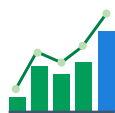
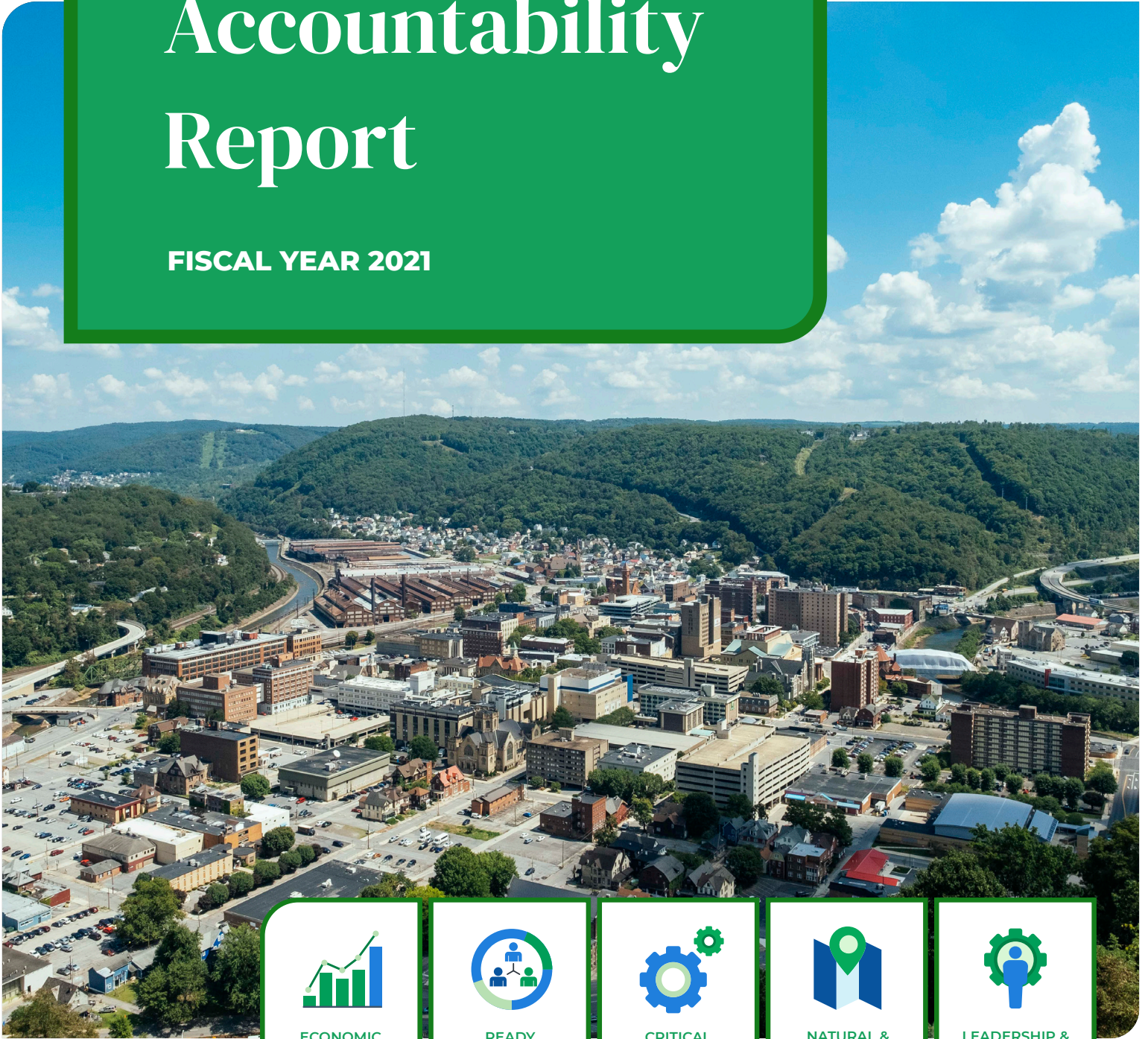


APPALACHIAN REGIONAL COMMISSION



# Performance & Accountability Report

FISCAL YEAR 2021



ECONOMIC  
OPPORTUNITIES



READY  
WORKFORCE



CRITICAL  
INFRASTRUCTURE



NATURAL &  
CULTURAL  
ASSETS



LEADERSHIP &  
COMMUNITY  
DEVELOPMENT

# APPALACHIAN REGIONAL COMMISSION

September 30, 2021

Federal Co-Chair  
Gayle C. Manchin

States' Co-Chair  
Governor Ralph Northam

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*Kenneth Boswell*

### New York

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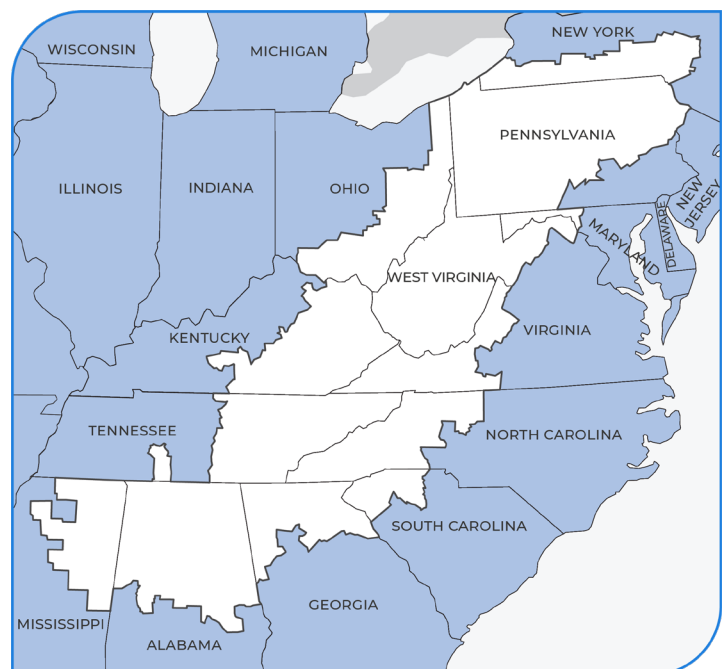
Governor Tate Reeves  
*Anne Hall Brashier*

States' Washington Representative  
James Hyland

Executive Director  
Brandon McBride

## 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 26 million people and covers 423 counties and almost 206,000 square miles.





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## Message from Federal Co-Chair Gayle C. Manchin and 2021 States' Co-Chair Governor Ralph Northam

We are pleased to present the Appalachian Regional Commission Performance and Accountability Report for fiscal year 2021.

For FY 2021, the Commission approved \$163.4 million in funding for 465 area development projects that advanced one or more of the five goals of ARC's 2016–2020 strategic plan:

- 1) investing in entrepreneurial and business development strategies that strengthen Appalachia's economy;
- 2) increasing the education, knowledge, skills, and health of residents to work and succeed in Appalachia;
- 3) investing in critical infrastructure—especially broadband; transportation, including the Appalachian Development Highway System; and water/wastewater systems;
- 4) strengthening Appalachia's community and economic development potential by leveraging the natural and cultural heritage assets of the Appalachian Region (the Region); and
- 5) building the capacity and skills of current and next-generation leaders and organizations to innovate, collaborate, and advance community and economic development.

ARC's FY 2021 grant funds attracted an additional \$285.4 million in other project funding, an investment ratio of 2 to 1, and \$1.04 billion in non-project leveraged private investment, a ratio of 6 to 1. The projects funded during FY 2021 will create or retain an estimated 20,624 jobs and train an estimated 25,102 students, workers, and leaders in new skills.

In working toward its strategic goals in FY 2021, the Commission continued to foster entrepreneurship activities with a particular focus on emerging opportunities: diversify the Region's economy; support advanced manufacturing and workforce development initiatives to strengthen the Region's competitiveness in the global economy, including re-entry into the workforce of individuals with substance use disorders; and bolster infrastructure needed to spur development in economically distressed counties, including broadband and basic infrastructure such as water and wastewater systems.

As the effects of the COVID-19 pandemic evolved, ARC responded by adjusting internal operations, allowing more flexibility for grantees to align their work with local needs and implementing new initiatives to offer direct support to communities and organizations. As a member of the Interagency Working Group on Coal and Power Plant Communities and Economic Revitalization, the Commission boosted its focus on helping communities that have been adversely affected by the decline in the coal industry.

This report includes information on the Commission's program actions and financial management during FY 2021. We are pleased to report that ARC's independent auditor, Allmond & Company LLC, has pronounced an unmodified opinion that the financial statements in this document fairly present the Commission's fiscal status.

ARC has provided 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 reliable and comprehensive. Congress and the American people can also be assured that the financial controls in place at the Commission 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 Appalachian Region attain socioeconomic parity with the nation.

Sincerely,

**Gayle C. Manchin**  
ARC Federal Co-Chair

**Ralph Northam**  
Governor of Virginia  
2021 States' Co-Chair

January 19, 2022



# PART I: MANAGEMENT'S DISCUSSION AND ANALYSIS

## FISCAL YEAR 2021 PROGRAM HIGHLIGHTS

In fiscal year (FY) 2021, all of the Appalachian Regional Commission's activities advanced at least one of the five goals of its 2016–2021 strategic plan: creating economic opportunities, developing a ready workforce, investing in critical infrastructure, leveraging natural and cultural assets, and bolstering leadership and community capacity. The Appalachian Regional Commission (ARC, the Commission) supported these goals through multiple grant programs; by providing training, technical assistance, and leadership development; and through interagency efforts such as President Biden's Interagency Working Group on Coal and Power Plant Communities and Economic Revitalization and the Justice40 Pilot Program. In FY 2021, ARC also developed and adopted a new strategic plan that will serve the Commission for Fiscal Years 2022–2026.

As the COVID-19 pandemic evolved, ARC continued to adapt its internal operations as well as its programming, projects, and public outreach to help Appalachia's communities respond to immediate challenges while continuing to position them to have more vibrant economies in a post-pandemic environment. Throughout the pandemic, ARC has supported grantees in their efforts to respond to the challenges of operating in a pandemic. It has worked to convene stakeholders, provide technical assistance, and publish relevant research. This has included pivoting the focus and format of preexisting programs such as the Appalachian Leadership Institute. Additionally, ARC strengthened partnerships with other federal agencies to increase the Appalachian Region's access to vital programs such as the CDFI Fund's Rapid Recovery funding through the US Department of the Treasury.

### Interagency Working Group

In FY 2021, ARC had an increasingly prominent role in national conversations about economic development, particularly related to coal and coal-fired power plant communities. ARC joined President Biden's Interagency Working Group on Coal and Power Plant Communities and Economic Revitalization, a collaborative effort of multiple federal agencies to promote and support economic revitalization in communities impacted by coal-specific job losses. ARC's Federal Co-Chair serves as Chair of the Community Engagement Subcommittee.

An initial report published by the working group in April identifies a set of communities hard-hit by coal mine and coal power plant closures, which should be prioritized for focused federal investment. Of the 25 identified Coal and Power Plant Communities, eight are located in Appalachia; these eight are inclusive of 84 counties. The report also highlights preexisting federal programs, including ARC's POWER Initiative, that have available funding that could be used to provide immediate investments in Energy Communities.

## Strategic Plan

In spring 2021, ARC launched a process to develop a new strategic plan to guide ARC activities and investments in Appalachia from FY 2022 through FY 2026. This effort included a series of stakeholder engagement activities to gather input for the new plan. Activities included a survey with over 1,200 respondents; six public input sessions, which included facilitated discussion through small breakout sessions; and 16 focus groups. The focus groups targeted both specific ARC stakeholders as well as groups of subject matter experts in key areas including business development, education, health, infrastructure, tourism, leadership development, and many others.

The input gathered through the stakeholder engagement process produced clear takeaways that provided insight into the current landscape of the Appalachian Region (the Region) as it continues to respond to and recover from the economic, health, and social impacts of the COVID-19 pandemic; economic growth and decline in key industries; and the impacts of migration both into and out of many communities. The new strategic plan maintains ARC's commitment to supporting Appalachia's businesses, workforce ecosystem, infrastructure, regional culture and tourism, and community leaders, while strengthening our focus on reducing barriers to employment and strengthening community capacity.

## Equity

ARC continues its mission to bring Appalachia into socioeconomic parity with the nation by responding to Executive Order 13985 "Advancing Racial Equity and Support for Underserved Communities through the Federal Government," and Executive Order 14008, "Tackling the Climate Crisis at Home and Abroad." ARC began participating in the Biden Administration's Justice40 Pilot Program, which directs agencies to address barriers that have prevented underserved communities from participating fully in aspects of economic, social, and civic life. ARC's collaborative nature and grassroots delivery system can help to provide small, rural communities with the strategic technical assistance necessary to achieve economic transformation. With this in mind, ARC launched the **Appalachian Community Capacity-Building Pilot Program** to provide special training for distressed and underserved communities to provide special training for distressed and underserved communities to build their knowledge, skills and ability to grow their local economy.

## POWER Initiative

ARC continues to receive funding through the Partnerships for Opportunities and Workforce and Economic Revitalization (POWER) Initiative, which helps diversify economies in communities and regions that have been affected by job losses in coal mining, coal power plant operations, and coal-related supply chain and logistics industries due to the changing economics of America's energy production. In FY 2021, ARC awarded a record \$53.5 million in 70 investments to help coal-impacted communities in Appalachia diversify and grow their economies. These investments will create or retain 9,501 jobs, leverage an additional \$519.7 million in private investment, and prepare 7,273 workers and students with globally competitive skills and opportunities in the Region's manufacturing, technology, entrepreneurship, agriculture, and other emerging sectors.

The awards funded a wide range of activities in the Region, targeted at building a competitive workforce, enhancing access to and use of broadband services, fostering entrepreneurial activities, developing industry clusters in communities, and strengthening response to substance use disorder. Many POWER grantees have developed innovative approaches for these investments as COVID-19 has continued to have a significant impact on their communities.



An ongoing evaluation of the POWER Initiative, conducted by third-party research firm Chamberlin Dunn, found that while the impacts of closed POWER grants are still maturing, many collective output and outcome goals have already been exceeded.

## INSPIRE Initiative

Born out of recommendations from the Substance Use Advisory Council formed by ARC in 2019, INSPIRE (INvestments Supporting Partnerships in Recovery Ecosystems) is a grant initiative addressing the substance use crisis by creating or expanding a recovery ecosystem that will lead to workforce entry or re-entry. As the nation's substance use crisis continues to disproportionately impact Appalachia's workforce, ARC is supporting efforts throughout the Region to save lives and strengthen communities. In FY 2021, ARC awarded \$10.2 million in 32 investments to fund support services along with workforce training and employment opportunities to help people with substance use disorder achieve long-term recovery and enter the workforce. These projects aim to be part of a recovery ecosystem—a series of connected interventions that leads to employment for participants and ultimately serves to strengthen communities throughout the Region.

## Workforce Ecosystem

A ready and productive workforce is the backbone of economic development. ARC investments supported educational opportunities and institutions, especially by connecting skill training with local and regional business needs. Investments also supported workers overcoming challenges like substance use disorder. The goal is to create a seamless system enabling Appalachians to succeed in existing industries, empower displaced workers to transition into new opportunities, and equip all workers with the skills needed for jobs in emerging, high-growth sectors. Together, ARC's workforce ecosystem investments in FY 2021 totaled \$38.4 million in 119 projects.

## Infrastructure Investment

In order to compete in the global economy, Appalachia must continue to develop and improve the infrastructure necessary for economic development. In FY 2021, ARC continued to fund more, and larger, infrastructure grants. ARC invested \$91.2 million in 177 projects aimed at bolstering the Region's physical infrastructure. These investments—creating and expanding local water and sewer systems; providing access to broadband; building and maintaining access roads; and construction or rehabilitation of combined infrastructure—act as fundamental building blocks for further economic development in Appalachian communities. ARC's FY 2021 infrastructure grant investments were matched by \$202.6 million in other public investments, leveraged \$502.6 million in non-project private investment, and served 62,722 households and 7,103 businesses. Telecommunications infrastructure is particularly critical to reducing Appalachia's isolation and connecting its businesses and communities with information and markets around the world. With the continued trials of COVID-19, which necessitated numerous work-at-home and virtual learning programs, broadband has become even more critical. Students require adequate access to be able to participate in online learning sessions while workers need to access their company's technology platforms.

## Community Capacity Building

ARC supports the development of community leaders and community capacity to successfully plan, propose, and implement projects and initiatives. In addition to funding grants that support community capacity, ARC conducts outreach and technical assistance, and offers several programs that build leadership skills across age groups and throughout the Region.

## *Academies and Institutes*

ARC hosts several academies and institutes for students and adults in science, technology, engineering, and mathematics (STEM) education; entrepreneurship development; applied research; and community leadership. Through these experiential learning opportunities, participants build networks, hone skills, and cultivate an enduring commitment to Appalachia's future. While all of these programs are designed to bring Appalachians together, due to the risks involved with on-site programming during the COVID-19 pandemic, ARC continued to host these programs virtually during 2021.

Programming includes the **ARC Oak Ridge Summer STEM Program**, a two-week, hands-on learning program delivered through Oak Ridge Associated Universities. In FY 2021, 39 middle school students, 45 high school students, and two high school teachers participated in the program. In FY 2021, 12 students completed the inaugural year of the **Appalachian Entrepreneurship Academy**, an experiential learning program to build high school students' entrepreneurship skills. ARC also supports the **Appalachian Teaching Project**, an applied research program where participating colleges and universities offer a directed seminar that guides students in developing and executing field-based research projects specific to the needs of their surrounding communities and in alignment with one or more of the ARC strategic goals. In FY 2021, 14 colleges and universities in 11 Appalachian states participated in the program. Finally, the **Appalachian Leadership Institute** aims to equip a diverse network of leaders with the skills, expertise, and vision to address Appalachia's most pressing issues. Fellows participate in seven sessions focusing on economic development and other challenges facing rural and Appalachian communities. In FY 2021, 40 fellows from the inaugural class and 38 fellows from the second class graduated from the Appalachian Leadership Institute.

## *Appalachia Nonprofit Resource Center*

Designed initially to help nonprofits in the Region survive the challenges of the pandemic, ARC created the Appalachia Nonprofit Resource Center, a suite of technical assistance resources to strengthen the organizational capacity of the Region's nonprofits. In FY 2021, ARC finished its initial round of virtual small group class offerings and ended the first year with 99 organizations having gone through the program. Based on the response to the first round of offerings, ARC offered a second year beginning in fall 2021. ARC also continued to offer webinars and networking sessions for alumni, and to provide the public with curated resources. Topics included fundraising, financial management, programs and operations, and board development.

## **Diversifying Local Economies**

ARC recognizes that the Region's economic future will require building and strengthening a variety of economic sectors. As the Region diversifies its economy, ARC continues to invest in entrepreneurial ecosystems that support locally owned businesses and help existing businesses grow and prosper. To succeed, these ventures need access to capital and vital technical assistance. ARC's investments afford opportunities for communities and nonprofit organizations to pivot away from old ways of delivering services to innovative programming that adapts to a new economy. In FY21, ARC funding supported a wide variety of economic sectors and industries in an effort to strengthen local businesses and growth while taking advantage of opportunities in emerging industries. Emerging industries include the following:



## *Outdoor recreation*

Appalachia's forests, parks, water bodies, and mountains anchor the Region's outdoor recreation industry and attract thousands of visitors to hike, bike, climb, paddle and explore. Connecting rural communities with trails and guiding visitors into small towns boosts local tourism, increases tax revenues, and supports the hospitality industry and related businesses. ARC also invests in and supports the Region's entrepreneurs, artisans, and small-scale manufacturers to meet the demands for products, services, and experiences of the growing outdoor recreation industry. Investing in this industry supports growth for manufacturers of gear and equipment and providers of tours, experiences, and lodging, while also building amenities that make the Region more attractive to outside investors and catalyzing greater economic activity.

## *Food and agriculture*

The development of local and regional food systems is increasingly recognized as a key lever for economic development. Rural-urban economic partnerships are strengthened through the development of these systems, and the use of locally grown products instead of imported items leads to job growth and increased economic activity for communities. A robust local or regional food system also enhances access to fresh, healthy food, leading to better health, improved quality of life, and larger profit margins for local farmers. Given its proximity to large urban markets and boasting more farmers per capita than the United States overall, the Appalachian Region is well positioned to use local and regional food systems as an economic development tool.

## *Aviation/aerospace*

Appalachia has a burgeoning aerospace and aviation industry. ARC supports workforce development and training programs throughout the Region that are helping to meet the demand for avionics specialists, FAA-certified aviation maintenance technicians, and other skilled workers. To spur further economic development, ARC invests in infrastructure projects which help expand existing airports and training spaces to support the workforce and economic needs of communities across the Region, including support for partnerships between local colleges and regional airports.

## *Advanced manufacturing*

There is a growing demand in Appalachia for workers who are trained in advanced manufacturing techniques across a number of industries, from automotive to petrochemical. In fact, a recent report<sup>1</sup> from the U.S. Department of Energy (DOE) found that, by 2025, petrochemical manufacturing already in development in Appalachia is projected to attract between \$16 billion and \$20 billion in capital investment, and directly or indirectly create more than 9,800 jobs. As such, in March 2021, ARC and DOE announced five grant awards for the Advanced Welding Workforce Initiative (AWWI), a partnership to invest \$1 million in education and training for advanced technical workers in Appalachia.

## *Healthcare*

As part of its focus on job creation and entrepreneurship, ARC is supporting the creation, growth, and access to capital for businesses in the healthcare sector. Doing so expands access to care and diversifies the local economy. ARC programs have also supported education and training programs to meet the growing demand for healthcare professionals in Appalachia, including infrastructure projects that provide access to healthcare services to communities in the Region. In addition, the J1 Visa Program helps place physicians in Appalachian communities experiencing shortages of healthcare workers.

## Energy

Communities across Appalachia continue to develop sustainable clean energy solutions at a local and regional scale. Encouraging investments in energy resources in Appalachia can increase job opportunities, strengthen energy independence, boost business viability, and bolster long-term climate resilience. Solutions include energy efficiency improvements, strengthening the utility grid, increasing solar and wind energy production, and boosting the green economy.

### Appalachian Regional Commission Projects Approved in Fiscal Year 2021 (in thousands of dollars)

|                                                                     | Number of Grants | ARC Funds          | Other Federal Funds | State and Local Funds | Total Funds        |
|---------------------------------------------------------------------|------------------|--------------------|---------------------|-----------------------|--------------------|
| Asset-Based Development                                             | 32               | \$15,945.4         | \$704.2             | \$15,411.9            | \$32,061.6         |
| Business Development                                                | 55               | 32,296.9           | 2,320.8             | 48,729.4              | 83,347.1           |
| Civic Entrepreneurship                                              | 7                | 1,022.6            | 0.0                 | 2,578.6               | 3,601.2            |
| Community Development                                               | 145              | 62,265.9           | 28,859.1            | 134,542.3             | 225,667.4          |
| Education and Workforce Development                                 | 112              | 36,751.6           | 3,050.9             | 33,277.8              | 73,080.3           |
| Health                                                              | 9                | 2,783.9            | 5,900.0             | 2,468.7               | 11,152.5           |
| Research and Evaluation                                             | 11               | 1,224.8            | 0.0                 | 162.9                 | 1,387.7            |
| State and Local Development<br>District Planning and Administration | 94               | 11,075.8           | 60.1                | 7,351.4               | 18,487.3           |
| <b>Totals</b>                                                       | <b>465</b>       | <b>\$163,366.9</b> | <b>\$40,895.2</b>   | <b>\$244,523.0</b>    | <b>\$448,785.1</b> |

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

## APPALACHIAN REGIONAL COMMISSION STRUCTURE AND PROGRAMS

Congress established 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, establish special advisory councils, and hold 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 new technologies for the use of 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 persist in infrastructure, the environment, workforce training, and health care. But because the nation and the Region now compete in the global economy, the threshold for success is higher than it once was. The Region now needs high-technology jobs rather than manual labor, college education rather than basic literacy, and telecommunications arteries in addition to highways.

