
Appalachian Regional Commission

Financial Statements and
Independent Auditors' Report

September 30, 2005 and 2004

APPALACHIAN REGIONAL COMMISSION

SEPTEMBER 30, 2005 and 2004

TABLE OF CONTENTS

| | <i>PAGE</i> |
|---|--------------------|
| Independent Auditors' Report..... | 1 |
| Balance Sheets | 3 |
| Statements of Operations and Changes in Net Position..... | 4 |
| Statements of Cash Flows | 5 |
| Notes to the Financial Statements..... | 6 |
| Additional Information | 13 |
| Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards | 16 |
| Follow-up on Prior Audit Finding..... | 18 |

To the Commission Members
Appalachian Regional Commission
Washington, DC

Independent Auditors' Report

We have audited the accompanying balance sheets of the Appalachian Regional Commission ("ARC") as of September 30, 2005 and 2004, and the related statements of operations and changes in net position and cash flows for the years then ended. These financial statements are the responsibility of ARC's management. Our responsibility is to express an opinion on the financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Appalachian Regional Commission as of September 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information on pages 14 and 15 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2005 on our consideration of ARC's internal controls

The Commission Members
Appalachian Regional Commission
Washington, DC

over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of the audit.

M.D. Oppenheim & Company, P.C.

Silver Spring, Maryland
October 28, 2005

APPALACHIAN REGIONAL COMMISSION
Balance Sheets
September 30, 2005 and 2004

| | 2005 | 2004 |
|--|----------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Fund balance with U.S. Treasury | \$ 61,537,066 | \$ 59,904,165 |
| Cash in commercial institutions | 71,117 | 88,026 |
| Total cash | 61,608,183 | 59,992,191 |
| Advances to grantees | - | 864,383 |
| Total current assets | 61,608,183 | 60,856,574 |
| Business development revolving loan funds | 28,942,787 | 26,541,791 |
| Equipment and software (net) | - | 13,394 |
| TOTAL ASSETS | \$ 90,550,970 | \$ 87,411,759 |
| LIABILITIES AND NET POSITION | | |
| Current liabilities | | |
| Accounts payable | \$ 1,177,477 | \$ 1,949,420 |
| Center for Disease Control and Prevention grants | 750,000 | - |
| Accrued pension liability | 1,683,124 | 985,567 |
| Accrued leave | 386,370 | 353,589 |
| Accrued payroll and taxes payable | 241,706 | 211,355 |
| Other accrued liabilities | 75,754 | 92,469 |
| Total current liabilities | 4,314,431 | 3,592,400 |
| Net position | 86,236,539 | 83,819,359 |
| TOTAL LIABILITIES AND NET POSITION | \$ 90,550,970 | \$ 87,411,759 |

See accompanying notes and Independent Auditors' Report.

APPALACHIAN REGIONAL COMMISSION
Statements of Operations and Changes in Net Position
Years ended September 30, 2005 and 2004

| | 2005 | 2004 |
|--|----------------------|----------------------|
| REVENUES | | |
| Appropriations | \$ 65,472,000 | \$ 65,610,600 |
| Less: Grant transfers to other agencies | (26,160,682) | (20,206,551) |
| Appropriations (net) | 39,311,318 | 45,404,049 |
| Appalachian Development Highway System administrative revenue | 1,064,200 | 691,194 |
| State contributions | 3,164,000 | 3,111,000 |
| Other revenue | 273,833 | 196,819 |
| Total revenues | 43,813,351 | 49,403,062 |
| EXPENSES | | |
| Area development grants | 32,170,267 | 36,856,758 |
| Office of the Federal Co-Chair and Inspector General | 1,724,265 | 1,759,893 |
| Commission management and administration | 7,501,639 | 8,091,546 |
| Total expenses | 41,396,171 | 46,708,197 |
| NET INCOME | 2,417,180 | 2,694,865 |
| Net position, beginning of period | 83,819,359 | 81,124,494 |
| NET POSITION, END OF PERIOD | \$ 86,236,539 | \$ 83,819,359 |

See accompanying notes and Independent Auditors' Report.

