PERFORMANCE AND ACCOUNTABILITY REPORT

Appalachian Regional Commission
Fiscal Year 2013

Appalachian Regional Commission
1666 Connecticut Avenue, NW, Suite 700
Washington, DC 20009-1068

www.arc.gov

APPALACHIAN REGIONAL COMMISSION

September 30, 2013

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Earl F. Gohl

States' Co-Chair
Governor Earl Ray Tomblin

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APPALACHIAN REGION

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 more than 25 million people and covers 420 counties and almost 205,000 square miles.

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Message from Federal Co-Chair Earl F. Gohl and 2013 States' Co-Chair Governor Earl Ray Tomblin

We are pleased to present the Appalachian Regional Commission's (ARC) Performance and Accountability Report for fiscal year (FY) 2013.

For FY 2013, the Commission approved $61.4 million in funding for 393 nonhighway projects that advanced one or more of the three nonhighway goals of ARC's 2011–2016 strategic plan: 1) increasing job opportunities and per capita income in Appalachia to reach parity with the nation; 2) strengthening the capacity of the people of Appalachia to compete in the global economy; and 3) developing and improving Appalachia's infrastructure to make the Region economically competitive.

ARC's FY 2013 grant funds attracted an additional $129.1 million in other project funding, an investment ratio of more than 2 to 1, and $530.9 million in non-project leveraged private investment, a ratio of 9 to 1. The projects funded during the year will create or retain an estimated 19,008 jobs and train an estimated 22,749 students and workers in new job skills.

In working toward its strategic goals in FY 2013, the Commission placed an emphasis on coordinating a federal focus on Appalachia through interagency partnerships; supporting small-business creation and growth by improving access to capital and credit; diversifying the Region's economy by promoting development of local food economies; and boosting educational attainment and workforce skills in the Region.

This report includes information on the Commission's program actions and financial management during FY 2013. We are pleased to report that ARC's independent auditor, Chortek LLP, has pronounced an unmodified opinion that the financial statements in this document fairly present the Commission's fiscal status.

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,

Earl F. Gohl
ARC Federal Co-Chair

Earl Ray Tomblin
2013 States' Co-Chair
Governor of West Virginia

February 11, 2014

PART I: MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR 2013 PROGRAM HIGHLIGHTS

In working toward the goals of ARC's 2011–2016 strategic plan, the Commission in FY 2013 focused on a wide range of projects and activities, including the following:

Increasing Access to Capital and Credit in the Appalachian Region

Access to capital and credit is a major factor limiting business creation, expansion, and growth in the Appalachian Region, a challenge that has been intensified by the recent recession, long-term trends that have driven economic activity and population into metropolitan areas, and ongoing consolidation in the banking industry. ARC's Appalachian Capital Policy Initiative is a multi-faceted strategy that aims to develop an overall policy framework for addressing capital and credit availability over the long term, and to identify and implement specific actions that can improve and expand capital access in the near term. Work on the initiative is guided by an advisory committee composed of financial experts from throughout the 13 Appalachian states.

Related activities during the fiscal year included:

Appalachian Community Capital, a new central bank for development lenders that will increase the availability of capital to small businesses in the Appalachian Region. ARC, along with participating community loan fund partners in the Region, committed to establishing a new source of funding for development lenders and helping capitalize it with $42 million by mid 2015. This new central bank is expected to leverage $233 million of private bank capital and help create 2,200 jobs. In addition to its lead investment in Appalachian Community Capital, ARC has contributed a range of resources to the bank's development, including support for the development of a business plan, for formation of the entity as a nonprofit organization, and for raising capital from bank and foundation investors.

Access to Capital and Credit in Appalachia and the Impact of the Financial Crisis and Recession on Commercial Lending and Finance in the Region, a research report prepared for the Appalachian Regional Commission by the National Community Reinvestment Coalition and the Woodstock Institute. The study found significant disparities in business access to capital and credit between Appalachia and the nation as a whole. In addition, the study found that public programs and regulations have not significantly addressed these discrepancies, particularly in counties designated as economically distressed by ARC, while the U.S. Department of the Treasury's CDFI Fund program has been more successful in targeting financing to the most economically underserved communities in Appalachia. The study's authors recommended that stakeholders such as banks and bank regulators, equity investors and entrepreneurs, state and federal policy makers, nonprofit lenders, and community leaders undertake strenuous efforts to reduce disparities in access to credit. As financial markets continue to recover from the recession, financing gaps are likely to remain or widen if measures to aggressively combat growth in unequal access to credit and capital are not pursued.

Supporting the Appalachian Food Economy

Across Appalachia, communities are discovering the valuable role vibrant local food systems can play in diversifying the local economy, strengthening the regional workforce, improving health, and creating local wealth. An emphasis on the local food economy can be an important component of a place-based strategy to enhance a region's economic competitiveness and create jobs. In FY 2013, ARC supported the Appalachian food economy in a variety of ways, including sponsoring state-specific workshops on the local food economy, such as a Mississippi food summit held in March that provided a forum for discussion of efforts to grow the state's sustainable food economy.

Appalachian Jobs and Local Food Systems Tour

In the spring and summer of 2013, ARC Federal Co-Chair Earl Gohl visited ten states to explore how local food systems are impacting the Appalachian economy. The purpose of the tour was to highlight the economic opportunity being created by local food systems, identify barriers that have been overcome or that remain in building local food systems, and determine what can be done in partnership that can't be done separately to strengthen the local food economy. During the tour, Gohl visited a wide array of local food system activities, including organic farms, farmers markets, food aggregation and distribution systems, kitchen incubators, specialty food exporters, high school agriculture classes, and culinary training programs.

Strengthening Federal Inter-Agency Partnerships

The Appalachian Regional Development Act calls on ARC to coordinate the economic development activities of, and the use of economic development resources by, federal agencies in the Appalachian Region. In doing so, ARC has engaged with its federal partners to advance the following economic development activities:

Livable Communities Competition

In FY 2013, ARC partnered with the U.S. Environmental Protection Agency (EPA) and the U.S. Department of Agriculture (USDA) in a pilot competition to provide technical assistance to communities interested in revitalizing their downtowns through place-based development strategies. Through the competition, seven Appalachian communities developed action plans to implement their respective revitalization proposals.

Building on the success of the pilot competition, ARC, EPA, and USDA partnered for a second Livable Communities competition in August 2013. The competition focuses on helping communities develop their local food systems as a means to strengthen and diversify their economy. In addition to providing technical assistance, the competition provides support for implementation efforts by providing small grants to the selected communities.

Make It in America Challenge

In FY 2013, ARC made available up to $50,000 in funding to help organizations serving the Appalachian Region develop applications for the Make it in America Challenge, a national federal competition focused on increasing the insourcing of American jobs that 1) have moved overseas but could now be more competitively sourced in America; 2) can be created through foreign direct investment; or 3) are currently U.S.-based but are subject to international competition and can be strengthened with targeted technical assistance. Ten Make it in America Challenge grants were awarded nationally, with four going to applicants within the Appalachian Region: Mississippi State University, the Buckeye Hills–Hocking Valley Regional Development District in Ohio, the SEDA–Council of Governments in Pennsylvania, and Clemson University in South Carolina. The Appalachian grant awards ranged from $1.7 million to $3.5 million.

Investing in Manufacturing Communities Partnership (IMCP)

The Appalachian Regional Commission has participated in the planning and design of the IMCP since its announcement by President Obama in January 2013. The IMCP is an administration-wide initiative intended to accelerate the resurgence of U.S. manufacturing and help cultivate an environment for businesses to create well-paying manufacturing jobs in regions across the country. It rewards communities that demonstrate best practices in attracting and expanding manufacturing by using long-term planning that brings together the key players in the economic development process. ARC has pledged infrastructure and technical assistance support to IMCP awardees in the Appalachian Region.

Centers for Disease Control and Prevention Diabetes Project

In FY 2013, ARC partnered with the Centers for Disease Control and Prevention (CDC) to continue a diabetes project that included $150,000 in ARC funds and $113,177 in CDC funds awarded to the Robert C. Byrd Center for Rural Health at Marshall University. This leveraged an additional $648,323 awarded by the Bristol-Myers Squibb Foundation to Marshall University. Marshall University uses these resources to provide funding and technical assistance to a network of community-based diabetes coalitions engaged in prevention, control, and treatment of the disease in distressed counties. Coalitions from 75 counties in ten states have participated in the network since 2002.

Supporting External Partnerships

ARC is committed to fostering additional investment in the Region from non-public sources such as foundations, philanthropic organizations, and private-sector institutions. In FY 2013 ARC worked with non-public partners on the following activities:

Appalachian Regional Reforestation Initiative (ARRI)

A cooperative effort among federal agencies, industry, environmental organizations, academia, and landowners, ARRI promotes the reforestation of surface-mined land in the Appalachian Region. In FY 2013, ARRI continued support for the development of Green Forests Work, a nonprofit organization responsible for organizing reforestation efforts. ARC funded the development of the Green Forests Work program in Appalachia, including support for core staff to enable Green Forests Work to achieve its mission of establishing high-quality forested land on coal surface mines. In the past two years, more than 480,000 trees were planted on 500 acres in eight Appalachian states. In addition to support for the overall Green Forests Work project and ARRI mission, ARC participated in a tree-planting project in April 2013 on a former mining site that contributed to landscaping efforts at the Flight 93 National Memorial.

Appalachia Funders Network

In FY 2013, ARC continued its work as a founding member of the Appalachia Funders Network, a group of approximately 35 public and private grant makers working together to strengthen entrepreneurial support programs in priority economic sectors. This year the network targeted investment opportunities in the health care, food systems, and energy sectors. In addition, the group continued Startup Appalachia, an effort to support entrepreneurship in the Region that is providing technical support for five promising projects designed to strengthen the entrepreneurial infrastructure in underserved communities.

Appalachian Tourism Council

Recent ARC research revealed a vigorous regional food economy in Appalachia with the potential to increase employment opportunities and economic vitality, and help improve quality of life. The fast-growing demand from consumers for distinctive local food destinations provides an opportunity to showcase the abundance and diversity of Appalachia's food heritage as part of a broader tourism program that attracts national and international visitors. In FY 2013, ARC worked with the American Heritage Society and the 13 Appalachian state tourism offices to develop a tourist-oriented printed "mapguide" and companion Web site designed to help stimulate economic development in rural Appalachia by showcasing the breadth and depth of its food heritage and agritourism offerings

Connect-to-Compete

ARC entered into a partnership with Connect-to-Compete (C2C), a nonprofit organization involved in promoting technology use in education and increasing broadband adoption. Through this partnership, ARC was able to purchase refurbished laptop computers at a reduced cost for students in low-income households in Maryland, North Carolina, and West Virginia. The Commission also worked with broadband providers to offer a low-cost broadband option for those families receiving computers.

Strengthening the Region's Infrastructure

To bolster the Region's physical infrastructure, ARC invested $22.8 million during the year in 82 projects to bring new or upgraded water and sewer systems and other vital infrastructure, including access roads for industrial parks, to Appalachian communities. This investment was matched by $71.8 million in other funding, primarily state and local, and leveraged $404.7 million in non-project private investment. The projects resulted in 21,863 households and 3,378 businesses being served by new or improved water or sewer systems. Infrastructure projects are among the primary generators of new jobs in the Region.

Expanding Access to Telecommunications

In FY 2013, ARC continued its focus on telecommunications and technology, investing more than $3.6 million in 38 projects. Many of these projects increased broadband capacity at county schools, supported laptop computer programs for rural schoolchildren, and assisted in technology requirements for workforce development programs. Several projects helped purchase health equipment for telemedicine applications, or promoted rural broadband infrastructure development and planning, including feasibility studies to determine best practices for achieving better availability and adoption.

Education and Workforce Development Activities

Education and training are driving forces behind Appalachia's economic growth, preparing students and workers to compete successfully in the world economy. ARC education and training activities focus on a range of issues including workforce skills, early childhood education, dropout prevention, and postsecondary-education enrollment.

Community Colleges

Community colleges are the primary and often the sole providers of workforce training and higher education in the Appalachian Region. In FY 2013, ARC worked with the American Association of Community Colleges (AACC), the National Association for Community College Entrepreneurship, and the Community Colleges of Appalachia to strengthen and develop the capacities of community colleges in the Appalachian Region. ARC is currently funding AACC to provide assistance to community college leaders in each of the 13 Appalachian states. This funding will enable the colleges to attend the annual AACC Workforce Development Institute. Thirteen colleges were represented at the 2013 institute.

Appalachian Higher Education Network

In FY 2013 ARC continued its work in boosting Appalachia's college-going rates through the Appalachian Higher Education (AHE) Network. The network educates high school students and their families about the need for education beyond high school and provides help with, and information on, the college application process. During the 2012–2013 school year, AHE Network centers used ARC funds to serve 87,000 high school students, including more than 19, 000 seniors.

Progress on the Appalachian Development Highway System (ADHS)

Progress on the ADHS corridors continued in FY 2013: as of September 30, 2013, 2,758.5 miles of the ADHS were completed or under construction. In accordance with a requirement in the legislation Moving Ahead for Progress in the 21st Century, the Appalachian states this year submitted estimated completion dates for the corridor segments they plan to complete; completion dates ranged from August 2013 to April 2045. The state estimates were published in September 2013 in the *ADHS Completion Plan Report*. Also in FY 2013, South Carolina completed all work on its ADHS corridor, becoming the first state to complete its ADHS corridor miles.

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, a catalyst for economic development, 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 current high-poverty counties. 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.

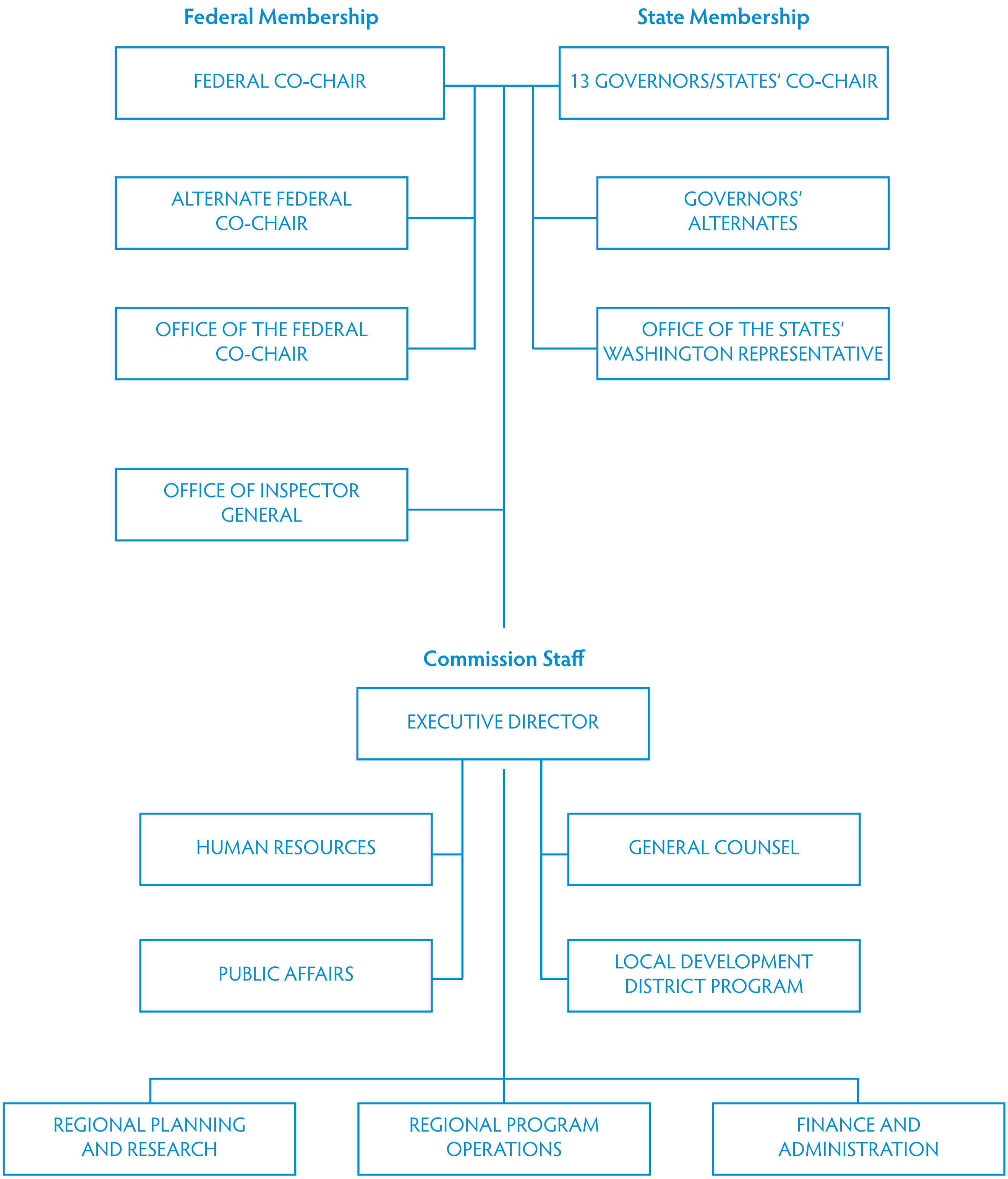
ARC's appropriation for FY 2013 area development activities was $64.9 million.

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

ARC Organization Chart



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.

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

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

In FY 2013, there were 11 federal positions at 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 Commission has 48 nonfederal positions. 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.

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 73 multi-county development districts in the Appalachian 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.

A major focus for ARC in FY 2013 was the continued implementation of the Appalachian Regional Development Initiative (ARDI), a partnership between ARC and 13 federal agencies that works to strengthen and diversify the Appalachian economy and better coordinate federal efforts in the Region. The federal agencies participating with ARC in the ARDI include the U.S. Departments of Agriculture, Commerce, Education, Energy, Health and Human Services, Housing and Urban Development, the Interior, Transportation, and the Treasury; the U.S. Environmental Protection Agency; the U.S. Small Business Administration; the Corporation for National and Community Services; and the National Endowment for the Arts.

