



APPALACHIAN REGIONAL COMMISSION

PERFORMANCE AND  
ACCOUNTABILITY  
REPORT

FY 2015

# APPALACHIAN REGIONAL COMMISSION

September 30, 2015

**Federal Co-Chair**  
Earl F. Gohl

**States' Co-Chair**  
Governor Steven L. Beshear

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*Jim Byard Jr.*

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## APPALACHIAN REGION

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



# CONTENTS

Message from the Co-Chairs .....	2
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## PART I: MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year 2015 Program Highlights .....	3
Appalachian Regional Commission Structure and Programs .....	7
Summary of Achievements in Fiscal Year 2015 .....	18
Financial Management .....	20
Management Assurances .....	20
Summary of Financial Status .....	21

## PART II: FISCAL YEAR 2015 PERFORMANCE REPORT

Introduction .....	23
Overview of ARC .....	24
General Goals and Objectives .....	25
Performance Measurement Methodology .....	26
Goal 1: Increase Job Opportunities and Per Capita Income in Appalachia to Reach Parity with the Nation .....	30
Goal 2: Strengthen the Capacity of the People of Appalachia to Compete in the Global Economy .....	33
Goal 3: Develop and Improve Appalachia's Infrastructure to Make the Region Economically Competitive .....	36
Goal 4: Build the Appalachian Development Highway System to Reduce Appalachia's Isolation .....	38
Summary of Achievements in Fiscal Year 2015 .....	41
Measuring Progress toward the ARC Vision .....	43

## PART III: FISCAL YEAR 2015 FINANCIAL REPORT

Message from the Executive Director .....	45
Report of Independent Audit .....	46
Required Supplementary Stewardship Information .....	77

## PART IV: OTHER INFORMATION

ARC Performance Measures .....	78
Performance Goals .....	78
Inspector General's Summary of Management and Performance Challenges .....	79
Summary of Financial Statement Audit and Management Assurances .....	81
Improper Payments .....	82



## Message from Federal Co-Chair Earl F. Gohl and 2015 States' Co-Chair Governor Steven L. Beshear

We are pleased to present the Appalachian Regional Commission's (ARC) Performance and Accountability Report for fiscal year (FY) 2015.

For FY 2015, the Commission approved \$101.9 million in funding for 466 nonhighway projects that advanced one or more of the three nonhighway goals of ARC's 2011–2016 strategic plan: 1) increasing job opportunities and per capita income in Appalachia to reach parity with the nation; 2) strengthening the capacity of the people of Appalachia to compete in the global economy; and 3) developing and improving Appalachia's infrastructure to make the Region economically competitive.

ARC's FY 2015 grant funds attracted an additional \$204.9 million in other project funding, an investment ratio of 2 to 1, and \$765.8 million in non-project leveraged private investment, a ratio of nearly 8 to 1. The projects funded during the year will create or retain an estimated 23,032 jobs and train an estimated 23,123 students and workers in new job skills.

In working toward its strategic goals in FY 2015, the Commission continued to foster entrepreneurship activities with a particular focus on emerging opportunities; diversify the Region's economy by promoting the development of local food economies; support advanced manufacturing and workforce development initiatives to strengthen the Region's competitiveness in the global economy; and expand efforts and partnerships to tackle the Region's health disparities.

This report includes information on the Commission's program actions and financial management during FY 2015. We are pleased to report that ARC's independent auditor, Chortek LLP, has pronounced an unmodified opinion that the financial statements in this document fairly present the Commission's fiscal status.

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

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

Sincerely,

Earl F. Gohl  
ARC Federal Co-Chair

Steven L. Beshear  
2015 States' Co-Chair  
Governor of Kentucky

November 12, 2015

# PART I: MANAGEMENT'S DISCUSSION AND ANALYSIS

## FISCAL YEAR 2015 PROGRAM HIGHLIGHTS

In working toward the goals of ARC's 2011–2016 strategic plan, the Commission focused on a wide range of projects and activities in FY 2015, including the following:

### Strategic Planning: Investing in Appalachia's Future

#### Developing ARC's FY 2016–2020 Strategic Plan

In FY 2015, the Commission engaged in the process of developing a new strategic investment plan to address emerging economic opportunities in the Appalachian Region in the years ahead. In February, ARC issued research conducted by the Center for Regional Economic Competitiveness and West Virginia University on the impact of the ARC program in the Region, as well as on the Commission's role as a catalyst for regional community and economic development in Appalachia. The study also examined long-term socioeconomic trends in the Region. Data from the study, *Appalachia Then and Now: Examining Changes to the Appalachian Region since 1965*, guided the development of the new plan, as did input on critical issues and opportunities gathered during the spring and summer from more than 3,000 stakeholders in the Region through five listening sessions, nine focus groups, and an online survey.

The research findings and input from stakeholders informed ARC's five strategic investment goals for 2016–2020: 1) investing in entrepreneurial and business development strategies; 2) strengthening workforce development; 3) investing in critical infrastructure; 4) leveraging natural and cultural asset opportunities; and 5) building leadership and community capacity. The final plan was adopted by the Commission in the fall of 2015.

#### Shaping Our Appalachian Region

In FY 2015, ARC continued its support for and financial investment in Shaping Our Appalachian Region (SOAR), an initiative created in 2013 under the bipartisan leadership of Kentucky Governor Steve Beshear and U.S. Congressman Hal Rogers to help eastern Kentucky assess challenges and leverage efforts to capture regional development opportunities and diversify the region's economy. ARC is committed to the initiative's goals of fostering community engagement and innovative collaborative approaches to identifying and creating opportunities that will help eastern Kentucky make a positive economic transition.

As a result of SOAR's planning process, Kentucky initiated the KentuckyWired broadband network project in August to provide access to affordable, high-quality Internet service across the commonwealth, beginning in eastern Kentucky. The initiative will establish a 3,400-mile fiber backbone connecting more than 1,000 community anchor institutions (CAIs), including governmental and institutional facilities. ARC invested \$17.4 million in the Appalachian portion of the network, which will include 750 miles of fiber construction and connect more than 100 CAIs.

