	**FY 2008:** Opened 35.5 additional miles (net increase) of the ADHS to traffic.

Project Validation Sampling

The ADHS program is not funded through ARC's appropriation. Therefore, ARC validation visits are not performed on the ADHS. Instead, ARC staff prepare a status report each year on the development of the ADHS based on information from the Federal Highway Administration and state departments of transportation.

Project Evaluation: Final Results

ADHS Economic Impact

In October 2006, Economic Development Research Group completed the study *The Impact of Highway Investments on Economic Growth in the Appalachian Region, 1969–2000: An Update and Extension of the Twin County Study*. The report updated the 1995 "twin county" study by Andrew Isserman and Terance Rephann, which found statistically significant differences in economic growth rates between Appalachian counties and their non-Appalachian counterparts during the years 1965 to 1991, and also found that counties served by the Appalachian Development Highway System had higher rates of income, population, and per-capita income growth than similar non-Appalachian counties. The new study extended the analysis to the year 2000 and assessed whether the amount, characteristics, and timing of ADHS investments can explain some of the differences in economic outcomes. The study, which used survey-based data, showed that there is a robust statistical link between ADHS investments and differential income and earnings growth between Appalachian counties and similar non-Appalachian counties.

A key finding of the study was that Appalachian counties with open ADHS segments had higher income growth than their twin counties, with the ADHS counties posting 200 percent more income growth over the 1969–2000 period. In comparison, income growth for all Appalachian counties during the period was 131 percent higher than income growth in the non-Appalachian twin counties.

The overall performance during this period of the Appalachian counties studied, however, should not mask the struggles that some areas of the Region have experienced: performance of the northern Appalachian counties lagged behind the non-Appalachian twins', and, across the Region, the performance of smaller metropolitan areas fell far behind their non-Appalachian counterparts'.

In 1998, ARC published a research report undertaken by Wilbur Smith Associates to conduct a comprehensive study of the economic benefits of the ADHS. *Appalachian Development Highways Economic Impact Studies* focused on the contributions of completed portions of 12 corridors within the highway system. The portions studied totaled 1,417.8 miles and traversed 165 counties. The objective of the study was to quantify regionally specific economic development impacts (as measured by jobs, wages, and value added) as well as impacts on travel efficiencies. The study found that the completed sections of the 12 corridors had created jobs (an estimated net increase of 16,000 jobs by 1995) and showed a solid return on investment ($1.18 in travel-efficiency benefits and $1.32 in economic benefits gained for each dollar invested in construction and maintenance). The study concluded that the ADHS can take credit for highway-related growth in Appalachia and demonstrated that the completed portions of the ADHS have been a good investment.

In FY 2008, Cambridge Systematics completed a report on the economic impact of completing the Appalachian Development Highway System. The work included building a regional travel demand model to estimate travel demands, as well as user benefits, that would be realized by the completion of ADHS corridors and the resulting network improvements in moving goods and people to, from, within, and across the Region. Analysts estimated user benefits for freight, commuting, tourism, and other business and non-business traffic; then, using these data, estimated the regional economic development benefits from the enhanced competitive position of industry in the Region, increased roadside business and tourism, increased transportation reliability, and increased commuting areas, as well as national benefits due to congestion relief. The study also developed several types of benefit-cost assessments, including an overall assessment of regional travel efficiency and economic development benefits, as well as national efficiency benefits.

SUMMARY OF ACHIEVEMENTS

Performance Goals and Results for Fiscal Year 2008 Projects

ANNUAL PERFORMANCE GOALS	FISCAL YEAR 2008 INTERMEDIATE ESTIMATES	RESULTS ACHIEVED
Jobs and Income		
Outcome Goal: 20,000 jobs created or retained	35,292 jobs created or retained	Exceeded goal
Leveraging Goal: Achieve a 4:1 ratio of leveraged private investment to ARC investment for projects in General Goal 1	Achieved a 7:1 ratio	Exceeded goal
Targeting Goal: Direct 50% of grant funds to benefit distressed counties or areas for projects in General Goal 1	Directed 49% of funds*	Met 98% of goal
Competitiveness		
Outcome Goal: 20,000 students/ trainees with improvements	20,432 students/trainees with improvements	Exceeded goal
Matching Goal: Achieve a 1:1 ratio of non-ARC to ARC investment for projects in General Goal 2	Achieved a 2:1 ratio	Exceeded goal
Targeting Goal: Direct 50% of grant funds to benefit distressed counties or areas for projects in General Goal 2	Directed 66% of funds*	Exceeded goal
Infrastructure		
Outcome Goal: 20,000 households served	21,538 households served	Exceeded goal
Matching Goal: Achieve a 2:1 ratio of non-ARC to ARC investment for projects in General Goal 3	Achieved a 4:1 ratio	Exceeded goal
Targeting Goal: Direct 50% of grant funds to benefit distressed counties or areas for projects in General Goal 3	Directed 64% of funds*	Exceeded goal
Highways		
Outcome Goal: 25 additional miles (net increase) of the ADHS opened to traffic	Opened 35.5 additional miles (net increase) of the ADHS to traffic	Exceeded goal

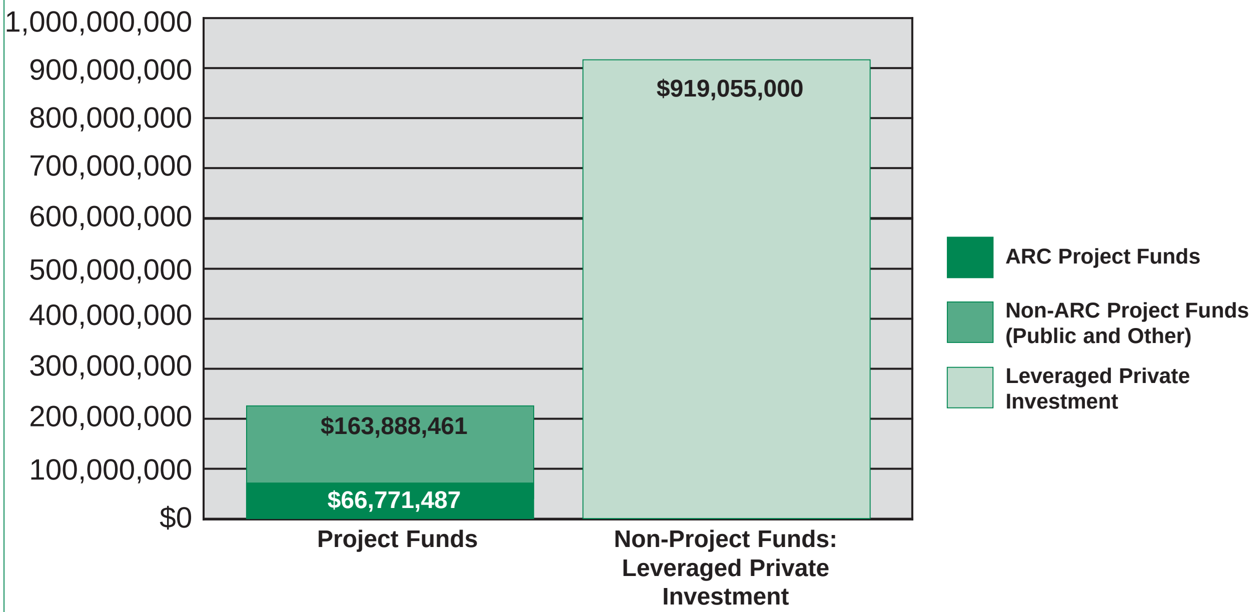
** ARC exceeded its overall goal of investing 50% of total ARC nonhighway funds in projects that benefit distressed counties or areas. Project funds are included if the project* primarily or substantially *benefits distressed counties or areas.*

Investment Summary for FY 2008 Projects

LEVERAGING, MATCHING, AND TARGETING SUMMARY for All ARC Nonhighway Projects Fiscal Year 2008		
Leveraged private investment	$919,055,000	14:1 ratio of leveraged private investment to ARC investment
Non-ARC matching project funds	$163,888,461	2:1 ratio of non-ARC project investment to ARC project investment
ARC project funds targeted to distressed counties or areas	$39,971,359*	60% of total ARC project funds directed to projects that benefit distressed counties or areas*

**Project funds are included if the project* primarily *or* substantially *benefits distressed counties or areas.*

Funding and Leveraged Private Investment for ARC Projects in Fiscal Year 2008



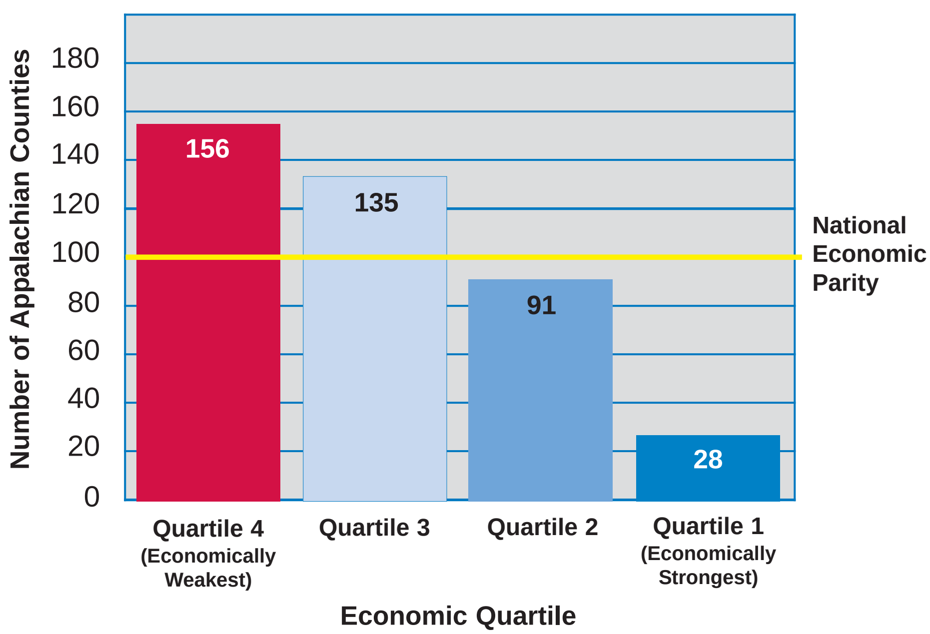
MEASURING PROGRESS TOWARD THE ARC VISION

ARC's overall vision for Appalachia is for the Region to achieve socioeconomic parity with the nation. One way to measure progress of the Region toward this vision is to look at the economic status of Appalachian counties in comparison with all counties nationwide.

In order to provide a single unified measure of regional progress and economic change, ARC developed an index to track improvement over time. Drawing on the three variables ARC uses annually to determine the economic status of the Region's 410 counties, staff developed a national composite index of distress. The three variables (three-year annual unemployment, per-capita market income, and decennial poverty rates) are applied to each county in the nation and compared with national averages. The resulting values are summed, averaged, and ranked to create four quartiles with approximately equal number of counties in each group.

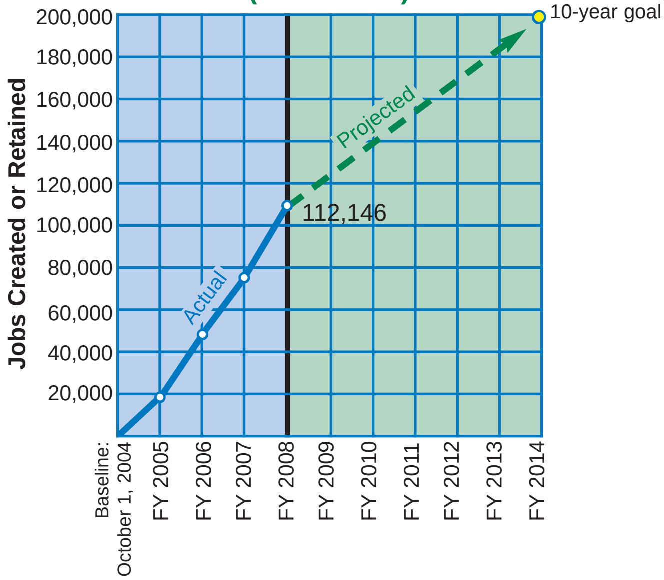
Using this index, ARC can compute annually the number of Appalachian counties in each quartile, as well as an overall regional index value. This can be directly compared with the national index value to measure progress. In addition, progress can be clearly measured by reductions in the number of Appalachian counties in the worst quartile. As the figure below shows, despite a large reduction in the number of distressed counties in Appalachia over the past several years, the Region continues to have a disproportionately high number of counties with underperforming economies and a smaller share of counties with strong economies, compared with the rest of the nation.

Number of Appalachian Counties by Economic Quartile, Fiscal Year 2008



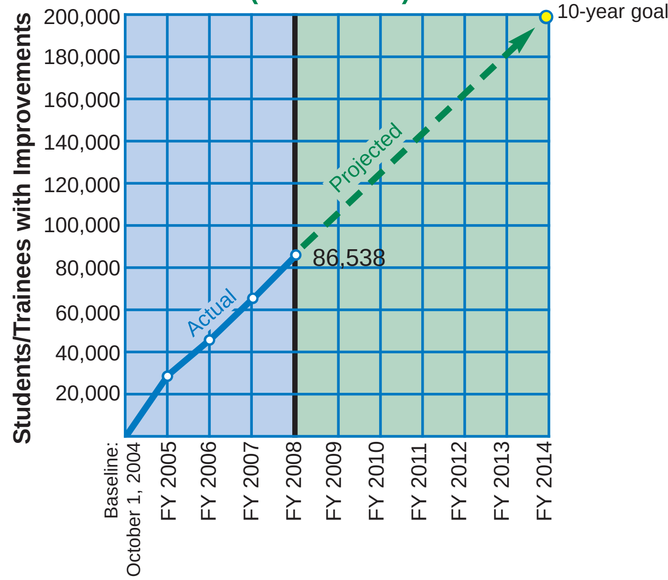
Progress toward ARC Strategic Plan Ten-Year Performance Goals
Fiscal Years 2005–2014

Goal 1: Jobs Created or Retained (Cumulative)



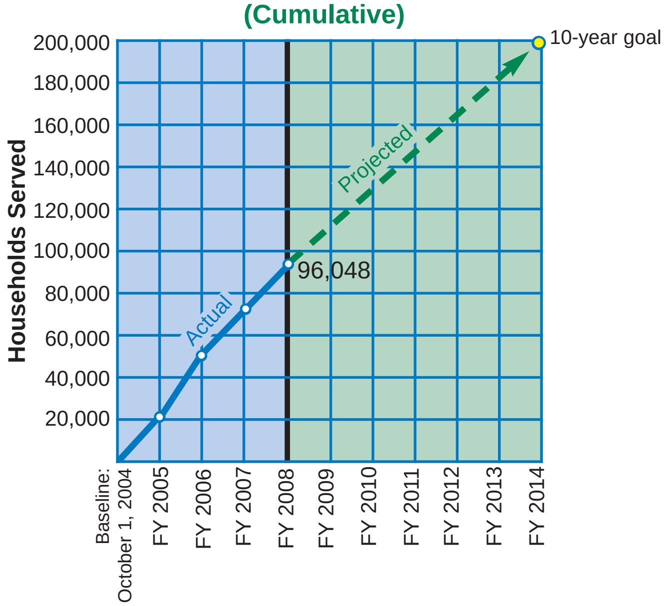
Ten-Year Performance Goal:
200,000 jobs will be created or retained.

Goal 2: Students/Trainees with Improvements (Cumulative)



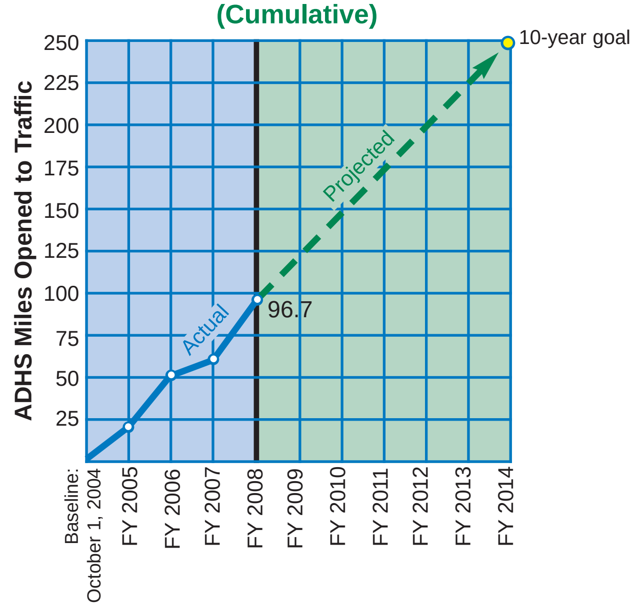
Ten-Year Performance Goal:
200,000 citizens will benefit from enhanced education and job-related skills.

Goal 3: Households Served (Cumulative)



Ten-Year Performance Goal:
200,000 households will be served with new or improved water and sewer infrastructure.

Goal 4: ADHS Miles Opened to Traffic (Cumulative)



Ten-Year Performance Goal:
250 additional miles (net increase) of the Appalachian Development Highway System will be opened to traffic.

PART III:
FISCAL YEAR 2008 FINANCIAL REPORT

Message from the Executive Director

The executive director of the Appalachian Regional Commission is appointed by the federal co-chair and by the governors of the 13 member states to be the chief executive officer of the organization, a responsibility that includes financial management. ARC recognizes its responsibility to demonstrate to the American public that it exercises proper stewardship of the public resources entrusted to it. The financial statement in this Performance and Accountability Report fairly presents the financial position of ARC.

This was the second year that ARC's financial statements included financial activity related to funds allocated by ARC to other agencies, as required by an Office of Management and Budget directive regarding parent agency/child agency reporting. This directive, which took effect in FY 2007, necessitated a change in the financial reporting format ARC had used in prior years. The Commission's independent auditor, WithumSmith+Brown, issued a qualified opinion on ARC's FY 2008 financial statements due to the inability of the U.S. Department of Transportation (DOT), an ARC child agency, to properly support all of the recorded general ledger balances. DOT was unable to provide a detailed schedule of grant balances supporting the total recorded in the general ledger. In addition, DOT records showed a $1.2 million liability, which DOT has acknowledged as an error. The audit found no material weaknesses outside ARC's parent agency/child agency financial relationships.

The Commission maintains clearly written financial management guidelines governing accounts, payments, procurement, administration, and travel policy. The guidelines are provided to all staff and are reviewed at least annually and are amended to reflect changes in policy or revised procedures resulting from tests of internal controls.

Thomas M. Hunter
Executive Director

June 4, 2009

Report of Independent Audit

APPALACHIAN REGIONAL COMMISSION

A Proud Past, A New Vision

Office of Inspector General

June 4, 2009

Memorandum for: The Federal Co-Chair
ARC Executive Director

Subject: OIG Report 09-01
Fiscal Years 2007 and 2008 Financial Statement Audits

The enclosed report presents the results of the audit of the Commission's financial statements for the fiscal years ended September 30, 2007 and 2008. The report should be read in conjunction with the Commission's financial statements and notes to fully understand the context of the information contained therein.