Working through the White House Rural Council, ARC implemented programs in the Region with a number of the federal ARDI partners. Examples include:

- A partnership with EPA and USDA to deploy a Livable Communities initiative, providing technical assistance and strategic planning to several communities. A second round of this successful partnership was funded in 2013 and will be completed in 2014. This round focuses on job creation and local food systems.
- A partnership with EDA, NIST, and the ETA to extend the reach of the Make it in America Challenge by providing funds to assist in procuring the necessary resources to produce more competitive application from the Region's applicants.
- A partnership with NEA, the Conservation Fund, and the National Trust for Historic Preservation to provide technical-assistance workshops aimed at Appalachian "gateway" communities—those that are entry points to Appalachia's national and state parks and forests.
- A joint program with the U.S. Department of Commerce to increase export sales from Appalachia.
- A partnership with the Centers for Disease Control and Prevention (CDC), the Bristol-Myers Squibb Foundation, and Marshall University in a diabetes education, prevention, and treatment program.
- A partnership with the CDC in a cancer-control program.

Other partnerships in FY 2013 included:

- A partnership with East Tennessee State University's Office of Rural and Community Health and Community Partnerships to conduct a grant competition for community-based substance abuse initiatives.
- Through the Appalachian Capital Policy Initiative, a partnership with the Federal Reserve Banks of Richmond, Cleveland, and Atlanta; the Office of the Comptroller of the Currency; and the Federal Deposit Insurance Corporation to help increase bank lending for business expansion and growth in Appalachia and to attract new sources of equity investment to the Region.
- A partnership with the Appalachia Funders Network, a consortium of 35 philanthropies, including the Ford Foundation, the Mary Reynolds Babcock Foundation, and the Claude Worthington Benedum Foundation, to support sustainable economic development in Central Appalachia.
- Participation in the Appalachian Regional Reforestation Initiative, a cooperative effort among federal agencies, industry, environmental organizations, academia, and landowners to establish high-quality forested land on reclaimed surface coal mine sites.
- A partnership with the U.S. Department of Agriculture, the U.S. Department of Commerce's Economic Development Administration, and the Delta Regional Authority to promote job creation and business innovation in rural communities.
- A partnership American Heritage Society to produce a tourist-oriented "mapguide" designed to boost tourism and stimulate economic development in the Appalachian Region by showcasing its food-heritage and agritourism attractions.

- A partnership with Connect2Compete, a national nonprofit organization dedicated to increasing access to technology by providing computers to children in low-income households.
- A partnership with Country Music Television's "Empowering Education" initiative to increase participation in higher education in the Appalachian Region. CMT will showcase Appalachian colleges on its Web site and plans to hold meetings and other activities in Appalachian communities to draw attention to the benefits of higher education and the resources colleges provide.
- A consortium with investors to create Appalachian Community Capital, a community development financial institution that will bring additional capital to underserved communities. Partners include the Ford Foundation, Deutsche Bank, Calvert Foundation, Mary Reynolds Babcock Foundation, and the Claude Worthington Benedum Foundation.

In FY 2013, across all investment areas, each dollar of ARC funding was matched by $2.10 in non-ARC project funding (public and private) and leveraged $8.65 in private investment attracted as a result of the project.

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 USDA Rural Development, the Tennessee Valley Authority, the U.S. Department of Housing and Urban Development, the Federal Highway Administration, and the U.S. Economic Development Administration. Other agreements have involved such agencies as the U.S. 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, educational attainment, access to health care, telecommunications and technology infrastructure and use, and tourism development. ARC has consistently maintained a focus on the construction of development highways and basic water and waste management facilities.

ARC Strategic Plan

FY 2013 was ARC's third year of operating under its current strategic plan, *Moving Appalachia Forward: Appalachian Regional Commission Strategic Plan 2011–2016*, 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:

- *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.*

As reported in Part II, the Commission demonstrated progress in FY 2013 toward achieving the 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 2013, ARC received an appropriation of $64.9 million for area development activities and allocated by formula $55.3 million, 85.2 percent of the appropriation, to the states. 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 the Appendix for ARC grants approved in FY 2013.

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 2013, 98 counties were designated distressed, 99 were designated at-risk, 208 were designated transitional, 12 were designated competitive, and 3 were designated attainment. ARC policy stipulates that competitive counties may receive limited assistance, while attainment counties are generally not eligible for funding.

See page 21 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

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 addition to providing special support for distressed counties, ARC has identified regional initiatives on asset-based development, telecommunications, and export promotion.

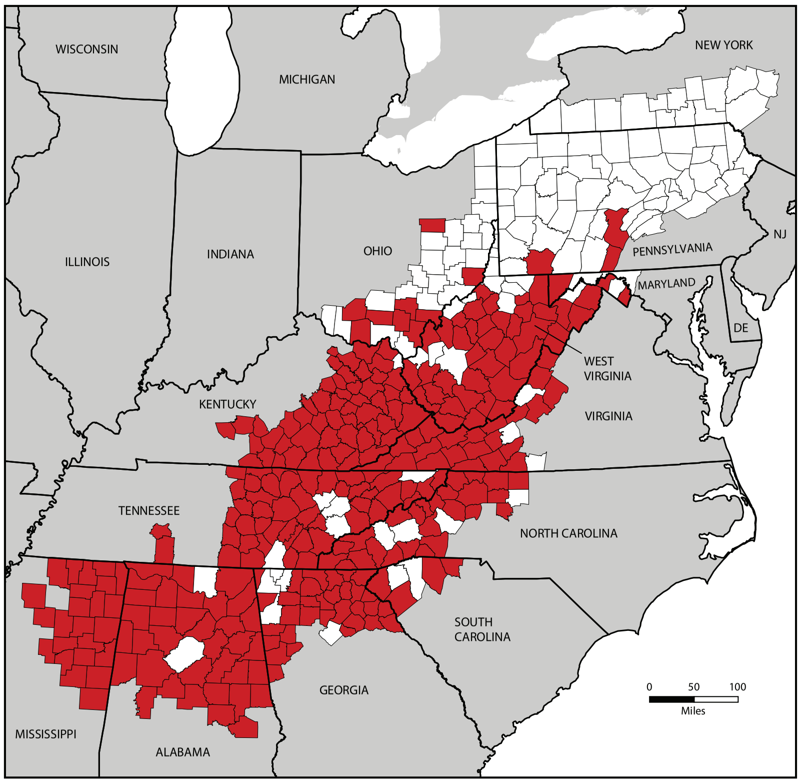
The Asset-Based Development Initiative seeks to help communities identify and leverage local assets to create jobs and build prosperity. Focuses under this initiative in FY 2013 included the continued activities of the Appalachian Capital Policy Initiative, a regional effort to bring capital and credit to emerging and expanding businesses in the Region; the development of Appalachia's Food Economy, an effort to support value-added agricultural development; investments in the Region's business incubators; and support for entrepreneurship-education programming.

High-Poverty Counties in the Appalachian Region

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

1960

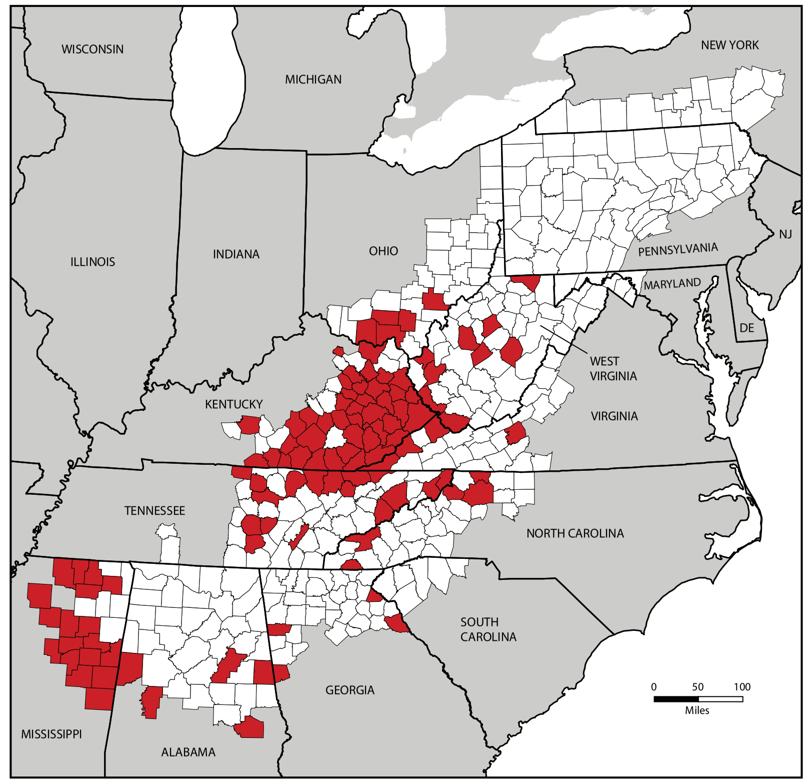
295 High-Poverty Counties



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

2007–Present

108 High-Poverty Counties



Data Source: U.S. Census Bureau, American Community Survey, 5-Year Estimates, 2007–2011.

ARC's Telecommunications Initiative aims to increase the use of advanced telecommunications and broadband in the Region, and to bring broadband service to the Region's unserved and underserved areas. In FY 2013, ARC funded projects that support telemedicine, distance-learning, workforce development, and e-commerce development in the government and the private sector; projects that directly help communities and commercial-industrial areas gain access to high-speed telecommunications services; and projects that provide computers to high schools and community colleges.

ARC's Export Initiative works to support small- and medium-sized Appalachian enterprises as they strive to export their products and services to markets throughout the world. The initiative is coordinated through an advisory council that represents international trade offices from the 13 Appalachian states, and supports the National Export Initiative, aimed at doubling American exports. In FY 2013, ARC's Export Initiative provided support for Appalachian business delegations to attend four international trade events: a trade forum in Seoul, Korea, aimed at helping expand American businesses exports throughout northeast Asia; a sales show in Shanghai, China, aimed at expanding the Appalachian Region's home furnishing and wood product exports; and two international mining exhibitions—one in Sydney, Australia, and one in Beijing, China, to support expanded exports from Appalachia's extensive mining equipment, supplies, and technology business sector. A total of 68 Appalachian businesses and organizations were represented at these events.

ARC invested more than $14.2 million in these three initiatives in FY 2013.

Business Development Revolving Loan Fund Grants

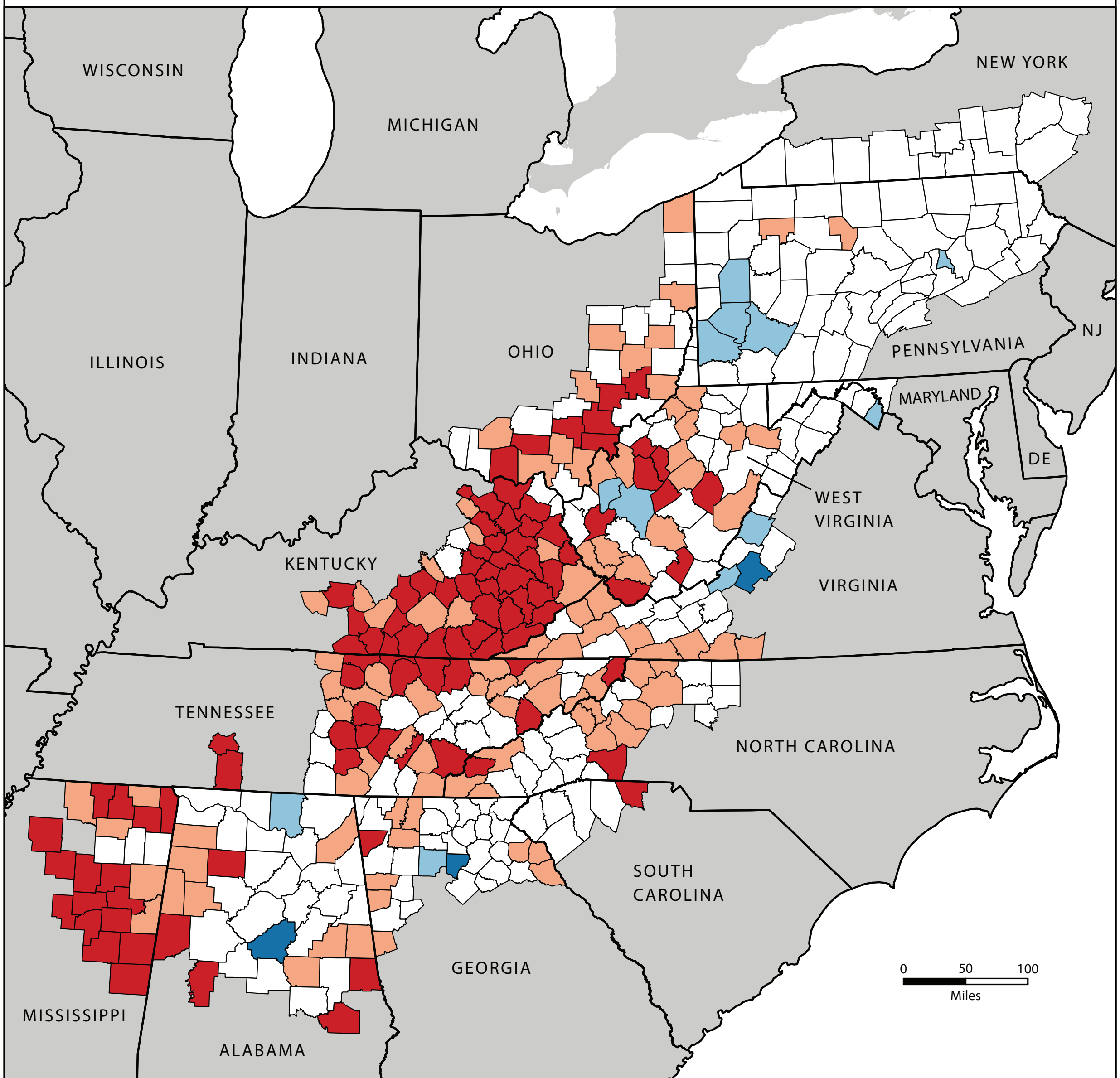
Business development revolving loan funds (RLFs) have been used by ARC since 1977 as an effective tool for economic development. The funds are pools of money used by grantees for the purpose of making loans to local businesses to create and retain jobs. As loans are repaid, money is returned to the fund 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 $169 million in 2,347 loans, resulting in 86,536 jobs created or retained and leveraging $1.35 billion in private investment for the Appalachian Region.

County Economic Status in Appalachia, Fiscal Year 2013

(Effective October 1, 2012, through September 30, 2013)



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 (98)
- At-Risk (99)
- Transitional (208)
- Competitive (12)
- Attainment (3)

Map Created: March 2012.
Data Sources: U.S. Bureau of Labor Statistics, LAUS, 2008–2010;
U.S. Bureau of Economic Analysis, REIS, 2009;
U.S. Census Bureau, American Community Survey, 2006–2010.

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 and overseas. (See the map of the ADHS on page 23.)

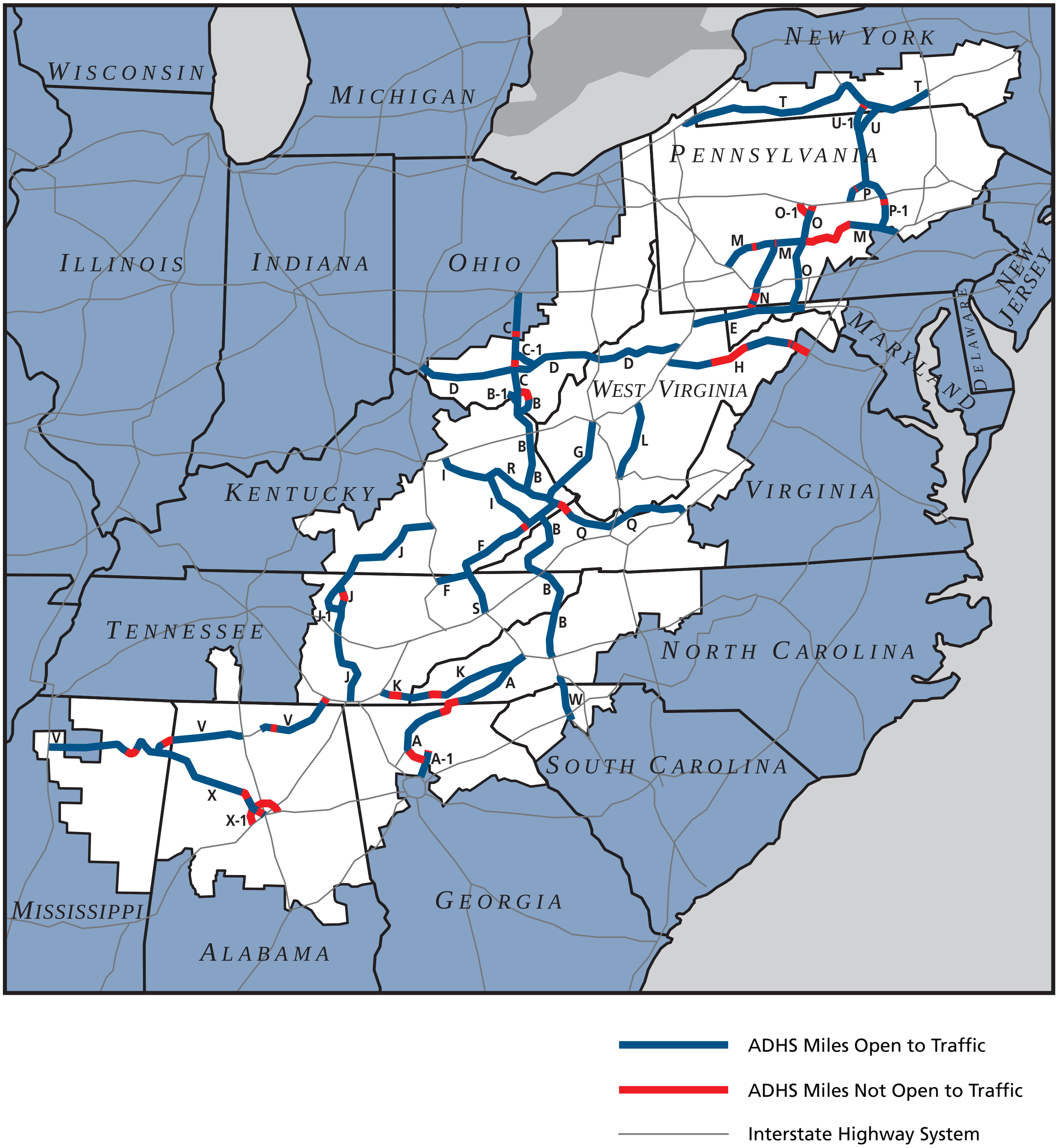
In FY 2013 funding for the ADHS was included in the Federal Highway Administration's Surface Transportation Program (STP) grants to the states, along with other highway funding. The STP funds are apportioned to the states annually, with each state using the funding at its own discretion. The federal share of funding for ADHS corridors and access roads funded through the STP is 100 percent. Although funds used for the ADHS are derived from the highway trust fund, ARC exercises policy control over the system.