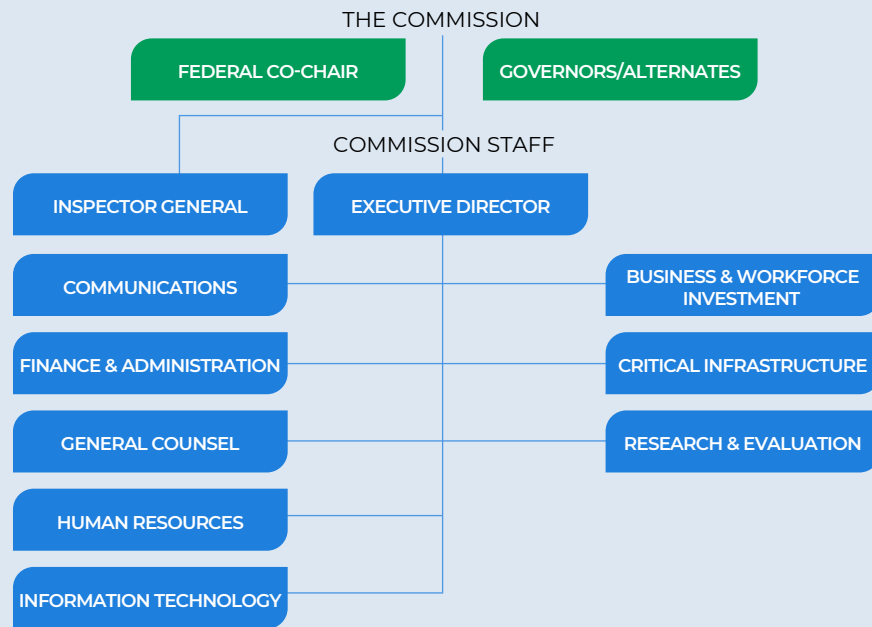
Federal agencies are typically national in focus and narrow in scope, but ARC was created to be regional in focus and broad in scope. No other government agency is charged with the unique role of addressing Appalachian problems and opportunities. No other agency is charged with being simultaneously an 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 are essential to making federal investments work to alleviate severe regional disparities in the country.

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 14 show the Region's high-poverty counties in 1960 and current high-poverty counties. The change is dramatic. (Also see page 50 for a chart showing the number of Appalachian counties by economic quartile in FY 2021.)

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.



## APPALACHIAN REGIONAL COMMISSION ORGANIZATION



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.

Three 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 those of their non-Appalachian counterparts. A later report by Economic Development Research Group extended this analysis to 2000 and confirmed the earlier findings on the impact of ARC's investments. The study found that, on average, the gap between Appalachian counties and their non-Appalachian twin counties grew significantly in the 1990s. In 2005, ARC commissioned a report that analyzed 50 years of socioeconomic trends in Appalachia and summarized the economic impacts accruing to the Region through ARC's non-highway investments. The report also includes results from a rigorous quasi-experimental research method indicating that counties that received ARC investments increased per capita income and added employment at a faster rate than similar counties that did not receive ARC investments.

## 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 2021, there were 11 federal positions at the Commission.

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 58 nonfederal positions. Commission staff are charged with serving both the federal and the state members impartially in carrying out ARC programs and activities, and they provide the legal support, technical program management, planning and research, and financial/administrative management necessary for ARC's programs.

## Public and Private Partnerships

ARC promotes economic and community development through a framework of joint federal and state initiatives. ARC's limited resources are necessary, but obviously not sufficient, for Appalachia to reach parity with the rest of the nation. Therefore, ARC uses a combination of its grassroots delivery system and Region-wide partnerships to extend the reach of other federal programs. ARC is often a pre-development 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. 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. ARC works to attract a variety of partners and to secure additional resources for Appalachia. Recent partnerships include the following:

- **Federal and State Basic Agencies.** In the past, ARC construction grants were mainly administered under agreements with federal agencies, such as the U.S. Department of Agriculture Rural Development, 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, the U.S. Forest Service, and the U.S. Departments of Energy, Labor, and Health and Human Services.

Since 2010, ARC has also developed agreements with 16 agencies across all 13 states to administer construction-related projects. These partners include the Alabama Department of Economic and Community Affairs, the Kentucky Department of Local Government, the New York State Department of Economic Development, the Ohio Environmental Protection Agency, the Pennsylvania Department of Community and Economic Development, and the West Virginia Development Office. These Registered State Basic Agencies (RSBAs) now administer more than 80% of ARC's construction-related projects. This percentage is expected to continue to rise in the foreseeable future.

- **Shaping Our Appalachian Region (SOAR).** SOAR is a Kentucky state initiative established to help eastern Kentucky create local development strategies to address persistent challenges and to realize new opportunities. With support from ARC, SOAR will continue its mission to expand job creation; enhance regional opportunity, innovation, and identity; improve quality of life; and support all those working to achieve these goals in Appalachian Kentucky.
- **Appalachian Community Capital (ACC).** To address the gap in available business funding, particularly in economically distressed communities, ARC made the lead investment of \$3.45 million in equity and operating support for the fund. Its regional lending partners raised an additional \$12 million in debt and equity from Bank of America, Deutsche Bank, Calvert Foundation, and the Ford Foundation. Additional supporters include the Mary Reynolds Babcock Foundation, the Claude Worthington Benedum Foundation, the Annie Casey Foundation, and BB&T Bank. Since its inception in 2015 through June 2021, ACC has deployed over \$18.3 million in financing to member community development financial institutions, which have financed 94 small business loans that have created or retained more than 2,000 jobs in rural Appalachia. Forty-five percent of loans were disbursed to minority- and/or women-owned businesses. Of jobs created or retained, more than 40% are filled by persons from low-income households.
- **Diabetes Partnership.** Through a long-term partnership with the Centers for Disease Control and Prevention (CDC) and West Virginia's Marshall University, ARC continues to support grassroots coalitions working to address disproportionately high rates of type 2 diabetes in the Region. Recent activities have focused on deploying the National Diabetes Prevention Program in rural distressed counties as well as adding new coalitions to the Appalachian Diabetes Control and Translation Project.
- **Creating a Culture of Health in Appalachia: Disparities and Bright Spots.** This partnership with the Robert Wood Johnson Foundation was formed to conduct a multi-year, \$1 million research project to study factors that support a culture of health in Appalachian communities and to determine whether that knowledge can be translated into actions that address health disparities between Appalachia and the nation as a whole. The research was undertaken in past fiscal years but continued to be supported and utilized in FY 2021, through the ongoing maintenance and periodic updates to [healthinappalachia.org](http://healthinappalachia.org), a website that allows users to interact with data from the report, create customizable maps and reports based on geographies of interest, and explore the report's three distinct yet interrelated sections: disparities, bright spots, and issue briefs.
- **Researching Opioid Use and Related Health Challenges in Appalachia.** This partnership with the National Institutes of Health, the CDC, and the Substance Abuse and Mental Health Services Administration is composed of two research efforts focused on interventions and strategies addressing opioid drug use, hepatitis C, and HIV in Appalachia. The

research will help deepen knowledge about Appalachia's current and future public health challenges, especially in the Region's coal-impacted communities. ARC has committed \$4 million to these multi-agency research initiatives.

- Department of Labor: Workforce Opportunities for Rural Communities (WORC).** WORC is a partnership with the Delta Regional Authority and the Employment and Training Administration in the Department of Labor, which awarded \$89.9 million in demonstration grant funds to expand the impact of workforce development initiatives in the Appalachian and Delta Regions. The WORC Initiative enables impacted communities to develop local and regional workforce development solutions aligned with existing economic development strategies and community partnerships to promote new, sustainable job opportunities and long-term economic vitality. In FY 2021, a primary focus of this grant initiative was to fund projects assisting eligible communities, including those that currently or historically have had a high concentration of employment in energy extraction and related industries. These grant projects will provide valuable career, training, and support services to dislocated workers, new entrants to the workforce, and incumbent workers in counties, parishes, or areas currently under-served by other resources.
- West Virginia POWER Support Project.** The West Virginia Hub, the Benedum Foundation, and ARC have partnered in an initiative to support the teams behind the WV POWER projects. The initiative aims to help grantees to carry out their projects successfully, to align their work with other projects occurring in the same counties, and to find technical assistance to address challenges and needs emerging in project implementation. This collaborative initiative brings together current and past POWER grantees to network, solve problems, build new collaborations, and deepen relationships with project funders and technical assistance providers.
- Regional Educational Laboratory for Appalachia (REL-AP).** ARC serves on the governing board of the U.S. Department of Education-funded REL-AP. The board provides guidance that supports the lab's success in carrying out rigorous research, technical support, and dissemination efforts that focus on high-leverage problems in their four-state region of Kentucky, Tennessee, Virginia, and West Virginia. ARC helps REL-AP amplify its reach by helping connect REL staff with other service providers working on similar issues, and by sharing information from high-quality research, technical support, and dissemination efforts. These efforts help inform and build educator and policymaker capacity to improve outcomes for all students in the Region and help both organizations achieve their mutual goals.
- National Energy Technology Laboratory (NETL) Regional Workforce Initiative.** This regional workforce initiative helps businesses to incorporate the latest technologies. NETL is a U.S. Department of Energy (DOE) research and development agency with two facilities in the Appalachian Region: Morgantown, West Virginia, and Pittsburgh, Pennsylvania. This initiative aids businesses and governments in the Appalachian Region in learning about and applying the latest scientific research in areas such as energy production, advanced manufacturing, extraction of rare earth metals, and natural gas storage. In FY 2021, ARC and NETL collaborated to form the Advanced Welding Workforce Initiative (AWWI), a partnership to invest approximately \$1 million in education and training for advanced technical workers in Appalachia. AWWI's funding is jointly provided by ARC and DOE's Office of Fossil Energy High Performance Materials program to prepare a new generation of welders to manufacture and service high-temperature alloy components in advanced coal- and natural gas-fueled electric generating stations.

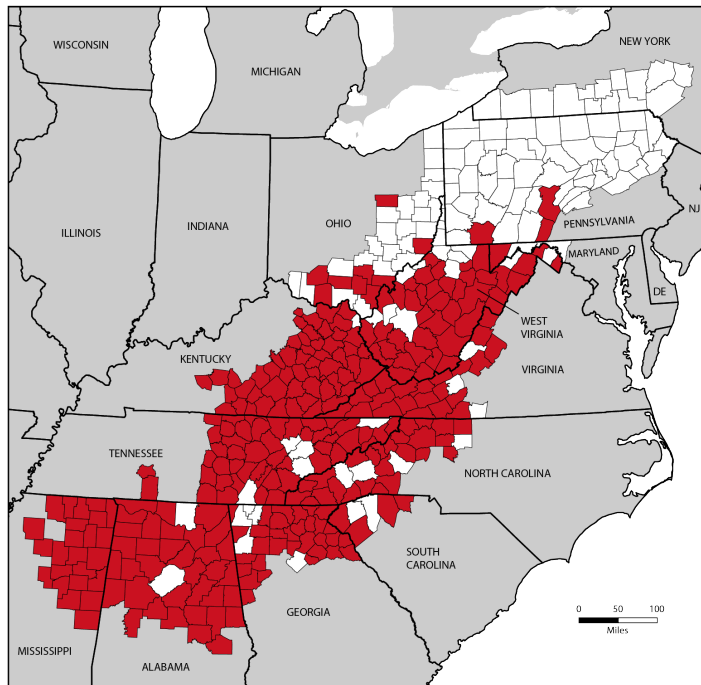


## HIGH-POVERTY COUNTIES IN THE APPALACHIAN REGION

(Counties with poverty rates at least 1.5 times the U.S. average)

1960

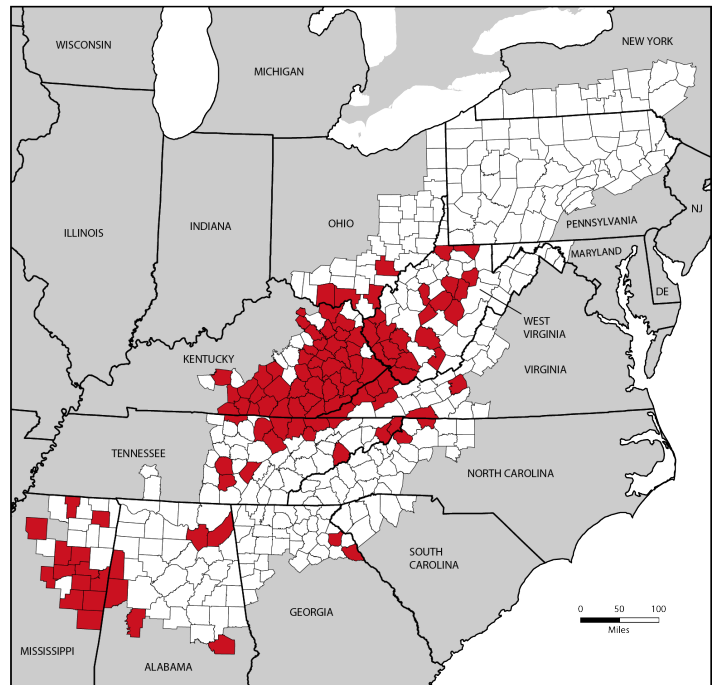
295 High-Poverty Counties



Data Source: U.S. Census Bureau, 1960 Census

2015–2019

110 High-Poverty Counties



Data Source: U.S. Census Bureau, American Community Survey, 5-Year Estimates, 2015–2019

### Commission Activities: Getting the Job Done

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

### ARC Strategic Plan

Due to delays in developing a new strategic plan caused by the COVID-19 pandemic, FY 2021 was ARC's sixth year of operating under its 2016–2020 strategic plan, *Investing in Appalachia's Future*. The plan outlines ARC's mission to innovate, partner, and invest to build community capacity and strengthen economic growth in Appalachia, and identifies five strategic goals to help Appalachia reach socioeconomic parity with the rest of the nation:

1. Invest in entrepreneurial and business development strategies that strengthen Appalachia's economy.
2. Increase the education, knowledge, skills, and health of residents to work and succeed in Appalachia.
3. Invest in critical infrastructure—especially broadband; transportation, including the Appalachian Development Highway System; and water/wastewater systems.
4. Strengthen Appalachia's community and economic development potential by leveraging the Region's natural and cultural heritage assets.
5. Build the capacity and skills of current and next-generation leaders and organizations to innovate, collaborate, and advance community and economic development.

As reported in Part II of this report, the Commission demonstrated progress in FY 2021 toward achieving the performance goals set out in the strategic 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 2021, ARC received an appropriation of \$180.0 million for area development activities and allocated by formula \$107.7 million, 59.8% of the appropriation, to the states. Within the framework of the strategic plan, the states have wide discretion in the use of these funds. 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 non-highway grants are approved by a governor and by the federal co-chair.

ARC's FY 2021 appropriation included \$55 million for the Partnerships for Opportunity and Workforce and Economic Revitalization (POWER) Initiative, \$16 million for a program to support the automotive and aviation sectors in Southern and South Central Appalachia, \$10 million to continue a program of high-speed broadband deployment in economically distressed counties in central Appalachia, \$5 million for a program addressing North Central/North Appalachian Broadband, \$16 million for a program of basic infrastructure improvements in distressed counties in Appalachia, and \$10 million for a program addressing the substance use crisis in Appalachia.

## Special Focus on Distressed Counties and Areas

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

In FY 2021, 78 counties were designated distressed, 104 were designated at-risk, 223 were designated transitional, 13 were designated competitive, and two were designated attainment. ARC policy stipulates that competitive counties may receive limited assistance, while attainment counties are generally not eligible for funding. See page 17 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% of costs, but it can increase its funding share to as much as 80% in distressed counties.

## Business Development Revolving Loan Fund Grants

Business development revolving loan funds (RLFs), pools of money used by grantees for the purpose of making loans to local businesses to create and retain jobs, have been used by ARC since 1977 as an effective tool for economic development. 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. Since the first RLF grants were awarded, ARC-supported RLFs have disbursed \$232.1 million in 2,873 loans, resulting in 96,389 jobs created or retained and leveraging \$1.64 billion in private investment for the Appalachian Region.

## 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.

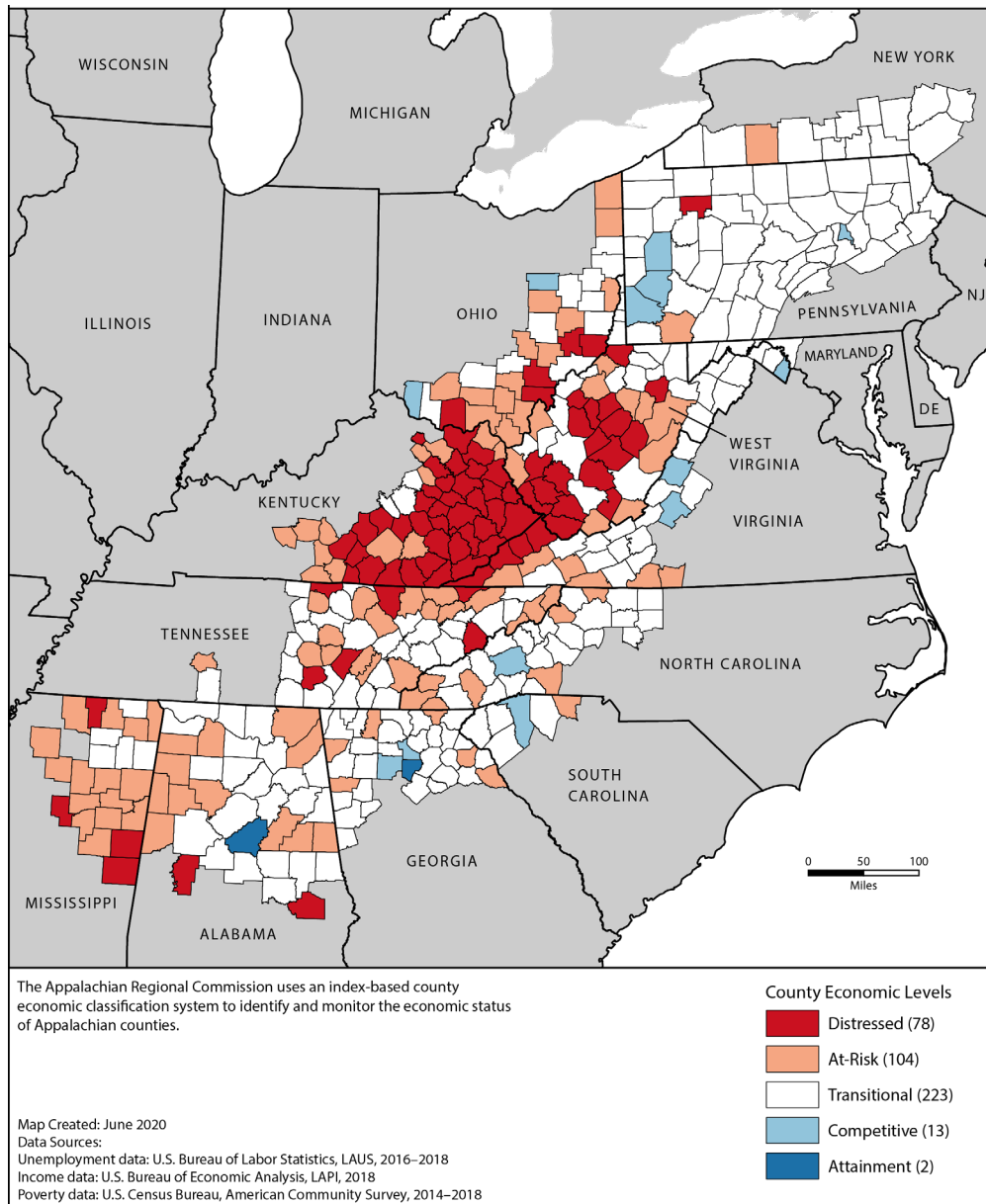
In FY 2021, funding for the ADHS was included in the overall federal-aid highway funds apportioned to the states. These funds are apportioned to the states annually, with each state using the funding at its own discretion. The federal share of funding for ADHS corridors and access roads can normally range from 80% to 100%, as determined by the state highway agencies. Although funds used for the ADHS are derived from the highway trust fund, ARC exercises policy and corridor alignment control over the system. In FY 2021, the Transportation Appropriation bill also included specifically dedicated ADHS funding of \$100 million from the General Fund, the second year of dedicated funding in a number of years.

At the end of FY 2021, a total of 2,660.5 miles, or 86.1%, of the 3,090 miles authorized for the ADHS were complete; 153.8 miles were under construction or partially complete and open to traffic; 58.2 miles were in the final design or right-of-way acquisition phase; and 217.6 miles were in the location study phase.

## Local Development Districts

Local Development Districts (LDDs) are multi-county planning organizations facilitating community-based, regionally driven, economic development. Guided by local leaders, elected officials, business representatives and other community stakeholders, ARC relies on LDDs to lead and leverage local partnerships. Every county in the Appalachian Region is served by one of 74 LDDs. While LDDs have a wide array of responsibilities as determined by their individual boards of directors, they typically are involved in four key areas that support the development of the Region: providing area-wide planning and program development, and coordination of federal and state funding sources; assisting local governments in providing services, especially in poorer, more isolated communities; promoting public-private partnerships and assisting in business development; and helping communities assess, plan, and conduct a wide range of activities such as job training, business development, telecommunications planning and implementation, and municipal government support. The Commission has also supported the training and technical assistance activities of the Development District Association of Appalachia, an organization of the Region's LDDs.

## COUNTY ECONOMIC STATUS IN APPALACHIA, FISCAL YEAR 2021 (Effective October 1, 2020 through September 30, 2021)



### Research and Technical Assistance Activities

ARC funds research and evaluation studies that produce 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 researchers. ARC also funds program evaluations by outside researchers or consultants to assess whether Commission-funded projects have made a measurable difference in 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 posted on ARC's website at [www.arc.gov/research-and-data](http://www.arc.gov/research-and-data).

