# APPALACHIAN REGIONAL COMMISSION

## FINANCIAL STATEMENTS

**September 30, 2014 and 2013**

CHORTEK
CPAs | BUSINESS ADVISORS

November 25, 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, 2014 and 2013, 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.

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, 2014 and 2013, 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 Chairperson's message and other information sections of ARC's *Agency Financial 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.*

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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 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

# APPALACHIAN REGIONAL COMMISSION

## BALANCE SHEET

As Of September 30, 2014 and 2013

| | | 2014 | 2013 |
|---|---|---|---|
| **Assets:** | | | |
| Intragovernmental: | | | |
| Fund Balance With Treasury | (Note 1 & 2) | $ 153,451,375 | $ 140,314,368 |
| Advances and Prepayments | (Note 1 & 3) | 13,761,696 | 11,264,175 |
| Total Intragovernmental | | 167,213,071 | 151,578,543 |
| Assets With The Public: | | | |
| Cash, Foreign Currency and Other Monetary Assets | (Note 1) | 144,084 | 83,543 |
| Accounts Receivable, net | (Note 1 & 4) | | 6,854 |
| Advances and Prepayments | (Note 1& 3) | 34,813,335 | 34,328,174 |
| **Total Assets** | | $ 202,170,490 | $ 185,997,114 |
| **Liabilities:** | (Note 5) | | |
| Intragovernmental: | | | |
| Accounts Payable | (Note 1 & 5) | 6,000 | |
| Other: | (Note 5 & 6) | | |
| Employer Contributions and Payroll Taxes Payable | | 14,132 | 11,790 |
| Liability for Advances and Prepayments | | 530,350 | 133,952 |
| Total Intragovernmental | | 550,482 | 145,742 |
| Liabilities With the Public: | | | |
| Accounts Payable | (Note 1 & 5) | 8,853,265 | 8,256,225 |
| Other: | (Note 1, 5 & 6) | | |
| Accrued Funded Payroll and Leave | | 156,548 | 134,318 |
| Employer Contributions and Payroll Taxes Payable | | 1,080 | 902 |
| Unfunded Leave | | 464,188 | 496,176 |
| Liability for Advances and Prepayments | | 877,856 | |
| Other Liabilities Without Related Budgetary Obligations | | 231,407 | 170,866 |
| **Total Liabilities** | | $ 11,134,826 | $ 9,204,229 |
| **Net Position:** | | | |
| Unexpended Appropriations - All Other Funds (Consolidated Totals) | | 188,541,705 | 173,078,206 |
| Cumulative Results of Operations - All Other Funds (Consolidated Totals) | | 2,493,959 | 3,714,679 |
| Total Net Position - All Other Funds (Consolidated Totals) | | 191,035,664 | 176,792,885 |
| Total Net Position | | 191,035,664 | 176,792,885 |
| **Total Liabilities and Net Position** | | $ 202,170,490 | $ 185,997,114 |

The accompanying notes are an integral part of these statements.

# APPALACHIAN REGIONAL COMMISSION
## STATEMENT OF NET COST
### For The Years Ended September 30, 2014 and 2013

| | | 2014 | 2013 |
|---|---|---|---|
| **Program Costs:** | | | |
| **ARC:** | | | |
| **Gross Costs** | | 69,513,915 | 82,842,408 |
| **Less: Earned Revenue** | | 3,412,609 | 4,408,666 |
| **Net Program Costs** | (Note 9) | 66,101,306 | 78,433,742 |
| **Net Cost of Operations** | | $ 66,101,306 | $ 78,433,742 |

The accompanying notes are an integral part of these statements.

