PERFORMANCE AND ACCOUNTABILITY REPORT

Appalachian Regional Commission

Fiscal Year 2012

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APPALACHIAN REGIONAL COMMISSION
September 30, 2012

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Earl F. Gohl

States' Co-Chair
Governor Robert Bentley

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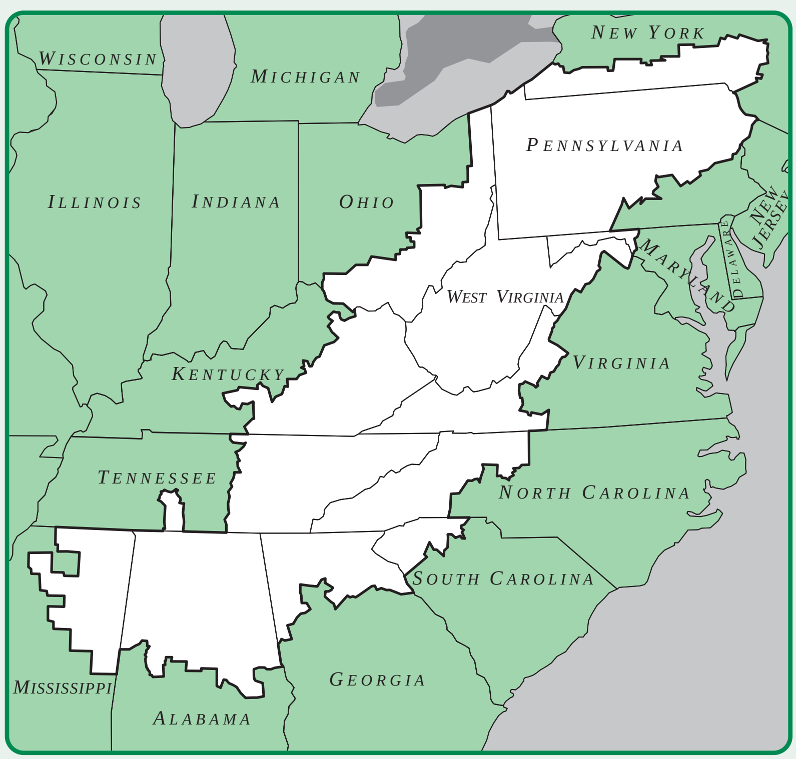
APPALACHIAN REGION

The Appalachian Region includes all of West Virginia and parts of Alabama, Georgia, Kentucky, Maryland, Mississippi, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, and Virginia. The Region is home to more than 25 million people and covers 420 counties and almost 205,000 square miles.



CONTENTS

Message from Federal Co-Chair Earl F. Gohl and 2012 States' Co-Chair Robert Bentley

We are pleased to present the Appalachian Regional Commission's (ARC) Performance and Accountability Report for fiscal year (FY) 2012.

For FY 2012, the Commission approved $66.2 million in funding for 418 nonhighway projects that advanced one or more of the three nonhighway goals of ARC's 2011–2016 strategic plan: 1) increasing job opportunities and per capita income in Appalachia to reach parity with the nation; 2) strengthening the capacity of the people of Appalachia to compete in the global economy; and 3) developing and improving Appalachia's infrastructure to make the Region economically competitive.

ARC's FY 2012 grant funds attracted an additional $146.3 million in other project funding, an investment ratio of more than 2 to 1, and $267.7 million in non-project leveraged private investment, a ratio of 4 to 1. The projects funded during the year will create or retain an estimated 20,112 jobs and train an estimated 20,315 students and workers in new job skills.

In working toward its strategic goals in FY 2012, the Commission placed an emphasis on coordinating a federal focus on Appalachia, diversifying the Region's economy and addressing the needs of small business, boosting the health of Appalachia's population, and strengthening the Region's transportation systems.

As part of its efforts this year to engage federal agencies more fully in the Appalachian Region, the Commission joined three other agencies—the U.S. Department of Agriculture (USDA), the U.S. Department of Commerce's Economic Development Administration, and the Delta Regional Authority—to launch the Rural Jobs and Innovation Accelerator Challenge, an unprecedented multi-agency initiative to promote job creation and business innovation in rural communities. Support for the initiative in the form of technical assistance is being provided by nine additional agencies and bureaus. In August five Appalachian projects were awarded grants through the challenge to help strengthen Appalachian industry clusters, including local food systems, advanced manufacturing, and cultural tourism. More than 500 jobs are projected to be created or retained through these grants.

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

ARC's partnership in the Accelerator Challenge stemmed from its work as a member of the White House Rural Council, a convening body of 29 federal agencies established in 2011 to help coordinate government programs and maximize the impact of federal investments to promote rural economic prosperity. The Commission represented the Appalachian Region's rural interests in each of the council's working groups during the fiscal year. In July, as a member of the council, ARC joined the White House Business Council, the Delta Regional Authority, and the U.S. Small Business Administration in hosting the Oxford Rural Economic Forum at the University of Mississippi. The forum was part of a series of events held to connect entrepreneurs and business owners to the local and national resources and networks they need to grow and innovate.

An ongoing focal point for the Commission in FY 2012 was the implementation of the Appalachian Regional Development Initiative (ARDI), a partnership between ARC and 13 federal agencies to strengthen and diversify the Appalachian economy and better coordinate federal activities in the Region. Technical assistance workshops held by ARDI partner agencies in West Virginia, Virginia, and Alabama in the fall of 2011 provided information on available federal funding resources and grant-writing strategies to more than 600 community development leaders and citizens. The workshop in Alabama had a special focus on supporting long-term recovery in Appalachian communities that had suffered tornado damage the previous spring.

ARC also partnered with the U.S. Environmental Protection Agency and USDA Rural Development this fiscal year to establish an Appalachian Livable Regions and Communities program, with the goal of improving the quality of life in the Region's rural communities by promoting economic development while preserving the local landscape. Through the program, three regional technical assistance workshops serving more than 150 community leaders were held in Georgia, Tennessee, and Pennsylvania in the summer, providing information on strategies communities can use to enhance their vitality and economic competitiveness. In addition, hands-on technical assistance consultations were begun in seven Appalachian communities to help local civic and development leaders plan the application of livability concepts and address development challenges.

With job creation and business growth at the forefront of the Commission's priorities, the Commission worked with the White House Business Council to hold nine roundtable sessions with business and civic leaders in the Region in FY 2012 to gather feedback and ideas on how to create jobs and enhance private-sector competitiveness. Sessions were held in Appalachian Georgia, Maryland, North Carolina, Ohio, Tennessee, Virginia, and West Virginia.

ARC also continued its support for the development of local food economies and sustainable agriculture in the Region as part of its programmatic efforts to promote economic diversification, and in May it released *Assessing the Landscape of Local Food in Appalachia*, a study of the economic potential of the regional food economy. This research was complemented by the Commission's April forum on local food systems and sustainable agriculture in Asheville, North Carolina, attended by approximately 350 participants. Co-sponsored by partners that included USDA Rural Development and the Ford Foundation, the forum provided an opportunity for community leaders, economic development officials, farmers, food producers and distributors, and public and private funding partners to share ideas and learn practical ways local food systems can create jobs and build local wealth in Appalachian communities.

During the year the Commission's Appalachian Capital Policy Initiative, launched in FY 2011, continued to address the lack of investment capital in Appalachia, one of the major factors limiting business creation, expansion, and growth. The initiative focuses activities on expanding bank lending, providing better access to equity capital, and supporting the work of community development financial institutions (CDFIs) operating in the Region. To help expand the availability of equity capital, the Commission provided $235,000 in FY 2012 grants to support the creation of five new regional angel investment funds. These grants, along with the associated technical assistance underwritten by ARC, are projected to result in $5 million in new angel-fund capital available for business investment. The Commission also held a series of banking workshops in Tennessee, West Virginia, and Kentucky in conjunction with state bank associations and bank regulators (including the Federal Deposit Insurance Corporation, the Federal Reserve Bank of Cleveland, and the Office of the Comptroller of the Currency) to promote expanded bank lending for business development. In addition, ARC continued to explore formation of a financial intermediary to support CDFI lenders and worked with bank investors, philanthropies, and federal partners to tap new sources of loan capital for CDFIs.

In FY 2012 ARC continued its work as a founding member of the Appalachia Funders Network, a group of approximately 35 public and private grant makers working together to strengthen entrepreneurial support programs in priority economic sectors. This year the network targeted investment opportunities in the health care, food systems, and energy sectors. In addition, it launched a new entrepreneurship effort called Startup Appalachia, selecting for support five promising projects designed to strengthen the entrepreneurial infrastructure in underserved communities.

A healthy population is the foundation for the Region's economic growth, yet many Appalachian communities face significant health challenges, including access to care. The Commission released two research studies this year that examined issues in the Appalachian health-care landscape: The first, *An Analysis of Oral Health Disparities and Access to Services in the Appalachian Region*, examined the state of oral health care, while *Health Care Costs and Access Disparities in Appalachia* considered the Region's access to health insurance and health-care services and their costs. Other Commission health activities this year continued a focus on community-based efforts to encourage health promotion and disease prevention, including expanded activities to address the growing diabetes and substance-abuse problems in the Region. In addition, the Commission placed 14 health-care professionals in Appalachia through the ARC J-1 Visa Waiver program.

The Region's transportation systems also play a vital role in its economic development, giving Appalachian businesses access to domestic and international markets and suppliers. During the fiscal year, ARC continued its support for research, planning, and development activities designed to help improve and coordinate Appalachia's comprehensive intermodal transportation network, including aviation, local transit, railways, and inland waterways. ARC-commissioned intermodal transportation research published in 2000 (*Transportation and the Potential for Intermodal Efficiency-Enhancements in Western West Virginia*) has served as the impetus for a number of current projects, such as construction of West Virginia's Heartland Intermodal Gateway, launched in August. This inland port will provide intermodal access to worldwide markets. In addition, three intermodal rail corridors are currently under development in Appalachia as result of this research, representing $4 billion in public and private investment. Along these three rail corridors, a total of ten new intermodal terminals are planned or under construction.

In July, President Barack Obama signed into law the transportation legislation Moving Ahead for Progress in the 21st Century, which increased federal funding for the Appalachian Development Highway System (ADHS) from 80 to 100 percent and consolidated the ADHS within the larger Surface Transportation Program grant to the Appalachian states. Progress continued in the work on ADHS corridors during the fiscal year; as of September 30, a total of 2,733 miles of the 3,090-mile system were complete or under construction.

In other programmatic efforts this year, ARC launched an effort to explore the role community philanthropy can have in shaping local economies, holding a consultation with partners in March to address issues including challenges to community foundation development in the Region and strategies for increasing community foundations' impact on economic and community development. The Commission has a rich history of working with community foundations in Appalachia, and in November 2011 announced, with Kentucky, the $1 million Appalachian Rural Development Philanthropy Initiative, which will support the development of permanent, accessible community foundations in Appalachian Kentucky's economically distressed counties.

The Commission also continued implementing the economic and energy development initiative established in its October 2008 reauthorization legislation. In keeping with the initiative's mandate to help create energy-related job opportunities (as outlined in the Commission's 2006 energy "blueprint," *Energizing Appalachia: A Regional Blueprint for Economic and Energy Development*), ARC invested $1.6 million in 14 energy projects in FY 2012.

To bolster the Region's physical infrastructure, ARC invested $28.6 million during the year in 102 projects to bring new or upgraded water and sewer systems and other vital infrastructure, including access roads for industrial parks, to Appalachian communities. This investment was matched by $91.7 million in other funding, primarily state and local, and leveraged $161.7 million in non-project private investment. The projects resulted in 19,708 households and 2,635 businesses being served by new or improved water or sewer systems. Infrastructure projects are among the primary generators of new jobs in the Region.

ARC also continued its work in boosting Appalachia's college-going rates through the nine-state Appalachian Higher Education (AHE) Network. During the 2011–2012 school year, AHE Network centers used ARC funds to serve 16,029 high school students. The network's programs have reached more than 91,000 high school seniors since FY 1999, providing support that has led to a 60 percent college-going rate for this group.

And through the Appalachian Regional Reforestation Initiative (ARRI), a cooperative effort among federal agencies, industry, environmental organizations, academia, and landowners, the Commission promoted the reforestation of surface-mined land in the Region this year. In addition to its work with initiative leaders to help establish and develop a nonprofit organization to oversee the ARRI reforestation program, ARC participated in a tree-planting project in Shanksville, Pennsylvania, in April that reclaimed a former mining site and contributed to landscaping efforts at the Flight 93 National Memorial.

This report includes information on the Commission's program actions and financial management during FY 2012. We are pleased to report that ARC's independent auditor, Martin and Wall (a division of Chortek and Gottschalk, LLP), has pronounced an unqualified opinion that the financial statements in this document fairly present the Commission's fiscal status.

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

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

Sincerely,

Earl F. Gohl
ARC Federal Co-Chair

Robert Bentley
2012 States' Co-Chair
Governor of Alabama

December 5, 2012

PART I:
MANAGEMENT DISCUSSION AND ANALYSIS

APPALACHIAN REGIONAL COMMISSION STRUCTURE AND PROGRAMS

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

The Commission was charged to

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

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

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

The Commission by law directs at least half of its grant funds to projects that benefit economically distressed counties and areas in the Region. In part, ARC gauges its long-term progress toward helping the Region achieve economic parity with the nation in terms of the gradual reduction in the number of such counties and areas over time. The maps on page 21 show the Region's high-poverty counties in 1960 and current high-poverty counties. The change is dramatic.

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

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

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

ARC's appropriation for FY 2012 area development activities was $68.3 million. Appendix A provides a history of appropriations to the Commission.

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

Organization: The ARC Partnership Model

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

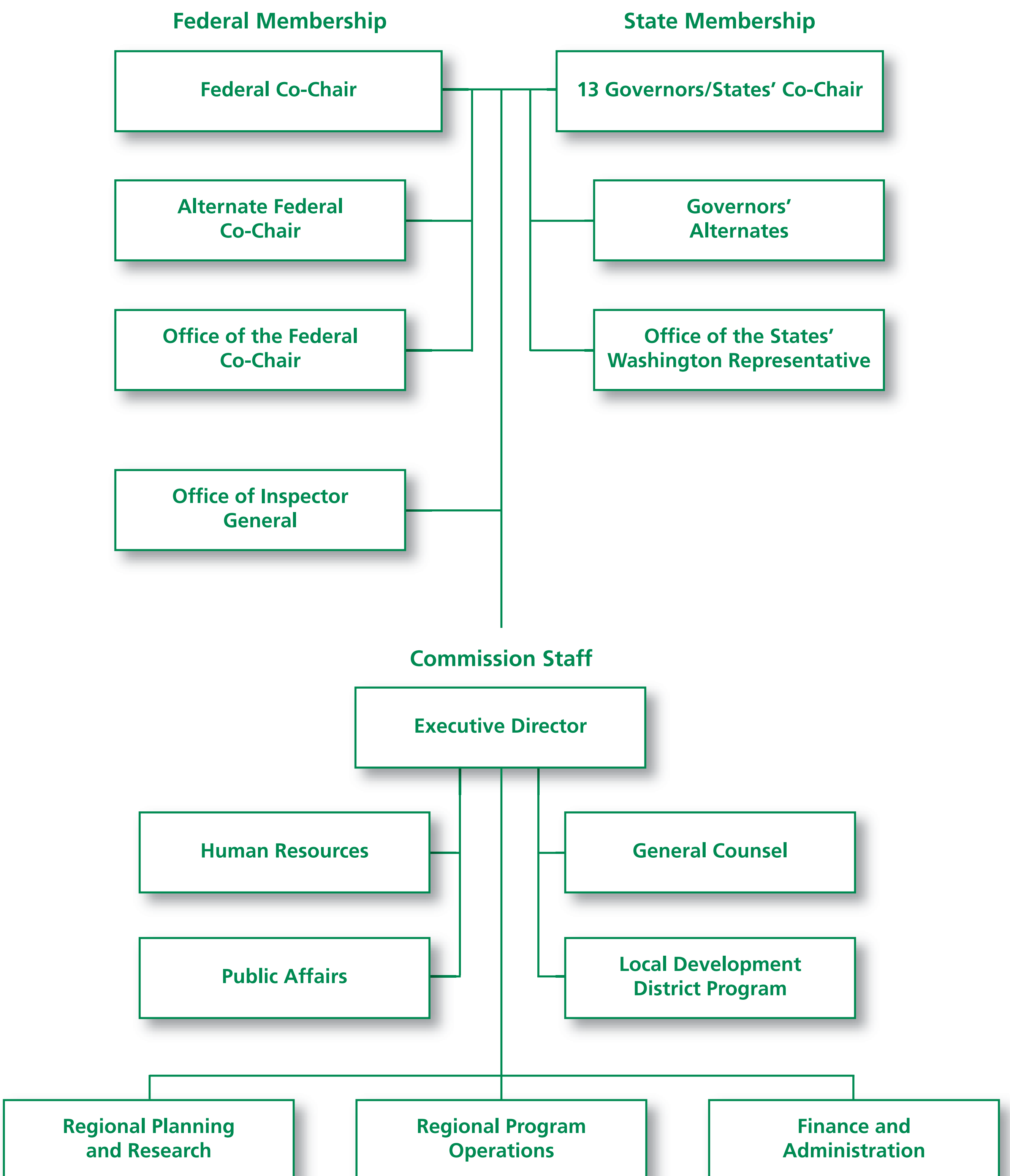
State alternates appointed by the governors oversee state ARC business and serve as state-level points of contact for those seeking ARC assistance. An alternate federal co-chair appointed by the president has authority to act as the federal co-chair in his or her absence.

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

In FY 2012, there were 11 federal positions at the Commission, including the federal co-chair's staff and the staff of the Office of Inspector General.

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

ARC Organization Chart



Public and Private Partnerships

ARC promotes economic and community development through a framework of joint federal and state initiatives. ARC's limited resources are necessary, but obviously not sufficient, for Appalachia to reach parity with the rest of the nation. Therefore, ARC continues a long tradition of building alliances among private and public organizations to focus technical, financial, and policy resources on regional problems. ARC's programs involve not only Appalachian governors' offices and state agencies, which control other substantial investment resources, but also 73 multi-county development districts in the Appalachian Region, up to 20 federal agencies, and a host of private organizations and foundations. The Commission further helps create alliances through research, regional forums, advisory councils, and community meetings.

A major focus for ARC in FY 2012 was the continued implementation of the Appalachian Regional Development Initiative (ARDI), a partnership between ARC and 13 federal agencies that works to strengthen and diversify the Appalachian economy and better coordinate federal efforts in the Region. In the fall of 2011, ARC, along with ARDI partners, conducted technical assistance workshops in West Virginia, Virginia, and Alabama to help communities learn about federal resources available for economic and community development, and strategies for the grant writing process. The workshops drew more than 600 participants from seven states. In FY 2012, ARC formed a focused collaboration under the ARDI partnership with the U.S. Environmental Protection Agency and USDA Rural Development to establish the Appalachian Livable Regions and Communities program, with the goal of improving the quality of life in the Region's rural communities by promoting economic development while preserving the local landscape. Through this program, technical assistance workshops were held in Georgia, Tennessee, and Pennsylvania, providing more than 150 community leaders with information on strategies communities can use to enhance their vitality and economic competitiveness. In addition, hands-on technical assistance consultations were begun in seven Appalachian communities to help local civic and development leaders plan the application of livability concepts and address development challenges.

The federal agencies participating with ARC in the ARDI are the U.S. Departments of Agriculture, Commerce, Education, Energy, Health and Human Services, Housing and Urban Development, the Interior, Transportation, and the Treasury; the U.S. Environmental Protection Agency; the U.S. Small Business Administration; the Corporation for National and Community Services; and the National Endowment for the Arts.

Other partnerships in FY 2012 included

- A joint program with the U.S. Department of Commerce to increase export sales from Appalachia.
- A partnership with the Centers for Disease Control and Prevention (CDC), the Bristol-Myers Squibb Foundation, and Marshall University in a diabetes education, prevention, and treatment program.
- A partnership with the CDC in a cancer-control program.
- A partnership with East Tennessee State University's Office of Rural and Community Health and Community Partnerships to conduct a grant competition for community-based substance abuse initiatives.

- A partnership with Microsoft to provide updated computer software to nonprofit organizations throughout the Region.

- Through the Appalachian Capital Policy Initiative, a partnership with the Federal Reserve Banks of Richmond, Cleveland, and Atlanta; the Office of the Comptroller of the Currency; and the Federal Deposit Insurance Corporation to help increase bank lending for business expansion and growth in Appalachia and to attract new sources of equity investment to the Region.

- A partnership with the Appalachia Funders Network, a consortium of 35 philanthropies, including the Ford Foundation, the Mary Reynolds Babcock Foundation, and the Claude Worthington Benedum Foundation, to support sustainable economic development in Central Appalachia.

- Participation in the Appalachian Regional Reforestation Initiative, a cooperative effort among federal agencies, industry, environmental organizations, academia, and landowners to establish high-quality forested land on reclaimed surface coal mine sites.

- A partnership with the U.S. Department of Agriculture, the U.S. Department of Commerce's Economic Development Administration, and the Delta Regional Authority to promote job creation and business innovation in rural communities.

In FY 2012, across all investment areas, each dollar of ARC funding was matched by $2.21 in non-ARC project funding (public and private) and leveraged $4.05 in private investment attracted as a result of the project.

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

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

Commission Activities: Getting the Job Done

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


Lloyd Wolf

ARC Strategic Plan

FY 2012 was ARC's second year of operating under its current strategic plan, *Moving Appalachia Forward: Appalachian Regional Commission Strategic Plan 2011–2016*, which outlined ARC's mission to be a strategic partner and advocate for sustainable community and economic development in Appalachia, and identified four strategic goals to help Appalachia reach socioeconomic parity with the rest of the nation:


Lloyd Wolf

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


Ken Murray

As reported in Part II, the Commission demonstrated progress in FY 2012 toward achieving the performance goals set out in that plan.

Area Development Program

Area development funds are largely allocated to the Appalachian states by formula to provide flexible assistance for individual community projects. In FY 2012, the Commission allocated by formula $58.0 million, 85 percent of the total ARC appropriation, for use by the states in their area development activities. The states have wide discretion in the use of these funds, within the framework of the strategic plan. Priorities for area development funding are set forth in the Commission's strategic plan, and state and community leaders work together to package funding from public and private organizations to implement those priorities. All ARC nonhighway grants are approved by a governor and by the federal co-chair. See Appendix B for ARC grants approved in FY 2012, by state and category.

Special Focus on Distressed Counties

The Commission targets special resources to the most economically distressed counties and areas in the Region, using a very conservative measure of economic distress based on three economic indicators: three-year average unemployment rates, per capita market income, and poverty rates. ARC uses an index-based classification system to compare each county in the nation with national averages on the three economic indicators. Based on that comparison, each Appalachian county is classified within one of five economic status designations—distressed, at-risk, transitional, competitive, or attainment.

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

In FY 2012, 96 counties were designated distressed, 90 were designated at-risk, 219 were designated transitional, 11 were designated competitive, and 4 were designated attainment. ARC policy stipulates that competitive counties may receive limited assistance, while attainment counties are generally not eligible for funding.

See page 22 for a map of Appalachian counties classified by economic status.

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

Regional Initiatives

Each year, the ARC partners identify a limited number of strategic objectives as regional initiatives. These initiatives support ARC's strategic plan by coordinating a concerted effort by the 13 Appalachian states and the federal government to address an area of critical importance. The initiatives can support and promote innovation in a particular goal area or focus on a sector of unique opportunity or underperformance. In FY 2012, in addition to providing special support for distressed counties, ARC identified regional initiatives on asset-based development, telecommunications, and export promotion.

The Asset-Based Development Initiative seeks to help communities identify and leverage local assets to create jobs and build prosperity. Focuses under this initiative in FY 2012 included the continued activities of the Appalachian Capital Policy Initiative, a regional effort to bring capital and credit to emerging and expanding businesses in the Region; the development of Appalachia's Food Economy, an effort to support value-added agricultural development; investments in the Region's business incubators; and support for entrepreneurship-education programming.

ARC's Telecommunications Initiative aims to increase the use of advanced telecommunications and broadband in the Region, and to bring broadband service to the Region's unserved areas. In FY 2012, ARC funded projects that support telemedicine, distance-learning, workforce development, and e-commerce development in the government and the private sector; projects that directly help communities and commercial-industrial areas gain access to high-speed telecommunications services; and projects that provide computers to high schools and community colleges. ARC also partnered with Microsoft to provide updated computer software to numerous nonprofit organizations throughout the Region.

ARC's Export Initiative works to increase exports from the Appalachian Region, focusing on promoting export sales from the Region's small and medium-sized enterprises. The initiative is coordinated through an advisory council that represents international trade offices from the 13 Appalachian states, and supports the National Export Initiative, aimed at doubling American exports. In FY 2012, ARC's Export Initiative provided support for Appalachian business delegations to attend four international trade events: a trade forum in Singapore aimed at helping expand American businesses export throughout Southeast Asia; a sales show in Shanghai, China, aimed at expanding the Appalachian Region's home furnishing and wood product exports; a trade mission to Mongolia aimed at promoting Appalachia's mining expertise; and a sales show in Beijing, China, to support increased exports of Appalachia's mining equipment, technology, and services. A total of 66 Appalachian businesses and organizations were represented at these events.