## Supporting the Appalachian Food Economy

### Local Foods, Local Places Initiative

Building on the success of the Appalachian Livable Communities program, in December 2014 eight Appalachian communities in six states were selected to participate in the first round of technical assistance provided through the administration's Local Foods, Local Places initiative. Led by the White House Rural Council and supported by six federal agencies (ARC, the U.S. Environmental Protection Agency, the U.S. Department of Agriculture, the Centers for Disease Control and Prevention, the U.S. Department of Transportation, and the Delta Regional Authority), Local Foods, Local Places works with communities to develop comprehensive strategies for local food systems that will help boost economic opportunities for rural farmers and businesses; improve access to healthy local food; and revitalize rural downtowns, main street districts, and neighborhoods. A second round of assistance was opened to community applicants in June; selections will be announced in early 2016.

## Advanced Manufacturing and Workforce Development

### Investing in Manufacturing Communities Partnership

To help accelerate the resurgence of manufacturing in the United States, the Obama administration initiated the Investing in Manufacturing Communities Partnership (IMCP), which encourages communities to develop comprehensive economic development strategies that strengthen their competitive edge in attracting and growing globally competitive manufacturers and their supply chains. Led by the White House National Economic Council and the U.S. Department of Commerce, the IMCP brings together the resources of multiple agencies and departments involved in economic development, including ARC, to help communities focus not only on attracting individual investments but also on creating globally competitive environments that grow, retain, and expand manufacturing investment and spur international trade. In July 2015 the Pittsburgh region, proposing to

build on its historic strengths in metals manufacturing, was selected as one of 12 new "Manufacturing Communities" designated nationwide through the second round of IMCP competition. It and the Region's Manufacturing Communities designated in 2014 will receive coordinated support for their manufacturing ecosystems from 11 federal agencies and priority in consideration for up to \$1.3 billion in federal economic development assistance.

### POWER Initiative

The Partnerships for Opportunity and Workforce and Economic Revitalization (POWER) Initiative launched in March is an inter-agency effort to assist communities negatively impacted by changes in the coal industry and power sector. To help these communities adapt to the changing energy landscape and diversify their economies for a stronger future, POWER has made substantial investments in worker training and job creation with funding from ARC, the U.S. Economic Development Administration (EDA), the U.S. Department of Labor, and the U.S. Small Business Administration. The initiative is a coordinated effort led by EDA with the goal of effectively aligning, leveraging, and targeting a range of federal economic and workforce development programs and resources. In FY 2015 ARC committed \$450,000 in POWER funding to support activities addressing gaps or shortages in the Appalachian Region's industrial and entrepreneurial ecosystems.

### TechHire Initiative

To help meet the country's fast-growing demand for skilled technology workers and to spur higher-income employment, in FY 2015 the administration launched the TechHire initiative, a multi-sector effort to help workers gain needed skills through both universities and community colleges as well as through nontraditional training approaches like coding "boot camps" and high-quality online courses that can rapidly train workers. In Appalachia three TechHire programs are under way—in eastern Kentucky; Chattanooga, Tennessee; and Pittsburgh, Pennsylvania—to help recruit and prepare diverse workers for information technology careers. During the fiscal year ARC worked with federal, state, and local agencies to promote the development of these programs. Activities included facilitating a technology-focused

roundtable in Cumberland, Kentucky, in March to introduce the TechHire program to the region's stakeholders, and working with the Chattanooga program to help it more effectively reach out to veterans to connect them with training opportunities.

### Supporting Appalachian Community Colleges

As the primary providers of workforce training and higher education in the Appalachian Region, community colleges are one of the Region's most important workforce and entrepreneurial development tools and a critical element in helping communities build robust entrepreneurial ecosystems. To develop and strengthen the capacities of Appalachian community colleges in these roles, ARC provided support during the fiscal year to four interrelated organizations: Community Colleges of Appalachia, the National Association for Community College Entrepreneurship, the Tennessee Valley Corridor Community College Consortium, and the American Association of Community Colleges.

### Boosting the Automotive Sector in the Region through Workforce Development

ARC's FY 2015 appropriation included \$10 million in funding to address the impact of the loss of industry in the southern portion of the Appalachian Region and to help support a workforce development program for southern Appalachia's automotive supplier industry. The funds were allocated to the four eligible states: Alabama (\$2,778,051), Georgia (\$410,181), Mississippi (\$6,169,271), and South Carolina (\$642,496). ARC worked with state partners to identify projects in these states that were ready either to begin providing training for the automotive sector or to immediately start construction of needed training facilities. All funds have been obligated.

### Fostering Entrepreneurship

Fostering entrepreneurship and creating a robust entrepreneurial ecosystem is a key component of ARC's economic development efforts. In areas from traditional industries to "emerging opportunities," entrepreneurs continue to be the bedrock sustaining the Region's economic growth. To promote entrepreneurship and business development in Appalachia, ARC has pursued a wide range of activities, including improving access to capital

and credit for small businesses, supporting business accelerators, providing education and training for entrepreneurs, and expanding rural firms' international market opportunities.

### Appalachian Community Capital

Appalachian Community Capital, a new central bank for development lenders, will increase the availability of capital to small businesses in the Region. First-round investments have been approved by the Bank of America, Deutsche Bank, the Calvert Foundation, the Ford Foundation, the Mary Reynolds Babcock Foundation, the Claude Worthington Benedum Foundation, and ARC, and a \$15 million first-round closing was completed in FY 2015. Total capitalization is projected to be \$42 million over the next 24 months, and this new central bank is expected to leverage \$233 million of private bank capital and help create 2,200 jobs. In addition to its lead investment in Appalachian Community Capital, ARC has contributed a range of resources to the bank's development, including support for the development of a business plan, for formation of the entity as a nonprofit organization, for raising capital, and for organizational operations and staffing. Additional operating support has been provided by the Annie E. Casey Foundation and BB&T Bank.

### Angel Fund Formation

To address the lack of access to risk capital in the Appalachian Region, ARC has formed, or is in the process of forming, angel investment funds in seven Appalachian states that are expected to launch with over \$7 million in private capital. In FY 2015, angel investment funds that were formed with ARC support in Kentucky, West Virginia, and Tennessee invested \$2 million in 6 enterprises, and the Commission helped launch new funds in Alabama and North Carolina. ARC's continued efforts in this work will next include a focus on forming angel funds in Virginia and creating additional funds in Kentucky.