# APPALACHIAN REGIONAL COMMISSION
## STATEMENT OF CHANGES IN NET POSITION
### For The Years Ended September 30, 2014 and 2013

| | 2014 Total | 2013 Total |
|---|---|---|
| **Cumulative Results of Operations:** | | |
| Beginning Balances | $ 3,714,679 | $ 2,657,229 |
| Beginning balance, as adjusted | 3,714,679 | 2,657,229 |
| **Budgetary Financing Sources:** | | |
| Appropriations used | 64,853,502 | 79,462,208 |
| **Other Financing Sources (Non-Exchange):** | | |
| Imputed financing | 27,084 | 28,984 |
| Total Financing Sources | 64,880,586 | 79,491,192 |
| Net Cost of Operations | 66,101,306 | 78,433,742 |
| Net Change | (1,220,720) | 1,057,450 |
| **Cumulative Results of Operations** | 2,493,959 | 3,714,679 |
| **Unexpended Appropriations:** | | |
| Beginning Balance | 173,078,206 | 187,638,756 |
| Beginning Balance, as adjusted | 173,078,206 | 187,638,756 |
| **Budgetary Financing Sources:** | | |
| Appropriations received | 80,317,000 | 68,263,000 |
| Other adjustments | - | (3,361,342) |
| Appropriations used | (64,853,501) | (79,462,208) |
| Total Budgetary Financing Sources | 15,463,499 | (14,560,550) |
| Total Unexpended Appropriations | 188,541,705 | 173,078,206 |
| Net Position | $ 191,035,664 | $ 176,792,885 |

The accompanying notes are an integral part of these statements.

# APPALACHIAN REGIONAL COMMISSION
## STATEMENT OF BUDGETARY RESOURCES

**The Years Ended September 30, 2014 and 2013**

| | | 2014 Budgetary | 2013 Budgetary |
|---|---|---|---|
| **BUDGETARY RESOURCES** | | | |
| Unobligated balance brought forward, October 1 | | $ 27,331,424 | $ 22,748,114 |
| Unobligated balance brought forward, October 1, adjusted | | 27,331,424 | 22,748,114 |
| Recoveries of prior year unpaid obligations (unobligated balances) | | 7,188,386 | 4,816,928 |
| Unobligated balance from prior year budget authority, net | | 34,519,810 | 27,565,042 |
| Appropriations (discretionary and mandatory) | | 80,317,000 | 72,594,252 |
| Spending authority from offsetting collections | | 7,522,871 | 1,063,761 |
| Total budgetary resources | | $ 122,359,681 | $ 101,223,055 |
| **STATUS OF BUDGETARY RESOURCES** | | | |
| Obligations incurred | | $ 85,146,191 | $ 73,891,632 |
| Apportioned | | 37,213,490 | 23,141,679 |
| Exempt from apportionment | | | 1,990,715 |
| Unapportioned | | | 2,199,030 |
| Unobligated balance brought forward, end of year | | 37,213,490 | 27,331,424 |
| Total budgetary resources | | $ 122,359,681 | $ 101,223,055 |
| **CHANGE IN OBLIGATED BALANCE** | | | |
| Unpaid obligations, brought forward, October 1 (gross) | | $ 112,569,538 | $ 130,063,541 |
| Obligations incurred | (Note 10) | 85,146,191 | 73,891,632 |
| Outlays (gross) (-) | | (74,702,865) | (86,568,707) |
| Recoveries of prior year unpaid obligations (-) | | (7,188,386) | (4,816,928) |
| Unpaid obligations, end of year | (Note 11) | 115,824,478 | 112,569,538 |
| Obligated balance, start of year (net) | | 112,569,538 | 130,063,541 |
| Obligated balance, end of year (net) | | $ 115,824,478 | $ 112,569,538 |
| **BUDGET AUTHORITY AND OUTLAYS, NET** | | | |
| Budget authority, gross (discretionary and mandatory) | | $ 87,839,871 | $ 73,658,013 |
| Actual offsetting collections (discretionary and mandatory) (-) | | (7,522,871) | (1,063,761) |
| Budget authority, net (discretionary and mandatory) | | 80,317,000 | 72,594,252 |
| Outlays, gross (discretionary and mandatory) | | 74,702,865 | 86,568,707 |
| Actual offsetting collections (discretionary and mandatory) (-) | | (7,522,871) | (1,063,761) |
| Outlays, net (discretionary and mandatory) | | $ 67,179,994 | $ 85,504,946 |
| Distributed offsetting receipts (-) | | | 4,159,000 |
| Agency outlays, net (discretionary and mandatory) | | $ 67,179,994 | $ 81,345,946 |

The accompanying notes are an integral part of these statements.