ARC invested more than $16.3 million in these three initiatives in FY 2012.

Business Development Revolving Loan Fund Grants

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

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

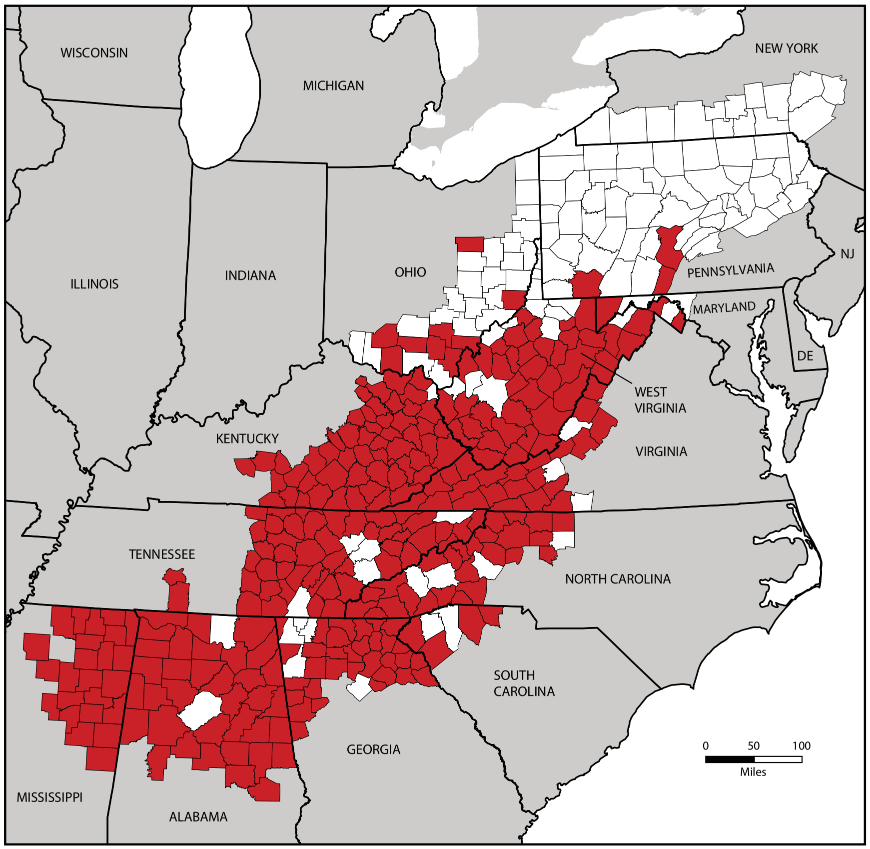
Since the first RLF grants were awarded, ARC-supported revolving loan funds have disbursed $158 million in 2,264 loans, resulting in 84,690 jobs created or retained and leveraging $1.3 billion in private investment for the Appalachian Region.

High-Poverty Counties in the Appalachian Region

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

1960

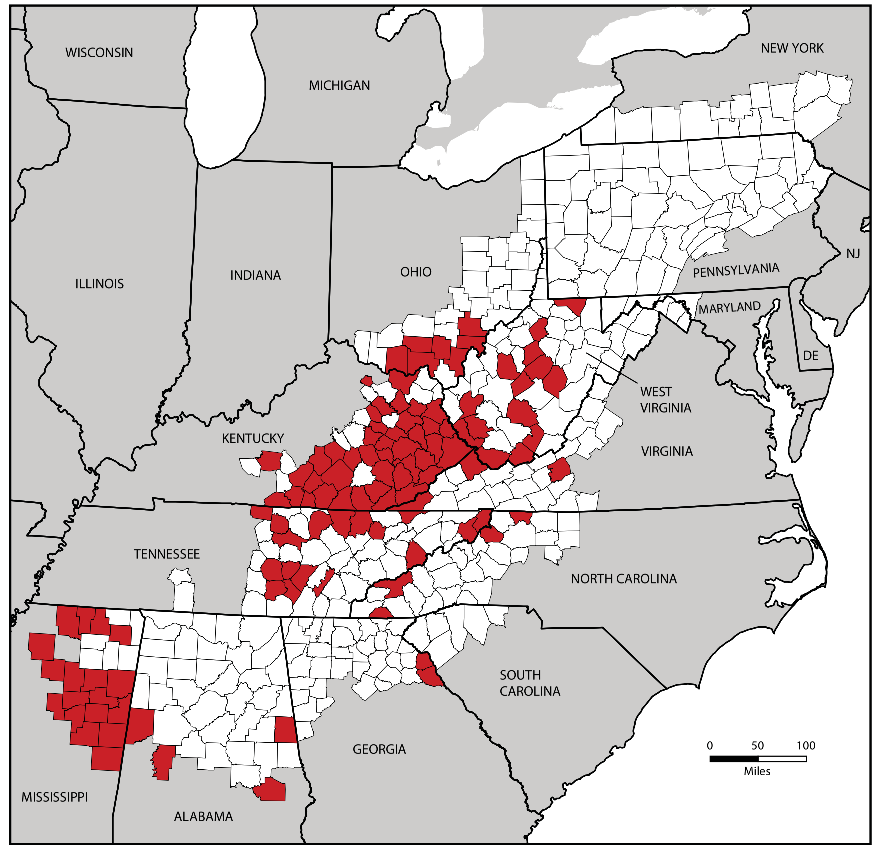
295 High-Poverty Counties



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

2006–2010

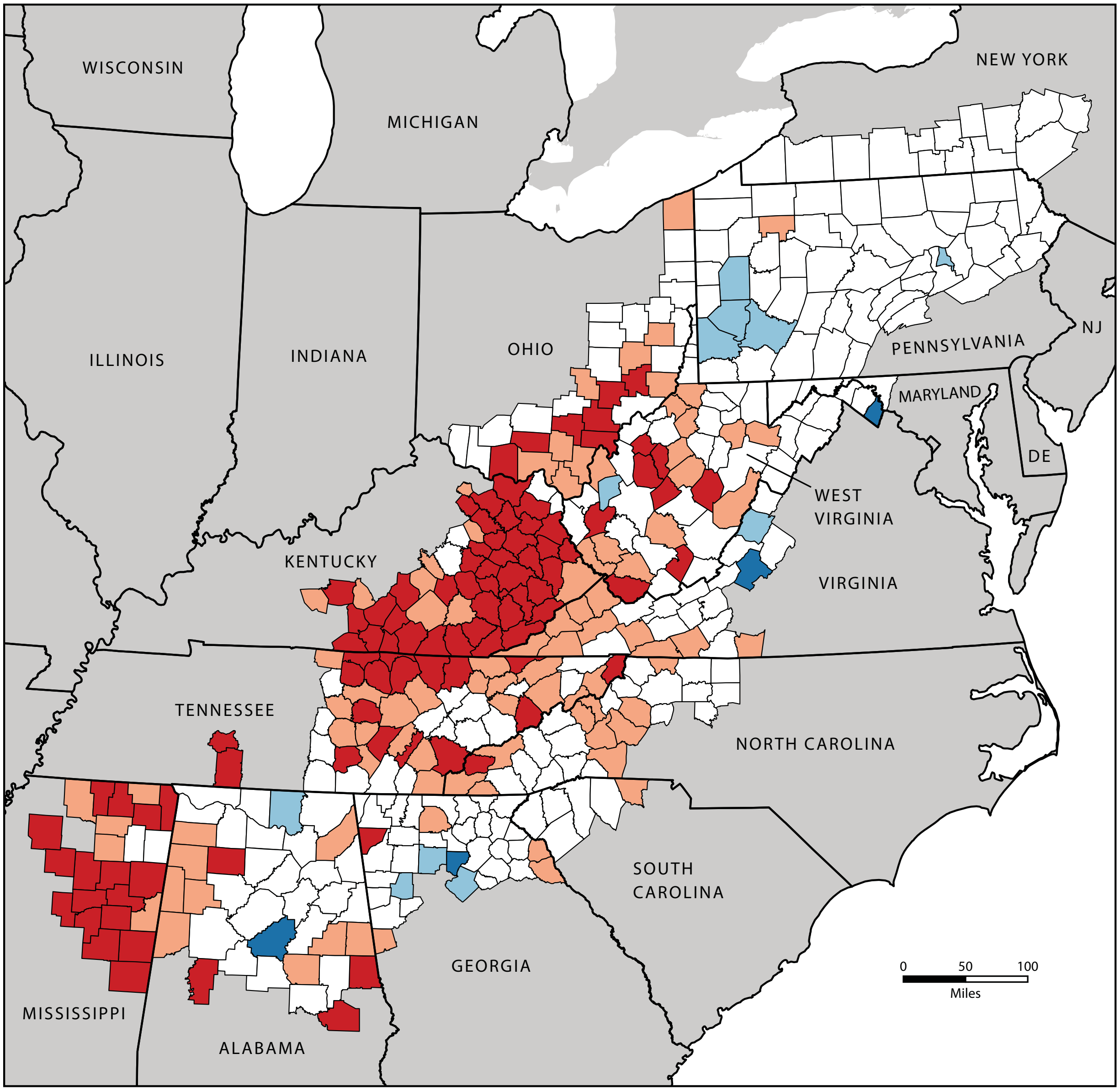
110 High-Poverty Counties



Data Source: U.S. Census Bureau, American Community Survey, 5-Year Estimates, 2006–2010.

County Economic Status in Appalachia, Fiscal Year 2012

(Effective October 1, 2011, through September 30, 2012)



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

County Economic Levels

- Distressed (96)
- At-Risk (90)
- Transitional (219)
- Competitive (11)
- Attainment (4)

Map Created: March 2011.
Data Sources: U.S. Bureau of Labor Statistics, LAUS, 2007–2009;
U.S. Bureau of Economic Analysis, REIS, 2008;
U.S. Census Bureau, American Community Survey, 2005–2009.

Highway Program: The Appalachian Development Highway System

Congress created the Appalachian Development Highway System (ADHS) expressly to provide growth opportunities for the residents of Appalachia—the same benefits afforded the rest of the nation through the construction of the interstate highway system, which largely bypassed Appalachia because of the high cost of building roads through the Region's mountainous terrain. The ADHS, a 3,090-mile system of modern highway corridors that replaces a network of worn, winding two-lane roads, was designed to generate economic development in previously isolated areas, supplement the interstate system, and provide access to areas within the Region as well as to markets in the rest of the nation and overseas. (See the map of the ADHS on page 24.)

Ken Murray

Authorizations for the ADHS in FY 2012 were provided through extension of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). The act authorized $438,776,680 for the ADHS in FY 2012. Although the funds are authorized from the Highway Trust Fund, ARC exercises policy control over the system. Appendices A and C provide information on ADHS authorizations and funding.

Ken Murray

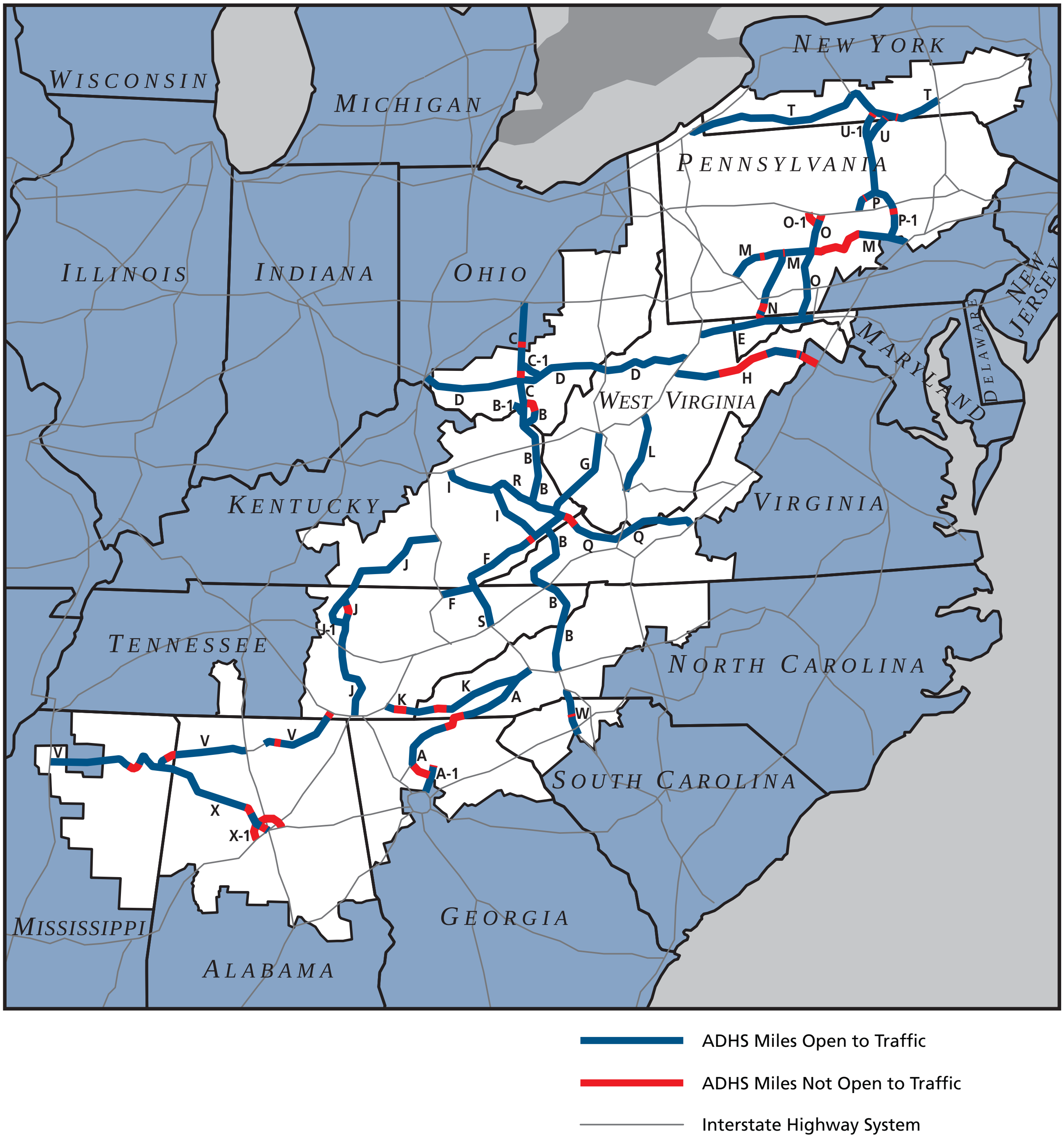
Local Development Districts

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

Each LDD is governed by a board of directors composed of both local elected officials and nonelected individuals. Many of these state-chartered entities were originally created by state executive orders, but over half are now authorized in state legislation. Some also have 501(c)(3) nonprofit status, enabling them to access support from foundations and other nonpublic sources. The LDDs play four key roles in the development of the Region:

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

Appalachian Development Highway System as of September 30, 2012



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

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

Research and Technical Assistance Activities

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

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

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

Research under way or completed in FY 2012 includes:

- *Access to Capital in Appalachia and the Impact of the Financial Crisis and Recession.* A review of capital funding types, levels, needs, and gaps in the Appalachian Region following the 2008–2010 financial crisis and recession, and measurement of the impact of the crisis on lending to small and medium-sized businesses in Appalachia. The study will analyze trends in lending and bank services among private banks and credit unions, foundations, development finance institutions, venture capital, and the U.S. Small Business Administration.

- *The Appalachian Region: A Data Overview from the 2006–2010 American Community Survey.* An examination of state- and county-level data on population, age, race and ethnicity, housing occupancy and housing tenure, education, labor force, employment and unemployment, income and poverty, and migration patterns for the 13 Appalachian states.

- *Program Evaluation of Investments in Education and Training*. An examination of how ARC education investments have impacted literacy and access to jobs, information, resources, and technology.

- *Assessment of Appalachian Natural Assets: Forests*. An evaluation of the contribution made by forests and wood products to sustainable economic growth in the Appalachian Region.

- *Economic Impact of Energy and Environmental Policy*. An analysis of the economic impact of energy strategies that were recommended in ARC's 2006 energy "blueprint," *Energizing Appalachia: A Regional Blueprint for Economic and Energy Development*, and a comparison of how the Appalachian Region will fare compared with the rest of the nation if these policies are implemented.

- *Health Care Costs and Access Disparities in Appalachia*. An examination of disparities in health-care access and costs, and health insurance coverage in Appalachia.

- *Household Wealth and Financial Security in Appalachia*. An analysis of recent trends in household wealth and asset poverty in Appalachia that will determine the extent to which the Region has been affected by troubled loans, bankruptcies, foreclosures, and other measures of financial distress; and examine how changes in household wealth and distribution will affect future economic growth and opportunity in the Region.

- *Strategies for Economic Improvement in Appalachia's Distressed Rural Counties*. A comparison of strategies for economic development and identification of factors that contributed to success, as well as factors that inhibited growth, in Appalachia's distressed rural counties.

- *Assessment of Appalachian Natural Assets: Water*. An inventory of aquatic assets that measures water quantity, quality, value, access, and usage, and an evaluation of their potential contribution to the economic development of the Region.

- *Energy Workforce Trends and Training Needs in Appalachia*. An assessment of workforce trends and training requirements to meet the needs of the increasingly diversified energy industry in the Appalachian Region.

- *Planning and Financing Energy-Efficient Infrastructure in Appalachia*. An examination of ways for municipalities and utilities to implement energy efficiency upgrades to existing public infrastructure and buildings that reduce costs, promote public health, and stimulate job creation and economic development.

- *An Analysis of Oral Health Disparities and Access to Services in the Appalachian Region*. Identification and analysis of disparities and trends in access to oral health care, the supply of dentists and other oral health-care providers relative to the population served, state programs, policies, and practices regarding dental hygienists and dental assistants, and Medicaid coverage for oral health preventive and treatment services in Appalachia.

- *College Completion Metrics for Appalachian Colleges and Universities*. An analysis of completion metrics data summarizing student progress and outcomes to better understand patterns of college going, persistence, and completion in Appalachia.

- *Program Evaluation of the Appalachian Regional Commission's Health Projects*. A study of approximately 230 health-related projects funded from FY 2004 through FY 2010 throughout the Appalachian states that will evaluate the performance of ARC health investments and assess the utility and validity of specific performance measurements for monitoring and evaluating health projects. This evaluation will also indentify ways to better develop, assess, and manage health projects and investments, and enhance ARC's capability to document and report program impacts.

- *Strategies for Economic Diversification in Appalachian Counties*. An evaluation of economic diversification in Appalachia that will analyze and compare strategies for successful economic diversification in rural areas, and customize a set of detailed strategies and best practices that can be implemented in the Appalachia Region to enhance economic performance through a more diversified portfolio of industry opportunities.

- *Program Evaluation of ARC Infrastructure and Public Works Projects*. An evaluation of approximately 500 infrastructure projects funded since 2004, including water and sewer, access road, transportation, industrial park and site, gas line, and telecommunications projects, that will verify reported project outcomes, assess the utility and validity of specific performance measurements for monitoring and evaluating infrastructure projects, and use project performance data to estimate long-range economic impacts.

Impediments to Progress

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

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

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

Civic Capacity

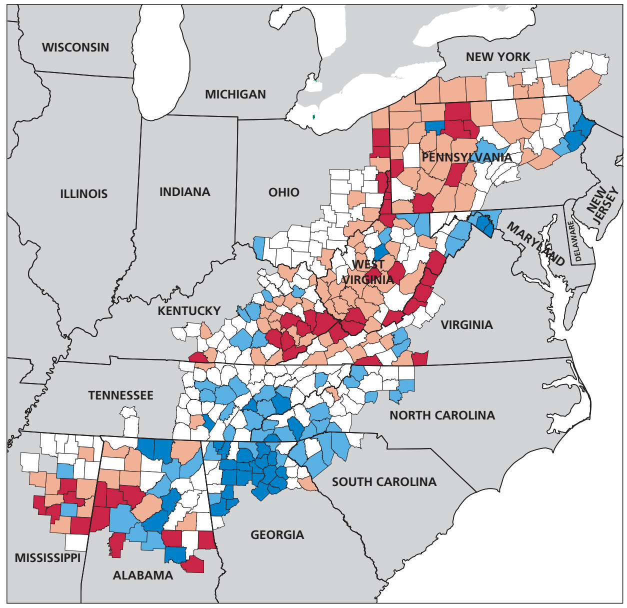
Civic capacity is vital for communities to be strategically ready to take advantage of economic opportunities. Weakness in civic capacity in Appalachia has inhibited the broad citizen involvement, local strategic planning, and collaboration necessary for a sense of empowerment and civic engagement. Low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

Economic and Demographic Shifts

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

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

Percent Change in Population in Appalachian Counties, 2000–2010



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

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

- Population growth in Appalachia between 2000 and 2010 was 6.8 percent, compared with 9.7 percent for the nation. More than 76 percent of Appalachian counties had lower rates of population growth than the nation as a whole.
- In 2010, nearly two-thirds of Appalachian counties had unemployment rates higher than the national average.
- The unemployment rate averaged 9.0 percent in Appalachia in the second quarter of 2011, compared with 8.9 percent for the nation as a whole.
- Of the 420 counties in Appalachia, only 35 registered positive employment growth from the fourth quarter of 2007 to the fourth quarter of 2010.
- Appalachia lost 474,000 manufacturing jobs between 2000 and 2008, a loss of 24.6 percent.
- During the recent recession, the Region lost 800,000 jobs, all the jobs gained since 2000.
- More than 190,000 Appalachians gave up searching for jobs and left the labor force between the third quarter of 2008 and the third quarter of 2010.
- Employment growth in Appalachia averaged only 0.7 percent per year during the economic expansion from 2001 to 2007, compared with 1.1 percent per year for the nation as a whole.
- Per capita personal income was roughly 20 percent lower in Appalachia than in the nation as a whole in 2010. This is true of average wages and salaries, as well as average earnings.

Access to Capital and Credit

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

Underinvestment

Research preceding the creation of ARC found that for many reasons, including dearth of leadership and lack of financial and technical resources, Appalachia had not been in a position to take advantage of many federal programs that could help mitigate long-standing problems, much less focus public investment on the areas of greatest need. The Appalachian Region receives far less federal investment per capita than the nation as a whole. Analyses of the *Consolidated Federal Funds Report for Fiscal Year 2010* found that per capita federal expenditures were 31 percent less in Appalachia than in the nation as a whole. This represents a gap of $5,134 per person.

Water and Wastewater Systems

Most Americans don't realize that access to basic water and wastewater systems remains a critical issue in many smaller, poorer communities in Appalachia. Seventy-four percent of the Appalachian population is covered by community water systems, compared with 85 percent for the nation as a whole. Appalachian counties require an investment of $26 billion to $40 billion for drinking water and wastewater system infrastructure needs, according to an ARC-funded study published in August 2005.

Small, rural Appalachian communities also face higher investment requirements to address pressing economic development needs while meeting environmental standards. Communities experiencing declining customer bases and low household incomes cannot rely on construction loans (and the resulting rate increases) to meet capital investment needs. The local ability to pay is particularly low in Appalachia, where per capita income was roughly 20 percent lower than the national average in 2010. Per capita income was only 67 percent of the national average in Appalachian Kentucky and 70 percent in Appalachian Mississippi in 2010. Many Appalachian communities need additional technical, managerial, and financial assistance to meet their future needs.

Telecommunications

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

Education and Workforce Skills

Vigorous job growth will not occur in areas that lack an educated workforce. Global competition is reinforcing the economic premium on workers in knowledge-based industries, leaving low-skilled or unskilled U.S. workers increasingly vulnerable. ARC seeks to increase the employability and productivity of Appalachia's workers, and to attract educated and skilled workers to the Region. Doing so will require considerable improvement in both educational attainment and educational achievement at all levels.

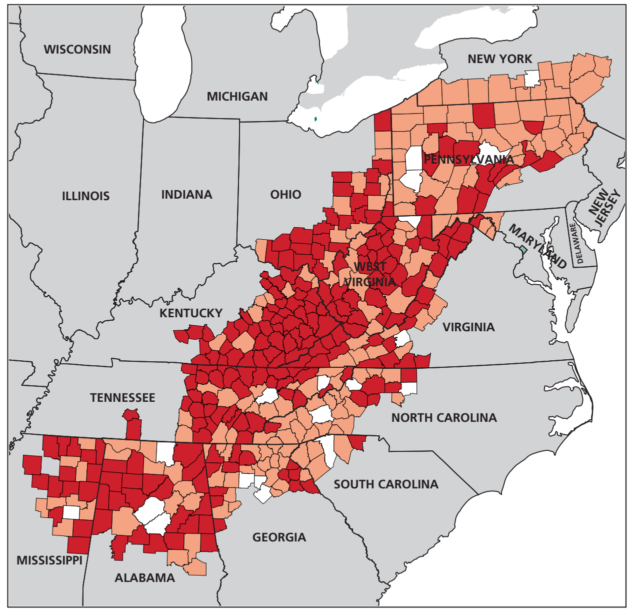
According to the Bureau of Labor Statistics, the 30 fastest-growing occupations require at least some post-secondary education or training. Many areas of the Region do not have the state-of-the-art equipment and/or the capacity to train the number of workers needed for these high-growth occupations.