Status of Completion of the ADHS (Miles)
(as of September 30, 2013)

		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	43.3	23.6	17.8	58.6	152.4
Georgia	132.5	20.5	11.1	0.0	0.0	100.9
Kentucky	426.3	8.2	0.8	18.8	0.0	398.5
Maryland	83.2	2.5	0.0	0.0	3.7	77.0
Mississippi	117.5	0.0	8.3	9.8	0.0	99.4
New York	222.0	0.0	0.0	1.1	0.7	220.2
North Carolina	204.3	18.1	0.0	0.0	8.0	178.2
Ohio	201.5	7.1	16.2	0.0	0.0	178.2
Pennsylvania	453.1	87.4	14.5	11.4	2.9	336.9
South Carolina	22.9	0.0	0.0	0.0	0.0	22.9
Tennessee	329.3	14.1	3.4	5.9	68.6	237.3
Virginia	192.2	14.7	7.5	7.3	1.2	161.5
West Virginia	409.6	15.3	14.9	19.0	0.9	359.5
System Totals	**3,090.1**	**231.2**	**100.3**	**91.1**	**144.6**	**2,522.9**

* *Congress authorized 3,090 miles for corridors as part of the Appalachian Development Highway System and eligible for construction under the Appalachian Development Highway System program. Final total mileage of the corridors completed under the program will be within the authorized mileage.*
Notes: Totals may not add because of rounding.

Appalachian Development Highway System as of September 30, 2013



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 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, 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.

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, program 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 at *www.arc.gov*.

Research completed or under way in FY 2013 includes:

- An evaluation of ARC's infrastructure and public works projects
- An evaluation of ARC's education and workforce development projects
- An analysis of the availability of capital and credit for small businesses in the Appalachian Region
- An analysis of household wealth and poverty in the Appalachian Region
- An evaluation of the contribution made by forests and wood products to sustainable economic growth in the Appalachian Region
- An examination of the water resources in the Appalachian Region
- A study summarizing student progress and outcomes in portions of the Appalachian Region
- An evaluation of ARC's health-related projects
- An evaluation of ARC's non-infrastructure job creation and retention projects
- An analysis of economic diversification in Appalachia

Impediments to Progress

Despite progress in some areas, Appalachia still does not enjoy the same economic vitality and living conditions as the rest of the nation. During the current recession, the Appalachian Region has been battered by job losses and structural economic changes. The Region's traditional industries, such as mining, manufacturing, textiles, and paper products, have faced intense global competition and are in decline. Population outmigration is among the worst in the nation. Central Appalachia in particular still battles economic distress, with concentrated areas of poverty, unemployment, poor health, and severe educational disparities.

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

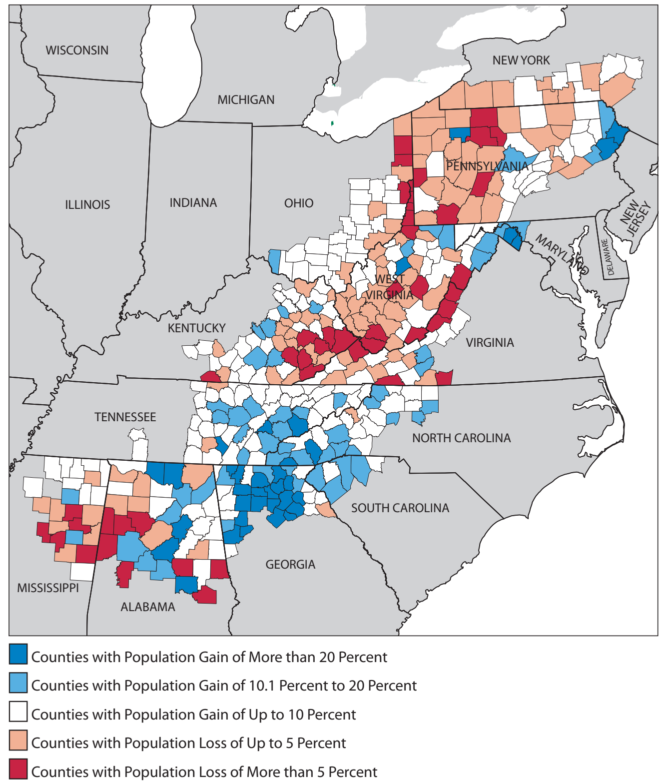
Civic capacity is vital for communities to be strategically ready to take advantage of economic opportunities. Weakness in civic capacity in Appalachia has inhibited the broad citizen involvement, local strategic planning, and collaboration necessary for a sense of empowerment and civic engagement. Low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

Economic and Demographic Shifts

A rising number of Appalachian counties are experiencing net population loss, and, as a result, there is continuing concern about the decline in Appalachia's "prime age" workforce—workers between the ages of 25 and 64. Net population loss occurred in 145 counties between 2000 and 2010, compared with 85 counties in the period 1990–2000.

The Appalachian Region has been battered by job losses and structural economic shifts because of global competition and the Region's reliance on declining industries, such as farming, forestry, natural resources, and manufacturing.

Percent Change in Population in Appalachian Counties, 2000–2010



Data Source: U.S. Department of Commerce, Census Bureau, 2000 and 2010 Decennial Censuses.

- Population growth in Appalachia between 2000 and 2010 was 6.8 percent, compared with 9.7 percent for the nation. More than 76 percent of Appalachian counties had lower rates of population growth than the nation as a whole.
- In 2012, nearly two-thirds of Appalachian counties had unemployment rates higher than the national average.
- In 2012, Appalachia's unemployment rate of 8.1 percent matched that of the nation, while the Central Appalachian Region had an unemployment rate of 9.4 percent.
- Of the 420 counties in Appalachia, only 35 registered positive employment growth from the fourth quarter of 2007 to the fourth quarter of 2010.
- Appalachia lost 474,000 manufacturing jobs between 2000 and 2008, a loss of 24.6 percent.
- During the recent recession, the Region lost 800,000 jobs, all the jobs gained since 2000.
- More than 190,000 Appalachians gave up searching for jobs and left the labor force between the third quarter of 2008 and the third quarter of 2010.
- Employment growth in Appalachia averaged only 0.7 percent per year during the economic expansion from 2001 to 2007, compared with 1.1 percent per year for the nation as a whole.
- Per capita personal income was roughly 20 percent lower in Appalachia than in the nation as a whole in 2011. This is true of average wages and salaries, as well as average earnings.

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 focus public investment on the areas of greatest need. The Appalachian Region receives far less federal investment per capita than the nation as a whole. Analyses of the Consolidated Federal Funds Report for Fiscal Year 2010 found that per capita federal expenditures were 31 percent less in Appalachia than in the nation as a whole. This represents a gap of $5,134 per person.

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. Seventy-four percent of the Appalachian population is covered by community water systems, compared with 85 percent for the nation as a whole. 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 Appalachia, where per capita income was roughly 20 percent lower than the national average in 2011. Per capita income was only 67 percent of the national average in Appalachian Kentucky and 70 percent in Appalachian Mississippi in 2011. Many Appalachian communities need additional technical, managerial, and financial assistance to meet their future needs.

Telecommunications

The Appalachian Region continues to lag the rest of the nation in access to affordable broadband telecommunications service. While progress has been made, the rural areas of Appalachia still need help obtaining advanced 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 employability 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.

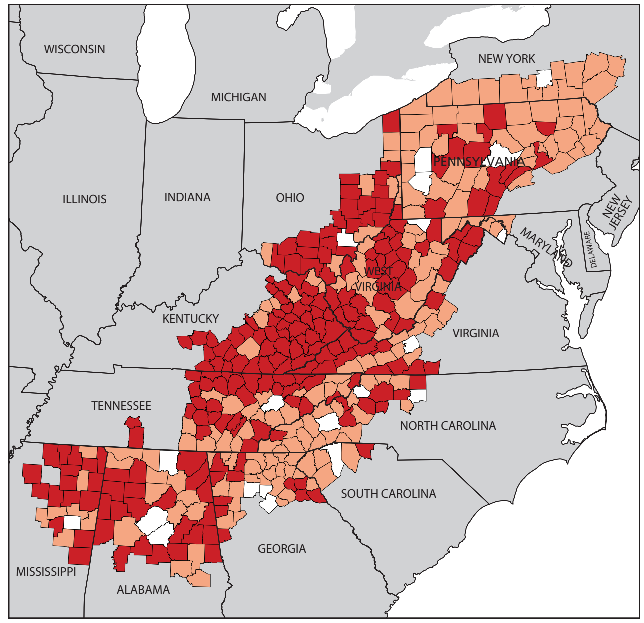
According to the Bureau of Labor Statistics, the 30 fastest-growing occupations require at least some post-secondary education or training. Many areas of the Region do not have the state-of-the-art equipment and/or the capacity to train the number of workers needed for these high-growth occupations.

The post-secondary education attainment gap between Appalachia and the rest of the nation has widened: in 1990 the difference between the Region's and the nation's share of adults with college degrees was 6.0 percentage points; in 2011, according to U.S. Census Bureau estimates, the gap had increased to 7.2 percentage points.

Health Care

Health problems continue to impede quality of life as well as economic prospects in much of the Region. Appalachia suffers from disproportionately high rates of chronic diseases such as stroke, cancer, and diabetes. In addition, more than four-fifths of the Region's counties are full or partial health professional shortage areas, according to the U.S. Department of Health and Human Services. Rural Appalachian counties have had difficulty attracting or retaining primary health-care and dental-care services, as well as outpatient drug and alcohol treatment, and mental-health services. Recent research indicates that some areas of the Region experience extremely limited access to medical care, and that the cost of care is higher in the Region than in other areas of the nation.

Appalachian Counties with Low College Completion Rates



Percent of Adults Completing a Bachelor's Degree or Higher

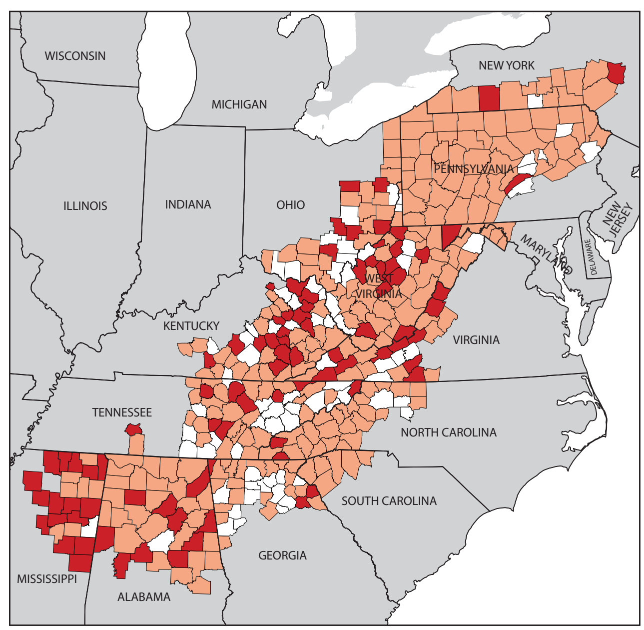
Counties Below Half the U.S. Average

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, ACS, 2007–2011.

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 2013.

SUMMARY OF ACHIEVEMENTS

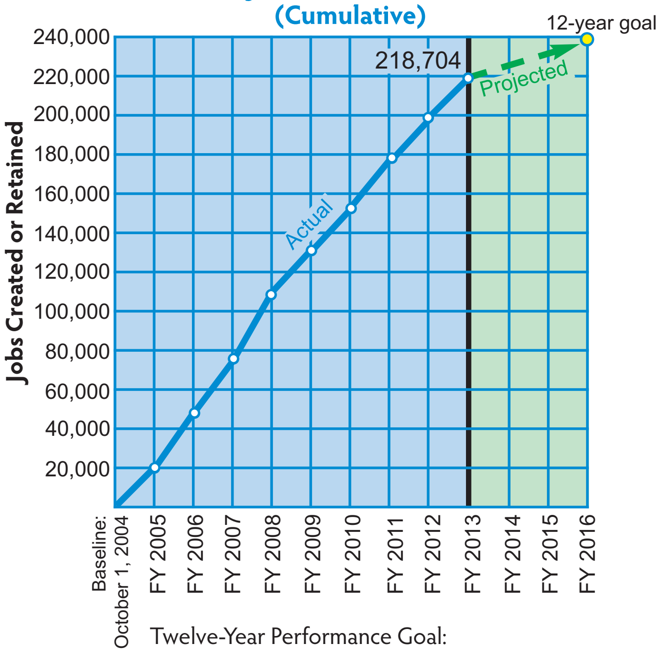
Performance Goals and Results for Fiscal Year 2013 Projects

ANNUAL PERFORMANCE GOALS	FISCAL YEAR 2013 INTERMEDIATE ESTIMATES	RESULTS ACHIEVED
Jobs and Income		
Outcome Goal: 19,000 jobs created or retained	19,008 jobs created or retained	Met goal
Leveraging Goal: Achieve a 4:1 ratio of leveraged private investment to ARC investment for projects in General Goal 1	Achieved a 3:1 ratio	Met 75% of goal
Targeting Goal: Direct 50% of grant funds to benefit distressed counties or areas for projects in General Goal 1	Directed 47% of funds*	Met 94% of goal
Competitiveness		
Outcome Goal: 19,000 students/trainees with improvements	22,749 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 1:1 ratio	Met goal
Targeting Goal: Direct 50% of grant funds to benefit distressed counties or areas for projects in General Goal 2	Directed 79% of funds*	Exceeded goal
Infrastructure		
Outcome Goal: 19,000 households served	21,863 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 3:1 ratio	Exceeded goal
Targeting Goal: Direct 50% of grant funds to benefit distressed counties or areas for projects in General Goal 3	Directed 67% of funds*	Exceeded goal
Highways		
Outcome Goal: 25 additional miles (net increase) of the ADHS opened to traffic	Opened 21.5 additional miles (net increase) of the ADHS to traffic	Met 86% of goal

** In FY 2013, 61 percent of total grant funds were directed to projects that benefit distressed counties or areas. Project funds are included if the project primarily or substantially benefits distressed counties or areas.*

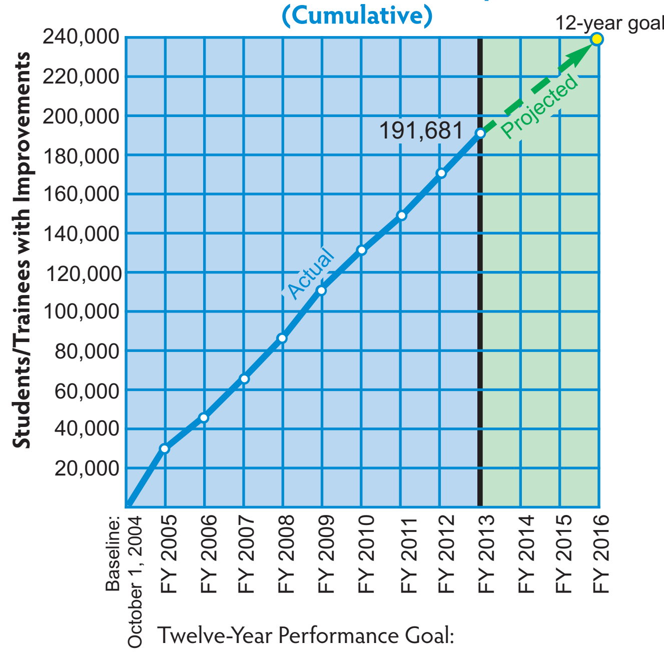
Progress toward ARC Strategic Plan Performance Goals
Fiscal Years 2005–2016

Goal 1: Jobs Created or Retained (Cumulative)



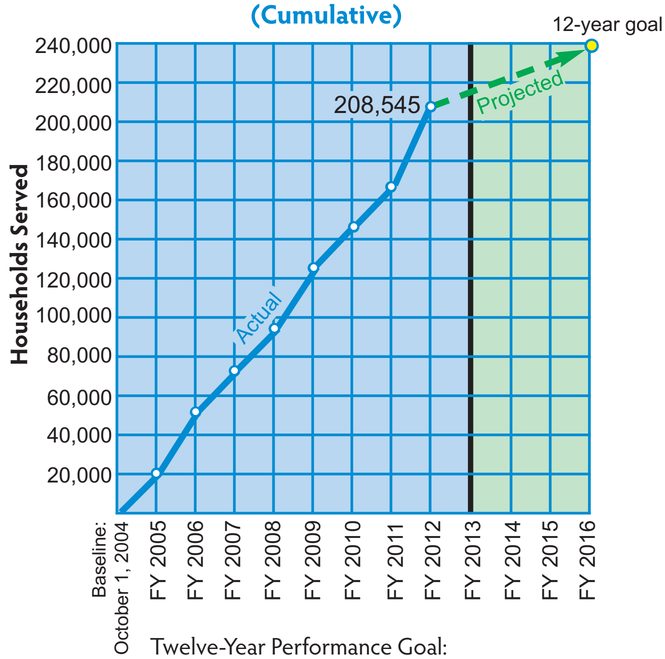
Twelve-Year Performance Goal:
240,000 jobs will be created or retained.