### Export Trade and Investment Forums

In FY 2015, ARC continued its support of the White House Rural Council's "Made in Rural America" export and investment initiative, aimed at helping rural businesses engage, compete, and succeed in the global market-

place. To help small-to-medium-sized rural firms more successfully connect to global business opportunities, ARC also sponsored Appalachian delegations to international trade events in Montreal, Canada; Shanghai, China; and Johannesburg, South Africa, during the fiscal year. Representing more than 100 firms from across Appalachia, these delegations will help strengthen and expand Appalachian export sales and attract new foreign investment in the Region.

### Powering Partnerships for Resilient Local Economies

The Appalachia Funders Network (AFN) is a group of more than 80 national, regional, and local grant makers who work together to accelerate the development of more diverse and resilient local economies that sustain Central Appalachia's unique assets and provide widely shared prosperity. As a founding investor and member of the network's steering committee, ARC has helped guide AFN's strategic goals and build cross-sector partnerships with institutions including Federal Reserve Banks and USDA Rural Development. Two noteworthy and high-impact initiatives supported by AFN in FY 2015 were the inaugural Appalachian Transition Fellowship program and the Just Transition Fund. The Appalachian Transition Fellowship program connected 12 next-generation leaders with 33 cross-sector organizations to work together to advance the promising sectors of food, health, textiles, and renewable energy across Central Appalachia. To help the Region's coal-impacted communities take advantage of new federal support through the POWER initiative launched in March, AFN and the Rockefeller Family Fund created the Just Transition Fund. The fund's first awards provided \$436,500 to help 19 organizations apply for POWER grants to support their work in both coalfield and power-plant transition.

### Strengthening the Region's Infrastructure

To bolster the Region's physical infrastructure, ARC invested \$34.5 million in 121 projects during the fiscal year to bring new or upgraded water and sewer systems as well as other vital infrastructure, including access roads

for industrial parks, to Appalachian communities. This investment was matched by \$114.3 million in other funding, primarily state and local, and leveraged \$528.6 million in non-project private investment. The projects resulted in 25,593 households and 2,982 businesses being served by new or improved water or sewer systems. Infrastructure projects are among the primary generators of new jobs in the Region; as a result of FY 2015 infrastructure investments, an estimated 7,479 jobs will be created or retained.

### Expanding Access to Telecommunications

ARC invested \$22.3 million in 36 telecommunications and technology projects, including KentuckyWired, in FY 2015. The projects provided support to increase technology use in rural Appalachian school systems, train and upgrade worker skills through workforce development efforts, promote rural broadband deployment in unserved areas, and expand efforts to assist rural health-care providers through investments in health information technology and tele-health deployments.

### Creating a Culture of Health in Appalachia

In February, ARC embarked on its largest research effort to date, a \$1 million collaborative with the Robert Wood Johnson Foundation, the Foundation for a Healthy Kentucky, and a North Carolina-based research team to undertake the study "Creating a Culture of Health in Appalachia: Disparities and Bright Spots." Financed jointly by the Robert Wood Johnson Foundation and ARC, the study will document Appalachian health disparities and explore data in the community context to determine if any Appalachian communities are experiencing better-than-expected health outcomes despite persistent socioeconomic challenges. The partners will engage public health experts, community leaders, and social scientists in an effort to discover the local policies, community practices, and human factors that contribute to good health in economically distressed areas—going beyond documenting economic and health status data to learn what it takes to create and sustain a "culture of health" in communities. Results from the first phase of the study are expected in 2017.



## Appalachian Regional Commission Projects Approved in Fiscal Year 2015

(in thousands of dollars)

	Number of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Asset-Based Development	28	\$3,560.3	\$1,585.8	\$4,614.8	\$9,760.8
Business Development	74	17,296.7	4,791.1	29,174.8	51,262.6
Civic Entrepreneurship	28	1,937.5	250.0	958.1	3,145.6
Community Development	116	41,517.3	16,100.3	89,265.6	146,883.3
Education and Workforce Development	99	23,556.4	377.3	42,568.1	66,501.8
Health	25	3,668.6	405.5	5,054.0	9,128.1
Research and Evaluation	8	546.0	173.3	691.0	1,410.2
State and Local Development District Planning and Administration	88	9,775.1	100.0	8,809.9	18,685.0
<b>Totals</b>	<b>466</b>	<b>\$101,857.8</b>	<b>\$23,783.2</b>	<b>\$181,136.2</b>	<b>\$306,777.3</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 the Appalachian Regional Commission (ARC) to address the profound economic and social problems in the Appalachian Region that made it a "region apart" from the rest of the nation.

The Commission was charged to

- Provide a forum for consideration of problems of the Region and proposed solutions, and establish and use citizens' and special advisory councils and public conferences;
- Provide grants that leverage federal, state, and private resources to build infrastructure for economic and human resource development;
- Generate a diversified regional economy, develop the Region's industry, and build entrepreneurial communities;
- Serve as a focal point and coordinating unit for Appalachian programs;
- Make the Region's industrial and commercial resources more competitive in national and world markets;
- Improve the skills of the Region's workforce;

- Adapt and apply new technologies for the Region's businesses, including eco-industrial development technologies;
- Improve the access of the Region's businesses to the technical and financial resources necessary to the development of business; and
- Coordinate the economic development activities of, and the use of economic development resources by, federal agencies in the Region.

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

Federal agencies are typically national in focus and narrow in scope, but ARC was created to be regional in focus and broad in scope. No other government agency is charged with the unique role of addressing Appalachian problems and opportunities. No other agency is charged with being simultaneously an advocate for the Region, a knowledge builder, an investor, a

catalyst for economic development, and a partner at the federal, state, and local levels. These roles represent elements that are essential to making federal investments work to alleviate severe regional disparities in the country: responsiveness to regional needs with a view to global competitiveness, emphasis on the most distressed areas, breadth of scope to address both human and physical capital needs, and flexibility in funding.

The Commission by law directs at least half of its grant funds to projects that benefit economically distressed counties and areas in the Region. In part, ARC gauges its long-term progress toward helping the Region achieve economic parity with the nation in terms of the gradual reduction in the number of such counties and areas over time. The maps on page 15 show the Region's high-poverty counties in 1960 and current high-poverty counties. The change is dramatic.