**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 (OMB). For financial statement purposes, these funds are classified all other funds, which consist of area development program funds and funding for the Office of the Federal Co-Chair and the Office of Inspector General.

**Funds from Dedicated Collections**

Statement of Federal Financial Accounting Standards (SFFAS) 43 replaced SFFAS 27 and resulted in a significant change in the definition of what was previously known as "earmarked funding." SFFAS 43 states that funds from dedicated collections are financed by specifically identified revenues, provided to the government by non-federal sources, 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.

As of FY 2014 it was determined that ARC funding that previously was designated "earmarked" did not qualify under the new definition for "Funds from Dedicated Collections" and are not presented separately in these financial statements.

**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 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 $144,084 and $83,543 at September 30, 2014 and 2013, 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.

**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, 2014 and 2013.

**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.

**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, 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.

**Note 2 – Fund Balance With Treasury**

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

| | 2014 | | 2013 |
|---|---|---|---|
| A. Fund Balances | | | |
| Trust Fund | $413,406 | | $2,795,767 |
| Appropriated Funds | 153,037,969 | | 137,518,601 |
| Total Fund Balance with Treasury | 153,451,375 | | 140,314,368 |
| B. Status of Fund Balance with Treasury | | | |
| 1) Unobligated Balance | | | |
| a) Available | 37,213,490 | | 25,132,394 |
| b) Unavailable | | | 2,199,030 |
| 2) Obligated Balance not yet Disbursed | 115,824,478 | | 112,569,538 |
| 3) Temporary Sequestration | 413,406 | | 413,406 |
| Total | $153,451,375 | * | $140,314,368 |

*Rounding

**Note 3 – Advances**

Advances at September 30 consist of the following:

| | 2014 | 2013 |
|---|---|---|
| 1. Intragovernmental | | |
| Advances to the U.S. Army Corps of Engineers | $ - | $ 7,827 |
| Advances to the Tennessee Valley Authority | 13,737,816 | 11,249,343 |
| Advances to the Environmental Protection Agency | 23,880 | 7,005 |
| | 13,761,696 | 11,264,175 |
| 2. Other | | |
| Advances to grantees to finance future program expenditures | | |
| -Revolving Loan Fund | 29,218,072 | 28,960,530 |
| -Non-Revolving Loan Fund | 2,594,260 | 3,721,478 |
| Prepaid Pension Expense | 3,001,003 | 1,646,166 |
| | 34,813,335 | 34,328,174 |
| Total | $ 48,575,031 | $ 45,592,349 |

*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.

*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 RLF 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. This amount represents the fourth quarter contribution to the Trust Fund which will be paid in fiscal year 2014.

| Accounts Receivable | FY 2014 | FY 2013 |
|---|---|---|
| | $0 | $6,854 |

**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.

Liabilities at September 30, 2014 and 2013 consist of the following:

| | 2014 | 2013 |
|---|---|---|
| With the Public | | |
| Unfunded annual leave | $464,188 | $496,176 |
| Total liabilities not covered by budgetary resources | 464,188 | 496,176 |
| Advances | | |
| Advances from Centers for Disease Control | 530,350 | 133,952 |
| Advances from Non Federal Vendors | 877,856 | |
| Total Advances | 1,408,206 | 133,952 |
| Benefits Due | | |
| Accrued health and flexible spending benefits | 87,323 | 87,323 |
| Accrued salaries and benefits | 171,760 | 147,010 |
| Total benefits due | 259,083 | 234,333 |
| Intragovernmental Accounts Payable | 6,000 | |
| Payments Due to grantees to finance program expenditure | 8,853,265 | 8,256,225 |
| Commercial Bank Balance | 144,084 | 83,543 |
| Total liabilities covered by budgetary resources | 10,670,638 | 8,708,053 |
| Total Liabilities | $11,134,826 | $9,204,229 |