The post-secondary education attainment gap between Appalachia and the rest of the nation has widened: in 1990 the difference between the Region's and the nation's share of adults with college degrees was 6.0 percentage points; in 2010, according to U.S. Census Bureau estimates, the gap had increased to 7.2 percentage points.

Health Care

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

Appalachian Counties with Low College Completion Rates



Percent of Adults Completing a Bachelor's Degree or Higher

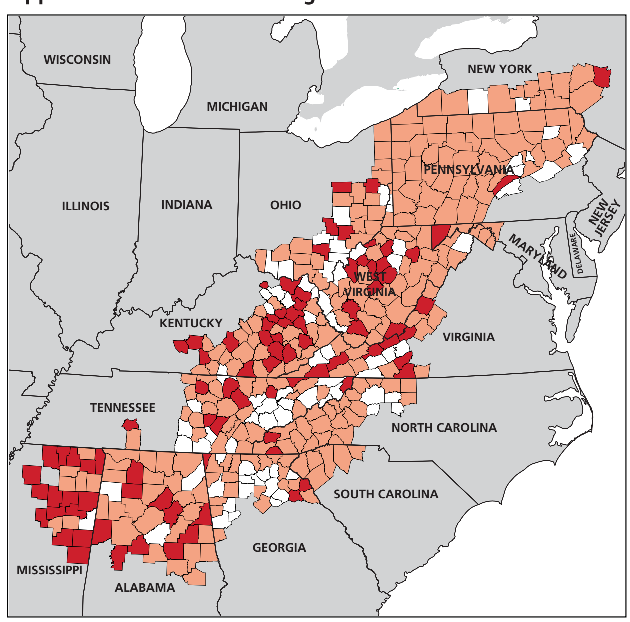
Counties Below Half the U.S. Average

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

Counties At or Above the U.S. Average

Data Source: U.S. Department of Commerce, Census Bureau, ACS, 2006–2010.

Appalachian Counties Lacking Access to Health Care



Counties Fully Designated as a Health Professional Shortage Area (HPSA)

Counties Partially Designated as a HPSA

Counties Not Designated as a HPSA

Data Source: U.S. Department of Health and Human Services, Health Resources and Services Administration, Bureau of Health Professions, November 2012.

SUMMARY OF ACHIEVEMENTS

Performance Goals and Results for Fiscal Year 2012 Projects

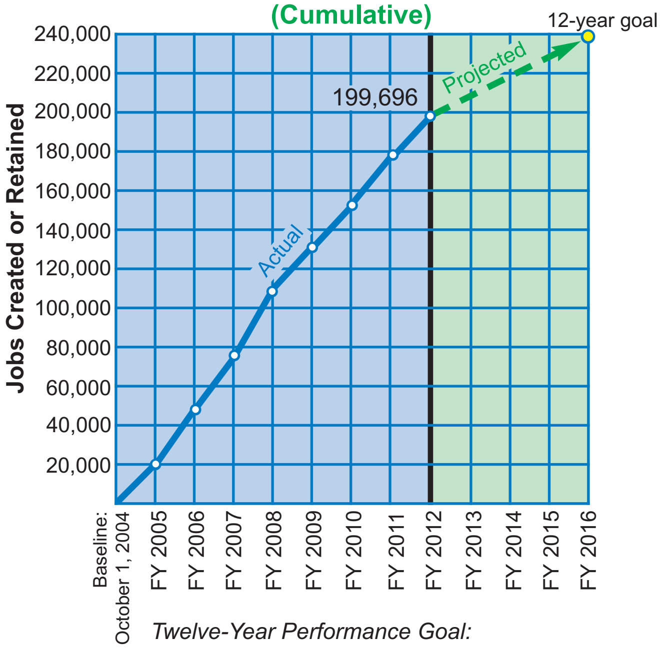
ANNUAL PERFORMANCE GOALS	FISCAL YEAR 2012 INTERMEDIATE ESTIMATES	RESULTS ACHIEVED
Jobs and Income		
Outcome Goal: 20,000 jobs created or retained	20,112 jobs created or retained	Met goal
Leveraging Goal: Achieve a 4:1 ratio of leveraged private investment to ARC investment for projects in General Goal 1	Achieved a 4:1 ratio	Met goal
Targeting Goal: Direct 50% of grant funds to benefit distressed counties or areas for projects in General Goal 1	Directed 35% of funds*	Met 70% of goal
Competitiveness		
Outcome Goal: 20,000 students/ trainees with improvements	20,315 students/trainees with improvements	Met goal
Matching Goal: Achieve a 1:1 ratio of non-ARC to ARC investment for projects in General Goal 2	Achieved a 1:1 ratio	Met goal
Targeting Goal: Direct 50% of grant funds to benefit distressed counties or areas for projects in General Goal 2	Directed 83% of funds*	Exceeded goal
Infrastructure		
Outcome Goal: 20,000 households served	19,708 households served	Met 99% of goal
Matching Goal: Achieve a 2:1 ratio of non-ARC to ARC investment for projects in General Goal 3	Achieved a 4:1 ratio	Exceeded goal
Targeting Goal: Direct 50% of grant funds to benefit distressed counties or areas for projects in General Goal 3	Directed 60% of funds*	Exceeded goal
Highways		
Outcome Goal: 25 additional miles (net increase) of the ADHS opened to traffic	Opened 0 additional miles (net increase) of the ADHS to traffic**	Met 0% of goal

** In FY 2012, 57 percent of total grant funds were directed to projects that benefit distressed counties or areas. Project funds are included if the project primarily or substantially benefits distressed counties or areas.*

*** Although no miles were opened to traffic in FY 2012, 3 miles were completed but not yet opened, and another 10 miles were opened to traffic in October, just after the end of the fiscal year.*

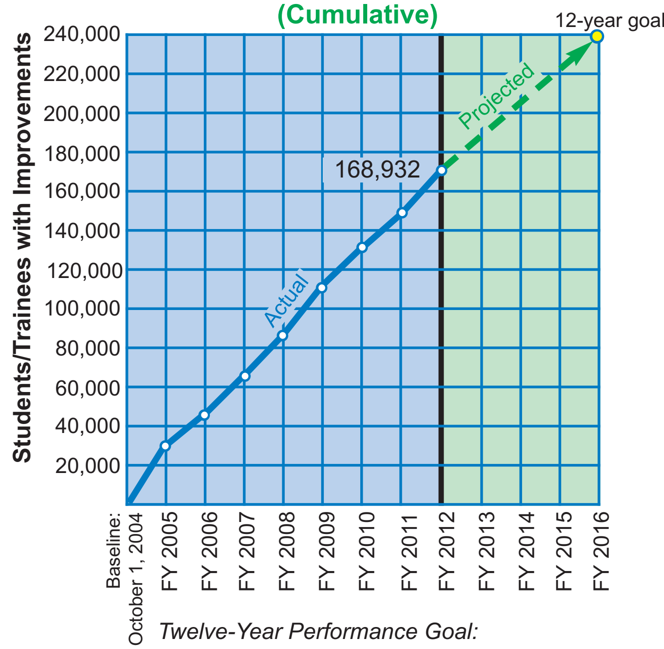
Progress toward ARC Strategic Plan Performance Goals
Fiscal Years 2005–2016

Goal 1: Jobs Created or Retained (Cumulative)



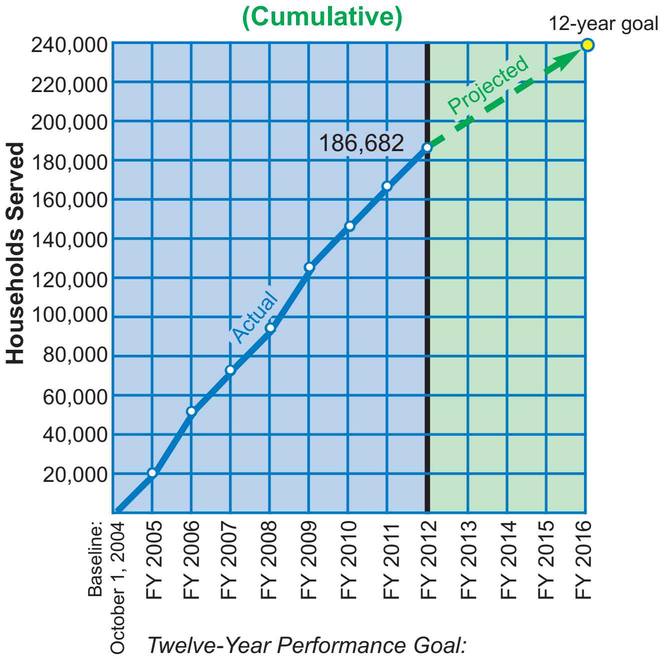
Twelve-Year Performance Goal:
240,000 jobs will be created or retained.

Goal 2: Students/Trainees with Improvements (Cumulative)



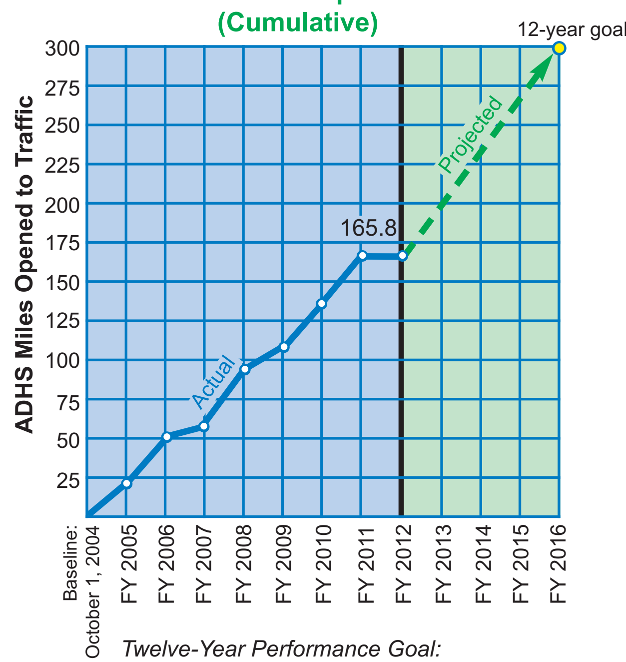
Twelve-Year Performance Goal:
240,000 citizens will benefit from enhanced education and job-related skills.

Goal 3: Households Served (Cumulative)



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

Goal 4: ADHS Miles Opened to Traffic (Cumulative)



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

FINANCIAL MANAGEMENT

Financial Management System

In FY 2012 the Appalachian Regional Commission renewed its contract with the GSA External Services Division to perform the Commission's accounting and financial reporting. ARC supplements these financial services with a management information system, ARC.net, that provides real-time funding, grant-status, and performance-measurement information, as well as grant-related financial data, in an intranet environment available to staff and key state officials. ARC.net applications are built using an industry-standard programming language.

Management's Responsibility for Internal Control

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

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

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

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

ARC is pleased to report that it received an unqualified opinion from its independent auditor, Martin and Wall, a division of Chortek and Gottschalk, LLP, on the fiscal year 2012 financial statements provided in this Performance and Accountability Report.

MANAGEMENT ASSURANCES

Overall Internal Control

The Appalachian Regional Commission's management is responsible for establishing and maintaining effective internal control and management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). The Commission conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*. Based on this evaluation, the Commission can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2012, was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

Internal Control over Financial Reporting

ARC conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with OMB Circulars A-123, *Management's Responsibility for Internal Control*, and A-136, *Financial Reporting Requirements*. Based on the results of this evaluation and that of the Commission's independent auditors, ARC can provide reasonable assurance that internal control over financial reporting as of September 30, 2012, was operating effectively, and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

Management Follow-Up to Inspector General Recommendations

At the start of the fiscal year, implementation actions were continuing on recommendations made in prior audit reports. During FY 2012, the OIG issued 27 reports related to financial statements, grantee activities, and grant management, including status of grant funds. The total dollar value of grants and payments reviewed during FY 2012 was approximately $39 million, with approximately $831,000 in questioned or unsupported costs. By the end of the fiscal year, management decisions had been made regarding all issued reports, recommendations had been resolved, and seven reports remained open pending final actions.

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

Funding Waivers

As mentioned in the section "Appalachian Regional Commission Structure and Programs," the Commission restricts project funding for economically strong counties. Section 14526 of the Appalachian Regional Development Act authorizes the Commission to grant waivers under certain conditions. In FY 2012, no waivers were granted.

SUMMARY OF FINANCIAL STATUS

Part III of this Performance and Accountability Report includes information about the financial status of the Appalachian Regional Commission. In the unqualified opinion of ARC's independent auditor, Martin and Wall, a division of Chortek and Gottschalk, LLP, the financial statements included in that section fairly represent, in all material respects, the financial position of the Commission as of September 30, 2012, and ARC's net costs, changes in net position, and budgetary resources for the year ended in conformity with U.S. generally accepted accounting principles (GAAP) and OMB Circular A-136. The financial statements taken together include all aspects of ARC, including the Office of the Federal Co-Chair, area development programs, and administrative/operational activities performed by the Commission.

Assets on September 30, 2012, totaled $199.2 million, versus $209.3 million in FY 2011. The reduction was due to a decrease in the fund balance with the U.S. Department of the Treasury, which was partially offset by increases in intragovernmental and grantee advances. Liabilities equaled $8.9 million in FY 2012 versus $8.4 million in FY 2011. The increase was due to an increase in the grantee accrual amount. Seventy-seven percent of ARC's assets were in the U.S. Treasury. In addition, 13.9 percent, or $27.8 million, represented Commission grant funds held by intermediary organizations in Appalachia for the operation of revolving loan funds promoting business development. The federal government retains a residual interest in the loan funds. ARC also advanced funds equaling $12.6 million to three federal agencies for the purpose of servicing grants. Remaining assets are cash and advances to grantees.

The net position decreased from $200.9 million in FY 2011 to $190.3 million in FY 2012. This decrease was due to an increase in the amount of appropriations used in the form of grantee obligations.

Liabilities included $7.7 million in payments due to grantees, $904,548 in accrued benefits and pension liability, and $246,275 in other agency transactions.

The net cost of operations for FY 2012 totaled $78.8 million, the same as in FY 2011. The statement of changes in net position was broken down between an earmarked fund and all other funds. The earmarked fund represents the operating costs of the Commission, of which 50 percent is paid by ARC's congressional appropriation and 50 percent by the 13 Appalachian states. Commission operating costs exclude costs for the Office of the Federal Co-Chair and the Office of Inspector General, which are fully covered by congressional appropriations. The net position of the earmarked fund was $2.8 million, and the consolidated net position was $190.3 million.

ARC receives most of its resources from congressional appropriations, which totaled $68.3 million in FY 2012. In addition, ARC received $4.1 million from the 13 member states to pay for the Commission's operating costs. The statement of budgetary resources reported net outlays of $88.2 million. ARC incurred obligations of $85.3 million in FY 2012 and has an unpaid obligated balance (net, end of period) of $130.1 million. Of FY 2012 obligations, $77.1 million funded ARC's Area Development Program, $8.2 million funded the Commission Trust Fund, and the remainder was directed to the Appalachian Development Highway System.

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

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

PART II:
FISCAL YEAR 2012 PERFORMANCE REPORT

INTRODUCTION

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

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

To meet GPRA requirements, ARC has defined performance measures and goals for all major ARC operations. In FY 2012, ARC

- Collected and entered state estimates of results for FY 2012 into a database as part of daily operations and project management;
- Validated results of a sample of projects funded in FY 2009 and FY 2010 through field visits and interviews with those managing the projects; and
- Conducted independent evaluations to ascertain the benefits of projects.

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

The four general goals from ARC's 2011–2016 strategic plan, *Moving Appalachia Forward*, were used to evaluate performance in FY 2012.

FY 2012 Outcome Goals and Intermediate Results	
ANNUAL OUTCOME GOAL	**INTERMEDIATE ESTIMATES**
20,000 Jobs Created or Retained	20,112 Jobs Created or Retained
20,000 Students/Trainees with Improvements	20,315 Students/Trainees with Improvements
20,000 Households Served	19,708 Households Served
25 Additional Miles (Net Increase) of the ADHS Opened to Traffic	0 Additional Miles (Net Increase) of the ADHS Opened to Traffic

The following sections of this report present an overview of the Appalachian Regional Commission, a list of ARC goals and objectives, a description of the methodology employed to monitor project outcomes in compliance with the GPRA, the estimated outcomes for projects funded in FY 2012 and each of the three prior fiscal years, and the results of project validation samplings and project evaluations.

OVERVIEW OF ARC

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

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

Organizational Structure

The Appalachian Regional Commission is a regional economic development agency representing a unique partnership of federal, state, and local governments designed to address local needs in Appalachia. ARC was established by an act of Congress and operates under congressional authorizations. In October 2008, the president approved legislation that reauthorized the Commission for five years, through FY 2012, and added ten counties to the Region.

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

Project Funding

ARC funds more than 400 projects annually throughout the 13-state Appalachian Region. All of the projects must address one of the four goals in ARC's 2011–2016 strategic plan: increase job opportunities and per capita income in Appalachia to reach parity with the nation; strengthen the capacity of the people of Appalachia to compete in the global economy; develop and improve Appalachia's infrastructure to make the Region economically competitive; and build the Appalachian Development Highway System to reduce Appalachia's isolation. ADHS projects are funded through the Federal Highway Administration of the U.S. Department of Transportation. The Commission's strategic plan identifies the goal areas as the basic building blocks of sustainable economic development in the Region.

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

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

GENERAL GOALS AND OBJECTIVES

In accordance with its 2011–2016 strategic plan, ARC organizes its funding policies and administration around four goals to carry out its mission. Strategic objectives under each goal embody core ARC policies.

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

Strategic Objectives

1.1: Develop Leaders and Strengthen Community Capacity
1.2: Diversify the Economic Base
1.3: Enhance Entrepreneurial Activity in the Region
1.4: Develop and Market Strategic Assets for Local Economies
1.5: Increase the Domestic and Global Competitiveness of the Existing Economic Base
1.6: Foster the Development and Use of Innovative Technologies
1.7: Capitalize on the Economic Potential of the Appalachian Development Highway System
1.8: Encourage Sustainable Economic Use of Natural Resources
1.9: Encourage Investments in Energy Projects that Create Jobs

Outcome measure: Number of jobs created or retained.

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

Strategic Objectives

2.1: Develop Leaders and Strengthen Community Capacity
2.2: Enhance Workforce Skills through Training and Education
2.3: Increase Access to Quality Child Care and Early Childhood Education
2.4: Increase Educational Attainment and Achievement
2.5: Expand Community-Based Wellness and Disease-Prevention Efforts
2.6: Increase the Availability of Affordable, High-Quality Health Care

Outcome measure: Number of students/trainees with improvements.

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

Strategic Objectives

3.1: Develop Leaders and Strengthen Community Capacity

3.2: Build and Enhance Basic Infrastructure

3.3: Increase the Access to and Use of Telecommunications Technology

3.4: Preserve and Enhance Environmental Assets

3.5: Promote the Development of an Intermodal Transportation Network

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

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

Strategic Objectives

4.1: Develop Leaders and Strengthen Community Capacity

4.2: Promote the Successful Development of the Appalachian Development Highway System (ADHS)

4.3: Improve Planning to Enhance Multi-Jurisdictional Coordination and Efficiency

4.4: Encourage Intermodal Coordination

4.5: Enhance the Energy Efficiency of the Transportation System

4.6: Develop a Transportation System that Enhances and Preserves the Region's Environmental Quality

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

PERFORMANCE MEASUREMENT METHODOLOGY

Overview of ARC's Performance Measurement System

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

ARC's performance measurement system has three components:

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

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

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

Project Data Collection and Analysis

Annual Performance Goals and Measures

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

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

To address reporting requirements, ARC reports results toward reaching these three performance goals in four program categories (jobs and income, competitiveness, infrastructure, and highways) that reflect priorities within the Commission's four general goals. Although the projects funded by ARC each year generate many more measures than those reported for GPRA compliance, the measures reported relate uniquely to ARC's four general goals and to its mission (see table on page 47).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Intermediate Results

Intermediate results presented in this report are derived from estimates in project applications, as reported by grantees. When projects are closed, actual results to date are recorded; however, some estimates are based on three-year projections. More accurate results are obtained when ARC staff validate a sample of projects two to three years after initial funding. The validity of final numbers is sampled during periodic project evaluations (see page 48).

Data Analysis

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

ARC Performance Measurement Framework
Fiscal Year 2012

Program Category	JOBS AND INCOME	COMPETITIVENESS	INFRASTRUCTURE	HIGHWAYS
Twelve-Year Goals	**Increase job opportunities and per capita income in Appalachia to reach parity with the nation.** **Outcome Goal 2012–2023:** Create or retain 240,000 jobs.	**Strengthen the capacity of the people of Appalachia to compete in the global economy.** **Outcome Goal 2012–2023:** Provide 240,000 Appalachian citizens with enhanced education/skills.	**Develop and improve Appalachia's infrastructure to make the Region economically competitive.** **Outcome Goal 2012–2023:** Provide new or improved water/sewer services to 240,000 households.	**Build the Appalachian Development Highway System to reduce Appalachia's isolation.** **Outcome Goal 2012–2023:** Open 300 additional miles (net increase) of the ADHS to traffic.
FY 2012 Goals	***Performance Goals*** **Outcome Goal:** Create or retain 20,000 jobs for Appalachians. **Leveraging Goal:** Achieve a 4:1 ratio of leveraged private investment (non-project investment) to ARC project funding. **Targeting Goal:** Direct 50% of grant funds to projects that benefit distressed counties or areas.	***Performance Goals*** **Outcome Goal:** Position 20,000 Appalachians for enhanced employability. **Matching Goal:** Achieve a 1:1 ratio of non-ARC project funding to ARC project funding. **Targeting Goal:** Direct 50% of grant funds to projects that benefit distressed counties or areas.	***Performance Goals*** **Outcome Goal:** Provide 20,000 households with basic infrastructure services. **Matching Goal:** Achieve a 2:1 ratio of non-ARC project funding to ARC project funding. **Targeting Goal:** Direct 50% of grant funds to projects that benefit distressed counties or areas.	***Performance Goal*** **Outcome Goal:** Open 25 additional miles (net increase) of the ADHS to traffic.
Input and Activities	**Key Strategies and Activities:** Promote economic diversification through advocacy, regional forums, information sharing, training, and cooperative funding. Target entrepreneurship development and business support.	**Key Strategies and Activities:** Increase employability by identifying and replicating exemplary projects, expanding alliances with other organizations, and providing funding leadership. Focus on college-going rates, worker skills, science/math education, school readiness, and high school completion rates. Address health access issues.	**Key Strategies and Activities:** Seek highly leveraged and collaborative funding for basic infrastructure projects, emphasizing clean water and waste disposal. Expand telecommunications infrastructure through advocacy, knowledge sharing, and targeted funding.	**Key Strategy:** Work to complete the ADHS in close cooperation with state and federal partners as Highway Trust Fund financing becomes available.

Project Validation

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

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

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

Project Evaluations: Final Results

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

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

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

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

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

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

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

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

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

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

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

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

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

Per Capita Income

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

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

- *Distressed counties* are those that rank in the worst 10 percent of the nation's counties.

- *At-Risk counties* rank between the worst 10 percent and the worst 25 percent of the nation's counties.

- *Transitional counties* rank between the worst 25 percent and the best 25 percent of the nation's counties.

- *Competitive counties* rank between the best 10 percent and the best 25 percent of the nation's counties.

- *Attainment counties* are those that rank in the best 10 percent of the nation's counties.

In FY 2012, 96 counties were designated distressed, 90 were designated at-risk, 219 were designated transitional, 11 were designated competitive, and 4 were designated attainment.

Performance Goals and Results

General Goal 1 is aligned with the annual performance goals listed under the program category "jobs and income." (See page 47.)

Outcome Goal

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

Annual outcome goal for FY 2012: Create/retain 20,000 jobs for Appalachians.

Results for FY 2012: Met goal.