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

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

Two independent studies have found that ARC's coordinated investment strategy has paid off for the Region in ways that have not been evident in parts of the country without a regional development approach. A 1995 study

funded by the National Science Foundation compared changes in Appalachian counties with their socioeconomic "twin" counties outside the Region over 26 years, from 1965 to 1991. This analysis, controlled for factors such as urbanization and industrial diversification, found that the economies of the Appalachian counties grew significantly faster than their non-Appalachian counterparts'. A more recent analysis by Economic Development Research Group extended this analysis to 2000 and confirmed the earlier findings on the impact of ARC's investment. The study found that, on average, the gap between Appalachian counties and their non-Appalachian twin counties grew significantly in the 1990s.

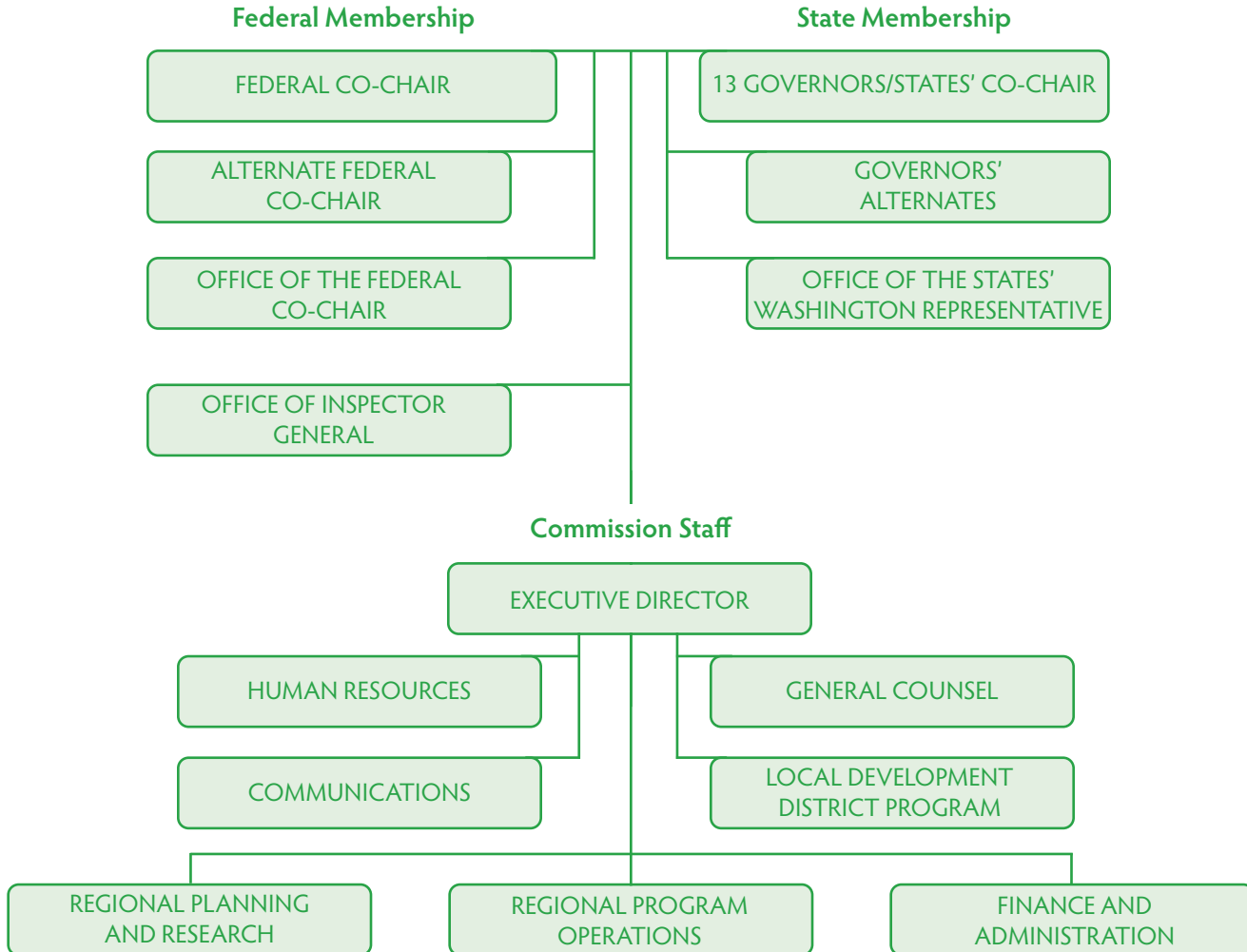
ARC's appropriation for FY 2015 area development activities was \$90.0 million.

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

### Organization: The ARC Partnership Model

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

## Appalachian Regional Commission Organization Chart



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 2015, there were 11 federal positions at the Commission, including the federal co-chair's staff and the staff of the Office of Inspector General.

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

## 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 works to attract private-sector partners and to secure additional resources for Appalachia. Recent examples include:

- **Local Foods, Local Places**, a federal initiative to help create more livable places by promoting local food economies. Supported by ARC, the U.S. Department of Agriculture, the Centers for Disease Control and Prevention, the U.S. Environmental Protection Agency, the U.S. Department of Transportation, and the Delta Regional Authority, this initiative will provide direct technical support to help rural communities develop and implement action plans promoting local food systems.
- **Partnerships for Opportunity and Workforce and Economic Revitalization (POWER)**, an initiative to diversify the economies of communities adversely impacted by changes in the coal industry and power sector. ARC partnered with the U.S. Economic Development Administration, the U.S. Department of Labor Employment and Training Administration, and the U.S. Small Business Administration in an effort using existing resources to provide integrated and coordinated investments in coal-impacted communities.
- **Bon Appétit Appalachia!**, a mapguide and online campaign that showcases hundreds of the Appalachian Region's most distinctive food destinations. The map was published as an insert in the summer 2014 issue of Food Traveler Magazine. A second mapguide is under development with Edible magazine for publication in 2016, in conjunction with a series of podcasts and an expanded Web presence that will highlight the innovative entrepreneurs and local food businesses in the Appalachian Region.
- **Shaping Our Appalachian Region (SOAR)**, 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 the quality of life; and support all those working to achieve these goals in Appalachian Kentucky.
- **Investing in Manufacturing Communities Partnership (IMCP)**, an initiative designed to accelerate the resurgence of manufacturing in communities nationwide by supporting the development of their manufacturing ecosystems. Led by the White House National Economic Council and the U.S. Department of Commerce, the IMCP brings together the resources of multiple agencies involved in economic development. ARC provides financial and technical assistance to the several IMCP-designated "Manufacturing Communities" in the Appalachian Region.
- **Made in Rural America Export and Investment Initiative**, a program of the White House Rural Council. ARC supports regional forums on expanding international market opportunities for rural businesses and value-added agricultural producers. The forums help firms learn ways to grow their businesses by finding new customers abroad and selling more to their existing international customers.
- **Appalachian Community Capital**, a new investment fund serving Appalachia. 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 E. Casey Foundation, and BB&T Bank.

