APPALACHIAN
REGIONAL
COMMISSION

FINANCIAL STATEMENTS

As of and for the Years Ended September 30, 2010 and 2009

With Report of Independent Auditors

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Appendix A: Appalachian Regional Commission Comments on Draft Audit Report

MARTIN & WALL
CERTIFIED PUBLIC ACCOUNTANTS

Tel. 202.332.3566 · Fax 202.332.3672 · www.martinwallcpa.com

Independent Auditors' Report

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

In accordance with the Accountability of Tax Dollars Act of 2002, we are responsible for conducting audits of the Appalachian Regional Commission. We have audited the accompanying balance sheet of the Appalachian Regional Commission as of September 30, 2010 and the related statements of net cost, changes in net position, and budgetary resources for the year then ended. Information presented as of and for the year ended September 30, 2009 was audited by a prior auditor and is presented for comparison purposes. See prior audit report dated May 7, 2010 for details.

The objective of our audit was to express an opinion on the fair presentation of these financial statements. In connection with our fiscal year 2010 audit, we also considered the Appalachian Regional Commission's internal control over financial reporting and tested the Appalachian Regional Commission's compliance with selected provisions of applicable laws and regulations that could have a direct and material effect on these financial statements.

Summary

In our audit of the Appalachian Regional Commission for the fiscal year ended September 30, 2010, we found:

- the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles,
- no material weaknesses in internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations,
- no reportable noncompliance with laws and regulations we tested.

The following sections discuss our opinion on the Commission's financial statements; our consideration of the Commission's internal controls over financial reporting; our tests of the Commission's compliance with certain provisions of applicable laws, regulations, contracts and grant agreements; and management's and our responsibilities.

Opinion on Financial Statements

We have audited the accompanying balance sheet of the Appalachian Regional Commission as of September 30, 2010 and the related statements of net cost, changes in net position, and budgetary resources for the year then ended.

In our opinion, the financial statements referred to above, including the accompanying notes, present fairly, in all material respects, the financial position of the Appalachian Regional Commission, as of September 30, 2010, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with U.S. generally accepted accounting principles. Information presented as of and for the year ended September 30, 2009 was audited by a prior auditor and is presented for comparison purposes. See prior audit report dated May 7, 2010 for details.

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

Internal Control Over Financial Reporting

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements , fraud or noncompliance in amounts that would be material to the financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the Responsibilities section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2010 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We noted certain additional matters that we reported to the Commission's management addressing internal control matters.

Compliance and Other Matters

The results of our tests of compliance as described in the Responsibilities section of this report disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04, as amended.

Responsibilities

Management Responsibilities: Appalachian Regional Commission's management is responsible for (1) preparing the financial statements in conformity with U.S. generally accepted accounting principles, (2) establishing and maintaining effective internal control, (3) complying with laws, regulations, contracts and grant agreements applicable to the Commission.

Auditor's Responsibilities: Our responsibility is to express an opinion on the fiscal year 2010 financial statements of the Appalachian Regional Commission based on our audit. We conducted our audit 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 OMB Bulletin No. 07-04, as amended. Those standards and OMB Bulletin 07-04, as amended, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Appalachian Regional Commission's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used and significant estimates made by management;
- Evaluating the overall financial statement presentation;
- Obtaining an understanding of the entity and its operations, including its internal control related to financial reporting (including safeguarding assets), and compliance with laws and regulations (including execution of transactions in accordance with budget authority);
- Considering the design of the process for evaluating and reporting on internal control;
- Testing compliance with selected provisions of laws, regulations, grants and controls applicable to the Commission that could have a direct and material effect on the financial statements.