Outcome Goal: Create/Retain 20,000 Jobs for Appalachians	
ANNUAL OUTCOME GOAL	INTERMEDIATE ESTIMATES
FY 2009: 20,000 Jobs Created/Retained	FY 2009: 21,183 Jobs Created/Retained
FY 2010: 20,000 Jobs Created/Retained	FY 2010: 23,439 Jobs Created/Retained
FY 2011: 20,000 Jobs Created/Retained	FY 2011: 22,816 Jobs Created/Retained
FY 2012: 20,000 Jobs Created/Retained	**FY 2012: 20,112 Jobs Created/Retained**

Leveraging Goal

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

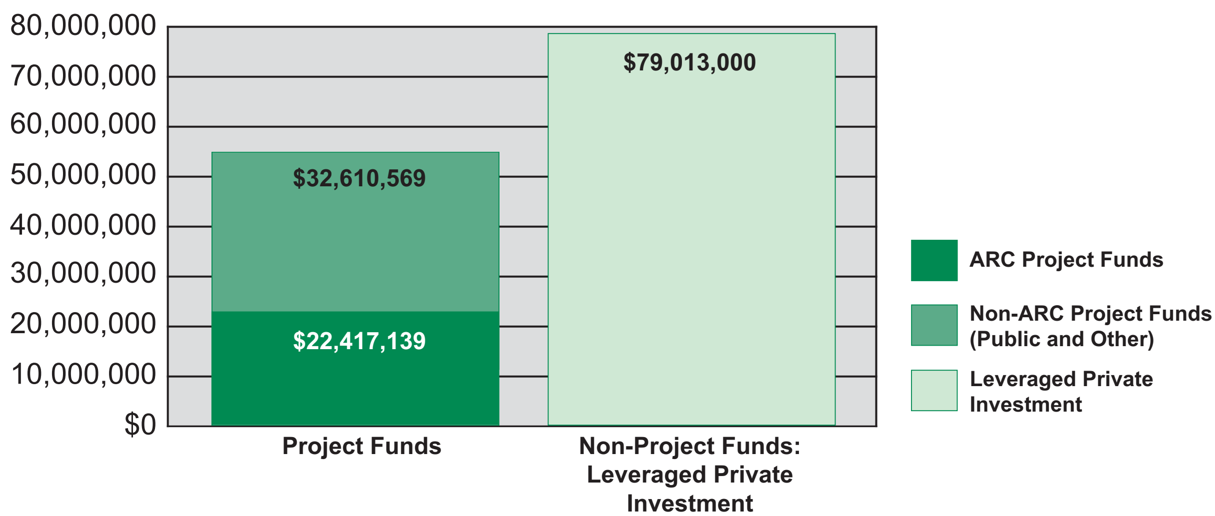
Annual leveraging goal for FY 2012: Achieve a 4:1 ratio of leveraged private investment to ARC investment.

Results for FY 2012: Met goal.

Leveraging Goal: Achieve a 4:1 Ratio of Leveraged Private Investment to ARC Investment	
ANNUAL OUTCOME GOAL	INTERMEDIATE ESTIMATES
FY 2009: Achieve a 4:1 ratio of leveraged private investment to ARC investment.	**FY 2009:** Achieved a 3:1 ratio.
FY 2010: Achieve a 4:1 ratio of leveraged private investment to ARC investment.	**FY 2010:** Achieved a 4:1 ratio.
FY 2011: Achieve a 4:1 ratio of leveraged private investment to ARC investment.	**FY 2011:** Achieved a 3:1 ratio.
FY 2012: Achieve a 4:1 ratio of leveraged private investment to ARC investment.	**FY 2012:** Achieved a 4:1 ratio.

In FY 2012, ARC's General Goal 1 grant funds of $22,417,139 attracted non-project leveraged private investment of $79,013,000, and $32,610,569 in matching project funds from public and other sources.

Funding and Leveraged Private Investment for General Goal 1 Projects in Fiscal Year 2012



Targeting Goal

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

Annual targeting goal for FY 2012: Direct 50 percent of all ARC grant funds to projects that benefit distressed counties or areas.

Results for FY 2012: In FY 2012, 35 percent of General Goal 1 grant funds were directed to projects that benefit distressed counties or areas. A total of 57 percent of all FY 2012 grant funds were directed to projects that benefit distressed counties or areas.

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

ANNUAL TARGETING GOAL	INTERMEDIATE ESTIMATES*
FY 2009: Direct 50% of grant funds to projects that benefit distressed counties or areas.	**FY 2009:** Directed 47% of General Goal 1 funds.
FY 2010: Direct 50% of grant funds to projects that benefit distressed counties or areas.	**FY 2010:** Directed 45% of General Goal 1 funds.
FY 2011: Direct 50% of grant funds to projects that benefit distressed counties or areas.	**FY 2011:** Directed 54% of General Goal 1 funds.
FY 2012: Direct 50% of grant funds to projects that benefit distressed counties or areas.	**FY 2012:** Directed 35% of General Goal 1 funds.

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

Project Validation Sampling

In FY 2012, members of ARC's field validation team surveyed fifteen FY 2009 and FY 2010 projects with goals for jobs created/retained to compare estimated and actual results.

Number of Projects Surveyed	Projected Number of Jobs Created/Retained	Actual Number of Jobs Created/Retained	Results Achieved
15	4,967	6,233	125%

As shown above, the projects surveyed achieved 125% of projected results for jobs created/retained.

Project Evaluation: Final Results

Entrepreneurship Initiative

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

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

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

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

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

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

The evaluation team offered three sets of recommendations for ARC:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Performance Goals and Results

General Goal 2 is aligned with the annual performance goals listed under the program category "competitiveness." (See page 47.)

Outcome Goal

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

Annual outcome goal for FY 2012: Position 20,000 Appalachians for enhanced employability.

Results for FY 2012: Met goal.

Outcome Goal: Position 20,000 Appalachians for Enhanced Employability	
ANNUAL OUTCOME GOAL	INTERMEDIATE ESTIMATES
FY 2009: 20,000 Students/Trainees with Improvements	**FY 2009:** 23,764 Students/Trainees with Improvements*
FY 2010: 20,000 Students/Trainees with Improvements	**FY 2010:** 19,980 Students/Trainees with Improvements*
FY 2011: 20,000 Students/Trainees with Improvements	**FY 2011:** 18,335 Students/Trainees with Improvements**
FY 2012: 20,000 Students/Trainees with Improvements	**FY 2012: 20,315 Students/Trainees with Improvements**

** Estimate does not include one large-scale, two-year project that provided books for 14,286 preschoolers.*
*** Estimate does not include one project with limited ARC participation that will provide 5,000 students with a museum-related curriculum.*

Matching Goal

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

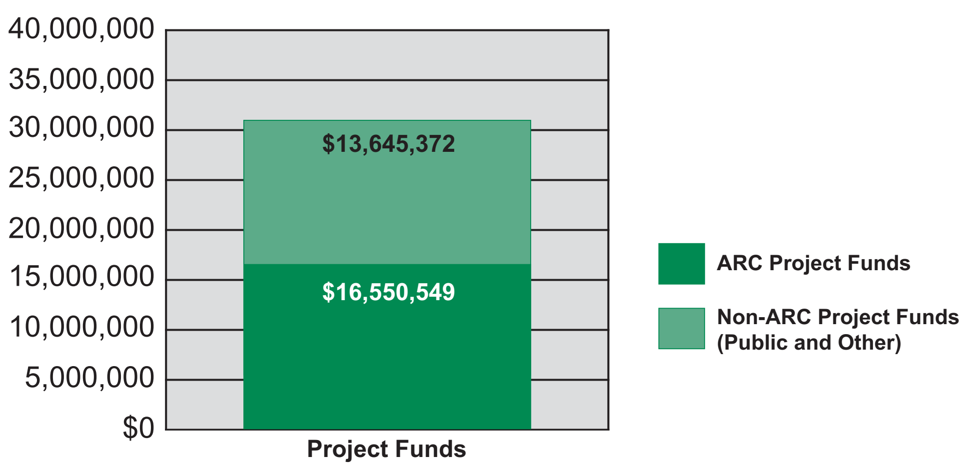
Annual matching goal for FY 2012: Achieve a 1:1 ratio of non-ARC matching funds to ARC investment.

Results for FY 2012: Met goal.

Matching Goal: Achieve a 1:1 Ratio of Non-ARC Matching Project Funds to ARC Investment	
ANNUAL MATCHING GOAL	INTERMEDIATE ESTIMATES
FY 2009: Achieve a 1:1 ratio of non-ARC matching project funds to ARC investment.	**FY 2009:** Achieved a 1:1 ratio.
FY 2010: Achieve a 1:1 ratio of non-ARC matching project funds to ARC investment.	**FY 2010:** Achieved a 3:1 ratio.
FY 2011: Achieve a 1:1 ratio of non-ARC matching project funds to ARC investment.	**FY 2011:** Achieved a 1:1 ratio.
FY 2012: Achieve a 1:1 ratio of non-ARC matching project funds to ARC investment.	**FY 2012:** Achieved a 1:1 ratio.

In FY 2012, ARC General Goal 2 grant funds of $16,550,549 attracted $13,645,372 in matching project funds from public and other sources.

Funding for General Goal 2 Projects in Fiscal Year 2012



Targeting Goal

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

Annual targeting goal for FY 2012: Direct 50 percent of all ARC grant funds to projects that benefit distressed counties or areas.

Results for FY 2012: In FY 2012, 83 percent of General Goal 2 grant funds were directed to projects that benefit distressed counties or areas.

Targeting Goal: Direct 50 Percent of General Goal 2 Grant Funds to Distressed Counties or Areas	
ANNUAL TARGETING GOAL	INTERMEDIATE ESTIMATES*
FY 2009: Direct 50% of grant funds to projects that benefit distressed counties or areas.	**FY 2009:** Directed 68% of General Goal 2 funds.
FY 2010: Direct 50% of grant funds to projects that benefit distressed counties or areas.	**FY 2010:** Directed 68% of General Goal 2 funds.
FY 2011: Direct 50% of grant funds to projects that benefit distressed counties or areas.	**FY 2011:** Directed 58% of General Goal 2 funds.
FY 2012: Direct 50% of grant funds to projects that benefit distressed counties or areas.	**FY 2012:** Directed 83% of General Goal 2 funds.

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

Project Validation Sampling

In FY 2012, members of ARC's field validation team surveyed twenty-four FY 2009 and FY 2010 projects funded under General Goal 2 to compare estimated and actual results.

Number of Projects Surveyed	Projected Number of Students/Trainees with Improvements	Actual Number of Students/Trainees with Improvements	Results Achieved
24	9,723	10,610	109%

As shown above, the projects surveyed achieved 109 percent of projected results for students/trainees with improvements.

Project Evaluation: Final Results

Education and Workforce Development Projects

In FY 2011, Westat, the Nick J. Rahall II Appalachian Transportation Institute, and Economic Development Research Group undertook a program evaluation of ARC's education and workforce development projects. The evaluation will examine approximately 200 projects funded from FY 2000 through FY 2008, including projects in career and technical education, educational attainment and achievement and workforce training and development. A final report will be available in FY 2013.

Math-Science-Technology Summer Institute

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

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

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

Education Projects

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

Types of Performance Measured

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

Project Outcomes

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

College-Going Rates

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

ARC launched the AHE Network in FY 1999 to raise the levels of educational attainment in Appalachia. The network provides funding, training, and assistance to participating high schools for programs to encourage students to obtain a post-secondary education. From October 1998 to June 2012, more than 91,000 high school seniors were served by AHE Network centers. In FY 2012, centers operated in Alabama, Georgia, Kentucky, Mississippi, North Carolina, Ohio, Tennessee, Virginia, and West Virginia.

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

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

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

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

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

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

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

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

Performance Goals and Results

General Goal 3 is aligned with the annual performance goals listed under the program category "infrastructure." (See page 47.) All projects with these annual performance goals are in General Goal 3.

Outcome Goal

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

Annual outcome goal for FY 2012: Provide 20,000 households with basic infrastructure services.

Results for FY 2012: Met 99% of goal. In addition to the number recorded below, in FY 2012 ARC funded water storage tank construction and improvement projects that will serve a total of 3,542 households as well as two large system improvements that will serve 12,465 households.

Outcome Goal: Provide 20,000 Households with Basic Infrastructure Services

ANNUAL OUTCOME GOAL	INTERMEDIATE ESTIMATES*
FY 2009: 20,000 Households Served	FY 2009: 25,981 Households Served
FY 2010: 20,000 Households Served	FY 2010: 23,959 Households Served
FY 2011: 20,000 Households Served	FY 2011: 20,986 Households Served
FY 2012: 20,000 Households Served	**FY 2012: 19,708 Households Served**

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

Matching Goal

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

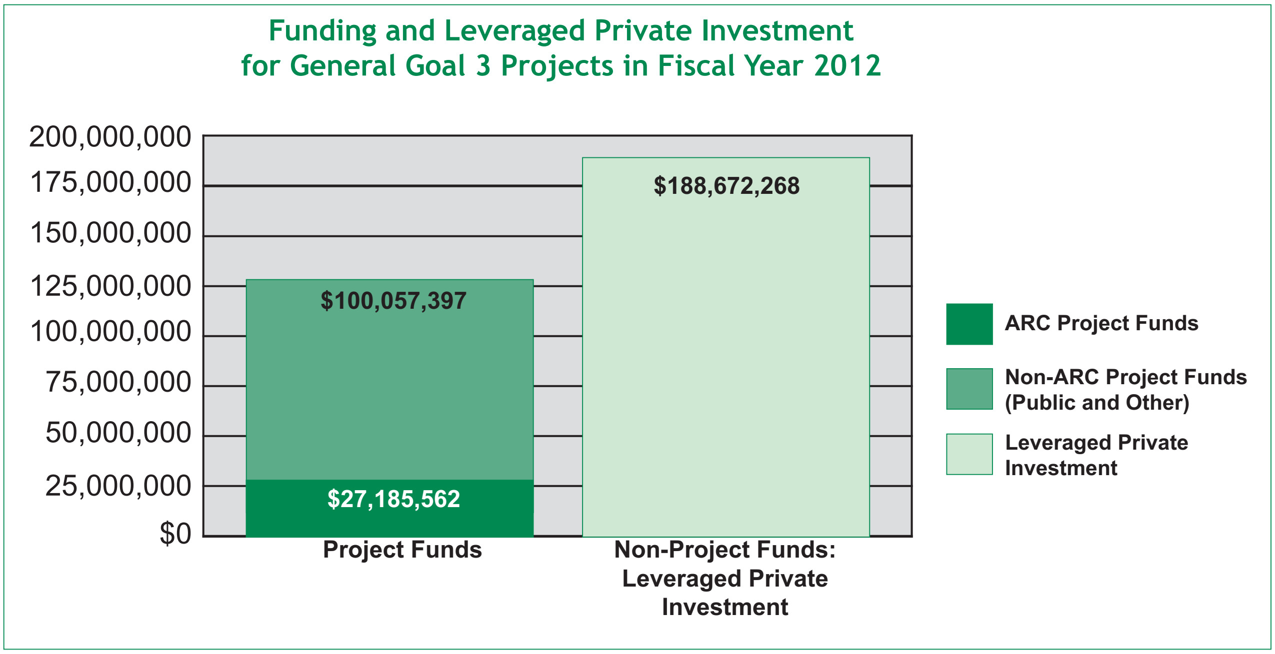
Annual matching goal for FY 2012: Achieve a 2:1 ratio of non-ARC matching funds to ARC investment.

Results for FY 2012: Exceeded goal.

Matching Goal: Achieve a 2:1 Ratio of Non-ARC Matching Project Funds to ARC Investment

ANNUAL MATCHING GOAL	INTERMEDIATE ESTIMATES
FY 2009: Achieve a 2:1 ratio of non-ARC matching project funds to ARC investment.	**FY 2009:** Achieved a 6:1 ratio.
FY 2010: Achieve a 2:1 ratio of non-ARC matching project funds to ARC investment.	**FY 2010:** Achieved a 4:1 ratio.
FY 2011: Achieve a 2:1 ratio of non-ARC matching project funds to ARC investment.	**FY 2011:** Achieved a 5:1 ratio.
FY 2012: Achieve a 2:1 ratio of non-ARC matching project funds to ARC investment.	**FY 2012:** Achieved a 4:1 ratio.

ARC FY 2012 General Goal 3 grant funds of $27,185,562 attracted $100,057,397 in matching project funds from public and other sources, and $188,672,268 in non-project leveraged private investment.



Targeting Goal

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

Annual targeting goal for FY 2012: Direct 50 percent of all ARC grant funds to projects that benefit distressed counties or areas.

Results for FY 2012: In FY 2012, 60 percent of General Goal 3 grant funds were directed to projects that benefit distressed counties or areas.

Targeting Goal: Direct 50 Percent of General Goal 3 Grant Funds to Distressed Counties or Areas

ANNUAL TARGETING GOAL	INTERMEDIATE ESTIMATES*
FY 2009: Direct 50% of grant funds to projects that benefit distressed counties or areas.	**FY 2009:** Directed 61% of General Goal 3 funds.
FY 2010: Direct 50% of grant funds to projects that benefit distressed counties or areas.	**FY 2010:** Directed 54% of General Goal 3 funds.
FY 2011: Direct 50% of grant funds to projects that benefit distressed counties or areas.	**FY 2011:** Directed 55% of General Goal 3 funds.
FY 2012: Direct 50% of grant funds to projects that benefit distressed counties or areas.	**FY 2012:** Directed 60% of General Goal 3 funds.

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

Project Validation Sampling

In FY 2012, members of ARC's field validation team surveyed fourteen FY 2009 and FY 2010 projects funded under General Goal 3 to compare estimated and actual results.

Number of Projects Surveyed	Projected Number of Households Served	Actual Number of Households Served	Results Achieved
14	14,466	14,479	100%

As shown above, the projects surveyed achieved 100 percent of projected results for households served.

Project Evaluation: Final Results

Infrastructure and Public Works Projects, 2004–2010

In FY 2012, HDR Decision Economics undertook a program evaluation of ARC's infrastructure and public works projects. The evaluation will examine approximately 800 projects funded by ARC from fiscal years 2004 through 2010. These include projects aimed at improving water and wastewater services, access roads, transportation, industrial parks and sites, gas lines, and telecommunications. The main purpose of the study is to determine the extent to which infrastructure projects have contributed to the attainment of ARC's economic development objectives as identified in its strategic plan. In particular, the Commission seeks to verify reported project outcomes; to assess the utility and validity of specific performance measurements for monitoring and evaluating infrastructure projects; and to use project performance data to estimate long-range economic impacts. Surveys, informant interviews, and case studies in all 13 Appalachian states have been conducted. A final report will be available in fiscal year 2013.

Infrastructure and Public Works Projects, 1998–2004

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

Findings of the evaluation included the following:

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

271 jobs per project; telecommunications created 230 jobs per project; and access roads created 212 new jobs per project.

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

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

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

Water and Sewer Infrastructure Gaps Study

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

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

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

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

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

The strong partnership of ARC, the U.S. Department of Transportation, and state departments of transportation will continue to oversee the planning and construction of the Appalachian Development Highway System. ARC will work to identify and overcome barriers to the timely completion of the ADHS.

Strategic Objective 4.1: Develop Leaders and Strengthen Community Capacity. Long-term strategic planning by local and regional leadership is critical to taking full advantage of the economic and community-building opportunities presented by existing and planned ADHS corridors. New outreach and awareness efforts are needed to help communities fully integrate the ADHS into their economic development planning.

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

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

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

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

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

Performance Goal and Results

General Goal 4 is aligned with the annual performance goal listed under the program category "highways." (See page 47.)

Outcome Goal

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

Annual outcome goal for FY 2012: Open 25 additional miles (net increase) of the ADHS to traffic.

Result for FY 2012: Met 0% of goal. Although no miles were opened to traffic in FY 2012, 3 miles were completed but not yet opened, and another 10 miles were opened to traffic in October, just after the end of the fiscal year.

At the end of FY 2012, a total of 2,494.3 miles, or 81 percent, of the 3,090 miles authorized for the ADHS were complete; 238.7 miles were under construction, 133.5 miles were in the final design or right-of-way acquisition phase; and 223.6 miles were in the location study phase.

Outcome Goal: Open 25 Additional Miles (Net Increase) of the ADHS to Traffic	
ANNUAL OUTCOME GOAL	INTERMEDIATE ESTIMATES
FY 2009: Open 25 additional miles (net increase) of the ADHS to traffic.	**FY 2009:** Opened 10.5 additional miles (net increase) of the ADHS to traffic.
FY 2010: Open 25 additional miles (net increase) of the ADHS to traffic.	**FY 2010:** Opened 26.8 additional miles (net increase) of the ADHS to traffic.
FY 2011: Open 25 additional miles (net increase) of the ADHS to traffic.	**FY 2011:** Opened 31.8 additional miles (net increase) of the ADHS to traffic.
FY 2012: Open 25 additional miles (net increase) of the ADHS to traffic.	**FY 2012:** Opened 0 additional miles (net increase) of the ADHS to traffic.

Project Validation Sampling

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

Project Evaluation: Final Results

Impact of Highway Investments on Economic Growth in the Appalachian Region

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

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

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

Economic Benefits of the ADHS

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

Economic Impact of Completing the ADHS

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

SUMMARY OF ACHIEVEMENTS

Performance Goals and Results for Fiscal Year 2012 Projects

ANNUAL PERFORMANCE GOALS	FISCAL YEAR 2012 INTERMEDIATE ESTIMATES	RESULTS ACHIEVED
Jobs and Income		
Outcome Goal: 20,000 jobs created or retained	20,112 jobs created or retained	Met goal
Leveraging Goal: Achieve a 4:1 ratio of leveraged private investment to ARC investment for projects in General Goal 1	Achieved a 4:1 ratio	Met goal
Targeting Goal: Direct 50% of grant funds to benefit distressed counties or areas for projects in General Goal 1	Directed 35% of funds*	Met 70% of goal
Competitiveness		
Outcome Goal: 20,000 students/trainees with improvements	20,315 students/trainees with improvements	Met goal
Matching Goal: Achieve a 1:1 ratio of non-ARC to ARC investment for projects in General Goal 2	Achieved a 1:1 ratio	Met goal
Targeting Goal: Direct 50% of grant funds to benefit distressed counties or areas for projects in General Goal 2	Directed 83% of funds*	Exceeded goal
Infrastructure		
Outcome Goal: 20,000 households served	19,708 households served	Met 99% of goal
Matching Goal: Achieve a 2:1 ratio of non-ARC to ARC investment for projects in General Goal 3	Achieved a 4:1 ratio	Exceeded goal
Targeting Goal: Direct 50% of grant funds to benefit distressed counties or areas for projects in General Goal 3	Directed 60% of funds*	Exceeded goal
Highways		
Outcome Goal: 25 additional miles (net increase) of the ADHS opened to traffic	Opened 0 additional miles (net increase) of the ADHS to traffic**	Met 0% of goal

** In FY 2012, 57 percent of total grant funds were directed to projects that benefit distressed counties or areas. Project funds are included if the project primarily or substantially benefits distressed counties or areas.*

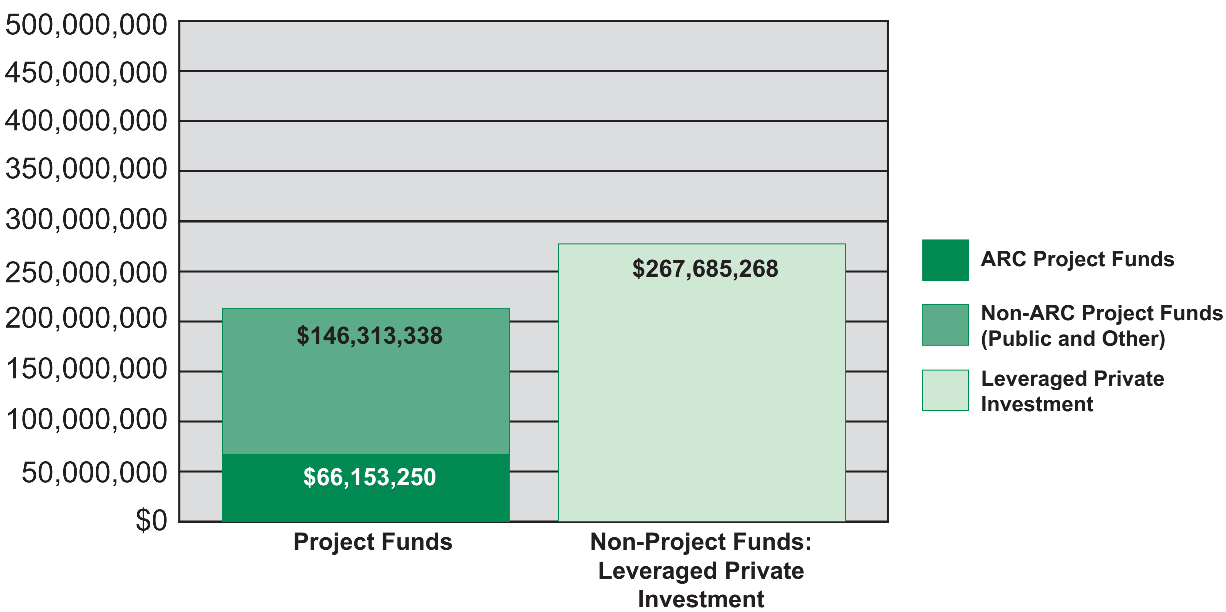
*** Although no miles were opened to traffic in FY 2012, 3 miles were completed but not yet opened, and another 10 miles were opened to traffic in October, just after the end of the fiscal year.*

Investment Summary for FY 2012 Projects

LEVERAGING, MATCHING, AND TARGETING SUMMARY for All ARC Nonhighway Projects Fiscal Year 2012		
Leveraged private investment	$267,685,268	4:1 ratio of leveraged private investment to ARC investment
Non-ARC matching project funds	$146,313,338	2:1 ratio of non-ARC project investment to ARC project investment
ARC project funds targeted to distressed counties or areas	$37,784,694*	57% of total ARC project funds directed to projects that benefit distressed counties or areas