- **Appalachia Funders Network**, a group of public and private grant makers that works to promote an entrepreneurial-based Appalachian economy, will continue to invest in the Region with support from ARC. One of the network's programs, the Just Transition Fund, created by AFN and the Rockefeller Family Fund, provides catalytic funding to support coalfield and power plant communities undergoing transition.
- **Innovative Readiness Training (IRT) Medical Events**, which has provided free health care for thousands of people in Appalachian Maryland, New York, North Carolina, and Ohio. ARC has provided support to local partners for the events, during which trained military personnel provided medical, dental, optometry, and veterinary services.
- **Southeastern Kentucky Promise Zone**. ARC provides ongoing support for partner agencies in the administration's designated Promise Zone in southeastern Kentucky. Activities will create jobs, leverage private investment, increase economic activity, expand educational opportunities, and improve public safety.
- **Diabetes Partnership**. Through a long-term partnership with the Centers for Disease Control and Prevention, West Virginia's Marshall University, and the Bristol-Myers Squibb Foundation, ARC facilitated a \$2.6 million grant from the foundation to the Robert C. Byrd Center for Rural Health at Marshall University to address disproportionately high rates of type 2 diabetes in the Region.
- **Creating a Culture of Health in Appalachia: Disparities and Bright Spots**, a partnership with the Robert Wood Johnson Foundation to conduct a three-year, \$1 million research project that will study factors that support a culture of health in Appalachian communities and determine if that knowledge can be translated into actions that address health disparities between Appalachia and the nation as a whole.
- **CDC Cancer Patient Navigation Partnership**, a partnership with the Centers for Disease Control and Prevention to develop cancer patient navigation programs in the Appalachian Region through the University of Kentucky Prevention Research Center. Initially, the programs will operate in Kentucky, Pennsylvania, Tennessee, Virginia, and West Virginia.
- **Gateway Communities Cultural Heritage Initiative**, a partnership with the National Endowment for the Arts that works with the Conservation Fund to provide training and technical assistance to communities that are geographically positioned as "gateways" to the Appalachian Region's public lands and heritage areas.

In FY 2015, across all investment areas, each dollar of ARC funding was matched by \$2.01 in non-ARC project funding (public and private) and leveraged \$7.52 in private investment attracted as a result of the project.

ARC is often a predevelopment resource, especially in economically distressed areas, providing modest amounts of initial funding that are unavailable from other sources because the community cannot qualify for the support or raise adequate matching funds. 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.

About half of past ARC grants have been administered under agreements with federal agencies, mainly USDA Rural Development, the Tennessee Valley Authority, the U.S. Department of Housing and Urban Development, the Federal Highway Administration, and the U.S. Economic Development Administration. Other agreements have involved such agencies as the U.S. Army Corps of Engineers, the U.S. Environmental Protection Agency, and the U.S. Departments of Energy, Labor, and Health and Human Services.

## Commission Activities: Getting the Job Done

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

### ARC Strategic Plan

FY 2015 was ARC's fifth year of operating under its strategic plan, *Moving Appalachia Forward: Appalachian Regional Commission Strategic Plan 2011–2016*, which outlined ARC's mission to be a strategic partner and advocate for sustainable community and economic development in Appalachia, and identified four strategic goals to help Appalachia reach socioeconomic parity with the rest of the nation:

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

As reported in Part II, the Commission demonstrated progress in FY 2015 toward achieving the performance goals set out in that plan.

### Area Development Program

Area development funds are largely allocated to the Appalachian states by formula to provide flexible assistance for individual community projects. In FY 2015, ARC received an appropriation of \$90.0 million for area development activities and allocated by formula \$60.3 million,

67.0 percent of the appropriation, to the states. The states have wide discretion in the use of these funds, within the framework of the strategic plan. Priorities for area development funding are set forth in the Commission's strategic plan, and state and community leaders work together to package funding from public and private organizations to implement those priorities. All ARC non-highway grants are approved by a governor and by the federal co-chair.

### Special Focus on Distressed Counties

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

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

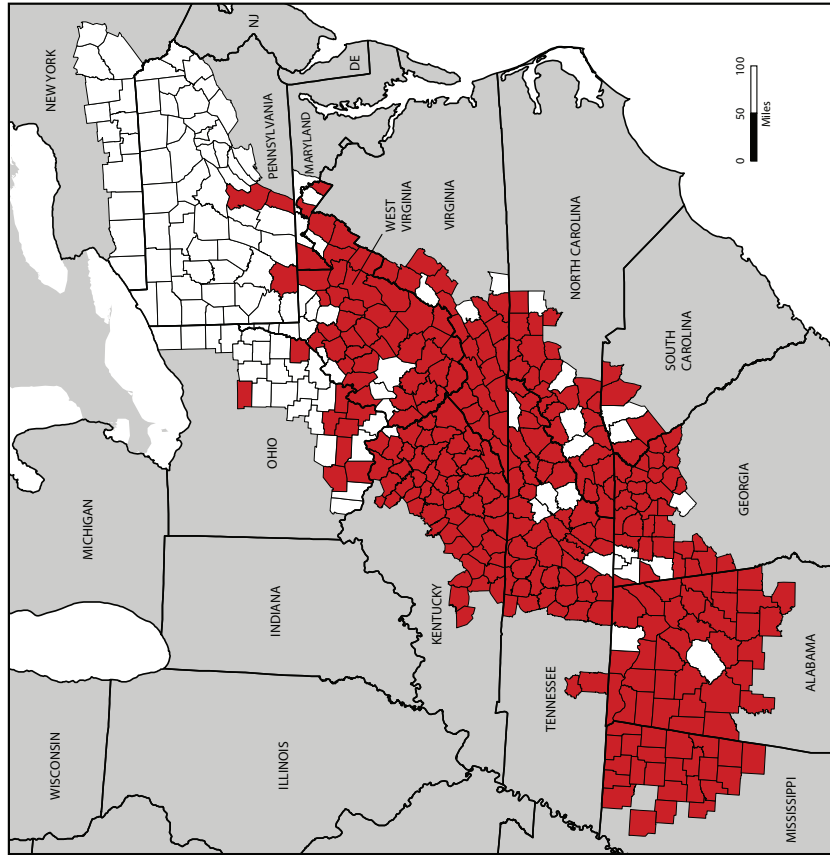
In FY 2015, 90 counties were designated distressed, 108 were designated at-risk, 210 were designated transitional, 10 were designated competitive, and 2 were designated attainment. ARC policy stipulates that competitive counties may receive limited assistance, while attainment counties are generally not eligible for funding.