Goal 2: Students/Trainees with Improvements (Cumulative)



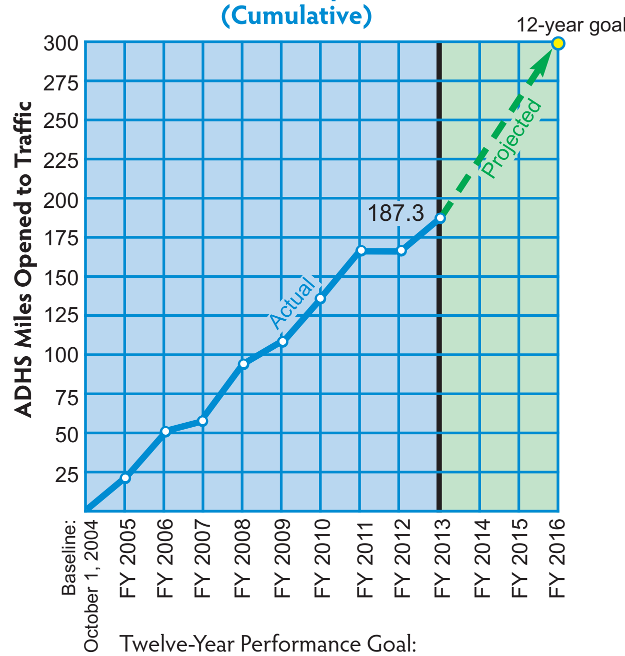
Twelve-Year Performance Goal:
240,000 citizens will benefit from enhanced education and job-related skills.

Goal 3: Households Served (Cumulative)



Twelve-Year Performance Goal:
240,000 households will be served with new or improved water and sewer infrastructure.

Goal 4: ADHS Miles Opened to Traffic (Cumulative)



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

FINANCIAL MANAGEMENT

Financial Management System

In FY 2013 the Appalachian Regional Commission renewed its contract with the GSA External Services Division to perform the Commission's accounting and financial reporting. ARC supplements these financial services 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 an industry-standard programming language.

Management's Responsibility for Internal Control

ARC implemented a process for providing audited financial statements in FY 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 U.S. Department of the Treasury financial reporting requirements, as appropriate.

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) represents sound management practices 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 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 pleased to report that it received an unmodified opinion from its independent auditor, Chortek LLP, on the fiscal year 2013 financial statements provided in this Performance and Accountability Report.

MANAGEMENT ASSURANCES

Overall Internal Control

The Appalachian Regional Commission's management is responsible for establishing and maintaining effective internal control and management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). The Commission conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, Management's Responsibility for Internal Control. Based on this evaluation, the Commission can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2013, was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

Internal Control over Financial Reporting

ARC conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with OMB Circulars A-123, Management's Responsibility for Internal Control, and A-136, Financial Reporting Requirements. Based on the results of this evaluation and that of the Commission's independent auditors, ARC can provide reasonable assurance that internal control over financial reporting as of September 30, 2013, was operating effectively, and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

Management Follow-Up to Inspector General Recommendations

At the start of the fiscal year, implementation actions were continuing on recommendations made in prior audit reports. During FY 2013, the OIG issued 43 reports related to financial statements, grantee activities, and grant management, including status of grant funds. The total dollar value of grants and payments reviewed during FY 2013 was approximately $57 million, with approximately $328,000 in questioned or unsupported costs and $3.1 million in funds that could be put to better use. By the end of the fiscal year, management decisions had been made regarding all issued reports, recommendations had been implemented, and six reports remained open pending final actions.

Office of Inspector General reports to Congress, including semi-annual reports, and OIG contact information are available to the public at www.arc.gov/oig.

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 2013, 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 the unmodifed opinion of ARC's independent auditor, Chortek LLP, the financial statements included in that section fairly represent, in all material respects, the financial position of the Commission as of September 30, 2013, and ARC's net costs, changes in net position, and budgetary resources for the year ended in conformity with U.S. generally accepted accounting principles (GAAP) and OMB Circular A-136. The financial statements taken together include all aspects of ARC, including the Office of the Federal Co-Chair, area development programs, and administrative/operational activities performed by the Commission.

Assets on September 30, 2013, totaled $185.9 million, versus $199.2 million in FY 2012. The reduction was due to a decrease in the fund balance with the U.S. Department of the Treasury, which was partially offset by grantee advances. Liabilities equaled $9.2 million in FY 2013 versus $8.9 million in FY 2012. The increase was due to an increase in the grantee accrual amount. Seventy-five percent of ARC's assets were in the U.S. Treasury. In addition, 15.6 percent, or $29.0 million, represented Commission 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 $11.3 million to three federal agencies for the purpose of servicing grants. Remaining assets are cash and advances to grantees.

The net position decreased from $190.3 million in FY 2012 to $176.8 million in FY 2013.

Liabilities included $8.3 million in payments due to grantees, $730,509 in accrued benefits and pension liability, and $133,952 in other agency transactions.

The net cost of operations for FY 2013 totaled $78.4 million. The statement of changes in net position was broken down between a dedicated fund and all other funds. The dedicated 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 dedicated fund was $3.9 million, and the consolidated net position was $176.8 million.

ARC receives most of its resources from congressional appropriations, which totaled $64.9 million in FY 2013. In addition, ARC received $3.9 million from the 13 member states to pay for the Commission's operating costs. The statement of budgetary resources reported net outlays of $81.3 million. ARC incurred obligations of $73.9 million in FY 2013 and has an unpaid obligated balance (net, end of year) of $112.6 million. Of FY 2013 obligations, $65.3 million funded ARC's Area Development Program, $7.9 million funded the Commission Trust Fund, and the remainder was directed to the Appalachian Development Highway System.

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with GAAP for federal entities and the formats prescribed by OMB, the statements, in addition to the financial reports, are used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. government, a sovereign entity.

Statement of Assurance

On the basis of ARC's comprehensive internal control program during FY 2013, ARC can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2013, was operating effectively. Accordingly, I am pleased to certify with reasonable assurance that our agency's systems of internal control, taken as a whole, comply with Section 2 of the Federal Managers' Financial Integrity Act of 1982. Our agency also is in substantial compliance with applicable federal accounting standards and the U.S. Standard General Ledger at the transaction level and with federal financial system requirements. Accordingly, ARC fully complies with Section 4 of the Federal Managers' Financial Integrity Act of 1982, with no material non-conformances.

ARC conducted its assessment of the effectiveness of internal controls over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. ARC has reasonable assurance that internal controls over financial reporting as of September 30, 2013, were operating effectively and no material weaknesses were found in the design or operation of the controls.

Earl F. Gohl
ARC Federal Co-Chair
February 11, 2014

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 2013 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 2013, ARC

- Collected and entered state estimates of results for FY 2013 into a database as part of daily operations and project management;
- Validated results of a sample of projects funded in FY 2010 and FY 2011 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 2011–2016 strategic plan, *Moving Appalachia Forward*, were used to evaluate performance in FY 2013.

FY 2013 Outcome Goals and Intermediate Results	
ANNUAL OUTCOME GOAL	**INTERMEDIATE ESTIMATES**
19,000 Jobs Created or Retained	19,008 Jobs Created or Retained
19,000 Students/Trainees with Improvements	22,749 Students/Trainees with Improvements
19,000 Households Served	21,863 Households Served
25 Additional Miles (Net Increase) of the ADHS Opened to Traffic	21.5 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 2013 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.

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 approximately 400 projects annually throughout the 13-state Appalachian Region. All of the projects must address one of the four goals in ARC's 2011–2016 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. ADHS projects are funded through the Federal Highway Administration of the U.S. Department of Transportation. The Commission's strategic plan identifies the goal areas as the basic building blocks of sustainable economic development in the Region.

Commission 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

GENERAL GOAL 1 *Increase Job Opportunities and Per Capita Income in Appalachia to Reach Parity with the Nation.*	GENERAL GOAL 2 *Strengthen the Capacity of the People of Appalachia to Compete in the Global Economy.*	GENERAL GOAL 3 *Develop and Improve Appalachia's Infrastructure to Make the Region Economically Competitive.*	GENERAL GOAL 4 *Build the Appalachian Development Highway System to Reduce Appalachia's Isolation.*
Strategic Objectives 1.1 Develop Leaders and Strengthen Community Capacity 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 1.8 Encourage Sustainable Economic Use of Natural Resources 1.9 Encourage Investments in Energy Projects that Create Jobs **Outcome measure:** Number of jobs created or retained.	**Strategic Objectives** 2.1 Develop Leaders and Strengthen Community Capacity 2.2 Enhance Workforce Skills through Training and Education 2.3 Increase Access to Quality Child Care and Early Childhood Education 2.4 Increase Educational Attainment and Achievement 2.5 Expand Community-Based Wellness and Disease-Prevention Efforts 2.6 Increase the Availability of Affordable, High-Quality Health Care **Outcome measure:** Number of students/trainees with improvements.	**Strategic Objectives** 3.1 Develop Leaders and Strengthen Community Capacity 3.2 Build and Enhance Basic Infrastructure 3.3 Increase Access to and Use of Telecommunications Technology 3.4 Preserve 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.	**Strategic Objectives** 4.1 Develop Leaders and Strengthen Community Capacity 4.2 Promote the Successful Development of the Appalachian Development Highway System (ADHS) 4.3 Improve Planning to Enhance Multi-Jurisdictional Coordination and Efficiency 4.4 Encourage Intermodal Coordination 4.5 Enhance the Energy Efficiency of the Transportation System 4.6 Develop a Transportation System that Enhances and Preserves the Region's Environmental Quality **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 an information management 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 39).

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 who 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 below).

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.

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 subprograms. 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.

Changes to the Region's economic base present significant opportunities and challenges to Appalachia. The new economy offers opportunities for the Region in knowledge-based industries and sectors such as services and health care. At the same time, shifting demands present challenges to traditional manufacturing, mining, and agriculture.

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 highway corridors and to examine heritage, cultural, and recreational assets that can create job opportunities while preserving the character of the Region's communities.

Strategic Objective 1.1: Develop Leaders and Strengthen Community Capacity. As a community or region seeks to develop a healthy, competitive, and sustainable economy, it needs to build the capacity of three interdependent elements: individual leaders, organizations, and the community as a whole. Leadership-development skills, broad citizen involvement, strategic planning processes, and collaborations among business, government, nonprofit, and philanthropic organizations contribute to a sense of empowerment and sustained economic well-being. These activities foster broad-based civic engagement and support strategic readiness to take advantage of economic opportunities.

Strategic Objective 1.2: Diversify the Economic Base. For Appalachia to compete in the global economy, the Region must expand efforts to diversify its economic base to provide new employment opportunities. Prosperity and stability for Appalachian communities will depend on their ability to find new business and economic opportunities that can build on the Region's strengths while diversifying its base.

Strategic Objective 1.3: Enhance Entrepreneurial Activity in the Region. Locally owned businesses play an important role in creating sustainable local economies and improving the quality of life in Appalachian communities, especially in economically distressed areas. Many communities need assistance in developing support for business incubators and providing entrepreneurial training and financial services.

Strategic Objective 1.4: Develop and Market Strategic Assets for Local Economies. A recognized way of strengthening communities and their economies is through the identification and development of local cultural, heritage, and natural assets. This approach to development recognizes and builds on indigenous resources, experience, wisdom, skills, and capacity in Appalachian communities. Creating local homegrown economic opportunity is central to this asset-based approach. Appalachia's arts, crafts, music, and heritage resources and its natural and recreational assets can be leveraged for the economic benefit of the Region.

Strategic Objective 1.5: Increase the Domestic and Global Competitiveness of the Existing Economic Base. Many Appalachian communities have embraced not only new domestic business development strategies but also global strategies that promote increased international business activity in order to be competitive. By helping local firms find new markets at home and abroad, communities can assist in job creation. Foreign direct investment is another effective approach that can generate additional job opportunities and help communities enhance their competitive advantage.

Strategic Objective 1.6: Foster the Development and Use of Innovative Technologies. Information technology represents an important opportunity to close the job gap in Appalachia through high-value-added industries such as telecommunications and computing services. Appalachian communities should partner with federal and private-sector research labs, research universities, and other technology organizations to help create and retain technology-related jobs.

Strategic Objective 1.7: Capitalize on the Economic Potential of the Appalachian Development Highway System (ADHS). The ADHS presents perhaps the greatest community and economic development opportunity in the Region. To maximize its potential, programs and activities must be designed to capitalize on the system's connectivity.

Strategic Objective 1.8: Encourage Sustainable Economic Use of Natural Resources. Natural resources such as water, soil, and forests can be used to benefit the economy of the Region. If managed in a sustainable way, these natural resources can provide long-term economic benefit and improved quality of life for local communities.

Strategic Objective 1.9: Encourage Investments in Energy Projects that Create Jobs. Encouraging investments in energy resources in Appalachia can help increase economic opportunities for the Region. By carefully using its energy resources and employing emerging energy technologies and practices, Appalachia can create and retain jobs; increase the supply of locally produced clean, affordable energy; help companies stay competitive; and keep the Region moving toward energy independence.

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 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, based on its position in the national ranking, each Appalachian county is classified in 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 2013, 98 counties were designated distressed, 99 were designated at-risk, 208 were designated transitional, 12 were designated competitive, and 3 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 41.)

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 2013: Create/retain 19,000 jobs for Appalachians.
Results for FY 2013: Met goal.

Outcome Goal: Create/Retain 20,000 Jobs for Appalachians	
ANNUAL OUTCOME GOAL	**INTERMEDIATE ESTIMATES**
FY 2010: 20,000 Jobs Created/Retained	FY 2010: 23,439 Jobs Created/Retained
FY 2011: 20,000 Jobs Created/Retained	FY 2011: 22,816 Jobs Created/Retained
FY 2012: 20,000 Jobs Created/Retained	FY 2012: 20,112 Jobs Created/Retained
FY 2013: 19,000 Jobs Created/Retained	FY 2013: 19,008 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 2013: Achieve a 4:1 ratio of leveraged private investment to ARC investment.

Results for FY 2013: Met 75% goal. The ratio for leveraged private investment to ARC funds for all nonhighway projects in FY 2013 was 9:1.

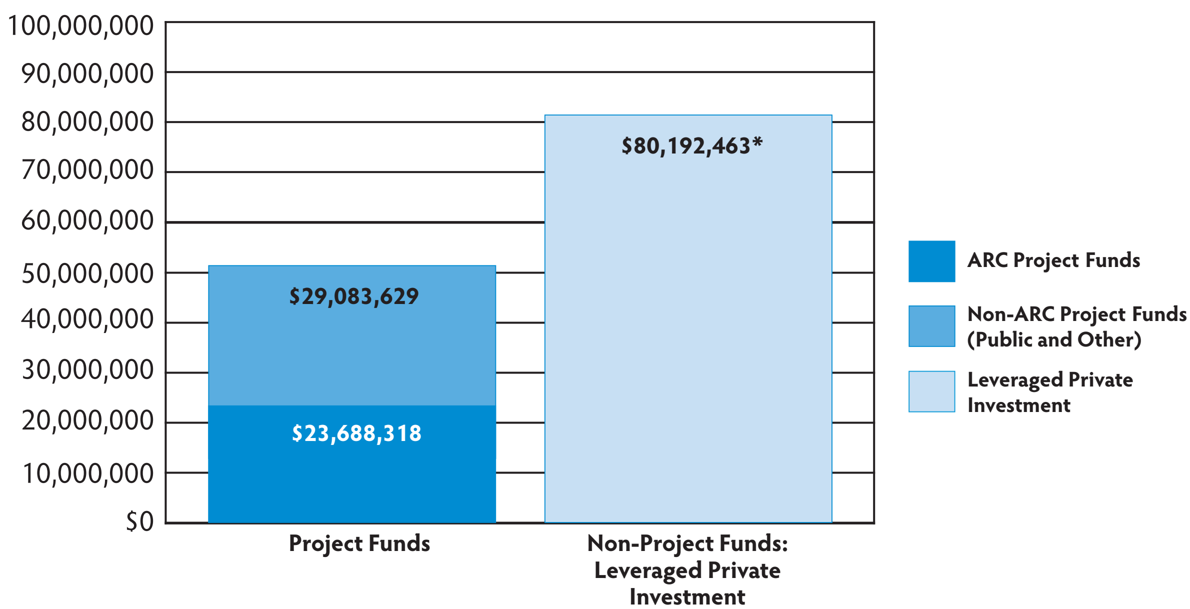
Leveraging Goal: Achieve a 4:1 Ratio of Leveraged Private Investment to ARC Investment

ANNUAL OUTCOME GOAL	INTERMEDIATE ESTIMATES
FY 2010: Achieve a 4:1 ratio of leveraged private investment to ARC investment.	FY 2010: Achieved a 4:1 ratio.
FY 2011: Achieve a 4:1 ratio of leveraged private investment to ARC investment.	FY 2011: Achieved a 3:1 ratio.
FY 2012: Achieve a 4:1 ratio of leveraged private investment to ARC investment.	FY 2012: Achieved a 4:1 ratio.
FY 2013: Achieve a 4:1 ratio of leveraged private investment to ARC investment.	FY 2013: Achieved a 3:1 ratio.*

** One large-scale project that had limited ARC participation was not included in the calculations for this ratio.*

In FY 2013, ARC's General Goal 1 grant funds of $23,688,318 attracted non-project leveraged private investment of $80,192,463, and $29,083,629 in matching project funds from public and other sources.

Funding and Leveraged Private Investment for General Goal 1 Projects in Fiscal Year 2013



** One large-scale project that had limited ARC participation was not included in this total.*

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 2013: Direct 50 percent of all ARC grant funds to projects that benefit distressed counties or areas.