We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our fiscal year 2010 audit, we considered the Appalachian Regional Commission's internal control over financial reporting by obtaining an understanding of the Commission's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

As part of obtaining reasonable assurance about whether the Appalachian Regional Commission's fiscal year 2010 financial statements are free of material misstatement, we performed tests of the Commission's 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. 07-04, as amended. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts and grant agreements applicable to the Commission. However, providing an opinion on compliance with laws, regulations, contracts and grant agreements was not an objective of our audit, and accordingly, we do not express such an opinion. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

Agency Comments and Our Evaluation

In commenting on a draft of this report (see Appendix A), the Appalachian Regional Commission concurred with the facts and conclusions in our report.

Use and Distribution of Report

This report is intended sole for the information and use of the Appalachian Regional Commission's management, Office of Inspector General, Commissioners, U.S. Office of Management and Budget, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

Martin & Wally P.C.

Washington, DC
February 25, 2011

APPALACHIAN REGIONAL COMMISSION

BALANCE SHEETS

As Of September 30, 2010 and 2009

		2010	2009
Assets:			
Intragovernmental:			
Fund Balance With Treasury	(Notes 1 & 2)	$ 168,564,095	$ 161,967,586
Advances	(Notes 1 & 3)	13,756,610	12,329,479
Total Intragovernmental		182,320,705	174,297,065
Cash in commercial institutions	(Note 1)	79,028	31,012
Equipment, Net	(Note 1)		
Advances	(Notes 1 & 3)	34,932,837	29,767,568
Total Assets		$ 217,332,571	$ 204,095,645
Liabilities:	(Note 4)		
Intragovernmental:			
Advances	(Notes 1, 4 & 5)	$	$ 626,729
Other	(Notes 4 & 5)	106,193	
Total Intragovernmental		106,193	626,729
Accounts Payable	(Notes 1 & 4)	4,063,127	3,460,229
Other	(Notes 1, 4 & 5)	1,852,971	1,598,157
Total Liabilities		6,022,292	5,685,115
Net Position:			
Unexpended Appropriations - Other Funds		133,589,444	117,867,086
Cumulative Results of Operations - Earmarked Funds	(Note 8)	843,602	981,356
Cumulative Results of Operations - Other Funds		76,877,234	79,562,088
Total Net Position		211,310,279	198,410,530
Total Liabilities and Net Position		$ 217,332,571	$ 204,095,645

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

The accompanying notes are an integral part of these financial statements.

APPALACHIAN REGIONAL COMMISSION

STATEMENTS OF NET COST

For The Year Ended September 30, 2010 and 2009

		2010	2009
Program Costs:			
Program A:			
Gross Costs	(Note 9)	$ 68,738,122	$ 71,638,025
Less: Earned Revenue	(Note 1)	5,520,729	3,788,282
Net Program Costs		63,217,393	67,849,743
Net Cost of Operations		$ 63,217,393	$ 67,849,743

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

The accompanying notes are an integral part of these financial statements.

APPALACHIAN REGIONAL COMMISSION

STATEMENT OF CHANGES IN NET POSITION

For The Year Ended September 30, 2010

	2010		
	Earmarked Funds	All Other Funds	Consolidated Total
Cumulative Results of Operations:			
Beginning Balances	$ 981,354	$ 79,562,090	$ 80,543,444
Budgetary Financing Sources:			
Appropriations Used		60,277,642	60,277,642
Transfers-In/Out Without Reimbursement	3,979,000	(3,979,000)	
Other Financing Resources (Non-Exchange):			
Imputed Financing		117,143	117,143
Total Financing Sources	3,979,000	56,415,785	60,394,785
Net Cost of Operations (+/-)	4,116,753	59,100,641	63,217,393
Net Change	(137,753)	(2,684,855)	(2,822,608)
Cumulative Results of Operations	$ 843,602	$ 76,877,234	$ 77,720,836
Unexpended Appropriations:			
Beginning Balances	$	$ 117,867,085	$ 117,867,085
Budgetary Financing Sources:			
Appropriations Received		76,000,000	76,000,000
Appropriations Used		(60,277,642)	(60,277,642)
Total Budgetary Financing Sources		15,722,358	15,722,358
Total Unexpended Appropriations		133,589,444	133,589,444
Net Position	$ 843,602	$ 210,466,678	$ 211,310,279

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

The accompanying notes are an integral part of these financial statements.