Research completed or in progress in FY 2021 included the following:

- Development of ARC's new five-year strategic plan
- A research project examining local foods and agricultural activity throughout the Region
- An update to the 2017 "Diseases of Despair" report looking at deaths due to overdose, suicide, and liver disease
- Further research on coal industry ecosystems that includes a shift-share refinement of the ecosystem; an analysis of the power industry ecosystem; an assessment of local funding support for elementary and secondary education; an industrial cluster analysis; an examination of self-employment's impact on employment growth in Appalachia; and an analysis of available datasets for substance use treatment centers
- Ongoing analysis of coal production and employment trends in Appalachia
- An update to a past study examining the coal industry ecosystem throughout the Region, which will serve as the basis for measuring coal impact for all POWER applications
- A research report examining the tourism industry in Appalachia
- A data overview study examining state- and county-level data for the 13 Appalachian states on topics including population, age, race, ethnicity, housing, education, labor force, employment, income, poverty, health insurance, disability status, and migration
- Ongoing maintenance and periodic updates to [healthinappalachia.org](http://healthinappalachia.org), an interactive website housing data and reports from the "Creating a Culture of Health in Appalachia: Disparities and Bright Spots" initiative
- Updates to [overdosemappingtool.norc.org](http://overdosemappingtool.norc.org) documenting overdose deaths in Appalachia, along with socioeconomic and economic indicators
- A study examining traffic safety trends in Appalachia, including the impact of the ADHS and the effect of the substance use epidemic on traffic safety in the Region
- A study to identify variables impacting transportation access in Appalachia and create a research framework to quantify access in a future study
- An inventory and assessment of public transportation access throughout Appalachia
- A report summarizing the FY 2021 findings from the ongoing evaluation of the impact of ARC's POWER-funded investments
- A report summarizing an evaluation of ARC's grant performance measurement system

## Impediments to Progress

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. Mining and manufacturing, which have long dominated the Appalachian economy, have declined significantly since the turn of the century. Many communities still rely on a single economic sector. Despite progress in some areas,

Appalachia still does not enjoy the same economic vitality and living conditions as the rest of the nation; it continues to face many challenges when it comes to poverty, educational attainment, employment, population health, and broadband access.

### Poverty

- According to the U.S. Census Bureau's American Community Survey, over the 2015–2019 period, 15.2% of Appalachian residents lived below the poverty level, well above the U.S. average of 13.4%. The median income of Appalachian households was \$51,916, just 83% of the U.S. average of \$62,843.

### Educational Attainment

- During the same time period, the share of adults with a bachelor's degree or more was seven percentage points lower in Appalachia than in the nation as a whole; and in 294 Appalachian counties, fewer than one in five residents age 25 and over were graduates of a four-year college or university.

### Employment

- The Appalachian Region lost over 600,000 jobs between 2007 and 2010, with losses taking place both during and after the Great Recession. It took the Region until 2015 to achieve its pre-recession level of employment: There were 13.1 million jobs in Appalachia in 2007, 12.5 million in 2010, and 13.2 million in 2015. Meanwhile, the United States as a whole was able to match its 2007 employment level of 179.5 million jobs by 2013, when total employment was reported at 182.3 million.
- Employment growth in the Appalachian Region lagged behind that of the United States overall between 2000 and 2019. While the country overall saw an increase of 23% in total employment, the Region experienced growth of just 11%. Central Appalachia fared the worst among the subregions, losing over 3% of its total employment over the time period.
- Between 2011 and 2019, coal mining employment in Central Appalachia decreased 57%—over 21,000 jobs were lost—and is not expected to return to its historic high.
- Between 2000 and 2019, manufacturing employment declined at a faster rate than the national trend in every Appalachian subregion: In Northern, North Central, and South Central Appalachia, employment in the industry fell by approximately 34% over the time period, compared to a decline of 24% at the national level.
- Employment in the health and social services sector has grown more slowly in the Appalachian Region than in the nation as a whole. While the United States overall experienced growth of 54% between 2000 and 2019, employment in the industry grew by just 38% in Appalachia. Growth has been especially slow in Central Appalachia (26% over the time period), a subregion with particularly poor performance in health measures.

### Population Health

- Over the 2015–2019 period, the opioid-related overdose mortality rate for people ages 15–64 was 51% higher in Appalachia than in the United States overall.
- A report released in 2017 documenting population health in Appalachia included 7 of the 10 leading causes of death in the United States: heart disease, cancer, chronic obstructive pulmonary disease (COPD), injury, stroke, diabetes, and suicide—and the Appalachian Region had higher mortality rates than the nation for each.
- Obesity, smoking, and physical inactivity—risk factors for a number of health outcomes—are all higher in Appalachia than in the nation overall.

- The Region also has a lower number of healthcare professionals when compared to the United States as a whole, including primary care physicians, mental health providers, specialty physicians, and dentists.

### Broadband Access

- The Region lags behind the rest of the nation in access to affordable broadband telecommunications service. This leaves many Appalachians without access to modern telework and tele-education opportunities as well as telehealth services. The lack of broadband service also makes it difficult for local communities to attract new businesses that would help transition their local workforces to modern jobs in advanced manufacturing, health sciences, and other industries.

## SUMMARY OF ACHIEVEMENTS

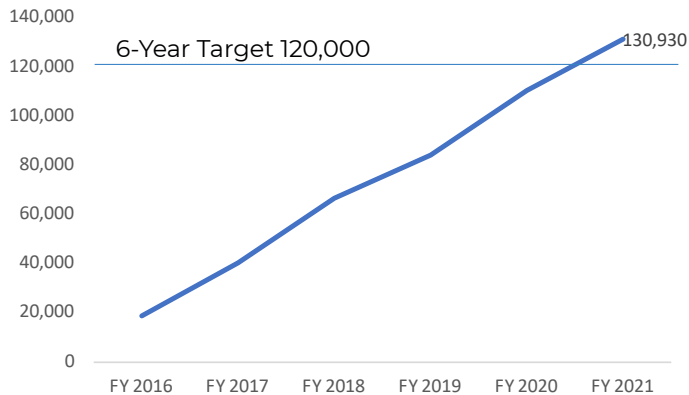
### PERFORMANCE TARGETS AND INITIAL ESTIMATES FOR FISCAL YEAR 2021 PROJECTS

| ANNUAL PERFORMANCE TARGETS                                                                                                                                                      | INITIAL ESTIMATES                                                       | EXPECTED RESULTS                      |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|---------------------------------------|
| <b>Outcome Targets</b>                                                                                                                                                          |                                                                         |                                       |
| 20,000 jobs created or retained                                                                                                                                                 | 20,624 jobs created or retained                                         | Exceed target by 3%                   |
| 22,000 students, workers, and leaders with improvements                                                                                                                         | 25,102 students, workers, and leaders with improvements                 | Exceed target by 14%                  |
| 22,000 businesses and households with access to improved infrastructure                                                                                                         | 69,825 businesses and households with access to improved infrastructure | Exceed target by 217%                 |
| 2,500 businesses created or strengthened                                                                                                                                        | 3,709 businesses created or strengthened                                | Exceed target by 48%                  |
| 250 communities with enhanced capacity                                                                                                                                          | 493 communities with enhanced capacity                                  | Exceed target by 97%                  |
| <b>Leverage Target</b>                                                                                                                                                          |                                                                         |                                       |
| Achieve a 6:1 ratio of leveraged private investment to ARC funds (\$6 per \$1 ARC investment)                                                                                   | 6:1 ratio*<br>(\$6.39 per \$1 ARC investment)                           | Exceed target by 7%                   |
| <b>Matching Target</b>                                                                                                                                                          |                                                                         |                                       |
| Achieve a 2:1 ratio of matching funds to ARC funds (\$2 per \$1 ARC investment)                                                                                                 | 2:1 ratio*<br>(\$1.75 per \$1 ARC investment)                           | Meet 87% of target                    |
| <b>Distressed Counties/Areas Target</b>                                                                                                                                         |                                                                         |                                       |
| Direct 50% of ARC funds to benefit distressed counties or areas                                                                                                                 | 70% of funds**                                                          | Exceed target by 20 percentage points |
| <i>*Ratios are rounded to the nearest whole number.</i><br><i>**Project funds are included if the project primarily or substantially benefits distressed counties or areas.</i> |                                                                         |                                       |

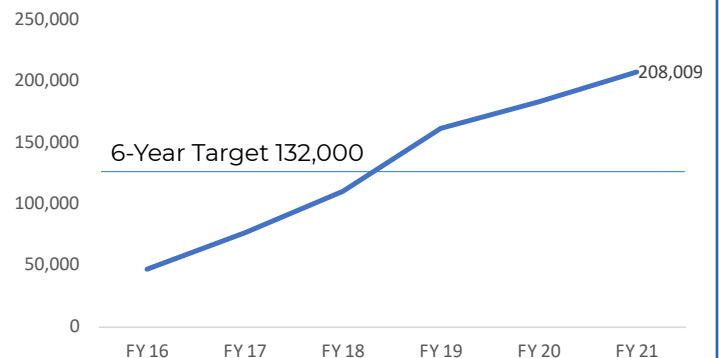
Performance results are assessed in detail in Part II (page 25).

## Progress Toward ARC Strategic Plan Performance Goals, Fiscal Years 2016–2021

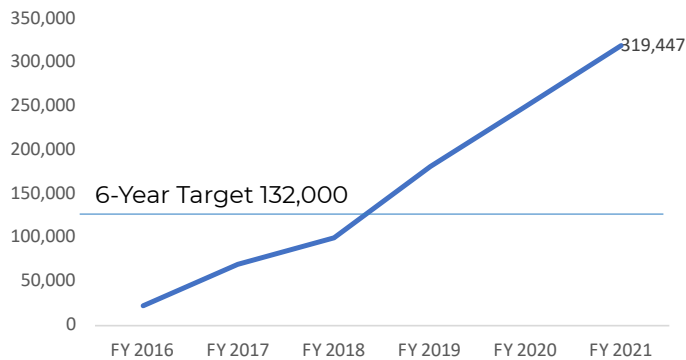
### Jobs Created or Retained (Cumulative)



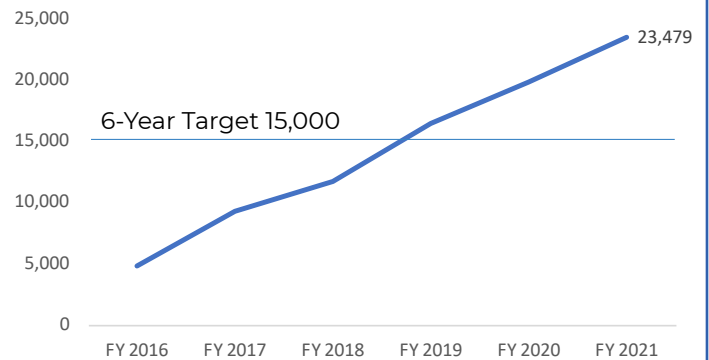
### Students, Workers, Leaders with Improvements (Cumulative)



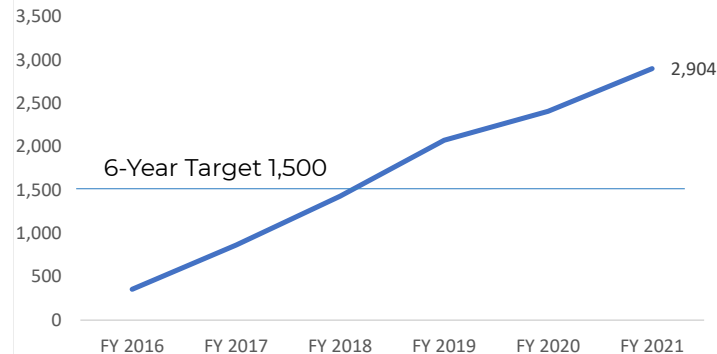
### Businesses and Households Served (Cumulative)



### Businesses Created or Strengthened (Cumulative)



### Communities with Enhanced Capacity (Cumulative)



## FINANCIAL MANAGEMENT

### Financial Management System

In FY 2021, the Appalachian Regional Commission renewed its contract with U.S. Department of Agriculture (USDA) Pegasys Financial Services to perform the Commission's accounting and financial reporting. ARC supplements these financial services with ARCnet, a management information system 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. ARCnet 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 Office of Management and Budget (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.

ARC maintains a plan of internal control development and testing, as required by the Federal Managers' Financial Integrity Act of 1982. The agency's approach is to make management controls an integral part of the entire cycle of planning, budgeting, management, accounting, and auditing. ARC strives to maintain an environment of accountability in which all employees help ensure that government resources are used efficiently and effectively to achieve intended program results with minimal potential for waste, fraud, and mismanagement.

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

ARC is pleased to report that it received an unmodified opinion from its independent auditor, Allmond & Company LLC, on the FY 2021 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 of 1982. 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, 2021, was operating effectively except for one material weakness in internal control over financial reporting process reported by the auditor.

## 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, ARC can provide reasonable assurance, except for one material weakness reported by the auditor in our internal controls over preparing financial statements and footnote disclosures, that internal control over financial reporting as of September 30, 2021, was operating effectively.

## 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 and reviews. During FY 2021, the OIG issued 16 reports, including 14 grant audits and a Financial Statement audit.

The dollar value of grants and payments reviewed during FY 2021 was approximately \$18.8 million, and results included \$132,558 in unsupported costs. By the end of the fiscal year, management decisions had been made for all but two reports.

Office of Inspector General reports are available at [www.arc.gov/office-of-inspector-general](http://www.arc.gov/office-of-inspector-general).

## 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 unmodified opinion of ARC's independent auditor, Allmond & Company LLC, the financial statements included in that section fairly represent, in all material respects, the financial position of the Commission as of September 30, 2021, 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, 2021, totaled \$578.8 million, versus \$521.0 million in FY 2020. The change was due to an increase in the fund balance with the U.S. Department of the Treasury and Advances and Prepayments. Liabilities equaled \$29.9 million in FY 2021 versus \$28.4 million in FY 2020. The increase was due to accounts payable which primarily included \$26.3 million in payments due to grantees. The U.S. Treasury held 91.5% of ARC's assets. In addition, 4.8%, or \$27.7 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. Remaining assets are cash and advances to grantees.

The net position increased from \$492.6 million in FY 2020 to \$548.9 million. The net cost of operations for FY 2021 totaled \$124.0 million, compared with \$138.0 million in FY 2020. ARC receives most of its resources from congressional appropriations, which totaled \$180.0 million in FY 2021. In addition, ARC received \$2.98 million from the 13 member states to pay their 50% share of the Commission's administrative costs. The Statement of Budgetary Resources reported net outlays of \$124.4 million. ARC incurred obligations of \$185.2 million in FY 2021 and has an unpaid obligated balance (net, end of year) of \$382.8 million.

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 generally accepted accounting principles (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 prepared 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.

## Statement of Assurance

I am pleased to certify with reasonable assurance that, except for one material weakness in our internal control over preparing financial statements and footnote disclosures reported by the auditor, our agency's systems of internal control, taken as a whole, comply with Section 2 of the Federal Managers' Financial Integrity Act of 1982. Our agency also is in substantial compliance with applicable federal accounting standards and the U.S. Standard General Ledger at the transaction level, and with federal financial system requirements. Accordingly, ARC fully complies with Section 4 of the Federal Managers' Financial Integrity Act of 1982, with no material non-conformances.

ARC conducted its assessment of the effectiveness of internal controls over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of OMB Circular A-123. ARC has reasonable assurance, except for one material weakness in our internal control over preparing financial statements and footnote disclosures, that internal controls over financial reporting as of September 30, 2021, were operating effectively.



Gayle C. Manchin  
ARC Federal Co-Chair  
January 19, 2022

# PART II: FISCAL YEAR 2021 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. Part II of this report documents the Appalachian Regional Commission's (ARC) progress toward fulfilling its mission and goals. Part II of this report presents:

- An overview of the Appalachian Regional Commission;
- Methodology used to monitor project outcomes in compliance with the GPRA;
- ARC's strategic investment goals and action objectives;
- Performance targets and initial estimates for FY 2021 and for each of the five prior fiscal years, where applicable;
- Results of project verification and program evaluation;
- Progress toward the ARC vision; and
- Cumulative progress toward five-year performance targets.

The five strategic investment goals from ARC's 2016–2020 strategic plan, *Investing in Appalachia's Future*, were used to evaluate performance in FY 2021.

## OVERVIEW OF ARC

**ARC's Vision:** *Appalachia is a region of great opportunity that will achieve socioeconomic parity with the nation.*

**ARC's Mission:** *Innovate, partner, and invest to build community capacity and strengthen economic growth in Appalachia.*

### Organizational Structure

The Appalachian Regional Commission is a regional economic development agency that represents a partnership of federal, state, and local governments. Established by an act of Congress in 1965, ARC is composed of the governors of the 13 Appalachian states and a federal co-chair, who is appointed by the president. Local participation is provided through multi-county local development districts.

Each year Congress appropriates funds for the Commission's programs, which ARC allocates among its member states. At the beginning of their terms in office, Appalachian governors submit development plans for the Appalachian counties in their states. The Commission votes to approve these plans. The governors also submit annual strategy statements developed from the plans and must select projects for ARC approval and funding based on these statements.

## Project Funding

ARC funds approximately 500 projects annually throughout the 13-state Appalachian Region through its Area Development Program. All projects must address one of the five goals in ARC's 2016–2020 strategic plan: invest in entrepreneurial and business development strategies that strengthen Appalachia's economy; increase the education, knowledge, skills, and health of residents to work and succeed in Appalachia; invest in critical infrastructure—especially broadband, transportation, and water/wastewater systems; strengthen Appalachia's community and economic development potential by leveraging the Region's natural and cultural heritage assets; and build the capacity and skills of current and next-generation leaders and organizations to innovate, collaborate, and advance community and economic development.

In FY 2021, in addition to funding for ARC's base Area Development Program, the Commission's appropriation included funding for the Partnerships for Opportunity and Workforce and Economic Revitalization (POWER) Initiative, a multi-agency initiative that targets federal resources to help diversify economies in communities and regions affected by job losses in the coal mining industry; for support of the automotive and aviation sectors in Southern and South Central Appalachia; for efforts to support a broadband deployment program in Central Appalachia; and for an initiative addressing the substance use crisis by creating or expanding recovery ecosystems.

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 invested. This flexibility exists within a framework: funds must be invested in counties designated as part of the Appalachian Region; projects must address one or more of the Commission's five strategic investment 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.

ARC holds itself and its local, state, and regional partners accountable for setting and achieving performance outcomes associated with ARC-supported investments. ARC measures the effectiveness of investments by tracking progress on several performance targets. ARC's strategic plan sets out annual and five-year outcome targets (see page 86).

In FY 2021, ARC met or exceeded all of its performance outcome targets. Initial estimates were particularly strong for investments in infrastructure improvements. These investments address the needs of many communities across Appalachia—especially those hit hard by recent declines in coal-related industries—to diversify their employment base and build critical infrastructure needed to strengthen the Region's economy.

### FISCAL YEAR 2021 INVESTMENT TARGETS AND INITIAL ESTIMATES

| ANNUAL OUTCOME TARGETS                                        | INITIAL ESTIMATES                                             |
|---------------------------------------------------------------|---------------------------------------------------------------|
| 20,000 jobs created or retained                               | 20,624 jobs created or retained                               |
| 22,000 students, workers, and leaders with improvements       | 25,102 students, workers, and leaders with improvements       |
| 22,000 businesses and households with improved infrastructure | 69,825 businesses and households with improved infrastructure |
| 2,500 businesses created or strengthened                      | 3,709 businesses created or strengthened                      |
| 250 communities with enhanced capacity                        | 493 communities with enhanced capacity                        |

# STRATEGIC INVESTMENT GOALS AND OBJECTIVES

## Investment Goal 1

### Economic Opportunities

*Invest in entrepreneurial and business development strategies that strengthen Appalachia's economy.*

#### Strategic Objectives

- 1.1** Strengthen entrepreneurial ecosystems and support for existing businesses.
- 1.2** Support the startup and growth of businesses, particularly in targeted sectors.
- 1.3** Enhance the competitiveness of the Region's manufacturers.

**1.4** Promote export strategies to connect startup and established businesses with external and global markets.

**Outcome measure:** Number of jobs created or retained.

## Investment Goal 2

### Ready Workforce

*Increase the education, knowledge, skills, and health of residents to work and succeed in Appalachia.*

#### Strategic Objectives

- 2.1** Develop and support educational programs and institutions to prepare students for post-secondary education and the workforce.
- 2.2** Support programs that provide basic and soft-skills training to prepare workers for employment.
- 2.3** Develop and support career-specific education and skills training for students and workers, especially in sectors that are experiencing growth locally and regionally and that provide opportunities for advancement.

**2.4** Increase local residents' access to STEAM and other skills training on state-of-the-art technology and processes across all educational levels.

**2.5** Improve access to affordable, high-quality health care for workers and their families.

**2.6** Use proven public health practices and establish sustainable clinical services to address health conditions that affect the Region's economic competitiveness.

**2.7** Develop and support sustainable programs that remove barriers to participating in the workforce.

**Outcome measure:** Number of students, workers, and leaders with improvements.

## Investment Goal 3

### Critical Infrastructure

*Invest in critical infrastructure—especially broadband; transportation, including the Appalachian Development Highway System; and water/wastewater systems.*

#### Strategic Objectives

**3.1** Promote the productive and strategic use of broadband and other telecommunications infrastructure to increase connectivity and strengthen economic competitiveness.

**3.2** Ensure that communities have adequate basic infrastructure to implement their community and economic development objectives.

**3.3** Support the construction and adaptive reuse of business-development sites and public facilities to generate economic growth and revitalize local economies.

**3.4** Complete the Appalachian Development Highway System (ADHS) and construct local access roads to strengthen links between transportation networks and economic development.

**3.5** Invest in intermodal transportation planning and infrastructure that builds on the ADHS and maximizes the Region's access to domestic and international markets.

**Outcome measure:** Number of businesses and households with access to improved infrastructure.

## Investment Goal 4

### Natural and Cultural Assets

*Strengthen Appalachia's community and economic development potential by leveraging the Region's natural and cultural heritage assets.*

#### Strategic Objectives

**4.1** Preserve and strengthen existing natural assets in support of economic opportunities that generate local and regional benefits.

**4.2** Preserve and strengthen existing cultural assets through strategic investments that advance local and regional economic opportunities.

**4.3** Support strategic investments in natural and cultural heritage resources to advance local economic growth.

**4.4** Support preservation and stewardship of community character to advance local economic growth.

**Outcome measure:** Number of businesses created or strengthened.

## Investment Goal 5

### Leadership and Community Capacity

*Build the capacity and skills of current and next-generation leaders and organizations to innovate, collaborate, and advance community and economic development.*

#### Strategic Objectives

**4.1** Develop and support robust inclusive leadership that can champion and mobilize forward-thinking community improvement.

**4.2** Empower and support next-generation leaders and encourage authentic engagement in local and regional economic and community development.

**4.3** Strengthen the capacity of community organizations and institutions to articulate and implement a vision for sustainable, transformative community change.

**4.4** Support visioning, strategic planning and implementation, and resident engagement approaches to foster increased community resilience and generate positive economic impacts.

**4.5** Develop and support networks, partnerships, and other models of collaboration that catalyze public, private, and nonprofit action for community impact.

**Outcome measure:** Number of communities with enhanced capacity.



# 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 Government Performance and Results Act (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,
- Verification of outcomes, and
- Independent 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.

### *Performance Estimates: Initial Estimates*

Initial estimates presented in this report are outcome estimates gathered from project applications, as reported by grantees. Critical data from projects submitted to ARC for funding are entered into the Commission's grants management information system to facilitate monitoring of projects. Throughout the fiscal year, ARC staff review performance measurement data to better understand emerging trends, improve data integrity, and shape policy to improve the ARC program. At the close of each fiscal year, ARC staff review initial estimates and prepare the data for submission to the Office of Management and Budget (OMB) and Congress.