APPALACHIAN REGIONAL COMMISSION
Statements of Cash Flows
Years ended September 30, 2005 and 2004

| | 2005 | 2004 |
|---|----------------------|----------------------|
| Cash flows from operating activities: | | |
| Net income | \$ 2,417,180 | \$ 2,694,865 |
| Adjustments to reconcile income to net cash provided by operating activities: | | |
| Depreciation | 13,394 | 25,898 |
| Changes in assets and liabilities: | | |
| Accounts receivable | - | 400,000 |
| Business development revolving loan funds | (2,400,996) | (31,320) |
| Advances to grantees | 864,383 | 177,883 |
| Accounts payable | (771,943) | (563,616) |
| Center for Disease Control and Prevention grants | 750,000 | (523,053) |
| Accrued pension liability | 697,557 | 411,145 |
| Accrued leave | 32,781 | 28,950 |
| Accrued payroll and taxes payable | 30,351 | 36,195 |
| Other accrued liabilities | (16,715) | 52,916 |
| Net cash provided by operating activities | 1,615,992 | 2,709,863 |
| Net increase in cash | 1,615,992 | 2,709,863 |
| Cash at beginning of year | 59,992,191 | 57,282,328 |
| CASH AT END OF YEAR | \$ 61,608,183 | \$ 59,992,191 |

Supplemental disclosures:

No amounts were paid for Interest and Taxes in 2005 or 2004.

See accompanying notes and Independent Auditors' Report.

APPALACHIAN REGIONAL COMMISSION
Notes to Financial Statements
Years ended September 30, 2005 and 2004

Note A – Organization and Mission

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

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

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

Note B – Summary of Significant Accounting Policies

1. **Major Programs** – ARC is authorized to fund area and other development programs including education, workforce training, water and sewer construction, housing, leadership development, small business start-ups and expansions and development of health care resources. In executing its programs, local communities and Federal agencies provide administrative and technical services. ARC utilizes approximately 10 Federal departments and agencies to administer, disburse funds, and account for its infrastructure and other programs including the Department of Housing and Urban Development, Environmental Protection Agency, Rural Development Agency, and the Department of Health and Human Services. ARC is responsible for allocating funds to the projects and for the management and administration of all projects.
2. **Basis of Accounting** – The accompanying financial statements have been prepared using the accrual method of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when incurred. Appropriations are recognized as revenue when appropriated and available.

APPALACHIAN REGIONAL COMMISSION
Notes to Financial Statements
Years ended September 30, 2005 and 2004

Note B – Summary of Significant Accounting Policies (continued)

3. **Financing Sources** – ARC receives annual no-year Federal appropriations to provide grants to the entities within the Appalachian Region and to fund its operations. The state members also contribute funds to ARC operations. Funds are allocated to thirteen states and are available until expended. States can generally decide how their allocations will be used for ARC programs.
4. **Fund Balance with U.S. Treasury** – Cash receipts and disbursements for operations and the area development programs are processed by the U.S. Department of Treasury. Funds held by the Department of Treasury represent funds available for operations.
5. **Cash in Commercial Institutions** – ARC uses commercial bank accounts to accommodate collections and payments that cannot be processed by the U.S. Department of Treasury.
6. **Advances to Grantees** – Unexpended grant funds in the hands of grantees at the end of the fiscal year are reclassified as advances.
7. **Equipment and Software** – Capital assets are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets of three to five years.
8. **Retirement Plans** – ARC Federal employees participate in Federal retirement plans. ARC non-Federal employees participate in the ARC Pension and 401(k) plan.
9. **Accrued Pension Liability** – ARC recognizes and records a liability for post-retirement benefits other than pension in accordance with the Statement of Financial Accounting Standards (SFAS) No. 106, *Employer's Accounting for Post-retirement Benefits Other Than Pensions*.
10. **Accrued 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 annual leave account is adjusted to reflect current accrual at current pay rates.
11. **Use of Estimates** – The preparation of the accompanying financial statements requires management to make estimates and assumptions about certain estimates included in the financial statements. Actual results will invariably differ from those estimates.

APPALACHIAN REGIONAL COMMISSION
Notes to Financial Statements
Years ended September 30, 2005 and 2004

Note B – Summary of Significant Accounting Policies (continued)

12. **Income Tax Status** – ARC is exempt from Federal income tax under § 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation.