APPALACHIAN REGIONAL COMMISSION

STATEMENT OF CHANGES IN NET POSITION

For The Year Ended September 30, 2009

	2009		
	Earmarked Funds	All Other Funds	Consolidated Total
Cumulative Results of Operations:			
Beginning Balances	$ (398,346)	$ 83,414,679	$ 83,016,333
Budgetary Financing Sources:			
Appropriations Used		65,273,290	65,273,290
Transfers-In/Out Without Reimbursement	3,762,000	(3,762,000)	
Other Financing Resources (Non-Exchange):			
Imputed Financing		103,564	103,564
Total Financing Sources	3,762,000	61,614,854	65,376,854
Net Cost of Operations (+/-)	2,382,298	65,467,445	67,849,743
Net Change	1,379,702	(3,852,591)	(2,472,889)
Cumulative Results of Operations	$ 981,356	$ 79,562,088	$ 80,543,444
Unexpended Appropriations:			
Beginning Balances	$	$ 108,140,376	$ 108,140,376
Budgetary Financing Sources:			
Appropriations Received		75,000,000	75,000,000
Appropriations Used		(65,273,290)	(65,273,290)
Total Budgetary Financing Sources		9,726,710	9,726,710
Total Unexpended Appropriations		117,867,086	117,867,086
Net Position	$ 981,356	$ 197,429,174	$ 198,410,530

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

The accompanying notes are an integral part of these financial statements.

APPALACHIAN REGIONAL COMMISSION

STATEMENTS OF BUDGETARY RESOURCES

For The Year Ended September 30, 2010 and 2009

		2010	2009
		Budgetary	Budgetary
Budgetary Resources:			
Unobligated Balance:			
Beginning of Period		$ 29,357,204	$ 28,796,944
Recoveries of Prior Year Obligations		5,366,451	8,242,388
Budget Authority:			
Appropriations Received		83,958,000	82,524,000
Earned			
Collected		1,679,148	1,990,031
Change in Unfilled Customer Orders (+/-)			
Advance Received		(606,246)	
Subtotal		$ 85,030,903	$ 84,514,031
Total Budgetary Resources		$ 119,754,557	$ 121,553,363
Status of Budgetary Resources:			
Obligations Incurred			
Direct	(Note 10)	$ 91,988,758	$ 92,196,158
Subtotal		$ 91,988,758	$ 92,196,158
Unobligated Balances			
Apportioned		25,888,467	26,925,233
Exempt from Apportionment		1,856,850	
Subtotal		$ 27,745,316	$ 26,925,233
Unobligated Balances - Not Available		20,483	2,431,972
Total Status of Budgetary Resources		$ 119,754,557	$ 121,553,363
Change in Obligated Balances:			
Obligated Balance, Net:			
Unpaid Obligations, Brought Forward, October 1		$ 132,572,078	$ 126,281,117
Total, Unpaid Obligated Balance, Brought Forward, Net		$ 132,572,078	$ 126,281,117
Obligations Incurred		91,988,758	92,196,158
Gross Outlays (-)		(78,507,650)	(77,662,809)
Recoveries of Prior-Year Unpaid Obligations, Actual (-)		(5,366,451)	(8,242,388)
Obligated Balance, Net, End of Period:			
Unpaid Obligations (+)	(Note 11)	140,686,735	132,572,078
Total, Unpaid Obligated Balance, Net, End of Period		$ 140,686,735	$ 132,572,078
Net Outlays:			
Gross Outlays (+)		78,507,650	77,662,809
Offsetting Collections (-)		(1,072,903)	(1,990,032)
Less: Distributed Offsetting Receipts		7,958,000	7,550,281
Net Outlays		$ 69,476,747	$ 68,122,496

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

The accompanying notes are an integral part of these financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Overview of 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.