### *Project Performance Verification: Intermediate Results*

The performance verification process, a critical part of ARC's GPRA compliance, is designed to confirm project outcomes after the projects have been completed. In FY 2021, ARC continued an effort to expand the performance verification process in order to achieve a more comprehensive sample of projects. Under the process, project performance is verified for projects that have been closed for at least two years, in order to capture more accurate data on performance measures, which can continue to accrue after a project has been completed.



The verification performed by ARC staff yields 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 verification activities are shared with ARC staff.

### *Program Evaluations: Final Results*

Independent, external evaluation of ARC initiatives and sub-programs is a critical component of ARC's GPRA compliance. 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 five general goals in ARC's strategic plan and are published on ARC's website. Summaries of recent evaluations are included in this report under each strategic investment goal area.

This report presents outcome targets and initial estimates for each of ARC's five strategic investment goals, as well as overall targets for leveraged private investment, matching project funds, and funds directed to distressed counties or areas. In addition, performance verification results and program evaluation results are reported under the appropriate goal area.

## Annual Performance Targets and Measures

Each fiscal year, ARC submits to the OMB annual performance targets for projects to be funded in coming years, as required in the budget submission process. In determining these targets, ARC develops likely investment scenarios for the 13 Appalachian states, anticipating how each state will direct ARC funds in addressing the five strategic investment goals. 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 five strategic investment goals. The states' spending flexibility is a critical element of the ARC federal-state partnership but poses challenges in setting performance targets. Each state's priorities may shift from year to year, occasionally producing unanticipated results.

To address reporting requirements, ARC reports initial estimates toward reaching performance targets as stated in the strategic plan. 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 five strategic investment goals (see table on page 27).

It is important to note that some outcome measures cut across goal areas. To simplify the reporting of these measures, initial estimates for each performance target are totaled and reported under the strategic investment goal that most closely aligns with the outcome measure. For example, one of ARC's outcome measures is jobs created or retained. ARC measures initial estimates for jobs created or retained by projects funded under all of the strategic goals. For clarity, this outcome measure is discussed, and initial estimates from all strategic investment goal areas are reported, under Strategic Investment Goal 1, "Economic Opportunities: Invest in entrepreneurial and business development strategies that strengthen Appalachia's economy."

## Outcome Measures

**Strategic Investment Goal One: Economic Opportunities.** The following outcome measures are presented in Goal 1: *The number of jobs created and the number of jobs retained.*

- “Jobs created” refers to the number of direct hires (excluding construction) that will result from an ARC project. (Measured during the project period and up to three years after the project end date.)
- “Jobs retained” refers to the number of jobs that would have been lost or relocated in the absence of the ARC project.

These two measures are combined and reported together as “jobs created or retained.”

**Strategic Investment Goal Two: Ready Workforce.** The following outcome measures are presented in Goal 2: *The number of students with improvements, the number of workers/trainees with improvements, and the number of leaders with improvements.*

- “Students with improvements” refers to the number of students who, as a result of an ARC-funded project, either obtain a job in the field for which they were trained; receive a diploma, certificate, or other career credential; or successfully complete a course or unit of study and/or graduate to the next grade level necessary to continue their education. (Measured during the project period and up to three years beyond the project end date.)
- “Workers/trainees with improvements” refers to the number of workers or trainees who, as a result of an ARC-funded project, develop improved skills that enable them to obtain employment or enhance their current employment. Enhancements include higher pay, a better position, or a certification. (Measured during the project period and up to three years beyond the project end date.)
- “Leaders with improvements” refers to the number of participants in leadership programs who, as a result of an ARC-funded project, develop improved leadership skills as defined by the project. (Measured during the project period and up to three years beyond the project end date.)

These three measures are combined and reported together as “students, workers, and leaders improved.”

**Strategic Investment Goal Three: Critical Infrastructure.** The following outcome measures are presented in Goal 3: *The number of residential (“household”) and non-residential (“business”) customers with new or improved infrastructure.*

- “Businesses served” refers to the number of non-residential customers with connections to new infrastructure services—such as water, sewer, natural gas, or telecommunications service—or non-residential customers with improvements in existing infrastructure services.
- “Households served” refers to the number of residential customers with connections to new infrastructure services—such as water, sewer, natural gas, or telecommunications service—or residential customers with improvements in existing infrastructure services.

These two measures are combined and reported together as “businesses and households with improved infrastructure.”

**Strategic Investment Goal Four: Natural and Cultural Assets.** The following outcome measures are presented in Goal 4: *The number of businesses created and the number of businesses strengthened.*

- “Businesses created” refers to the number of new businesses created as a result of an ARC project. This measure is used for business development projects such as entrepreneurship training, value-added agriculture, access to capital, and business incubation programs (including seed accelerators).
- “Businesses strengthened” refers to the number of businesses with a measurable improvement as a result of an ARC project. This measure is used for business development and improvement projects, such as business technical assistance, market expansion, tourism development, and value-added agriculture.

These two measures are combined and recorded together as “businesses created or strengthened.”

**Strategic Investment Goal Five: Leadership and Community Capacity.** The following outcome measure is presented in Goal 5: *The number of communities with enhanced capacity.*

- “Communities with enhanced capacity” refers to the number of communities that have improved ability to address critical community issues as a result of an ARC project. This measure is used for projects that address planning, civic participation, and community capacity.

This measure is reported as “communities with enhanced capacity.”

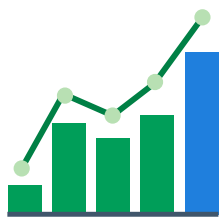
### Leverage, Matching, and Distressed Counties Measures

**Leverage Measure:** The ratio of leveraged private investment (LPI) to ARC investment for all area development grants. LPI refers to the dollar amount of private-sector financial commitments (non-project funds) that result from an ARC project. (Measured during the project period and up to three years after the project end date.)

**Matching Measure:** The ratio of non-ARC to ARC project investment for all area development grants. This measure helps illustrate the impact ARC’s flexible grants can have in the Appalachian Region.

**Distressed Counties/Areas Measure:** The percentage of total ARC funds invested in projects that benefit distressed counties or areas. Project funds are included if the project primarily or substantially benefits distressed counties or areas.

## STRATEGIC INVESTMENT GOAL 1



## Economic Opportunities

Invest in entrepreneurial and business development strategies that strengthen Appalachia's economy.

Over the past 50 years, ARC investments, coupled with significant leveraged investments from public- and private-sector partners, have helped improve economic outcomes across the Region. However, work remains to bring the Appalachian Region to economic parity with the rest of the country. Creating opportunities for local ventures by supporting entrepreneurial and business development in existing and emerging sectors can help communities transform their economies. To achieve the greatest impact, ARC's investments in entrepreneurial development will create and strengthen the ecosystems that provide broad-based support for business development, especially in economically distressed counties and areas. Investments will also support business development targeted to sectors that connect and build on local and regional assets, have growth potential, and offer better-quality jobs for the Region's workers. ARC's investments can also encourage renewed innovation and competitiveness in manufacturing, a regional economic mainstay. ARC's aim is to support businesses that provide products and services to meet growing national and international demand. ARC will advance all of these efforts in close partnership with federal agencies, the private sector, and regional and national philanthropies.

### Action Objectives

- 1.1 Strengthen entrepreneurial ecosystems and support for existing businesses.
- 1.2 Support the startup and growth of businesses, particularly in targeted sectors.
- 1.3 Enhance the competitiveness of the Region's manufacturers.
- 1.4 Promote export strategies to connect startups and established businesses with external and global markets.

### Performance Targets and Initial Estimates

Strategic Investment Goal 1 is aligned with the performance measure "jobs created or retained."

### Outcome Measures

ARC's strategic plan describes the major outcome measures for Strategic Investment Goal 1 as the number of jobs created or retained, the number of businesses created or strengthened, and the amount of leveraged private investment. Because Strategic Investment Goal 1 is most closely aligned with the performance measure "jobs created and retained," initial estimates and verification results for jobs created or retained under all strategic investment goals are reported under this goal. Initial estimates and verification results for businesses created or strengthened are reported under Strategic Goal 4. The initial estimates for leveraged private investment under all strategic investment goals are reported on page 45.



## Outcome Target and Initial Estimates

| JOBS CREATED OR RETAINED IN FISCAL YEAR 2021 |                                          |
|----------------------------------------------|------------------------------------------|
| ANNUAL OUTCOME TARGET                        | INITIAL ESTIMATE                         |
| FY 2021: 20,000 jobs created or retained     | FY 2021: 20,624 jobs created or retained |

**FY 2021: Expected to exceed target by 3%.**

| JOBS CREATED OR RETAINED IN FISCAL YEARS 2016–2020 |                                          |
|----------------------------------------------------|------------------------------------------|
| ANNUAL OUTCOME TARGETS                             | INITIAL ESTIMATES                        |
| FY 2016: 20,000 jobs created or retained           | FY 2016: 18,702 jobs created or retained |
| FY 2017: 20,000 jobs created or retained           | FY 2017: 21,341 jobs created or retained |
| FY 2018: 20,000 jobs created or retained           | FY 2018: 26,662 jobs created or retained |
| FY 2019: 20,000 jobs created or retained           | FY 2019: 17,282 jobs created or retained |
| FY 2020: 20,000 jobs created or retained           | FY 2020: 26,319 jobs created or retained |

## Project Verification Sampling

In FY 2021, members of ARC's verification team surveyed five projects completed in FY 2016 through FY 2018 that had targets for jobs created or retained to compare estimated and actual results.

| Number of Projects Surveyed | Projected Number of Jobs Created or Retained | Actual Number of Jobs Created or Retained | Results Achieved |
|-----------------------------|----------------------------------------------|-------------------------------------------|------------------|
| 5                           | 284                                          | 271                                       | 95%              |

As shown above, the projects surveyed achieved 95% of projected results for jobs created or retained.

## Project Evaluation: Final Results

### POWER Monitoring and Evaluation

In September 2021, ARC issued the report *POWER Initiative Evaluation: The POWER of Change*, prepared by Chamberlin Dunn. This report summarized findings and recommendations from the third phase of an ongoing formative evaluation of the POWER Initiative. POWER (Partnerships for Opportunities and Workforce and Economic Revitalization) is a congressionally funded initiative that targets federal resources to help communities affected by job losses in coal mining, coal power plant operations, and coal-related supply chain industries due to the changing economics of America's energy production. POWER grants are organized into four broad development categories: workforce development, broadband and telecommunications, entrepreneurship, and business cluster development.

The 2021 evaluation highlighted stories of change experienced by individuals, organizations, and regions as a result of POWER grants; short-term impacts of closed grants; and ongoing monitoring of the evolving impacts of the COVID-19 pandemic. The evaluation found that, while the impacts of closed POWER grants are still maturing, many collective output and outcome goals have already been exceeded: participants, students, workers/trainees, and patients served; jobs retained; businesses created; and increased export sales revenue.

In FY 2022, Chamberlin Dunn will continue to monitor the POWER initiative, with a focus on medium- to long-term impacts of closed grants.

### Job Creation and Retention

In September 2015, ARC issued the report *Program Evaluation of the Appalachian Regional Commission's Job Creation and Retention Projects*, prepared by HDR, Inc., with Jack Faucett Associates, Inc. The report evaluated 286 job creation and retention projects funded between FY 2004 and FY 2010, with a total of \$42.5 million in ARC investment. Using data from ARC's grants management database, as well as 15 in-depth case studies and an extensive survey of grantees, the study evaluated the economic development impact of these projects on Appalachian businesses, households, and participants. The study also outlined key findings and common themes and provided recommendations for enhancing future programs focused on job creation. Survey responses from 123 grantees, whose projects received a total of \$20 million in ARC funding, showed that the projects created or retained more than 237,000 jobs, and contributed to the creation of 776 businesses and the retention of 3,427 businesses in the Appalachian Region. In addition, the funding for these 123 projects leveraged \$422.7 million in private non-project investments. Survey respondents also reported that project outcomes often exceeded the initial performance targets.

### Entrepreneurship

In April 2008, ARC 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 (RUPRI), the RUPRI Center for Rural Entrepreneurship, EntreWorks Consulting, and RTI International. The report evaluated ARC's Entrepreneurship Initiative (EI), which invested \$43 million during that time span in projects to stimulate and support entrepreneurship across Appalachia. The evaluation included development of a metrics framework; analysis of data from ARC's grants management database, including project outcomes; four site visits; and interviews with stakeholders, economic development experts, and project grantees. The study found that the EI projects created 9,156 jobs, retained 3,022 jobs, created 1,787 new businesses, and provided services to 8,242 existing businesses, and were projected to leverage \$109.9 million in private investment. Interviewees reported that EI projects raised the profile of entrepreneurship within the Appalachian Region, provided start-up funding for innovative projects, leveraged additional resources that allowed projects to achieve scale and impact, and facilitated networking and collaboration among practitioners.

## STRATEGIC INVESTMENT GOAL 2



## Ready Workforce

Increase the education, knowledge, skills, and health of residents to work and succeed in Appalachia.

A healthy, skilled, and ready workforce is a building block for a more prosperous Appalachian Region. Education, particularly postsecondary education, is a key component of the business and entrepreneurial ecosystem and often a primary economic driver. Investments by ARC and its partners aim to connect education, workforce, and business interests in a seamless system that prepares the Region's young people to succeed in existing and emerging sectors and creates opportunities for workers transitioning to new employment. These efforts must begin with strong educational programming and institutions, and ensure that all students have the basic skills, as well as the soft skills, needed for productive employment or entrepreneurship. Emphasis will be placed on providing education and training matched to the Region's current sectors and jobs, while increasing access to advanced skills training for the jobs of the future. The health status of Appalachia's residents is also closely tied to the Region's economic health. A healthy community has increased prospects for business development, civic entrepreneurship, and quality of life. ARC will leverage its resources and partner with other public, private, and nonprofit organizations to advocate for and address—through evidence-based and innovative practices—the challenges posed by poor health conditions, inefficient healthcare infrastructure, and other health barriers that keep residents from being active and productive workers.

### Action Objectives

- 2.1 Develop and support educational programs and institutions to prepare students for postsecondary education and the workforce.*
- 2.2 Support programs that provide basic and soft-skills training to prepare workers for employment.*
- 2.3 Develop and support career-specific education and skills training for students and workers, especially in sectors that are experiencing growth locally and regionally and that provide opportunities for advancement.*
- 2.4 Increase local residents' access to science, technology, engineering, arts, and math (STEAM) and other skills training on state-of-the-art technology and processes across all educational levels.*
- 2.5 Improve access to affordable, high-quality health care for workers and their families.*
- 2.6 Use proven public health practices and establish sustainable clinical services to address health conditions that affect the Region's economic competitiveness.*
- 2.7 Develop and support sustainable programs that remove barriers to participating in the workforce.*

### Performance Targets and Initial Estimates

Strategic Investment Goal 2 is aligned with the performance measure “students, workers, and leaders with improvements.”

## Outcome Measures

ARC's strategic plan describes the major outcome measure for Strategic Investment Goal 2 as the number of students, workers, and leaders with improvements, so initial estimates and verification results for this measure under all strategic investment goals are reported under Goal 2.

## Outcome Target and Initial Estimates

| STUDENTS, WORKERS, AND LEADERS WITH IMPROVEMENTS IN FISCAL YEAR 2021                                                 |                                                                  |
|----------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|
| ANNUAL OUTCOME TARGET                                                                                                | INITIAL ESTIMATE*                                                |
| FY 2021: 22,000 students, workers, and leaders with improvements                                                     | FY 2021: 25,102 students, workers, and leaders with improvements |
| <i>*Excludes projects that provided computers or computer equipment that will benefit large numbers of students.</i> |                                                                  |

**FY 2021: Expected to exceed target by 14%.** Outcome results typically fluctuate over the years as the states' investment priorities vary.

| STUDENTS, WORKERS, AND LEADERS WITH IMPROVEMENTS IN FISCAL YEARS 2016–2020                                           |                                                                  |
|----------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|
| ANNUAL OUTCOME TARGETS                                                                                               | INITIAL ESTIMATES*                                               |
| FY 2016: 22,000 students, workers, and leaders with improvements                                                     | FY 2016: 46,513 students, workers, and leaders with improvements |
| FY 2017: 22,000 students, workers, and leaders with improvements                                                     | FY 2017: 30,263 students, workers, and leaders with improvements |
| FY 2018: 22,000 students, workers, and leaders with improvements                                                     | FY 2018: 34,135 students, workers, and leaders with improvements |
| FY 2019: 22,000 students, workers, and leaders with improvements                                                     | FY 2019: 51,204 students, workers, and leaders with improvements |
| FY 2020: 22,000 students, workers, and leaders with improvements                                                     | FY 2020: 20,792 students, workers, and leaders with improvements |
| <i>*Excludes projects that provided computers or computer equipment that will benefit large numbers of students.</i> |                                                                  |

## Project Verification Sampling

In FY 2021, members of ARC's verification team surveyed six projects completed in FY 2016 through FY 2018 that had targets for students/trainees with improvements 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 |
|-----------------------------|---------------------------------------------------------|------------------------------------------------------|------------------|
| 6                           | 323                                                     | 311                                                  | 96%              |

As shown above, the projects surveyed achieved 96% of projected results for students/trainees with improvements.

## Project Evaluation: Final Results

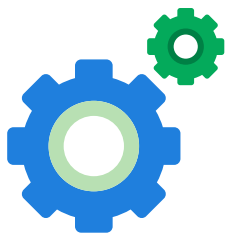
### Health

In August 2015, ARC issued the report *Program Evaluation of the Appalachian Regional Commission's Health Projects, 2004–2010*, prepared by the Community and Economic Development Initiative of Kentucky at the University of Kentucky. The report evaluated health projects funded by ARC between FY 2004 and FY 2010. During this period, ARC invested \$30.9 million in 202 health projects. The evaluation analyzed data from ARC's grants management database, administered an online survey to project grantees, and conducted in-depth case studies of 13 projects. The study found that the health projects had met their goals of serving 359,860 patients, 131,464 non-clinical participants, 7,118 students, and 5,056 workers/trainees; and that ARC funding had helped attract additional government or philanthropic funding. In addition, more than 95% of survey respondents said that without ARC funding their project would have been cancelled, downsized, or delayed by more than a year. The projects contributed to a number of outcomes, including workforce training, health-care provision, public health promotion, and public policy development. Analysis of data from ARC's grants management database showed that on average, ARC's health projects have made a substantial impact on participants and patients.

### Education and Workforce Development

In December 2012, ARC issued the report *Evaluation of the Appalachian Regional Commission's Education and Workforce Development Projects: 2000–2008*, prepared by the Westat Corporation, the Nick J. Rahall II Appalachian Transportation Institute, and the Economic Development Research Group. The report evaluated 386 education and workforce development projects funded by ARC between 2000 and 2008, with a total of \$65 million in ARC investment. The evaluation included analysis of data from ARC's grants management database, grantee interviews, 15 in-depth case studies, and an extensive survey of project grantees. Survey responses showed that these projects had served more students and worker/trainees than projected (141,037, compared with 77,606) and substantially more students and workers/trainees were improved than originally projected (41,481, compared with 27,502). Among the students served by ARC projects, benefits included increased vocational and technical skills, enrollment in a college or postsecondary program, achievement of basic or academic skills in a specific subject, and achievement of a postsecondary degree, credential, or certification. Among workers/trainees served by ARC projects, benefits included improved skills in a new area—including vocational and technical skills—and basic or academic skills.

## STRATEGIC INVESTMENT GOAL 3



## Critical Infrastructure

Invest in critical infrastructure—especially broadband; transportation, including the Appalachian Development Highway System; and water/wastewater systems.

ARC investments in infrastructure have helped reduce the Region's isolation, spur economic activity, and improve public health and safety. To compete in the global economy, Appalachia must continue to develop and improve the infrastructure necessary for economic development, including broadband and telecommunications; basic infrastructure, such as water and wastewater systems; diversified energy; housing; and transportation, including the Appalachian Development Highway System (ADHS). ARC will also support investments in multi-modal transportation systems that strengthen connections to regional, national, and global markets. ARC infrastructure investments will address local community needs as well as strategic, innovative approaches to economic development. ARC will provide leadership in helping communities develop long-term plans for effective development and deployment of the infrastructure needed to support economic competitiveness and quality of life. To create the greatest impact, ARC will leverage resources and bring together government agencies and the private sector to build the critical infrastructure needed to strengthen the Region's economy.

### Action Objectives

- 3.1 *Promote the productive and strategic use of broadband and other telecommunications infrastructure to increase connectivity and strengthen economic competitiveness.*
- 3.2 *Ensure that communities have adequate basic infrastructure to implement their community and economic development objectives.*
- 3.3 *Support the construction and adaptive reuse of business-development sites and public facilities to generate economic growth and revitalize local economies.*
- 3.4 *Complete the Appalachian Development Highway System (ADHS) and construct local access roads to strengthen links between transportation networks and economic development.*
- 3.5 *Invest in intermodal transportation planning and infrastructure that builds on the ADHS and maximizes the Region's access to domestic and international markets.*

### Performance Target and Initial Estimate

Strategic Investment Goal 3 is aligned with the performance measure “businesses and households with access to improved infrastructure.”

### Outcome Measure

ARC's strategic plan describes the major outcome measure for Strategic Investment Goal 3 as the number of businesses and households with access to improved infrastructure, so initial estimates and verification results for this measure under all strategic investment goals are reported under Goal 3.



## Outcome Target and Initial Estimates

| BUSINESSES AND HOUSEHOLDS SERVED IN FISCAL YEAR 2021                                                       |                                                  |
|------------------------------------------------------------------------------------------------------------|--------------------------------------------------|
| ANNUAL OUTCOME TARGET                                                                                      | INITIAL ESTIMATE*                                |
| FY 2021: 22,000 businesses and households served                                                           | FY 2021: 69,825 businesses and households served |
| <i>*Initial estimate does not include households served by ARC-funded water storage tank construction.</i> |                                                  |

**FY 2021: Expected to exceed target by 217%.** In FY 2021, states chose to fund more infrastructure projects than in previous years. In addition to the result above, ARC funded water-storage projects in FY 2021 that expect to serve a total of 10,707 additional businesses and households.

| BUSINESSES AND HOUSEHOLDS SERVED IN FISCAL YEARS 2016–2020                                                                                                  |                                                    |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------|
| ANNUAL OUTCOME TARGETS                                                                                                                                      | INITIAL ESTIMATES*                                 |
| FY 2016: 22,000 businesses and households served                                                                                                            | FY 2016: 22,293 businesses and households served   |
| FY 2017: 22,000 businesses and households served                                                                                                            | FY 2017: 46,465 businesses and households served   |
| FY 2018: 22,000 businesses and households served                                                                                                            | FY 2018: 31,378 businesses and households served   |
| FY 2019: 22,000 businesses and households served                                                                                                            | FY 2019: 81,295 businesses and households served** |
| FY 2020 22,000 businesses and households served                                                                                                             | FY 2020: 68,191 businesses and households served   |
| <i>*Initial estimates do not include households served by ARC-funded water storage tank construction and improvement projects with large service areas.</i> |                                                    |
| <i>**FY 2019 number adjusted from published total to accommodate one project that was changed from an FY 2019 to FY 2020 project due to delays.</i>         |                                                    |

## Project Verification Sampling

In FY 2021, members of ARC's verification team surveyed six projects completed in FY 2016 through FY 2018 that had targets for businesses and households served to compare estimated and actual results. Verification is for businesses and households served with infrastructure projects.

| Number of Projects Surveyed | Projected Number of Businesses and Households Served | Actual Number of Businesses and Households Served | Results Achieved |
|-----------------------------|------------------------------------------------------|---------------------------------------------------|------------------|
| 6                           | 1,612                                                | 2,196                                             | 136%             |

As shown above, the projects surveyed achieved 136% of projected results for businesses and households served with infrastructure.