The Appalachian Regional Commission (ARC) contracted with the independent certified public accounting firm of WithumSmith+Brown (WSB) to audit the financial statements of the Commission as of and for the fiscal years ended September 30, 2007 and 2008. The contracts required that the audits be conducted in accordance with U.S. generally accepted government auditing standards and OMB audit guidance. ARC's Office of Inspector General monitored audit activities to help ensure audit quality.

The following results were noted from WSB's audit of ARCs financial statements for the Fiscal Year Ended, September 30, 2008.

- WSB expressed a qualified opinion on ARC's financial statements and noted that except for its inability to satisfy itself as to the amounts reported in the financial statements related to the U.S. Department of Transportation (DOT) grants, the financial statements were properly stated in all material respects, in accordance with U.S. generally accepted accounting principles.

- WSB did not provide an opinion on the effectiveness of ARC's internal controls over financial reporting and did note improvements in meeting Parent-Child (agency funds allocated to other federal agencies for which the grantor agency has financial reporting responsibility) reporting requirements; however, as summarized in the paragraph above, because of problems related to verifying DOT's general ledger balances, the auditor continued to consider Parent-Child reporting a material weakness (discussed below). From errors occurring in Parent-Child reporting for FY 2007, ARC was forced restate its financial statements and are provided in this audit report.

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Alabama Georgia Kentucky Maryland Mississippi New York North Carolina Ohio Pennsylvania South Carolina Tennessee Virginia West Virginia

- WSB identified, in addition to a material weakness, three other matters it considers to be significant deficiencies. Further discussion is provided below.

- WSB did not express an opinion on compliance with laws and regulations but did cite Anti-Deficiency Act (AD) violations occurring during the first quarter of FY 2007 and three other AD violations occurring during FY 2008.

For FY 2007, because of the implementation of OMB Circular A-136, which required Parent-Child reporting, and the related adoption of federal reporting requirements, which was more complex than ARC's previous financial statement presentation requirements, ARC was unable to issue timely financial statements and obtain an audit opinion. For FY 2008, many of the same problems inhibited timely completion of the financial statements and the reporting problem remains classified by the auditor as a material weakness. However, because of ARC's continuing efforts and improved data flow from child agencies, ARC was able to receive an opinion, although with a qualification for DOT grant amounts. The auditor continued to recommend vigilance to ensure timely financial information is received, identified issues resolved, and that ARC procedures enable management to make appropriate representations about child agencies' financial data.

In addition, ARC restated its 2007 financial statements, the balance sheet and the statement of changes in net position, because of errors recording ARC's child agency financial activity. The total cumulative change in the results of operations was approximately $8.9 million with no effect on net position. The effected financial statement line items were: cumulative results of operations, unexpended appropriations, appropriations used, and the change in accounting principles line item. The specific dollar amounts affecting each of these accounts are detailed in the Notes to Financial Statements (Note 11).

Aside from the material weakness in reporting for Parent-Child activities, three other issues, described below, were identified by the auditor as significant deficiencies impacting ARC's ability to present financial data reliably, in accordance with generally accepted accounting principles.

- Meeting federal reporting requirements.

  A required footnote disclosure, the "Reconciliation of Net Cost to Budget," formerly a part of the federal financial statements, could not be prepared for the FY 2007 financial statements, but for fiscal year 2008, the disclosure was completed but remains un-reconciled in the amount of $1.2 million. The problem resulted from ARC not processing budgetary accounting information properly and the financial system not requiring entry of budgetary data which should relate/equate to its proprietary counterpart. WSB recommended ongoing training in federal reporting requirements, the development and implementation of policies and procedures, and the adoption of an alternate financial system which will facilitate proper recording of proprietary and budgetary information.

  Note: Compliance with federal reporting requirements was a material weakness for FY 2007, but because ARC was able to prepare its Required Supplementary Stewardship Information the associated recommendation was closed and the classification changed to a significant deficiency.

- Properly accruing grant obligations.

  ARC has not developed an estimation methodology for accurately recognizing expenses incurred but not yet reported by its grantees as of September 30. The auditor recommended development of a system to obtain the necessary grant information and a methodology to properly record grant accruals.

- Properly managing the security of the financial and grant management systems.

  The auditor noted deficiencies in security management, access control, configuration/change management, segregation of duties, and contingency planning. WSB recommendations were for performance of a detailed risk assessment to be evaluated in terms of likelihood and magnitude of risk related to the deficiencies cited, and for an appropriate corrective action plan and rationale for not addressing identified risks. Continued implementation of corrective action for previously identified weaknesses and the replacement of ARC's unsupported financial accounting system were also recommended.

The FY 2007 recommendation relating to accounting for grant advances was closed and a material weakness in accounting for revenue exists only as a continuing recommendation under a WSB letter to management. The recommendation was for training and resources.

In connection with the contract, we reviewed WithumSmith+Brown's report and related documentation and inquired of its representatives. Our involvement in the audit process consisted of monitoring of audit activities, reviewing auditor independence and qualifications, attending meetings, participating in discussions, and reviewing audit planning and conclusion workpapers and reports. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on the Appalachian Regional Commission's financial statements, conclusions about the effectiveness of internal control, or conclusions about compliance with laws and regulations. WithumSmith+Brown is responsible for the attached auditor's report dated March 23, 2009 and the conclusions expressed in the report. However, our review disclosed no instances where WithumSmith+Brown did not comply, in all material respects, with U.S. generally accepted government auditing standards.

Clifford H. Jennings
Inspector General

Attachment

cc: Director, Finance and Administration Division

WithumSmith+Brown
A Professional Corporation
Certified Public Accountants and Consultants

APPALACHIAN REGIONAL COMMISSION

Financial Statements

September 30, 2008 (Audited) and 2007 (Unaudited)

With Independent Auditors' Report

Appalachian Regional Commission
Table of Contents
September 30, 2008 (Audited) and 2007 (Unaudited)

WithumSmith+Brown
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INDEPENDENT AUDITORS' REPORT

To the Commission Members
Appalachian Regional Commission
Washington, D.C.

In our audit of the Appalachian Regional Commission ("ARC") for the fiscal year ("FY") 2008, we found:

- except for the effects of such adjustments as might have been determined to be necessary had the grant balances of an ARC child agency been available for audit, the FY 2008 ARC financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States;
- ARC made significant progress in addressing FY 2007 issues and accordingly only one material weakness in internal control over financial reporting was identified in FY 2008;
- four significant deficiencies in internal control over financial reporting (including the one material weakness); and
- no instances of non-compliance with laws and regulations except for violations with respect to the Anti-Deficiency Act.

The following sections discuss each of these conclusions in more detail.

Qualified Opinion on FY 2008 Financial Statements

We have audited the accompanying balance sheets of ARC as of September 30, 2008 and 2007, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted auditing standards, *Government Auditing Standards*, and OMB Bulletin 07-04, *Audit Requirements for Federal Financial Statements*. The financial statements are the responsibility of ARC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, 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 that our audits provide a reasonable basis for our opinion.

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We were unable to obtain sufficient evidential support for the amounts presented in the FY 2007 financial statements because ARC was unable to fully implement the new Parent/Child reporting requirements for its seven child agencies, and the agency was unable to perform a reconciliation of its proprietary accounting activity with its budgetary activity. ARC's change of its financial statement presentation to be in compliance with the Federal Accounting Standards Advisory Board and OMB Circular A-136 *Financial Reporting Requirements* in FY 2007 gave rise to these issues. Because of these matters, we were unable to satisfy ourselves as to the amounts reported in the financial statements related to the child agency financial information and ARC's budgetary data by means of other auditing procedures.

ARC, a parent agency, was unable to obtain documentation supporting the funds transferred to the U.S. Department of Transportation ("DOT"), its child agency. DOT was unable to provide a detailed schedule supporting its ARC grant balances as of September 30, 2008. As a result, we were not able to satisfy ourselves as to the amounts reported in the financial statements related to DOT grants.

Because of the matter discussed in the third paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the FY 2007 financial statements.

In our opinion, except for the effects on the FY 2008 financial statements of the matters discussed in the fourth paragraph in this section, the FY 2008 financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Appalachian Regional Commission as of September 30, 2008, and its net costs, changes in net position, and budgetary resources for the year then ended in conformity with U.S. generally accepted accounting principles.

The information in Management's Discussion and Analysis and Required Supplementary Stewardship Information sections are not a required part of the financial statements, but is supplementary information required by U.S. generally accepted accounting principles and OMB Circular A-136. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the information. However, we did not audit the information and express no opinion on it.

The information in the Message from the Federal Co-Chair, Performance Report, Other Accompanying Information and Appendices are presented for purposes of additional analysis and are not required as part of the financial statements. This information has not been subjected to auditing procedures, and accordingly, we express no opinion on it.

Report on Internal Control over Financial Reporting

In planning and performing our work, we considered ARC's internal control over financial reporting as a basis for developing our audit procedures for the purpose of expressing an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of ARC's internal control over financial reporting. Accordingly, we do not provide an opinion on the effectiveness of ARC's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by ARC's internal control.

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Our consideration of the internal control over financial reporting was for the limited purpose described above and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. In our FY 2008 audit, we consider the deficiencies, Nos. 1-4 described in Exhibit I, to be significant deficiencies in internal control over financial reporting. However, of the significant deficiencies described above, we consider deficiency No. 1 to be a material weakness.

Report on Compliance and Other Matters

ARC management is responsible for complying with laws and regulations applicable to the agency. We are responsible for performing tests of its compliance with certain provisions of laws and regulations that have a direct and material effect on the financial statements and certain other laws and regulations specified in OMB Bulletin No. 07-04. Providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests of compliance with laws and regulations disclosed one instance of non-compliance, No. 5 described in Exhibit I, that is required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04.

Management's responses to the findings identified in our audit are presented for each finding as Management's Response, herein. We did not audit ARC's response and, accordingly, we express no opinion on it.

We noted certain additional matters that we have reported to the Commission Members and management of ARC in a separate letter dated March 23, 2009.

This report is intended solely for the information and use of ARC's management, the Office of Management and Budget, the Government Accountability Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Withum Smith+Brown, PC

March 23, 2009

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Exhibit I

1. Child Agency Reporting Requirements

ARC has made progress in addressing child agency reporting deficiencies noted in the prior year. In FY 2008, ARC was able to obtain internal control and financial information from their child agencies; however, ARC's review of this information was not sufficient to enable ARC to identify improper balances or to explain the transactions recorded by some of the agencies. For example, during our review we found that the grant schedules of undelivered order (UDO) balances provided by Rural Development (RD) and the Department of Housing and Urban Development (HUD) did not reconcile to the UDO balances in the general ledger by $46,803 and $38,335, respectively. Since ARC is ultimately responsible for the child agency balances as the parent agency, we questioned ARC about the differences, but ARC was unable to provide an explanation. After forwarding our question to the child agencies, ARC did receive an explanation from RD for the difference, but never received an explanation from HUD. Furthermore, we noted that HHS recorded $1.6 million in the cumulative results of operation; however since all the funds received from ARC are appropriated funds, the $1.6 million should have been recorded properly as appropriated capital.

ARC has ongoing issues with financial information provided by the Department of Transportation (DOT). During our audit we requested a detailed schedule of open grant undelivered order (UDO) balances, but DOT was unable to provide a detailed schedule of grant balances supporting the total recorded in the general ledger. Additionally, DOT records show a $1.2 million liability which DOT acknowledged is an error. Furthermore, DOT also recorded $7.3 million in the cumulative results of operation that should have been recorded properly as appropriated capital. The errors were corrected on ARC's records through our audit, but the inability of DOT to properly support all of the recorded general ledger balances caused a scope limitation in the current year which resulted in a qualified opinion on the financial statements.

Recommendations

We recommend that the Executive Director and the Director of Finance and Administration ensure that complete, timely financial information is received from ARC's child agencies and ensure that appropriate controls and procedures have been implemented to enable management to make representations that the child agencies' financial information is fairly presented in ARC's financial statements.

We further recommend that the Executive Director and the Director of Finance and Administration ensure that an adequate review of ARC's child agencies internal controls be completed, and that the review be detailed enough to enable ARC to explain the child agency systems and the activity recorded by the child agencies. Additionally, ARC should resolve issues with the child agencies that are identified in the review and establish timeframes for resolution of the issues in order to ensure that the child agencies' financial information is fairly presented in ARC's financial statements.

Management Response

ARC agrees that reconciliation of the Child Agency trial balance reports and the project detail reports is necessary. During the fourth quarter of fiscal 2008 ARC created a tab within ARC.net, its grant management system, to input the financial transactions from the Child Agency project detail reports as well as from TVA. This will enable ARC to reconcile the two reports. ARC will establish procedures for reconciling the Child Agency trial balance reports and the project detail reports, the reconciliation of the Child Agency project detail reports and ARC.net grant data for all Child Agencies except DOT. DOT has informed ARC that a team is working on its FMIS system now in order to produce a project detail report that will agree to its general ledger. No timeline has yet been provided by DOT.

Exhibit I (continued)

ARC will regularly obtain descriptions of each Child Agencies financial processes to review their internal controls. When necessary, ARC will conduct site visits to further review and understand each Child Agency's systems.

Auditor Response

ARC's proposed action if properly implemented will adequately address these recommendations.

2. Federal Reporting Requirements

ARC continues to have difficulty preparing the "Reconciliation of the Net Cost to Budget" footnote disclosure. In FY 2007 ARC was unable to prepare the disclosure and therefore left it out of the financial statements which contributed to the disclaimer of opinion. Because ARC does not have the in-house expertise, ARC hired a firm to assist with the preparation of the financial statements and disclosure notes for FY 2008. Although ARC made a lot of progress in FY 2008 reducing their initial difference of $4.6M to $1.2M, they were still unable to fully reconcile the difference. As a result, ARC reported an unexplained difference of $1.2 million as a reconciling item in the footnote disclosure. This difference occurred because ARC's accounting software does not require simultaneous entry of budgetary and proprietary transactions that resulted in some proprietary entries being posted without the proper budgetary equivalent. In addition, there are no written policies and procedures in place to ensure that budgetary and proprietary activity is recorded correctly. Unless ARC finance staff are adequately trained in federal accounting standards and management implements controls to off-set the inherent weaknesses in the accounting system, ARC will have an on-going challenge performing this reconciliation in a timely fashion each year.

OMB Circular A-136 *Financial Reporting Requirements* states:

> SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, "requires a reconciliation of proprietary and budgetary information in a way that helps users relate the two."
>
> " …The objective of this information is to provide an explanation of the differences between budgetary and financial (proprietary) accounting. This is accomplished by means of a reconciliation of budgetary obligations and non-budgetary resources available to the reporting entity with its net cost of operations."

Recommendation

We recommend that the Executive Director and the Director of Finance and Administration ensure the finance staff receive on-going training in federal reporting requirements and federal accounting standards, and that written policies and procedures are developed and implemented to ensure ARC is in full compliance with OMB Circular A-136 requirements and federal accounting standards. ARC should develop detailed written reconciliation procedures to assist in preparing the disclosure note to ensure all proprietary and budgetary amounts are properly recorded. Additionally, ARC should aggressively pursue moving its accounting function to a Financial Management Line of Business or replacing the GLOWS accounting system with a system that will facilitate the proper recording of budgetary and proprietary transactions.

Management Response

ARC has approved moving its accounting from in-house to GSA's full service shared services. GSA will execute ARC's payments, enter its financial transactions in their accounting system, submit the SF-224, FACTS II Reports, generate the financial statements, and provide ARC with

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Exhibit I (continued)

view only access to the system. ARC is the final stage of signing an agreement with GSA and the implementation will occur October 1, 2009 dependent on GSA's time schedule.

ARC hired an outside accounting firm to assist in the preparation of its financial reports and provide necessary SGL Analysis. In the interim before converting to GSA's shared services, this firm will continue to provide needed assistance. ARC has prepared the mid-year financial statements that included the Reconciliation of the Net Cost to Budget. Through this process ARC staff is becoming more knowledgeable of federal financial reporting. ARC will contract for training tailored to ARC's needs and has also identified appropriate US Treasury FMS courses to which it will send staff.

ARC has implemented a monthly reconciliation of its proprietary and budgetary accounting. This procedure will be documented.

Auditor Response

ARC's proposed action if properly implemented will adequately address these recommendations.

3. Grant Accrual Methodology

Accrual accounting records all transactions that arise from an Agency's operations. Under accrual accounting, transactions are recorded in the period to which they relate, even though no cash may have been received or paid. Accrual accounting takes into account transactions where no cash is exchanged, such as transactions involving the creation of obligations to pay (payables) or rights to receive cash at future dates (receivables). ARC incurs an obligation to pay its grantees as soon as the grantee has expended grant funds.

In order to fully comply with generally accepted accounting principles and Federal requirements, ARC must record an accrual for its grant activity quarterly to prepare proper interim financial statements. OMB Circular A-136, *Financial Reporting Requirements*, states that "agencies shall submit unaudited interim financial statements to OMB 21 days after the end of each of the first three quarters of the fiscal year. Agencies should include management's explanation of significant variances in types or amounts of assets, liabilities, costs, revenues, obligations and outlays along with the submitted statements."

Currently, ARC grantees are required to submit grant reports on a 120-day cycle, based on the first day of the period of performance per the grant agreement. Grant expenses are recorded by the finance department on a cash basis when the grantee submits an SF-270 Request for Advance or Reimbursement. The reimbursement request is submitted by the grantee when funds are required and does not necessarily coincide with the 120-day reporting cycle. Additionally, because ARCs 120-day reporting cycle also does not coincide with a quarterly financial reporting cycle, ARC does not have the necessary financial data to facilitate development of a grant accrual methodology or to record a quarterly grant accrual based on actual data.

To record a grant accrual as of September 30, 2008, ARC collected all the financial reports received from the grantees from October 1, 2008 through February 15, 2009 (4 ½ months after the end of the fiscal year). ARC's analysis of this data resulted in recording a grant accrual totaling $1.6 million. Therefore, ARC does not have an effective process to record grant accruals on a quarterly basis. This results in an understatement of its liabilities and expenses on the interim and year-end financial statements provided to OMB.

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Exhibit I (continued)

Recommendation

We recommend that the Executive Director ensure that ARC develops a system to obtain the necessary grant financial information to assist them in properly developing and supporting a grant accrual methodology which can be recorded on a quarterly basis.

Management Response

ARC agrees on the need for a more precise and auditable grant accrual methodology for its quarterly and year-end financial reports. For fiscal 2008, ARC followed advice given to send grant confirmations to all open grantees. Unfortunately, this methodology did not result in an accurate and auditable accrual amount.

ARC will develop a methodology to calculate its grant accruals. Before this is implemented, ARC will review each grant payment request in order to determine the necessary accrual starting the 3rd quarter of 2009. The new methodology will be based on the historical grant payment information entered into ARC.net, the grant management system. ARC will review grantee reimbursement payments for the four months after each calendar quarter. Based on this review the payments will be prorated to the appropriate quarters. The prorated payments applicable to the prior quarter will be totaled and then divided by the amount of open grants to give a percentage upon which to base the accrual.