Basis of Presentation

These financial statements have been prepared from the accounting records of ARC in accordance with generally accepted accounting principles (GAAP), and the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Circular No. A-136. GAAP for Federal entities are standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which has been designated the official accounting standards-setting body for the Federal Government by the American Institute of Certified Public Accountants.

OMB Circular No. A-136 requires agencies to prepare principal statements, which include a Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and a Statement of Budgetary Resources. The Balance Sheet presents, as of September 30, 2010, amounts of future economic benefits owned or managed by ARC (assets), amounts owed by ARC (liabilities), and amounts, which comprise the difference (net position). The Statement of Net Cost reports the full cost of the program, both direct and indirect costs of the output, and the costs of identifiable supporting services provided by other segments within ARC and other reporting entities. The Statement of Budgetary Resources reports an agency's budgetary activity.

Basis of Accounting

Transactions are recorded on the accrual accounting basis in accordance with general government practice. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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 may differ from those estimates.

Fund Accounting Structure

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

- Earmarked Fund - A trust fund was established by the U.S. Treasury under the authority of the Appalachian Regional Development Act of 1965, to receive, hold, invest, and disburse monies collected to cover the administrative expenses of ARC. The administrative expenses are paid equally by the federal government and the states in the Appalachian Region as determined annually by ARC. The federal contributions are accounted for as an earmark under Statement of Federal Financial Accounting Standards (SFFAS) 27.

- 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 follows standard federal budgetary accounting policies and practices in accordance with OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," dated July 2010. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. Each year, Congress provides ARC no-year appropriations to incur obligations in support of ARC programs. For Fiscal Year (FY) 2010 and 2009, ARC is accountable for apportionment of no-year funds and no-year fund carryover. ARC recognizes budgetary resources as assets when cash (funds held by Treasury) is made available through apportionments.

Revenue and Other Financing Sources

Appropriations

ARC programs and activities are funded primarily through annual appropriations from Congress that may be used, within statutory limits, for operating and capital expenditures. Historically, appropriations have been definite no-year appropriations, without fiscal year limitation, made available until expended. Because of the no-year status of the funds, unobligated amounts are not returned to the U.S. Treasury.

Earned Revenues

ARC receives earned revenues that are presented on the statement of net cost. Earned revenues are recognized by ARC to the extent reimbursements are payable from public, as a result of costs incurred or services performed on the public's behalf. Earned revenues are derived from the following sources:

- ARC receives contributions from the 13 states in the Appalachian Region to pay administrative expenses (see discussion of earmarked funds and trust fund for more details). These are recorded as earned revenues on the statement of net cost. From time to time, there are also minor amounts of earned revenues from conference fees or credit card refunds. Earned revenues are recognized by ARC to the extent reimbursements are payable from public, as a result of costs incurred or services performed on the public's behalf.
- ARC receives funds from the Center for Disease Control for a diabetes prevention program.
- From time to time, there are also minor amounts of earned revenues from conference fees or credit card refunds.

Transfer-In Without Reimbursement

- ARC receives funds from the Department of Transportation for the Appalachian Development Highway System. ARC is a child account to DOT for this purpose.

Imputed Financing From Costs Absorbed by Others

Other financing sources for ARC consists of imputed financing sources which are costs financed by other Federal entities on behalf of ARC, as required by Statement of Federal Financial Accounting Standard (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*. In certain instances, operating costs of the ARC are paid out of funds appropriated to other federal agencies. In accordance with GAAP, as outlined in guidance issued by the Office of Management and Budget (OMB), all expenses of a federal entity should be reported by that agency whether or not the agency will ultimately pay these expenses. Amounts for certain expenses of ARC, which will be paid by other federal agencies, are recorded in the Statement of Net Cost. A related amount is recognized in the Statement of Changes in Net Position as an imputed financing source. ARC records imputed expense and financing sources for employee retirement, insurance, and health benefit costs, which are paid by the Office of Personnel Management (OPM).