Note C – Business Development Revolving Loan Funds

ARC established business development revolving loan funds (RLF) grants to provide pools of funds to be made available to grantees to create and retain jobs. Various entities (grantees) within the thirteen states were provided with loan capitalization funds. These funds are loaned to borrowers who qualify with program objectives. The earnings (interest and fees) net of expenses (including bad debt) are available to the grantees to make additional loans.

Grantees return the funds to ARC when they terminate the RLF. Grantees that have income in excess of expenses (net income) return the excess funds to ARC, and ARC deposits the net income funds in the U.S. Treasury general fund. Grantees that have net losses return the funds to ARC net of the losses. Grant balances that are returned are added back to the state allocation.

The following summarizes the RLF balances at September 30:

| | | 2005 | | 2004 |
|-----------------------|----|------------|----|------------|
| RLF Funds Obligated | \$ | 33,435,470 | \$ | 31,838,321 |
| RLF Funds Advanced | | 28,942,787 | | 26,541,791 |
| RLF Loans Outstanding | | 34,261,278 | | 31,139,964 |

Note D – Equipment and Software

Equipment and software consists of the following at September 30:

| | | 2005 | | 2004 |
|--------------------------------|----|-----------|----|-----------|
| Equipment | \$ | 69,194 | \$ | 69,194 |
| Software | | 48,422 | | 48,422 |
| Subtotal | | 117,616 | | 117,616 |
| Less: Accumulated depreciation | | (117,616) | | (104,222) |
| Equipment and software (net) | \$ | - | \$ | 13,394 |

Depreciation expense for the years ended September 30, 2005 and 2004 was \$13,394 and \$25,898, respectively.

APPALACHIAN REGIONAL COMMISSION
Notes to Financial Statements
Years ended September 30, 2005 and 2004

Note E – Grant Transfers to Other Federal Agencies

ARC transfers funds to basic agencies to oversee economic and social development projects in the Appalachian Region. ARC records the funds transferred as contra revenue at the time the transfer is made. ARC transferred or received funds as follows:

| | <u>2005</u> | <u>2004</u> |
|---|----------------------|----------------------|
| Department of Transportation | \$ 688,000 | \$ 450,000 |
| US Army Corps of Engineers | (493,000) | - |
| Economic Development Administration | 2,323,298 | 2,434,102 |
| Environmental Protection Agency | | 60,000 |
| Department of Agriculture | 12,325,976 | 15,700,000 |
| Department of Housing and Urban Development | 11,316,408 | 1,414,290 |
| Department of Health & Human Services | | 148,159 |
| | <u>\$ 26,160,682</u> | <u>\$ 20,206,551</u> |

Note F – Retirement and Other Post-Employment Benefit 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 U.S. Office of Personnel Management (OPM). ARC makes contributions at rates applicable to agencies of the Federal government. The contributions do not equal the full service cost of the pension expense, which is the actuarial present value of benefits attributed to services rendered by covered employees during the accounting period. The measurement of service costs requires the use of actuarial cost methods to determine the percentage of the employees' basic compensation sufficient to fund their projected pension benefit. These percentages (cost factors) are provided by OPM.

The excess of total pension expense over the amount contributed by ARC and ARC employees represents the amount which must be financed directly by OPM. ARC does not recognize in its financial statements these excess amounts as they are deemed to be immaterial.

Contributions to these plans for FY 2005 were \$44,099 and \$69,879 for CSRS and FERS, respectively, and contributions for FY 2004 were \$47,094 and \$63,580 for CSRS and FERS, respectively.

APPALACHIAN REGIONAL COMMISSION
Notes to Financial Statements
Years ended September 30, 2005 and 2004

Note F – Retirement and Other Post Employment Benefit Plans (continued)

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 the cost of current employees. Post-retirement benefits are paid by OPM. No amounts have been recognized in the financial statements for these imputed costs as they are not deemed material. Contributions to these plans for FY 2005 were \$56,862 and \$2,234 and for FY 2004 \$54,466 and \$2,187 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 \$25,894 and \$18,390 to the Federal Thrift Savings plan for all eligible employees for the years ended September 30, 2005 and 2004, respectively.