This quarterly calculation will be conducted for 3 fiscal years. An average percentage will be calculated for each quarter with this percentage applied to the subsequent fiscal year to calculate the grant accrual. If there is a discernable pattern to the grant accrual percentage, then in succeeding years the quarterly calculations will be calculated on just two quarters, which will change each year.

Auditor Response

The reasonableness and completeness of ARC's proposed grant accrual methodology will be examined in conjunction with the audit of its FY 2009 financial statements.

4. Weaknesses in IT General Controls

ARC has made significant progress in the past several years to improve and upgrade the management of its information systems, despite lacking adequate staff and sufficient resources. In recent years, various OIG audit reports have identified weaknesses in ARC's controls over its information systems. Management has implemented plans to work to resolve those deficiencies. Some of these have been completed, and some are still in process.

During our FY 2008 testwork, we noted that ARC has not yet performed a detailed risk assessment, which would help ARC assess the likelihood and impact of potential vulnerabilities, so that ARC can better determine how to allocate and prioritize its limited resources. This risk assessment should then drive how ARC will address the control weaknesses we identified in our audit, and help decide the most cost effective ways to reduce the associated risks.

Also, during FY 2008, we performed certain tests over ARCs IT general controls impacting its key financial and support systems, using the guidance in GAO's FISCAM (Federal Information System Control Audit Manual). The two primary systems we focused on are the GLOWS accounting system and the ARCNET grants management system. We identified the following specific areas where the controls are not in place or not operating effectively: 1) security management; 2) access controls; 3) configuration/change management; 4) segregation of duties; and 5) contingency planning.

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Exhibit I (continued)

We evaluated these systems using the criteria in NIST (National Institute of Standards and Technology), Federal Information Processing Standards 200 “Minimum Security Requirements for Federal Information and Information Systems”, as well as GAO’s “Standards for Internal Control in the Federal Government”.

As a result of these control weaknesses, ARC is subject to the risk that data could be accessed, transmitted or manipulated by unauthorized personnel and the risk that systems could become unstable or unavailable.

These issues are caused primarily because ARC had not previously devoted the resources necessary to prevent or correct these weaknesses, or in some cases may not have been aware that the specific weakness existed.

The specific nature of these weaknesses and the associated details has been communicated in a separate letter to the Commission Members and management.

During the year and subsequent to our audit, ARC had begun implementing certain corrective actions. The implementation of these and any additional corrective actions will be evaluated in the FY 2009 audit.

Recommendations

We recommend the Federal Co-Chair ensure that ARC:

- Perform a detailed risk assessment so that the weaknesses related to security management, access controls, configuration/change management, segregation of duties, and contingency planning, can be evaluated in terms of likelihood and magnitude.
- Develop written corrective actions plans with timeframes for completion to resolve the weaknesses identified in the audit, or document the rationale why corrective action is not needed (based on the completion of the risk assessment).
- Continue to implement corrective actions to weaknesses previously identified.
- Aggressively pursue outsourcing the accounting function to a Financial Management Line of Business, or replacing the GLOWS accounting system so ARC will not be at risk if GLOWS fails.

Management Response

<u>Security Management</u>
ARC agrees to develop an entity-wide security management program. This program will be developed based on a risk assessment to be performed by the end of the fiscal 3rd quarter. ARC is contacting potential companies to perform the risk assessment. The security management will include policies on staff and contractor screening, confidentiality and non-disclosure statements. ARC currently performs background investigations through OPM on all employees. The security management program will also address assessment of security controls and obtaining SAS70 reports from vendors.

ARC implemented Security Awareness Training for staff during the second quarter of fiscal 2009. This is included in the Information Technology Security Policy that was issued in February 2009.

<u>Access Controls</u>
- ARC has taken the decision to move its accounting function to GSA’s Financial Management Line of Business. The Commission is currently in discussions with GSA to determine the time period for the transition.
- ARC.net passwords were encrypted during the 2nd quarter of fiscal 2009. A tool was developed to allow view access privileges in ARC.net. These privileges were reviewed,

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Exhibit I (continued)

approved, and updated. A formal approval process will be included in the security management.

- ARC has developed and implemented an IT Exit Checklist to ensure timely termination of access and document IT related access termination issues.
- SSL Certificates were implemented for ARC.net during the 2nd quarter of fiscal 2009 and WebTA will be completed during the 3rd quarter of fiscal 2009.
- An incidence response plan will be included in the security management program
- Intrusion detection is included in the new firewall scheduled for installation early in the 3rd quarter of fiscal 2009.
- ARC will prepare an inventory of key financial reporting spreadsheets and with appropriate access restrictions.
- ARC is not able to restrict access to the building. The server room will remain restricted with additional security options explored.

Configuration Management
ARC will develop configuration management to include software, hardware, peripherals, and network infrastructure. This shall be completed by fiscal year end on September 30, 2009.

ARC agrees to the necessity of a more formal change management program. In developing such a program, the design should be one that is not overly burdensome. ARC was created to be a flexible agency that could adapt and change quickly as conditions require. Because of its size, most decisions at ARC do not require an elaborate process and the number of people involved is limited. ARC will implement a change management program once its risk management assessment and entity wide security program is completed and evaluated.

Segregation of Duties
As a micro agency of the US Government, the wide range of IT duties and responsibilities do not justify multiple full time positions as would be found in larger agencies. Accordingly, ARC has taken the decision to have one full-time IT staff position and outsource other functions. This decision was implemented at the beginning of fiscal 2009. Currently, ARC has a part time help desk assistant, a part time software developer, a contractor performing monthly network maintenance, and contracts to configure and install major network upgrades. Within the risk assessment and an entity-wide security management program, ARC will explore and implement additional safeguards against errors and wrongful acts.

Contingency Planning
Once the risk assessment and security management program are completed ARC will develop a Continuity of Operations Plan (COOP). In preparation for this plan ARC will develop a critical operations list by the fiscal year end. Given the complexity of developing a COOP this task normally takes one to two years. ARC's goal is to complete and implement its COOP within this timeframe.

ARC has contacted and obtained a quote for a waterless fire detection and suppression system. More quotes will be obtained prior to making a final decision. ARC will install this system prior to fiscal year end.

ARC has taken the decision to move to GSA's Financial Services Line of Business. In the interim, ARC has already put into place a process that would restore GLOWS within 15 minutes using the installed virtual server environment. The virtual server environment was installed during the 2nd quarter of fiscal year 2009.

Auditor Response

Based on management's response, the recommendations cited above are resolved and open pending review of the implementation of the corrective action plan in FY 2009.

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Exhibit I (continued)

5. Anti-Deficiency Act Violations

During FY 2008, ARC management disclosed that several Anti-Deficiency Act violations had occurred. In the first quarter of FY 2007 the violation totaled $521,288, the first quarter of FY 2008 the violation totaled $7,819, the second quarter of FY 2008 the violation totaled $333,988, and the third quarter of FY 2008 the violation totaled $213,288. The ARC Federal Co-Chair reported the violations along with all relevant facts and a statement of actions to the OMB and is waiting for OMB guidance prior to reporting the violations to the President of the United States, Congress and the Comptroller General of the United States as required by 31 U.S.C. §1351.

These violations involved the obligation of budgetary resources in excess of FY 2007 and FY 2008 apportionments, but did not involve expenditures or obligations in excess of ARC's appropriation. These violations occurred because ARC relied on OMB procedures to ensure that obligations did not exceed apportionments. When OMB eliminated the signature apportionment certification requirement, ARC did not have their own internal control procedures in place to ensure that obligations did not exceed the apportionments.

Exhibit II

Status of Prior Year Significant Deficiencies and Non-Compliance with Significant Laws and Regulations

Prior Year Condition	As Reported at September 30, 2007	Status as of September 30, 2008
Lack of Full Implementation of Parent/Child Reporting Requirements	**Material Weakness:** ARC's was unable to verify the integrity of the child agency data or gain an understanding of the internal controls in place related to these allocated funds. Because of ARC's inability to verify the integrity of the data, ARC management was not in a position to take responsibility for and to make representations concerning the fair presentation of the child agency data.	**Remains a material weakness:** Although ARC has been able to obtain financial information from its child agencies and to verify the data, DOT's inability to provide detailed support for its grants balances resulted in a qualified opinion on ARC's FY 2008 financial statements.
Controls Over Compliance with Federal Reporting Requirements Not Fully Implemented	**Material Weakness:** There were certain control weaknesses related to reporting information required by OMB Circular A-136. 1) ARC did not have policies and procedures to facilitate the collection and reporting of RSSI information to ensure full compliance with federal reporting requirements; and 2) ARC accounting staff did not prepare a reconciliation of budgetary and proprietary data due to time constraints, errors identified in child agency data, and other challenges in implementing federal reporting requirements.	**Changed to significant deficiency:** ARC was able to prepare a RSSI in compliance with A-136. Therefore, this recommendation has been closed. However, ARC still has difficulty reconciling its proprietary with its budgetary data which resulted in a $1.2 million unexplained difference at year-end. In FY 2008 ARC made substantial progress toward resolving this issue. This weakness has been changed to a significant deficiency in FY 2008.
Weakness Noted over Accounting for Grant Advances	**Material Weakness:** There was inconsistent accounting for intra-governmental agreements due to the lack of policies and procedures to ensure that new grants, contracts and agreements are reviewed when approved to determine the appropriate accounting treatment for the underlying financial relationship.	**This finding is closed.**
Weakness Noted over Accounting for Revenue	**Material Weakness:** The implementation of the FASAB accounting principles resulted in significant accounting errors in recording revenue and equity under federal accounting standards.	**No longer considered a significant deficiency.** This issue has been moved to the Management Letter.

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Appalachian Regional Commission
Balance Sheets
September 30, 2008 (Audited) and 2007 (Unaudited)

	2008	**Restated 2007**
Assets		
Intragovernmental		
Fund balance with U.S. Treasury (*Note 1 & 2*)	$ 155,078,061	$ 156,202,406
Advances (*Note 1 & 3*)	11,850,630	15,585,780
Total intragovernmental	166,928,691	171,788,186
Cash in commercial institutions (*Note 1*)	87,820	94,838
Advances (*Note 1 & 3*)	30,868,453	30,992,116
Accounts receivable *(Note 1)*	-	46,076
Equipment, net (*Note 1 & 4*)	-	44,563
	$ 197,884,964	$ 202,965,779
Liabilities and Net Position		
Intragovernmental		
Accounts payable (*Note 1 & 5*)	$ 658,072	$ 638,302
Total intragovernmental	658,072	638,302
Accounts payable (*Note 1 & 5*)	3,620,067	5,732,595
Benefits due and payable (*Note 1, 5 & 6*)	2,374,812	2,986,099
Other	75,304	93,574
	6,070,183	8,812,268
Total liabilities	6,728,255	9,450,570
Unexpended appropriations	108,140,376	110,644,441
Cumulative results of operations-earmarked fund (*Note 8*)	(398,346)	(1,156,994)
Cumulative results of operations	83,414,679	84,027,762
Total net position	191,156,709	193,515,209
	$ 197,884,964	$ 202,965,779

The Notes to Financial Statements are an integral part of these statements.

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Appalachian Regional Commission
Statements of Net Cost
Years Ended September 30, 2008 (Audited) and 2007 (Unaudited)

	2008	Restated 2007
Net cost of operations:		
Program costs	$ 74,981,260	$ 68,136,744
Less: earned revenues	4,636,738	3,924,645
Net cost of operations	$ 70,344,522	$ 64,212,099

The Notes to Financial Statements are an integral part of these statements.

Appalachian Regional Commission
Statement of Changes in Net Position
Year Ended September 30, 2008 (Audited)

	2008		
	Earmarked Fund	**All Other Funds**	**Consolidated Total**
Cumulative results of operations, beginning	$ (1,156,994)	$ 84,027,762	$ 82,870,768
Adjustments:			
Changes in accounting principles (*Note 1 & 11*)	-	-	-
Beginning balance, adjusted	(1,156,994)	84,027,762	82,870,768
Budgetary financing sources:			
Appropriations used	3,608,000	66,882,087	70,490,087
Transfers in/out without reimbursement	-	-	-
Total financing sources	3,608,000	66,882,087	70,490,087
Net cost of operations	(2,849,352)	(67,495,170)	(70,344,522)
Net change	758,648	(613,083)	145,565
Cumulative results of operations, ending	**$ (398,346)**	**$ 83,414,679**	**$ 83,016,333**
Unexpended appropriations, beginning	$ -	$ 110,644,441	$ 110,644,441
Adjustments:			
Changes in accounting principles (*Note 1 & 11*)	-	-	-
Beginning balance, adjusted	-	110,644,441	110,644,441
Budgetary financing sources:			
Appropriations received	3,608,000	69,424,000	73,032,000
Appropriations transferred in/out	-	-	-
Other adjustments	-	(5,045,978)	(5,045,978)
Appropriations used	(3,608,000)	(66,882,087)	(70,490,087)
Total budgetary financing sources	-	(2,504,065)	(2,504,065)
Total unexpended appropriations	-	108,140,376	108,140,376
Net position	**$ (398,346)**	**$ 191,555,055**	**$ 191,156,709**

The Notes to Financial Statements are an integral part of these statements.

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Appalachian Regional Commission
Statement of Changes in Net Position
Year Ended September 30, 2007 (Unaudited)

	Earmarked Fund	Restated 2007 All Other Funds	Consolidated Total
Cumulative results of operations, beginning	$ (1,177,430)	$ 80,648,215	$ 79,470,785
Adjustments:			
Changes in accounting principles (*Note 1 & 11*)	-	(244,369)	(244,369)
Beginning balance, adjusted	(1,177,430)	80,403,846	79,226,416
Budgetary financing sources:			
Appropriations used	3,478,000	64,378,451	67,856,451
Transfers in/out without reimbursement	-	-	-
Total financing sources	3,478,000	64,378,451	67,856,451
Net cost of operations	(3,457,564)	(60,754,535)	(64,212,099)
Net change	20,436	3,623,916	3,644,352
Cumulative results of operations, ending	**$ (1,156,994)**	**$ 84,027,762**	**$ 82,870,768**
Unexpended appropriations, beginning	$ -	$ 7,315,477	$ 7,315,477
Adjustments:			
Changes in accounting principles (*Note 1 & 11*)	-	106,321,927	106,321,927
Beginning balance, adjusted	-	113,637,404	113,637,404
Budgetary financing sources:			
Appropriations received	3,478,000	61,380,559	64,858,559
Appropriations transferred in/out	-	4,929	4,929
Other Adjustments	-	-	-
Appropriations used	(3,478,000)	(64,378,451)	(67,856,451)
Total budgetary financing sources	-	(2,992,963)	(2,992,963)
Total unexpended appropriations	-	110,644,441	110,644,441
Net position	**$ (1,156,994)**	**$ 194,672,203**	**$ 193,515,209**

The Notes to Financial Statements are an integral part of these statements.

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Appalachian Regional Commission
Statements of Budgetary Resources
Years Ended September 30, 2008 (Audited) and 2007 (Unaudited)

	2008	Restated 2007
Budgetary Resources		
Unobligated balance brought forward October 1	$ 24,875,320	$ 19,451,138
Recoveries of prior year unpaid obligations	8,083,423	14,644,027
Budget authority		
Appropriation	80,248,000	72,174,971
Spending authority from offsetting collections		
Earned		
Collected	1,767,181	2,446,062
Nonexpenditure transfers, net, actual	-	4,929
Total budgetary resources	114,973,924	108,721,127
Status of Budgetary Resources		
Obligations incurred	86,176,980	83,835,618
Unobligated balance available	25,496,404	23,474,476
Unobligated balance not available	3,300,540	1,411,033
Total status of budgetary resources	114,973,924	108,721,127
Change in Obligated Balance		
Unpaid obligated balance, net brought forward October 1	131,317,085	144,098,073
Obligations incurred, net	86,176,980	83,835,618
Less: Gross outlays	(83,175,715)	(81,926,833)
Less: Recoveries of prior year unpaid obligations, actual	(8,083,422)	(14,644,027)
Less: Uncollected customer payments from federal sources	46,189	(45,934)
Unpaid obligated balance, net end of period	126,281,117	131,316,897
Net Outlays		
Gross outlays	83,175,460	81,926,834
Less: offsetting collections	(1,813,371)	(2,002,957)
Plus: offsetting receipts	(4,720,177)	(3,924,645)
Net outlays	$ 76,641,912	$ 75,999,232

The Notes to Financial Statements are an integral part of these statements.

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Appalachian Regional Commission
Notes to Financial Statements
September 30, 2008 (Audited) and 2007 (Unaudited)

1 Summary of Significant Accounting Policies

Reporting entity
The ARC was established under the Appalachian Regional Development Act of 1965, as amended; the Appalachian Regional Development Reform Act of 1998; and the Appalachian Regional Development Act Amendments of 2002. ARC is a regional development agency designed to function as a federal, state, and local partnership. ARC is not a federal executive branch agency (as defined in Title 5 and 31 of the United States Code and by the Department of Justice).

Commission members are comprised of a federal member (Federal Co-Chair), who is appointed by the President, and the governors of each of the thirteen states in the Appalachian Region. The state members elect a State Co-Chair from their members. There is an Executive Director and Program and Administrative Offices that implement the policies and procedures established by the Federal and State Co-Chairs. ARC personnel are comprised of both federal and non-federal employees.

ARC supports economic and social development in the Appalachian Region. The Appalachian Region is a 200,000 square mile region from the Appalachian Mountains in Southern New York to Northern Mississippi. The ARC programs affect approximately 410 counties located in thirteen states including all of West Virginia and parts of Alabama, Georgia, Kentucky, Maryland, Mississippi, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, and Virginia.

Fund accounting structure
ARC's financial activities are accounted for by utilizing individual funds and fund accounts in reporting to the U.S. Treasury and the Office of Management and Budget. For financial statement purposes, these funds are classified as an earmarked fund and all other funds. Earmarked funds are financed by specifically identified revenues often supplemented by other financing sources which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes and must be accounted for separately from the Government's general revenues. ARC's earmarked fund and all other funds are identified as follows:

- Earmarked fund
  A trust fund was established by the U.S. Treasury under the authority of the Appalachian Regional Development Act of 1965, to receive, hold, invest, and disburse monies collected to cover the administrative expenses of ARC. The administrative expenses are paid equally by the federal government and the states in the Appalachian Region as determined annually by ARC.

- All other funds
  All other funds consist of area development program funds and funding for the Office of the Federal Co-Chair and the Office of Inspector General.

Budgets and budgetary accounting
ARC programs and activities are funded through no-year appropriations and contributions from the thirteen states in the Appalachian Region. Federal funds are available without fiscal year limitation and remain available until expended. Because of the no-year status of the funds, unobligated amounts are not returned to the U.S. Treasury.