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 $79,028 and $31,012 at September 30, 2010 and 2009, respectively.

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.

Property & Equipment

Property, plant, and equipment (PP&E) have been defined in the Federal Government as tangible items owned by the Federal Government and having an expected useful life of greater than two years. ARC's property & equipment is recorded at acquisition cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The capitalization threshold is $35,000, effective June 15, 2010. Prior to that, the capitalization threshold was $50,000. This change in accounting policy does not affect balance sheet accounts for property and equipment. All property and equipment was fully depreciated at September 30, 2010 and 2009.

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.

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 an 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.

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.

Parent Child Reporting

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

Tax Exempt Status

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

Reclassifications

Certain items at September 30, 2009 have been reclassified to conform to the presentation at September 30, 2010. There was no effect on the changes in net position.

NOTE 2 – FUND BALANCE WITH TREASURY

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

A. Fund Balances	2010		2009
Trust Fund	$2,360,000		$2,291,054
Appropriated Funds	166,092,534		159,638,228
Total Entity Fund Balance with Treasury	168,452,535	*	161,929,282
Non-Entity Fund Balance with Treasury	111,560		38,304
Total Fund Balance with Treasury	168,564,095		161,967,586

B. Status of Fund Balance with Treasury				
1) Unobligated Balance				
a) Available	27,745,316		26,925,233	
b) Unavailable	20,483		2,431,971	*
2) Obligated Balance not yet Disbursed	140,686,735		132,572,078	
3) Non-Budgetary	111,560		38,304	
Total	$168,564,095	*	$161,967,586	

*Rounding

Non-entity assets consist of cash held for the Office of the State's Representative.

NOTE 3 – ADVANCES

Advances at September 30 consist of the following:

	2010		2009
1. Intragovernmental			
Advances to the U.S. Army Corps of Engineers	$1,659,146		$1,302,962
Advances to the Tennessee Valley Authority	12,097,464		10,876,517
Advances to the Environmental Protection Agency			150,000
	13,756,610		12,329,479
2. Other			
Advances to grantees to finance future program expenditures	34,932,837		29,767,568
Total	48,689,448	*	$42,097,047

*Rounding

NOTE 4 – 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. The table below details liabilities by category and separates by liabilities covered and not covered by budgetary resources.

Liabilities at September 30 consist of the following:

	2010	2009
LIABILITIES NOT COVERED BY BUDGETARY RESCOURCES		
With the Public		
Unfunded annual leave	$474,172	$460,957
Unfunded pension liability	870,581	700,075
Intragovernmental		
Liability for Deposit Funds	75,984	
Total liabilities not covered by budgetary resources	1,420,737	1,161,032
LIABILITIES COVERED BY BUDGETARY RESOURCES		
Advances		
Advances from the Centers for Disease Control		564,406
Advances from the National Endowment for the Arts		62,323
Advances from the Appalachian Region States	20,483	
Total Advances	20,483	626,729
Benefits Due		
Accrued health and flexible spending benefits	87,323	87,323
Accrued salaries and benefits	351,593	318,790
Total benefits due	438,916	406,113
Payments Due to grantees to finance program expenditure	4,063,127	3,460,229
Other Agency Transactions	79,028	31,012
Total liabilities covered by budgetary resources	4,601,555	4,524,083
Total Liabilities	$6,022,292	$5,685,115

NOTE 5 – OTHER LIABILITIES

Other liabilities with the public consist of Accrued Funded Payroll and Leave of $321,384; Unfunded Leave in the amount of $474,172; Advances from Other – Public in the amount of $20,483; Unfunded Pension Liability of $870,581; Accrued Health and Flexible Spending Benefits of $87,323; and Other Agency Transactions of $79,028. Other Intragovernmental liabilities consist of Liability for Deposit Funds of $75,984 and Employer Contributions and Taxes Payable of $30,209.