Results for FY 2013: In FY 2013, 47 percent of General Goal 1 grant funds were directed to projects that benefit distressed counties or areas. A total of 61 percent of all FY 2013 grant funds were directed to projects that benefit distressed counties or areas.

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

ANNUAL TARGETING GOAL	INTERMEDIATE ESTIMATES*
FY 2010: Direct 50% of grant funds to projects that benefit distressed counties or areas.	FY 2010: Directed 45% of General Goal 1 funds.
FY 2011: Direct 50% of grant funds to projects that benefit distressed counties or areas.	FY 2011: Directed 54% of General Goal 1 funds.
FY 2012: Direct 50% of grant funds to projects that benefit distressed counties or areas.	FY 2012: Directed 35% of General Goal 1 funds.
FY 2013: Direct 50% of grant funds to projects that benefit distressed counties or areas.	FY 2013: Directed 47% of General Goal 1 funds.

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

Project Validation Sampling

In FY 2013, members of ARC's field validation team surveyed ten FY 2010 and FY 2011 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
10	4,212	5,038	120%

As shown above, the projects surveyed achieved 120% of projected results for jobs created/retained.

Project Evaluation: Final Results

Entrepreneurship Initiative

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 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. 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, Cultural Heritage, and Natural-Asset-Related Projects

In FY 2010, ARC issued the report *Program Evaluation of ARC's Tourism, Cultural Heritage, and Natural- Asset-Related Projects*, prepared by Regional Technology Strategies. The purpose of the study was to assess the utility and validity of projects and project outcomes. The report evaluated the outcomes of 132 projects through surveys, interviews, and statistical analysis. Results showed that ARC's investment of $10.8 million in tourism projects generated 2,588 jobs. The study found that a new job was created for every $4,161 of ARC funding, and a new business was created for every $23,139 in ARC funding. Every $.40 invested by ARC in the projects reviewed generated $1.00 in leveraged private investment. The study included recommendations to help increase the capacity of small-scale organizations to strengthen tourism in local communities.

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

In order to compete in the twenty-first-century economy, the people of Appalachia must have the skills and knowledge required to develop, staff, and manage globally competitive businesses. In addition, the Region's communities must provide adequate health care in order to keep existing businesses and develop new ones.

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 preventive measures. In addition, ARC will develop partnerships with other organizations to address the disproportionate burden of chronic disease in the Region.

Strategic Objective 2.1: Develop Leaders and Strengthen Community Capacity. Appalachia needs to develop strong leaders, organizations, and communities to promote the Region's competitiveness. Capacity-building activities that strengthen collaborative relationships among communities, agencies, and individuals, that encourage innovative and achievable first steps, and that provide an increase in awareness of, and dialogue on, strategic opportunities contribute to improved community responsibility and use of resources.

Strategic Objective 2.2: Enhance Workforce Skills through Training and Education. As the changing global economy affects Appalachian communities and businesses, many adults in the Region find it difficult to retain their jobs or seek new ones without significant retraining and additional education. Most new jobs are in sectors that require a higher level of education. To respond to new economic opportunities and weather economic uncertainty, workers must continually build skills and experience.

Strategic Objective 2.3: Increase Access to Quality Child Care and Early Childhood Education. Access to quality child care fosters the development of children and enables their parents and guardians to take advantage of job opportunities. In addition, studies have shown that the benefits of high-quality early childhood education programs, especially for children from low-income families, last at least into early adulthood. Many families in Appalachia often do not have the resources, in terms of finances or time, to take full advantage of such services.

Strategic Objective 2.4: Increase Educational Attainment and Achievement. Research has shown that high levels of educational attainment and achievement are associated with better health for individuals and their children, longer life expectancies, and higher salaries. While progress has been made in improving levels of educational attainment and achievement in Appalachia, resources are still needed to close the gap in educational attainment between the Appalachian Region and the rest of the nation. To strengthen Appalachia's economic competitiveness, more Appalachians need to graduate from high school and continue with post-secondary education at community colleges, universities, or professional schools.

Strategic Objective 2.5: Expand Community-Based Wellness and Disease-Prevention Efforts. Appalachia suffers from disproportionately high rates of chronic disease, which has a significant adverse effect on workforce participation and productivity and impedes opportunities for economic development. Community-based wellness and health education efforts are key to reducing health disparities, developing a stronger workforce, and ensuring the long-term vitality of the Appalachian Region.

Strategic Objective 2.6: Increase the Availability of Affordable, High-Quality Health Care. Many parts of Appalachia, including its most economically distressed counties, are underserved by health-care professionals and health facilities. Activities and policies to improve the supply and distribution of the Region's professional health-care workforce and facilities can help ensure that health care is comprehensive, affordable, and accessible to community residents.

Performance Goals and Results

General Goal 2 is aligned with the annual performance goals listed under the program category "competitiveness." (See page 42.)

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 2013: Position 19,000 Appalachians for enhanced employability.
Results for FY 2013: Exceeded goal.

Outcome Goal: Position 20,000 Appalachians for Enhanced Employability

ANNUAL OUTCOME GOAL	INTERMEDIATE ESTIMATES
FY 2010: 20,000 Students/Trainees with Improvements	FY 2010: 19,980 Students/Trainees with Improvements*
FY 2011: 20,000 Students/Trainees with Improvements	FY 2011: 18,335 Students/Trainees with Improvements**
FY 2012: 20,000 Students/Trainees with Improvements	FY 2012: 20,315 Students/Trainees with Improvements
FY 2013: 19,000 Students/Trainees with Improvements	FY 2013: 22,749 Students/Trainees with Improvements***

** Excludes projects that provided computers or computer equipment that will benefit 10,826 students.*
*** Estimate does not include one project with limited ARC participation that will provide 5,000 students with a museum-related curriculum.*
**** Excludes projects that provided computers or computer equipment that will benefit 9,724 students.*

Matching Goal

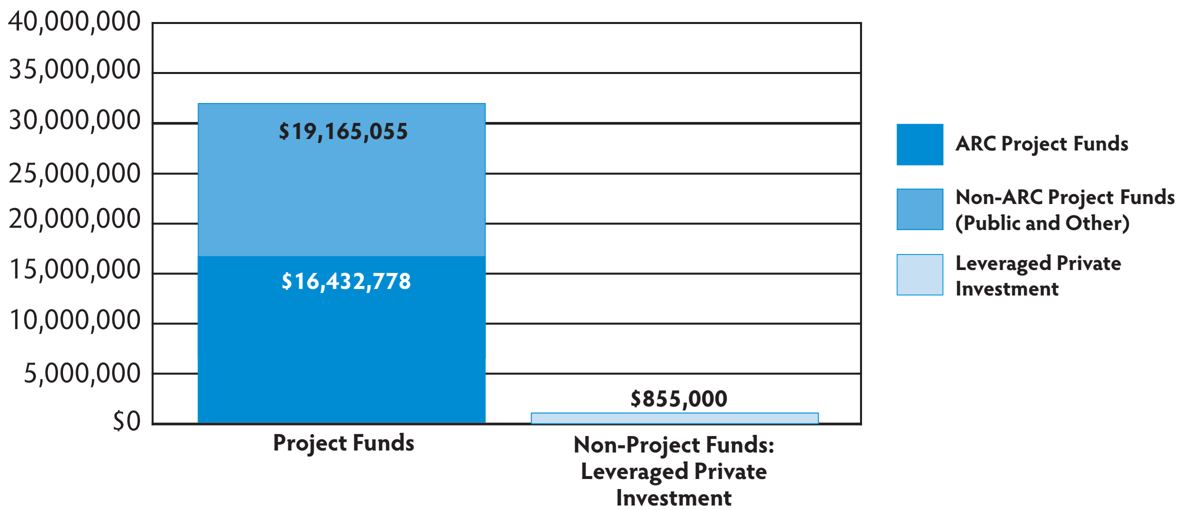
The matching performance goal for General Goal 2 projects is the ratio of non-ARC project matching funds to ARC investment.

Annual matching goal for FY 2013: Achieve a 1:1 ratio of non-ARC matching funds to ARC investment.
Results for FY 2013: Met goal.

Matching Goal: Achieve a 1:1 Ratio of Non-ARC Matching Project Funds to ARC Investment	
ANNUAL MATCHING GOAL	INTERMEDIATE ESTIMATES
FY 2010: Achieve a 1:1 ratio of non-ARC matching project funds to ARC investment.	FY 2010: Achieved a 3:1 ratio.
FY 2011: Achieve a 1:1 ratio of non-ARC matching project funds to ARC investment.	FY 2011: Achieved a 1:1 ratio.
FY 2012: Achieve a 1:1 ratio of non-ARC matching project funds to ARC investment.	FY 2012: Achieved a 1:1 ratio.
FY 2013: Achieve a 1:1 ratio of non-ARC matching project funds to ARC investment.	FY 2013: Achieved a 1:1 ratio.

In FY 2013, ARC General Goal 2 grant funds of $16,432,778 attracted $19,165,055 in matching project funds from public and other sources and $855,000 in leveraged private investment.

Funding for General Goal 2 Projects in Fiscal Year 2013



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 2013: Direct 50 percent of all ARC grant funds to projects that benefit distressed counties or areas.

Results for FY 2013: In FY 2013, 79 percent of General Goal 2 grant funds were directed to projects that benefit distressed counties or areas.

Targeting Goal: Direct 50 Percent of General Goal 2 Grant Funds to Distressed Counties or Areas	
ANNUAL TARGETING GOAL	**INTERMEDIATE ESTIMATES***
FY 2010: Direct 50% of grant funds to projects that benefit distressed counties or areas.	FY 2010: Directed 68% of General Goal 2 funds.
FY 2011: Direct 50% of grant funds to projects that benefit distressed counties or areas.	FY 2011: Directed 58% of General Goal 2 funds.
FY 2012: Direct 50% of grant funds to projects that benefit distressed counties or areas.	FY 2012: Directed 83% of General Goal 2 funds.
FY 2013: Direct 50% of grant funds to projects that benefit distressed counties or areas.	FY 2013: Directed 79% of General Goal 2 funds.
**Project funds are included if the project primarily or substantially benefits distressed counties or areas.*	

Project Validation Sampling

In FY 2013, members of ARC's field validation team surveyed twenty-seven FY 2010 and FY 2011 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
27	4,680	4,113	88%

As shown above, the projects surveyed achieved 88 percent of projected results for students/trainees with improvements. While most projects validated in this category met or exceeded their goals, two workforce training projects with large numbers of projected trainees did not meet their goals. The project grantees indicated that they had overestimated the number of workers that would participate in their training programs.

Project Evaluation: Final Results

Education and Workforce Development Projects, FY 2000–2008

In FY 2011, Westat, the Nick J. Rahall II Appalachian Transportation Institute, and Economic Development Research Group undertook a program evaluation of completed ARC education and workforce development projects that had been funded between fiscal years 2000 and 2008. During these years, ARC invested a total of $65 million in 386 education and workforce development projects. The projects studied provided a wide range of educational and workforce development services. The majority of these projects—56 percent—provided educational attainment or achievement services to students pursuing a high school diploma or postsecondary degree; 43 percent provided career and technical education services; and 41 percent provided workforce training skills. Other services included skills and training to enhance employability, special-use classroom equipment such as computers and science labs, job skills training or instruction, computer-skills instruction, and new or improved physical structures.

The report documented the characteristics and outcomes of a sample of the projects, and provided recommendations for enhancing the collection and use of performance measurement data. The sample included 222 responses to an online questionnaire (57.5%), as well as telephone interviews with 23 of the questionnaire respondents.

Among students served by ARC projects, the most common benefits included increased vocational and technical skills, enrollment in a college or postsecondary program, achievement of basic or academic skills in a specific subject, and achievement of a postsecondary degree, credential, or certification.

Among workers/trainees served by ARC projects, the most common benefits included improved skills in a new area—including vocational and technical skills, employability, and basic or academic skills. A smaller proportion of projects indicated that their efforts resulted in improved work status, including new full-time employment, increased employment status, and/or increased earned wages.

For all projects, questionnaire respondents reported meeting or exceeding pre-project predictions, both for the number of students and workers trained, and for those who received career credentials, obtained jobs in that field, or continued their education beyond the lifecycle of the grant. Other project outcomes included job creation and retention, business creation, leveraged private investment, and improvement in employment rates for those participating in ARC-sponsored education/training programs.

Math-Science-Technology Summer Institute

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.

Education Projects

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.

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

In order to compete in the global economy, Appalachia must have the infrastructure necessary for economic development, including water and sewer systems, telecommunications systems, and efficient connections to global transportation networks. But barriers such as rugged terrain and low population density have hindered the Region in developing adequate infrastructure.

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 the global market.

Strategic Objective 3.1: Develop Leaders and Strengthen Community Capacity. Developing the regional infrastructure necessary to make Appalachia competitive requires a cadre of visionary leaders and effective organizations that are able to strategically mobilize communities toward their goals.

Strategic Objective 3.2: Build and Enhance Basic Infrastructure. Communities must have adequate water and wastewater treatment systems and decent, affordable housing to sustain businesses, generate jobs, protect public health, and ensure a basic standard of living for residents. Many Appalachian communities continue to lack this basic infrastructure, compromising the Region's ability to pursue basic development activities. Investing in basic infrastructure is an investment in the wellness, as well as the economic potential, of Appalachia.

Strategic Objective 3.3: Increase Access to and Use of Telecommunications Technology. Communities across the Appalachian Region, especially those in rural or economically distressed areas, face serious challenges in taking advantage of new information, computing, and telecommunications technologies that have the potential to expand their economic development horizons. Changing regulations have resulted in access issues for rural communities and reluctance on the part of service providers to make capital investments in less-dense areas where it is more difficult to generate adequate returns on investments.

Strategic Objective 3.4: Preserve and Enhance Environmental Assets. Cleaning up defunct industrial sites, promoting environmentally sensitive industries, and providing responsible stewardship and use of Appalachia's natural assets can play a vital part in putting the Region on an equal economic footing with the rest of the nation. This includes the reclamation of former industrial sites and mine-impacted lands for viable use.

Strategic Objective 3.5: Promote the Development of an Intermodal Transportation Network. In the twenty-first century, growth and prosperity depend on the ability to develop intermodal transportation systems with fast, efficient, and dependable access to worldwide suppliers and markets. Appalachian communities and businesses must continue to strengthen support for intermodal transportation strategies designed to improve access to Appalachia's transportation network (including aviation, local transit systems, railway systems, and inland waterways) as well as to increase the responsiveness of that network to the needs of businesses, communities, and residents.

Performance Goals and Results

General Goal 3 is aligned with the annual performance goals listed under the program category "infrastructure." (See page 42.) 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 2013: Provide 19,000 households with basic infrastructure services.
Results for FY 2013: Exceeded goal. In addition to the number recorded below, in FY 2013 ARC funded water storage tank construction and improvement projects that will serve a total of 16,685 households as well as one large system improvement that will serve 4,865 households.

Outcome Goal: Provide 19,000 Households with Basic Infrastructure Services	
ANNUAL OUTCOME GOAL	**INTERMEDIATE ESTIMATES***
FY 2010: 20,000 Households Served	FY 2010: 23,959 Households Served
FY 2011: 20,000 Households Served	FY 2011: 20,986 Households Served
FY 2012: 20,000 Households Served	FY 2012: 19,708 Households Served
FY 2013: 19,000 Households Served	FY 2013: 21,863 Households Served

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

Matching Goal

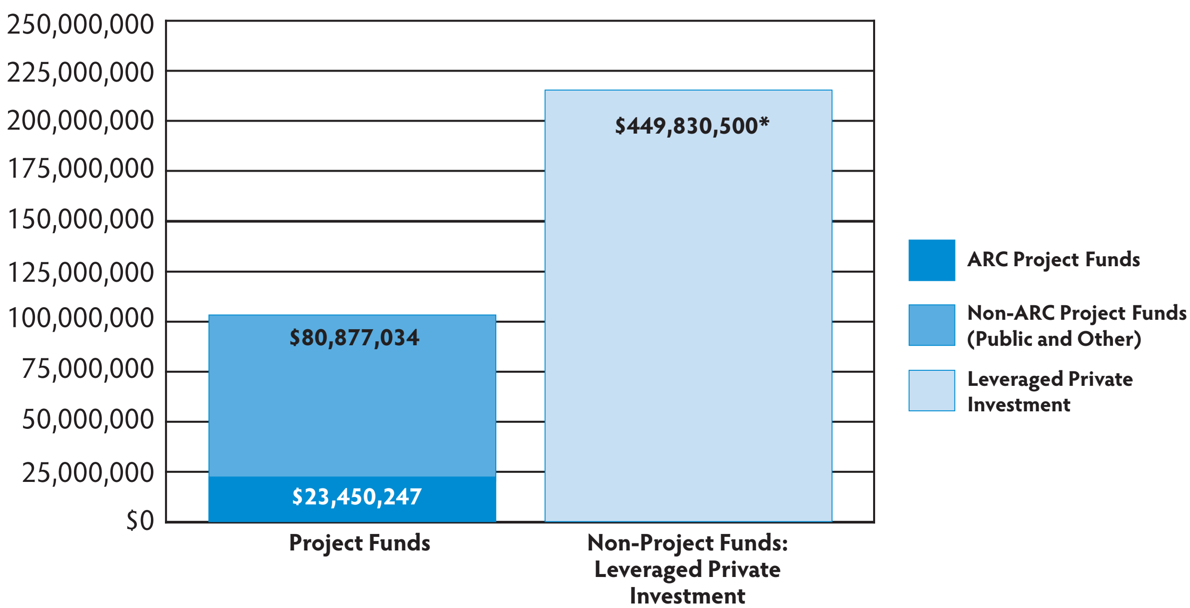
The matching performance goal for General Goal 3 projects is the ratio of non-ARC project matching funds to ARC investment.

Annual matching goal for FY 2013: Achieve a 2:1 ratio of non-ARC matching funds to ARC investment.
Results for FY 2013: Exceeded goal.