Basis of accounting and presentation
These financial statements present the financial position, net cost of operations, changes in net position, and budgetary resources of ARC in accordance with U.S. generally accepted accounting principles (GAAP) and form and content requirements of OMB Circular A-136 *Financial Reporting Requirements*. GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory

Appalachian Regional Commission
Notes to Financial Statements
September 30, 2008 (Audited) and 2007 (Unaudited)

Board (FASAB), which is the official standard-setting body for the federal government. The financial statements have been prepared from the books and records of ARC, and include the accounts of all funds under the control of the ARC reporting entity.

U.S. generally accepted accounting principles encompass both accrual and budgetary transactions. Under accrual accounting, revenues are recognized when earned, and expenses are recognized when incurred. Budgetary accounting facilitates compliance with legal constraints on, and controls over, the use of federal funds. These financial statements are prepared by ARC pursuant to OMB directives and used to monitor ARC's use of budgetary resources.

Fund Balance with U.S. Treasury
ARC's cash receipts and disbursements are processed by the U.S. Treasury. Funds with U.S. Treasury represent obligated and unobligated no-year funds available to finance allowable current and future expenditures.

Cash in Commercial Institutions
ARC uses commercial bank accounts to accommodate collections and payments that cannot be processed by the U.S. Treasury.

Advances
ARC advances funds to other federal agencies for work performed on its behalf under various reimbursable agreements. These intragovernmental advances are recorded as an asset, which is reduced when actual expenditures or the accrual of unreported expenditures are recorded.

ARC also has advances made to grantees for revolving loan fund payments to provide pools of funds to be made available to grantees to create and retain jobs. These advance payments are recorded by ARC as an asset, which is reduced if the revolving fund is terminated.

Accounts Receivable
Accounts receivable represents dedicated collections owed to ARC by the Office of the States' Representative for the administrative costs of ARC.

Equipment
ARC's equipment is recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The capitalization threshold is $50,000.

Liabilities
Liabilities represent probable amounts to be paid by ARC as a result of past transactions. Liabilities covered by budgetary or other resources are those for which Congress has appropriated funds or funding is otherwise available to pay amounts due.

Liabilities not covered by budgetary or other resources represent amounts owed in excess of available Congressionally appropriated funds or other amounts. The liquidation of liabilities not covered by budgetary or other resources is dependent on future Congressional appropriations or other funding.

Accounts Payable
Accounts payable consists of amounts owed to grantees and amounts owed to federal and non-federal entities for goods and services received by ARC.

Appalachian Regional Commission
Notes to Financial Statements
September 30, 2008 (Audited) and 2007 (Unaudited)

Accrued Benefits
Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued leave account is adjusted to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

Retirement Benefits
ARC's federal and certain non-federal employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). FERS was established by the enactment of Public Law 99-335. Pursuant to this law, FERS and the Social Security and the Thrift Savings Plan program automatically cover most employees hired after December 31, 1983. Employees hired before January 1, 1984 elected to participate in the FERS and Social Security or to remain in CSRS.

All federal and certain non-federal employees are eligible to contribute to the Thrift Savings Plan (TSP). For those employees participating in the FERS, a TSP account is automatically established and ARC makes a mandatory one percent contribution to this account. In addition, ARC makes matching contributions, ranging from one to four percent, for FERS eligible employees who contribute to their TSP accounts. Matching contributions are not made to the TSP accounts established by CSRS employees. FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, ARC remits the employer's share of the required contribution.

The Office of Personnel Management (OPM) actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future and communicate these factors to ARC. OPM also provides information regarding the full cost of health and life insurance benefits. ARC does not recognize the imputed cost of pension and other retirement benefits during the employees' active years of service as this amount is considered to be immaterial. Reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any, is the responsibility of OPM.

ARC also has a Defined Benefit Pension Plan which was open to all employees not participating in CSRS and FERS. ARC uses a July 1 measurement date for its plan.

In February 2000 ARC established a 401(k) retirement plan that mirrors FERS. The plan covers substantially all non-federal employees. Employees are eligible to participate in and are fully vested in the plan upon employment. ARC's funding policy is to make a 3% contribution of total salary and a matching 3% of the first 50% of the participants' contributions to the plan up to 6% of total salary.

Parent Child Reporting
ARC is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived. ARC allocates funds as the parent agency to the U.S. Departments of Transportation, Education, Health and Human Services, and Housing and Urban Development, as well as the Rural Development Agency, U.S. Army Corps of Engineers and the Economic Development Agency.

Appalachian Regional Commission
Notes to Financial Statements
September 30, 2008 (Audited) and 2007 (Unaudited)

Additionally, ARC receives allocation transfers, as the child agency from the U.S. Department of Treasury to cover Appalachian Development Highway System administrative costs.

Net Position
Net position is the residual difference between assets and liabilities and is comprised of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent the amount of unobligated and unexpended budget authority. Unobligated balances are the amount of appropriations or other authority remaining after deducting the cumulative obligations from the amount available for obligation. The cumulative results of operations are the net results of ARC's operations since inception.

Net Cost of Operations
Earned revenues arise from the collection of state contributions and are deducted from the full cost of ARC's major programs to arrive at net program cost. Earned revenues are recognized by ARC to the extent reimbursements are payable from the public, as a result of costs incurred or services performed on the public's behalf.

Budgetary Financing Sources
Budgetary financing sources other than earned revenues provide funding for ARC's net cost of operations and are reported on the Statement of Changes in Net Position. These financing sources include amounts received from Congressional appropriations to support its operations. A financing source is recognized for these appropriated funds received.

Use of Estimates
Management has made certain estimates when reporting assets, liabilities, revenue, and expenses, and in the note disclosures. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Tax Exempt Status
As an agency of the federal government, ARC is exempt from all taxes imposed by any governing body whether it is a federal, state, commonwealth, local, or foreign government.

2. Fund Balance with Treasury

Funds with U.S. Treasury at September 30 consisted of the following:

	2008	2007
Fund balances		
Trust fund	$ 1,923,267	$ 1,678,084
Appropriated funds	153,154,794	154,524,322
Total fund balance	$ 155,078,061	$ 156,202,406
Status of fund balance with Treasury		
Unobligated balance:		
Available	$ 25,496,437	$ 23,474,476
Unavailable	3,300,540	1,411,033
Obligated balance not yet disbursed	126,281,084	131,316,897
Total	$ 155,078,061	$ 156,202,406

Appalachian Regional Commission
Notes to Financial Statements
September 30, 2008 (Audited) and 2007 (Unaudited)

3. Advances

Advances at September 30 consist of the following:

		2008		2007
Advances to the U.S. Army Corps of Engineers	$	1,652,257	$	2,327,000
Advances to the Tennessee Valley Authority		10,198,373		8,213,342
Advances to the Department of Health and Human Services				5,045,438
		11,850,630		15,585,780
Other				
Advances to grantees to finance future program expenditures		30,868,453		30,992,116
Total	$	42,719,083	$	46,577,896

4. Equipment, Net

Equipment balances as of September 30 were as follows:

		2008		2007
Equipment	$	117,616	$	162,179
Less: accumulated depreciation		(117,616)		(117,616)
Total	$	-	$	44,463

The loss on disposal for the years ended September 30, 2008 and 2007 was $44,463 and $0, respectively.

5. Liabilities

The accrued liabilities of ARC are comprised of program expense accruals, payroll accruals and unfunded annual leave earned by employees. Program expense accruals represent expenses that were incurred prior to year-end but were not paid. Similarly, payroll accruals represent payroll expenses that were incurred prior to year-end but were not paid.

Liabilities at September 30 consist of the following:

		2008		2007
Advances from the Centers for Disease Control	$	596,729	$	575,979
Advances from the National Endowment for the Arts		62,323		62,323
Total intragovernmental		659,052		638,302
Benefits due				
Accrued health & flexible spending benefits		65,977		59,958
Accrued salaries and benefits		243,385		229,094
Unfunded annual leave		467,544		370,046
Unfunded pension liability		1,576,063		2,327,001
Total benefits due		2,352,969		2,986,099
Payments due to grantees to finance program expenditures		3,620,067		5,732,595
Other agency transactions		96,167		93,574
Total liabilities	$	6,728,255	$	9,450,570

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Appalachian Regional Commission
Notes to Financial Statements
September 30, 2008 (Audited) and 2007 (Unaudited)

Liabilities not covered by budgetary resources consist of the following:

	2008	2007
Unfunded annual leave	$ 467,544	$ 370,046
Unfunded pension liability	1,576,063	2,327,001
Total liabilities	$ 2,043,607	$ 2,697,047

6. Retirement Plans

Federal
ARC participates in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) for federal and certain non-federal employees. The CSRS and FERS plans are administered by the OPM. Contributions to these plans for FY 2008 were $39,056 and $83,534 for CSRS and FERS, respectively and contributions for FY 2007 were $37,696 and $76,781 for CSRS and FERS, respectively.

Several employees also participate in the Federal Employees Health Benefit plan (FEHB) and the Federal Employees Group Life Insurance program (FEGLI), also administered by OPM. ARC pays a portion of the cost of current employees. Post-retirement benefits are paid by OPM. No amounts have been recognized in the financial statements for these imputed costs as they are not deemed material. Contributions to these plans for FY 2008 were $69,638 and $2,099 and for FY 2007 were $55,579 and $2,016 for FEHB and FEGLI, respectively

ARC does not report in its financial statements CSRS, FERS, FEHB or FEGLI assets, accumulated plan benefits or unfunded liabilities, if any, applicable to its employees.

ARC also contributed $33,977 and $32,481 to the Federal Thrift Savings plan for all eligible employees for the years ended September 30, 2008 and 2007, respectively.

Non-Federal
The following table presents the pension benefit expense for the defined benefit pension plan by component for fiscal years 2008 and 2007:

	2008	2007
Service cost	$ 553,305	$ 501,109
Interest cost	664,839	607,793
Expected return	(421,202)	(313,447)
Amortization of prior service cost	418,870	418,870
Recognized loss	37,909	122,847
Net periodic benefit expense	$ 1,253,721	$ 1,337,172

The following table presents the pension liability by component for fiscal years 2008 and 2007:

	2008	2007
Pension liability at October 1	$ 2,327,001	$ 1,934,715
Net periodic benefit expense	1,253,721	1,337,172
Contributions	(2,004,659)	(944,886)
Pension liability at September 30	$ 1,576,063	$ 2,327,001

Appalachian Regional Commission
Notes to Financial Statements
September 30, 2008 (Audited) and 2007 (Unaudited)

	2008	2007
Additional Information		
Benefit obligation	$ (10,682,357)	$ (9,758,835)
Fair value of plan assets	5,797,033	4,809,598
Funded status	$ (4,885,324)	$ (4,949,237)
Employer contribution	$ 1,985,638	$ 944,886
Participant contribution	19,021	17,220
Benefits paid	4,488	1,126,098
Net periodic benefit expense	1,253,721	1,337,172

The accumulated benefit obligation was $9,460,083 and $8,468,670 at September 30, 2008 and 2007, respectively.

Weighted-average of economic assumptions used to determine benefit obligations at September 30:

	2008	2007
Discount rate	7.00%	6.25%
Rate of compensation increase	3.00%	3.00%

Weighted-average of economic assumptions used to determine net periodic benefit cost for the years ended September 30:

	2008	2007
Discount rate	6.25%	5.75%
Expected return on plan assets	7.25%	7.25%
Rate of compensation increase	3.00%	3.00%

Historical returns of multiple asset classes were analyzed to develop a risk-free real rate of return and risk premiums for each asset class. The overall rate for each asset class was developed by combining a long-term inflation component, the risk-free real rate of return, and the associated risk premium. A weighted-average rate was developed based on those overall rates and the target asset allocation plan.

Plan Assets

Pension plan weighted-average asset allocations at September 30 are as follows:

	2008	2007
Asset Category		
Cash	10.00%	10.00%
Bonds	31.00%	31.00%
U.S. Stocks	40.00%	40.00%
International Stocks	14.00%	14.00%
Real estate	5.00%	5.00%
Total assets	100.00%	100.00%

ARC's investment strategy is a long-term, risk-controlled approach using diversified investment options with a minimal exposure to volatile investment options like derivatives. ARC expects to contribute $1,200,000 to the plan in FY 2009.

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Appalachian Regional Commission
Notes to Financial Statements
September 30, 2008 (Audited) and 2007 (Unaudited)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Fiscal Year	Pension Benefits
2009	$ 4,003,873
2010	1,260,865
2011	548,019
2012	1,771,515
2013	18,792
Years 2014 – 2018	6,169,405

ARC contributed $181,753 and $164,924 to the 401(k) plan for the years ended September 30, 2008 and 2007, respectively.

7. Operating Lease

ARC's lease for its office commenced on January 1, 2007 and extends through December 31, 2016. It provides for increases in annual base rent of 2 percent per year beginning January 1, 2008, and every year thereafter for the remainder of the lease term. The future minimum lease payments required under this lease are as follows:

Fiscal Year		Amount
2009	$	754,957
2010		770,056
2011		785,458
2012		823,509
2013		847,426
Thereafter		2,871,265
Total	$	6,852,671

Rent expense for the years ended September 30, 2008 and 2007 was $707,726 and $705,414, respectively.

8. Earmarked Fund

Condensed financial information for the ARC trust fund for the years ended September 30 is:

		2008		2007
Assets				
Fund balance with U.S. Treasury	$	1,923,267	$	1,678,084
Cash in commercial institutions		87,820		94,838
Accounts receivable		-		46,076
Total assets		2,011,087		1,818,998
Liabilities and Net Position				
Accounts payable		217,477		176,216
Benefits due and payable		2,191,956		2,799,776
Cumulative results of operations-earmarked funds		(398,346)		(1,156,994)
Total liabilities and net position	$	2,011,087	$	1,818,998

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Appalachian Regional Commission
Notes to Financial Statements
September 30, 2008 (Audited) and 2007 (Unaudited)

STATEMENT OF NET COST				
Program costs		6,785,916	$	7,318,539
Less: earned revenues		3,936,564		3,860,975
Net cost of operations	$	2,849,352	$	3,457,564
STATEMENT OF CHANGES IN NET POSITION				
Cumulative results of operations, beginning	$	(1,156,994)	$	(1,177,430)
Budgetary financing sources:				
Appropriations used		3,608,000		3,478,000
Net cost of operations		(2,849,352)		(3,457,564)
Net change		758,648		20,436
Cumulative results of operations, ending	$	(398,346)	$	(1,156,994)
Unexpended appropriations, beginning				
Budgetary financing sources:				
Appropriations received	$	3,608,000	$	3,478,000
Appropriations used		(3,608,000)		(3,478,000)
Total budgetary financing sources		-		-
Total unexpended appropriations		-		-
Net position	$	(398,346)	$	(1,156,994)

9. Status of Budgetary Resources

A. Apportionment Categories of Obligations Incurred

Obligations incurred reported on the Statement of Budgetary Resources consist of the following:

		2008		2007
Direct obligations				
Category A	$	5,237,449	$	14,111,260
Category B		73,709,286		57,969,341
Exempt		7,230,245		11,755,017
Total direct obligations	$	86,176,980	$	83,835,618

B. Permanent Indefinite Appropriations
The Commission's permanent indefinite appropriations include the trust fund. These funds are described in Note 8.

C. Explanation of Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government
Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, calls for explanations of material differences between amounts reported in the Statement of Budgetary Resources (SBR) and the actual balances published in the Budget of the U.S. Government (President's Budget). The Budget of the U. S. Government, with the Actual column completed for 2007 and 2006, was reconciled to the Statement of Budgetary resources as follows:

Appalachian Regional Commission
Notes to Financial Statements
September 30, 2008 (Audited) and 2007 (Unaudited)

	2007			
(Dollars in Millions)	**Budgetary Resources**	**Obligations Incurred**	**Distributed Offsetting Receipts**	**Net Outlays**
Statement of Budgetary Resources	$ 109	$ 84	$ 2	$ 80
No Reconciling Items				
Budget of the U.S. Government	$ 109	$ 84	$ 2	$ 80

	2006			
(Dollars in Millions)	**Budgetary Resources**	**Obligations Incurred**	**Distributed Offsetting Receipts**	**Net Outlays**
Statement of Budgetary Resources	$ 98	$ 79	$ 1	$ 78
Reconciling Items:				
Recoveries of prior year obligations	(2)			
Budget of the U.S. Government	$ 96	$ 79	$ 1	$ 78

10. Undelivered Orders at the End of the Period

The amount of budgetary resources obligated for undelivered orders are $122,343,662 and $125,970,613 as of September 30, 2008 and 2007, respectively.

11. Restatements

In FY 2007 ARC received a disclaimer of opinion on its financial statements due in part to the inability of ARC to fully implement the new Parent/Child requirements. During the FY 2008 audit, ARC was made aware of a material error affecting its FY 2007 financial statements related to the improper recording of child agency financial activity by two of ARC's child agencies. Specifically, Unexpended Appropriations and the Cumulative Results of Operations were reported incorrectly because ARC funding was not properly recorded in the Appropriations Used account.

The total amount of the error to the Cumulative Results of Operations was $8,938,471 on the balance sheet and statement of changes in net position causing the Change in Accounting Principles line item to be adjusted from $3,403,821 to $244,369 and the Appropriations Used line to be adjusted from $58,599,432 to $64,378,451 on the statement of changes in net position. In addition, the total error to the total Unexpended Appropriations was $8,938,471 on the balance sheet and statement of changes in net position causing the Change in Accounting Principles line item to be adjusted from $109,481,379 to $101,275,949 and the Appropriations Used line to be adjusted from $58,599,432 to $64,378,451. These changes had no effect on the net position of ARC as of September 30, 2007.

The FY 2007 statements *were not audited*, but rather ARC received a disclaimer of opinion on the FY 2007 financial statements by ARC's independent public accountants (IPA). This restatement does not affect the disclaimer of opinion issued by the IPA.

Because ARC did not issue audited financial statements in FY 2007 and the financial statements could not be relied upon by outside parties, ARC did not implement the communication requirements in OMB Circular A-136 which relate to audited financial statements with concurrence by OMB. ARC has determined that correcting the error with the next issuance of financial statements is the appropriate

Appalachian Regional Commission
Notes to Financial Statements
September 30, 2008 (Audited) and 2007 (Unaudited)

treatment since the issuance of subsequent period audited financial statements was imminent.