See page 15 for a map of Appalachian counties classified by economic status.

# High-Poverty Counties in the Appalachian Region (Counties with Poverty Rates At Least 1.5 Times the U.S. Average)

1960

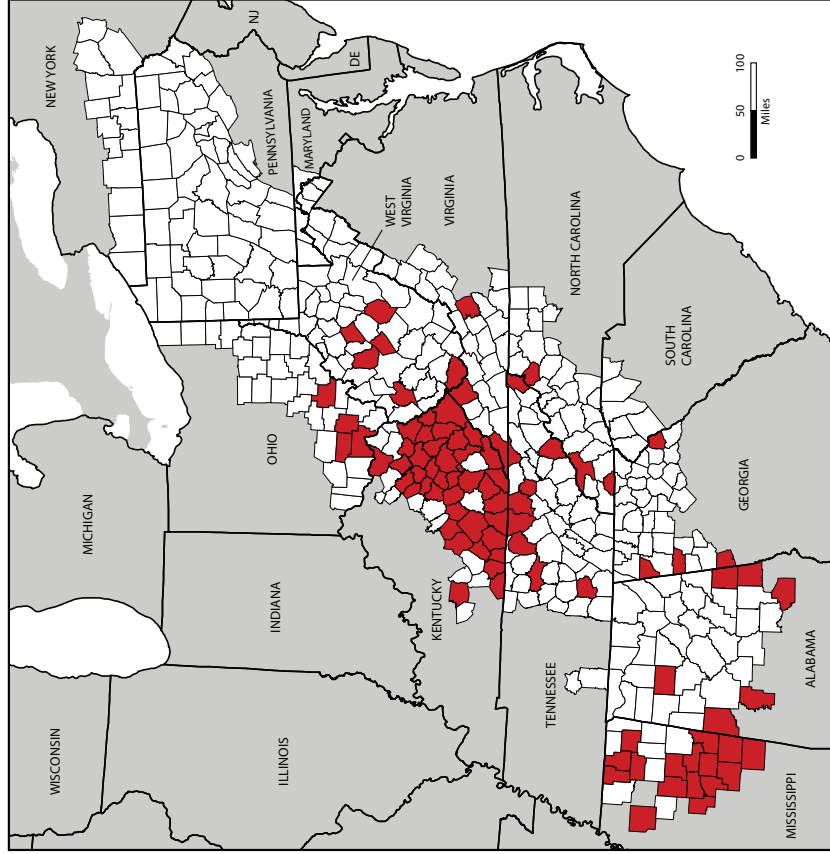
295 High-Poverty Counties



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

2009-2013

90 High-Poverty Counties



Data Source: U.S. Census Bureau, American Community Survey, 5-Year Estimates, 2009-2013.

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

### Regional Initiatives

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

The Emerging Opportunities initiative helps communities identify and strategically invest in promising economic opportunities in areas such as health care, energy, advanced manufacturing, and asset-based development, including food systems and tourism. Areas of focus under this initiative in FY 2015 included support for skilled employee training and entrepreneurship education; business incubation and technical support programs; community leadership; and access to capital. In FY 2015 angel investment funds formed by ARC in Kentucky, Tennessee, and West Virginia were capitalized; Appalachian Community Capital, a central bank for development lenders, closed on a first-round investment of \$15 million; and a fund to supplement the multi-agency Partnerships for Opportunity and Workforce and Economic Revitalization initiative—an effort to assist communities and workers impacted by changes in the coal industry and power sector—was launched.

ARC's Telecommunications Initiative aims to increase the use of advanced telecommunications and broadband in the Region, and to bring broadband service to the Region's unserved and underserved areas. In FY 2015, ARC funded projects that support telemedicine, dis-

tance-learning, workforce development, and e-commerce development in the government and the private sector; projects that directly help communities and commercial-industrial areas gain access to high-speed telecommunications services; and projects that provide computers to high schools and community colleges.

ARC's Export Initiative works to help small and medium-sized Appalachian enterprises export their products and services to markets throughout the world. The initiative is coordinated through ARC's Export Trade Advisory Council, which includes representatives from the international trade offices of the 13 Appalachian states, the U. S. Commercial Service, and ARC's local development districts. In FY 2015, ARC worked closely with the White House Rural Council in implementing the Made in Rural America export and investment initiative by expanding the number of rural businesses participating in ARC's Appalachia USA export delegations. These delegations are leading approximately 100 multi-sector Appalachian firms to major international trade events, including gatherings in Montreal, Shanghai, Johannesburg, and Beijing.

### 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 revolving loan funds have disbursed \$205.6 million in 2,506 loans, resulting in 89,498 jobs created or retained and leveraging \$1.43 billion in private investment for the Appalachian Region.