## Project Evaluation: Final Results

### Drinking Water and Wastewater Infrastructure Projects

In May 2020, ARC issued the report *Evaluation of the Appalachian Regional Commission's Drinking Water and Wastewater Infrastructure Projects: FY 2009–FY 2016*, prepared by the University of North Carolina Environmental Finance Center and Virginia Tech. ARC's water and wastewater infrastructure projects include new water and/or wastewater systems that serve residential, commercial, or industrial properties, or some combination thereof;

rehabilitation to existing water and/or wastewater systems; and the construction or rehabilitation of water storage tanks. The report evaluated 379 drinking water and wastewater projects funded by ARC between FY 2009 and FY 2016, with more than \$115 million in ARC investments. Water and wastewater projects funded by ARC during that time directly benefited more than 294,100 households and at least 17,410 businesses. These projects also led to the creation of 11,668 jobs and the retention of 22,179 jobs. The evaluation also found that communities value the drinking water and wastewater projects, as evidenced by high demand, their key role in project completion, and how they serve to attract and actively leverage additional public and private sector funding. Findings showed the grant portfolio successfully targeted the neediest locations, led to significant improvements in local economic conditions, and met or surpassed locally determined performance goals.

### Economic Analysis Study of the Appalachian Development Highway System (ADHS)

In July 2017, ARC published the report *Economic Analysis of Completing the Appalachian Development Highway System* led by Economic Development Research Group, which analyzed the effect of ADHS development on economic growth in Appalachia and quantified the future economic benefits and costs of completing the system. The study applies a mix of data and modeling efforts to measure passenger and freight traffic, the costs of corridor completion, time savings, and other user benefits of the ADHS, and the broader economic development and trade impacts of the ADHS. The main purpose of the study was to estimate the economic benefits and costs of system and corridor completion to inform stakeholders as they work on funding and constructing the final segments of the ADHS. The study's key findings include the following:

- 1) Increased economic activity associated with the ADHS system has helped create or support more than 168,000 jobs across the 13 Appalachian states, with nearly \$7.3 billion of added worker income annually;
- 2) ADHS investments made between 1965 and 2015 generated more than \$19.6 billion per year of added business sales in Appalachia, representing over \$9 billion of added gross regional product;
- 3) The ADHS saves 231 million hours of travel time annually with 20% of car vehicle hours saved and 31% of freight truck vehicle hours saved associated with trips with at least one end located outside the Appalachian states; and
- 4) As of 2015, the value of transportation cost savings and productivity gains associated with the ADHS amounts to \$10.7 billion annually. Informant interviews were conducted to complete case studies of major corridors and multimodal facilities located on or near corridors to show the connection with intermodal transportation.

### Telecommunications and Technology

In November 2015, ARC issued the report *Program Evaluation of the Appalachian Regional Commission's Telecommunications and Technology Projects: FY 2004–FY 2010*, prepared by RTI International and independent consultants. The report evaluated 322 telecommunications and technology projects ARC had funded between FY 2004 and FY 2010, with \$41 million in ARC investments. The evaluation employed a variety of techniques to conduct the research, including a literature review, a survey of project grantees, and case studies of 18 projects that highlighted elements that helped foster project success. The study found that the ARC projects improved 41,000 households; served over 5,000 businesses; created 2,800 jobs; leveraged over \$10 million in private investment; and served 286,000 patients, 152,000 students, and 22,500 workers. The study found that ARC projects expanded the capacities of technology-assisted teachers in the Appalachian Region, increased capacity of local institutions to deliver better services, and bolstered economic vitality.

## STRATEGIC INVESTMENT GOAL 4



# Natural and Cultural Assets

Strengthen Appalachia's community and economic development potential by leveraging the Region's natural and cultural heritage assets.

Appalachia's natural and cultural heritage assets are significant building blocks for a more prosperous future. They contribute to a sense of identity for Appalachians and provide the basis for sustainable, place-based economic development in many current and emerging sectors. Investments in natural and cultural assets can catalyze other economic development activities in the Region, including the growth of entrepreneurial ventures and high-tech companies, and create an environment that helps attract and retain workers. ARC has an opportunity to promote community and regional planning that takes a long-term view of local assets and emphasizes the balanced use of those assets to generate sustainable economic benefits for local communities. ARC will work with partners to leverage the productive use of these assets in support of existing and emerging economic opportunities throughout the Region. The restoration and development of natural and cultural assets has the potential to become a critical economic driver, particularly in economically distressed counties and areas.

## Action Objectives

- 4.1 Preserve and strengthen existing natural assets in support of economic opportunities that generate local and regional benefits.
- 4.2. Preserve and strengthen existing cultural assets through strategic investments that advance local and regional economic opportunities.
- 4.3 Support strategic investments in natural and cultural heritage resources to advance local economic growth.
- 4.4. Support preservation and stewardship of community character to advance local economic growth.

## Performance Targets and Initial Estimates

Strategic Investment Goal 4 is aligned with the performance measure "businesses created or strengthened."

## Outcome Measures

ARC's strategic plan describes the major outcome measures for Strategic Investment Goal 4 as the number of businesses created or strengthened and the number of communities with enhanced capacity. Because Goal 4 is most closely aligned with the performance target "businesses created or strengthened," initial estimates and verification results for new or strengthened businesses for projects under all strategic investment goals are reported under this goal. Initial estimates and verification results for communities with enhanced capacity are reported under Goal 5.

## Outcome Target and Initial Estimates

| BUSINESSES CREATED OR STRENGTHENED IN FISCAL YEAR 2021 |                                                   |
|--------------------------------------------------------|---------------------------------------------------|
| ANNUAL OUTCOME TARGET                                  | INITIAL ESTIMATE                                  |
| FY 2021: 2,500 businesses created or strengthened      | FY 2021: 3,709 businesses created or strengthened |

**FY 2021: Expected to exceed target by 48%.** The large numbers are due in part to the priorities of the POWER program as well as the choice of states to fund more projects with these measures.

| BUSINESSES CREATED OR STRENGTHENED IN FISCAL YEARS 2016–2020 |                                                   |
|--------------------------------------------------------------|---------------------------------------------------|
| ANNUAL OUTCOME TARGET                                        | INITIAL ESTIMATE                                  |
| FY 2016: 2,500 businesses created or strengthened            | FY 2016: 4,757 businesses created or strengthened |
| FY 2017: 2,500 businesses created or strengthened            | FY 2017: 4,474 businesses created or strengthened |
| FY 2018: 2,500 businesses created or strengthened            | FY 2018: 2,500 businesses created or strengthened |
| FY 2019: 2,500 businesses created or strengthened            | FY 2019: 4,678 businesses created or strengthened |
| FY 2020: 2,500 businesses created or strengthened            | FY 2020: 3,361 businesses created or strengthened |

## Project Verification Sampling

In FY 2021, members of ARC's verification team surveyed 11 projects completed in FY 2016 through FY 2018 that had targets for businesses created or strengthened to compare estimated and actual results.

| Number of Projects Surveyed | Projected Number of Businesses Created or Strengthened | Actual Number of Businesses Created or Strengthened | Results Achieved |
|-----------------------------|--------------------------------------------------------|-----------------------------------------------------|------------------|
| 11                          | 3,297                                                  | 3,991                                               | 121%             |

As shown above, the projects surveyed achieved 121% of projected results for businesses created or strengthened.

## Project Evaluation: Final Results

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

In September 2010, ARC issued the report *Program Evaluation of ARC's Tourism, Cultural Heritage, and Natural-Asset-Related Projects*, prepared by Regional Technology Strategies with Mt. Auburn Associates and Appalachian State University. The report evaluated a portfolio of 132 ARC tourism, cultural heritage, and natural-asset-related projects, with a total of \$10.8 million in ARC funding. The study used surveys, interviews, and statistical analysis. The study showed that ARC's investment in the tourism projects generated 2,588 jobs, with a new job created for every \$4,161 of ARC funding, and that a new business was created for every \$23,139 in ARC funding. In addition, every \$.40 invested by ARC in the projects reviewed generated \$1.00 in leveraged private investment. Survey responses indicated that the greatest economic impact came from three main outputs: business assets/revenues, public assets/revenues, and employment.

## STRATEGIC INVESTMENT GOAL 5



# Leadership and Community Capacity

Build the capacity and skills of current and next-generation leaders and organizations to innovate, collaborate, and advance community and economic development.

Community economic development is, at its core, an exercise in effective leadership. The future of the Appalachian Region depends on both the current and the next generation of leaders. Investing in leadership development programs and activities and providing access to the resources community leaders need to understand their economic opportunities and the root causes of the challenges they face will help create stronger communities in Appalachia. To achieve the greatest impact, ARC investments in leadership and community capacity building will aim to help communities create a common vision for local development and develop and execute an action plan for achieving that vision. The plans will be based on model practices in engaging residents in the visioning and implementation processes and will promote effective collaboration and partnerships across geographic and other boundaries. The development plans that emerge will provide a guide for future investments—from ARC and local, state, federal, and other partners—to capture new economic opportunities and create positive community change.

## Action Objectives

- 5.1 Develop and support robust inclusive leadership that can champion and mobilize forward-thinking community improvement.*
- 5.2 Empower and support next-generation leaders and encourage authentic engagement in local and regional economic and community development.*
- 5.3 Strengthen the capacity of community organizations and institutions to articulate and implement a vision for sustainable, transformative community change.*
- 5.4 Support visioning, strategic planning and implementation, and resident engagement approaches to foster increased community resilience and generate positive economic impacts.*
- 5.5 Develop and support networks, partnerships, and other models of collaboration that catalyze public, private, and nonprofit action for community impact.*

## Performance Targets and Initial Estimates

Strategic Investment Goal 5 is aligned with the performance measure “communities with enhanced capacity.”

## Outcome Measures

ARC’s strategic plan describes the major outcome measures for Strategic Investment Goal 5 as the number of leaders strengthened and the number of communities with enhanced capacity. Initial estimates and verification results for communities with enhanced capacity are reported under this goal. Initial estimates and verification results for leaders strengthened are reported under Goal 2, with students and workers.

## Outcome Target and Initial Estimates

| COMMUNITIES WITH ENHANCED CAPACITY IN FISCAL YEAR 2021 |                                                 |
|--------------------------------------------------------|-------------------------------------------------|
| ANNUAL OUTCOME TARGET                                  | INITIAL ESTIMATE                                |
| FY 2021: 250 communities with enhanced capacity        | FY 2021: 493 communities with enhanced capacity |

**FY 2021: Expected to exceed target by 97%.** This is due in part to priorities established for the POWER Initiative.

| COMMUNITIES WITH ENHANCED CAPACITY IN FISCAL YEAR 2016–2020 |                                                 |
|-------------------------------------------------------------|-------------------------------------------------|
| ANNUAL OUTCOME TARGET                                       | INITIAL ESTIMATE                                |
| FY 2016: 250 communities with enhanced capacity             | FY 2016: 357 communities with enhanced capacity |
| FY 2017: 250 communities with enhanced capacity             | FY 2017: 510 communities with enhanced capacity |
| FY 2018: 250 communities with enhanced capacity             | FY 2018: 562 communities with enhanced capacity |
| FY 2019: 250 communities with enhanced capacity             | FY 2019: 647 communities with enhanced capacity |
| FY 2020: 250 communities with enhanced capacity             | FY 2020: 335 communities with enhanced capacity |

## Project Verification Sampling

In FY 2021, members of ARC's verification team surveyed 10 projects completed in FY 2016 through FY 2018 that had targets for communities with enhanced capacity to compare estimated and actual results.

| Number of Projects Surveyed | Projected Number of Communities with Enhanced Capacity | Actual Number of Communities with Enhanced Capacity | Results Achieved |
|-----------------------------|--------------------------------------------------------|-----------------------------------------------------|------------------|
| 10                          | 78                                                     | 99                                                  | 127%             |

As shown above, the projects surveyed achieved 127% of projected results for communities with enhanced capacity.

## Project Evaluation: Final Results

### Community Capacity Building

In March 2019, ARC issued the report *Evaluation of the Appalachian Regional Commission's Leadership and Community Capacity Projects FY 2008–FY 2015*, prepared by the Westat Corporation. The evaluation encompassed 152 projects representing \$14.4 million in investments, and included a wide range of project types, including leadership programs, community and organizational capacity-building projects, downtown revitalization efforts, network and partnership-building projects, strategic planning, and technical assistance. The purpose was to determine the extent to which this set of projects has succeeded in attaining its economic development objectives. Through a



mix of surveys, site visits, and phone interviews, evaluation results suggested that most projects met or exceeded their own goals, underscoring the effectiveness of their efforts. Projects met or exceeded expected outcomes for the following measures: number of communities improved (91% of grantees using this measure reported meeting or exceeding expected outcomes); number of organizations improved (89% of grantees using this measure reported meeting or exceeding expected outcomes); number of programs implemented (82% of grantees using this measure reported meeting or exceeding expected outcomes); and number of participants improved (78% of grantees using this measure reported meeting or exceeding expected outcomes). Additionally, the report highlights the sustainability of this set of projects, as survey findings indicate that many of the projects surveyed have continued to operate beyond the Commission-supported grant period, and for nearly half of projects for which a survey was completed, respondents reported expanding their efforts. Finally, the projects highlight the benefit accruing to distressed counties and rural or underserved communities.

## PERFORMANCE TARGETS FOR LEVERAGE, MATCHING, AND DISTRESSED COUNTIES/AREAS

### Leverage Target

The leverage performance target for ARC investments is a ratio of leveraged private investments (LPI) to ARC investments. LPI is the dollar amount of private-sector financial commitments (non-project funds) that result from an ARC project, measured during the project period and up to three years after the project end date.

| LEVERAGED PRIVATE INVESTMENT RATIO IN FISCAL YEAR 2021               |                    |
|----------------------------------------------------------------------|--------------------|
| ANNUAL TARGET                                                        | INITIAL ESTIMATES  |
| FY 2021: 6:1 ratio of leveraged private investment to ARC investment | FY 2021: 6:1 ratio |

**FY 2021: Expected to exceed target by 7%.** Every dollar of ARC funding is estimated to attract \$6.39 of leveraged private investment (non-project funds). Outcome results typically fluctuate over the years as the states' investment priorities vary.

| LEVERAGED PRIVATE INVESTMENT RATIO<br>IN FISCAL YEARS 2016–2020      |                     |
|----------------------------------------------------------------------|---------------------|
| ANNUAL TARGET                                                        | INITIAL ESTIMATES   |
| FY 2016: 6:1 ratio of leveraged private investment to ARC investment | FY 2016: 3:1 ratio  |
| FY 2017: 6:1 ratio of leveraged private investment to ARC investment | FY 2017: 5:1 ratio  |
| FY 2018: 6:1 ratio of leveraged private investment to ARC investment | FY 2018: 12:1 ratio |
| FY 2019: 6:1 ratio of leveraged private investment to ARC investment | FY 2019: 3:1 ratio  |
| FY 2020: 6:1 ratio of leveraged private investment to ARC investment | FY 2020: 5:1 ratio  |

## Matching Target

The matching performance target for ARC investments is a ratio of non-ARC project funds to ARC funds. The ratio illustrates the impact ARC's relatively small, flexible investments can have in the Appalachian Region. Matching funds include only non-ARC sources of project funds, including federal, state, local, nonprofit, and private project funding.

| MATCHING PROJECT FUNDS RATIO IN FISCAL YEAR 2021        |                     |
|---------------------------------------------------------|---------------------|
| ANNUAL TARGET                                           | RESULT              |
| FY 2021: 2:1 ratio of matching funds to ARC investment  | FY 2021: 2:1 ratio* |
| <i>*Ratios are rounded to the nearest whole number.</i> |                     |

**FY 2021: Met 87% of target.** Every dollar of ARC funding attracted \$1.75 in matching project funds.

| MATCHING PROJECT FUNDS RATIO<br>IN FISCAL YEARS 2016–2020 |                    |
|-----------------------------------------------------------|--------------------|
| ANNUAL TARGET                                             | RESULTS*           |
| FY 2016: 2:1 ratio of matching funds to ARC investment    | FY 2016: 2:1 ratio |
| FY 2017: 2:1 ratio of matching funds to ARC investment    | FY 2017: 1:1 ratio |
| FY 2018: 2:1 ratio of matching funds to ARC investment    | FY 2018: 2:1 ratio |
| FY 2019: 2:1 ratio of matching funds to ARC investment    | FY 2019: 1:1 ratio |
| FY 2020: 2:1 ratio of matching funds to ARC investment    | FY 2020: 2:1 ratio |
| <i>*Ratios are rounded to the nearest whole number.</i>   |                    |

## Distressed Counties/Areas Target

The distressed counties/areas target for ARC investments is the percentage of total ARC 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.

| PERCENTAGE OF FUNDS TO DISTRESSED COUNTIES/AREAS IN FISCAL YEAR 2021*                                               |                       |
|---------------------------------------------------------------------------------------------------------------------|-----------------------|
| ANNUAL TARGET                                                                                                       | RESULT                |
| FY 2021: Direct 50% of ARC funds to distressed counties or areas                                                    | FY 2021: 70% of funds |
| <i>*Project funds are included if the project primarily or substantially benefits distressed counties or areas.</i> |                       |

**FY 2021: Exceeded target by 20 percentage points.** ARC continues to encourage directing investment to distressed counties and areas.

| PERCENTAGE OF FUNDS TO DISTRESSED COUNTIES/AREAS IN FISCAL YEARS 2016–2020                                          |                       |
|---------------------------------------------------------------------------------------------------------------------|-----------------------|
| ANNUAL TARGETS                                                                                                      | RESULTS               |
| FY 2016: Direct 50% of ARC funds to distressed counties or areas                                                    | FY 2016: 79% of funds |
| FY 2017: Direct 50% of ARC funds to distressed counties or areas                                                    | FY 2017: 73% of funds |
| FY 2018: Direct 50% of ARC funds to distressed counties or areas                                                    | FY 2018: 64% of funds |
| FY 2019: Direct 50% of ARC funds to distressed counties or areas                                                    | FY 2019: 70% of funds |
| FY 2020: Direct 50% of ARC funds to distressed counties or areas                                                    | FY 2020: 72% of funds |
| <i>*Project funds are included if the project primarily or substantially benefits distressed counties or areas.</i> |                       |

## SUMMARY OF ACHIEVEMENTS

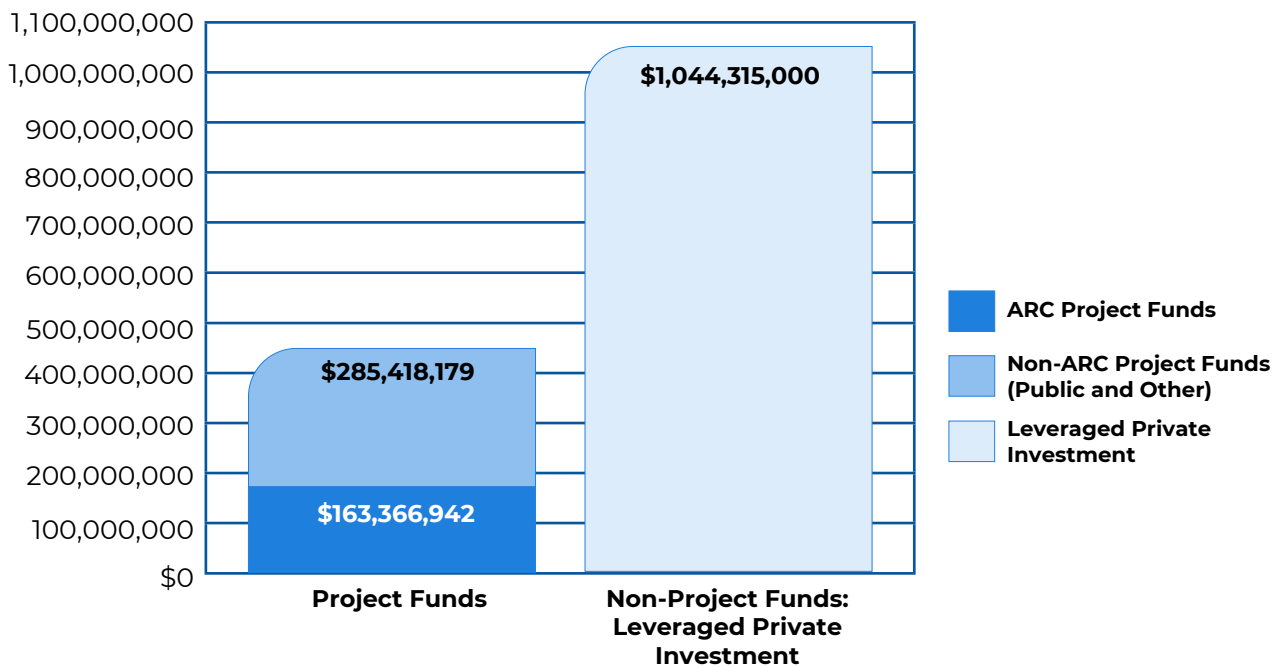
### PERFORMANCE TARGETS AND INITIAL ESTIMATES FOR FISCAL YEAR 2021 PROJECTS

| ANNUAL PERFORMANCE TARGETS                                                                                    | INITIAL ESTIMATES                                                       | EXPECTED RESULTS                      |
|---------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|---------------------------------------|
| <b>Outcome Targets</b>                                                                                        |                                                                         |                                       |
| 20,000 jobs created or retained                                                                               | 20,624 jobs created or retained                                         | Exceed target by 3%                   |
| 22,000 students, workers, and leaders with improvements                                                       | 25,102 students, workers, and leaders with improvements                 | Exceed target by 14%                  |
| 22,000 businesses and households with access to improved infrastructure                                       | 69,825 businesses and households with access to improved infrastructure | Exceed target by 217%                 |
| 2,500 businesses created or strengthened                                                                      | 3,709 businesses created or strengthened                                | Exceed target by 48%                  |
| 250 communities with enhanced capacity                                                                        | 493 communities with enhanced capacity                                  | Exceed target by 97%                  |
| <b>Leverage Target</b>                                                                                        |                                                                         |                                       |
| Achieve a 6:1 ratio of leveraged private investment to ARC funds (\$6 per \$1 ARC investment)                 | 6:1 ratio*<br>(\$6.39 per \$1 ARC investment)                           | Exceed target by 7%                   |
| <b>Matching Target</b>                                                                                        |                                                                         |                                       |
| Achieve a 2:1 ratio of matching funds to ARC funds (\$2 per \$1 ARC investment)                               | 2:1 ratio*<br>(\$1.75 per \$1 ARC investment)                           | Meet 87% of target                    |
| <b>Distressed Counties/Areas Target</b>                                                                       |                                                                         |                                       |
| Direct 50% of ARC funds to benefit distressed counties or areas                                               | 70% of funds**                                                          | Exceed target by 20 percentage points |
| *Ratios are rounded to the nearest whole number.                                                              |                                                                         |                                       |
| **Project funds are included if the project primarily or substantially benefits distressed counties or areas. |                                                                         |                                       |