12. Reconciliation of Net Cost to Budget

	2008	2007
Resources Used to Finance Activities:		
Budgetary resources obligated		
Obligations incurred	$ 86,176,947	$ 83,835,618
Less: spending authority from offsetting collections and recoveries	9,850,604	17,090,089
Obligations net of offsetting collections and recoveries	76,326,343	66,745,529
Less: offsetting receipts	4,636,738	3,924,645
Obligations net of offsetting collections and recoveries	71,689,605	62,820,884
Net obligations	71,689,605	62,820,884
Total resources used to finance activities	71,689,605	62,820,884
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in budgetary resources obligated for goods, services and benefits ordered by not yet provided	38,445,601	(17,275,474)
Resources that fund expenses recognized in prior periods	(750,938)	(14,799)
Total resources used to finance items not part of the net cost of operations	37,694,663	(17,290,273)
Total resources used to finance the net cost of operations	33,994,942	80,111,157
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period		
Components requiring or generating resources in future periods		
Increase in annual leave liability	(97,498)	-
Increase in exchange revenue recievable from the public	-	41,856
Other	(684)	(392,286)
Total components of net cost of operations that will require or generate resources in future periods	(98,182)	(350,430)
Components requiring or generating resources:		
Depreciation	44,563	-
Reconciling Items:		
4902 adjustments	41,408,796	-
4902 trust fund eliminating entry	(3,608,000)	-
HHS budgetary adjustment	(105,908)	
Other	(1,291,689)	(15,548,628)
Net components of net cost of operations that will not require or generate resources in the current period	36,447,762	(15,548,628)
Net Cost of Operations	$ 70,344,522	$ 64,212,099

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REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

Stewardship Investments

Stewardship investments are substantial investments that are made by the federal government for the benefit of the nation but are not physical assets owned by the federal government. Such investments are measured in terms of expenses incurred for non-federal physical property, human capital, and research and development.

ARC invests in non-federal physical property, human capital, and research and development through its Area Development Program, which funds projects that support the goals and objectives set forth in the Commission's strategic plan.

ARC Investment in Non-Federal Physical Property

Non-federal physical property investments are expenses included in net cost of operations for the purchase, construction, or major renovation of physical property owned by state and local governments. In FY 2008, ARC's investment in non-federal physical property included grants for water and sewer system construction and improvements; storm sewer construction; utilities installation; and access road construction.

ARC Investment in Non-Federal Physical Property	
Fiscal Year 2006	$34,829,283
Fiscal Year 2007	$38,405,157
Fiscal Year 2008	$33,400,670

ARC Investment in Human Capital

Human capital investments are expenses included in net cost of operations for education and training programs that are intended to increase or maintain national economic productive capacity and that produce outputs and outcomes that provide evidence of maintaining or increasing national productive capacity. ARC's investments in human capital in FY 2008 included grants for education and job training programs including workforce training, dropout prevention, distance learning, math and science, child development, and health.

ARC Investment in Human Capital	
Fiscal Year 2004	$5,801,671
Fiscal Year 2005	$6,297,802
Fiscal Year 2006	$7,815,477
Fiscal Year 2007	$5,763,348
Fiscal Year 2008	$7,564,563

ARC Investment in Research and Development

Research and development investments are expenses included in net cost of operations that support the search for new or refined knowledge and ideas and for the application or use of such knowledge and ideas with the expectation of maintaining or increasing national economic productive capacity or yielding other future benefits. In FY 2008, ARC invested in applied research through the following projects: an analysis of demographic trends in workforce skill levels in Appalachia; an analysis of long-term trends in the regional standard of living; an analysis of mental health disparities, and of substance abuse prevalence and treatment services disparities in Appalachia; an analysis of potential energy-efficiency gains in Appalachia; an analysis of wind and solar industry supply-chain opportunities; two separate evaluations of ARC's tourism and entrepreneurship projects, and an evaluation of an initiative to improve regional college-going rates.

ARC Investment in Research and Development	
Fiscal Year 2004	$474,677
Fiscal Year 2005	$705,155
Fiscal Year 2006	$393,794
Fiscal Year 2007	$614,464
Fiscal Year 2008	$592,516

PART IV:
OTHER ACCOMPANYING INFORMATION

ARC PERFORMANCE MEASURES

As an investor in grassroots economic development, ARC's performance is in large measure dependent on the achievements of its local, state, and regional partners. To measure its effectiveness, ARC will look at the following four areas of performance:

- *Leverage.* ARC will measure additional public and private financial and technical support attracted by Commission investments.
- *Jobs.* ARC will gauge its involvement in job-generating programs by both the quantity and the quality of jobs created.
- *Employability.* ARC will measure improvements in high school graduation rates, increases in college attendance and graduation rates, the number of participants completing workforce training programs, and the number of children served in early childhood education programs.
- *Infrastructure Development and Connectivity.* ARC will look at the number of citizens served; connections made between modes of transportation, particularly between railways and highways; and highway miles opened to traffic.

PERFORMANCE GOALS

Assuming ARC's annual funding remains at the current level, the Commission is committed to the following six-year and ten-year performance goals:

Six-Year Performance Goals

- 120,000 jobs will be created or retained.
- 120,000 households will be served with new or improved water and sewer infrastructure.
- 120,000 citizens of the Region will benefit from enhanced education and job-related skills.
- 150 miles of the Appalachian Development Highway System will be opened to traffic (based on the current level of transportation funding from the U.S. Congress).

Ten-Year Performance Goals

- 200,000 jobs will be created or retained.
- 200,000 households will be served with new or improved water and sewer infrastructure.
- 200,000 citizens of the Region will benefit from enhanced education and job-related skills.
- 250 additional miles (net increase) of the Appalachian Development Highway System will be open to traffic (based on the current level of transportation funding from the U.S. Congress).

The Appalachian Regional Commission tracks the programs it supports and reports its findings regarding performance on a yearly basis. ARC's current performance and accountability report can be found on the ARC Web site at www.arc.gov.

APPALACHIAN REGIONAL COMMISSION
ARC

A Proud Past, A New Vision

Office of Inspector General

October 2008

MEMORANDUM FOR FEDERAL CO-CHAIR POPE

FROM: Clifford H. Jennings
Inspector General

SUBJECT: Management and Performance Challenges Facing the Appalachian Regional Commission

The Reports Consolidation Act of 2000 requires we provide you with our perspective on the most serious management and performance challenges facing the Commission for inclusion in the Commission's annual performance and accountability report.

This year the same challenges remain that were reported last year. The financial statement for FY 2007 was issued nearly eight months late. Despite the extra time and effort by both the Commission staff and the auditors, the audit firm was unable to express an opinion. The Commission should strive at all costs to have the current year's statement issued in a timely fashion regardless of the opinion. The inability to issue an audit timely is just as telling as the contents of the audit. Further, this lateness obviates the ability of management to use the audit and the financial statement as a management tool. A clean opinion is not necessarily an end unto itself. A clean opinion issued many months late is still indicative of significant issues with the financial management given the inability to have timely data from which to manage.

During the upcoming year my office will be reviewing the reliance ARC management can place on performance measures that are documented in the grant management system. Our current audit work has shown some inconsistency in how they are being reported and we will formalize this work during FY 2009.

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Alabama Georgia Kentucky Maryland Mississippi New York North Carolina Ohio Pennsylvania South Carolina Tennessee Virginia West Virginia

Challenge 1- Compliance with OMB Circular A-136

The major ongoing challenge for ARC is to comply with OMB Circular A-136. ARC and OMB have been working closely in an attempt to get audited data that the circular requires. ARC is currently attempting to satisfy Section 3 Financial Section; II.4.2 Q&As; Question 5 of OMB Circular A-136, Financial Reporting Requirements, under which a parent agency (transferor of the appropriation) must report all budgetary and proprietary activity in its financial statements, whether that activity is material to its child agencies or not. ARC has parent relationships with five departments and agencies to each of whom it transfers its appropriated funds for purposes of accomplishing economic development activities in the Appalachian Region, largely through Federal grants. These activities are authorized by the Appalachian Regional Development Act of 1965, as amended, 40 U.S.C. 14101-14704. ARC parent/child relationships are with the following departments/agencies:

- Department of Transportation
- Economic Development Agency of the Department of Commerce
- Rural Development of the Department of Agriculture
- Department of Education
- US Army Corps of Engineers

ARC transfers a large portion of its appropriation annually to these agencies to carry out its mission and the transfers are definitely material to the Commission; however, the transfers are relatively minor for the child agency receiving them and are not material to their financial reporting.

Challenge 2 – Upgrading Agency IT support infrastructure, agency accounting and grant management system.

ARC continues to undergo a transformation in its IT support as it transfers some of the in-house operation to outsourced support and shared services. The agency has been planning on transferring from its GLOWS system to a newer accounting system in the very near future. The challenge is to acquire the new system and to effectuate a smooth transition while maintaining the integrity of the accounting data.

Coupled with these efforts are the ongoing efforts to update the grants management system which should, in time, interface with the accounting system. Our office has issued one report with recommendations to improve the system and will be issuing another shortly.

The major challenge will be to maximize the operational efficiency of each system in its own right while interacting smoothly with the other systems while sharing data. We continue to recommend that the systems be inter-operable and reconcilable. Additionally, the usual security, internet access and user requests must be taken into account.

APPENDICES

APPENDIX A:
Historical Funding Totals

Appropriations for Appalachian Regional Development Programs

(in thousands of dollars)

Fiscal Year	Appalachian Development Highway System Program	Area Development Program	Total
1965–66	$200,000*	$107,240	$307,240
1967	100,000*	58,550	158,550
1968	70,000*	57,446	127,446
1969	100,000*	74,450	174,450
1970	175,000*	108,390	283,390
1971	175,000*	127,968	302,968
1972	175,000*	123,113	298,113
1973	205,000*	139,217	344,217
1974	155,000*	116,492	271,492
1975	160,000*	135,247	295,247
1976	162,200*	127,870	290,070
Transition Quarter	37,500*	12,995	50,495
1977	185,000*	119,925	304,925
1978	211,300*	114,483	325,783
1979	233,000*	147,920	380,920
1980	229,000*	130,605	359,605
1981	214,600*	87,892	302,492†
1982	100,000*	52,900	152,900
1983	115,133*	52,900	168,033
1984	109,400*	52,700	162,100
1985	100,000*	51,300	151,300
1986	78,980*	37,965	116,945‡
1987	74,961*	30,039	105,000
1988	63,967*	43,033	107,000
1989	69,169*	41,531	110,700
1990	105,090*	42,810	147,900‡
1991	126,374*	43,624	169,998‡
1992	142,899*	47,101	190,000
1993	129,255*	60,745	190,000
1994	152,327*	96,673	249,000
1995	179,766*	92,215	271,981†
1996	102,475*	67,514	169,989†
1997	99,669*	60,331	160,000
1998	102,500*	67,500	170,000
1999	391,390§	66,392	457,782†
2000	386,071§	66,149	452,220†
2001	389,617§	77,230	466,847†
2002	400,427§	71,282	471,709†
2003	446,645§	70,827	517,472†
2004	484,830§	65,611	550,441†
2005	385,374§	65,472	450,846†
2006	395,296§	64,817	460,113†
2007	423,820§	64,858	488,678
2008	434,280§	73,032	507,312
Total	**$8,777,315**	**$3,416,354**	**$12,193,669**

** Highway funds are net appropriations after transfers to area development for access roads.*
† After rescission of an appropriation.
‡ After sequestration of an appropriation.
§ Obligation ceiling; Appalachian Development Highway System funds from the Highway Trust Fund apportioned by ARC formula to the Appalachian states.

Appalachian Development Highway System Authorizations

(in millions of dollars)

Legislation	Period Covered	Amount of Authorization	
		Added	Cumulative
1965 Appalachian Regional Development Act (ARDA)	through 1971	$840.0	$840.0
1967 ARDA Amendments	through 1971	175.0	1,015.0
1969 ARDA Amendments	through 1973	150.0	1,165.0
1971 ARDA Amendments	through 1978	925.0	2,090.0
1975 ARDA Amendments	through 1981	840.0	2,930.0
1980 ARDA Amendments	through 1982	260.0	3,190.0
1982 Reconciliation Act	through 1982	-50.0	3,140.0
1983 ARDA Appropriation Act	through 1983	115.1	3,255.1
1984 ARDA Appropriation Act	through 1984	109.4	3,364.5
1985 ARDA Appropriation Act	through 1985	100.0	3,464.5
1986 ARDA Appropriation Act	through 1986	79.0	3,543.5
1987 ARDA Appropriation Act	through 1987	75.0	3,618.5
1988 ARDA Appropriation Act	through 1988	64.0	3,682.4
1989 ARDA Appropriation Act	through 1989	69.2	3,751.6
1990 ARDA Appropriation Act	through 1990	105.1	3,856.7
1991 ARDA Appropriation Act	through 1991	126.4	3,983.1
1992 ARDA Appropriation Act	through 1992	142.9	4,126.0
1993 ARDA Appropriation Act	through 1993	129.3	4,255.3
1994 ARDA Appropriation Act	through 1994	160.0	4,415.4
1995 ARDA Appropriation Act	through 1995	189.3	4,604.7
1996 ARDA Appropriation Act	through 1996	109.0	4,713.7
1997 ARDA Appropriation Act	through 1997	99.7	4,813.4
1998 ARDA Appropriation Act	through 1998	102.5	4,915.9
Transportation Equity Act for the 21st Century*	through 2003	2,250.0	7,165.9
Surface Transportation Extension Acts of 2004*	through 2004	512.5	7,678.4
Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users*	through 2009	2,350.0	10,028.4
Expired authorization (through 1982)			**$–252.4**
Cumulative authorization through 2009			**$9,776.0**

Note: Totals may not add because of rounding.

** Appalachian Development Highway System funds from the Highway Trust Fund apportioned by ARC formula to the Appalachian states.*

Cumulative Funding by State through Fiscal Year 2008

(in millions of dollars)

State	ARC Nonhighway Funds	ARC Highway Funds*	TEA-21/ SAFETEA-LU Highway Funds*†
Alabama	$283.2	$366.1	$399.6
Georgia	205.4	144.2	8.9
Kentucky	372.6	619.0	291.1
Maryland	120.7	161.1	18.2
Mississippi	194.4	195.4	37.3
New York	177.6	325.4	128.0
North Carolina	220.1	219.6	149.9
Ohio	232.8	178.3	161.1
Pennsylvania	435.6	673.5	994.1
South Carolina	196.0	39.7	19.3
Tennessee	289.2	457.0	168.1
Virginia	186.8	171.2	115.4
West Virginia	356.0	1,033.0	675.6
Commission Discretionary	210.9	n/a	n/a

** Includes funding for Appalachian Development Highway System and local access roads.*

† Appalachian Development Highway System funds from the Highway Trust Fund apportioned by ARC formula to the Appalachian states.

APPENDIX B:
Nonhighway Project Funding

APPALACHIAN REGIONAL COMMISSION

Nonhighway Projects Approved Fiscal Year 2008

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	114	$20,904.3	$4,751.5	$63,493.9	$89,149.7
Child Development	3	154.9	36.0	236.4	427.2
Community Development	66	16,654.3	3,847.0	38,658.7	59,160.0
Education and Job Training	64	10,092.3	1,212.5	10,831.8	22,136.5
Environment and Natural Resources	13	289.6	20.6	455.0	765.1
Health	28	5,755.6	1,344.3	11,943.1	19,043.0
Housing	6	651.2	2,059.3	755.9	3,466.4
Leadership and Civic Capacity	28	2,190.3	0.0	1,417.0	3,607.4
Local Development District Planning and Administration	73	6,830.4	54.1	6,361.9	13,246.4
Research and Technical Assistance	22	3,248.7	0.0	3,004.7	6,253.3
Total	**417**	**$66,771.5**	**$13,325.2**	**$137,158.3**	**$217,255.0**

Notes: Totals may not add because of rounding. Table does not include access road projects funded through the Highway Trust Fund.

Cumulative Nonhighway Projects Approved through Fiscal Year 2008

(in millions of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	2,691	$389.5	$164.7	$713.7	$1,267.9
Child Development	2,104	208.8	131.4	122.7	462.9
Community Development	5,216	1,161.8	1,653.2	2,362.9	5,178.0
Education and Job Training	4,523	691.0	199.6	885.7	1,776.3
Environment and Natural Resources	445	110.8	10.2	38.4	159.4
Health	4,026	498.8	248.5	753.3	1,500.6
Housing	1,210	79.8	293.4	261.5	634.7
Leadership and Civic Capacity	632	37.4	1.0	22.1	60.5
Local Development District Planning and Administration	3,386	197.8	41.7	165.0	404.4
Research and Technical Assistance	1,397	105.8	1.3	74.6	181.8
Total	**25,630**	**$3,481.6**	**$2,745.0**	**$5,400.0**	**$11,626.6**

Notes: Totals may not add because of rounding. Table does not include access road projects funded through the Highway Trust Fund.

ALABAMA

Nonhighway Projects Approved Fiscal Year 2008

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	12	$1,668.5	$686.4	$3,094.3	$5,449.1
Child Development	1	60.0	36.0	105.5	201.5
Community Development	6	994.0	0.0	1,756.4	2,750.4
Education and Job Training	5	757.0	162.8	626.8	1,546.6
Health	3	500.9	343.8	377.5	1,222.2
Leadership and Civic Capacity	2	82.1	0.0	79.9	162.1
Local Development District Planning and Administration	8	592.0	0.0	521.8	1,113.8
Research and Technical Assistance	3	455.3	0.0	454.1	909.4
Total	**40**	**$5,109.9**	**$1,229.0**	**$7,016.2**	**$13,355.1**

Notes: Totals may not add because of rounding. Table does not include access road projects funded through the Highway Trust Fund.

Cumulative Nonhighway Projects Approved through Fiscal Year 2008

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	157	$20,668.1	$14,478.7	$42,507.3	$77,654.1
Child Development	157	13,989.1	13,628.0	8,986.5	36,603.6
Community Development	464	90,090.6	114,111.8	170,688.4	374,890.9
Education and Job Training	319	76,560.1	22,527.5	79,715.5	178,803.0
Environment and Natural Resources	7	2,630.1	0.0	245.0	2,875.1
Health	408	50,217.7	21,415.7	51,264.2	122,897.6
Housing	16	1,419.8	350.0	127.0	1,896.9
Leadership and Civic Capacity	41	2,462.8	6.3	1,425.3	3,894.4
Local Development District Planning and Administration	350	18,439.1	2,122.8	11,864.9	32,426.8
Research and Technical Assistance	79	6,724.4	25.0	4,977.5	11,727.0
Total	**1,998**	**$283,201.9**	**$188,665.8**	**$371,801.8**	**$843,669.4**

Notes: Totals may not add because of rounding. Table does not include access road projects funded through the Highway Trust Fund.

GEORGIA

Nonhighway Projects Approved Fiscal Year 2008

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	11	$2,609.8	$99.0	$9,967.5	$12,676.4
Community Development	2	53.9	0.0	54.9	108.8
Education and Job Training	2	275.0	0.0	339.0	614.0
Environment and Natural Resources	2	70.9	0.0	125.6	196.5
Health	1	58.6	0.0	58.6	117.2
Leadership and Civic Capacity	1	69.5	0.0	88.5	158.0
Local Development District Planning and Administration	6	456.2	0.0	456.2	912.5
Research and Technical Assistance	1	117.8	0.0	117.8	235.6
Total	**26**	**$3,711.8**	**$99.0**	**$11,208.2**	**$15,019.0**

Notes: Totals may not add because of rounding. Table does not include access road projects funded through the Highway Trust Fund.