	With the Public	Non-Current	Current	Total
2010	Other Liabilities	1,531,587	321,384	$1,852,971
2009	Other Liabilities	1,279,366	318,791	$1,598,157

	Intragovernmental	Non-Current	Current	Total
2010	Other Liabilities	75,984	30,209	$106,193
2009	Other Liabilities	626,729	0	$626,729

NOTE 6 – RETIREMENT PLANS

ARC has both federal and non-federal employees, who participate in different 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 2010 were $22,256 and $91,504 for CSRS and FERS, respectively and contributions for FY 2009 were $26,521 and $96,717 for CSRS and FERS, respectively.

Several employees also participate in the Federal Employees Health Benefit plan (FEHB) and the Federal Employees Group Life Insurance program (FEGLI), also administered by OPM. ARC pays a portion of the cost of current employees. Post-retirement benefits are paid by OPM. No amounts have been recognized in the financial statements for these imputed costs as they are not deemed material. ARC's contributions to these plans for FY 2010 were $56,247 and $1,594 and for 2009 were $66,785 and $2,030 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 $37,206 and $36,864 to the Federal Thrift Savings plan for all eligible employees for the years ended September 30, 2010 and 2009, respectively.

Non-Federal

The following table presents the pension benefit expense for the defined benefit pension plan by component for fiscal years 2010 and 2009:

	2010	2009
Service cost	$698,288	$536,183
Interest cost	758,355	705,990
Expected return	(568,229)	(454,788)
Amortization of prior service cost	418,870	418,870
Recognized loss	434,546	67,132
Net periodic benefit cost	$1,741,830	$1,273,387

The following table presents the pension liability by component for fiscal years 2010 and 2009:

	2010	2009
Pension lability at October 1	$700,075	$1,576,063
Net periodic benefit expense	$1,741,829	1,273,387
Contributions	(1,571,323)	(2,149,375)
Pension lability at September 30	$870,581	$700,075

	2010	2009
Additional Information		
Benefit obligation	($15,738,745)	($13,814,271)
Fair value of plan assets	9,361,327	7,077,988
Funded status	($6,377,418)	($6,736,283)
Employer contribution	$1,555,670	$2,129,249
Participant contribution	15,653	20,126
Benefits paid	52,008	1,193,575
Net periodic benefit expense	1,741,830	1,273,387

The accumulated benefit obligation was $13,834,127 and $11,881,525 at September 30, 2010 and 2009, respectively.

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

	2010	2009
Discount rate	5.20%	5.50%
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:

	2010	2009
Discount rate	5.50%	7.00%
Expected return on plan assets	7.25%	7.25%
Rate of compensation increase	3.00%	3.00%

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

Plan Assets

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

	2010	2009
Asset Category		
Cash	13.04%	16.00%
Debt securities	33.62%	32.00%
Equity securities	51.19%	47.00%
Real estate	2.15%	5.00%
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
2011	6,012,967
2012	1,969,648
2013	21,772
2014	725,165
2015	2,940,384
Years 2016-2020	5,660,682

ARC contributed $209,937 and $198,037 to the 401(k) plan for the years ended September 30, 2010 and 2009, respectively.

NOTE 7 –LEASES

Description of leasing arrangements: ARC has an operating lease for its office space at 1666 Connecticut Avenue, NW, Suite 700, Washington, DC that commenced on January 1, 2007 and extends through December 31, 2016.

The future minimum lease payments required under this lease are as follows:

Fiscal Year	Amount
2011	963,086
2012	901,520
2013	926,607
2014	945,139
2015	964,042
Thereafter	1,230,365
Total	$5,930,759

Actual expenses may vary in future years due to real estate tax and operating cost increases.

Rent expense for the years ended September 30, 2010 and 2009 was $844,495 and $827,015, respectively.

Additionally, ARC entered a 39 month operating lease for copier equipment on 6/24/2010 at a cost of $664 per month with an additional maintenance cost for photocopies in excess of 15,000 per month at .0091 per photocopy.