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

Funding and Leveraged Private Investment for ARC Projects in Fiscal Year 2012

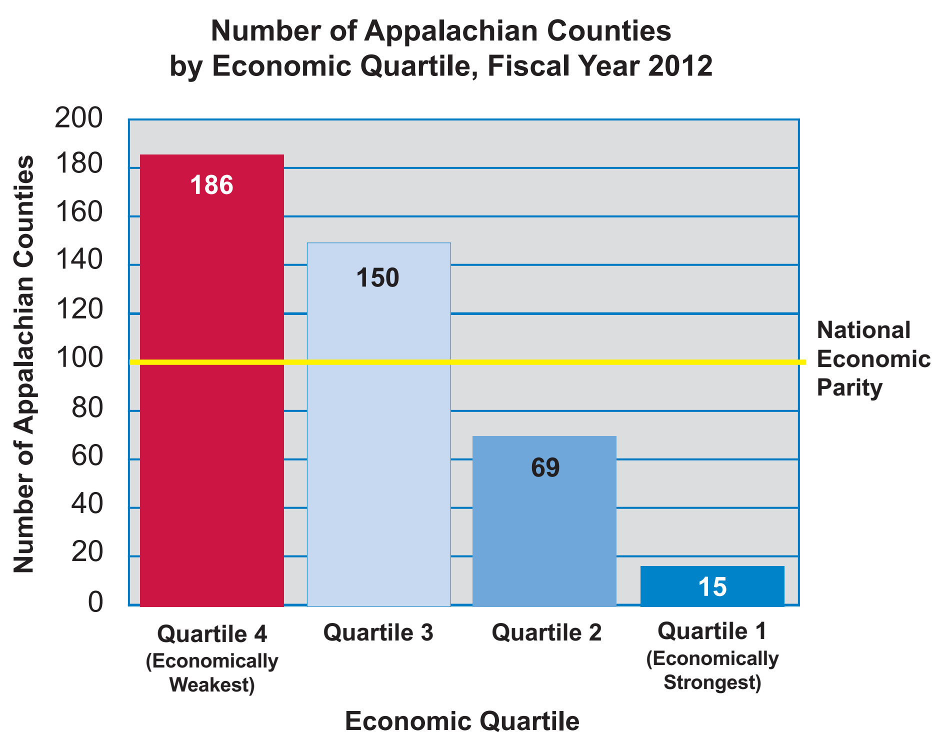


MEASURING PROGRESS TOWARD THE ARC VISION

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

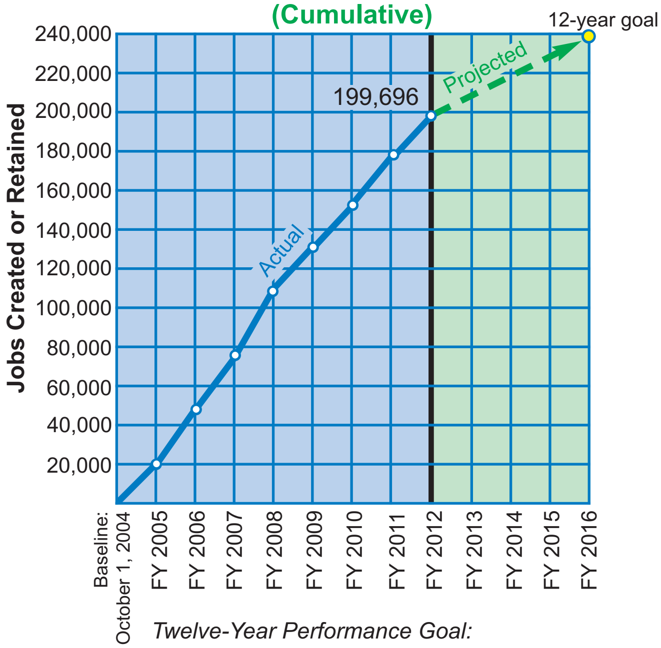
In order to provide a single unified measure of regional progress and economic change, ARC developed an index to track improvement over time. Drawing on the three variables ARC uses annually to determine the economic status of the Region's 410 counties, staff developed a national composite index of distress.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

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



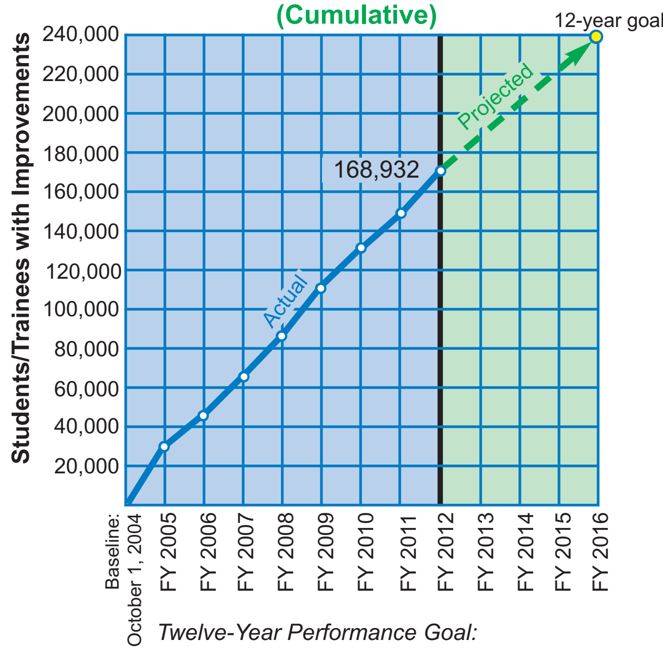
Progress toward ARC Strategic Plan Performance Goals
Fiscal Years 2005–2016

Goal 1: Jobs Created or Retained (Cumulative)



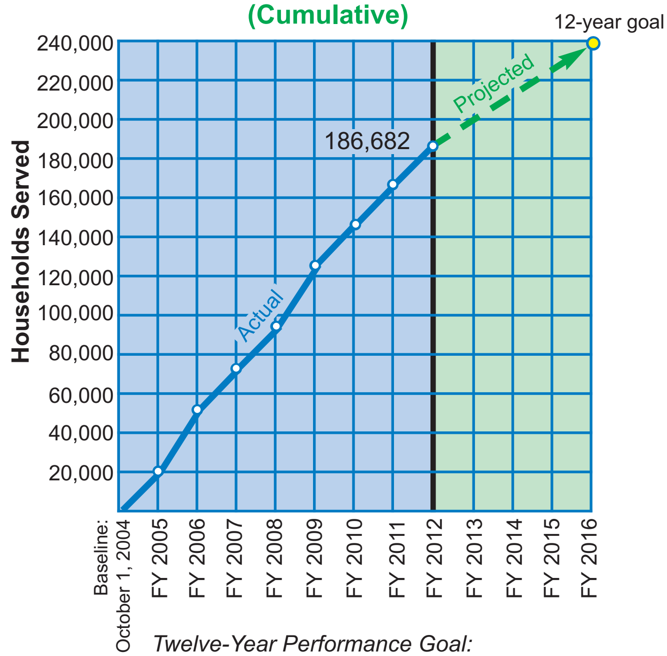
Twelve-Year Performance Goal:
240,000 jobs will be created or retained.

Goal 2: Students/Trainees with Improvements (Cumulative)



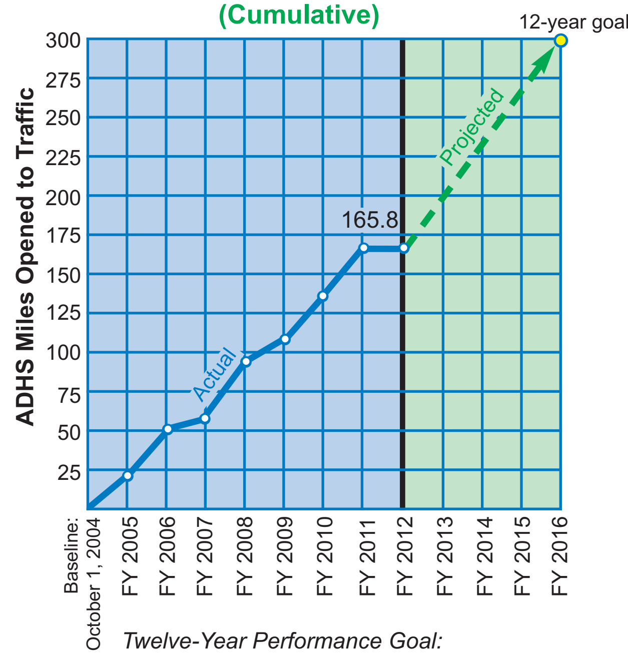
Twelve-Year Performance Goal:
240,000 citizens will benefit from enhanced education and job-related skills.

Goal 3: Households Served (Cumulative)



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

Goal 4: ADHS Miles Opened to Traffic (Cumulative)



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

PART III:
FISCAL YEAR 2012 FINANCIAL REPORT

Message from the Executive Director

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

I am very pleased to report that Martin and Wall, a division of Chortek and Gottschalk, LLP, the independent auditor of ARC's financial statement for 2012, has rendered an unqualified opinion about the adequacy of the statement. The independent audit was performed in cooperation with the Office of Inspector General (OIG).

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

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

Thomas M. Hunter
Executive Director

December 5, 2012

Report of Independent Audit

APPALACHIAN REGIONAL COMMISSION

A Proud Past, A New Vision

Office of Inspector General

December 5, 2012

Memorandum for: The Federal Co-Chair
ARC Executive Director

Subject: OIG Report 13-01
Fiscal Year 2012 Financial Statement Audit

The enclosed report presents the results of the audit of the Commission's financial statements for the fiscal year ended September 30, 2012. The report should be read in conjunction with the Commission's financial statements and notes to fully understand the context of the information contained therein.

The Appalachian Regional Commission (ARC) contracted with the independent certified public accounting firm of Martin & Wall, which became a division of Chortek & Gottschalk, LLP (C&G), to audit the financial statements of the Commission as of and for the fiscal year ended September 30, 2012. The contract required that the audit be conducted in accordance with U.S. generally accepted government auditing standards and OMB audit guidance. ARC's Office of Inspector General monitored audit activities to help ensure audit quality.

The following results were noted from C&G's audit of ARCs financial statements for the fiscal year ended September 30, 2012.

- C&G stated it was their opinion that ARC's financial statements were presented fairly in all material respects, in accordance with U.S. generally accepted accounting principles.
- C&G was not contracted for and did not provide an opinion on the effectiveness of ARC's internal controls over financial reporting. However, C&G did state that they did not identify any deficiencies in internal control that were considered to be material weaknesses, relative to their expressing an opinion on ARC's financial statements
- No significant deficiencies were reported.
- C&G did not express an opinion on compliance and other matters, but noted no instances of non-compliance required to be reported under the provisions of OMB audit guidance.

In connection with the contract, we reviewed Chortek & Gottschalk's report and related documentation and inquired of its representatives. Our involvement in the audit process consisted of monitoring of audit activities, reviewing organization and auditor independence and qualifications, attending meetings, participating in discussions, and reviewing audit planning and conclusion

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

workpapers and reports as deemed appropriate. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on the Appalachian Regional Commission's financial statements, conclusions about the effectiveness of internal control, or conclusions about compliance with laws and regulations. Chortek & Gottschalk is responsible for the attached auditor's report dated November 21, 2012 and the conclusions expressed in the report. However, our review disclosed no instances where Chortek & Gottschalk did not comply, in all material respects, with U.S. generally accepted government auditing standards.

Hubert Sparks
Inspector General

Attachment

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

APPALACHIAN REGIONAL COMMISSION

FINANCIAL STATEMENTS

For The Years Ended September 30, 2012 and 2011

APPALACHIAN REGIONAL COMMISSION

TABLE OF CONTENTS

MARTIN & WALL LLP
A Division of Chortek & Gottschalk, LLP
1633 Q Street, NW · Suite 230 · Washington, DC 20009 · Tel. 202.332.3566
WWW.MARTINWALLCPA.COM

Independent Auditor's 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 (ARC). We have audited the accompanying balance sheets of the Appalachian Regional Commission as of September 30, 2012 and 2011 and the related statements of net cost, changes in net position, and budgetary resources for the years then ended.

The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our audits, 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 audits of the Appalachian Regional Commission for the fiscal years ended September 30, 2012 and 2011, 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);
- 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 sheets of the Appalachian Regional Commission as of September 30, 2012 and 2011, and the related statements of net cost, changes in net position, and budgetary resources for the years 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, 2012 and 2011, 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.

The information in the Management's Discussion and Analysis section and required supplementary stewardship information is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Circular A-136*, Financial Reporting Requirements, revised*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and the presentation of the supplementary information and analysis of the consistency with the financial statements. However, we did not audit the information and express no opinion on it. The Performance and Accountability Report, except for Management's Discussion and Analysis, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements 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 2012 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses or significant deficiencies, as defined above.

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 agreements applicable to the Commission.

Auditor's Responsibilities: Our responsibility is to express an opinion on the fiscal years 2012 and 2011 financial statements of the Appalachian Regional Commission 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 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, contracts and agreements applicable to the Commission that could have a direct and material effect on the financial statements.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal years 2012 and 2011 audits, 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 statements, 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 years 2012 and 2011 financial statements are free of material misstatement, we performed tests of the Commission's compliance with certain provisions of laws, regulations, contracts and 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 agreements was not an objective of our audits, 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 solely for the information and use of the Appalachian Regional Commission's management and Commission members, the 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.

Washington, DC
November 21, 2012

4

APPALACHIAN REGIONAL COMMISSION

BALANCE SHEETS

As Of September 30, 2012 and 2011

		2012	2011
Assets:			
Intragovernmental:			
Fund Balance With Treasury	(Notes 1 & 2)	$ 152,811,656	$ 167,528,946
Advances	(Notes 1 & 3)	12,607,359	9,343,287
Total Intragovernmental		165,419,015	176,872,233
With the Public:			
Cash in commercial institutions	(Note 1)	67,799	60,136
Accounts Receivable, net	(Notes 1 & 4)	-	1,022,750
Advances	(Notes 1 & 3)	33,702,901	31,296,826
Total Assets		$ 199,189,714	$ 209,251,946
Liabilities:	(Note 5)		
Intragovernmental:			
Accounts Payable	(Notes 1 & 5)	$ 25,000	$ -
Other	(Notes 5 & 6)	221,275	202,720
Total Intragovernmental		246,275	202,720
With The Public:			
Accounts Payable	(Notes 1 & 5)	7,703,108	6,540,853
Other	(Notes 1, 5 & 6)	944,346	1,651,997
Total Liabilities		8,893,729	8,395,569
Net Position:			
Unexpended Appropriations - Other Funds		187,638,756	199,772,812
Cumulative Results of Operations - Earmarked Funds	(Note 9)	2,816,477	1,247,394
Cumulative Results of Operations - Other Funds		(159,249)	(163,828)
Total Net Position		190,295,985	200,856,378
Total Liabilities and Net Position		$ 199,189,714	$ 209,251,946

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

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

5

APPALACHIAN REGIONAL COMMISSION

STATEMENTS OF NET COST
For The Years Ended September 30, 2012 and 2011

		2012	2011
Program Costs:			
Program A:			
Gross Costs	(Note 10)	$ 83,140,254	$ 82,927,382
Less: Earned Revenue		4,295,030	4,137,540
Net Program Costs		78,845,224	78,789,842
Net Cost of Operations		$ 78,845,224	$ 78,789,842

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

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

6

APPALACHIAN REGIONAL COMMISSION

STATEMENTS OF CHANGES IN NET POSITION

For The Years Ended September 30, 2012 and 2011

		2012			
		Earmarked Funds	All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations:					
Beginning Balances		$ 1,247,394	$ (163,828)	$ -	$ 1,083,565
Adjustments:					
(a) Corrections of Errors (+/-)	(Note 11)	-	(26,057)	-	(26,057)
Beginning Balances, as Adjusted		1,247,394	(189,885)	-	1,057,508
Budgetary Financing Sources:					
Appropriations Used		-	80,423,113	-	80,423,113
Transfers-In/Out Without Reimbursement		4,106,500	(4,106,500)	-	-
Other Financing Resources (Non-Exchange):					
Imputed Financing		-	21,831	-	21,831
Total Financing Sources		4,106,500	76,338,444	-	80,444,944
Net Cost of Operations (+/-)	(Note 14)	2,537,416	76,307,808	-	78,845,224
Net Change		1,569,084	30,636	-	1,599,720
Cumulative Results of Operations		$ 2,816,477	$ (159,249)	$ -	$ 2,657,228
Unexpended Appropriations:					
Beginning Balances		$ -	$ 199,772,812	$ -	$ 199,772,812
Adjustments:		-	-	-	-
(a) Corrections of Errors (+/-)	(Note 11)	-	26,057	-	26,057
Beginning Balances, as Adjusted		-	199,798,869	-	199,798,869
Budgetary Financing Sources:					
Appropriations Received		-	68,263,000	-	68,263,000
Appropriations Used		-	(80,423,113)	-	(80,423,113)
Total Budgetary Financing Sources		-	(12,160,113)	-	(12,160,113)
Total Unexpended Appropriations		-	187,638,756	-	187,638,756
Net Position		$ 2,816,477	$ 187,479,507	$ -	$ 190,295,985

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

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

7

APPALACHIAN REGIONAL COMMISSION

STATEMENTS OF CHANGES IN NET POSITION
For The Years Ended September 30, 2012 and 2011

	2011			
	Earmarked Funds	All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations:				
Beginning Balances	$ 843,602	$ (220,109)	$ -	$ 623,493
Budgetary Financing Sources:				
Appropriations Used	-	79,177,174	-	79,177,174
Transfers-In/Out Without Reimbursement	4,091,000	(4,091,000)	-	-
Other Financing Resources (Non-Exchange):				
Imputed Financing	-	72,740	-	72,740
Total Financing Sources	4,091,000	75,158,915	-	79,249,915
Net Cost of Operations (+/-)	3,687,208	75,102,634	-	78,789,842
Net Change	403,792	56,280	-	460,072
Cumulative Results of Operations	$ 1,247,394	$ (163,828)	$ -	$ 1,083,565
Unexpended Appropriations:				
Beginning Balances	$ -	$ 210,686,787	$ -	$ 210,686,787
Budetary Financing Sources:				
Appropriations Received	-	68,400,000	-	68,400,000
Other Adjustments	-	(136,800)	-	(136,800)
Appropriations Used	-	(79,177,174)	-	(79,177,174)
Total Budgetary Financing Sources	-	(10,913,974)	-	(10,913,974)
Total Unexpended Appropriations	-	199,772,812	-	199,772,812
Net Position	$ 1,247,394	$ 199,608,984	$ -	$ 200,856,378

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

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

8

APPALACHIAN REGIONAL COMMISSION

STATEMENTS OF BUDGETARY RESOURCES

For The Years Ended September 30, 2012 and 2011

		2012	2011
BUDGETARY RESOURCES			
Unobligated balance brought forward, October 1		$ 19,908,520	$ 27,765,799
Recoveries of prior year unpaid obligations (unobligated balances)		9,535,756	6,262,853
Unobligated balance from prior year budget authority, net		29,444,276	34,028,652
Appropriations (discretionary and mandatory)		77,565,555	75,422,450
Spending authority from offsetting collections		1,047,537	400,591
Total budgetary resources		$ 108,057,368	$ 109,851,693
STATUS OF BUDGETARY RESOURCES			
Obligations incurred	(Note 12)	$ 85,309,253	$ 89,943,174
Apportioned		20,327,295	18,723,271
Exempt from apportionment		2,162,548	927,545
Unapportioned		258,271	257,703
Unobligated balance brought forward, end of year		22,748,114	19,908,520
Total budgetary resources		$ 108,057,368	$ 109,851,693
CHANGE IN OBLIGATED BALANCE			
Unpaid obligations, brought forward, October 1 (gross)		$ 147,606,819	$ 140,686,735
Obligation incurred		85,309,253	89,943,174
Outlays (gross) (-)		(93,316,774)	(76,760,237)
Recoveries of prior year unpaid obligations (-)		9,535,756	6,262,853
Unpaid obligations, end of year (gross)	(Note 13)	130,063,541	147,606,819
Obligated balance, end of year (net)		$ 130,063,541	$ 147,606,819
BUDGET AUTHORITY AND OUTLAYS, NET			
Budget authority, gross (discretionary and mandatory)		$ 78,613,092	$ 75,823,041
Actual offsetting collections (discretionary and mandatory) (-)		(1,047,537)	(400,591)
Budget authority, net (discretionary and mandatory)		77,565,555	75,422,450
Outlays, gross (discretionary and mandatory)		93,316,774	76,760,237
Actual offsetting collections (discretionary and mandatory) (-)		(1,047,537)	(400,591)
Outlays, net (discretionary and mandatory)		92,269,237	76,359,646
Distributed offsetting receipts (-)		4,106,500	4,091,000
Agency outlays, net (discretionary and mandatory)		$ 88,162,737	$ 72,268,646

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

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

9

APPALACHIAN REGIONAL COMMISSION

NOTES TO FINANCIAL STATEMENTS – SEPTEMBER 30, 2012 AND 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Commission members are comprised of a federal member (Federal Co-Chair), who is appointed by the President of the United States, and the governors of each of the 13 states in the Appalachian Region. The state members elect a State Co-Chair from their members. ARC has an Executive Director and Program and Administrative Offices that implement the policies and procedures established by the Federal and State Co-Chairs. ARC personnel are comprised of both federal and non-federal employees.

ARC supports economic and social development in the Appalachian Region. The Appalachian Region is a 205,000 square mile region from Southern New York to Northern Mississippi. The ARC programs affect 420 counties located in 13 states including all of West Virginia and parts of Alabama, Georgia, Kentucky, Maryland, Mississippi, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, and Virginia.

Fund Accounting Structure

ARC's financial activities are accounted for by utilizing individual funds and fund accounts in reporting to the U.S. Treasury and the Office of Management and Budget. For financial statement purposes, these funds are classified as 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 excluding Federal Co-Chair's office and Inspector General's office. These trust fund administrative expenses are paid equally by the federal government and the ARC states as determined annually by the Commission members.

All Other Funds

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

Budgets and Budgetary Accounting

ARC programs and activities are funded through no-year appropriations and contributions from the 13 states in the Appalachian Region. Federal funds are available without fiscal year limitation and remain available until expended. Because of the no-year status of the funds, unobligated amounts are not returned to the U.S. Treasury.

Basis of Accounting and Presentation

These financial statements present the financial position, net cost of operations, changes in net position, and budgetary resources of ARC in accordance with U.S. generally accepted accounting principles (GAAP) and form and content requirements of OMB Circular A-136 Financial Reporting Requirements. GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory 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 $67,799 and $60,136 at September 30, 2012 and 2011, 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, 2012 and 2011.

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, 2012 and 2011 consists of the following:

	2012	2011
A. Fund Balances		
Trust Fund	$ 2,644,633	$ 1,572,117
Appropriated Funds	150,167,023	165,943,221
Total Entity Fund Balance with Treasury	152,811,656	167,515,338
Non-Entity Fund Balance with Treasury	-	13,608
Total Fund Balance with Treasury	152,811,656	167,528,946
B. Status of Fund Balance with Treasury		
1) Unobligated Balance		
a) Available	22,489,843	19,650,816
b) Unavailable	258,271	257,703
2) Obligated Balance not yet Disbursed	130,063,541	147,606,819
3) Non-Budgetary	-	13,608
Total	$ 152,811,656 *	$ 167,528,946

*Rounding

13

NOTE 3 – ADVANCES

Advances at September 30, 2012 and 2011 consist of the following:

	2012	2011
1. Intragovernmental		
Advances to the U.S. Army Corps of Engineers	$ 59,387	$ 298,752
Advances to the Tennessee Valley Authority	12,480,353	9,044,535
Advances to the Environmental Protection Agency	67,619	-
	12,607,359	9,343,287
2. Other		
Advances to grantees to finance future program expenditures		
-Revolving Loan Fund	27,752,792	27,221,652
-Non-Revolving Loan Fund	5,082,909	4,075,174
Prepaid Pension Expense	867,200	-
	33,702,901	31,296,826
Total	$ 46,310,260	$ 40,640,113

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 RFL transactions is that cash outlays are recorded as increases to SGL 1410 Advances and Prepayments and refunds of excess cash are recorded as decreases to SGL 1410 Advances and Prepayments.

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

NOTE 4 – ACCOUNTS RECEIVABLE

The line item represents the gross amount of monies owed to ARC. The receivable of $1,022,750 in FY2011 is monies owed by the States. This amount represents the fourth quarter contribution to the Trust Fund which was fully paid in October 2011.