## Investment Summary for FY 2021 Projects

| LEVERAGE, MATCHING, AND DISTRESSED COUNTIES/AREAS SUMMARY                                                    |                  |                                                                                               |
|--------------------------------------------------------------------------------------------------------------|------------------|-----------------------------------------------------------------------------------------------|
| Leveraged private investment                                                                                 | \$ 1,044,315,000 | 6:1 ratio of leveraged private investment to ARC investment                                   |
| Non-ARC matching project funds                                                                               | \$285,418,179    | 2:1 ratio of non-ARC project investment to ARC project investment                             |
| ARC project funds targeted to distressed counties or areas                                                   | \$ 113,769,154*  | 70% 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 All ARC Projects in Fiscal Year 2021



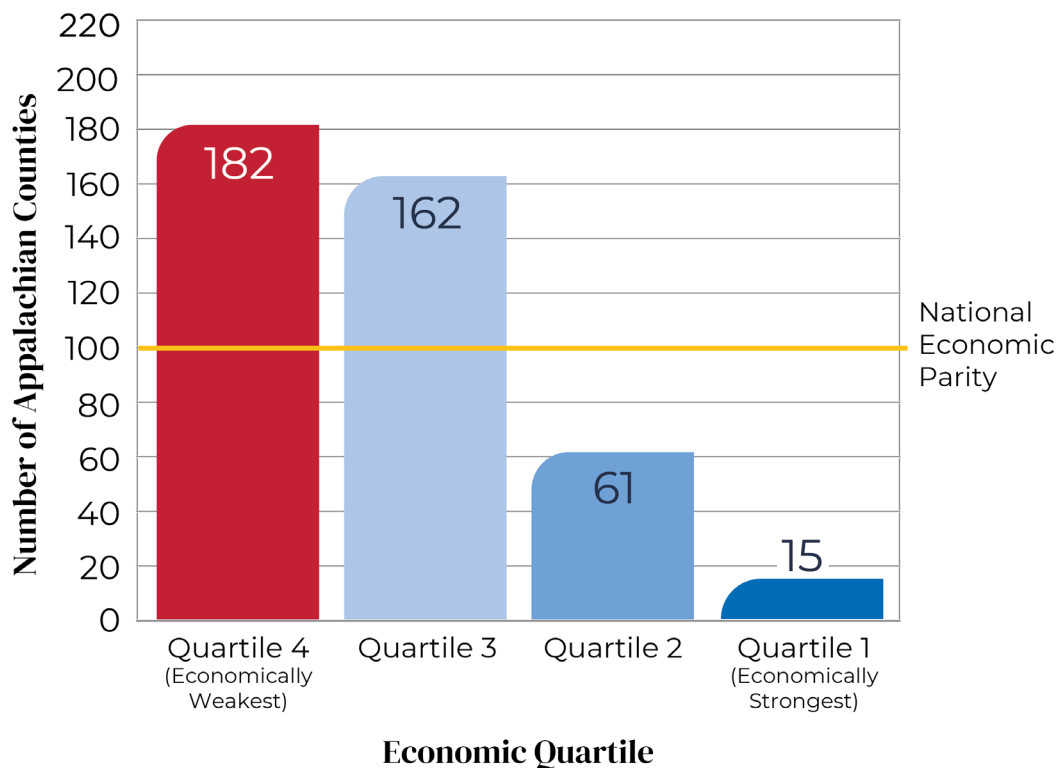
## MEASURING PROGRESS TOWARD THE ARC VISION

ARC's overall vision is that Appalachia is a region of great opportunity that will achieve socioeconomic parity with the nation. One way to measure the Region's progress toward this vision is to compare the economic status of Appalachian counties with all counties nationwide.

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

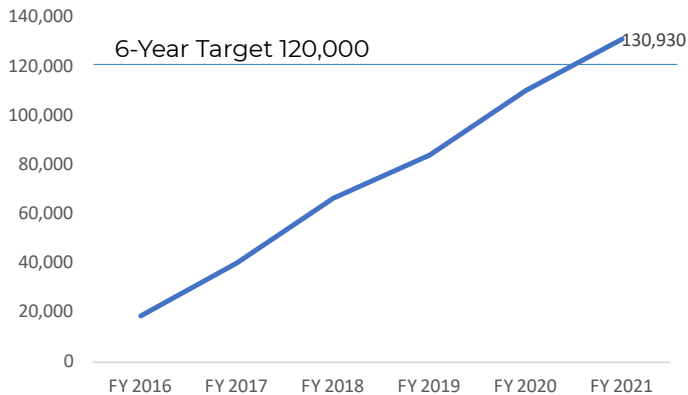
### Number of Appalachian Counties by Economic Quartile, Fiscal Year 2021



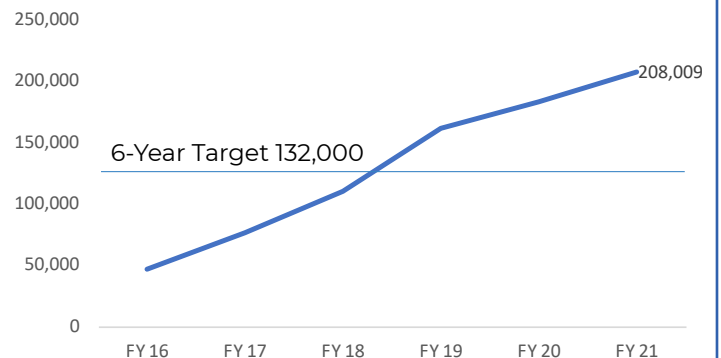


## Progress Toward ARC Strategic Plan Performance Goals, Fiscal Years 2016–2021

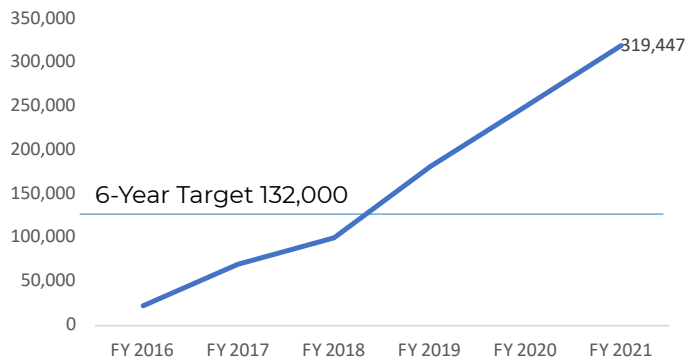
**Jobs Created or Retained (Cumulative)**



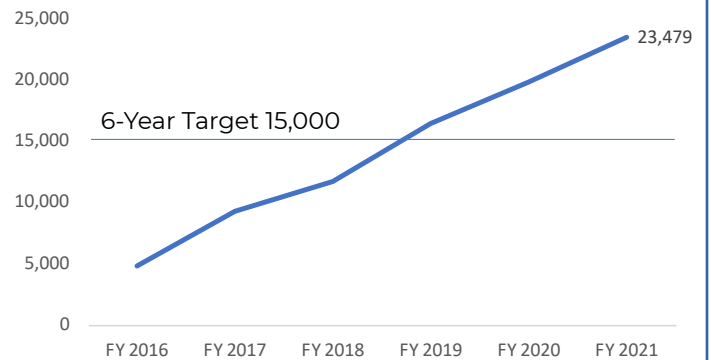
**Students, Workers, Leaders with Improvements (Cumulative)**



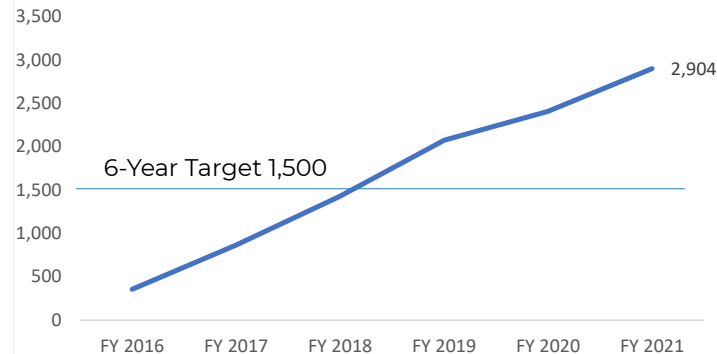
**Businesses and Households Served (Cumulative)**



**Businesses Created or Strengthened (Cumulative)**



**Communities with Enhanced Capacity (Cumulative)**



# PART III: FISCAL YEAR 2021 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 statements in this Performance and Accountability Report fairly present the financial position of ARC.

I am very pleased to report that Allmond & Company LLC, the independent auditor of ARC's financial statements for 2021, has rendered an unmodified opinion about the adequacy of the statements. Our auditors reported a material weakness in our internal control over preparing financial statements and footnote disclosures, which is being addressed. 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.

A handwritten signature in black ink that reads "Brandon McBride".

Brandon McBride  
Executive Director  
Appalachian Regional Commission

January 19, 2022

# REPORT OF INDEPENDENT AUDIT

## Office of Inspector General

*Report Prepared by Allmond and Company  
Fiscal Year 2021 Financial Statement Audit Opinion*



**Appalachian  
Regional  
Commission**

Office of Inspector General

Audit Report: 22-08

March 8, 2022



## Office of Inspector General

March 8, 2022

Brandon McBride  
Executive Director, ARC

This memorandum transmits the results of the audit of the Commission's financial statements for the fiscal year ended September 30, 2021 and 2020. We contracted with the independent certified public accounting firm Allmond & Company, LLC to conduct this audit. Allmond and Company, LLC expressed an unmodified opinion that concluded the financial statements were presented fairly, in all material respects, in accordance with the applicable financial reporting standards.

My office has policies and procedures that are designed to provide assurance that work performed by non-Federal auditors complies with the auditing standards. In connection with this contract, we reviewed the final report of Allmond & Company, LLC and related documentation and made inquiries of its representatives. Our involvement in the audit process included monitoring audit activities, participating in discussions, reviewing audit plans, and the inspection of selected documentation, conclusions, and results.

Our oversight of Allmond & Company, LLC's audit did not disclose any instances where they did not comply, in all material respects, with the U.S. generally accepted government auditing standards; however, this review cannot be construed as an audit, and is not intended to enable us to express, and we do not express, any opinion on the Commission's financial statements. Allmond & Company, LLC is solely responsible for the audit report dated January 19, 2022 and the conclusions expressed in the report.

Allmond and Company, LLC issued six recommendations in the report related to a material weakness in internal control over financial reporting. Within the next 30 days, please provide me with your management decisions describing the specific actions that you will take to implement the recommendations.

Thank you for the cooperation and courtesies extended to both Allmond & Company, LLC, and my staff during this audit.

Sincerely,

A handwritten signature in blue ink, reading "Philip M. Heneghan".

Philip M. Heneghan  
Inspector General

**ARC – 2021 Financial Statement Audit**  
**Contract: 47QRAA21D0026/ARC21P052**

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**Appalachian Regional Commission (ARC)**  
**Fiscal Year 2021 Financial Statement Audit**

**Independent Auditors' Report**

*Submitted for review and acceptance to:*

Rhonda Turnbow, Deputy Inspector General  
Office of Inspector General  
Appalachian Regional Commission  
1666 Connecticut Ave, NW, Suite 700  
Washington, DC 20009-1068

*Submitted by:*

Jason L. Allmond, CPA, CGFM, CISA, CISM  
Engagement Member  
Allmond & Company, LLC  
7501 Forbes Boulevard, Suite 200  
Lanham, MD 20706  
301-918-8200  
<mailto:jallmond@allmondcpa.com>

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**Final Independent Auditors' Report**

Prepared under contract to the Appalachian Regional Commission (ARC) Office of Inspector General to provide financial auditing services

**APPALACHIAN REGIONAL COMMISSION  
AUDIT REPORT  
SEPTEMBER 30, 2021**



**Appalachian  
Regional  
Commission**

**ALLMOND & COMPANY, LLC  
Certified Public Accountants  
7501 Forbes Boulevard, Suite 200  
Lanham, Maryland 20706  
(301) 918-8200**



ALLMOND &amp; COMPANY, LLC

CERTIFIED PUBLIC ACCOUNTANTS

7501 FORBES BOULEVARD, SUITE 200  
LANHAM, MARYLAND 20706(301) 918-8200  
FACSIMILE (301) 918-8201

## Independent Auditors' Report

Executive Director  
Appalachian Regional Commission:

### Report on the Financial Statements

We have audited the accompanying financial statements of the Appalachian Regional Commission (ARC), which comprise the balance sheet as of September 30, 2021; the related statement of net cost, changes in net position, and budgetary resources for the fiscal year ended; and the related notes to the financial statements (hereinafter referred to as the financial statements).

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on the fiscal year 2021 financial statements of ARC based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 21-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



## Independent Auditors' Report

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Appalachian Regional Commission as of September 30, 2021, and its net cost of operations, changes in net position, and budgetary resources for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters*****FY 2020 Financial Statements Audited by Other Auditors***

The financial statements of ARC as of and for the fiscal year ended September 30, 2020, were audited by another auditor, who expressed an unmodified opinion on those statements on January 26, 2021. These statements were not audited, reviewed, or compiled by us; accordingly, we do not express an opinion or any other form of assurance on them.

***Required Supplementary Information***

The information in the *Message from the Executive Director, Management and Discussion Analysis* section, and *Other Information* section of this report is presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of ARC's financial statements. However, we did not audit this information and, accordingly, we express no opinion on the information contained therein.

**Other Reporting Required by Government Auditing Standards*****Internal Control over Financial Reporting***

In planning and performing our audit of ARC's financial statements as of and for the year ended September 30, 2021, in accordance with generally accepted government auditing standards, we considered ARC's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ARC's internal control over financial reporting. Accordingly, we do not express an opinion on ARC's internal controls over financial reporting. We limited internal control testing to those necessary to achieve the objectives described in OMB Bulletin No. 21-04. We did not test all internal control relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982.

Our consideration of internal control over financial reporting was for the limited purpose as described in the paragraph above and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Exhibit I, we identified a certain deficiency in internal control that we consider to be a material weakness.

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

## Independent Auditors' Report

detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying *Exhibit I Findings and Recommendations* to be a material weakness (2021-01).

A significant deficiency is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit the attention by those charged with governance.

### *Compliance and Other Matters Specific to the Financial Statements*

As part of obtaining reasonable assurance about whether ARC's fiscal year 2021 financial statements are free of material misstatements, we performed tests of ARC's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements, which noncompliance could have a direct and material effect on the determination of material amounts and disclosures in ARC's financial statements, and certain provisions of other laws specified in OMB Bulletin No. 21-04. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance as described in the preceding paragraph disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 21-04.

### *ARC's Response to Findings*

ARC's responses to the findings identified during our audit are described immediately following the auditors' recommendations in Exhibit I. ARC's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

### *Purpose of the Other Reporting Required by Government Auditing Standards*

The purpose of the communication described in the Other Reporting Required by Government Auditing Standards section is solely to describe the scope of our testing of internal control and compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on the effectiveness of the ARC's internal control or on compliance. This communication is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal controls and compliance with laws, regulations, contracts, and grant agreements which could have a material effect ARC's financial statements. Accordingly, this communication is not suitable for any other purpose.

*Allmond & Company, LLC*

Lanham, MD  
January 19, 2022

## Independent Auditors' Report

## Exhibit I Material Weakness Findings and Recommendations

**Lack of Sufficient Internal Controls over the preparation of Financial Statements and Footnote Disclosures. (2021-01)****CONDITION**

The Appalachian Regional Commission (ARC) lacks sufficient internal controls over financial reporting to ensure the reliability of financial reporting information and adherence to applicable financial reporting requirements. ARC's service provider, the United States Department of Agriculture (USDA) Office of Chief Financial Officer (OCFO), did not prepare ARC's financial statements and footnotes disclosures timely or consistently in accordance with the updated Office of Management and Budget (OMB) Circular A-136 dated August 10, 2021. In addition, ARC did not perform an adequate review of the financial statements and footnote disclosures. Specifically, we noted the following issues:

- ARC improperly separated cost by federal and non-federal as opposed to categorizing them by major program, as required by OMB Circular A-136.
- ARC misclassified Account 451000 as Unobligated Balance, Unavailable as opposed to Unobligated Balance – Available in Note 2 – Fund Balance with Treasury.
- ARC did not accurately disclose the amount of budgetary resources obligated for undelivered orders for FY 2021 federal, non-federal, paid, and unpaid amounts in the Undelivered Orders at the End of the Period presented in Note 12 as required by OMB Circular A-136. In addition, Total Undelivered Orders for FY 2021 was misstated.
- ARC misclassified USSGL Account 299000 Other Liabilities Without Related Budgetary Obligations as a Liability Covered by Budgetary Resources as opposed to Liabilities Not Requiring Budgetary Resources in Note 7 - Liabilities Not Covered by Budgetary Resources.
- ARC did not include a footnote disclosure for Net Adjustments to Unobligated Balance Brought Forward, October 1 disclosing the material adjustments to the unobligated brought forward, October 1 as required by OMB A-136.
- The Balance Sheet, Statement of Net Cost (SNC), Statement of Budgetary Resources (SBR), Statement of Changes in Net Position (SCNP), and financial statement footnotes were not prepared timely and were not submitted to the Office of Management and Budget (OMB), as required by OMB Circular A-136, *Financial Reporting Requirements*, as of 11/15/21. ARC first received the financial statements and footnotes from the USDA OCFO on 12/14/21.

**CRITERIA**

*The Government Accountability Office (GAO), Standards for Internal Controls in the Federal Government, (issued September 2014), Principle 10 – Design Control Activities, 10.03, Accurate and Timely Recording of Transactions, states, “Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final*

## Independent Auditors' Report

## Exhibit I Material Weakness Findings and Recommendations

classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.”

*Office of Management and Budget (OMB) Circular A-136, dated August 10, 2021, section I.3 Entities Subject to this Circular*, states, “Each Executive Branch agency that is required to prepare audited financial statements under the CFO Act, GMRA, or the ATDA must comply with Sections I, II, and III of this Circular. Government corporations required to prepare statements in accordance with standards promulgated by FASAB must also comply with sections I, II, III.”

*Office of Management and Budget (OMB) Circular A-136, dated August 10, 2021, section I.5 Submission Deadlines*, states, “Final AFRs, PARs, and AMRs are due to **OMB, Treasury, the Government Accountability Office (GAO), and the Congress** by 6 p.m. EST on November 15, 2021.”

*Office of Management and Budget (OMB) Circular A-136, dated August 10, 2021, section II.3.3.1. Statement of Net Cost: Introduction* page 32 states, “The SNC should show the net cost of operations as a whole and by major programs. Major program definition is at the entity’s discretion. Programs not deemed “major” should be grouped together.”

*Office of Management and Budget (OMB) Circular A-136 Financial Reporting Requirements, dated August 10, 2021, section II.3.8.38 Note 3: Fund Balance with Treasury*, states, “Disclose the total of the entity’s FBWT, as reflected in the entity’s general ledger and represented by unobligated and obligated balances.”

*United States Standard General Ledger (USSGL) Part 1 Fiscal Year 2021 Reporting Bulletin No. 2021-17, dated June 2021, section II: Accounts and Definitions*, states, Account 451000- Apportionments: “This account is used to record the amounts apportioned by Office of Management and Budget that are available for allotment in a current or subsequent period.”

*Office of Management and Budget (OMB) Circular A-136 Financial Reporting Requirements, dated August 10, 2021, section II.3.8.38 Note 28: Undelivered Orders at the End of the Period*, states, “Disclose the amount of budgetary resources obligated for undelivered orders at the end of the period, separately disclosing Federal, non-Federal, paid, and unpaid amounts.”

*Office of Management and Budget (OMB) Circular A-136 Financial Reporting Requirements, dated August 10, 2021, section II.3.2.4 Liabilities*, states “Liabilities Not Requiring Budgetary Resources is for liabilities that have not in the past required and will not in the future require the use of budgetary resources.”

*Office of Management and Budget (OMB) Circular A-136 Financial Reporting Requirements, dated August 10, 2021, section II.3.8.13 Note 13: Liabilities Not Covered by Budgetary Resources*, states, “Liabilities that do not require the use of budgetary resources are covered by monetary assets that are not budgetary resources to the entity. Entities with material amounts of liabilities in this category, such as liabilities for non-fiduciary deposit funds, should provide a brief description of those liabilities.”

## Independent Auditors' Report

## Exhibit I Material Weakness Findings and Recommendations

*Office of Management and Budget (OMB) Circular A-136, section II.3.8.27. Note 25: Net Adjustments to Unobligated Balance, Brought Forward, October 1, states, "Disclose material adjustments during the reporting period to budgetary resources available at the beginning of the year that are necessary to reconcile the beginning balance to the prior year's ending balance and explain the adjustments in accordance with SFFAS 7, paragraph 79. For corrections of errors, this may include the amount of the errors and the period in which the errors occurred."*

**CAUSE**

ARC does not have adequate policies and procedures in place to review the financial statements and note disclosures prepared by their service provider USDA OCFO for completeness, accuracy, and compliance with financial reporting requirements. In addition, ARC has not defined "timely" within the service level agreement with its service provider USDA, as such USDA did not prepare and submit the financial statements and note disclosures in a timely manner.

**EFFECT**

Continuing to use the incorrect OMB Circular A-136 could significantly impact the relevance and reliability of the financial statements and footnote disclosures. Also, submitting the financial statements after the due date could result in non-compliance with OMB Circular A-136. Furthermore, the lack of financial reporting internal controls can lead to potential misstatements to the financial statements or line items not being properly classified in accordance with generally accepted accounting principles.

Unobligated Balance, Unavailable and Unobligated Balance, Available in Note 2 – Fund Balance with Treasury was misstated by \$4,301,664.58.

Total Undelivered Orders in Note 12 – Undelivered Orders at the End of the Period was misstated by \$26,784,433.00.

Liabilities Covered by Budgetary Resources and Liabilities Not Requiring Budgetary Resources in Note 7 - Liabilities Not Covered by Budgetary Resources was misstated by \$1,369,573.16.

Net Adjustments to Unobligated Balance Brought Forward, October 1 was not disclosed in the amount of \$19,727,140.80

**RECOMMENDATION**

We recommend that ARC management:

1. Ensure the updated OMB Circular A-136 is utilized when preparing and reviewing the financial statements and footnote disclosures.
2. Update service provider agreement with USDA OCFO to require the financial statements to be prepared and submitted on a timely basis in order to adhere to the reporting deadline set forth in the updated OMB Circular A-136.

## Independent Auditors' Report

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Exhibit I Material Weakness Findings and Recommendations

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3. Design and implement policies and procedures to have the reviewer of the financial statements and note disclosures review for completeness, accuracy, and compliance with financial reporting requirements.
4. Design and implement a checklist that describes key items and expectations regarding the presentation of the financial statements and footnote disclosures.
5. Design and implement policies and procedures to ensure the account balances, line items, and all corresponding balances agree to the agency's financial system.
6. Subsequent to the review process, ARC management should ensure that all reviews are thoroughly documented.