Cumulative Nonhighway Projects Approved through Fiscal Year 2008

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	127	$23,553.9	$6,078.2	$49,014.4	$78,646.4
Child Development	307	21,021.8	16,591.6	9,495.7	47,109.0
Community Development	312	57,014.1	82,064.1	146,870.7	285,948.9
Education and Job Training	282	41,607.1	6,017.0	31,788.9	79,413.0
Environment and Natural Resources	5	946.4	0.0	249.6	1,196.0
Health	321	35,746.3	12,251.3	30,997.9	78,995.5
Housing	81	5,063.6	15,357.7	33,666.5	54,087.8
Leadership and Civic Capacity	14	650.8	0.0	450.6	1,101.3
Local Development District Planning and Administration	282	14,023.4	3,833.3	12,291.7	30,148.5
Research and Technical Assistance	44	5,752.6	0.0	4,629.1	10,381.6
Total	**1,775**	**$205,380.0**	**$142,193.2**	**$319,455.1**	**$667,028.0**

Notes: Totals may not add because of rounding. Table does not include access road projects funded through the Highway Trust Fund.

KENTUCKY

Nonhighway Projects Approved Fiscal Year 2008

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	5	$1,420.0	$1,080.0	$1,005.0	$3,505.0
Community Development	9	3,691.8	1,357.4	11,497.1	16,546.3
Education and Job Training	4	1,220.0	0.0	825.5	2,045.5
Health	7	2,852.4	0.0	8,008.4	10,860.8
Housing	6	651.2	2,059.3	755.9	3,466.4
Leadership and Civic Capacity	3	440.0	0.0	113.3	553.3
Local Development District Planning and Administration	9	711.0	54.1	894.1	1,659.2
Research and Technical Assistance	1	83.8	0.0	83.8	167.5
Total	**44**	**$11,070.1**	**$4,550.9**	**$23,183.0**	**$38,804.0**

Notes: Totals may not add because of rounding. Table does not include access road projects funded through the Highway Trust Fund.

Cumulative Nonhighway Projects Approved through Fiscal Year 2008

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	139	$21,431.4	$16,132.9	$50,323.6	$87,887.8
Child Development	32	9,730.7	13,201.2	3,044.9	25,976.8
Community Development	582	148,551.2	215,292.7	389,871.0	753,715.0
Education and Job Training	343	57,666.4	10,470.8	45,084.6	113,221.7
Environment and Natural Resources	30	3,012.4	1,148.5	1,123.4	5,284.3
Health	387	70,132.1	21,672.8	90,127.6	181,932.5
Housing	312	27,088.5	117,650.3	126,166.2	270,905.0
Leadership and Civic Capacity	52	5,074.8	2.4	1,963.5	7,040.7
Local Development District Planning and Administration	451	23,401.7	277.5	16,663.3	40,342.6
Research and Technical Assistance	69	6,552.1	40.0	5,236.6	11,828.7
Total	**2,397**	**$372,641.3**	**$395,889.2**	**$729,604.6**	**$1,498,135.2**

Notes: Totals may not add because of rounding. Table does not include access road projects funded through the Highway Trust Fund.

MARYLAND

Nonhighway Projects Approved Fiscal Year 2008

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	5	$1,305.0	$208.8	$1,240.0	$2,753.8
Community Development	1	250.0	0.0	755.0	1,005.0
Education and Job Training	9	630.0	0.0	697.2	1,327.2
Health	1	250.0	0.0	250.0	500.0
Leadership and Civic Capacity	1	10.0	0.0	10.0	20.0
Local Development District Planning and Administration	1	151.0	0.0	151.0	302.0
Research and Technical Assistance	1	50.0	0.0	50.0	100.0
Total	**19**	**$2,646.0**	**$208.8**	**$3,153.2**	**$6,008.0**

Notes: Totals may not add because of rounding. Table does not include access road projects funded through the Highway Trust Fund.

Cumulative Nonhighway Projects Approved through Fiscal Year 2008

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	89	$15,571.4	$8,085.4	$30,514.3	$54,171.1
Child Development	12	5,131.7	3,259.6	2,287.9	10,679.2
Community Development	168	39,643.4	59,773.9	75,889.5	175,306.9
Education and Job Training	313	22,725.7	2,227.4	19,261.7	44,214.8
Environment and Natural Resources	14	3,499.7	2,674.4	2,378.2	8,552.3
Health	179	17,606.8	2,073.4	17,436.8	37,117.1
Housing	108	7,537.1	13,479.6	36,673.2	57,689.9
Leadership and Civic Capacity	8	207.5	0.0	90.6	298.1
Local Development District Planning and Administration	57	4,482.2	725.7	3,937.8	9,145.7
Research and Technical Assistance	43	4,317.3	98.0	4,329.7	8,745.0
Total	**991**	**$120,722.8**	**$92,397.4**	**$192,799.7**	**$405,920.1**

Notes: Totals may not add because of rounding. Table does not include access road projects funded through the Highway Trust Fund.

MISSISSIPPI

Nonhighway Projects Approved Fiscal Year 2008

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	9	$1,725.3	$0.0	$4,324.0	$6,049.3
Community Development	4	744.3	0.0	2,230.3	2,974.6
Education and Job Training	9	3,062.4	50.0	1,514.6	4,627.0
Leadership and Civic Capacity	2	370.0	0.0	97.0	467.0
Local Development District Planning and Administration	6	379.0	0.0	126.7	505.7
Research and Technical Assistance	1	307.5	0.0	284.6	592.1
Total	**31**	**$6,588.5**	**$50.0**	**$8,577.1**	**$15,215.6**

Notes: Totals may not add because of rounding. Table does not include access road projects funded through the Highway Trust Fund.

Cumulative Nonhighway Projects Approved through Fiscal Year 2008

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	128	$24,189.7	$10,304.3	$66,842.8	$101,336.8
Child Development	162	10,973.8	7,211.5	6,356.1	24,541.4
Community Development	440	68,039.5	55,171.4	115,819.5	239,030.3
Education and Job Training	268	46,251.0	9,848.6	24,270.3	80,370.0
Environment and Natural Resources	12	2,260.5	0.0	959.3	3,219.8
Health	185	20,495.2	5,435.4	16,037.1	41,967.7
Housing	46	1,953.7	6,659.9	825.5	9,439.1
Leadership and Civic Capacity	25	3,628.8	0.0	1,814.1	5,442.8
Local Development District Planning and Administration	207	10,113.1	2,557.5	6,946.1	19,616.7
Research and Technical Assistance	47	6,492.6	280.0	4,996.4	11,769.0
Total	**1,520**	**$194,397.8**	**$97,468.8**	**$244,867.2**	**$536,733.7**

Notes: Totals may not add because of rounding. Table does not include access road projects funded through the Highway Trust Fund.

NEW YORK

Nonhighway Projects Approved Fiscal Year 2008
(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	5	$510.0	$740.0	$3,315.0	$4,565.0
Child Development	1	89.9	0.0	89.9	179.7
Community Development	7	769.5	579.6	4,855.7	6,204.7
Education and Job Training	3	279.4	28.5	252.2	560.0
Environment and Natural Resources	1	15.0	0.0	15.0	30.0
Health	1	75.8	0.0	76.9	152.8
Leadership and Civic Capacity	3	185.0	0.0	185.5	370.5
Local Development District Planning and Administration	3	787.0	0.0	787.0	1,574.0
Research and Technical Assistance	1	203.1	0.0	203.1	406.2
Total	**25**	**$2,914.6**	**$1,348.0**	**$9,780.2**	**$14,042.8**

Notes: Totals may not add because of rounding. Table does not include access road projects funded through the Highway Trust Fund.

Cumulative Nonhighway Projects Approved through Fiscal Year 2008
(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	202	$17,809.0	$5,581.6	$31,327.8	$54,718.3
Child Development	304	17,446.3	3,160.4	12,706.8	33,313.6
Community Development	283	46,859.3	95,315.6	141,405.1	283,580.1
Education and Job Training	344	43,615.2	12,275.1	65,976.0	121,866.4
Environment and Natural Resources	15	2,808.3	0.0	364.0	3,172.3
Health	222	22,888.2	7,421.4	49,886.8	80,196.5
Housing	55	3,378.3	1,020.0	1,524.9	5,923.2
Leadership and Civic Capacity	34	1,781.3	1.8	1,395.6	3,178.7
Local Development District Planning and Administration	155	14,283.1	722.1	11,286.1	26,291.3
Research and Technical Assistance	44	6,837.4	0.0	5,611.6	12,449.0
Total	**1,658**	**$177,706.5**	**$125,498.1**	**$321,484.9**	**$624,689.4**

Notes: Totals may not add because of rounding. Table does not include access road projects funded through the Highway Trust Fund.

NORTH CAROLINA

Nonhighway Projects Approved Fiscal Year 2008

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	3	$736.0	$1,000.0	$14,173.0	$15,909.0
Community Development	6	1,258.2	0.0	4,669.5	5,927.7
Education and Job Training	1	223.5	0.0	251.7	475.1
Environment and Natural Resources	1	80.0	0.0	80.0	160.0
Health	1	41.0	0.0	56.0	97.1
Local Development District Planning and Administration	6	493.0	0.0	632.8	1,125.8
Research and Technical Assistance	1	490.8	0.0	528.8	1,019.5
Total	**19**	**$3,322.5**	**$1,000.0**	**$20,391.7**	**$24,714.3**

Notes: Totals may not add because of rounding. Table does not include access road projects funded through the Highway Trust Fund.

Cumulative Nonhighway Projects Approved through Fiscal Year 2008

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	121	$18,851.5	$3,894.3	$58,329.5	$81,075.4
Child Development	47	27,711.4	20,309.2	19,644.8	67,665.4
Community Development	373	60,318.2	64,716.9	138,285.2	263,320.4
Education and Job Training	208	43,181.7	8,072.4	34,252.5	85,506.7
Environment and Natural Resources	15	2,399.6	96.0	458.4	2,954.0
Health	217	30,675.5	20,391.4	45,849.4	96,916.3
Housing	136	6,637.2	41,416.4	10,346.2	58,399.9
Leadership and Civic Capacity	27	1,754.0	119.6	1,444.3	3,317.9
Local Development District Planning and Administration	274	16,044.5	2,341.7	16,124.4	34,510.7
Research and Technical Assistance	59	12,536.2	125.0	11,050.0	23,711.1
Total	**1,477**	**$220,110.0**	**$161,483.0**	**$335,784.7**	**$717,377.7**

Notes: Totals may not add because of rounding. Table does not include access road projects funded through the Highway Trust Fund.

OHIO

Nonhighway Projects Approved Fiscal Year 2008

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	3	$490.0	$0.0	$603.8	$1,093.8
Community Development	2	450.0	1,022.0	3,925.8	5,397.8
Education and Job Training	5	852.0	30.0	986.8	1,868.8
Health	5	1,014.8	631.5	2,150.2	3,796.5
Leadership and Civic Capacity	2	113.1	0.0	28.3	141.4
Local Development District Planning and Administration	3	639.0	0.0	528.7	1,167.7
Research and Technical Assistance	1	125.0	0.0	125.0	250.0
Total	**21**	**$3,683.9**	**$1,683.5**	**$8,348.5**	**$13,715.9**

Notes: Totals may not add because of rounding. Table does not include access road projects funded through the Highway Trust Fund.

Cumulative Nonhighway Projects Approved through Fiscal Year 2008

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	168	$19,586.1	$9,744.2	$36,536.7	$65,867.0
Child Development	268	22,701.2	7,233.1	13,433.7	43,367.9
Community Development	347	62,176.3	66,792.5	186,357.1	315,325.8
Education and Job Training	298	51,555.0	15,409.5	74,811.4	141,776.0
Environment and Natural Resources	26	4,189.7	55.3	1,608.1	5,853.1
Health	361	45,783.5	16,147.4	46,939.6	108,870.4
Housing	76	4,710.2	12,581.7	9,249.9	26,541.8
Leadership and Civic Capacity	43	2,405.8	289.7	2,069.9	4,765.3
Local Development District Planning and Administration	170	14,777.3	1,613.5	13,595.3	29,986.1
Research and Technical Assistance	53	4,950.8	27.0	4,347.3	9,325.1
Total	**1,810**	**$232,835.7**	**$129,893.8**	**$388,949.0**	**$751,678.5**

Notes: Totals may not add because of rounding. Table does not include access road projects funded through the Highway Trust Fund.

PENNSYLVANIA

Nonhighway Projects Approved Fiscal Year 2008

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	15	$3,267.0	$772.4	$8,689.6	$12,729.0
Community Development	5	558.8	0.0	1,144.3	1,703.1
Education and Job Training	3	254.6	600.0	458.8	1,313.4
Health	1	100.0	0.0	245.9	345.9
Leadership and Civic Capacity	3	385.0	0.0	420.0	805.0
Local Development District Planning and Administration	7	693.0	0.0	693.0	1,386.0
Research and Technical Assistance	2	238.7	0.0	250.7	489.5
Total	**36**	**$5,497.2**	**$1,372.4**	**$11,902.3**	**$18,771.9**

Notes: Totals may not add because of rounding. Table does not include access road projects funded through the Highway Trust Fund.

Cumulative Nonhighway Projects Approved through Fiscal Year 2008

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	489	$108,492.0	$50,115.1	$169,201.7	$327,808.7
Child Development	192	13,756.6	8,264.1	7,337.4	29,358.1
Community Development	387	86,844.9	375,030.1	251,547.6	713,422.7
Education and Job Training	333	65,505.7	47,336.2	249,855.9	362,697.8
Environment and Natural Resources	123	62,018.0	400.0	24,294.0	86,712.0
Health	381	53,811.9	63,297.8	218,262.6	335,372.2
Housing	158	8,028.2	44,432.2	5,265.3	57,725.6
Leadership and Civic Capacity	58	3,224.8	237.4	3,504.4	6,966.5
Local Development District Planning and Administration	352	23,272.0	1,633.3	15,183.5	40,088.8
Research and Technical Assistance	69	10,652.2	270.0	10,665.8	21,588.0
Total	**2,542**	**$435,606.2**	**$591,016.3**	**$955,118.1**	**$1,981,740.6**

Notes: Totals may not add because of rounding. Table does not include access road projects funded through the Highway Trust Fund.

SOUTH CAROLINA

Nonhighway Projects Approved Fiscal Year 2008

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	4	$2,090.0	$0.0	$5,430.0	$7,520.0
Education and Job Training	1	153.2	0.0	279.5	432.6
Local Development District Planning and Administration	1	175.0	0.0	175.0	350.0
Research and Technical Assistance	1	53.1	0.0	53.1	106.3
Total	**7**	**$2,471.3**	**$0.0**	**$5,937.6**	**$8,408.9**

Notes: Totals may not add because of rounding. Table does not include access road projects funded through the Highway Trust Fund.

Cumulative Nonhighway Projects Approved through Fiscal Year 2008

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	83	$20,653.6	$3,514.0	$38,606.0	$62,773.6
Child Development	155	17,116.3	9,409.7	9,026.0	35,552.0
Community Development	241	52,703.5	33,671.3	90,651.5	177,026.3
Education and Job Training	459	54,633.7	11,098.9	58,683.1	124,415.7
Environment and Natural Resources	2	430.7	98.1	12.5	541.3
Health	362	41,344.3	17,186.6	54,441.7	112,972.6
Housing	5	291.6	0.0	0.0	291.6
Leadership and Civic Capacity	9	803.3	0.0	565.7	1,369.0
Local Development District Planning and Administration	55	6,078.1	897.3	3,678.8	10,654.2
Research and Technical Assistance	46	1,994.3	0.0	1,224.0	3,218.3
Total	**1,417**	**$196,049.3**	**$75,876.0**	**$256,889.4**	**$528,814.7**

Notes: Totals may not add because of rounding. Table does not include access road projects funded through the Highway Trust Fund.

TENNESSEE

Nonhighway Projects Approved Fiscal Year 2008
(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	6	$1,075.1	$40.0	$1,676.4	$2,791.5
Community Development	7	2,251.9	600.0	1,968.3	4,820.2
Education and Job Training	1	15.6	0.0	15.6	31.3
Health	2	372.1	0.0	434.5	806.6
Local Development District Planning and Administration	5	487.0	0.0	487.0	974.0
Research and Technical Assistance	1	220.0	0.0	220.0	440.0
Total	**22**	**$4,421.7**	**$640.0**	**$4,801.8**	**$9,863.5**

Notes: Totals may not add because of rounding. Table does not include access road projects funded through the Highway Trust Fund.

Cumulative Nonhighway Projects Approved through Fiscal Year 2008
(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	135	$29,911.4	$10,659.0	$31,903.1	$72,473.5
Child Development	145	14,049.0	17,659.2	14,424.3	46,132.5
Community Development	547	144,696.4	89,137.9	207,643.4	441,477.8
Education and Job Training	217	43,807.9	18,130.1	58,754.8	120,692.7
Environment and Natural Resources	18	2,887.0	194.5	181.2	3,262.7
Health	313	29,005.6	25,887.4	47,651.9	102,544.9
Housing	17	2,558.1	0.0	439.6	2,997.8
Leadership and Civic Capacity	15	1,301.6	0.0	644.5	1,946.1
Local Development District Planning and Administration	233	14,987.5	1,133.6	10,276.0	26,397.1
Research and Technical Assistance	52	5,983.2	0.0	5,947.2	11,930.4
Total	**1,692**	**$289,187.8**	**$162,801.7**	**$377,866.0**	**$829,855.5**

Notes: Totals may not add because of rounding. Table does not include access road projects funded through the Highway Trust Fund.

VIRGINIA

Nonhighway Projects Approved Fiscal Year 2008

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	4	$1,915.8	$0.0	$7,193.1	$9,109.0
Community Development	3	855.3	288.0	2,176.0	3,319.3
Education and Job Training	4	750.0	16.2	3,475.9	4,242.2
Leadership and Civic Capacity	1	17.0	0.0	4.3	21.3
Local Development District Planning and Administration	6	453.0	0.0	391.8	844.8
Research and Technical Assistance	1	240.0	0.0	240.0	480.0
Total	**19**	**$4,231.1**	**$304.2**	**$13,481.1**	**$18,016.5**

Notes: Totals may not add because of rounding. Table does not include access road projects funded through the Highway Trust Fund.

Cumulative Nonhighway Projects Approved through Fiscal Year 2008

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	107	$13,533.8	$6,593.3	$43,689.9	$63,817.0
Child Development	50	6,197.7	857.0	5,823.8	12,878.5
Community Development	263	73,030.9	77,054.8	166,971.0	317,056.8
Education and Job Training	244	44,796.3	8,910.9	30,896.9	84,604.1
Environment and Natural Resources	20	3,601.8	2,630.2	2,318.7	8,550.6
Health	133	20,498.3	7,089.8	20,080.3	47,668.4
Housing	59	6,682.7	20,893.9	23,210.2	50,786.9
Leadership and Civic Capacity	18	1,054.6	100.0	406.4	1,561.0
Local Development District Planning and Administration	289	14,640.6	4,334.0	11,954.4	30,929.0
Research and Technical Assistance	37	2,720.7	0.0	2,242.4	4,963.2
Total	**1,220**	**$186,757.4**	**$128,464.0**	**$307,594.0**	**$622,815.5**

Notes: Totals may not add because of rounding. Table does not include access road projects funded through the Highway Trust Fund.