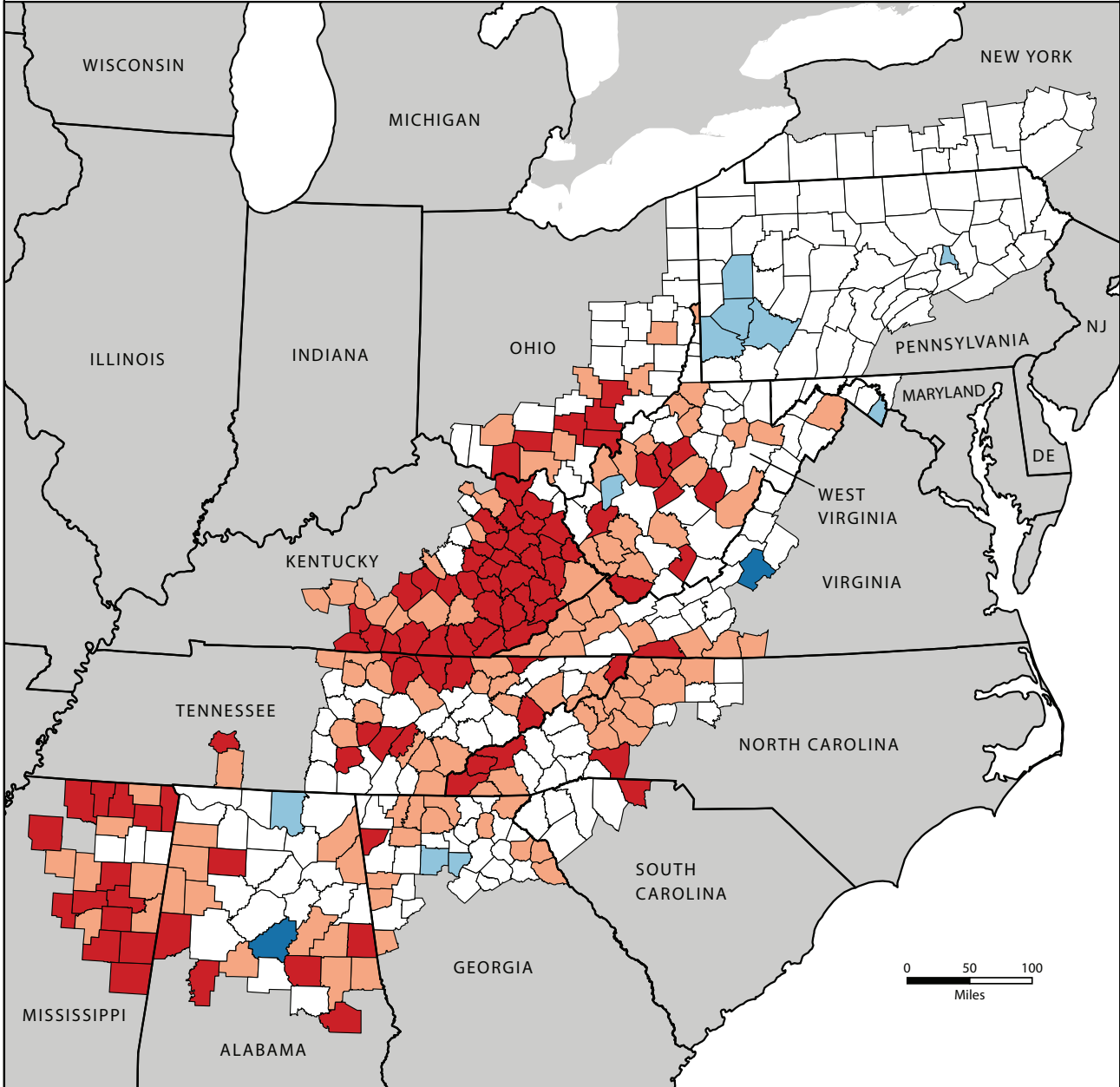
### Highway Program: The Appalachian Development Highway System

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



### County Economic Status in Appalachia, Fiscal Year 2015

(Effective October 1, 2014 through September 30, 2015)



The Appalachian Regional Commission uses an index-based county economic classification system to identify and monitor the economic status of Appalachian counties. See the reverse side for a description of each economic level.

**County Economic Levels**

- Distressed (90)
- At-Risk (108)
- Transitional (210)
- Competitive (10)
- Attainment (2)

Map Created: March 2014.

Data Sources:

Unemployment data: U.S. Bureau of Labor Statistics, LAUS, 2010–2012.

Income data: U.S. Bureau of Economic Analysis, REIS, 2012.

Poverty data: U.S. Census Bureau, American Community Survey, 2008–2012.

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 2015, funding for the ADHS was included in the Federal Highway Administration's Surface Transportation Program (STP) grants to the states, along with other highway funding. The STP 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 funded through the STP is 100 percent. Although funds used for the ADHS are derived from the highway trust fund, ARC exercises policy control over the system.

### Local Development Districts

ARC's statute underlines the importance of supporting local development districts (LDDs) in the Region. These multi-county planning and development organizations serve as local partners for ARC across the Region. Every county in the Region is served by an LDD. Each LDD is governed by a board of directors composed of both elected officials and non-elected individuals. The LDDs play four key roles in the development of the Region: providing area-wide planning and program development, and coordination of federal and state funding sources; assisting local governments in providing services, especially in poorer, more isolated communities; promoting public-private partnerships and assisting in business development; and helping communities assess, plan, and conduct a wide range of activities such as job training, business development, telecommunications planning and implementation, and municipal government support.

The Commission has also supported the training and technical assistance activities of the Development District Association of Appalachia, an organization of the Region's 73 LDDs.

### Research and Technical Assistance Activities

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

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

Reports and data products are distributed in print and posted on ARC's Web site at [www.arc.gov](http://www.arc.gov).