**Note 6 – Other Liabilities**

As of September 30, 2014, other liabilities with the public consist of Accrued Funded Payroll and Leave of $464,188; Employer Contribution and Taxes Payable of $1,080; Benefits Due and Payable of $156,548; Advances from Non Federal Sources of $877,856; and Accrued Health and Flexible Spending Benefits of $87,323 and Commercial Bank Balance of $144,084. Other Liabilities Federal consists of Advances from Other – Federal in the amount of $530,350; and Employer Contributions and Taxes Payable of $14,132.

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.

| | With the Public | Non-Current | Current | Total |
|---|---|---|---|---|
| 2014 | Other Liabilities | 1,573,452 | 157,628 | $1,731,080 |
| 2013 | Other Liabilities | 667,042 | 135,221 | $802,263 |

| | Intragovernmental | Non-Current | Current | Total |
|---|---|---|---|---|
| 2014 | Other Liabilities | 530,350 | 14,132 | $544,482 |
| 2013 | Other Liabilities | 133,952 | 11,790 | $145,742 |

**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 2014 were $5,192 and $101,122 for CSRS and FERS, respectively and contributions for FY 2013 were $5,157 and $100,539 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 2014 were $41,405 and $769 and for FY 2013 were $39,169 and $731 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 $39,269 and $37,698 to the Federal Thrift Savings plan for all eligible employees for the years ended September 30, 2014 and 2013, respectively.

**Non-Federal**

The following table presents the pension benefit expense for the defined benefit pension plan by component for fiscal years 2014 and 2013:

| | 2014 | 2013 |
|---|---|---|
| Service cost | $820,266 | $849,366 |
| Interest cost | 921,154 | 773,838 |
| Expected return | (1,341,778) | (1,102,960) |
| Amortization of prior service cost | | |
| Recognized loss | 315,874 | 591,300 |
| Net periodic benefit cost | $715,516 | $1,111,544 |

The following table presents the pension liability or prepayment by component for fiscal years 2014 and 2013:

| | 2014 | 2013 |
|---|---|---|
| Pension liability at October 1 | ($1,646,166) | ($867,200) |
| Net periodic benefit expense | $715,516 | $1,111,544 |
| Contributions | (2,070,353) | (1,890,510) |
| Pension Prepayment at September 30 | ($3,001,003) | ($1,646,166) |

| | 2014 | 2013 |
|---|---|---|
| Additional Information | | |
| Benefit obligation | ($22,728,377) | ($20,092,021) |
| Fair value of plan assets | 20,275,543 | 17,410,469 |
| Funded status | ($2,452,834) | ($2,681,552) |
| Employer contribution | $2,070,353 | $1,890,510 |
| Participant contribution | 6,351 | 15,512 |
| Benefits paid | 274,444 | 253,339 |
| Net periodic benefit expense | 20,275,543 | 1,111,544 |

The accumulated benefit obligation was $21,069,822 and $18,586,607 at September 30, 2014 and 2013, respectively.