NOTE 8 – EARMARKED FUND

Earmarked funds 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 Earmarked Funds*.

The source of earmarked funds is the federal contribution for half of the administrative costs of ARC. 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 an earmark.

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

	2010	2009
Balance Sheet		
ASSETS		
Fund Balance with Treasury	$ 2,360,000	$ 2,291,054
Cash in Commercial Institutions	79,028	31,012
Total Assets	$ 2,439,029	$ 2,322,066
LIABILITIES AND NET POSITION		
Intragovernmental		
Other Liabilities	15,835	
Total Intragovernmental	$ 15,835	$
With the Public		
Accounts Payable	50,725	41,219
Other Liabilities	1,528,868	1,299,491
Total With the Public	1,579,593	1,340,710
Total Liabilities	$ 1,595,427	$ 1,340,710
Cumulative Results of Operations	843,602	981,356
Total Net Position	843,602	981,356
Total Liabilities and Net Position	$ 2,439,029	$ 2,322,066
Statement of Net Cost		
Gross Program Costs	$ 8,095,753	$ 6,145,275
Less Earned Revenues	3,979,000	3,762,977
Net Program Costs	$ 4,116,753	$ 2,382,298
Net Cost of Operations	$ 4,116,753	$ 2,382,298
Statement of Changes in Net Position		
Net Position Beginning of Period	$ 981,354	$ (398,346)
Transfers In/Out Without Reimbursement	3,979,000	3,762,000
Total Financing Sources	3,979,000	3,762,000
Net Cost of Operations	$ 4,116,753	$ 2,382,298
Net Change	$ (137,753)	$ 1,379,702
Cumulative Results of Operations	$ 843,602	$ 981,356

NOTE 9 – INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental costs are those of goods/services purchased from a federal entity. Costs with the Public are incurred from exchange transactions with non-Federal entities (i.e., all other program costs). The table below presents ARC's program costs related to Intragovernmental Costs and Costs with the Public.

	Total 2010	Total 2009
Program A		
Intragovernmental costs	5,430,261	4,848,058
Public costs	63,307,861	66,789,967
Total Program A costs	68,738,122	71,638,025
Intragovernmental earned revenue	1,541,729	0
Public earned revenue	3,979,000	3,788,282
Total Program A earned revenue	5,520,729	3,788,282
Total Program A Net Costs	63,217,393	67,849,743

NOTE 10 – STATUS OF BUDGETARY RESOURCES

A. Apportionment Categories of Obligations Incurred

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). Resources are apportioned by *Treasury Appropriation Fund Symbol (TAFS)*. The apportionment identifies amounts available for obligation and expenditure. It specifies and limits the obligations that may be incurred and expenditures made (or makes other limitations, as appropriate) for specified time periods, programs, activities, projects, objects, or any combination thereof. An apportioned amount may be further subdivided by an agency into allotments, suballotments, and allocations.

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.
- *Category C* apportionments may be used in multi-year and no-year TAFS to apportion funds into future fiscal years.
- *Exempt* – Exempt from apportionment (see OMB Circular A-11, paragraph 120.8 for details).

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

	2010		2009
Direct Obligations			
Category A	1,932,648		2,010,806
Category B	78,020,651		82,937,649
Exempt	12,035,458		7,247,703
Total direct obligations	91,988,758	*	92,196,158

*Rounding

B. Permanent Indefinite Appropriations

The Commission's permanent indefinite appropriation includes the trust fund. These funds are described in Note 8.