WEST VIRGINIA

Nonhighway Projects Approved Fiscal Year 2008

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	2	$775.9	$0.0	$574.9	$1,350.8
Community Development	5	4,381.8	0.0	3,438.1	7,819.9
Education and Job Training	2	450.0	0.0	635.0	1,085.0
Leadership and Civic Capacity	1	344.8	0.0	201.8	546.6
Local Development District Planning and Administration	11	779.1	0.0	481.7	1,260.9
Research and Technical Assistance	2	375.0	0.0	375.0	750.0
Total	**23**	**$7,106.6**	**$0.0**	**$5,706.4**	**$12,813.0**

Notes: Totals may not add because of rounding. Table does not include access road projects funded through the Highway Trust Fund.

Cumulative Nonhighway Projects Approved through Fiscal Year 2008

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	111	$23,340.4	$8,327.1	$26,437.7	$58,105.2
Child Development	148	17,155.0	9,051.5	9,101.6	35,308.1
Community Development	514	156,532.2	307,997.5	247,994.7	712,524.4
Education and Job Training	267	65,936.5	25,546.3	94,030.7	185,513.5
Environment and Natural Resources	21	4,699.3	1,897.1	1,958.6	8,554.9
Health	297	51,465.1	25,659.7	61,948.2	139,073.0
Housing	90	3,532.0	19,574.8	13,572.5	36,679.3
Leadership and Civic Capacity	38	4,063.9	12.0	2,177.2	6,253.2
Local Development District Planning and Administration	479	22,020.2	19,465.8	31,124.3	72,610.4
Research and Technical Assistance	43	7,292.1	0.0	6,900.0	14,192.1
Total	**2,008**	**$356,036.7**	**$417,531.9**	**$495,245.5**	**$1,268,814.1**

Notes: Totals may not add because of rounding. Table does not include access road projects funded through the Highway Trust Fund.

COMMISSION DISCRETIONARY

Nonhighway Projects Approved Fiscal Year 2008

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	30	$1,315.9	$124.9	$2,207.4	$3,648.3
Child Development	1	5.0	0.0	41.0	46.0
Community Development	9	394.7	0.0	187.4	582.1
Education and Job Training	15	1,169.6	325.0	473.3	1,967.9
Environment and Natural Resources	9	123.7	20.6	234.3	378.6
Health	6	490.0	369.0	285.0	1,144.0
Leadership and Civic Capacity	9	173.8	0.0	188.6	362.4
Local Development District Planning and Administration	1	35.0	0.0	35.0	70.0
Research and Technical Assistance	5	288.5	0.0	18.8	307.3
Total	**85**	**$3,996.3**	**$839.5**	**$3,670.8**	**$8,506.5**

Notes: Totals may not add because of rounding. Table does not include access road projects funded through the Highway Trust Fund.

Cumulative Nonhighway Projects Approved through Fiscal Year 2008

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	635	$31,921.0	$11,197.9	$38,430.7	$81,549.7
Child Development	125	11,868.8	1,592.5	999.0	14,460.3
Community Development	295	75,327.0	17,094.9	32,929.5	125,351.4
Education and Job Training	628	33,133.7	1,720.7	18,345.6	53,199.9
Environment and Natural Resources	137	15,395.4	969.6	2,280.8	18,645.9
Health	260	9,166.3	2,539.0	2,406.0	14,111.3
Housing	51	918.7	0.0	446.0	1,364.7
Leadership and Civic Capacity	250	8,979.6	243.2	4,160.8	13,383.6
Local Development District Planning and Administration	32	1,195.7	0.0	71.8	1,267.5
Research and Technical Assistance	712	23,018.0	477.3	2,459.5	25,954.8
Total	**3,125**	**$210,924.3**	**$35,835.1**	**$102,529.7**	**$349,289.1**

Notes: Totals may not add because of rounding. Table does not include access road projects funded through the Highway Trust Fund.

APPENDIX C:
Appalachian Development
Highway System Status and Funding

Appalachian Development Highway System and Local Access Roads Obligations Fiscal Year 2008

	TEA-21/SAFETEA-LU FUNDS*			ARC FUNDS			
State	ADHS†	Local Access Roads	Total State and Local Match‡	ADHS	Local Access Roads	Total State and Local Match‡	Total Funds
Alabama	$33,011,245	$0	$8,252,811	$0	$0	$0	$41,264,056
Georgia	-459,064§	0	-114,766§	0	0	0	-573,830§
Kentucky	8,223,760	0	2,055,940	0	0	0	10,279,700
Maryland	362,943	576,392	234,834	-237,620§	0	-59,405§	877,144
Mississippi	-1,729,600§	213,128	-379,118§	0	0	0	-1,895,590§
New York	10,803,716	0	2,700,929	0	0	0	13,504,645
North Carolina	9,331,379	0	2,332,845	0	0	0	11,664,224
Ohio	3,903,662	523,096	1,106,690	0	0	0	5,533,448
Pennsylvania	77,233,276	843,724	19,519,250	0	-8§	-2§	97,596,240
South Carolina	79,777	0	19,944	0	0	0	99,721
Tennessee	14,966,933	0	3,741,733	0	0	0	18,708,666
Virginia	68,849,796	-708,189§	17,035,402	500,000	0	125,000	85,802,009
West Virginia	99,375,807	0	24,843,952	0	0	0	124,219,759
Totals	**$323,953,630**	**$1,448,151**	**$81,350,445**	**$262,380**	**-$8§**	**$65,593**	**$407,080,191**

Source: Federal Highway Administration's Fiscal Management Information System.
Note: Totals may not add because of rounding.
** Includes funds from TEA-21 Extension Acts and SAFETEA-LU.*
† Appalachian Development Highway System funds from the Highway Trust Fund apportioned by ARC formula to the Appalachian states.
‡ State and local funds assumed to be the required 20 percent match.
§ Represents a deobligation of federal funds.

Appalachian Development Highway System and Local Access Roads Cumulative Obligations Through Fiscal Year 2008

	TEA-21/SAFETEA-LU FUNDS*			ARC FUNDS			
State	ADHS†	Local Access Roads	Total State and Local Match‡	ADHS	Local Access Roads	Total State and Local Match	Total Funds
Alabama	$399,643,024	$0	$99,910,756	$337,462,447	$28,683,900	$122,391,623	$988,091,749
Georgia	8,949,762	34,400	2,246,041	131,843,683	12,377,000	66,730,607	222,181,493
Kentucky	291,081,265	0	72,770,316	612,492,961	6,510,628	305,498,886	1,288,354,056
Maryland	18,204,898	6,135,512	6,085,103	155,328,866	5,765,288	176,340,611	367,860,278
Mississippi	37,277,650	4,638,126	10,478,944	155,748,309	39,662,022	79,691,343	327,496,394
New York	127,953,128	0	31,988,282	316,271,129	9,138,138	242,868,136	728,218,812
North Carolina	149,886,405	0	37,471,601	209,658,380	9,934,493	111,738,561	518,689,440
Ohio	161,121,868	6,149,299	41,817,792	166,155,601	12,108,978	99,004,990	486,358,528
Pennsylvania	994,133,342	5,436,419	249,892,440	639,099,396	34,419,468	313,070,661	2,236,051,726
South Carolina	19,257,524	0	4,814,381	22,439,561	17,251,630	14,870,134	78,633,230
Tennessee	168,065,820	225,000	42,072,705	435,145,041	21,825,000	194,840,494	862,174,060
Virginia	115,414,028	1,291,811	29,176,460	162,763,008	8,424,491	116,793,421	433,863,219
West Virginia	675,612,796	0	168,903,199	1,011,822,266	21,217,347	503,493,755	2,381,049,363
Totals	**$3,166,601,510**	**$23,910,567**	**$797,628,019**	**$4,356,230,648**	**$227,318,382**	**$2,347,333,220**	**$10,919,022,347**

Source: Federal Highway Administration's Fiscal Management Information System.
Note: Totals may not add because of rounding.
** Includes funds from TEA-21 Extension Acts and SAFETEA-LU.*
† Appalachian Development Highway System funds from the Highway Trust Fund apportioned by ARC formula to the Appalachian states.
‡ State and local funds assumed to be the required 20 percent match.

Status of Completion of the Appalachian Development Highway System (Miles)

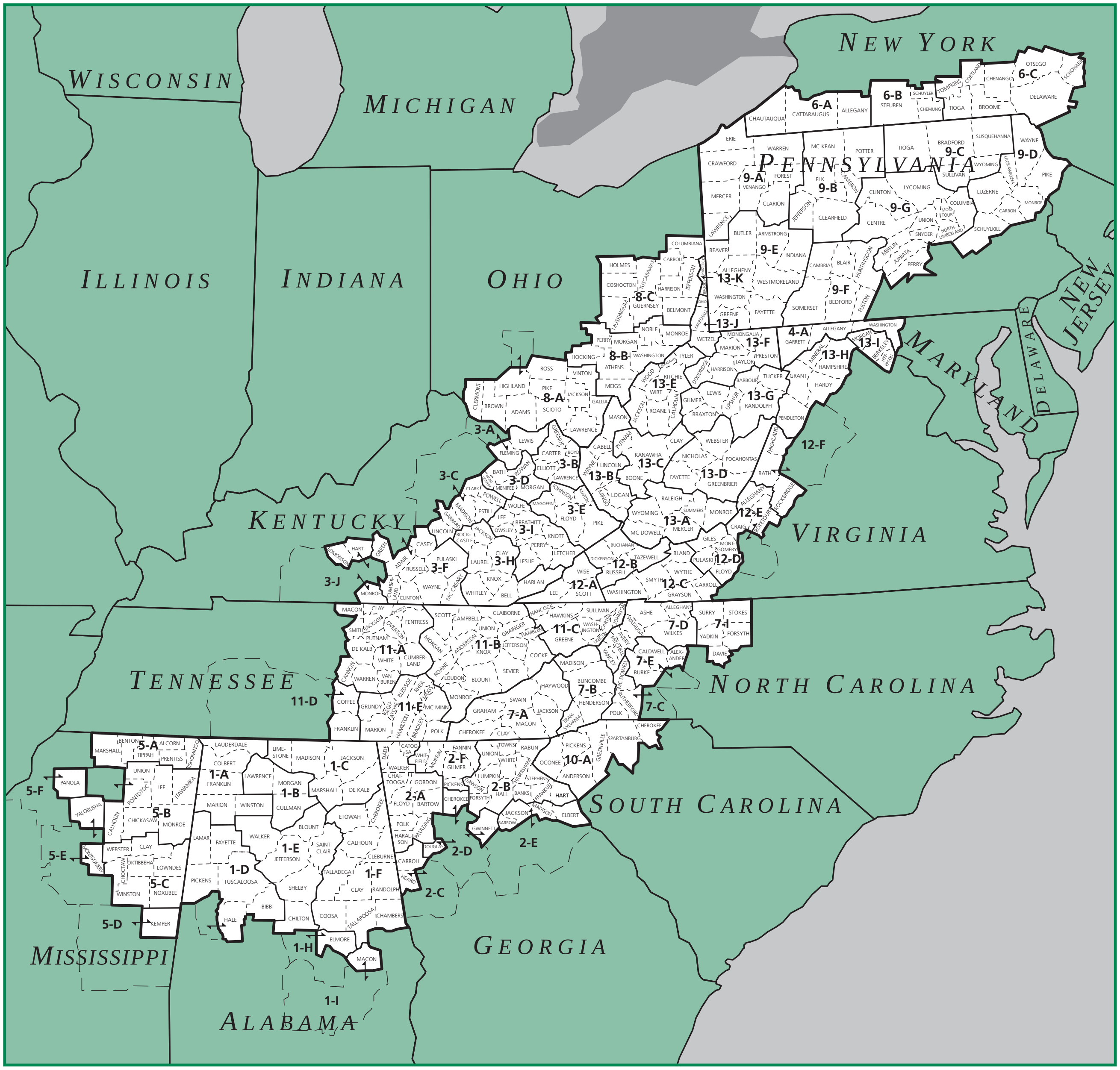
as of September 30, 2008

		MILES NOT OPEN TO TRAFFIC			MILES OPEN TO TRAFFIC	
	Total Miles Eligible for ADHS Funding*	Location Study Needed or Under Way	Design and/or Right-of-Way Under Way	Construction Under Way	Remaining Stage Construction	Complete
Alabama	295.7	63.7	4.4	7.6	68.8	151.2
Georgia	132.5	20.5	11.1	0.0	0.0	100.9
Kentucky	426.3	8.2	13.1	9.8	0.0	395.2
Maryland	83.2	2.5	0.0	0.0	3.7	77.0
Mississippi	117.5	0.0	12.3	8.2	0.0	97.0
New York	222.0	5.5	3.6	0.0	1.3	211.6
North Carolina	204.3	8.3	16.4	0.0	4.2	175.4
Ohio	201.5	7.1	16.2	0.0	0.0	178.2
Pennsylvania	453.1	99.9	13.4	41.0	2.9	295.9
South Carolina	22.9	0.0	4.3	0.0	0.0	18.6
Tennessee	329.3	17.5	6.3	7.5	77.1	220.9
Virginia	192.2	15.6	15.9	0.7	0.0	160.0
West Virginia	409.6	30.2	21.7	22.7	0.9	334.1
System Totals	**3,090.1**	**279.0**	**138.7**	**97.5**	**158.9**	**2,416.0**

** Congress authorized 3,090 miles for corridors approved as part of the Appalachian Development Highway System and eligible for construction under the Appalachian Development Highway System program. Final mileage on the corridors completed under the program will be within the authorized mileage.*

APPENDIX D:
Local Development Districts in the Appalachian Region as of September 30, 2008

LOCAL DEVELOPMENT DISTRICTS IN THE APPALACHIAN REGION
as of September 30, 2008



This map includes districts on the border of the Appalachian Region containing both Appalachian and non-Appalachian counties. The non-Appalachian counties are indicated by broken boundary lines.

LOCAL DEVELOPMENT DISTRICTS IN THE APPALACHIAN REGION

ALABAMA

1A/ Northwest Alabama Council of Local Governments

P.O. Box 2603
Muscle Shoals, Alabama 35662
256-389-0500
email: kjones@nwscc.edu
Web site: http://nacolg.com
Counties: Colbert, Franklin, Lauderdale, Marion, Winston

1B/ North Central Alabama Regional Council of Governments

216 Jackson Street, SE
Decatur, Alabama 35601
256-355-4515
email: ronald.matthews@adss.alabama.gov
Web site: http://www.narcog.org
Counties: Cullman, Lawrence, Morgan

1C/ Top of Alabama Regional Council of Governments

5075 Research Drive, NW
Huntsville, Alabama 35805
256-830-0818
email: bob.culver@adss.alabama.gov
Web site: http://www.tarcog.org
Counties: DeKalb, Jackson, Limestone, Madison, Marshall

1D/ West Alabama Regional Commission

4200 Highway 69 North, Suite 1
P.O. Box 509
Northport, Alabama 35476-0509
205-333-2990
email: warc@adss.alabama.gov
Web site: http://www.warc.info/
Counties: Bibb, Fayette, Hale, Lamar, Pickens, Tuscaloosa, (Greene)

1E/ Regional Planning Commission of Greater Birmingham

1731 First Avenue North, Suite 200
Birmingham, Alabama 35203
205-251-8139
email: rmorris@rpcgb.org
Web site: http://www.rpcgb.org
Counties: Blount, Chilton, Jefferson, St. Clair, Shelby, Walker

1F/ East Alabama Regional Planning and Development Commission

1130 Quintard Avenue, Suite 300
P.O. Box 2186
Anniston, Alabama 36202
256-237-6741
email: earpdc@adss.alabama.gov
Web site: http://www.earpdc.org
Counties: Calhoun, Chambers, Cherokee, Clay, Cleburne, Coosa, Etowah, Randolph, Talladega, Tallapoosa

1H/ Central Alabama Regional Planning and Development Commission

125 Washington Avenue, Third Floor
Montgomery, Alabama 36104
334-262-4300
email: director@carpdc.com
Web site: http://www.carpdc.com
Counties: Elmore, (Autauga, Montgomery)

1I/ South Central Alabama Development Commission

5900 Carmichael Place
Montgomery, Alabama 36117
334-244-6903
email: tyson.howard@adss.alabama.gov
Web site: http://www.scadc.state.al.us
Counties: Macon, (Bullock, Butler, Crenshaw, Lowndes, Montgomery, Pike)

Note: Parentheses indicate non-Appalachian counties and independent cities included with the development districts.

LOCAL DEVELOPMENT DISTRICTS IN THE APPALACHIAN REGION

GEORGIA

2A/ Coosa Valley Regional Development Center

P.O. Box 1798
Rome, Georgia 30162-1798
706-295-6485
email: cvrdc@cvrdc.org
Web site: http://www.cvrdc.org
Counties: Bartow, Catoosa, Chattooga, Dade, Floyd, Gordon, Haralson, Paulding, Polk, Walker

2B/ Georgia Mountains Regional Development Center

P.O. Box 1720
Gainesville, Georgia 30503
770-538-2626
email: dlewis@gmrdc.org
Web site: http://www.gmrdc.org
Counties: Banks, Dawson, Forsyth, Franklin, Habersham, Hall, Hart, Lumpkin, Rabun, Stephens, Towns, Union, White

2C/ Chattahoochee-Flint Regional Development Center

P.O. Box 1600
Franklin, Georgia 30217
706-675-6721
email: cfrdc@cfrdc.org
Web site: http://www.cfrdc.org
Counties: Carroll, Heard, (Coweta, Meriwether, Troup)

2D/ Atlanta Regional Commission

40 Courtland Street, NE
Atlanta, Georgia 30303
404-463-3100
email: infocenter@atlantaregional.com
Web site: http://www.atlantaregional.com
Counties: Cherokee, Douglas, Gwinnett, (Clayton, Cobb, DeKalb, Fayette, Fulton, Henry, Rockdale)

2E/ Northeast Georgia Regional Development Center

305 Research Drive
Athens, Georgia 30605-2795
706-369-5650
email: jimdove@negrdc.org
Web site: http://www.negrdc.org
Counties: Barrow, Elbert, Jackson, Madison, (Clarke, Greene, Jasper, Morgan, Newton, Oconee, Oglethorpe, Walton)

2F/ North Georgia Regional Development Center

503 West Waugh Street
Dalton, Georgia 30720
706-272-2300
email: ngrdc@ngrdc.org
Web site: http://www.ngrdc.org
Counties: Fannin, Gilmer, Murray, Pickens, Whitfield

Note: Parentheses indicate non-Appalachian counties and independent cities included with the development districts.