	FY 2012	FY 2011
Accounts Receivable	$ -	$ 1,022,750

14

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, 2012 and 2011 consist of the following:

	2012	2011
With the Public		
Unfunded annual leave	$ 452,794	$ 506,448
Unfunded pension liability	-	659,117
Intragovernmental		
Liability for Deposit Funds	-	1,128
Total liabilities not covered by budgetary resources	452,794	1,166,692
Advances		
Advances from Centers for Disease Control	163,275	142,500
Advances from the National Endowment for the Arts	30,000	30,000
Total Advances	193,275	172,500
Benefits Due		
Accrued health and flexible spending benefits	87,323	87,323
Accrued salaries and benefits	364,431	368,064
Total benefits due	451,754	455,387
Intragovernmental Accounts Payable	25,000	
Payments Due to grantees to finance program expenditures	7,703,108	6,540,853
Commercial Bank Balance	67,799	60,136
Total liabilities covered by budgetary resources	8,440,936	7,228,876
Total Liabilities	$ 8,893,729 *	$ 8,395,569

*Rounding

NOTE 6 – OTHER LIABILITIES

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

As of September 30, 2011, other liabilities with the public consist of Accrued Funded Payroll and Leave of $336,580; Employer Contribution and Taxes Payable of $2,393; and Benefits Due and Payable of $1,313,024. Other Liabilities Federal consists of Advances from Other – Federal in the amount of $172,500; and Employer Contributions and Taxes Payable of $30,220.

	With the Public	Non-Current	Current	Total
2012	Other Liabilities	$ 607,915 *	$ 336,431	$ 944,346
2011	Other Liabilities	$ 1,313,024	$ 338,973	$ 1,651,997

	Intragovernmental	Non-Current	Current	Total
2012	Other Liabilities	$ 193,275	$ 28,000	$ 221,275
2011	Other Liabilities	$ 172,500	$ 30,220	$ 202,720

*Rounding

15

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 2012 were $9,515 and $94,159 for CSRS and FERS, respectively and contributions for FY 2011 were $16,429 and $91,724 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 2012 were $43,728 and $1,033 and for FY 2011 were $50,425 and $1,246 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 $35,754 and $37,087 to the Federal Thrift Savings plan for all eligible employees for the years ended September 30, 2012 and 2011, respectively.

Non-Federal

The following table presents the pension benefit expense for the defined benefit pension plan by component for fiscal years 2012 and 2011:

	2012	2011
Service cost	$ 722,661	$ 697,334
Interest cost	843,130	812,277
Expected return	(903,104)	(733,140)
Amortization of prior service cost	-	414,676
Recognized loss	248,985	335,340
Net periodic benefit cost	$ 911,672	$ 1,526,487

The following table presents the pension liability or prepayment by component for fiscal years 2012 and 2011:

	2012	2011
Pension liability at October 1	$ 659,117	$ 870,581
Net periodic benefit expense	911,673	1,526,487
Contributions	(2,437,990)	(1,737,951)
Pension (Prepayment) / Liability at September 30	$ (867,200)	$ 659,117

	2012	2011
Additional Information		
Benefit obligation	$ (20,871,386)	$ (16,333,674)
Fair value of plan assets	14,727,373	11,357,236
Funded status	(6,144,013)	(4,976,438)
Employer contribution	2,408,350	1,710,447
Participant contribution	29,640	27,504
Benefits paid	239,252	236,063
Net periodic benefit expense	911,672	1,526,487

The accumulated benefit obligation was $18,593,072 and $14,503,027 at September 30, 2012 and 2011, respectively.

16

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

	2012	2011
Discount rate	3.85%	5.20%
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:

	2012	2011
Discount rate	3.85%	5.20%
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, 2012 and 2011 are as follows:

	2012	2011
Asset Category		
Cash	0.22%	73.49%
Debt securities	45.63%	8.54%
Equity securities	46.07%	16.98%
Other	8.08%	0.99%
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
2013	$ 7,493,947
2014	2,909,164
2015	1,969,421
2016	181,905
2017	1,977,565
Years 2018-2022	4,779,543
	$ 19,311,545

ARC contributed $220,326 and $220,700 to the 401(k) plan for the years ended September 30, 2012 and 2011, respectively.

NOTE 8 – OPERATING LEASE

ARC's lease for its office 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
2013	$ 847,426
2014	864,375
2015	881,662
2016	899,325
2017	225,902
Total	$ 3,718,690

Rent expense for the years ended September 30, 2012 and 2011 was $837,308 and $764,960, respectively.

NOTE 9 – 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 except those of the Office of the Federal Co-Chair and the Office of the Inspector General, which are solely funded by the Federal Government. The funds are deposited into a Trust Fund (TAFS 46X8090), established by the U.S. Treasury under the authority of the Appalachian Regional Development Act of 1965, to receive, hold, invest, and disburse monies collected to cover the administrative expenses of ARC. The 13 member states also contribute for half of the administrative costs of ARC, which are recorded as earned revenues on the Statement of Net Cost, but not as an earmark.

Condensed financial information for the ARC trust fund for the years ended September 30, 2012 and 2011 is as follows:

	2012		2011	
Balance Sheets				
ASSETS				
Fund Balance with Treasury	$ 2,644,633		$ 1,572,117	
Cash in Commercial Institutions	67,799		60,136	
Accounts Receivable	-		1,022,750	
Other Assets	867,200		-	
Total Assets	$ 3,579,631	*	$ 2,655,004	*
LIABILITIES AND NET POSITION				
Intragovernmental				
Other Liabilities	$ 18,902		$ 16,963	
Total Intragovernmental	18,902		16,963	
With the Public				
Accounts Payable	29,607		21,182	
Other Liabilities	265,979		258,806	
Benefits Due and Payable	448,666		1,110,659	
Total With the Public	744,252		1,390,647	
Total Liabilities	763,154		1,407,610	
Cumulative Results of Operations	2,816,477		1,247,394	
Total Net Position	2,816,477		1,247,394	
Total Liabilities and Net Position	$ 3,579,631		$ 2,655,004	
Statements of Net Cost				
Gross Program Costs	$ 6,710,721		$ 7,778,208	
Less Earned Revenues	4,173,305		4,091,000	
Net Program Costs	2,537,416		3,687,208	
Net Cost of Operations	$ 2,537,416		$ 3,687,208	
Statements of Changes in Net Position				
Net Position Beginning of Period	$ 1,247,394		$ 843,602	
Transfers In/Out Without Reimbursement	4,106,500		4,091,000	
Total Financing Sources	4,106,500		4,091,000	
Net Cost of Operations	2,537,416		3,687,208	
Net Change	1,569,084		403,792	
Cumulative Results of Operations	2,816,477	*	1,247,394	
Net Position End of Period	$ 2,816,477	*	$ 1,247,394	

*Rounding

19

NOTE 10 – INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

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

	2012	2011
Program A		
Intragovernmental costs	$ 6,890,944	$ 10,438,974
Public costs	76,249,310	72,488,408
Total Program A costs	83,140,254	82,927,382
Intragovernmental earned revenue	121,725	
Public earned revenue	4,173,305	4,137,540
Total Program A earned revenue	4,295,030	4,137,540
Total Program A Net Costs	$ 78,845,224	$ 78,789,842

NOTE 11 – CORRECTION TO BEGINNING BALANCES IN STATEMENTS OF CHANGES IN NET POSITION

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

NOTE 12 – STATUS OF BUDGETARY RESOUCES

A. Apportionment Categories of Obligations Incurred

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

	2012	2011
Direct Obligations		
Category A	$ 2,000,412	$ 2,119,580
Category B	70,638,430	75,502,549
Exempt	12,385,411	12,321,044
Total direct obligations	85,024,253	89,943,174 *
Reimbursable Obligations		
Category B	285,000	-
Total Obligations	$ 85,309,253	$ 89,943,174

*Rounding

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

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

B. Permanent Indefinite Appropriations

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

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

Statement of Federal Financial Accounting Standards No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, calls for explanations of material differences between amounts reported in the Statement of Budgetary Resources (SBR) and the actual balances published in the Budget of the U.S. Government (President's Budget). The Budget of the U. S. Government, with the Actual column completed for 2012 and 2011, was reconciled to the Statement of Budgetary resources as follows:

2012

(Dollars in Millions)	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	$ 108	$ 85	$ 4	$ 88
Reconciling Items				
Offsetting collections and receipts	4	10	-	(4)
Budget of the U.S. Government	$ 112	$ 95	$ 4	$ 84

2011

(Dollars in Millions)	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	$ 110	$ 90	$ 4	$ 72
Reconciling Items				
Offsetting collections and receipts	(4)	(5)	(4)	-
Budget of the U.S. Government	$ 106	$ 85	$ -	$ 72

NOTE 13 – UNDELIVERED ORDERS AT THE END OF THE PERIOD

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

	Undelivered Orders	Delivered Orders, Unpaid	Unpaid Obl. Balance, Net
2012	$ 121,971,002	$ 8,092,540	$ 130,063,541 *
2011	$ 140,697,902	$ 6,908,917	$ 147,606,819

*Rounding

21

NOTE 14 – RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET (FORMERLY THE STATEMENT OF FINANCING)

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

	2012		2011
Budgetary Resources Obligated	$ 85,309,253		$ 89,943,174
Spending Authority from Recoveries and Offsetting Collections	(10,583,294)		(6,663,444)
Distributed Offsetting Receipts	(4,106,500)		(4,091,000)
Imputed Financing from Costs Absorbed by Others	21,831		72,740
Changes in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided	13,077,529		3,792,764
Other	(66,805)		
Resources that Do Not Affect Net Cost of Operations	(4,106,500)		(4,089,170)
Financing Sources Yet to be Provided	(700,291)		(175,222)
Net Cost of Operations	$ 78,845,224	*	$ 78,789,842

*Rounding

NOTE 15 – SUBSEQUENT EVENTS

ARC has evaluated subsequent events occurring after the balance sheet date and through the date of November 21, 2012, 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.

22

APPENDIX A

COMMENTS ON DRAFT AUDIT REPORT

APPALACHIAN REGIONAL COMMISSION

ARC

A Proud Past, A New Vision

November 21, 2012

Martin & Wall, A Division of Chortek & Gottschalk
Mark E. Albrecht, CPA
Audit Partner
1633 Q Street, NW
Suite 230
Washington, DC 20009

Dear Mr. Albrecht:

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, 2012 and 2011. We concur with the facts and conclusions in the draft report.

Sincerely,

Thomas M. Hunter
Executive Director

William Grant
Director, Finance and Administration

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

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

Stewardship Investments

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

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

ARC Investment in Non-Federal Physical Property

Non-federal physical property investments are expenses included in net cost of operations for the purchase, construction, or major renovation of physical property owned by state and local governments. In FY 2012, ARC's investment in non-federal physical property included grants for water and sewer system construction and improvements; storm sewer construction; utilities installation; and access road construction.

ARC Investment in Non-Federal Physical Property	
Fiscal Year 2008	$33,400,670
Fiscal Year 2009	$30,495,770
Fiscal Year 2010	$28,319,925
Fiscal Year 2011	$30,983,135
Fiscal Year 2012	$45,613,656

ARC Investment in Human Capital

Human capital investments are expenses included in net cost of operations for education and training programs that are intended to increase or maintain national economic productive capacity and that produce outputs and outcomes that provide evidence of maintaining or increasing national productive capacity. ARC's investments in human capital in FY 2012 included grants for education and job training programs in areas including workforce training, dropout prevention, math and science, child development, and health.

ARC Investment in Human Capital	
Fiscal Year 2008	$7,564,563
Fiscal Year 2009	$10,147,647
Fiscal Year 2010	$10,063,075
Fiscal Year 2011	$8,931,430
Fiscal Year 2012	$9,334,227

ARC Investment in Research and Development

Research and development investments are expenses included in net cost of operations that support the search for new or refined knowledge and ideas and for the application or use of such knowledge and ideas with the expectation of maintaining or increasing national economic productive capacity or yielding other future benefits. In FY 2012, ARC invested in applied research through the following projects: an evaluation of the contribution made by forests and wood products to sustainable economic growth in the Appalachian Region; an infrastructure program evaluation of water and sewer projects, access roads, transportation, industrial parks and sites, gas lines, and telecommunications projects; a study measuring the impact of proposed energy and environmental policies; analysis of the economic impact of ARC program investments in terms of indirect and induced gross regional product, personal income, and employment; an assessment of disparities in health-care access and insurance coverage; a study providing updated information on the availability of capital and credit in Appalachia; an assessment of energy workforce trends and training requirements; an analysis of disparities in oral health care and access to oral health services; a study comparing strategies for economic development and the factors that contributed to success in Appalachia's distressed rural counties; and a study documenting the extent to which ARC's education and training projects met program objectives.

ARC Investment in Research and Development	
Fiscal Year 2008	$592,516
Fiscal Year 2009	$387,840
Fiscal Year 2010	$312,544
Fiscal Year 2011	$269,232
Fiscal Year 2012	$729,493

PART IV:
OTHER ACCOMPANYING INFORMATION

ARC PERFORMANCE MEASURES

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

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

PERFORMANCE GOALS

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

Six-Year Performance Goals

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

Twelve-Year Performance Goals

- 240,000 jobs will be created or retained.
- 240,000 households will be served with new or improved water and sewer infrastructure.
- 240,000 citizens of the Region will benefit from enhanced education and job-related skills.
- 300 additional miles (net increase) of the Appalachian Development Highway System will be opened to traffic (based on the current level of transportation funding from the U.S. Congress).

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

APPALACHIAN REGIONAL COMMISSION

A Proud Past, A New Vision

Office of Inspector General

November 15, 2012

MEMORANDUM FOR FEDERAL CO-CHAIR

From: Hubert N. Sparks, Inspector General Hubert Sparks

Subject: Management and Performance Challenges Facing the Appalachian Regional Commission

The Reports Consolidation Act of 2000 requires that we provide you with our perspective on the most serious management and performance challenges facing the Commission for inclusion in the Commission's annual performance and accountability report. Our compilation of these challenges was derived from our consideration of audit reports, open recommendations, and discussions with contract auditors and ARC personnel.

Grant Management

ARC agreed with, and has implemented, recommendations from prior OIG reports on grant management that emphasized grant oversight. Actions included following up on older open and inactive grants, upgrading the ARC grant management system, issuance of policies and procedures to improve grant oversight and project administration, efforts to obtain timely information from the child agencies that are responsible for administration of ARC construction-related grants, and better balancing of ARC's annual workload.

A particular grant management challenge derives from the required transfer of responsibilities for grant administration of many projects from ARC to federal agencies. This contributes to delays in obtaining information on project status and timely ARC and state follow-up action on inactive projects to determine the potential for grant de-obligations that would make the funds available for needed economic development projects in Appalachia. The large majority of older inactive grants pertain to grants administered by other agencies, and we have emphasized action, including timely follow-up and decisions, on these grants.

A related challenge involves reducing the extent to which a large majority of grant applications are received, and grant approvals finalized, during the last quarter of the fiscal year. This challenge involves

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

various factors, including delayed grant application submissions by states and availability of project funding, due in part to the OMB apportionment process used for ARC.

Financial Reporting

The accuracy of financial reporting continued to improve. The FY 2012 audit of financial statements rendered another "clean opinion."

An ongoing challenge for ARC is compliance with OMB Circular A-136. One of ARC's most difficult ongoing A-136 challenges is attempting to satisfy Section 3 Financial Section; II.4.2 Q&As; Question 5 of OMB Circular A-136, Financial Reporting Requirements, under which a parent agency (transferor of the appropriation) must report all budgetary and proprietary activity in its financial statements, whether that activity is material to child agencies or not. ARC has parent relationships with five departments and agencies, to each of whom it transfers its appropriated funds for purposes of accomplishing economic development activities in the Appalachian Region, largely through federal grants. These activities are authorized by the Appalachian Regional Development Act of 1965, as amended, 40 U.S.C. 14101-14704.

ARC transfers a material portion of its appropriation annually to these child agencies to carry out its mission; however, the transfers are relatively minor for the child agencies receiving them and are not material to their financial reporting. The child agencies' auditors generally do not audit at the materiality level needed by ARC, and reports of activities and balances are not made a priority by the child agencies. ARC has continued coordinating activities with basic agencies to ensure that required audit transaction testing data is received from child agencies in a more timely manner.

In fiscal year 2010, ARC transferred its accounting function to a GSA shared-services accounting platform. Although there were some initial difficulties with coordination, which were resolved, the platform has helped improve accounting and control functions, especially those related to budgetary accounting.

IT Support Infrastructure

Management has continued to address the issue of upgrading agency IT support infrastructure. ARC continues emphasis and action on full implementation of ARC.net, its grant management system, which provides online availability and control of operational information. Management continued to contract with outside vendors providing IT support and completed its third fiscal year using accounting services provided by GSA. The FY 2012 financial statement audit indicates that ARC's arrangement with GSA is delivering acceptable results, and that despite the many challenges associated with this action, all is progressing well.

APPENDICES

APPENDIX A:
Historical Funding Totals

Appropriations for Appalachian Regional Development Programs

(in thousands of dollars)

Fiscal Year	Appalachian Development Highway System Program	Area Development Program	Total
1965–66	$200,000*	$107,240	$307,240
1967	100,000*	58,550	158,550
1968	70,000*	57,446	127,446
1969	100,000*	74,450	174,450
1970	175,000*	108,390	283,390
1971	175,000*	127,968	302,968
1972	175,000*	123,113	298,113
1973	205,000*	139,217	344,217
1974	155,000*	116,492	271,492
1975	160,000*	135,247	295,247
1976	162,200*	127,870	290,070
Transition Quarter	37,500*	12,995	50,495
1977	185,000*	119,925	304,925
1978	211,300*	114,483	325,783
1979	233,000*	147,920	380,920
1980	229,000*	130,605	359,605
1981	214,600*	87,892	302,492†
1982	100,000*	52,900	152,900
1983	115,133*	52,900	168,033
1984	109,400*	52,700	162,100
1985	100,000*	51,300	151,300
1986	78,980*	37,965	116,945‡
1987	74,961*	30,039	105,000
1988	63,967*	43,033	107,000
1989	69,169*	41,531	110,700
1990	105,090*	42,810	147,900‡
1991	126,374*	43,624	169,998‡
1992	142,899*	47,101	190,000
1993	129,255*	60,745	190,000
1994	152,327*	96,673	249,000
1995	179,766*	92,215	271,981†
1996	102,475*	67,514	169,989†
1997	99,669*	60,331	160,000
1998	102,500*	67,500	170,000
1999	391,390§	66,392	457,782†
2000	386,071§	66,149	452,220†
2001	389,617§	77,230	466,847†
2002	400,427§	71,282	471,709†
2003	446,645§	70,827	517,472†
2004	484,830§	65,611	550,441†
2005	385,374§	65,472	450,846†
2006	395,296§	64,817	460,113†
2007	423,820§	64,858	488,678
2008	434,280§	73,032	507,312
2009	439,920§	75,000	514,920
2010	439,450§	76,000	515,450
2011	479,479§	68,263	547,743
2012	415,960§	68,263	484,223
Total	**$10,552,124**	**$3,703,880**	**$14,256,005**

Note: Totals may not add because of rounding.
** Highway funds are net appropriations after transfers to area development for access roads.*
† After rescission of an appropriation.
‡ After sequestration of an appropriation.
§ Obligation ceiling; Appalachian Development Highway System funds from the Highway Trust Fund apportioned by ARC formula to the Appalachian states.

Appalachian Development Highway System Authorizations

(in millions of dollars)

Legislation	Period Covered	Amount of Authorization: Added	Amount of Authorization: Cumulative
1965 Appalachian Regional Development Act (ARDA)	through 1971	$840.0	$840.0
1967 ARDA Amendments	through 1971	175.0	1,015.0
1969 ARDA Amendments	through 1973	150.0	1,165.0
1971 ARDA Amendments	through 1978	925.0	2,090.0
1975 ARDA Amendments	through 1981	840.0	2,930.0
1980 ARDA Amendments	through 1982	260.0	3,190.0
1982 Reconciliation Act	through 1982	-50.0	3,140.0
1983 ARDA Appropriation Act	through 1983	115.1	3,255.1
1984 ARDA Appropriation Act	through 1984	109.4	3,364.5
1985 ARDA Appropriation Act	through 1985	100.0	3,464.5
1986 ARDA Appropriation Act	through 1986	79.0	3,543.5
1987 ARDA Appropriation Act	through 1987	75.0	3,618.5
1988 ARDA Appropriation Act	through 1988	64.0	3,682.4
1989 ARDA Appropriation Act	through 1989	69.2	3,751.6
1990 ARDA Appropriation Act	through 1990	105.1	3,856.7
1991 ARDA Appropriation Act	through 1991	126.4	3,983.1
1992 ARDA Appropriation Act	through 1992	142.9	4,126.0
1993 ARDA Appropriation Act	through 1993	129.3	4,255.3
1994 ARDA Appropriation Act	through 1994	160.0	4,415.4
1995 ARDA Appropriation Act	through 1995	189.3	4,604.7
1996 ARDA Appropriation Act	through 1996	109.0	4,713.7
1997 ARDA Appropriation Act	through 1997	99.7	4,813.4
1998 ARDA Appropriation Act	through 1998	102.5	4,915.9
Transportation Equity Act for the 21st Century*	through 2003	2,250.0	7,165.9
Surface Transportation Extension Acts of 2004*	through 2004	512.5	7,678.4
Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU)*	through 2009	2,350.0	10,028.4
Extension of SAFETEA-LU*	through 2010	470.0	10,498.4
Extension of SAFETEA-LU*	through 2011	517.8	11,016.2
Extension of SAFETEA-LU*	through 2012	438.8	11,455.0
Expired authorization (through 1982)			**$–252.4**
Cumulative authorization through 2012			**$11,202.6**

Note: Totals may not add because of rounding.