C. Explanation of Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government

Statement of Federal Financial Accounting Standards No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, calls for explanations of material differences between amounts reported in the Statement of Budgetary Resources (SBR) and the actual balances published in the Budget of the U.S. Government (President's Budget). The Budget of the U. S. Government, with the Actual column completed for 2009 and 2008, was reconciled to the Statement of Budgetary resources as follows:

2009

(Dollars in Millions)	Budgetary Resources	Obligations Incurred	d Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	$121	$92	$7	$68
Reconciling Items				
Offsetting collections and receipts	(10)	(9)	(6)	1
Budget of the U.S. Government	$111	$83	$1	$69

2008

(Dollars in Millions)	Budgetary Resources	Obligations Incurred	d Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	$115	$86	$4	$76
Reconciling Items				
Offsetting collections and receipts	(1)	2	(2)	5
Budget of the U.S. Government	$114	$88	$2	$81

NOTE 11 – UNDELIVERED ORDERS AT THE END OF THE PERIOD

Undelivered orders represent the value of goods and services ordered and obligated that have not been received. This amount includes any orders for which advance payment has been made but for which delivery or performance has not yet occurred. Management seeks to synchronize periods of performance on contracts and agreements with the fiscal year to minimize undelivered orders at year-end.

The amount of Unpaid Obligated Balance, Net, End of Period shown on the Statement of Budgetary Resources includes obligations relating to Undelivered Orders and Delivered Orders, Obligations Unpaid (amounts owed at the end of the year by the ARC for goods and services received plus unfunded leave presented in Note 4). The amount of each is as follows:

	Undelivered Orders	Delivered Orders, Obligations Unpaid	Unpaid Obl. Balance, Net
2010	$136,290,889	$4,395,846	$140,686,735
2009	$128,831,106	$3,740,972	$132,572,078

NOTE 12 – RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET (FORMERLY THE STATEMENT OF FINANCING)

	2010	2009
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 91,988,758	$ 92,196,158
Less: Spending Authority from Offsetting Collections and Recoveries	6,439,353	10,232,419
Obligations Net of Offsetting Collections and Recoveries	85,549,405	81,963,739
Less: Distributed Offsetting Receipts	7,958,000	7,550,281
Net Obligations	77,591,405	74,413,458
Other Resources		
Imputed Financing from Costs Absorbed by Others	117,143	103,564
Net Other Resources Used to Finance Activities	117,143	103,564
Total Resources Used to Finance Activities	77,708,548	74,517,022
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods Services and Benefits Ordered But Not Yet Provided	14,658,429	8,189,113
Resources That Fund Expenses Recognized in Prior Periods		963,604
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	14,658,429	9,152,717
Total Resources Used to Finance the Net Cost of Operations	63,050,118	65,364,305
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	(3,231)	
Other (+/-)	170,506	20,776
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	167,275	20,776
Components Not Requiring or Generating Resources:		
Reconciling Items:		
4902 adjustments		2,351,388
Other		113,274
Total Components of Net Cost of Operations that will not Require or Generate Resources		2,464,662
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	167,275	2,485,438
Net Cost of Operations	$ 63,217,393	$ 67,849,743

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

NOTE 13 – SUBSEQUENT EVENTS

ARC has evaluated subsequent events occurring after the balance sheet date and through the date of February 25, 2011, 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.

APPENDIX A –

APPALACHIAN REGIONAL COMMISSION COMMENTS ON

DRAFT AUDIT REPORT

APPALACHIAN
REGIONAL
COMMISSION

A Proud Past,
A New Vision

February 25, 2011

Martin & Wall, P.C.
Andrew B. Martin, MS, CFE, CFF, CICA, CPA
Managing Partner
1633 Q Street, NW
Suite 230
Washington, DC 20009

Dear Mr. Martin:

We have reviewed the draft audit report provided to us relating to your audit of Appalachian Regional Commission for the fiscal years ended September 30, 2010 and 2009. We concur with the facts and conclusions in the draft report.

Sincerely,

Thomas M. Hunter
Executive Director

William Grant
Director, Finance and Administration

1666 CONNECTICUT AVENUE, NW, SUITE 700 WASHINGTON, DC 20009-1068 (202) 884-7700 FAX (202) 884-7691 www.arc.gov