Non-Federal

ARC has a Defined Benefit Pension Plan which was open to all employees not participating in CSRS and FERS. The plan was closed in February 2000 to further entry. The Commission uses a July 1 measurement date for its plan. Plan information at September 30 consists of the following:

| | <u>2005</u> | <u>2004</u> |
|--|-----------------------|-----------------------|
| Benefit obligation | \$ (11,415,578) | \$ (8,298,531) |
| Fair value of plan assets | 3,313,848 | 2,719,287 |
| Funded status | <u>\$ (8,101,730)</u> | <u>\$ (5,579,244)</u> |
| Accrued benefit cost recognized in the balance sheet | \$ 1,683,124 | \$ 985,567 |

| | <u>2005</u> | <u>2004</u> |
|----------------------------|-------------|--------------|
| Employer contribution | \$ 467,777 | \$ 1,164,693 |
| Participant contribution | 25,815 | 22,700 |
| Benefits paid | 121,609 | 4,487 |
| Net periodic benefit costs | 1,165,334 | 1,575,838 |

The accumulated benefit obligation was \$9,070,903 and \$6,498,195 at September 30, 2005 and 2004, respectively.

APPALACHIAN REGIONAL COMMISSION
Notes to Financial Statements
Years ended September 30, 2005 and 2004

Note F – Retirement and Other Post-Employment Benefit Plans (continued)

Additional Information

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

| | <u>2005</u> | <u>2004</u> |
|-------------------------------|-------------|-------------|
| Discount rate | 4.75% | 5.75% |
| Rate of compensation increase | 4.51 | 4.08 |

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

| | <u>2005</u> | <u>2004</u> |
|--------------------------------|-------------|-------------|
| Discount rate | 5.75% | 5.25% |
| Expected return on plan assets | 7.50 | 7.50 |
| Rate of compensation increase | 4.08 | 4.08 |

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

Plan Assets

Pension plan weighted-average asset allocations at September 30, 2005 and 2004 are as follows:

| <u>Asset Category</u> | <u>2005</u> | <u>2004</u> |
|-----------------------|----------------|----------------|
| Equity securities | 30.00% | 31.00% |
| Debt securities | 65.00 | 64.00 |
| Real estate | 5.00 | 5.00 |
| Total assets | <u>100.00%</u> | <u>100.00%</u> |

The Commission's investment strategy is a long-term, risk-controlled approach using diversified investment options with a minimal exposure to volatile investment options like derivatives.

The Commission expects to contribute \$1,003,203 to the plan in FY2006.

APPALACHIAN REGIONAL COMMISSION
Notes to Financial Statements
Years ended September 30, 2005 and 2004

Note F – Retirement and Other Post-Employment Benefit Plans (continued)

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

| | Pension Benefits |
|-------------------|-----------------------------|
| 2006 | \$ 2,320,000 |
| 2007 | 1,870,000 |
| 2008 | 480,000 |
| 2009 | 37,000 |
| 2010 | 570,000 |
| Years 2011 – 2015 | 6,020,000 |

ARC also maintains a 401(k) plan covering substantially all non-Federal employees. ARC contributed \$146,018 and \$150,637 for the years ended September 30, 2005 and 2004, respectively.

Note G – Lease

ARC's lease for its office space provides for increases in annual base rent based on consumer price index increases, and payment of a portion of the increases in building operating expenses and real estate taxes. The lease commenced on April 30, 1996 and extends through December 31, 2007. Future minimum lease payments required under this non-cancelable lease are as follows:

| <u>Year Ended September 30,</u> | <u>Amount</u> |
|---------------------------------|-------------------|
| 2006 | \$ 570,000 |
| 2007 | 142,500 |
| Total | <u>\$ 712,500</u> |

Rent expense for the years ended September 30, 2005 and 2004 was \$667,188 and \$686,556, respectively.

Additional Information

APPALACHIAN REGIONAL COMMISSION
Additional Information (Unaudited)
Years ended September 30, 2005 and 2004

Appalachian Development Highway System
(Appropriated Funds held by the U.S. Department of Transportation)

Congress authorized approximately \$9.7 billion for the construction of the Appalachian Development Highway System (ADHS) through fiscal year 2009. When it is complete, there will be a 3,090 mile regional system. The purpose of the ADHS is to generate economic development in previously isolated areas, supplement the national interstate system, connect Appalachia to the interstate system, and provide access to the Appalachian Region.