March 1, 2022

Philip M. Heneghan  
Inspector General, ARC

Thank you for the opportunity to comment on the draft audit report. ARC agrees with the material weakness and ARC management has already discussed with USDA OCFO, the accounting services provider, the issues identified to resolve many of the points raised prior to the issuance of the financial statements and notes. ARC management will enhance its existing policies and procedures surrounding the financial statements and note disclosures to improve its confidence that USDA OCFO prepared the financial statements completely, accurately, and in compliance with applicable financial reporting requirements. This will include expanding training for relevant ARC finance team members, implementing routine meetings with USDA OCFO regarding the preparation of ARC's financial statements, and developing an internal timeline/checklist that provides ARC oversight of USDA OCFO's completion and compliance with applicable financial reporting requirements.

Sincerely,

*Brandon McBride*

Brandon McBride  
Executive Director

1666 CONNECTICUT AVENUE, NW, SUITE 700 WASHINGTON, DC 20009-1068 PH. 202 884 7700 [www.arc.gov](http://www.arc.gov)





# Appalachian Regional Commission

## FINANCIAL STATEMENTS

**As of And For The Years Ended September 30, 2021 and 2020**

**APPALACHIAN REGIONAL COMMISSION**  
**CONSOLIDATED BALANCE SHEET**  
**As of September 30, 2021 and 2020**

|                                                  |          | <u>2021</u>              | <u>2020</u>              |
|--------------------------------------------------|----------|--------------------------|--------------------------|
| <b>Assets</b>                                    |          |                          |                          |
| Intragovernmental:                               |          |                          |                          |
| Fund Balance With Treasury                       | (Note 2) | \$ 529,656,367.95        | \$ 474,011,189.56        |
| <b>Total Intragovernmental</b>                   |          | <b>\$ 529,656,367.95</b> | <b>\$ 474,011,189.56</b> |
| With the Public:                                 |          |                          |                          |
| Cash and Other Monetary Assets                   | (Note 3) | 1,289,110.94             | 1,286,724.64             |
| Advances and Prepayments                         | (Note 4) | 47,887,360.68            | 45,745,405.27            |
| <b>Total With The Public</b>                     |          | <b>\$ 49,176,471.62</b>  | <b>\$ 47,032,129.91</b>  |
| <b>Total Assets</b>                              |          | <b>\$ 578,832,839.57</b> | <b>\$ 521,043,319.47</b> |
| <b>Liabilities</b>                               | (Note 5) |                          |                          |
| Intragovernmental:                               |          |                          |                          |
| Employer Contributions and Payroll Taxes Payable |          | 49,176.57                | 40,159.13                |
| Advances from Others and Deferred Revenue        |          | 167,190.61               | 167,190.61               |
| <b>Total Intragovernmental</b>                   |          | <b>\$ 216,367.18</b>     | <b>\$ 207,349.74</b>     |
| With the Public:                                 |          |                          |                          |
| Accounts Payable                                 |          | 26,294,341.52            | 25,165,421.56            |
| Advances from Others and Deferred Revenue        |          | 958,471.19               | 683,103.44               |
| Other Liabilities                                | (Note 6) | 2,437,403.46             | 2,343,211.48             |
| <b>Total With The Public</b>                     |          | <b>\$ 29,690,216.17</b>  | <b>\$ 28,191,736.48</b>  |
| <b>Total Liabilities</b>                         |          | <b>\$ 29,906,583.35</b>  | <b>\$ 28,399,086.22</b>  |
| <b>Net Position:</b>                             |          |                          |                          |
| Unexpended Appropriations                        |          | 568,215,104.86           | 511,067,608.61           |
| Cumulative Results of Operations                 |          | (19,288,848.64)          | (18,423,375.36)          |
| <b>Total Net Position</b>                        |          | <b>\$ 548,926,256.22</b> | <b>\$ 492,644,233.25</b> |
| <b>Total Liabilities and Net Position</b>        |          | <b>\$ 578,832,839.57</b> | <b>\$ 521,043,319.47</b> |

**APPALACHIAN REGIONAL COMMISSION**  
**CONSOLIDATED STATEMENT OF NET COST**  
**For The Years Ended September 30, 2021 and 2020**

|                               | <u>2021</u>                     | <u>2020</u>                    |
|-------------------------------|---------------------------------|--------------------------------|
| Gross Program Costs           | \$ 126,704,131.01               | \$141,612,652.47               |
| Less Earned Revenue           | <u>2,746,824.21</u>             | <u>3,604,271.92</u>            |
| <b>Net Program Costs</b>      | <b><u>123,957,306.80</u></b>    | <b><u>138,008,380.55</u></b>   |
| <b>Net Cost of Operations</b> | <b><u>\$ 123,957,306.80</u></b> | <b><u>\$138,008,380.55</u></b> |

**APPALACHIAN REGIONAL COMMISSION**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
**For The Years Ended September 30, 2021 and 2020**

|                                                        | <u>2021</u>               | <u>2020</u>               |
|--------------------------------------------------------|---------------------------|---------------------------|
| <b>Unexpended Appropriations:</b>                      |                           |                           |
| Beginning Balance                                      | \$ 511,067,608.61         | \$ 474,327,258.61         |
| Beginning balance, as adjusted                         | \$ 511,067,608.61         | \$ 474,327,258.61         |
| Appropriations received                                | 180,000,000.00            | 175,000,000.00            |
| Appropriations used                                    | (122,852,503.75)          | (138,259,650.00)          |
| Change in Unexpended Appropriations                    | \$ 57,147,496.25          | \$ 36,740,350.00          |
| <b>Total Unexpended Appropriations: Ending Balance</b> | <b>\$ 568,215,104.86</b>  | <b>\$ 511,067,608.61</b>  |
| <b>Cumulative Results from Operations:</b>             |                           |                           |
| Beginning Balances                                     | (18,423,375.36)           | (19,218,593.82)           |
| Beginning balances, as adjusted                        | \$ (18,423,375.36)        | \$ (19,218,593.82)        |
| Appropriations used                                    | 122,852,503.75            | 138,259,650.00            |
| Transfers-in/out without reimbursement (+/-)           | 250,000.00                | 500,000.00                |
| Imputed Financing                                      | (10,670.23)               | 43,949.01                 |
| Net Cost of Operations                                 | (123,957,306.80)          | (138,008,380.55)          |
| Net Change in Cumulative Results of Operations         | \$ (865,473.28)           | \$ 795,218.46             |
| <b>Cumulative Results of Operations</b>                | <b>\$ (19,288,848.64)</b> | <b>\$ (18,423,375.36)</b> |
| <b>Net Position</b>                                    | <b>\$ 548,926,256.22</b>  | <b>\$ 492,644,233.25</b>  |

**APPALACHIAN REGIONAL COMMISSION**  
**STATEMENT OF BUDGETARY RESOURCES**  
**For The Years Ended September 30, 2021 and 2020**

|                                                                                         | <u>2021</u>                     | <u>2020</u>                     |
|-----------------------------------------------------------------------------------------|---------------------------------|---------------------------------|
| Budgetary resources:                                                                    |                                 |                                 |
| Unobligated balance from prior year budget authority, net (discretionary and mandatory) | 121,473,280.42                  | 102,049,791.70                  |
| Appropriations (discretionary and mandatory)                                            | 180,000,000.00                  | 175,000,000.00                  |
| Spending authority from offsetting collections (discretionary and mandatory)            | 3,289,048.80                    | 848,759.94                      |
| <b>Total budgetary resources</b>                                                        | <b><u>\$ 304,762,329.22</u></b> | <b><u>\$ 277,898,551.64</u></b> |
| Status of budgetary resources:                                                          |                                 |                                 |
| New obligations and upward adjustments (total) (Note 9)                                 | 185,231,896.80                  | 176,152,412.02                  |
| Unobligated balance, end of year:                                                       |                                 |                                 |
| Apportioned, unexpired account                                                          | 88,085,559.06                   | 63,630,417.12                   |
| Unapportioned, unexpired accounts                                                       | 31,444,873.36                   | 38,115,722.50                   |
| Unexpired unobligated balance, end of year                                              | 119,530,432.42                  | 101,746,139.62                  |
| Unobligated balance, end of year (total)                                                | 119,530,432.42                  | 101,746,139.62                  |
| <b>Total budgetary resources</b>                                                        | <b><u>\$ 304,762,329.22</u></b> | <b><u>\$ 277,898,551.64</u></b> |
| Outlay, net:                                                                            |                                 |                                 |
| Outlays, net (total) (discretionary and mandatory)                                      | 124,354,821.61                  | 145,579,556.17                  |
| <b>Agency outlays, net (discretionary and mandatory)</b>                                | <b><u>\$ 124,354,821.61</u></b> | <b><u>\$ 145,579,556.17</u></b> |

Appalachian Regional Commission  
Notes to Financial Statements  
September 30, 2021 and 2020

**Note 1 – Summary of Significant Accounting Policies**

**Reporting Entity**

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

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

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

**Classified Activities**

Accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information. ARC did not have classified activities as of September 30, 2021.

**Fund Accounting Structure**

ARC's financial activities are accounted for by utilizing individual funds and fund accounts in reporting to the U.S. Treasury and the Office of Management and Budget (OMB). For financial statement purposes, these funds are classified all other funds, which consist of area development program funds and funding for the Office of the Federal Co-Chair and the Office of Inspector General.

ARC has Miscellaneous Receipt Funds which are considered non-entity accounts since ARC management does not exercise control over how the monies in these accounts can be used. Miscellaneous Receipt Fund accounts hold receipts and accounts receivable resulting from miscellaneous activities of ARC where, by law, such monies may not be deposited into funds under ARC management control. The U.S. Department of the Treasury (U.S. Treasury) automatically transfers all cash balances in these receipt accounts to the General Fund of the U.S. Treasury at the end of the fiscal year. ARC's miscellaneous receipt funds

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consist of the following: General Fund Proprietary Receipts, Not Otherwise Classified – mainly Program Income.

**Budgets and Budgetary Accounting**

ARC receives an annual congressional appropriation from which it makes financial assistance awards and carries out activities, funds the administrative costs of the Office of the Federal Co-Chairman, the Inspector General, the non-federal programmatic costs, and half the cost of the non-federal administrative costs. Contributions from 13 states in the Appalachian Region cover 50% of the Commission Administrative Budget.

Funds appropriated to ARC 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. ARC maintains commercial bank accounts for the purpose of processing its non-federal-benefitted employee's payroll and flexible benefits.



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**Accounts Receivable**

Accounts receivable, net usually represents money owed to ARC by ARC's Office of the States' Washington Representative for expenses incurred on the Office's behalf. ARC has historically collected any receivables due and has had no need to establish allowance for uncollectible accounts. There were no accounts receivable as of September 30, 2021.

**Advances**

ARC advances funds to 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/equity 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. As of September 30, 2021, ARC did not have capitalized assets including internal use software of \$35,000 or more.

**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:**

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***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 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 federal-benefitted employees hired after December 31, 1983.

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, to TSP accounts. FERS employees are eligible to participate in the Social Security program after retirement.

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 FERS. The plan was closed to new participants in January 16, 2020. 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, without federal benefits. Employees are eligible to participate in and are fully vested in the plan upon employment.

**Parent Child Reporting**

ARC is a party to allocation transfers with federal agencies as both a transferring (parent) entity and receiving (child) entity. Allocation transfers are legal delegations by one entity of its authority to obligate budget authority and outlay funds to another entity. 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

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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 other inter-agency agreements are deducted from the full cost of ARC's major programs to arrive at net program cost. Earned revenues are recognized by ARC to the extent reimbursements are payable from the public, as a result of costs incurred or services performed on the public's behalf.

### **Budgetary Financing Sources**

Budgetary financing sources other than earned revenues provide funding for ARC's net cost of operations and are reported on the Statement of Changes in Net Position. These financing sources include amounts received from Congressional appropriations to support its operations. A financing source is recognized for these appropriated funds received.

### **Use of Estimates**

Management has made certain estimates when reporting assets, liabilities, revenue, and expenses, and in the note disclosures. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Tax Exempt Status**

As an instrumentality of the federal government, ARC is exempt from income taxes imposed by any governing body whether it is a federal, state, commonwealth, local, or foreign government and exempt from sales and use taxes of the District of Columbia.

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**Note 2 – Fund Balance with Treasury**

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

|                                         | 2021                  | 2020                  |
|-----------------------------------------|-----------------------|-----------------------|
| A. Fund Balances                        |                       |                       |
| General Funds                           | \$529,242,961.95      | \$473,597,783.56      |
| Trust Fund                              | 413,406.00            | 413,406.00            |
| Total Fund Balance with Treasury        | <u>529,656,367.95</u> | <u>474,011,189.56</u> |
| B. Status of Fund Balance with Treasury |                       |                       |
| 1) Unobligated Balance                  |                       |                       |
| a) Available                            | \$88,085,559.06       | \$63,630,417.12       |
| b) Unavailable                          | 31,444,873.36         | 38,115,722.50         |
| 2) Obligated Balance not yet Disbursed  | 409,542,498.53        | 371,672,165.94        |
| 3) Temporary Sequestration              | 583,437.00            | 592,884.00            |
| Total                                   | <u>529,656,367.95</u> | <u>474,011,189.56</u> |

A trust fund was once established to receive, hold, and disburse monies collected to cover the administrative expenses of ARC. This fund has not been used since FY 2014. The balance in the trust fund continues to be sequestered; it is included in the total temporary sequestration above.

**Note 3 – Cash and Other Monetary Assets**

Cash at September 30 was:

|                         | 2021           | 2020           |
|-------------------------|----------------|----------------|
| Commercial Bank Balance | \$1,289,110.94 | \$1,286,724.64 |

**Note 4 – Advances and Prepayments**

Advances at September 30 consist of the following:

|                                                      | 2021                 | 2020                 |
|------------------------------------------------------|----------------------|----------------------|
| Advances and Prepayments                             |                      |                      |
| Advances to grantees to finance program expenditures |                      |                      |
| -Revolving Loan Fund                                 | \$27,696,525.35      | \$27,075,420.71      |
| -Non-Federal Grantees                                | 17,082,690.33        | 14,665,201.56        |
| Prepaid Pension Expense                              | 3,108,145.00         | 4,004,783.00         |
| Total                                                | <u>47,887,360.68</u> | <u>45,745,405.27</u> |

*Intragovernmental:* ARC advances funds to 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. As of September 30, 2021, ARC did not have Intragovernmental advances.

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

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

#### **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, 2021 and 2020 consist of the following:

| <b>Liabilities</b>                             | <b>2021</b>          | <b>2020</b>          |
|------------------------------------------------|----------------------|----------------------|
| Liabilities Not Covered by Budgetary Resources | 608,336.77           | 593,482.16           |
| Liabilities Covered by Budgetary Resources     | 29,298,246.58        | 27,805,604.06        |
| <b>Total</b>                                   | <b>29,906,583.35</b> | <b>28,399,086.22</b> |

#### **Note 6 – Other Liabilities**

As of September 30, 2021, and 2020, other liabilities with the public consist of Accrued Funded Payroll and Leave, Employer Contributions and Payroll Taxes Payable, Unfunded Leave, Liability for Advances from Non-Federal Sources, Accrued Health and Flexible Spending Benefits and Commercial Bank Balance. Other Liabilities Federal consists of Liability for Advances from Federal Sources and Employer Contributions and Payroll Taxes Payable.

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|                                                         | FY2021             |                     |                     |
|---------------------------------------------------------|--------------------|---------------------|---------------------|
| <b>Other Liabilities</b>                                | <b>Non-Current</b> | <b>Current</b>      | <b>Total</b>        |
| Employer Contributions and Payroll Taxes Payable        | \$0.00             | \$49,176.57         | \$49,176.57         |
| Advances from Others and Deferred Revenue               | 0                  | 167,190.61          | 167,190.61          |
| <b>Intragovernmental</b>                                | <b>\$0.00</b>      | <b>\$216,367.18</b> | <b>\$216,367.18</b> |
| Accrued Funded Payroll and Leave                        | \$0.00             | \$455,831.06        | \$455,831.06        |
| Employer Contributions and Payroll Taxes Payable        | 0                  | 3,662.47            | 3,662.47            |
| Unfunded Leave                                          | 608,336.77         | 0                   | 608,336.77          |
| Other Liabilities Without Related Budgetary Obligations | 0                  | 1,369,573.16        | 1,369,573.16        |
| <b>With the Public</b>                                  | <b>608,336.77</b>  | <b>1,829,066.69</b> | <b>2,437,403.46</b> |
| <b>Total Other Liabilities</b>                          | <b>608,336.77</b>  | <b>2,045,433.87</b> | <b>2,653,770.64</b> |

|                                                         | FY2020             |                     |                     |
|---------------------------------------------------------|--------------------|---------------------|---------------------|
| <b>Other Liabilities</b>                                | <b>Non-Current</b> | <b>Current</b>      | <b>Total</b>        |
| Employer Contributions and Payroll Taxes Payable        | \$0.00             | \$40,159.13         | \$40,159.13         |
| Advances from Others and Deferred Revenue               | 0                  | 167,190.61          | 167,190.61          |
| <b>Intragovernmental</b>                                | <b>\$0.00</b>      | <b>\$207,349.74</b> | <b>\$207,349.74</b> |
| Accrued Funded Payroll and Leave                        | \$0.00             | \$384,020.01        | \$384,020.01        |
| Employer Contributions and Payroll Taxes Payable        | 0                  | 3,732.09            | 3,732.09            |
| Unfunded Leave                                          | 593,482.16         | 0                   | 593,482.16          |
| Other Liabilities Without Related Budgetary Obligations | 0                  | 1,361,977.22        | 1,361,977.22        |
| <b>With the Public</b>                                  | <b>593,482.16</b>  | <b>1,749,729.32</b> | <b>2,343,211.48</b> |
| <b>Total Other Liabilities</b>                          | <b>593,482.16</b>  | <b>1,957,079.06</b> | <b>2,550,561.22</b> |

## Note 7 – Retirement Plans

### Federal

ARC participates in the Federal Employees Retirement System (FERS) for federal and certain non-federal employees. The FERS plans are administered by the OPM. ARC's contributions to the FERS plan for FY 2021 was \$236,947.91 and contributions for FY 2020 was \$255,881.53.

Several employees also participate in the Federal Employees Health Benefit plan (FEHB) and the Federal Employees Group Life Insurance program (FGLI), 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 2021 were \$75,053.03 and \$1,482.94 and for FY 2020 were \$77,845.46 and \$1,591.86 for FEHB and FGLI, respectively.

ARC does not report in its financial statements FERS, FEHB or FGLI assets, accumulated plan benefits or unfunded liabilities, if any, applicable to its employees.

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For FY 2021, ARC contributed \$14,014.78 and \$53,231.51 to the Federal Thrift Savings Basic and Matching Plans respectively, and for FY 2020, ARC contributed \$16,311.54 and \$65,085.69 respectively.

**Non-Federal**

Findley, Inc., a division of USI Insurance Services, is ARC's administrator for ARC's non-federal retirement plans. The following table presents the pension benefit expense for the defined benefit pension plan by component for fiscal years 2021 and 2020:

|                                    | <b><u>2021</u></b>         | <b><u>2020</u></b>       |
|------------------------------------|----------------------------|--------------------------|
| Service cost                       | \$ 329,499                 | \$ 678,908               |
| Interest cost                      | 867,404                    | 996,282                  |
| Expected return                    | (2,219,697)                | (2,036,026)              |
| Amortization of prior service cost | 624,221                    | 690,724                  |
| Recognized loss                    | 1,795,211                  | 533,747                  |
| <b>Net periodic benefit cost</b>   | <b><u>\$ 1,396,638</u></b> | <b><u>\$ 863,635</u></b> |

The following table presents the pension liability or prepayment by component for fiscal years 2021 and 2020:

|                                           | <b><u>2021</u></b>           | <b><u>2020</u></b>           |
|-------------------------------------------|------------------------------|------------------------------|
| Pension liability at October 1            | \$ (4,004,783)               | \$ (3,868,414)               |
| Net periodic benefit cost                 | 1,396,638                    | 863,635                      |
| Contributions                             | (500,000)                    | (1,000,004)                  |
| <b>Pension prepayment at September 30</b> | <b><u>\$ (3,108,145)</u></b> | <b><u>\$ (4,004,783)</u></b> |

| <b><u>Additional information</u></b> | <b><u>2021</u></b>         | <b><u>2020</u></b>           |
|--------------------------------------|----------------------------|------------------------------|
| Fair value of plan assets            | 35,118,238                 | 31,348,293                   |
| Projected benefit obligation         | (35,679,330)               | (36,882,195)                 |
| <b>Funded status</b>                 | <b><u>\$ (561,092)</u></b> | <b><u>\$ (5,533,902)</u></b> |
| Employer contribution                | 500,000                    | 1,000,004                    |
| Participant contribution             | -                          | -                            |
| Benefits paid                        | (992,226)                  | (1,200,715)                  |

The accumulated benefit obligation was \$34,760,392 and \$35,808,753 at September 30, 2021 and 2020, respectively.

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

|                               | <b><u>2021</u></b> | <b><u>2020</u></b> |
|-------------------------------|--------------------|--------------------|
| Discount rate                 | 2.65%              | 2.40%              |
| 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:

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|                                | 2021  | 2020  |
|--------------------------------|-------|-------|
| Discount rate                  | 2.40% | 3.00% |
| Rate of compensation increase  | 3.00% | 3.00% |
| Expected return on plan assets | 7.25% | 7.25% |

### **Plan Assets**

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

| <u>Asset Category</u> | 2021        | 2020        |
|-----------------------|-------------|-------------|
| Equity securities     | 41.25%      | 35.19%      |
| Debt securities       | 53.01%      | 59.62%      |
| Real estate           | 4.57%       | 3.85%       |
| Other                 | 1.17%       | 1.34%       |
| <b>Total assets</b>   | <b>100%</b> | <b>100%</b> |

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

| <u>Fiscal Year</u> | <u>Amount</u> |
|--------------------|---------------|
| 2022               | \$ 1,539,522  |
| 2023               | 1,549,170     |
| 2024               | 1,600,552     |
| 2025               | 1,662,882     |
| 2026               | 1,673,455     |
| 2027 - 2031        | 8,861,472     |

Paylocity Corporation processes payroll for ARC's non-federal-benefitted employees while John Hancock Financial administers the 401K plan. ARC contributed \$441,895.67 and \$361,973.28 to the 401(k) plan for the years ended September 30, 2021 and 2020, respectively. For Health Benefits Insurance, ARC contributed \$430,503.01 and \$303,647.61 for the year ended September 30, 2021 and 2020 respectively. For Group Life Insurance, ARC contributed \$2,062.38 and \$2,796.41 for the year ended September 30, 2021 and 2020 respectively.

### **Note 8 – Leases**

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

| <u>Fiscal Year</u> | <u>Amount</u>       |
|--------------------|---------------------|
| 2022               | 1,051,894.00        |
| 2023               | 1,092,571.00        |
| 2024               | 1,117,182.00        |
| 2025               | 564,801.00          |
| <b>Total</b>       | <b>3,826,448.00</b> |

Rent expense for the years ended September 30, 2021 and 2020 was \$1,025,015.07 and \$978,214.05 respectively.