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

| | 2014 | 2013 |
|---|---|---|
| Discount rate | 4.00% | 4.65% |
| 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:

| | 2014 | 2013 |
|---|---|---|
| Discount rate | 4.65% | 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:

| Asset Category | 2014 | 2013 |
|---|---|---|
| Equity securities | 34.68% | 33.27% |
| Debt securities | 59.99% | 60.79% |
| Real Estate | 5.30% | 5.45% |
| Other | 0.03% | 0.49% |
| 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 |
|---|---|
| 2015 | 851,952 |
| 2016 | 862,016 |
| 2017 | 928,273 |
| 2018 | 1,001,311 |
| 2019 | 1,025,905 |
| Years 2020-2024 | 5,670,319 |

ARC contributed $222,180 and $214,718 to the 401(k) plan for the years ended September 30, 2014 and 2013, respectively.

**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:

| | |
|---|---|
| 2015 | $ 883,605 |
| 2016 | 903,544 |
| 2017 | 924,965 |
| 2018 | 946,841 |
| Thereafter | 6,796,635 |
| Total | $ 10,455,590 |

Rent expense for the years ended September 30, 2014 and 2013 was $858,459 and $830,442, respectively.

## Note 9 – Intragovernmental Costs and Exchange Revenue

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

| | Total 2014 | Total 2013 |
|---|---|---|
| ARC | | |
| Intragovernmental costs | $ 7,196,728 | $ 7,267,203 |
| Public costs | 62,317,187 | 75,575,205 |
| Total ARC Program costs | 69,513,915 | 82,842,408 |
| Intragovernmental earned revenue | | 172,500 |
| Public earned revenue | 3,412,609 | 4,236,166 |
| Total ARC Program earned revenue | 3,412,609 | 4,408,666 |
| Total ARC Program Net Costs | $ 66,101,306 | $ 78,433,742 |

## Note 10 – Status of Budgetary Resources

A. Apportionment Categories of Obligations Incurred

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

| | 2014 | 2013 |
|---|---|---|
| Direct Obligations | | |
| Category A | | |
| Category B | $ 79,098,495 | $ 61,473,315 |
| Exempt | 2,017,690 | 12,099,151 |
| Total direct obligations | 81,116,185 | 73,572,466 |
| Reimbursable Obligations | | |
| Category B | 2,012,316 | 30,000 |
| Exempt | 2,017,690 | 289,166 |
| Total reimbursable obligations | 4,030,006 | 319,166 |
| Total Obligations | $ 85,146,191 | $ 73,891,632 |

Apportionment is a plan, approved by the 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.

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 2014 and 2013, was reconciled to the Statement of Budgetary resources as follows:

| | **2013** | | | |
|---|---|---|---|---|
| (Dollars in Millions) | Budgetary Resources | Obligations Incurred | Distributed Offsetting Receipts | Net Outlays |
| Statement of Budgetary Resources | $101 | $74 | $4 | $86 |
| Reconciling Items | | | | |
| Offsetting collections and receipts | 1 | 14 | 0 | (6) |
| Budget of the U.S. Government | $102 | $88 | $4 | $80 |

**Note 11 – 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 |
|---|---|---|---|
| 2014 | $106,793,454 | $9,031,024 | $115,824,478 |
| 2013 | $104,166,302 | $8,403,236 | $112,569,538 |

## Note 12 – 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:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| Budgetary Resources Obligated | $ 85,146,191 | | $ 73,891,632 | |
| | | | | |
| Spending Authority from Recoveries and Offsetting Collections | (14,711,258) | | (5,880,689) | |
| Distributed Offsetting Receipts | | | (4,159,000) | |
| Imputed Financing from Costs Absorbed by Others | 27,084 | | 28,984 | |
| Changes in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided | (4,335,578) | | 18,463,287 | |
| Other | | | 212,000 | |
| Resources that Finance the Acquistion of Assets | 6,854 | | (6,854) | |
| Resources that Do Not Affect Net Cost of Operations | | | (4,159,000) | |
| Financing Sources Yet to be Provided | (31,988) | | 43,383 | |
| | | | | |
| Net Cost of Operations | $ 66,101,306 | * | $ 78,433,742 | * |

*Rounding

## Note 13 – Subsequent Events

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