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

Cumulative Funding by State through Fiscal Year 2012

(in millions of dollars)

State	ARC Nonhighway Funds	ARC Highway Funds*	TEA-21/ SAFETEA-LU Highway Funds*†
Alabama	$304.3	$365.8	$701.4
Georgia	221.3	144.2	10.5
Kentucky	419.3	619.0	566.7
Maryland	129.5	161.1	25.9
Mississippi	220.5	195.4	69.9
New York	189.8	325.2	149.7
North Carolina	236.5	219.6	173.3
Ohio	254.9	178.3	176.3
Pennsylvania	460.8	673.5	1,026.7
South Carolina	208.1	39.7	28.5
Tennessee	320.6	457.0	297.9
Virginia	199.7	171.2	182.7
West Virginia	382.6	1,033.0	822.6
Commission	229.5	n/a	n/a

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

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

APPENDIX B:
Nonhighway Project Funding

APPALACHIAN REGIONAL COMMISSION PROJECT TOTALS

Nonhighway Projects Approved Fiscal Year 2012

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	104	$16,769.3	$7,180.6	$30,644.8	$54,594.7
Child Developmemt	3	821.2	0.0	619.3	1,440.5
Community Development	75	20,842.8	10,586.7	63,229.5	94,659.0
Education and Job Training	72	10,384.0	226.0	7,362.7	17,972.7
Environment and Natural Resources	1	75.0	0.0	75.0	150.0
Health	30	4,927.5	0.0	5,532.6	10,460.1
Housing	1	500.0	0.0	0.0	500.0
Leadership and Civic Capacity	19	1,434.9	0.0	920.7	2,355.6
Local Development District Planning and Administration	73	7,170.2	0.0	5,652.2	12,822.3
Research and Technical Assistance	24	3,228.4	16.9	2,302.1	5,547.4
Total	**402**	**$66,153.3**	**$18,010.2**	**$116,338.8**	**$200,502.3**

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

Cumulative Nonhighway Projects Approved through Fiscal Year 2012

(in millions of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	3,167	$466.2	$193.4	$900.9	$1,560.5
Child Development	2,136	212.5	130.7	125.1	468.3
Community Development	5,581	1,255.7	1,741.2	2,692.7	5,689.6
Education and Job Training	4,814	730.3	201.9	921.5	1,853.7
Environment and Natural Resources	476	114.7	10.3	42.1	167.1
Health	4,180	521.7	250.7	825.0	1,597.5
Housing	1,217	82.3	296.5	271.8	650.6
Leadership and Civic Capacity	724	47.7	1.0	28.1	76.9
Local Development District Planning and Administration	3,753	226.4	41.9	189.1	457.4
Research and Technical Assistance	1,527	120.1	1.4	85.6	207.0
Total	**27,575**	**$3,777.5**	**$2,869.0**	**$6,082.0**	**$12,728.5**

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

ALABAMA

Nonhighway Projects Approved Fiscal Year 2012

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	13	$1,341.5	$0.0	$1,693.6	$3,035.1
Community Development	12	1,013.5	520.7	2,805.0	4,339.2
Education and Job Training	14	1,900.4	226.0	1,288.3	3,414.8
Health	3	270.2	0.0	203.8	474.0
Leadership and Civic Capacity	1	18.2	0.0	18.2	36.3
Local Development District Planning and Administration	8	612.7	0.0	413.0	1,025.6
Research and Technical Assistance	1	136.4	0.0	136.4	272.7
Total	**52**	**$5,292.8**	**$746.7**	**$6,558.2**	**$12,597.7**

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

Cumulative Nonhighway Projects Approved through Fiscal Year 2012

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	202	$26,354.5	$19,694.4	$56,294.3	$102,343.1
Child Development	176	15,327.2	13,648.0	10,707.7	39,682.8
Community Development	501	93,413.1	116,199.6	175,456.5	385,069.2
Education and Job Training	364	82,158.2	23,392.4	85,567.5	191,118.1
Environment and Natural Resources	7	2,630.1	0.0	245.0	2,875.1
Health	418	51,462.5	21,415.7	53,736.1	126,614.3
Housing	16	1,419.8	350.0	127.0	1,896.9
Leadership and Civic Capacity	52	3,190.6	6.3	1,898.0	5,094.9
Local Development District Planning and Administration	390	20,799.2	2,122.8	13,442.3	36,364.3
Research and Technical Assistance	86	7,554.0	25.0	5,827.0	13,406.0
Total	**2,212**	**$304,309.2**	**$196,854.1**	**$403,301.6**	**$904,464.9**

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

GEORGIA

Nonhighway Projects Approved Fiscal Year 2012
(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	7	$1,451.0	$1,000.0	$3,131.3	$5,582.3
Community Development	2	371.7	0.0	330.7	702.4
Education and Job Training	2	415.5	0.0	439.6	855.0
Local Development District Planning and Administration	4	666.1	0.0	666.1	1,332.2
Research and Technical Assistance	1	32.2	0.0	32.2	64.4
Total	**16**	**$2,936.4**	**$1,000.0**	**$4,599.9**	**$8,536.3**

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

Cumulative Nonhighway Projects Approved through Fiscal Year 2012
(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	162	$30,650.4	$8,170.2	$66,000.3	$104,820.8
Child Development	307	21,021.8	16,591.6	9,495.7	47,109.0
Community Development	331	60,788.8	83,892.4	166,596.6	311,277.8
Education and Job Training	291	43,582.7	6,777.4	34,313.5	84,673.7
Environment and Natural Resources	7	1,081.4	0.0	514.6	1,596.0
Health	322	35,786.3	12,251.3	31,037.9	79,075.5
Housing	81	5,063.6	15,357.7	33,666.5	54,087.8
Leadership and Civic Capacity	16	786.8	0.0	621.6	1,408.3
Local Development District Planning and Administration	303	16,098.1	3,833.3	14,402.8	34,334.2
Research and Technical Assistance	49	6,469.7	0.0	5,346.2	11,815.8
Total	**1,869**	**$221,329.4**	**$146,873.9**	**$361,995.7**	**$730,198.9**

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

KENTUCKY

Nonhighway Projects Approved Fiscal Year 2012
(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	1	$60.0	$0.0	$15.0	$75.0
Child Development	2	692.5	0.0	585.7	1,278.1
Community Development	10	4,484.0	3,959.0	14,565.8	23,008.8
Education and Job Training	3	1,030.7	0.0	365.4	1,396.1
Health	6	2,016.7	0.0	2,107.1	4,123.8
Housing	1	500.0	0.0	0.0	500.0
Leadership and Civic Capacity	3	771.4	0.0	419.6	1,191.0
Local Development District Planning and Administration	9	735.0	0.0	735.0	1,470.0
Research and Technical Assistance	2	361.9	0.0	216.3	578.2
Total	**37**	**$10,652.1**	**$3,959.0**	**$19,009.9**	**$33,620.9**

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

Cumulative Nonhighway Projects Approved through Fiscal Year 2012
(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	153	$24,879.3	$16,532.9	$53,873.3	$95,285.5
Child Development	36	11,283.2	13,201.2	4,220.6	28,704.9
Community Development	625	165,276.7	237,088.1	461,577.7	863,942.5
Education and Job Training	361	62,555.6	10,470.8	47,670.3	120,696.7
Environment and Natural Resources	30	3,012.4	1,148.5	1,123.4	5,284.3
Health	414	79,652.8	22,202.5	128,899.6	230,754.8
Housing	320	29,687.3	120,772.3	136,599.2	287,058.8
Leadership and Civic Capacity	70	9,328.6	2.4	3,606.1	12,937.2
Local Development District Planning and Administration	496	26,318.4	340.7	19,251.1	45,910.3
Research and Technical Assistance	74	7,269.1	40.0	5,808.1	13,117.2
Total	**2,579**	**$419,263.5**	**$421,799.5**	**$862,629.2**	**$1,703,692.2**

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

MARYLAND

Nonhighway Projects Approved Fiscal Year 2012

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	5	$807.6	$500.0	$1,243.0	$2,550.6
Community Development	4	575.0	0.0	1,875.0	2,450.0
Education and Job Training	3	144.0	0.0	219.4	363.4
Leadership and Civic Capacity	1	50.0	0.0	50.0	100.0
Local Development District Planning and Administration	1	148.0	0.0	148.0	296.0
Research and Technical Assistance	1	50.0	0.0	50.0	100.0
Total	**15**	**$1,774.6**	**$500.0**	**$3,585.3**	**$5,859.9**

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

Cumulative Nonhighway Projects Approved through Fiscal Year 2012

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	115	$18,277.3	$8,816.4	$38,249.4	$65,343.2
Child Development	13	5,141.7	3,259.6	2,299.9	10,701.2
Community Development	189	42,524.7	60,723.9	82,408.0	185,656.5
Education and Job Training	341	24,439.3	2,227.4	21,405.8	48,072.5
Environment and Natural Resources	20	3,854.7	2,674.4	2,735.7	9,264.8
Health	182	17,713.5	2,073.4	18,071.5	37,858.4
Housing	108	7,537.1	13,479.6	36,673.2	57,689.9
Leadership and Civic Capacity	12	392.5	0.0	287.6	680.1
Local Development District Planning and Administration	62	5,089.3	725.7	4,544.9	10,360.0
Research and Technical Assistance	48	4,534.8	98.0	4,547.2	9,180.0
Total	**1,090**	**$129,504.8**	**$94,078.4**	**$211,223.4**	**$434,806.6**

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

MISSISSIPPI

Nonhighway Projects Approved Fiscal Year 2012

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	8	$1,458.9	$0.0	$1,611.0	$3,069.9
Child Development	1	128.8	0.0	33.7	162.4
Community Development	7	1,805.4	0.0	3,941.7	5,747.0
Education and Job Training	17	2,276.2	0.0	1,017.7	3,293.9
Health	1	101.0	0.0	25.5	126.5
Leadership and Civic Capacity	2	32.8	0.0	15.0	47.8
Local Development District Planning and Administration	6	400.2	0.0	133.7	533.9
Research and Technical Assistance	2	261.9	0.0	192.9	454.9
Total	**44**	**$6,465.3**	**$0.0**	**$6,971.1**	**$13,436.4**

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

Cumulative Nonhighway Projects Approved through Fiscal Year 2012

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	178	$33,843.8	$10,977.6	$86,567.8	$131,389.1
Child Development	164	11,702.5	7,211.5	6,539.9	25,453.9
Community Development	481	74,760.2	55,615.8	130,783.0	261,158.9
Education and Job Training	310	51,554.8	9,848.6	27,061.8	88,465.2
Environment and Natural Resources	12	2,297.3	0.0	1,003.5	3,300.8
Health	190	20,949.8	5,435.4	16,358.5	42,743.8
Housing	46	1,953.7	6,659.9	825.5	9,439.1
Leadership and Civic Capacity	35	4,173.1	0.0	2,030.2	6,203.3
Local Development District Planning and Administration	237	11,661.5	2,557.5	7,463.5	21,682.5
Research and Technical Assistance	54	7,594.9	280.0	6,032.5	13,907.4
Total	**1,707**	**$220,491.5**	**$98,586.5**	**$284,666.1**	**$603,744.0**

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

NEW YORK

Nonhighway Projects Approved Fiscal Year 2012

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	11	$1,116.4	$44.5	$5,923.5	$7,084.4
Community Development	2	73.2	0.0	74.2	147.5
Education and Job Training	2	181.5	0.0	219.8	401.2
Environment and Natural Resources	1	75.0	0.0	75.0	150.0
Health	2	297.8	0.0	345.0	642.8
Local Development District Planning and Administration	3	914.0	0.0	914.0	1,828.0
Total	**21**	**$2,657.9**	**$44.5**	**$7,551.5**	**$10,254.0**

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

Cumulative Nonhighway Projects Approved through Fiscal Year 2012

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	228	$20,428.5	$5,626.1	$41,623.2	$67,677.7
Child Development	307	17,704.1	3,160.4	12,968.9	33,833.4
Community Development	300	48,596.1	99,956.2	151,037.1	299,589.3
Education and Job Training	364	45,521.5	12,334.3	68,281.4	126,137.1
Environment and Natural Resources	17	2,974.2	0.0	531.3	3,505.5
Health	230	23,841.8	7,421.4	50,912.1	82,175.3
Housing	55	3,378.3	1,020.0	1,524.9	5,923.2
Leadership and Civic Capacity	37	1,862.9	1.8	1,477.4	3,342.1
Local Development District Planning and Administration	172	17,883.1	722.1	14,879.1	33,484.3
Research and Technical Assistance	48	7,627.8	0.0	6,411.1	14,038.9
Total	**1,758**	**$189,818.2**	**$130,242.3**	**$349,646.4**	**$669,707.0**

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

NORTH CAROLINA

Nonhighway Projects Approved Fiscal Year 2012

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	4	$600.0	$16.3	$1,266.4	$1,882.7
Community Development	4	688.5	715.0	3,551.5	4,955.0
Education and Job Training	1	100.0	0.0	128.3	228.3
Health	6	724.6	0.0	1,370.6	2,095.1
Leadership and Civic Capacity	1	200.0	0.0	200.0	400.0
Local Development District Planning and Administration	6	503.0	0.0	474.1	977.1
Research and Technical Assistance	1	514.6	0.0	522.0	1,036.7
Total	**23**	**$3,330.7**	**$731.3**	**$7,512.9**	**$11,574.9**

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

Cumulative Nonhighway Projects Approved through Fiscal Year 2012

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	144	$22,998.4	$4,913.3	$66,665.1	$94,576.8
Child Development	47	27,711.4	20,309.2	19,644.8	67,665.4
Community Development	391	64,197.4	69,581.9	157,343.4	291,122.8
Education and Job Training	224	45,440.0	8,072.4	37,820.6	91,333.0
Environment and Natural Resources	16	2,402.9	96.0	458.4	2,957.2
Health	237	32,563.4	20,391.4	49,243.6	102,198.5
Housing	136	6,637.2	41,416.4	10,346.2	58,399.9
Leadership and Civic Capacity	28	1,954.0	119.6	1,644.3	3,717.9
Local Development District Planning and Administration	304	18,045.5	2,341.7	18,118.5	38,505.7
Research and Technical Assistance	63	14,571.5	125.0	13,189.6	27,886.2
Total	**1,590**	**$236,521.8**	**$167,367.0**	**$374,474.5**	**$778,363.3**

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

OHIO

Nonhighway Projects Approved Fiscal Year 2012
(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Community Development	13	$3,051.0	$2,992.0	$15,685.4	$21,728.4
Education and Job Training	5	828.5	0.0	515.0	1,343.5
Health	6	693.9	0.0	964.6	1,658.5
Local Development District Planning and Administration	4	681.0	0.0	536.8	1,217.8
Total	**28**	**$5,254.4**	**$2,992.0**	**$17,701.8**	**$25,948.2**

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

Cumulative Nonhighway Projects Approved through Fiscal Year 2012
(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	185	$22,136.4	$19,074.6	$56,352.8	$97,563.8
Child Development	268	22,701.2	7,233.1	13,433.7	43,367.9
Community Development	393	72,000.2	82,588.5	236,390.7	390,979.4
Education and Job Training	314	54,216.9	15,409.5	77,062.0	146,688.5
Environment and Natural Resources	28	4,493.4	55.3	1,761.7	6,310.4
Health	383	49,080.2	16,786.4	53,289.7	119,156.3
Housing	76	4,710.2	12,581.7	9,249.9	26,541.8
Leadership and Civic Capacity	47	2,736.2	313.4	2,672.2	5,721.8
Local Development District Planning and Administration	190	17,477.3	1,613.5	15,774.6	34,865.4
Research and Technical Assistance	56	5,377.8	27.0	4,774.3	10,179.1
Total	**1,940**	**$254,929.7**	**$155,682.9**	**$470,761.8**	**$881,374.5**

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

PENNSYLVANIA

Nonhighway Projects Approved Fiscal Year 2012
(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	13	$3,474.1	$520.8	$3,890.9	$7,885.8
Community Development	2	125.0	0.0	175.0	300.0
Education and Job Training	1	100.0	0.0	100.2	200.2
Health	2	325.0	0.0	336.6	661.6
Local Development District Planning and Administration	7	706.0	0.0	648.4	1,354.4
Research and Technical Assistance	1	181.9	0.0	181.9	363.8
Total	**26**	**$4,912.0**	**$520.8**	**$5,332.9**	**$10,765.7**

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

Cumulative Nonhighway Projects Approved through Fiscal Year 2012
(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	549	$122,366.6	$52,090.3	$187,505.1	$361,962.0
Child Development	194	13,771.1	8,264.1	7,341.0	29,376.2
Community Development	412	90,359.3	384,034.8	285,686.9	760,081.0
Education and Job Training	342	66,547.8	47,336.2	251,040.1	364,924.1
Environment and Natural Resources	129	62,723.0	400.0	25,135.0	88,258.0
Health	389	54,844.4	63,297.8	233,611.7	351,753.9
Housing	157	7,931.7	44,432.2	5,114.7	57,478.5
Leadership and Civic Capacity	68	4,847.4	237.4	5,074.7	10,159.5
Local Development District Planning and Administration	387	26,093.7	1,633.3	17,642.0	45,369.0
Research and Technical Assistance	73	11,340.9	270.0	11,355.4	22,966.3
Total	**2,700**	**$460,825.8**	**$601,996.1**	**$1,029,506.6**	**$2,092,328.6**

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

SOUTH CAROLINA

Nonhighway Projects Approved Fiscal Year 2012

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	4	$1,170.0	$0.0	$1,372.1	$2,542.1
Community Development	2	887.5	0.0	1,687.5	2,575.0
Education and Job Training	5	643.1	0.0	896.0	1,539.1
Local Development District Planning and Administration	1	179.0	0.0	179.0	358.0
Research and Technical Assistance	1	59.2	0.0	59.2	118.4
Total	**13**	**$2,938.8**	**$0.0**	**$4,193.8**	**$7,132.6**

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

Cumulative Nonhighway Projects Approved through Fiscal Year 2012

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	96	$24,498.6	$3,514.0	$52,792.8	$80,805.4
Child Development	155	17,116.3	9,409.7	9,026.0	35,552.0
Community Development	253	57,790.9	39,761.0	113,898.6	211,450.5
Education and Job Training	468	56,374.3	11,098.9	60,972.9	128,446.1
Environment and Natural Resources	4	930.7	98.1	921.5	1,950.3
Health	362	41,344.3	17,186.6	54,441.7	112,972.6
Housing	5	291.6	0.0	0.0	291.6
Leadership and Civic Capacity	9	803.3	0.0	565.7	1,369.0
Local Development District Planning and Administration	60	6,788.1	897.3	4,388.8	12,074.2
Research and Technical Assistance	50	2,199.9	0.0	1,430.0	3,629.8
Total	**1,462**	**$208,137.8**	**$81,965.7**	**$298,438.0**	**$588,541.6**

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

TENNESSEE

Nonhighway Projects Approved Fiscal Year 2012
(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	9	$2,027.9	$0.0	$2,109.3	$4,137.3
Community Development	8	3,741.2	1,900.0	3,452.7	9,093.9
Education and Job Training	5	1,127.9	0.0	1,249.8	2,377.8
Local Development District Planning and Administration	5	507.0	0.0	248.2	755.2
Research and Technical Assistance	1	220.0	0.0	220.0	440.0
Total	**28**	**$7,624.0**	**$1,900.0**	**$7,280.0**	**$16,804.0**

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

Cumulative Nonhighway Projects Approved through Fiscal Year 2012
(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	160	$37,535.1	$11,870.8	$44,854.3	$94,260.2
Child Development	146	14,149.0	17,659.2	17,054.3	48,862.5
Community Development	585	160,651.5	93,454.4	230,670.9	484,776.8
Education and Job Training	229	46,815.6	18,130.1	61,879.6	126,825.3
Environment and Natural Resources	19	3,145.4	194.5	251.3	3,591.1
Health	322	30,535.6	25,948.2	48,252.9	104,736.6
Housing	17	2,558.1	0.0	439.6	2,997.8
Leadership and Civic Capacity	15	1,301.6	0.0	644.5	1,946.1
Local Development District Planning and Administration	258	16,999.4	1,133.6	11,655.9	29,789.0
Research and Technical Assistance	57	6,915.7	0.0	6,879.7	13,795.4
Total	**1,808**	**$320,607.0**	**$168,390.9**	**$422,583.0**	**$911,580.9**

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

VIRGINIA

Nonhighway Projects Approved Fiscal Year 2012

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	8	$2,062.9	$5,089.0	$7,115.9	$14,267.8
Health	1	100.0	0.0	86.0	186.0
Local Development District Planning and Administration	7	490.3	0.0	350.3	840.6
Research and Technical Assistance	1	240.0	0.0	240.0	480.0
Total	**17**	**$2,893.2**	**$5,089.0**	**$7,792.2**	**$15,774.4**

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

Cumulative Nonhighway Projects Approved through Fiscal Year 2012

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	133	$18,407.7	$12,382.3	$76,917.6	$107,707.6
Child Development	50	5,797.7	157.0	2,313.8	8,268.5
Community Development	275	76,212.0	82,207.5	177,279.5	335,699.1
Education and Job Training	255	46,400.5	8,992.6	32,913.6	88,306.7
Environment and Natural Resources	21	3,701.8	2,630.2	2,438.7	8,770.6
Health	137	20,988.3	7,089.8	21,939.6	50,017.7
Housing	59	6,682.7	20,893.9	23,210.2	50,786.9
Leadership and Civic Capacity	20	1,124.8	100.0	423.9	1,648.7
Local Development District Planning and Administration	324	16,589.3	4,334.0	13,328.5	34,251.9
Research and Technical Assistance	47	3,789.3	0.0	3,270.4	7,059.8
Total	**1,321**	**$199,694.1**	**$138,787.5**	**$354,035.8**	**$692,517.5**

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

WEST VIRGINIA

Nonhighway Projects Approved Fiscal Year 2012
(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Community Development	3	$3,750.0	$500.0	$15,005.0	$19,255.0
Education and Job Training	4	448.3	0.0	664.9	1,113.2
Leadership and Civic Capacity	1	100.0	0.0	103.5	203.5
Local Development District Planning and Administration	11	784.0	0.0	406.7	1,190.7
Research and Technical Assistance	1	250.0	0.0	250.0	500.0
Total	**20**	**$5,332.3**	**$500.0**	**$16,430.1**	**$22,262.4**

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

Cumulative Nonhighway Projects Approved through Fiscal Year 2012
(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	119	$26,695.1	$8,327.1	$28,629.9	$63,652.1
Child Development	148	17,155.0	9,051.5	9,101.6	35,308.1
Community Development	526	172,420.2	318,529.3	287,654.9	778,604.4
Education and Job Training	275	67,509.8	25,546.3	96,435.2	189,491.3
Environment and Natural Resources	21	4,699.3	1,897.1	1,958.6	8,554.9
Health	299	51,689.1	25,659.7	62,110.6	139,459.4
Housing	90	3,532.0	19,574.8	13,572.5	36,679.3
Leadership and Civic Capacity	44	5,189.6	12.0	2,849.9	8,051.5
Local Development District Planning and Administration	534	25,148.9	19,653.0	34,074.2	78,876.1
Research and Technical Assistance	47	8,592.1	0.0	8,200.0	16,792.1
Total	**2,103**	**$382,631.0**	**$428,250.9**	**$544,587.3**	**$1,355,469.2**

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

COMMISSION

Nonhighway Projects Approved Fiscal Year 2012

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	21	$1,199.0	$10.0	$1,272.8	$2,481.7
Community Development	6	276.9	0.0	80.0	356.9
Education and Job Training	10	1,187.8	0.0	258.5	1,446.3
Health	3	398.2	0.0	93.5	491.7
Leadership and Civic Capacity	10	262.6	0.0	114.5	377.1
Local Development District Planning and Administration	1	45.0	0.0	0.0	45.0
Research and Technical Assistance	11	719.2	16.9	0.0	736.1
Total	**62**	**$4,088.6**	**$26.9**	**$1,819.2**	**$5,934.8**

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

Cumulative Nonhighway Projects Approved through Fiscal Year 2012

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	743	$37,097.0	$11,400.3	$44,581.3	$93,078.5
Child Development	125	11,868.8	1,592.5	999.0	14,460.3
Community Development	319	76,729.7	17,556.0	35,878.8	130,164.5
Education and Job Training	676	37,197.2	2,230.2	19,117.0	58,544.4
Environment and Natural Resources	145	16,794.6	1,059.6	2,983.8	20,838.0
Health	295	11,242.9	3,584.6	3,115.2	17,942.8
Housing	51	918.7	0.0	446.0	1,364.7
Leadership and Civic Capacity	271	10,027.6	243.2	4,352.4	14,623.2
Local Development District Planning and Administration	36	1,375.7	0.0	116.8	1,492.5
Research and Technical Assistance	775	26,231.3	494.3	2,520.2	29,245.8
Total	**3,436**	**$229,483.4**	**$38,160.7**	**$114,110.6**	**$381,754.7**

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

APPENDIX C:
Appalachian Development Highway System Status and Funding

Appalachian Development Highway System and Local Access Roads Obligations
Fiscal Year 2012
as of September 30, 2012

	TEA-21/SAFETEA-LU FUNDS*			ARC HIGHWAY FUNDS (Appropriated Prior to FY 1999)			
State	ADHS†	Local Access Roads	Total State and Local Match‡	ADHS	Local Access Roads	Total State and Local Match‡	Total Funds
Alabama	$3,472,153	$0	$868,038	$92,805	-$63,569§	$7,309	$4,376,736
Georgia	1,131,692	0	282,923	0	0	0	1,414,615
Kentucky	8,920,242	0	2,230,061	0	0	0	11,150,303
Maryland	0	-334,270§	-83,568§	0	0	0	-417,838§
Mississippi	11,831,392	284,083	3,028,869	0	0	0	15,144,344
New York	4,088,560	0	1,022,140	-102,009§	0	-25,502§	4,983,189
North Carolina	1,785,121	0	446,280	0	0	0	2,231,401
Ohio	521,012	0	130,253	0	0	0	651,265
Pennsylvania	-8,146,508§	1,262,499	-1,721,002§	-1§	0	0	-8,605,013§
South Carolina	338,760	0	84,690	0	0	0	423,450
Tennessee	5,388,731	0	1,347,183	0	0	0	6,735,914
Virginia	114,657	0	28,664	-81,012§	-2,243§	-20,814§	39,253
West Virginia	35,636,379	0	8,909,095	20,307	0	5,077	44,570,858
Totals	**$65,082,191**	**$1,212,312**	**$16,573,626**	**-$69,910§**	**-$65,812§**	**-$33,931§**	**$82,698,476**

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

Appalachian Development Highway System and Local Access Roads Cumulative Obligations Through Fiscal Year 2012

as of September 30, 2012

	TEA-21/SAFETEA-LU FUNDS*			ARC HIGHWAY FUNDS (Appropriated Prior to FY 1999)			
State	ADHS†	Local Access Roads	Total State and Local Match‡	ADHS	Local Access Roads	Total State and Local Match	Total Funds
Alabama	$701,375,068	$0	$175,343,767	$337,461,180	$28,357,070	$122,360,021	$1,364,897,106
Georgia	10,490,574	11,447	2,625,505	131,843,683	12,377,000	66,730,607	224,078,816
Kentucky	566,650,072	0	141,662,518	612,492,961	6,510,628	306,671,494	1,633,987,673
Maryland	18,275,323	7,617,740	6,473,266	155,328,866	5,765,288	176,340,611	369,801,094
Mississippi	63,791,043	6,156,755	17,486,950	155,748,309	39,662,022	79,691,343	362,536,422
New York	149,706,634	0	37,426,659	316,083,193	9,138,138	242,821,150	755,175,773
North Carolina	173,315,382	0	43,328,846	209,658,380	9,934,493	111,740,765	547,977,866
Ohio	169,548,536	6,713,021	44,065,389	166,155,601	12,108,978	99,004,990	497,596,515
Pennsylvania	1,017,277,608	9,373,770	256,662,845	639,099,397	34,419,468	312,486,917	2,269,320,004
South Carolina	28,503,092	0	7,125,773	22,439,561	17,251,630	19,109,667	94,429,723
Tenneessee	297,629,655	225,000	74,463,664	435,145,041	21,825,000	194,840,496	1,024,128,856
Virginia	181,467,348	1,231,197	45,674,636	162,810,359	8,422,248	116,801,329	516,407,117
West Virginia	822,620,383	0	205,655,096	1,011,822,266	21,217,347	505,048,012	2,566,363,104
Totals	**$4,200,650,718**	**$31,328,930**	**$1,057,994,912**	**$4,356,088,797**	**$226,989,309**	**$2,353,647,402**	**$12,226,700,067**