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**Note 9 – Apportionment Categories of New Obligations and Upward Adjustments:  
Direct vs. Reimbursable Obligations**

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

- Category A apportionments distribute budgetary resources by fiscal quarters.
- Category B apportionments typically distribute budgetary resources by activities, projects, objects or a combination of these categories.
- Exempt – Exempt from apportionment

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

|                                                  | 2021             | 2020             |
|--------------------------------------------------|------------------|------------------|
| Direct Category B Obligations                    |                  |                  |
| Cat B- Non-Highway Programs - unadjusted         | \$157,910,780.85 | \$150,880,201.07 |
| Beginning obligations balance adjustment         | 864,375.15       | 0.00             |
| Cat B- Non-Highway Programs - adjusted           | \$158,775,156.00 | \$150,880,201.07 |
| Cat B- RD (12-46X0200.020)                       | 16,338,789.00    | 13,432,706.70    |
| Cat B- EDA (13-46X0200.020)                      | 4,294,600.00     | 7,018,534.00     |
| Cat B- FHWA Non-Highway Programs (69-46X0200.05) | 2,971,877.75     | 404,345.76       |
| Cat B- HUD (86-46X0200)                          | 79,763.62        | 950,000.00       |
| Total direct Obligations                         | 182,460,186.37   | 172,685,787.53   |
| Reimbursable Category B Obligations              |                  |                  |
| Cat A                                            | \$0.00           | \$0.00           |
| Cat B- Non-Highway Programs                      | 2,771,710.43     | 3,466,624.49     |
| Total reimbursable obligations                   | 2,771,710.43     | 3,466,624.49     |
| Total Obligations                                | 185,231,896.80   | 176,152,412.02   |

**Note 10 – Net Adjustments to Unobligated Balance Brought Forward, October 1**

During the years ended September 30, 2021 and 2020, certain adjustments were made to the balance of unobligated budgetary resources available as of October 1, 2020 and 2019.

These adjustments include, among other things, downward adjustments to undelivered and delivered orders that were obligated in a prior year fiscal year. The adjustments during the years ended September 30, 2021 and 2020 are presented below.

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|                                                             | 2021                     | 2020                    |
|-------------------------------------------------------------|--------------------------|-------------------------|
| Unobligated balance, brought forward from prior year        | \$ 101,746,139.62        | \$ 85,863,393.36        |
| Adjustments made during the current year:                   |                          |                         |
| Recoveries of prior year unpaid obligations                 | 19,316,453.36            | 13,435,685.54           |
| Recoveries of prior year paid obligations                   | 410,687.44               | 1,050.00                |
| <b>Unobligated balance, brought forward from prior year</b> | <b>\$ 121,473,280.42</b> | <b>\$ 99,300,128.90</b> |

**Note 11 – Undelivered Orders at the End of the Period**

Undelivered orders represent the value of goods and services ordered and obligated that have not been received. This amount includes any orders for which advance payment has been made but for which delivery or performance has not yet occurred.

| <b>Fiscal Year 2021</b>         | <b>Paid</b>          | <b>Unpaid</b>         | <b>Total</b>          |
|---------------------------------|----------------------|-----------------------|-----------------------|
| Federal                         | 0.00                 | 102,914.05            | 102,914.05            |
| Non-Federal                     | 47,887,360.68        | 382,655,151.48        | 430,542,512.16        |
| <b>Total Undelivered Orders</b> | <b>47,887,360.68</b> | <b>382,758,065.53</b> | <b>430,645,426.21</b> |
| <b>Fiscal Year 2020</b>         |                      |                       |                       |
| Federal                         | 0.00                 | 102,290.88            | 102,290.88            |
| Non-Federal                     | 45,745,405.27        | 371,569,875.03        | 417,315,280.30        |
| <b>Total Undelivered Orders</b> | <b>45,745,405.27</b> | <b>371,672,165.91</b> | <b>417,417,571.18</b> |

**Note 12 – Permanent Indefinite Appropriations**

The Commission's permanent indefinite appropriation includes the trust fund which has not been used since FY 2014. Total sequestered trust balance remains \$413,406 as of September 30, 2021.

**Note 13 – Explanation of Differences between the SBR and the Budget of the U.S. Government**

SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, requires an explanation of material differences between budgetary resources available, the status of those resources and outlays as presented in the Statement of Budgetary Resources to the related actual balances published in the *Budget of the United States Government* (Budget). The Budget that will include FY 2020 actual budgetary execution information is scheduled for publication in February 2021, which will be available through OMB's website at <http://www.whitehouse.gov/omb>. Accordingly, information required for such disclosure is not available at the time of publication of these financial statements. Balances reported in the FY 2020 SBR and the related President's Budget reflected the following: (Dollars in Millions)

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| FY 2020                          | Budgetary Resources | New Obligations & Upward Adjustment | Distributed Offsetting Receipts | Net Outlays |
|----------------------------------|---------------------|-------------------------------------|---------------------------------|-------------|
| Statement of Budgetary Resources | 278                 | 176                                 | 0                               | 146         |
| Budget of the U.S. Government    | 278                 | 176                                 | 0                               | 142         |
| <b>Difference</b>                | <b>0</b>            | <b>0</b>                            | <b>0</b>                        | <b>4</b>    |

The difference between the Statement of Budgetary Resources and the *Budget of the United States Government* for budgetary resources, obligations incurred and net outlays is due to an on-top Non-GTAS adjustment to the applicable FY19 Financial Statement line item that impacted the line's beginning balance for FY20.

**Note 14 – Reconciliation of Net Cost to Outlays**

The Commission has reconciled its budgetary obligations and non-budgetary resources available to its net cost of operations.

FY 2021:

**Reconciliation of Net Operating Cost and Net Budgetary Outlays**

|                                                                             | Intragovernmental   | With the Public       | Total                 |
|-----------------------------------------------------------------------------|---------------------|-----------------------|-----------------------|
| <b>Net Operating Cost (SNC)</b>                                             | <b>2,266,592.68</b> | <b>121,690,714.12</b> | <b>123,957,306.80</b> |
| <b>Components of Net Operating Cost Not Part of the Budgetary Outlays</b>   |                     |                       |                       |
| <b>Increase/(Decrease) in Assets not affecting Budget Outlays:</b>          |                     |                       |                       |
| Other assets                                                                | -                   | 2,144,341.71          | 2,144,341.71          |
| <b>(Increase)/Decrease in Liabilities not affecting Budget Outlays:</b>     |                     |                       |                       |
| Accounts payable                                                            | -                   | (1,076,751.32)        | (1,076,751.32)        |
| Salaries and benefits                                                       | (28,189.79)         | (380,105.47)          | (408,295.26)          |
| Other liabilities (Unfunded leave, unfunded FECA, actuarial FECA)           | -                   | (22,450.55)           | (22,450.55)           |
| <b>Other financing sources</b>                                              |                     |                       |                       |
| Federal employee retirement benefit costs                                   | 10,670.23           |                       | 10,670.23             |
| Transfers out (in) without reimbursement                                    | (250,000.00)        |                       | (250,000.00)          |
| <b>Total Components of Net Operating Cost Not Part of the Budget Outlay</b> | <b>(267,519.56)</b> | <b>665,034.37</b>     | <b>397,514.81</b>     |
| <b>Net Outlays (Calculated Total)</b>                                       | <b>1,999,073.12</b> | <b>122,355,748.49</b> | <b>124,354,821.61</b> |
| <b>Related Amounts on the Statement of Budgetary Resources</b>              |                     |                       |                       |
| Outlays, net (SBR Line 4190)                                                |                     |                       | 124,354,821.61        |
| <b>Agency Outlays, Net (SBR Line 4210)</b>                                  |                     |                       | <b>124,354,821.61</b> |

Appalachian Regional Commission  
Notes to Financial Statements  
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FY 2020:

**Reconciliation of Net Operating Cost and Net Budgetary Outlays**

|                                                                           | Intragovernmental   | With the Public       | Total                 |
|---------------------------------------------------------------------------|---------------------|-----------------------|-----------------------|
| <b>Net Operating Cost (SNC)</b>                                           | <b>352,656.62</b>   | <b>137,655,723.93</b> | <b>138,008,380.55</b> |
| <b>Components of Net Operating Cost Not Part of the Budgetary Outlays</b> |                     |                       |                       |
| <b>Increase/(Decrease) in Assets not affecting Budget Outlays:</b>        |                     |                       |                       |
| Accounts receivable                                                       | (254.74)            | -                     | (254.74)              |
| Other assets                                                              | (71,677.81)         | 4,606,261.55          | 4,534,583.74          |
| <b>(Increase)/Decrease in Liabilities not affecting Budget Outlays:</b>   |                     |                       |                       |
| Accounts payable                                                          | 244,136.25          | 3,291,998.54          | 3,536,134.79          |
| Salaries and benefits                                                     | 10,651.83           | 210,199.67            | 220,851.50            |
| Other liabilities (Unfunded leave, unfunded FECA, actuarial FECA)         | 37,742.86           | (213,933.52)          | (176,190.66)          |
| <b>Other financing sources</b>                                            |                     |                       |                       |
| Federal employee retirement benefit costs                                 | (43,949.01)         |                       | (43,949.01)           |
| Transfers out (in) without reimbursement                                  | (500,000.00)        |                       | (500,000.00)          |
| <b>Total Components of Net Operating Cost Not Part of the Budget</b>      | <b>(323,350.62)</b> | <b>7,894,526.24</b>   | <b>7,571,175.62</b>   |
| <b>Net Outlays (Calculated Total)</b>                                     | <b>29,306.00</b>    | <b>145,550,250.17</b> | <b>145,579,556.17</b> |
| <b>Related Amounts on the Statement of Budgetary Resources</b>            |                     |                       |                       |
| Outlays, net (SBR Line 4190)                                              |                     |                       | 145,579,556.17        |
| <b>Agency Outlays, Net (SBR Line 4210)</b>                                |                     |                       | <b>145,579,556.17</b> |

## 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 2021, ARC's investment in non-federal physical property included grants for water and wastewater system construction and improvements; broadband expansion; utilities installation; and access road construction.

| ARC Investment in Non-Federal Physical Property |              |
|-------------------------------------------------|--------------|
| Fiscal Year 2017                                | \$32,100,717 |
| Fiscal Year 2018                                | \$36,962,756 |
| Fiscal Year 2019                                | \$41,085,774 |
| Fiscal Year 2020                                | \$69,186,941 |
| Fiscal Year 2021                                | \$51,443,262 |

### 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 2021 included grants for education and job training programs in areas including workforce training, vocational education, dropout prevention, math and science, substance use disorder response, and health.

| ARC Investment in Human Capital |              |
|---------------------------------|--------------|
| Fiscal Year 2017                | \$21,077,501 |
| Fiscal Year 2018                | \$29,925,465 |
| Fiscal Year 2019                | \$31,671,742 |
| Fiscal Year 2020                | \$26,406,576 |
| Fiscal Year 2021                | \$27,207,627 |

## 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 2021, ARC invested in applied research through the following projects:

- ARC's new five-year strategic plan;
- monitoring and evaluating the impact of ARC's POWER investments;
- evaluation of ARC's grant performance measurement system;
- evaluation of ARC's GIS and data-management practices;
- examination of the tourism industry in Appalachia;
- examination of mortality from diseases of despair in Appalachia;
- analysis of coal production and employment trends;
- analysis of available datasets for substance use treatment centers;
- coal industry ecosystem study update; and
- data overview study examining state- and county- level data for the 13 Appalachian states.

| ARC Investment in Research and Development |           |
|--------------------------------------------|-----------|
| Fiscal Year 2017                           | \$588,310 |
| Fiscal Year 2018                           | \$633,418 |
| Fiscal Year 2019                           | \$616,790 |
| Fiscal Year 2020                           | \$913,063 |
| Fiscal Year 2021                           | \$864,705 |

## PART IV: OTHER INFORMATION

### ARC PERFORMANCE TARGETS AND RESULTS, 2016–2021

Targets are based on level annual appropriations of \$70 million.

|                                                                         | Annual<br>Performance<br>Target | 6-Year<br>Performance<br>Target | 6-Year<br>Expected<br>Results  |
|-------------------------------------------------------------------------|---------------------------------|---------------------------------|--------------------------------|
| <b>Businesses created and/or strengthened</b>                           | 2,500                           | 15,000                          | 23,479                         |
| <b>Job created and/or retained</b>                                      | 20,000                          | 120,000                         | 130,930                        |
| <b>Ratio of leveraged private investment</b>                            | 6 to 1                          | 6 to 1                          | 6 to 1<br>(\$5.65 per \$1 ARC) |
| <b>Students, workers, and leaders improved</b>                          | 22,000                          | 132,000                         | 208,009                        |
| <b>Communities with enhanced capacity</b>                               | 250                             | 1,500                           | 2,904                          |
| <b>Businesses and households with access to improved infrastructure</b> | 22,000                          | 132,000                         | 319,447                        |

## IMPROPER PAYMENTS

### Improper Payments Information Act of 2002, as Amended

The Improper Payments Information Act (IPIA), as amended, and OMB implementing guidance, OMB Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*, require agencies to review all programs and activities they administer to identify those susceptible to significant improper payments. OMB defines significant improper payments as gross annual improper payments (i.e., the total amount of overpayments plus underpayments) in a program exceeding (1) both 2.5% of program outlays and \$10 million of all program or activity payments made during the fiscal year reported, or (2) \$100 million, regardless of the improper payment percentage of total program outlays. ARC's top-down approach for assessing the risk of significant improper payments allows the reporting of results by its one mission-aligned program—Area Development.

In accordance with the IPIA, as amended, and OMB implementing guidance, ARC assessed its program and activities for susceptibility to significant improper payments. Based on the results of the risk assessment for the period ended September 30, 2021, the Commission concluded that the program was not susceptible to significant improper payments.



## Office of Inspector General

October 15, 2021

Report Number 22-01

Commissioners:

This memorandum transmits the Inspector General's summary of the top management and performance challenges facing the Commission and briefly assesses management's progress in addressing these challenges.

I have identified two management and performance challenges: (1) information systems and cybersecurity and (2) risks associated with the rapid growth of ARC funding. These challenges were identified based on work by the Office of Inspector General, input from Commission management, and knowledge of the Commission's programs and operations.

### Information Systems and Cybersecurity

The Commission adapted its network to meet today's remote work needs. Changes included moving its email service to the cloud and establishing a virtual private network (VPN) so that staff would have seamless access to their files and the ARC portal. In addition, the Commission made sure that staff had access to virtual meeting platforms and provided the technical capacity to support various online meeting formats. The Commission has been automating its business processes by implementing an automated payment tool and eliminating the need for paper for much of the grant approval process.

The challenge moving forward will be to continue to modernize the Commission's business systems to improve the efficiency and effectiveness of the grant management process. The Commission needs to minimize its reliance on paper processes and deploy automation when possible. This will require a clear information technology strategy to identify the systems and available technologies to automate the grantmaking process from the pre-award through post-award phases, without compromising the Commission's management and oversight responsibilities. In addition, because of the significant changes made to the network, more attention will need to be paid to the cybersecurity protocols protecting the network. Using cloud services and VPNs expands the attack surface of the ARC network and requires additional safeguards to protect ARC data and systems.



### Risks Associated with the Rapid Growth of ARC Funding

Over the past six years, the Commission experienced a 100% increase in appropriated funding. During the same period from 2015 to 2021, the Commission's staff increased from 48 to 56—less than a 20% increase. With both the increase in funding and the scope of its grant-funded endeavors, the Commission was challenged to continue to implement its program. This challenge was met. However, it was not met without the presence of risks, and the possibility of similar risks, moving forward.

In 2014 the Commission awarded grants with an average size of \$136,000. Seven years later, the Commission was awarding grants with an average size of \$370,000. Increasing the size of grants being awarded and managed creates risk, and may make it more difficult for the Commission to evaluate grant proposals, measure program performance, and conduct oversight.

Both the rapid growth in the size of grant awards and the increase in the complexity of the grants under new programs (such as POWER, SAAW and CAB) pose operational risks to ARC. In addition, with the increase in academies, institutes, workshops, and leadership conferences, there is more direct involvement with the thousands of people benefiting from these programs. Capacity involves both having appropriate resources and using the resources to effectively manage the program. Building sufficient capacity is a challenge that may involve significant costs or tradeoffs.

Human capital capacity measures the extent to which an organization has sufficient staff, knowledge, and technical skills to effectively meet its program goals. Human capital needs shift over time as programs change and face new challenges. A lack of capacity can adversely limit staff time in administering and monitoring grant programs. Given the role and importance of grants management at the Commission, it is critical that the ARC have adequate human resources with the technical expertise to properly administer its grant program.

Additionally, the ARC should be aware of any risks, emerging issues, or new challenges that rapid growth has created for our state partners and grantees that could negatively impact program performance. The Commission should have a framework to continually assess, identify, and monitor risk in the performance of its grant management activities to ensure grantees have—and maintain—the necessary capacity to effectively administer the larger awards to achieve program goals.

I will continue to work with you and management to reassess the goals of our office to ensure that my focus can continue to remain on the most important risks and priorities of the Commission.



Philip M. Heneghan  
Inspector General  
Appalachian Regional Commission



Date: November 15, 2021

To: Phillip Heneghan, ARC Inspector General  
 From: Brandon McBride, ARC Executive Director  
 Re: Report Number 22-01

This memorandum responds to the ARC Inspector General's (IG) Report Number 22-01, transmitting to the Commission the IG's summary of the top management and performance challenges currently facing the Commission. The IG identifies two challenging areas in his Report: information systems and cybersecurity and the rapid increase of ARC funding.

We appreciate the opportunity to respond to the IG's Report and agree with his identification of the challenges. As the IG indicates, the Commission is aware of, and is addressing, both sets of these challenges.

### Information Systems and Cybersecurity

As the IG report indicates, the Commission has undertaken several efforts to adapt our network to meet today's remote work needs and has made progress toward automating certain business processes. We appreciate the IG's recognition of these successfully completed and ongoing efforts.

The Commission also concurs with the IG's recommendations regarding further modernization of ARC business systems and the resulting need for increased focus on responsible cybersecurity practices.

ARC has decreased reliance on paper for the grant management process. All grant documentation is being uploaded to ARCnet which both modernizes our systems and makes it more efficient for staff to conduct grant management and appropriate oversight responsibilities. We previously communicated our intent to get our online grant application system up and running. We ran into some challenges and ultimately chose to end a contract we no longer believed was in the interest of the Commission. We evaluated necessary staffing adjustments, have recently hired a new IT Director to set the project up for success, and plan to pick this project back up once the new IT Director has had time to settle into his role here. We are undertaking this project to make the process of applying for area development grants more efficient for applicants and ARC State partners, as well as for Commission staff reviewing them.

On the cybersecurity front, we agree that each additional cloud service subscribed to represents an additional risk. At present we generally utilize the security capabilities of a standard Windows network, take steps to ensure all access to our network is by authorized users only utilizing tools like multi-factor authentication, and conduct annual staff training on cybersecurity and phishing threats. To further address this we anticipate creating policy to require ARC to verify vendor compliance with various pertinent security frameworks prior to transacting any business with them. Additionally, we are presently working to closely conform with appropriate cybersecurity guidelines per the National Institute of Standards and Technology. To this end we are currently assessing our technologies, policies, and procedures with outside expert help. Once this assessment is complete we will create workplans to implement the further steps needed.

### Risks associated with rapid growth of ARC funding

As the IG notes, Commission funding levels have risen in recent years and remain in a significantly higher range than previously. We appreciate the IG's assessment that, despite these increases, program implementation has not suffered but continues to match the Commission's traditionally high standards.

The Commission agrees with the IG's assessment of the risks these increases present relating to human capital capacity and we remain committed to analyzing, assessing and addressing staffing issues in light of the increase in appropriated funds. To that end, staff positions in the areas of program management, IT, communications and administration have been added or are planned for the upcoming year to continue properly carrying out our work. We also continually review vacant positions and hire staff with relevant skills and competencies to meet the evolving program needs. These efforts, combined with our ongoing focus on technology and administrative efficiency improvements, position us well.

We fully concur, as well, with the IG's emphasis on the importance of concentrating on capacity issues and technical competencies of ARC State partners and grantees. ARC state partners have also begun to identify the potential for capacity challenges that may accompany an increase in funding as an area of focus. In this regard, the Commission continues to provide supplemental funding for State personnel responsible for administering ARC grants and offer numerous training opportunities for applicants and grantees to enhance grants management skills.

Additionally, spurred by the American Rescue Plan Act (ARPA) surging significant funding into Appalachian local governments through the Local Fiscal Recovery Fund, the Commission is pursuing a supplemental community capacity-building pilot program to support Appalachian communities in seizing this opportunity. The Commission is aware of the benefits of these types of actions for the ARC region and ARC program as a whole, and intends to continue implementing them.

We appreciate the IG's comments and the collaborative spirit in which they have been offered, and we look forward to continuing to work with him in addressing these challenges, as well as others that may arise.



Brandon McBride  
Executive Director  
Appalachian Regional Commission

# SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The following tables provide a summarized report on ARC's financial statement audit and its management assurances. For more details, see the auditor's report on pages 55–83 and ARC's management assurances on pages 22–23.

## Summary of Financial Statement Audit

Audit Opinion: Unmodified

Restatement: No

| Material Weaknesses              | Beginning Balance | New | Resolved | Consolidated | Ending Balance |
|----------------------------------|-------------------|-----|----------|--------------|----------------|
| <b>Total Material Weaknesses</b> | 0                 | 1   | 0        | 0            | 1              |

## Summary of Management Assurances

### Effectiveness of Internal Control over Financial Reporting—*Federal Managers' Financial Integrity Act of 1982* (FMFIA, Section 2)

Statement of Assurance: Modified

| Material Weaknesses              | Beginning Balance | New | Resolved | Consolidated | Ending Balance |
|----------------------------------|-------------------|-----|----------|--------------|----------------|
| <b>Total Material Weaknesses</b> | 0                 | 1   | 0        | 0            | 1              |

ARC cleared the conditions that gave rise to the material weakness identified by the auditor. Our FY 2021 financial statements and Notes to the financial statements are free of material misclassifications.

### Effectiveness of Internal Control over Operations—FMFIA 2

Statement of Assurance: Unmodified

| Material Weaknesses              | Beginning Balance | New | Resolved | Consolidated | Ending Balance |
|----------------------------------|-------------------|-----|----------|--------------|----------------|
| <b>Total Material Weaknesses</b> | 0                 | 0   | 0        | 0            | 0              |

### Conformance with Financial Management System Requirements—FMFIA 4

Statement of Assurance: Systems conform with financial management system requirements

| Non-Conformance              | Beginning Balance | New | Resolved | Consolidated | Ending Balance |
|------------------------------|-------------------|-----|----------|--------------|----------------|
| <b>Total Non-Conformance</b> | 0                 | 0   | 0        | 0            | 0              |

### Compliance with *Federal Management Improvement Act*

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

### Grants Oversight and New Efficiency Act Requirements

In FY 2021, ARC had no federal grant or cooperative agreement awards and balances for which closeout had not occurred but for which the period of performance had elapsed by more than two years.

| Category                                                          | 2-3 Years | >3-5 Years | >5 Years |
|-------------------------------------------------------------------|-----------|------------|----------|
| Number of Grants/Cooperative Agreements with Zero Dollar Balances | 0         | 0          | 0        |
| Number of Grants/Cooperative Agreements with Undisbursed Balances | 0         | 0          | 0        |
| Total Amount of Undisbursed Balances                              | 0         | 0          | 0        |



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**APPALACHIAN REGIONAL COMMISSION**

1666 Connecticut Avenue, NW, Suite 700  
Washington, DC 20009-1068  
202.884.7700 | [info@arc.gov](mailto:info@arc.gov)  
[www.arc.gov](http://www.arc.gov)