Matching Goal: Achieve a 2:1 Ratio of Non-ARC Matching Project Funds to ARC Investment	
ANNUAL MATCHING GOAL	**INTERMEDIATE ESTIMATES**
FY 2010: Achieve a 2:1 ratio of non-ARC matching project funds to ARC investment.	FY 2010: Achieved a 4:1 ratio.
FY 2011: Achieve a 2:1 ratio of non-ARC matching project funds to ARC investment.	FY 2011: Achieved a 5:1 ratio.
FY 2012: Achieve a 2:1 ratio of non-ARC matching project funds to ARC investment.	FY 2012: Achieved a 4:1 ratio.
FY 2013: Achieve a 2:1 ratio of non-ARC matching project funds to ARC investment.	FY 2013: Achieved a 3:1 ratio.

ARC FY 2013 General Goal 3 grant funds of $23,450,247 attracted $80,877,034 in matching project funds from public and other sources, and $449,830,500 in non-project leveraged private investment.

Funding and Leveraged Private Investment for General Goal 3 Projects in Fiscal Year 2013



** One large-scale project that had limited ARC participation was not included in this total.*

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 2013: Direct 50 percent of all ARC grant funds to projects that benefit distressed counties or areas.

Results for FY 2013: In FY 2013, 67 percent of General Goal 3 grant funds were directed to projects that benefit distressed counties or areas.

Targeting Goal: Direct 50 Percent of General Goal 3 Grant Funds to Distressed Counties or Areas	
ANNUAL TARGETING GOAL	**INTERMEDIATE ESTIMATES***
FY 2010: Direct 50% of grant funds to projects that benefit distressed counties or areas.	FY 2010: Directed 54% of General Goal 3 funds.
FY 2011: Direct 50% of grant funds to projects that benefit distressed counties or areas.	FY 2011: Directed 55% of General Goal 3 funds.
FY 2012: Direct 50% of grant funds to projects that benefit distressed counties or areas.	FY 2012: Directed 60% of General Goal 3 funds.
FY 2013: Direct 50% of grant funds to projects that benefit distressed counties or areas.	FY 2013: Directed 67% of General Goal 3 funds.

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

Project Validation Sampling

In FY 2013, members of ARC's field validation team surveyed twenty-two FY 2010 and FY 2011 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
22	30,396	30,808	101%

As shown above, the projects surveyed achieved 101 percent of projected results for households served.

Project Evaluation: Final Results

Infrastructure and Public Works Projects, FY 2004–2010

In fiscal year 2013, ARC released an independent program evaluation of ARC infrastructure and public works projects conducted by HDR Decision Economics, Cambridge Systematics Economic Development Research Group, and Mt. Auburn Associates. The evaluation assessed the impact of ARC infrastructure grant investments funded in fiscal years 2004 through 2010, and included in-depth case studies of 13 infrastructure projects funded during that time period.

The study's findings suggest that infrastructure projects are successful in meeting their goals of improving water and wastewater services, attracting new industry, encouraging business expansion, and spurring long-term job creation. They also show that in many cases, the actual outcome per dollar spent was greater than the pre-project estimated outcome per dollar spent; suggesting that grant recipients tend to underestimate the job and business impacts the investments will have on their communities.

The case studies documented a wide variety of economic and community benefits, including leveraged private investment, job creation and retention, and improved infrastructure services to local households and businesses. The case studies also documented other impacts that have contributed to the local economy and broader community, including increased residential property values, enhanced environmental quality, and improved public health. Other benefits included reduced water loss, a sounder financial footing for water system operators, reduction or elimination of the need for tax subsidies to keep systems solvent, increased property tax revenues from new and expanding businesses, and the opportunity to sell water to additional users.

Infrastructure and Public Works Projects, FY 1998–2004

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 fiscal years1998 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 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.

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

For Appalachia to compete economically with communities across the nation, it must have a safe and efficient transportation system connecting it to national transportation networks. Because of its difficult terrain, Appalachia was largely bypassed by the national interstate highway system, leaving the Region with a network of winding two-lane roads, which presented a major barrier to development. When ARC was established, Congress, recognizing the importance of overcoming the Region's geographic isolation, authorized the construction of an interstate-quality highway system in Appalachia. The Appalachian Development Highway System (ADHS) was created, and is being built, to enhance economic development opportunities in the Region by providing access to markets for goods, to jobs for workers, to health care for patients, and to education for students.

The strong partnership of ARC, the U.S. Department of Transportation, 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: Develop Leaders and Strengthen Community Capacity. Long-term strategic planning by local and regional leadership is critical to taking full advantage of the economic and community-building opportunities presented by existing and planned ADHS corridors. New outreach and awareness efforts are needed to help communities fully integrate the ADHS into their economic development planning.

Strategic Objective 4.2: Promote the Successful Development of the ADHS. Successful development of the ADHS is an essential step toward fostering economic growth and enabling Appalachia to become a significant contributor to the national economy. When completed, the system will connect the 13 states in the Region with nationwide and global economic opportunities.

Strategic Objective 4.3: Improve Planning to Enhance Multi-Jurisdictional Coordination and Efficiency. Completing the ADHS in a timely manner will require close coordination of activities on those segments of the system that cross state lines.

Strategic Objective 4.4: Encourage Intermodal Coordination. Reliable, safe, and cost-efficient access to domestic and international markets is essential for Appalachia to successfully compete in the global economy of the twenty-first century. Coordinating the ADHS and Access Road programs with the Region's rail, waterway, and aviation modes can establish Appalachia as an important link in the global supply chain.

Strategic Objective 4.5: Enhance the Energy Efficiency of the Transportation System. Energy-efficient transportation is critical to ensuring the competitiveness of existing businesses and attracting new enterprise and employment opportunities to the Region. Appalachia's transportation network must be planned and developed to ensure cost- and energy-efficient access in a future of increasing energy costs.

Strategic Objective 4.6: Develop a Transportation System that Enhances and Preserves the Region's Environmental Quality. Planning and developing a twenty-first-century transportation network to ensure domestic and international access while actively supporting the Region's environmental health is essential to the future of Appalachia's businesses, communities, and people.

Performance Goal and Results

General Goal 4 is aligned with the annual performance goal listed under the program category "highways." (See page 42.)

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 2013: Open 25 additional miles (net increase) of the ADHS to traffic.
Result for FY 2013: Met 86% of goal. Construction schedules are often delayed by weather, environmental conditions, or traffic issues.

At the end of FY 2013, a total of 2,522.9 miles, or 82 percent, of the 3,090 miles authorized for the ADHS were complete; 235.7 miles were under construction, 100.3 miles were in the final design or right-of-way acquisition phase; and 231.2 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 2010: Open 25 additional miles (net increase) of the ADHS to traffic.	FY 2010: Opened 26.8 additional miles (net increase) of the ADHS to traffic.
FY 2011: Open 25 additional miles (net increase) of the ADHS to traffic.	FY 2011: Opened 31.8 additional miles (net increase) of the ADHS to traffic.
FY 2012: Open 25 additional miles (net increase) of the ADHS to traffic.	FY 2012: Opened 0 additional miles (net increase) of the ADHS to traffic.
FY 2013: Open 25 additional miles (net increase) of the ADHS to traffic.	FY 2013: Opened 21.5 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

Impact of Highway Investments on Economic Growth in the Appalachian Region

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'.

Economic Benefits of the ADHS

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.

Economic Impact of Completing the ADHS

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 2013 Projects

ANNUAL PERFORMANCE GOALS	FISCAL YEAR 2013 INTERMEDIATE ESTIMATES	RESULTS ACHIEVED
Jobs and Income		
Outcome Goal: 19,000 jobs created or retained	19,008 jobs created or retained	Met goal
Leveraging Goal: Achieve a 4:1 ratio of leveraged private investment to ARC investment for projects in General Goal 1	Achieved a 3:1 ratio	Met 75% of goal
Targeting Goal: Direct 50% of grant funds to benefit distressed counties or areas for projects in General Goal 1	Directed 47% of funds*	Met 94% of goal
Competitiveness		
Outcome Goal: 19,000 students/trainees with improvements	22,749 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 1:1 ratio	Met goal
Targeting Goal: Direct 50% of grant funds to benefit distressed counties or areas for projects in General Goal 2	Directed 79% of funds*	Exceeded goal
Infrastructure		
Outcome Goal: 19,000 households served	21,863 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 3:1 ratio	Exceeded goal
Targeting Goal: Direct 50% of grant funds to benefit distressed counties or areas for projects in General Goal 3	Directed 67% of funds*	Exceeded goal
Highways		
Outcome Goal: 25 additional miles (net increase) of the ADHS opened to traffic	Opened 21.5 additional miles (net increase) of the ADHS to traffic	Met 86% of goal

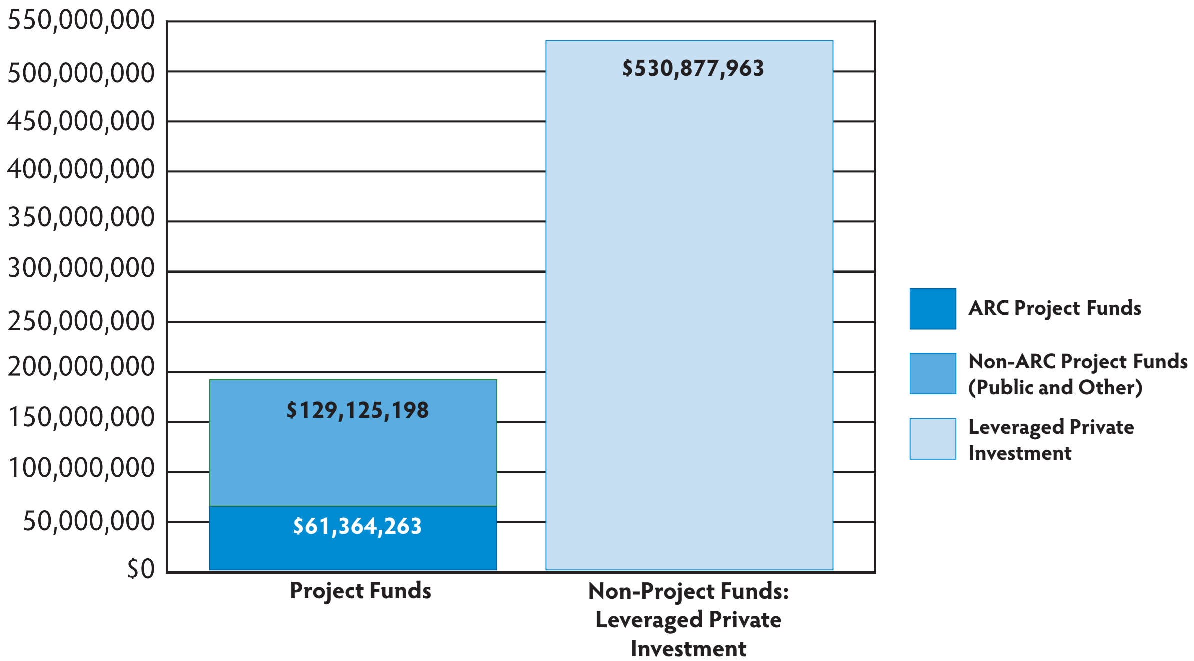
** In FY 2013, 61 percent of total grant funds were directed to projects that benefit distressed counties or areas. Project funds are included if the project primarily or substantially benefits distressed counties or areas.*

Investment Summary for FY 2013 Projects

LEVERAGING, MATCHING, AND TARGETING SUMMARY for All ARC Nonhighway Projects Fiscal Year 2013		
Leveraged private investment	$530,877,963*	9:1 ratio of leveraged private investment to ARC investment
Non-ARC matching project funds	$129,125,198	2:1 ratio of non-ARC project investment to ARC project investment
ARC project funds targeted to distressed counties or areas	$37,507,606**	61% of total ARC project funds directed to projects that benefit distressed counties or areas

** Two large-scale projects that had limited ARC participation were not included in this table.*
***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 2013



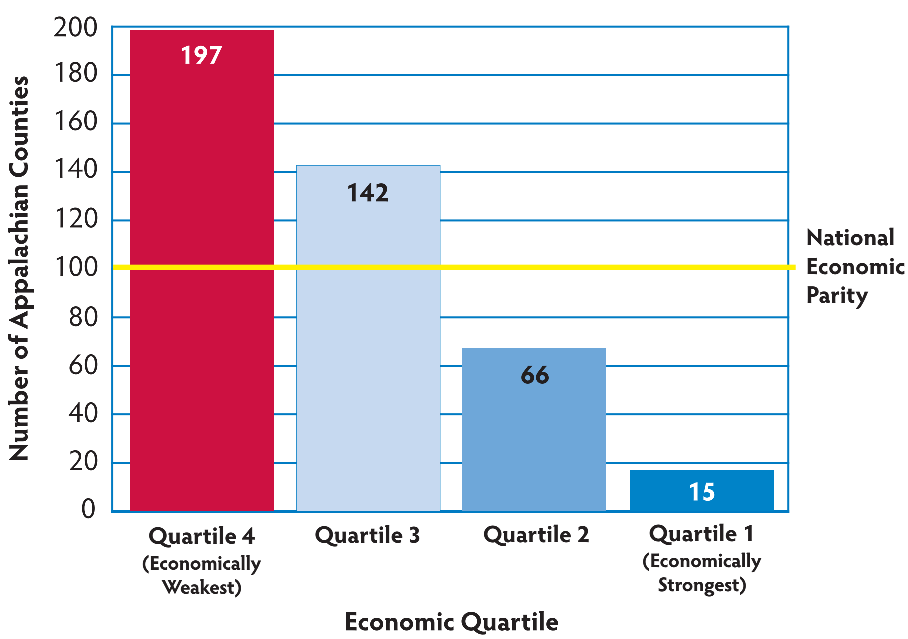
MEASURING PROGRESS TOWARD THE ARC VISION

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 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.

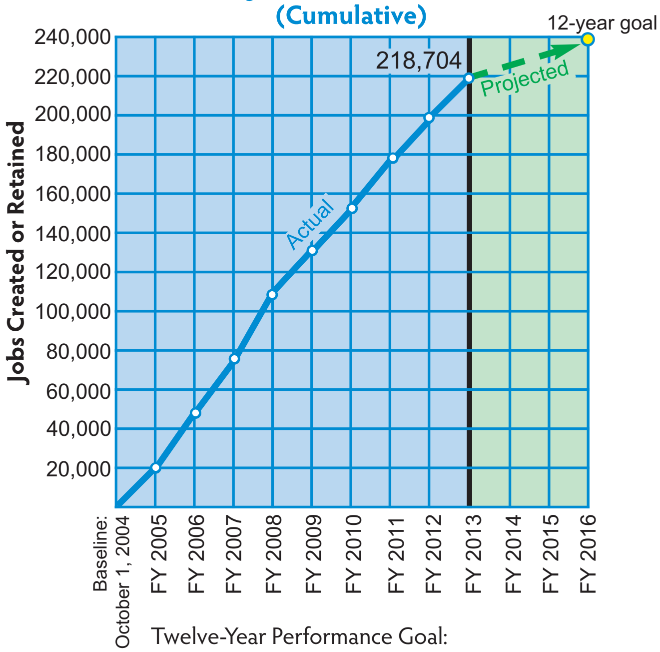
Using this index, ARC can compute annually the number of Appalachian counties in each quartile, as well as an overall regional index value. This can be directly compared with the national index value to measure progress. In addition, progress can be clearly measured by reductions in the number of Appalachian 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 2013



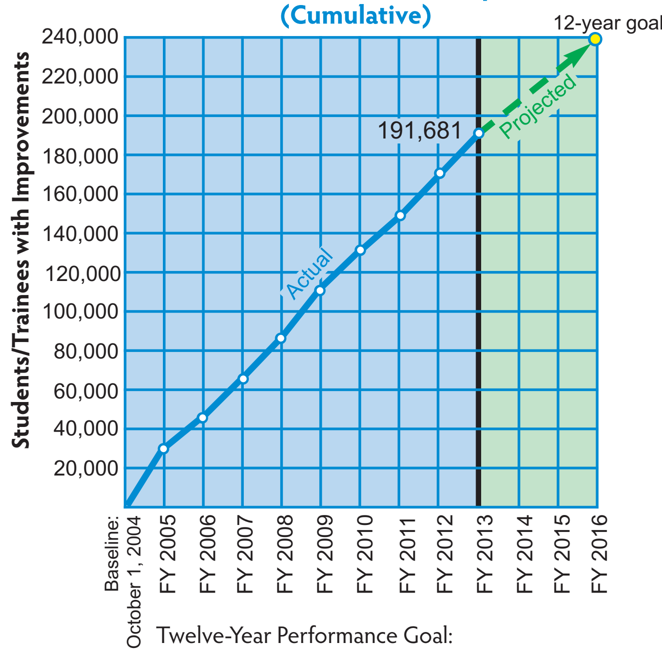
Progress toward ARC Strategic Plan Performance Goals
Fiscal Years 2005–2016

Goal 1: Jobs Created or Retained (Cumulative)



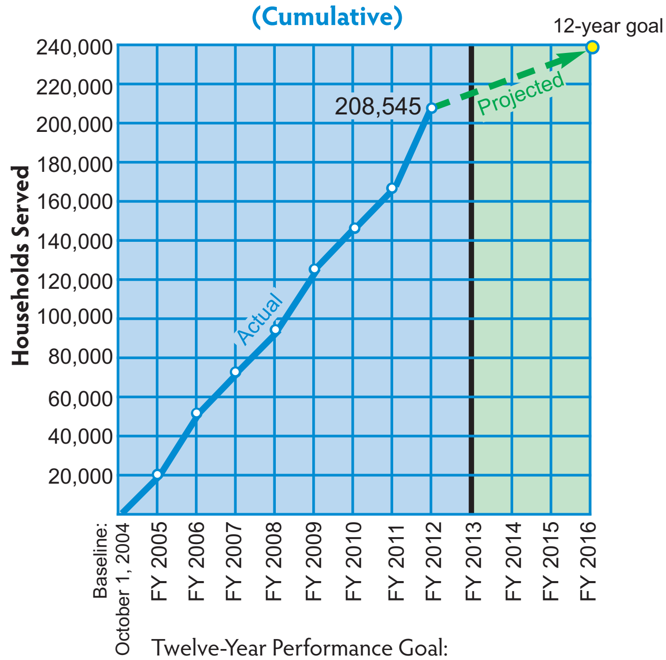
Twelve-Year Performance Goal:
240,000 jobs will be created or retained.