LOCAL DEVELOPMENT DISTRICTS IN THE APPALACHIAN REGION

KENTUCKY

3A/ Buffalo Trace Area Development District

P.O. Box 460
Maysville, Kentucky 41056
606-564-6894
email: mhardy@btadd.com
Web site: http://www.btadd.com
Counties: Fleming, Lewis, (Bracken, Mason, Robertson)

3B/ FIVCO Area Development District

32 Fivco Court
Grayson, Kentucky 41143
606-929-1366
email: mary@fivco.org
Web site: http://www.fivco.org
Counties: Boyd, Carter, Elliott, Greenup, Lawrence

3C/ Bluegrass Area Development District

699 Perimeter Drive
Lexington, Kentucky 40517
859-269-8021
email: bgadd@bgadd.org
Web site: http://www.bgadd.org
Counties: Clark, Estill, Garrard, Lincoln, Madison, Powell, (Anderson, Bourbon, Boyle, Fayette, Franklin, Harrison, Jessamine, Mercer, Nicholas, Scott, Woodford)

3D/ Gateway Area Development District

110 Lake Park Drive
Morehead, Kentucky 40351
606-780-0090
email: GailK.Wright@ky.gov
Web site: http://www.gwadd.org
Counties: Bath, Menifee, Montgomery, Morgan, Rowan

3E/ Big Sandy Area Development District

110 Resource Court
Prestonsburg, Kentucky 41653
606-886-2374
email: terry.trimble@bigsandy.org
Web site: http://www.bigsandy.org
Counties: Floyd, Johnson, Magoffin, Martin, Pike

3F/ Lake Cumberland Area Development District, Inc.

P.O. Box 1570
Russell Springs, Kentucky 42642
270-866-4200
email: donnad@lcadd.org
Web site: http://www.lcadd.org
Counties: Adair, Casey, Clinton, Cumberland, Green, McCreary, Pulaski, Russell, Wayne, (Taylor)

3H/ Cumberland Valley Area Development District

P.O. Box 1740
London, Kentucky 40743-1740
606-864-7391
email: mpatrick@cvadd.org
Web site: http://www.cvadd.org
Counties: Bell, Clay, Harlan, Jackson, Knox, Laurel, Rockcastle, Whitley

3I/ Kentucky River Area Development District

917 Perry Park Road
Hazard, Kentucky 41701-9545
606-436-3158
email: paul@kradd.org
Web site: http://www.kradd.org
Counties: Breathitt, Knott, Lee, Leslie, Letcher, Owsley, Perry, Wolfe

Note: Parentheses indicate non-Appalachian counties and independent cities included with the development districts.

LOCAL DEVELOPMENT DISTRICTS IN THE APPALACHIAN REGION

3J/ Barren River Area Development District
P.O. Box 90005
Bowling Green, Kentucky 42102-9005
270-781-2381
email: gene@bradd.org
Web site: http://www.bradd.org
Counties: Edmonson, Hart, Monroe, (Allen, Barren, Butler, Logan, Metcalfe, Simpson, Warren)

MARYLAND

4A/ Tri-County Council for Western Maryland, Inc.
113 Baltimore Street, Suite 300
Cumberland, Maryland 21502
301-777-2158
email: lmazer@tccwmd.org
Web site: http://www.tccwmd.org
Counties: Allegany, Garrett, Washington

MISSISSIPPI

5A/ Northeast Mississippi Planning and Development District
P.O. Box 600
Booneville, Mississippi 38829
662-728-6248
email: sgardner@nempdd.com
Web site: http://www.nempdd.com
Counties: Alcorn, Benton, Marshall, Prentiss, Tippah, Tishomingo

5B/ Three Rivers Planning and Development District
P.O. Box 690
Pontotoc, Mississippi 38863
662-489-2415
email: vrk@trpdd.com
Web site: http://www.trpdd.com
Counties: Calhoun, Chickasaw, Itawamba, Lee, Monroe, Pontotoc, Union, (Lafayette)

5C/ Golden Triangle Planning and Development District
P.O. Box 828
Starkville, Mississippi 39760-0828
662-324-7860
email: rjohnson@gtpdd.com
Web site: http://www.gtpdd.com
Counties: Choctaw, Clay, Lowndes, Noxubee, Oktibbeha, Webster, Winston

5D/ East Central Planning and Development District
P.O. Box 499
Newton, Mississippi 39345
601-683-2007
email: mail@ecpdd.org
Counties: Kemper, (Clarke, Jasper, Lauderdale, Leake, Neshoba, Newton, Scott, Smith)

5E/ North Central Planning and Development District
711 South Applegate
Winona, Mississippi 38967
662-283-2675
email: srussell@ncpdd.org
Counties: Montgomery, Yalobusha, (Attala, Carroll, Grenada, Holmes, Leflore)

Note: Parentheses indicate non-Appalachian counties and independent cities included with the development districts.

LOCAL DEVELOPMENT DISTRICTS IN THE APPALACHIAN REGION

5F/ North Delta Planning and Development District
P.O. Box 1488
Batesville, Mississippi 38606-1488
662-561-4100
email: jcurcio@ndpdd.com
Web site: http://www.ndpdd.com
Counties: Panola, (Coahoma, DeSoto, Quitman, Tallahatchie, Tate, Tunica)

NEW YORK

6A/ Southern Tier West Regional Planning and Development Board
Center for Regional Excellence
4039 Route 219, Suite 200
Salamanca, New York 14779
716-945-5301 Ext. 205
email: drychnowski@southerntierwest.org
Web site: http://www.southerntierwest.org
Counties: Allegany, Cattaraugus, Chautauqua

6B/ Southern Tier Central Regional Planning and Development Board
8 Denison Parkway East, Suite 310
Corning, New York 14830
607-962-5092
email: weber@stny.rr.com
Web site: http://www.stcplanning.org
Counties: Chemung, Schuyler, Steuben

6C/ Southern Tier East Regional Planning Development Board
375 State Street
Binghamton, New York 13901-2385
607-724-1327
email: ste@steny.org
Web site: http://www.steny.org/
Counties: Broome, Chenango, Cortland, Delaware, Otsego, Schoharie, Tioga, Tompkins

NORTH CAROLINA

7A/ Southwestern Commission
125 Bonnie Lane
Sylva, North Carolina 28779
828-586-1962
email: bill@regiona.org
Web site: http://www.regiona.org
Counties: Cherokee, Clay, Graham, Haywood, Jackson, Macon, Swain

7B/ Land-of-Sky Regional Council
339 New Leicester Hwy., Suite 140
Asheville, North Carolina 28806
828-251-6622
email: info@landofsky.org
Web site: http://www.landofsky.org
Counties: Buncombe, Henderson, Madison, Transylvania

7C/ Isothermal Planning and Development Commission
P.O. Box 841
Rutherfordton, North Carolina 28139
828-287-2281
email: jedwards@regionc.org
Web site: http://www.regionc.org
Counties: McDowell, Polk, Rutherford, (Cleveland)

Note: Parentheses indicate non-Appalachian counties and independent cities included with the development districts.

LOCAL DEVELOPMENT DISTRICTS IN THE APPALACHIAN REGION

7D/ High Country Council of Governments
P.O. Box 1820
Boone, North Carolina 28607
828-265-5434
email: regiondcog@regiond.org
Web site: http://www.regiond.org
Counties: Alleghany, Ashe, Avery, Mitchell, Watauga, Wilkes, Yancey

7E/ Western Piedmont Council of Governments
P.O. Box 9026
Hickory, North Carolina 28603
828-322-9191
email: doug.taylor@wpcog.org
Web site: http://www.wpcog.org
Counties: Alexander, Burke, Caldwell, (Catawba)

7I/ Northwest Piedmont Council of Governments
400 West Fourth Street, Suite 400
Winston-Salem, North Carolina 27101
336-761-2111
email: regioni@nwpcog.org
Web site: http://www.nwpcog.org
Counties: Davie, Forsyth, Stokes, Surry, Yadkin

OHIO

8A/ Ohio Valley Regional Development Commission
9329 SR 220 East, Suite A
Waverly, Ohio 45690-9012
740-947-2853
email: email@ovrdc.org
Web site: http://www.ovrdc.org
Counties: Adams, Brown, Clermont, Gallia, Highland, Jackson, Lawrence, Pike, Ross, Scioto, Vinton, (Fayette)

8B/ Buckeye Hills–Hocking Valley Regional Development District
P.O. Box 520
Reno, Ohio 45773
740-374-9436
email: info@buckeyehills.org
Web site: http://www.buckeyehills.org
Counties: Athens, Hocking, Meigs, Monroe, Morgan, Noble, Perry, Washington

8C/ Ohio Mid-Eastern Governments Association
P.O. Box 130
Cambridge, Ohio 43725-0130
740-439-4471
email: director@omegadistrict.org
Web site: http://www.omegadistrict.org
Counties: Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, Tuscarawas

Note: Parentheses indicate non-Appalachian counties and independent cities included with the development districts.

LOCAL DEVELOPMENT DISTRICTS IN THE APPALACHIAN REGION

PENNSYLVANIA

9A/ Northwest Pennsylvania Regional Planning and Development Commission

395 Seneca Street
P.O. Box 1127
Oil City, Pennsylvania 16301
814-677-4800
email: denisem@nwcommission.org
Web site: http://www.nwcommission.org
Counties: Clarion, Crawford, Erie, Forest, Lawrence, Mercer, Venango, Warren

9B/ North Central Pennsylvania Regional Planning and Development Commission

651 Montmorenci Road
Ridgway, Pennsylvania 15853
814-773-3162
email: ncprpdc@ncentral.com
Web site: http://www.ncentral.com
Counties: Cameron, Clearfield, Elk, Jefferson, McKean, Potter

9C/ Northern Tier Regional Planning and Development Commission

312 Main Street
Towanda, Pennsylvania 18848
570-265-9103
email: info@northerntier.org
Web site: http://www.northerntier.org
Counties: Bradford, Sullivan, Susquehanna, Tioga, Wyoming

9D/ Northeastern Pennsylvania Alliance

1151 Oak Street
Pittston, Pennsylvania 18640-3726
570-655-5581
email: info@nepa-alliance.org
Web site: http://www.nepa-alliance.org
Counties: Carbon, Lackawanna, Luzerne, Monroe, Pike, Schuylkill, Wayne

9E/ Southwestern Pennsylvania Commission

425 Sixth Avenue, Suite 2500
Pittsburgh, Pennsylvania 15219-1852
412-391-5590
email: comments@spcregion.org
Web site: http://www.spcregion.org
Counties: Allegheny, Armstrong, Beaver, Butler, Fayette, Greene, Indiana, Washington, Westmoreland

9F/ Southern Alleghenies Planning and Development Commission

541 58th Street
Altoona, Pennsylvania 16602-1193
814-949-6513
email: sapdc@sapdc.org
Web site: http://www.sapdc.org
Counties: Bedford, Blair, Cambria, Fulton, Huntingdon, Somerset

9G/ SEDA–Council of Governments

201 Furnace Road
Lewisburg, Pennsylvania 17837
570-524-4491
email: admin@seda-cog.org
Web site: http://www.seda-cog.org
Counties: Centre, Clinton, Columbia, Juniata, Lycoming, Mifflin, Montour, Northumberland, Perry, Snyder, Union

Note: Parentheses indicate non-Appalachian counties and independent cities included with the development districts.

LOCAL DEVELOPMENT DISTRICTS IN THE APPALACHIAN REGION

SOUTH CAROLINA

10A/ South Carolina Appalachian Council of Governments

P.O. Box 6668
Greenville, South Carolina 29606
864-242-9733
email: info@scacog.org
Web site: http://www.scacog.org
Counties: Anderson, Cherokee, Greenville, Oconee, Pickens, Spartanburg

TENNESSEE

11A/ Upper Cumberland Development District

1225 South Willow Avenue
Cookeville, Tennessee 38506-4194
931-432-4111
email: waskins@ucdd.org
Web site: http://www.ucdd.org
Counties: Cannon, Clay, Cumberland, DeKalb, Fentress, Jackson, Macon, Overton, Pickett, Putnam, Smith, Van Buren, Warren, White

11B/ East Tennessee Development District

P.O. Box 249
Alcoa, Tennessee 37701-0249
865-273-6003
email: tbobrowski@etdd.org
Web site: http://www.discoveret.org/etdd
Counties: Anderson, Blount, Campbell, Claiborne, Cocke, Grainger, Hamblen, Jefferson, Knox, Loudon, Monroe, Morgan, Roane, Scott, Sevier, Union

11C/ First Tennessee Development District

207 N. Boone Street, Suite 800
Johnson City, Tennessee 37604-5699
423-928-0224
email: sreid@ftdd.org
Web site: http://ftdd.org/
Counties: Carter, Greene, Hancock, Hawkins, Johnson, Sullivan, Unicoi, Washington

11D/ South Central Tennessee Development District

P.O. Box 1346
Columbia, Tennessee 38402-1346
931-381-2040
email: pespenschied@sctdd.org
Web site: http://www.sctdd.org
Counties: Coffee, Franklin, (Bedford, Giles, Hickman, Lawrence, Lewis, Lincoln, Marshall, Maury, Moore, Perry, Wayne)

11E/ Southeast Tennessee Development District

1000 Riverfront Parkway
P.O. Box 4757
Chattanooga, Tennessee 37402
423-266-5781
email: bjones@sedev.org
Web site: http://www.sedev.org
Counties: Bledsoe, Bradley, Grundy, Hamilton, Marion, McMinn, Meigs, Polk, Rhea, Sequatchie

Note: Parentheses indicate non-Appalachian counties and independent cities included with the development districts.

LOCAL DEVELOPMENT DISTRICTS IN THE APPALACHIAN REGION

VIRGINIA

12A/ LENOWISCO Planning District Commission

P.O. Box 366
Duffield, Virginia 24244
276-431-2206
email: lenowisco@lenowisco.org
Web site: http://www.lenowisco.org
Counties: Lee, Scott, Wise; and city of Norton

12B/ Cumberland Plateau Planning District Commission

P.O. Box 548
Lebanon, Virginia 24266
276-889-1778
email: andrewchafin@bvunet.net
Web site: http://cppdc.org
Counties: Buchanan, Dickenson, Russell, Tazewell

12C/ Mount Rogers Planning District Commission

1021 Terrace Drive
Marion, Virginia 24354
276-783-5103
email: staff@mrpdc.org
Web site: http://www.mrpdc.org
Counties: Bland, Carroll, Grayson, Smyth, Washington, Wythe; and cities of Bristol and Galax

12D/ New River Valley Planning District Commission

6580 Valley Center Drive, Suite 124
Radford, Virginia 24141
540-639-9313
email: nrvpdc@nrvdc.org
Web site: http://www.nrvpdc.org/
Counties: Floyd, Giles, Montgomery, Pulaski; and city of Radford

12E/ Roanoke Valley–Alleghany Regional Commission

P.O. Box 2569
Roanoke, Virginia 24010
540-343-4417
email: rvarc@rvarc.org
Web site: http://www.rvarc.org
Counties: Alleghany, Botetourt, Craig; and city of Covington, (Franklin, Roanoke; and cities of Roanoke and Salem)

12F/ Central Shenandoah Planning District Commission

112 MacTanly Place
Staunton, Virginia 24401
540-885-5174
email: cspdc@cspdc.org
Web site: http://www.cspdc.org
Counties: Bath, Highland, Rockbridge; and cities of Buena Vista and Lexington, (Augusta, Rockingham; and cities of Harrisonburg, Staunton, and Waynesboro)

WEST VIRGINIA

13A/ Region 1—Planning and Development Council

1439 E. Main Street
Suite 5
Princeton, West Virginia 24740
304-431-7225
email: regionone@regiononepdc.org
Web site: http://www.regiononepdc.org
Counties: McDowell, Mercer, Monroe, Raleigh, Summers, Wyoming

Note: Parentheses indicate non-Appalachian counties and independent cities included with the development districts.

LOCAL DEVELOPMENT DISTRICTS IN THE APPALACHIAN REGION

13B/ Region 2—Planning and Development Council
P.O. Box 939
Huntington, West Virginia 25712
304-529-3357
email: mcraig@ntelos.net
Web site: http://www.region2pdc.org
Counties: Cabell, Lincoln, Logan, Mason, Mingo, Wayne

13C/ Region 3—B-C-K-P Regional Intergovernmental Council
315 D Street
South Charleston, West Virginia 25303
304-744-4258
email: markfelton@wvregion3.org
Web site: http://www.wvregion3.org
Counties: Boone, Clay, Kanawha, Putnam

13D/ Region 4—Planning and Development Council
425 Main Street, Suite A
Summersville, West Virginia 26651
304-872-4970
email: r4wds@verizon.net
Counties: Fayette, Greenbrier, Nicholas, Pocahontas, Webster

13E/ Region 5—Mid–Ohio Valley Regional Council
P.O. Box 247
Parkersburg, West Virginia 26102-0247
304-422-4993
email: jim.mylott@movrc.org
Web site: http://www.movrc.org
Counties: Calhoun, Jackson, Pleasants, Ritchie, Roane, Tyler, Wirt, Wood

13F/ Region 6—Planning and Development Council
34 Mountain Park Drive
White Hall, West Virginia 26554
304-366-5693
email: regionvi@regionvi.com
Web site: http://www.regionvi.com
Counties: Doddridge, Harrison, Marion, Monongalia, Preston, Taylor

13G/ Region 7—Planning and Development Council
One Edmiston Way
Suite 225
Buckhannon, West Virginia 26201
304-472-6564
email: rwagner@regionvii.com
Web site: http://www.regionvii.com
Counties: Barbour, Braxton, Gilmer, Lewis, Randolph, Tucker, Upshur

13H/ Region 8—Planning and Development Council
P.O. Box 849
Petersburg, West Virginia 26847
304-257-2448
email: mail@regioneight.org
Web site: http://www.regioneight.org
Counties: Grant, Hampshire, Hardy, Mineral, Pendleton

13I/ Region 9—Eastern Panhandle Regional Planning and Development Council
400 W. Stephen Street, Suite 301
Martinsburg, West Virginia 25401
304-263-1743
email: info@region9wv.org
Web site: http://www.region9wv.org
Counties: Berkeley, Jefferson, Morgan

Note: Parentheses indicate non-Appalachian counties and independent cities included with the development districts.

LOCAL DEVELOPMENT DISTRICTS IN THE APPALACHIAN REGION

13J/ Region 10—Bel-O-Mar Regional Council and Interstate Planning Commission

P.O. Box 2086
Wheeling, West Virginia 26003
304-242-1800
email: belomar@belomar.org
Web site: http://www.belomar.org
Counties: Marshall, Ohio, Wetzel; and Belmont County, Ohio

13K/ Region 11—Brooke-Hancock Regional Planning and Development Council

P.O. Box 82
Weirton, West Virginia 26062-0082
304-797-9666
email: jbrown@bhjmpc.org
Web site: http://www.bhjmpc.org
Counties: Brooke, Hancock

Note: Parentheses indicate non-Appalachian counties and independent cities included with the development districts.

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Jefferson National Forest near Norton, Virginia
Photograph by Ken Murray

This report is available on ARC's Web site at www.arc.gov.

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