The U.S. Department of Transportation (DOT) funds the ADHS primarily through the Highway Trust Fund, from which Congress authorizes annual obligation ceilings for the program. Periodically, additional funds may be provided by direct appropriation to the DOT. ARC exercises policy and programmatic control over the ADHS, including the responsibility to set policy for allocating funds to the states, and DOT is accountable for the funds. The program includes flexibility for states to use some highway funds for access road development, and ARC exercises approval for such projects.

The following is a summary of the balances and activity related to the ADHS for FY 2005:

| | Unexpended Authority as of 10/1/2004 | FY 2005 Authorizations | FY 2005 Expenditures | Unexpended Authority as of 9/30/2005 |
|---------------------------------------|--|---------------------------|-------------------------|--|
| DOT Appropriations | \$ 282,721,504 | \$ 124,262,500 | \$ (199,343,291) | \$ 207,640,713 |
| Highway Trust Fund Obligation Ceiling | 1,193,763,879 | 385,374,150 | (206,895,544) | 1,372,242,485 |
| Total | \$ 1,476,485,383 | \$ 509,636,650 | \$ (406,238,835) | \$ 1,579,883,198 |

Status of budgetary resources as of September 30, 2005:

| | Obligated Balance | Unobligated Balance | Total |
|---------------------------------------|----------------------|------------------------|------------------|
| DOT Appropriations | \$ 113,515,332 | \$ 94,125,381 | \$ 207,640,713 |
| Highway Trust Fund Obligation Ceiling | 531,679,912 | 840,562,573 | 1,372,242,485 |
| | \$ 645,195,244 | \$ 934,687,954 | \$ 1,579,883,198 |

APPALACHIAN REGIONAL COMMISSION
Additional Information (Unaudited)
Years ended September 30, 2005 and 2004

Federal Budgetary Data

The following summarizes the budgetary data related to ARC's Federal appropriations for the year ended September 30:

| BUDGETARY RESOURCES | <u>2005</u> | <u>2004</u> |
|--|-------------------|-------------------|
| Budget authority – appropriation | \$ 66,000,000 | \$ 66,000,000 |
| Net transfers | (26,160,682) | (20,206,551) |
| Unobligated balance brought forward October 1 | 8,565,932 | 6,153,777 |
| Spending authority from offsetting collections | 1,027,169 | 466,209 |
| Recoveries of prior year obligations | 3,189,101 | 2,241,564 |
| Permanently not available | <u>(528,000)</u> | <u>(389,400)</u> |
| Total budgetary resources | <u>52,093,520</u> | <u>54,265,599</u> |

STATUS OF BUDGETARY RESOURCES

| | | |
|---------------------------|----------------------|----------------------|
| Obligations incurred | 46,202,218 | 45,697,887 |
| Unobligated balance | <u>5,891,302</u> | <u>8,567,712</u> |
| Total budgetary resources | <u>\$ 52,093,520</u> | <u>\$ 54,265,599</u> |

To the Commission Members
Appalachian Regional Commission
Washington, DC

Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

We have audited the financial statements of the Appalachian Regional Commission as of and for the year ended September 30, 2005, and have issued our report thereon dated October 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered ARC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether ARC's financial statements are free of 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. 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 disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying audit finding.

The Commission Members
Appalachian Regional Commission
Washington, DC

We noted other matters involving the internal control over financial reporting, which we have reported to the management of ARC in a separate letter dated October 28, 2005.

This report is intended solely for the information and use of the Inspector General, the Commission Members, management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

M.D. Opperheim & Company, P.C.

October 28, 2005

APPALACHIAN REGIONAL COMMISSION

Follow-up on Prior Audit Finding

Grant Reporting

Condition: During the prior year audit of ARC's grant files, we noted a lack of timely submission of grant progress and final reports. Our FY 2004 testing found that out of the 40 grant files sampled, 24 of the files did not show evidence of timely submission of progress reports and 14 had not received the final reports within the ARC deadline for submission.

Recommendation: We recommended ARC develop policies and procedures to effectively monitor grantee compliance with grant reporting requirements and to promptly follow-up with any instances of non-compliance were noted.

Current Status: Our current year audit of ARC grant files noted improvement in the submission of progress reports. However, we found that in 7 out of 44 (16%) of the files where the grant period had expired, the final reports were not submitted timely which caused a delay in closing of the grants. Due to the continued late filing of final report submissions, this finding will remain open pending full implementation of the corrective action plan.