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

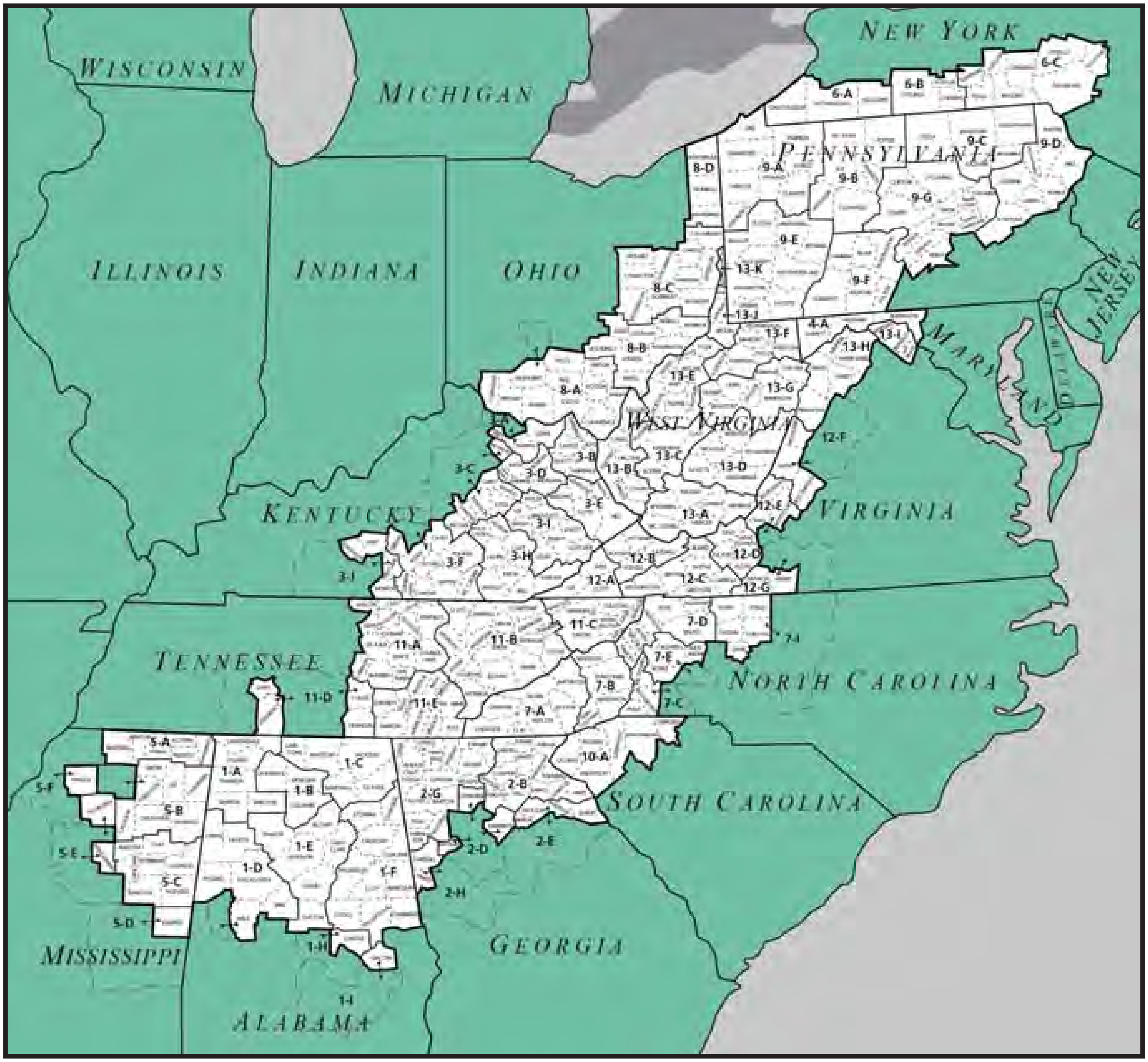
Status of Completion of the Appalachian Development Highway System (Miles)
as of September 30, 2012

	Total Miles Eligible for ADHS Funding*	MILES NOT OPEN TO TRAFFIC: Location Study Needed or Under Way	MILES NOT OPEN TO TRAFFIC: Design and/or Right-of-Way Under Way	MILES NOT OPEN TO TRAFFIC: Construction Under Way	MILES OPEN TO TRAFFIC: Remaining Stage Construction	MILES OPEN TO TRAFFIC: Complete
Alabama	295.7	43.3	23.6	17.8	58.6	152.4
Georgia	132.5	20.5	11.1	0.0	0.0	100.9
Kentucky	426.3	0.0	16.7	11.9	0.0	397.7
Maryland	83.2	2.5	0.0	0.0	3.7	77.0
Mississippi	117.5	0.0	8.3	9.8	0.0	99.4
New York	222.0	0.0	0.0	6.6	0.7	214.7
North Carolina	204.3	18.1	0.0	2.8	8.0	175.4
Ohio	201.5	7.1	16.2	0.0	0.0	178.2
Pennsylvania	453.1	87.4	25.9	0.0	2.9	336.9
South Carolina	22.9	0.0	0.0	4.3	0.0	18.6
Tennessee	329.3	14.1	3.4	6.3	75.7	229.8
Virginia	192.2	15.3	13.4	1.6	1.2	160.7
West Virginia	409.6	15.3	14.9	25.9	0.9	352.6
System Totals	**3,090.1**	**223.6**	**133.5**	**87.0**	**151.7**	**2,494.3**

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

APPENDIX D: Local Development Districts in the Appalachian Region

LOCAL DEVELOPMENT DISTRICTS IN THE APPALACHIAN REGION



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

LOCAL DEVELOPMENT DISTRICTS IN THE APPALACHIAN REGION

ALABAMA

1A/ Northwest Alabama Council of Local Governments

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

1B/ North Central Alabama Regional Council of Governments

216 Jackson Street, SE
Decatur, Alabama 35601
P.O. Box C (mailing address)
Decatur, Alabama 35602
256-355-4515
Executive Director: Lona Jones
email: lona.johns@adss.alabama.gov
Web Site: http://www.narcog.org
Counties: Cullman, Lawrence, Morgan

1C/ Top of Alabama Regional Council of Governments

5075 Research Drive, NW
Huntsville, Alabama 35805
256-830-0818
Executive Director: Robert B. Culver
email: bob.culver@tarcog.us
Web Site: http://www.alarc.org/tarcog/
Counties: DeKalb, Jackson, Limestone, Madison, Marshall

1D/ West Alabama Regional Commission

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

1E/ Regional Planning Commission of Greater Birmingham

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

1F/ East Alabama Regional Planning and Development Commission

1130 Quintard Ave., Suite 300
P.O. Box 2186
Anniston, Alabama 36202
256-237-6741
Executive Director: James W. (Bill) Curtis
email: bill.curtis@earpdc.org
Web Site: http://www.earpdc.org
Counties: Calhoun, Chambers, Cherokee, Clay, Cleburne, Coosa, Etowah, Randolph, Talladega, Tallapoosa

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

LOCAL DEVELOPMENT DISTRICTS IN THE APPALACHIAN REGION

1H/ Central Alabama Regional Planning and Development Commission
430 South Court Street
Montgomery, Alabama 36104
334-262-4300
Executive Director: Greg Clark
email: gclark@carpdc.com
Web Site: http://www.carpdc.com
Counties: Elmore, (Autauga, Montgomery)

1I/ South Central Alabama Development Commission
5900 Carmichael Place
Montgomery, Alabama 36117
334-244-6903
Executive Director: Tyson Howard
email: tyson.howard@adss.alabama.gov
Web Site: http://www.scadc.net
Counties: Macon, (Bullock, Butler, Crenshaw, Lowndes, Pike)

GEORGIA

2B/ Georgia Mountains Regional Commission
P.O. Box 1720
Gainesville, Georgia 30503
770-538-2626
Executive Director: Danny Lewis
email: dlewis@gmrc.ga.gov
Web Site: http://www.gmrc.ga.gov
Counties: Banks, Dawson, Forsyth, Franklin, Habersham, Hall, Hart, Lumpkin, Rabun, Stephens, Towns, Union, White

2D/ Atlanta Regional Commission
40 Courtland Street, NE
Atlanta, Georgia 30303
404-463-3100
Executive Director: Douglas Hooker
email: infocenter@atlantaregional.com
Web Site: http://www.atlantaregional.com
Counties: Cherokee, Douglas, Gwinnett, (Clayton, Cobb, DeKalb, Fayette, Fulton, Henry, Rockdale)

2E/ Northeast Georgia Regional Commission
305 Research Drive
Athens, Georgia 30605-2795
706-369-5650
Executive Director: James R. Dove
email: jdove@negrc.org
Web Site: http://www.negrc.org
Counties: Barrow, Elbert, Jackson, Madison, (Clarke, Greene, Jasper, Morgan, Newton, Oconee, Oglethorpe, Walton)

2G/ Northwest Georgia Regional Commission
P.O. Box 1798
Rome, Georgia 30162-1798
706-295-6485
Executive Director: Lloyd Frasier
email: lfrasier@nwgrc.org
Web Site: http://www.nwgrc.org
Counties: Bartow, Catoosa, Chattooga, Dade, Fannin, Floyd, Gilmer, Gordon, Haralson, Murray, Paulding, Pickens, Polk, Walker, Whitfield

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

LOCAL DEVELOPMENT DISTRICTS IN THE APPALACHIAN REGION

2H/ Three Rivers Regional Commission
120 N. Hill Street
P.O. Box 818 (mailing address)
Griffin, Georgia 30224-0818
678-692-0510
Executive Director: Lanier Boatwright
email: lboatwright@threeriversrc.com
Web Site: http://www.threeriversrc.com
Counties: Carroll, Heard, (Butts, Coweta, Lamar, Meriwether, Pike, Spalding, Troup, Upson)

KENTUCKY

3A/ Buffalo Trace Area Development District
P.O. Box 460
Maysville, Kentucky 41056
606-564-6894
Executive Director: Amy Kennedy
email: akennedy@btadd.com
Web Site: http://www.btadd.com
Counties: Fleming, Lewis, Robertson, (Bracken, Mason)

3B/ FIVCO Area Development District
32 Fivco Court
Grayson, Kentucky 41143
606-929-1366
Executive Director: Sherry McDavid
email: mary@fivco.org
Web Site: http://www.fivco.org
Counties: Boyd, Carter, Elliott, Greenup, Lawrence

3C/ Bluegrass Area Development District
699 Perimeter Drive
Lexington, Kentucky 40517
859-269-8021
Executive Director: Lenny Stoltz
email: lstoltz@bgadd.org
Web Site: http://www.bgadd.org
Counties: Clark, Estill, Garrard, Lincoln, Madison, Nicholas, Powell, (Anderson, Bourbon, Boyle, Fayette, Franklin, Harrison, Jessamine, Mercer, Scott, Woodford)

3D/ Gateway Area Development District
110 Lake Park Drive
Morehead, Kentucky 40351
606-780-0090
Executive Director: Gail Wright
email: gailk.wright@ky.gov
Web Site: http://www.gwadd.org
Counties: Bath, Menifee, Montgomery, Morgan, Rowan

3E/ Big Sandy Area Development District
110 Resource Court
Prestonsburg, Kentucky 41653
606-886-2374
Executive Director: Sandy Runyon
email: terry.trimble@bigsandy.org
Web Site: http://www.bigsandy.org
Counties: Floyd, Johnson, Magoffin, Martin, Pike

3F/ Lake Cumberland Area Development District, Inc.
P.O. Box 1570
Russell Springs, Kentucky 42642
270-866-4200
Executive Director: Donna Diaz
email: donnad@lcadd.org
Web Site: http://www.lcadd.org
Counties: Adair, Casey, Clinton, Cumberland, Green, McCreary, Pulaski, Russell, Wayne, (Taylor)

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

LOCAL DEVELOPMENT DISTRICTS IN THE APPALACHIAN REGION

3H/ Cumberland Valley Area Development District
P.O. Box 1740
London, Kentucky 40743-1740
606-864-7391
Executive Director: Mike Patrick
email: mpatrick@cvadd.org
Web Site: http://www.cvadd.org
Counties: Bell, Clay, Harlan, Jackson, Knox, Laurel, Rockcastle, Whitley

3I/ Kentucky River Area Development District
917 Perry Park Road
Hazard, Kentucky 41701-9545
606-436-3158
Executive Director: Mike Miller
email: mike@kradd.org
Web Site: http://www.kradd.org
Counties: Breathitt, Knott, Lee, Leslie, Letcher, Owsley, Perry, Wolfe

3J/ Barren River Area Development District
177 Graham Avenue
Bowling Green, Kentucky 42101
270-781-2381
Executive Director: Rodney Kirtley
email: rkirtley@bradd.org
Web Site: http://www.bradd.org
Counties: Edmonson, Hart, Metcalfe, Monroe, (Allen, Barren, Butler, Logan, Simpson, Warren)

MARYLAND

4A/ Tri-County Council for Western Maryland, Inc.
One Technology Drive, Suite 1000
Frostburg, Maryland 21532
301-689-1300
Executive Director: Leanne Mazer
email: leanne@tccwmd.org
Web Site: http://www.tccwmd.org
Counties: Allegany, Garrett, Washington

MISSISSIPPI

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

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

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

LOCAL DEVELOPMENT DISTRICTS IN THE APPALACHIAN REGION

5C/ Golden Triangle Planning and Development District

P.O. Box 828
Starkville, Mississippi 39760-0828
662-324-7860
Executive Director: Rupert L. Johnson
email: rjohnson@gtpdd.com
Web Site: http://www.gtpdd.com
Counties: Choctaw, Clay, Lowndes, Noxubee, Oktibbeha, Webster, Winston

5D/ East Central Planning and Development District

P.O. Box 499
Newton, Mississippi 39345
601-683-2007
Executive Director: Bill Richardson
email: mail@ecpdd.org
Counties: Kemper, (Clarke, Jasper, Lauderdale, Leake, Neshoba, Newton, Scott, Smith)

5E/ North Central Planning and Development District

711 South Applegate
Winona, Mississippi 38967
662-283-2675
Executive Director: Steve Russell
email: srussell@ncpdd.org
Web Site: http://www.ncpdd.org
Counties: Montgomery, Yalobusha, (Attala, Carroll, Grenada, Holmes, Leflore)

5F/ North Delta Planning and Development District

P.O. Box 1488
Batesville, Mississippi 38606-1488
662-561-4100
Executive Director: James W. Curcio
email: jcurcio@ndpdd.com
Web Site: http://www.ndpdd.com
Counties: Panola, (Coahoma, DeSoto, Quitman, Tallahatchie, Tate, Tunica)

NEW YORK

6A/ Southern Tier West Regional Planning and Development Board

Center for Regional Excellence
4039 Route 219, Suite 200
Salamanca, New York 14779
716-945-5301 Ext. 203
Executive Director: Richard Zink
email: rzink@southerntierwest.org
Web Site: http://www.southerntierwest.org
Counties: Allegany, Cattaraugus, Chautauqua

6B/ Southern Tier Central Regional Planning and Development Board

8 Denison Parkway East, Suite 310
Corning, New York 14830
607-962-5092
Executive Director: Marcia D. Weber
email: weber@stny.rr.com
Web Site: http://www.stcplanning.org/
Counties: Chemung, Schuyler, Steuben

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

LOCAL DEVELOPMENT DISTRICTS IN THE APPALACHIAN REGION

6C/ Southern Tier East Regional Planning Development Board

375 State Street
Second Floor
Binghamton, New York 13901-2385
607-724-1327
Director: Erik Miller
email: ste@steny.org
Web Site: http://www.steny.org/
Counties: Broome, Chenango, Cortland, Delaware, Otsego, Schoharie, Tioga, Tompkins

NORTH CAROLINA

7A/ Southwestern Commission

125 Bonnie Lane
Sylva, North Carolina 28779
828-586-1962
Executive Director: Ryan Sherby
email: ryan@regiona.org
Web Site: http://www.regiona.org
Counties: Cherokee, Clay, Graham, Haywood, Jackson, Macon, Swain

7B/ Land-of-Sky Regional Council

339 New Leicester Hwy., Suite 140
Asheville, North Carolina 28806
828-251-6622
Interim Executive Director: Danna Stansbury
email: info@landofsky.org
Web Site: http://www.landofsky.org
Counties: Buncombe, Henderson, Madison, Transylvania

7C/ Isothermal Planning and Development Commission

P.O. Box 841
Rutherfordton, North Carolina 28139-0841
OR
111 W. Court Street
Rutherfordton, North Carolina 28139
828-287-2281
Executive Director: Jim Edwards
email: jedwards@regionc.org
Web Site: http://www.regionc.org
Counties: McDowell, Polk, Rutherford, (Cleveland)

7D/ High Country Council of Governments

468 New Market Blvd.
Boone, North Carolina 28607
828-265-5434
Executive Director: Rick Herndon
email: regiondcog@regiond.org
Web Site: http://www.regiond.org
Counties: Alleghany, Ashe, Avery, Mitchell, Watauga, Wilkes, Yancey

7E/ Western Piedmont Council of Governments

P.O. Box 9026
Hickory, North Carolina 28603
OR
736 Fourth Street, SW
Hickory, North Carolina 28602
828-485-4230
Executive Director: H. DeWitt Blackwell
email: dee.blackwell@wpcog.org
Web Site: http://www.wpcog.org
Counties: Alexander, Burke, Caldwell, (Catawba)

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

LOCAL DEVELOPMENT DISTRICTS IN THE APPALACHIAN REGION

7I/ Piedmont Triad Regional Council
400 West Fourth Street, Suite 400
Winston-Salem, North Carolina 27101
336-761-2111
Executive Director: Matthew L. Dolge
email: mdolge@ptrc.org
Web Site: http://www.ptrc.org
Counties: Davie, Forsyth, Stokes, Surry, Yadkin, (Alamance, Caswell, davidson, Guilford, Montgomery, Randolph, Rockingham)

OHIO

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

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

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

8D/ Eastgate Regional Council of Governments
City Centre One Building
100 East Federal Street, Suite 1000
Youngstown, Ohio 44503
330-779-3800
Executive Director: John Getchey
email: moreinfo@eastgatecog.org
Web Site: http://www.eastgatecog.org
Counties: Ashtabula, Mahoning, Trumbull

PENNSYLVANIA

9A/ Northwest Pennsylvania Regional Planning and Development Commission
395 Seneca Street
P.O. Box 1127
Oil City, Pennsylvania 16301
814-677-4800
Executive Director: Jill Foys
email: jillf@nwcommission.org
Web Site: http://www.nwcommission.org
Counties: Clarion, Crawford, Erie, Forest, Lawrence, Mercer, Venango, Warren

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

LOCAL DEVELOPMENT DISTRICTS IN THE APPALACHIAN REGION

9B/ North Central Pennsylvania Regional Planning and Development Commission

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

9C/ Northern Tier Regional Planning and Development Commission

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

9D/ Northeastern Pennsylvania Alliance

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

9E/ Southwestern Pennsylvania Commission

Two Chatham Center, Suite 500
112 Washington Place
Pittsburgh, Pennsylvania 15219-3451
412-391-5590
Executive Director: James Hassinger
email: comments@spcregion.org
Web Site: http://www.spcregion.org
Counties: Allegheny, Armstrong, Beaver, Butler, Fayette, Greene, Indiana, Washington, Westmoreland

9F/ Southern Alleghenies Planning and Development Commission

3 Sheraton Drive
Altoona, Pennsylvania 16601
814-949-6513
Executive Director: Edward M. Silvetti
email: sapdc@sapdc.org
Web Site: http://www.sapdc.org
Counties: Bedford, Blair, Cambria, Fulton, Huntingdon, Somerset

9G/ SEDA–Council of Governments

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

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

LOCAL DEVELOPMENT DISTRICTS IN THE APPALACHIAN REGION

SOUTH CAROLINA

10A/ South Carolina Appalachian Council of Governments

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

TENNESSEE

11A/ Upper Cumberland Development District

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

11B/ East Tennessee Development District

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

11C/ First Tennessee Development District

3211 N. Roan Street
Johnson City, Tennessee 37601-1213
423-928-0224
Executive Director: Susan Reid
email: sreid@ftdd.org
Web Site: http://ftdd.org/
Counties: Carter, Greene, Hancock, Hawkins, Johnson, Sullivan, Unicoi, Washington

11D/ South Central Tennessee Development District

101 Sam Watkins Boulevard
Mt. Pleasant, Tennessee 38474
931-379-2929
Executive Director: Jerry Mansfield
email: jmansfield@sctdd.org
Web Site: http://www.sctdd.org
Counties: Coffee, Franklin, Lawrence, Lewis, (Bedford, Giles, Hickman, Lincoln, Marshall, Maury, Moore, Perry, Wayne)

11E/ Southeast Tennessee Development District

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

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

LOCAL DEVELOPMENT DISTRICTS IN THE APPALACHIAN REGION

VIRGINIA

12A/ LENOWISCO Planning District Commission

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

12B/ Cumberland Plateau Planning District Commission

P.O. Box 548
Lebanon, Virginia 24266
276-889-1778
Executive Director: Jim Baldwin
email: jimbaldwin@bvu.net
Web Site: http://www.cppdc.org
Counties: Buchanan, Dickenson, Russell, Tazewell

12C/ Mount Rogers Planning District Commission

1021 Terrace Drive
Marion, Virginia 24354
276-783-5103
Interim Executive Director: Michael Armbrister
email: marmbrister@mrpdc.org
Web Site: http://www.mrpdc.org
Counties: Bland, Carroll, Grayson, Smyth, Washington, Wythe; and cities of Bristol and Galax

12D/ New River Valley Planning District Commission

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

12E/ Roanoke Valley–Alleghany Regional Commission

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

12F/ Central Shenandoah Planning District Commission

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

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

LOCAL DEVELOPMENT DISTRICTS IN THE APPALACHIAN REGION

12G/ West Piedmont Planning District Commission

1100 Madison Street
P.O. Box 5268
Martinsville, Virginia 24115-5268
276-638-3987
Executive Director: Aaron Burdick
email: staff@wppdc.org
Web Site: http://www.wppdc.org
Counties: Henry, Patrick; and city of Martinsville (Franklin, Pittsylvania; and city of Danville)

WEST VIRGINIA

13A/ Region I–Planning and Development Council

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

13B/ Region 2–Planning and Development Council

720 Fourth Avenue
Huntington, West Virginia 25701
304-529-3357
Executive Director: Michele P. Craig
email: mcraig@ntelos.net
Web Site: http://www.region2pdc.org
Counties: Cabell, Lincoln, Logan, Mason, Mingo, Wayne

13C/ Region 3–B-C-K-P Regional Intergovernmental Council

315 D Street
South Charleston, West Virginia 25303
304-744-4258
Executive Director: Mark Felton
email: markfelton@wvregion3.org
Web Site: http://www.wvregion3.org
Counties: Boone, Clay, Kanawha, Putnam

13D/ Region 4–Planning and Development Council

885 Broad Street, Suite 100
Summersville, West Virginia 26651
304-872-4970
Executive Director: W.D. Smith
email: wdsmith@reg4wv.org
Web Site: http://www.reg4wv.org
Counties: Fayette, Greenbrier, Nicholas, Pocahontas, Webster

13E/ Region 5–Mid-Ohio Valley Regional Council

P.O. Box 247
Parkersburg, West Virginia 26102-0247
304-422-4993
Executive Director: Carol Jackson
email: carol.jackson@movrc.org
Web Site: http://www.movrc.org
Counties: Calhoun, Jackson, Pleasants, Ritchie, Roane, Tyler, Wirt, Wood

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

LOCAL DEVELOPMENT DISTRICTS IN THE APPALACHIAN REGION

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

13G/ Region 7–Planning and Development Council
99 Edmiston Way
Suite 225
Buckhannon, West Virginia 26201
304-472-6564
Executive Director: Shane Whitehair
email: swhitehair@regionvii.com
Web Site: http://www.regionvii.com
Counties: Barbour, Braxton, Gilmer, Lewis, Randolph, Tucker, Upshur

13H/ Region 8–Planning and Development Council
P.O. Box 849
Petersburg, West Virginia 26847
304-257-2448 or 304-257-1221
Executive Director: Terry Lively
email: mail@regioneight.org
Web Site: http://www.regioneight.org
Counties: Grant, Hampshire, Hardy, Mineral, Pendleton

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

13J/ Region 10–Bel-O-Mar Regional Council and Interstate Planning Commission
P.O. Box 2086
Wheeling, West Virginia 26003
304-242-1800
Executive Director: William Phipps
email: belomar@belomar.org
Web Site: http://www.belomar.org
Counties: Marshall, Ohio, Wetzel; and Belmont County, Ohio

13K/ Region 11–Brooke-Hancock Regional Planning and Development Council
P.O. Box 82
Weirton, West Virginia 26062-0082
304-797-9666
Executive Director: John C. Brown
email: jbrown@bhjmpc.org
Web Site: http://www.bhjmpc.org
Counties: Brooke, Hancock

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

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Sullivan County, Tennessee
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