Goal 2: Students/Trainees with Improvements (Cumulative)



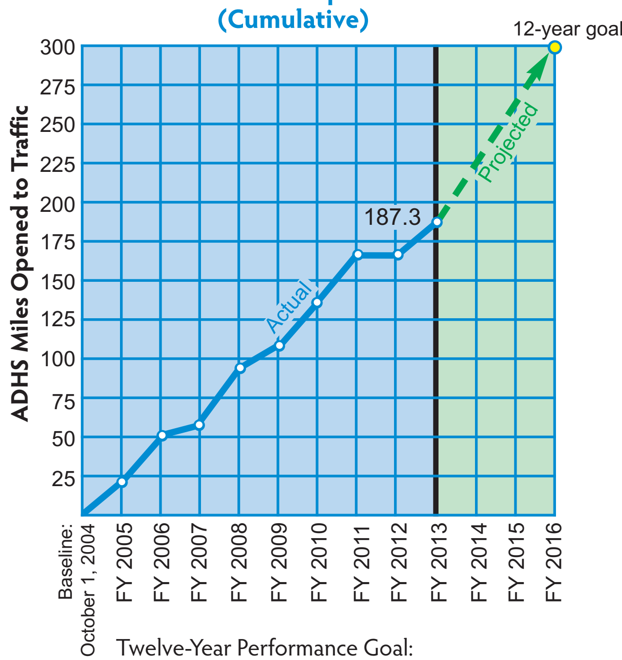
Twelve-Year Performance Goal:
240,000 citizens will benefit from enhanced education and job-related skills.

Goal 3: Households Served (Cumulative)



Twelve-Year Performance Goal:
240,000 households will be served with new or improved water and sewer infrastructure.

Goal 4: ADHS Miles Opened to Traffic (Cumulative)



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

PART III: FISCAL YEAR 2013 FINANCIAL REPORT

Message from the Executive Director

The executive director of the Appalachian Regional Commission is appointed by the federal co-chair and 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.

I am very pleased to report that Chortek LLP, the independent auditor of ARC's financial statement for 2013, has rendered an unmodified opinion about the adequacy of the statement. The independent audit was performed in cooperation with the Office of Inspector General (OIG).

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.

On behalf of the entire Commission, I pledge a continued commitment to promptly address all financial management issues that need further attention and to maintain the strengths the Commission has achieved.

Thomas M. Hunter
Executive Director

February 11, 2014

Report of Independent Audit

APPALACHIAN REGIONAL COMMISSION

ARC

A Proud Past, A New Vision

Office of Inspector General

February 11, 2014

Memorandum for: The Federal Co-Chair
ARC Executive Director

Subject: OIG Report 14-09
Fiscal Year 2012/2013 Financial Statement Audit

The enclosed report presents the results of the audit of the Commission's financial statements for the fiscal year ended September 30, 2013. 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 Chortek & Gottschalk, which became a Division of Chortek & Gottschalk, LLP (C&G) to audit the financial statements of the Commission as of and for the fiscal year ended September 30, 2013. The contract required that the audit 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 C&G's audit of ARCs financial statements for the fiscal year ended September 30, 2013.

- C&G stated it was their opinion that ARC's financial statements were presented fairly in all material respects, in accordance with U.S. generally accepted accounting principles.

- C&G was not contracted for and did not provide an opinion on the effectiveness of ARC's internal controls over financial reporting. However, C&G did state that they did not identify any deficiencies in internal control that were considered to be material weaknesses, relative to their expressing an opinion on ARC's financial statements.

- No significant deficiencies were reported.

- C&G did not express an opinion on compliance with laws and regulations, but noted no instances of non-compliance with laws or regulations required to be reported under the provisions of OMB audit guidance.

1666 CONNECTICUT AVENUE, NW WASHINGTON, DC 20009-1068 (202) 884-7675 FAX (202) 884-7696 www.arc.gov

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

In connection with the contract, we reviewed Chortek & Gottschalk'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. Chortek & Gottschalk is responsible for the attached auditor's report dated January 29, 2014 and the conclusions expressed in the report. However, our review disclosed no instances where Chortek & Gottschalk did not comply, in all material respects, with U.S. generally accepted government auditing standards.

Hubert Sparks

Hubert Sparks
Inspector General

Attachment

cc: Director, Finance and Administration Division
Chortek & Gottschalk, LLP

APPALACHIAN REGIONAL COMMISSION

APPALACHIAN REGIONAL COMMISSION

FINANCIAL STATEMENTS

As of And For The Years Ended September 30, 2013 and 2012

APPALACHIAN REGIONAL COMMISSION

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CHORTEK
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January 29, 2014

Independent Auditor's Report

Inspector General, Commission Members and Executive Director
Appalachian Regional Commission
Washington, DC

Report on the Financial Statements
We have audited the accompanying financial statements of the Appalachian Regional Commission ("ARC"), which comprise the consolidated balance sheets as of September 30, 2013 and 2012, the related consolidated statements of net cost and changes in net position, and combined budgetary resources for the years then ended, and the related notes to the financial statements (hereinafter referred to as "financial statements").

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget ("OMB") Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ARC's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

N16W23217 Stone Ridge Drive, Suite 350 | Waukesha, WI 53188 | Phone: 262.522.8227 | Fax: 262.522.8228
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Appalachian Regional Commission as of September 30, 2013 and 2012, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters
Required Supplementary Information
U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis section be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Co-Chair's message and other information sections of ARC's *Performance and Accountability Report* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*
Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered ARC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ARC's internal control. Accordingly, we do not express an opinion on the effectiveness of ARC's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a

N16W23217 Stone Ridge Drive, Suite 350 | Waukesha, WI 53188 | Phone: 262.522.8227 | Fax: 262.522.8228
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combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether ARC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. However, 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 disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 14-02.

Purpose of the Other Reporting Required by Government Auditing Standards
The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of ARC's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

Chortek LLP

Chortek LLP
Washington, DC

N16W23217 Stone Ridge Drive, Suite 350 | Waukesha, WI 53188 | Phone: 262.522.8227 | Fax: 262.522.8228
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APPALACHIAN REGIONAL COMMISSION
BALANCE SHEET

As Of September 30, 2013 and 2012

		2013	2012
Assets:			
Intragovernmental:			
Fund Balance With Treasury	(Notes 1 & 2)	$ 140,314,368	$ 152,811,656
Advances	(Notes 1 & 3)	11,264,175	12,607,359
Total Intragovernmental		151,578,543	165,419,015
Assets With The Public:			
Cash, Foreign Currency and Other Monetary Assets	(Note 1)	83,543	67,799
Accounts Receivable, net	(Notes 1 & 4)	6,854	0
Advances and Prepayments	(Notes 1 & 3)	34,328,174	33,702,901
Total Assets		$ 185,997,114	$ 199,189,714
Liabilities:	(Note 5)		
Intragovernmental:			
Accounts Payable	(Notes 1 & 5)	$ 0	$ 25,000
Other:	(Notes 5 & 6)		
Employee Benefits		11,790	28,000
Other Assets		133,952	193,275
Total Intragovernmental		145,742	246,275
Liabilities With the Public:			
Accounts Payable	(Notes 1 & 5)	8,256,225	7,703,108
Other:	(Notes1, 5 & 6)		
Accrued Funded Payroll and Leave		134,318	334,558
Employer Contributions and Payroll Taxes Payable		902	1,873
Unfunded Leave		496,176	452,794
Other Liabilities		170,866	155,121
Total Liabilites With the Public		9,058,488	8,647,454
Total Liabilities		$ 9,204,230	$ 8,893,729
Net Position:			
Unexpended Appropriations - Other Funds		173,078,206	187,638,756
Cumulative Results of Operations - Funds From Dedicated Collections	(Note 9)	3,889,104	2,816,477
Cumulative Results of Operations - Other Funds		(174,425)	(159,249)
Total Net Position		176,792,885	190,295,985
Total Liabilities and Net Position		$ 185,997,114	$ 199,189,714

*Amounts may be off by a dollar due to rounding.

The accompanying notes are an integral part of these statements.

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APPALACHIAN REGIONAL COMMISSION
STATEMENT OF NET COST

For The Years Ended September 30, 2013 and 2012

		2013	2012
Program Costs:			
ARC:			
Gross Costs	(Note 10)	82,842,408	83,140,254
Less: Earned Revenue		4,408,666	4,295,030
Net Program Costs		78,433,742	78,845,224
Net Cost of Operations		$ 78,433,742	$ 78,845,224

*Amounts may be off by a dollar due to rounding.

The accompanying notes are an integral part of these statements.

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APPALACHIAN REGIONAL COMMISSION

STATEMENT OF CHANGES IN NET POSITION

For The Years Ended September 30, 2013 and 2012

		2013 Includes Funds From Dedicated Collections - Consolidated (Note 9)	2012 Includes Funds From Dedicated Collections - Consolidated (Note 9)
Cumulative Results of Operations:			
Beginning Balances		$ 2,657,228	$ 1,083,565
Adjustments:			
Corrections of Errors (+/-)	(Note 11)	0	(26,057)
Beginning Balances, as Adjusted		$ 2,657,228	$ 1,057,508
Budgetary Financing Sources:			
Appropriations Used		79,462,208	80,423,113
Other Financing Resources (Non-Exchange):			
Imputed Financing		28,984	21,831
Total Financing Sources		79,491,193	80,444,944
Net Cost of Operations (+/-)		78,433,742	78,845,224
Net Change		1,057,450	1,599,719
Cumulative Results of Operations		$ 3,714,679	$ 2,657,228
Unexpended Appropriations:			
Beginning Balances		$ 187,638,756	$ 199,772,812
Corrections of Errors (+/-)			26,057
Beginning Balances, as Adjusted		$ 187,638,756	$ 199,798,869
Budgetary Financing Sources:			
Appropriations Received		68,263,000	68,263,000
Other Adjustments		(3,361,342)	0
Appropriations Used		(79,462,208)	(80,423,113)
Total Budgetary Financing Sources		(14,560,550)	(12,160,113)
Total Unexpended Appropriations		173,078,206	187,638,756
Net Position		$ 176,792,885	$ 190,295,985

*Amounts may be off by a dollar due to rounding.

The accompanying notes are an integral part of these statements.

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APPALACHIAN REGIONAL COMMISSION

STATEMENT OF BUDGETARY RESOURCES

For The Years Ended September 30, 2013 and 2012

		2013 Budgetary	2012 Budgetary
BUDGETARY RESOURCES			
Unobligated balance brought forward, October 1		$ 22,748,114	$ 19,908,520
Recoveries of prior year unpaid obligations (unobligated balances)		4,816,928	9,535,756
Unobligated balance from prior year budget authority, net		27,565,042	29,444,276
Appropriations (discretionary and mandatory)		72,594,252	77,565,555
Spending authority from offsetting collections		1,063,761	1,047,537
Total budgetary resources		$ 101,223,055	$ 108,057,368
STATUS OF BUDGETARY RESOURCES			
Obligations incurred	(Note 12)	$ 73,891,632	$ 85,309,253
Apportioned		23,141,679	20,327,295
Exempt from apportionment		1,990,715	2,162,548
Unapportioned		2,199,030	258,271
Unobligated balance brought forward, end of year		27,331,424	22,748,114
Total budgetary resources		$ 101,223,055	$ 108,057,368
CHANGE IN OBLIGATED BALANCE			
Unpaid obligations, brought forward, October 1 (gross)		$ 130,063,541	$ 147,606,819
Obligations incurred		73,891,632	85,309,253
Outlays (gross) (-)		(86,568,707)	(93,316,774)
Recoveries of prior year unpaid obligations (-)		(4,816,928)	(9,535,756)
Unpaid obligations, end of year	(Note 13)	112,569,538	130,063,541
Obligated balance, start of year (net)		130,063,541	147,606,819
Obligated balance, end of year (net)		$ 112,569,538	$ 130,063,541
BUDGET AUTHORITY AND OUTLAYS, NET			
Budget authority, gross (discretionary and mandatory)		$ 73,658,013	$ 78,613,092
Actual offsetting collections (discretionary and mandatory) (-)		(1,063,761)	(1,047,537)
Budget authority, net (discretionary and mandatory)		72,594,252	77,565,555
Outlays, gross (discretionary and mandatory)		86,568,707	93,316,774
Actual offsetting collections (discretionary and mandatory) (-)		(1,063,761)	(1,047,537)
Outlays, net (discretionary and mandatory)		$ 85,504,946	$ 92,269,237
Distributed offsetting receipts (-)		4,159,000	4,106,500
Agency outlays, net (discretionary and mandatory)		$ 81,345,946	$ 88,162,737

*Amounts may be off by a dollar due to rounding.

The accompanying notes are an integral part of these statements.

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Appalachian Regional Commission
Notes to Financial Statements
September 30, 2013 and 2012

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The Appalachian Regional Commission (ARC) was established under the Appalachian Regional Development Act of 1965, as amended. 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 of the United States, and the governors of each of the 13 states in the Appalachian Region. The state members elect a State Co-Chair from their members. ARC has 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 205,000 square mile region from Southern New York to Northern Mississippi. The ARC programs affect 420 counties located in 13 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 funds from dedicated collection and all other funds. Funds from dedicated collections 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 funds from dedicated collections and all other funds are identified as follows:

Funds From Dedicated Collections
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 excluding Federal Co-Chair's office and Inspector General's office. These trust fund administrative expenses are paid equally by the federal government and the ARC states as determined annually by the Commission members.

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Appalachian Regional Commission
Notes to Financial Statements
September 30, 2013 and 2012

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 13 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 13 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. Cash in commercial institutions totaled $83,543 and $67,799 at September 30, 2013 and 2012, respectively.

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Advances

ARC advances funds to other federal agencies for work performed on its behalf under various reimbursable agreements. These intra-governmental 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. These primarily include 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.

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 $35,000. All equipment was fully depreciated at September 30, 2013 and 2012.

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 nonfederal entities for goods and services received by ARC.

Benefits Due and Payable:

Unfunded Annual Leave
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.

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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. 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 October 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

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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. Department of Transportation, Housing and Urban Development, the Rural Development Agency, U.S. Army Corps of Engineers and the Economic Development Agency. Additionally, ARC receives allocation transfers, as the child agency from the U.S. Department of Transportation 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 instrumentality of the federal government, ARC is exempt from income taxes imposed by any governing body whether it is a federal, state, commonwealth, local, or foreign government and exempt from sales and use taxes of the District of Columbia.

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Note 2 – Fund Balance With Treasury

ARC's fund balance with treasury at September 30 consisted of the following:

	2013	2012
A. Fund Balances		
Trust Fund	$ 2,795,767	$ 2,644,633
Appropriated Funds	137,518,601	150,167,023
Total Fund Balance with Treasury	$ 140,314,368	$ 152,811,656
B. Status of Fund Balance with Treasury		
1) Unobligated Balance		
a) Available	$ 25,132,394	$ 22,489,843
b) Unavailable	2,199,030	258,271
2) Obligated Balance not yet Disbursed	112,569,538	130,063,541
3) Temporary Sequestration	413,506	0
Total	$ 140,314,468	$ 152,811,656 *

*Rounding

Note 3 – Advances

Advances at September 30 consist of the following:

	2013	2012
1. Intragovernmental		
Advances to the U.S. Army Corps of Engineers	$ 7,827	$ 59,387
Advances to the Tennessee Valley Authority	11,249,343	12,480,353
Advances to the Environmental Protection Agency	7,005	67,619
	$ 11,264,175	$ 12,607,359
2. Other		
Advances to grantees to finance future program expenditures		
-Revolving Loan Fund	$ 28,960,530	$ 27,752,792
-Non-Revolving Loan Fund	3,721,478	5,082,909
Prepaid Pension Expense	1,646,166	867,200
	34,328,174	33,702,901
Total	$ 45,592,350 *	$ 46,310,260

*Rounding

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

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Other: ARC also has advances made to grantees that are not federal entities. The majority of these advances are disbursed to grantees operating revolving loan funds, the remaining amounts are to all other grantees.

- Revolving Loan Fund Grantees - ARC provides grants to revolving loan funds operating in its region for the purpose of saving and creating private-sector jobs. Because of the revolving nature of the funds, the grants have no fixed end date. Grant funds provided to revolving loan funds retain their federal identity and are subject to the Cash Management Improvement Act of 1990 (Public Law 101-453), for which the Appalachian Regional Commission has established a policy on excess cash. Accounting treatment of RFL transactions is that cash outlays are recorded as increases to SGL 1410 Advances and Prepayments and refunds of excess cash are recorded as decreases to SGL 1410 Advances and Prepayments.

- Non-Revolving Loan Fund Grantees – ARC advances funds to non-federal grantees for work performed on its behalf under various grant agreements. These advances are recorded as an asset, which is reduced when actual expenditures or the accrual of unreported expenditures are recorded.

Note 4 – Accounts Receivable

The line item represents the gross amount of monies owed to ARC. The receivable of $6,854 in FY2013 is monies owed by the States for the States Representative portion. This amount represents the fourth quarter contribution to the Trust Fund which will be paid in fiscal year 2014.

	2013	2012
Accounts Receivable	$6,854	$0

Note 5 – Liabilities Not Covered by Budgetary Resources

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.

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Liabilities at September 30, 2013 and 2012 consist of the following:

	2013	2012
With the Public		
Unfunded annual leave	$ 496,176	$ 452,794
Total liabilities not covered by budgetary resources	496,176	452,794 *
Advances		
Advances from Centers for Disease Control	133,952	163,275
Advances from the National Endowment for the Arts	0	30,000
Total Advances	133,952	193,275
Benefits Due		
Accrued health and flexible spending benefits	87,323	87,323
Accrued salaries and benefits	147,010	364,431
Total benefits due	234,333	451,754
Intragovernmental Accounts Payable		25,000
Payments Due to grantees to finance program expenditure	8,256,225	7,703,108
Commercial Bank Balance	83,543	67,799
Total liabilities covered by budgetary resources	8,708,053	8,440,936
Total Liabilities	$ 9,204,230 *	$ 8,893,729 *

*Rounding

Note 6 – Other Liabilities

As of September 30, 2013, other liabilities with the public consist of Accrued Funded Payroll and Leave of $496,176; Employer Contribution and Taxes Payable of $902; Benefits Due and Payable of $134,318; and Accrued Health and Flexible Spending Benefits of $87,323 and Commercial Bank Balance of $83,543. Other Liabilities Federal consists of Advances from Other – Federal in the amount of $133,952; and Employer Contributions and Taxes Payable of $11,790.

As of September 30, 2012, other liabilities with the public consist of Accrued Funded Payroll and Leave of $452,794; Employer Contribution and Taxes Payable of $1,873; Benefits Due and Payable of $334,558; and Accrued Health and Flexible Spending Benefits of $87,323 and Commercial Bank Balance of $67,799. Other Liabilities Federal consists of Advances from Other – Federal in the amount of $193,275; and Employer Contributions and Taxes Payable of $28,000.

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	With the Public	Non-Current		Current		Total	
2013	Other Liabilities	$ 667,042		$ 135,221		$ 802,262	*
2012	Other Liabilities	$ 607,915	*	$ 336,431		$ 944,346	

	Intragovernmental	Non-Current	Current	Total
2013	Other Liabilities	$ 133,952	$ 11,790	$ 145,742
2012	Other Liabilities	$ 193,275	$ 28,000	$ 221,275

*Rounding

Note 7 – 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. ARC's contributions to these plans for FY 2013 were $5,157 and $100,539 for CSRS and FERS, respectively and contributions for FY 2012 were $9,515 and $94,159 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. ARC's contributions to these plans for FY 2013 were $39,169 and $731 and for FY 2012 were $43,728 and $1,033 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 $37,698 and $35,754 to the Federal Thrift Savings plan for all eligible employees for the years ended September 30, 2013 and 2012, respectively.

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Non-Federal

The following table presents the pension benefit expense for the defined benefit pension plan by component for fiscal years 2013 and 2012:

	2013	2012
Service cost	$ 849,366	$ 722,661
Interest cost	773,838	843,130
Expected return	(1,102,960)	(903,104)
Amortization of prior service cost		
Recognized loss	591,300	248,985
Net periodic benefit cost	$ 1,111,544	$ 911,672

The following table presents the pension liability or prepayment by component for fiscal years 2013 and 2012:

	2013	2012
Pension liability at October 1	$ (867,200)	$ 659,117
Net periodic benefit expense	1,111,544	911,673
Contributions	(1,890,510)	(2,437,990)
Pension (Prepayment)/ Liability at September 30	$ (1,646,166)	$ (867,200)

	2013	2012
Additional Information		
Benefit obligation	$ (20,092,021)	$ (20,871,386)
Fair value of plan assets	17,410,469	14,727,373
Funded status	$ (2,681,552)	$ (6,144,013)
Employer contribution	$ 1,890,510	$ 2,408,350
Participant contribution	15,512	29,640
Benefits paid	253,339	239,252
Net periodic benefit expense	$ 1,111,544	$ 911,672

The accumulated benefit obligation was $18,586,607 and $18,593,072 at September 30, 2013 and 2012, respectively.

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

	2013	2012
Discount rate	4.65%	3.85%
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:

	2013	2012
Discount rate	3.85%	3.85%
Expected return on plan assets	7.25%	7.25%
Rate of compensation increase	3.00%	3.00%

Plan Assets

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

	2013	2012
Asset Category		
Equity securities	33.27%	46.07%
Debt securities	60.79%	45.63%
Real Estate	5.45%	8.08%
Other	0.49%	0.22%
Total assets	100.00%	100.00%

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

Fiscal Year	Amount
2014	$ 571,000
2015	796,415
2016	802,031
2017	926,770
Years 2018-2025	$ 5,389,039

ARC contributed $214,718 and $220,326 to the 401(k) plan for the years ended September 30, 2013 and 2012, respectively.

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Note 8 – Operating Lease

ARC's lease for its office commenced on April 30, 2013 and extends through March 31, 2025. The future minimum lease payments required under this lease are as follows:

Fiscal Year	Amount
2014	$ 864,121
2015	883,605
2016	903,544
2017	924,965
2018	946,841
Thereafter	6,796,635
Total	$ 11,319,711

Rent expense for the years ended September 30, 2013 and 2012 was $830,442 and $837,308, respectively.

Note 9 – Funds From Dedicated Collections

Funds From Dedicated Collections are funds that 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 or purposes, and must be accounted for separately from the federal government's general revenues, per Statement of Federal Financial Accounting Standard (SFFAS) 27, *Identifying and Reporting Funds From Dedicated Collections* and SFFAS 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds.*

The source of Funds From Dedicated Collections is the federal contribution for half of the administrative costs of ARC except those of the Office of the Federal Co-Chair and the Office of the Inspector General, which are solely funded by the Federal Government. The funds are deposited into a Trust Fund (TAFS 46X8090), 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 13 member states also contribute for half of the administrative costs of ARC, which are recorded as earned revenues on the Statement of Net Cost, but not as a dedicated collection.

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

	2013		2012	
Balance Sheet				
ASSETS				
Fund Balance with Treasury	$ 2,795,767		$ 2,644,633	
Cash in Commercial Institutions	83,543		67,799	
Accounts Receivable	6,854			
Other Assets	1,646,166		867,200	
Total Assets	$ 4,532,330		$ 3,579,631	*
LIABILITIES AND NET POSITION				
Intragovernmental				
Other:				
Employee Benefits	$ 7,443		$ 18,902	
Total Intragovernmental	7,443		18,902	
With the Public				
Accounts Payable	40,337		29,607	
Other:				
Accrued Funded Payroll and Leave	102,572		265,506	
Employer Contributions and Payroll Taxes Payable	257		473	
Unfunded Leave	409,074		380,867	
Other Liabilities	83,543		67,799	
Total With the Public	635,783		744,252	
Total Liabilities	$ 643,226		$ 763,154	
Cumulative Results of Operations	3,889,104		2,816,477	
Total Net Position	3,889,104		2,816,477	
Total Liabilities and Net Position	$ 4,532,330		$ 3,579,631	
Statement of Net Cost				
Gross Program Costs	$ 7,322,539		$ 6,710,721	
Less Earned Revenues	4,236,166		4,173,305	
Net Program Costs	$ 3,086,374	*	$ 2,537,416	
Net Cost of Operations	$ 3,086,374	*	$ 2,537,416	
Statement of Changes in Net Position				
Net Position Beginning of Period	$ 2,816,477		$ 1,247,394	
Transfers In/Out Without Reimbursement	4,159,000		4,106,500	
Total Financing Sources	4,159,000		4,106,500	
Net Cost of Operations	$ 3,086,374		$ 2,537,416	
Net Change	$ 1,072,626		$ 1,569,084	
Cumulative Results of Operations	$ 3,889,104	*	$ 2,816,477	*
Net Position End of Period	$ 3,889,104	*	$ 2,816,477	*

*Rounding

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Note 10 – Intragovernmental Costs and Exchange Revenue

Intragovernmental costs are those of goods/services purchased from a federal entity.

	Total 2013	Total 2012
ARC		
Intragovernmental costs	$ 7,267,203	$ 6,890,944
Public costs	75,575,205	76,249,310
Total ARC Program costs	$ 82,842,408	$ 83,140,254
Intragovernmental earned revenue	$ 172,500	$ 121,725
Public earned revenue	4,236,166	4,173,305
Total ARC Program earned revenue	4,408,666	4,295,030
Total ARC Program Net Costs	$ 78,433,742	$ 78,845,224

Note 11 – Correction to Beginning Balances in Statement of Changes in Net Position

There was a misstatement within Cumulative Results of Operations and Unexpended Appropriations during FY2012. There is no impact on the ARC's overall Net Position in current or prior years.

Note 12 – Status of Budgetary Resources

A. Apportionment Categories of Obligations Incurred

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

	2013	2012
Direct Obligations		
Category A	$ 0	$ 2,000,412
Category B	61,473,315	70,638,430
Exempt	12,099,151	12,385,411
Total direct obligations	$ 73,572,466	$ 85,024,253
Reimbursable Obligations		
Category B	$ 30,000	$ 285,000
Exempt	289,166	0
Total reimbursable obligations	319,166	285,000
Total Obligations	$ 73,891,632	$ 85,309,253

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Apportionment is a plan, approved by the U.S. Office of Management and Budget (OMB), to spend resources provided by one of the annual appropriations acts, a supplemental appropriations act, a continuing resolution, or a permanent law (mandatory appropriations). OMB Circular A-11 defines apportionment categories as follows:

- Category A apportionments distribute budgetary resources by fiscal quarters.
- Category B apportionments typically distribute budgetary resources by activities, projects, objects or a combination of these categories.
- Exempt – Exempt from apportionment (see OMB Circular A-11, paragraph 120.8 for details).

B. Permanent Indefinite Appropriations

The Commission's permanent indefinite appropriation includes the trust fund. These funds are described in Note 9.

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 2012, was reconciled to the Statement of Budgetary resources as follows:

	2012			
(Dollars in Millions)	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	$108	$85	$4	$88
Reconciling Items				
Offsetting collections and receipts	(1)	0	0	4
Budget of the U.S. Government	$107	$85	$4	$92

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Note 13 – Undelivered Orders at the End of the Period

The amount of Unpaid Obligated Balance, Net, End of Period shown on the Statement of Budgetary Resources includes obligations relating to Undelivered Orders (goods and services contracted for but not yet received at the end of the year) and Accounts Payable (amounts owed at the end of the year by ARC for goods and services received). The amount of each is as follows:

	Undelivered Orders	Accounts Payable	Unpaid Obl. Balance, Net	
2013	$104,166,302	$8,403,236	$112,569,538	
2012	$121,971,002	$8,092,540	$130,063,541	*

*Rounding

Note 14 – Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing)

A reconciliation between budgetary resources obligated and net cost of operations (i.e. providing an explanation between budgetary and financial (proprietary) accounting) is as follows:

	2013		2012	
Budgetary Resources Obligated	$ 73,891,632		$ 85,309,253	
Spending Authority from Recoveries and Offsetting Collections	(5,880,689)		(10,583,294)	
Distributed Offsetting Receipts	(4,159,000)		(4,106,500)	
Imputed Financing from Costs Absorbed by Others	28,984		21,831	
Changes in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided	18,463,287		13,077,529	
Other	212,000		(66,805)	
Resources that Do Not Affect Net Cost of Operatior	(4,159,000)		(4,106,500)	
Financing Sources Yet to be Provided	43,383		(700,291)	
Increase in Exchange Revenue Receivable from the Public	(6,854)		0	
Net Cost of Operations	$ 78,433,742	*	$ 78,845,224	*

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Note 15 – Subsequent Events

ARC has evaluated subsequent events occurring after the balance sheet date and through the date of January 29, 2014, the date the financial statements were available for release. Based upon this evaluation, ARC has determined that no subsequent events have occurred which require disclosure in the financial statements.

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 2013, 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 2009	$30,495,770
Fiscal Year 2010	$28,319,925
Fiscal Year 2011	$30,983,135
Fiscal Year 2012	$45,613,656
Fiscal Year 2013	$41,265,515

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 2013 included grants for education and job training programs in areas including workforce training, dropout prevention, math and science, child development, and health.

ARC Investment in Human Capital	
Fiscal Year 2009	$10,147,647
Fiscal Year 2010	$10,063,075
Fiscal Year 2011	$8,931,430
Fiscal Year 2012	$9,334,227
Fiscal Year 2013	$8,634,520

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 2013, ARC invested in applied research through the following projects: an evaluation of the contribution made by forests and wood products to sustainable economic growth in the Appalachian Region; an infrastructure program evaluation of water and sewer projects, access roads, transportation, industrial parks and sites, gas lines, and telecommunications projects; a study measuring the impact of proposed energy and environmental policies; analysis of the economic impact of ARC program investments in terms of indirect and induced gross regional product, personal income, and employment; an assessment of disparities in health-care access and insurance coverage; a study providing updated information on the availability of capital and credit in Appalachia; an assessment of energy workforce trends and training requirements; an analysis of disparities in oral health care and access to oral health services; a study comparing strategies for economic development and the factors that contributed to success in Appalachia's distressed rural counties; and a study documenting the extent to which ARC's education and training projects met program objectives.

ARC Investment in Research and Development	
Fiscal Year 2009	$387,840
Fiscal Year 2010	$312,544
Fiscal Year 2011	$269,232
Fiscal Year 2012	$729,493
Fiscal Year 2013	$422,764

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 measuring both jobs created and jobs retained.
- *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 by new or improved infrastructure; 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 twelve-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 additional miles (net increase) of the Appalachian Development Highway System will be opened to traffic (based on the current level of transportation funding from the U.S. Congress).

Twelve-Year Performance Goals

- 240,000 jobs will be created or retained.
- 240,000 households will be served with new or improved water and sewer infrastructure.
- 240,000 citizens of the Region will benefit from enhanced education and job-related skills.
- 300 additional miles (net increase) of the Appalachian Development Highway System will be opened 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

A Proud Past, A New Vision

Office of Inspector General

December 24, 2013

MEMORANDUM FOR FEDERAL CO-CHAIR

From: Hubert N. Sparks, Inspector General Hubert Sparks

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. Our compilation of these challenges was derived from our consideration of audit reports, open recommendations, and discussions with contract auditors and ARC personnel.

Grant Management

A continuing management challenge derives from the required transfer of grant administration for construction related projects to other Federal Agencies (Child Agencies). This contributes to delays in obtaining information on project status and timely ARC and State follow-up action on inactive grants to determine the potential for grant closings, cancellation and de-obligations that would make funds available for other needed economic development projects in Appalachia. A related challenge involves the extent to which other Federal agencies implement grant administration and monitoring responsibilities in line with applicable Memorandums of Understanding between ARC and the applicable agencies. In order to reduce the Child Agency issues ARC now also utilizes State agencies to provide grant administration.

ARC has implemented performance measures for grants and identifying specific measures with respect to some entities that receive annual grants and approval of additional grantee funds when large accumulated balances remain available are considered challenges worthy of additional action.

A continuing challenge involves reducing the extent to which a large majority of grant applications are received and grant approvals finalized during the last quarter for the fiscal year. This challenge involves various factors including delayed grant application submissions by states and availability of project funding, due in part to the OMB apportionment process used for ARC.

1666 CONNECTICUT AVENUE, NW WASHINGTON, DC 20009-1068 (202) 884-7675 FAX (202) 884-7696 www.arc.gov

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

Financial Reporting

The accuracy of Financial Reporting continued to improve. The FY 2013 audit of financial statements rendered another "clean opinion".

An ongoing challenge for ARC is to comply with OMB Circular A-136. One of ARC's most difficult ongoing A-136 challenges is 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 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 transfers a material portion of its appropriation annually to these child agencies to carry out its mission; however, the transfers are relatively minor for the child agencies receiving them and are not material to their financial reporting. The child agencies' auditors generally do not audit at the materiality level needed by ARC and reports of activities and balances are not made a priority by the child agencies. ARC has continued coordinating activities with basic agencies to assure that required audit transaction testing data is received more timely from child agencies.

In fiscal year 2010, ARC transferred its accounting function to a GSA shared services accounting platform.

IT Support Infrastructure

Management has continued to address upgrading agency IT support infrastructure. ARC continues emphasis and action on full implementation of ARC.net, its grant management system, which provides online availability and control of operational information. Management continued to contract with outside vendors providing IT support and completed its fourth fiscal year utilizing accounting services provided by GSA. The FY 2013 Financial Statement Audit indicates ARC's arrangement with GSA is delivering acceptable results, despite the many challenges associated with this action.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The following tables provide a summarized report on ARC's financial statement audit and its management assurances. For more details the auditor's report can be found on pages 73–101 and ARC's management assurances on pages 32–34.

Summary of Financial Statement Audit

Audit Opinion: Unmodified
Restatement: No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting—*Federal Managers' Financial Integrity Act* (FMIA, Section 2)

Statement of Assurance: Unmodified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Effectiveness of Internal Control over Operations—FMFIA 2

Statement of Assurance: Unmodified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Conformance with Financial Management System Requirements–FMFIA 4

Statement of Assurance: Systems conform with financial management system requirements

Non-Conformance	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Non-Conformance	0	0	0	0	0

Compliance with *Federal Management Improvement Act*

	Agency	Auditor
Overall Substantial Compliance		
1. System Requirements	No noncompliance noted	
2. Federal Accounting Standards	No noncompliance noted	
3. United States Standard General Ledger at Transaction Level	No noncompliance noted	

APPENDIX

APPALACHIAN REGIONAL COMMISSION PROJECTS APPROVED IN FISCAL YEAR 2013
(in thousands of dollars)

	Number of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Asset-Based Development	37	$3,228.1	$87.9	$3,481.6	$6,797.6
Business Development	62	15,865.3	5,471.5	37,186.7	58,523.6
Civic Entrepreneurship	12	1,291.9	0.0	469.9	1,761.8
Community Development	86	18,664.3	15,597.4	43,378.5	77,640.2
Education and Workforce Development	82	10,159.3	478.1	10,312.0	20,949.4
Health	21	2,240.3	63.5	4,363.7	6,667.5
Research and Evaluation	6	384.8	0.0	136.6	521.4
State and Local Development District Planning and Administration	87	9,530.3	0.0	8,097.7	17,628.0
Totals	**393**	**$61,364.3**	**$21,698.5**	**$107,426.7**	**$190,489.5**

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

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

To order copies of the report, contact:

APPALACHIAN REGIONAL COMMISSION
1666 Connecticut Avenue, NW, Suite 700
Washington, DC 20009-1068
202.884.7700 | info@arc.gov
www.arc.gov