Research completed or under way in FY 2015 includes:

- An examination of changes to the Appalachian Region since 1965
- An evaluation of the contribution made by forests and wood products to sustainable economic growth in the Appalachian Region
- An examination of water resources in the Appalachian Region
- An evaluation of ARC's health-related projects
- An evaluation of ARC's non-infrastructure job creation and retention projects
- An analysis of the local food system in Appalachia, exploring trends in the Region's food and farm sectors

- A study examining disparities and Bright Spots in health outcomes in the Region
- A study examining the impact of completing the Appalachian Development Highway System
- An evaluation of ARC's telecommunications and technology projects

### 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, are currently in decline. 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:

- According to the U.S. Census Bureau's American Community Survey, over the 2009–2013 period (which includes years of economic downturn and recovery), 17 percent of Appalachian residents—about one in six—lived below the poverty level, nearly two percentage points above the U.S. average of 15.4 percent. The mean income of Appalachian households was \$59,006, just 80 percent of the U.S. average of \$73,487.
- 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 333 Appalachian counties, fewer than one in five residents age 25 and over were graduates of a four-year college or university.
- Between 2012 and 2013, coal mining employment in Central Appalachia decreased 18.1 percent; it is not expected to return to its historic high.
- Manufacturing employment has declined at a faster rate in Appalachia than in the nation in every sub-region except Central Appalachia. In South-Central Appalachia, manufacturing employment fell 43 percent between 2000 and 2010 and is projected to decline an additional 2 percent between 2010 and 2020.
- During the 2007–2009 recession, the Region lost more than 800,000 jobs, and as of 2013 had gained back only half of those (a little more than 400,000).
- Research indicates that rates of all-cause mortality, cancer, heart disease, obesity, and diabetes in Appalachia exceed the national average.
- The Region lags behind the rest of the nation in access to affordable broadband telecommunications service.

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

## SUMMARY OF ACHIEVEMENTS

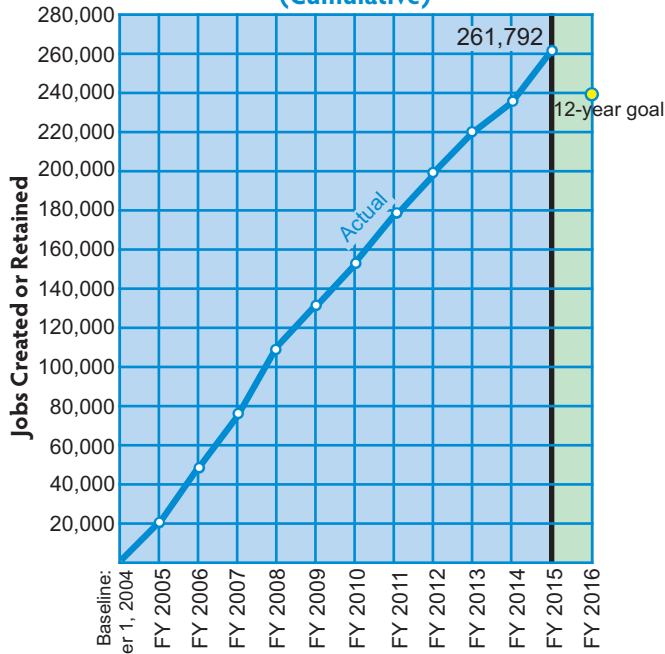
### Performance Goals and Results for Fiscal Year 2015 Projects

ANNUAL PERFORMANCE GOALS	FISCAL YEAR 2015 INTERMEDIATE ESTIMATES	RESULTS ACHIEVED
<b>Jobs and Income</b>		
<i>Outcome Goal:</i> 20,000 jobs created or retained	23,032 jobs created or retained	Exceeded goal
<i>Leveraging Goal:</i> Achieve a 4:1 ratio of leveraged private investment to ARC investment for projects in General Goal 1	Achieved a 6:1 ratio	Exceeded goal
<i>Targeting Goal:</i> Direct 50% of grant funds to benefit distressed counties or areas for projects in General Goal 1	Directed 51% of funds*	Met goal
<b>Competitiveness</b>		
<i>Outcome Goal:</i> 20,000 students/trainees with improvements	23,123 students/trainees with improvements	Exceeded goal
<i>Matching Goal:</i> Achieve a 1:1 ratio of non-ARC to ARC investment for projects in General Goal 2	Achieved nearly a 1:1 ratio	Met 78% of goal
<i>Targeting Goal:</i> Direct 50% of grant funds to benefit distressed counties or areas for projects in General Goal 2	Directed 78% of funds*	Exceeded goal
<b>Infrastructure</b>		
<i>Outcome Goal:</i> 20,000 households served	25,593 households served	Exceeded goal
<i>Matching Goal:</i> Achieve a 2:1 ratio of non-ARC to ARC investment for projects in General Goal 3	Achieved a 3:1 ratio	Exceeded goal
<i>Targeting Goal:</i> Direct 50% of grant funds to benefit distressed counties or areas for projects in General Goal 3	Directed 78% of funds*	Exceeded goal
<b>Highways</b>		
<i>Outcome Goal:</i> 25 additional miles (net increase) of the ADHS opened to traffic	Opened 11.4 additional miles (net increase) of the ADHS to traffic	Met 46% of Goal

\* In FY 2015, 72 percent of total grant funds were directed to projects that benefit distressed counties or areas. Project funds are included if the project primarily or substantially benefits distressed counties or areas.

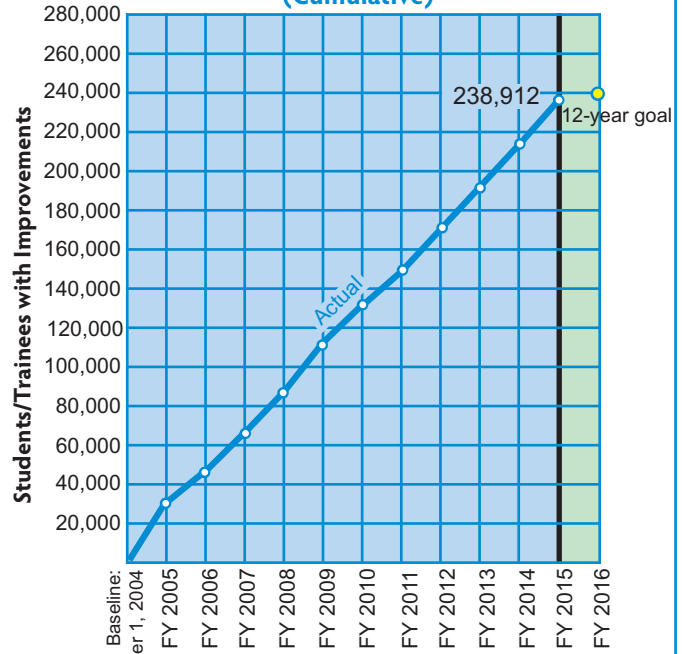
Progress toward ARC Strategic Plan Performance Goals  
Fiscal Years 2005–2016

**Goal 1: Jobs Created or Retained (Cumulative)**



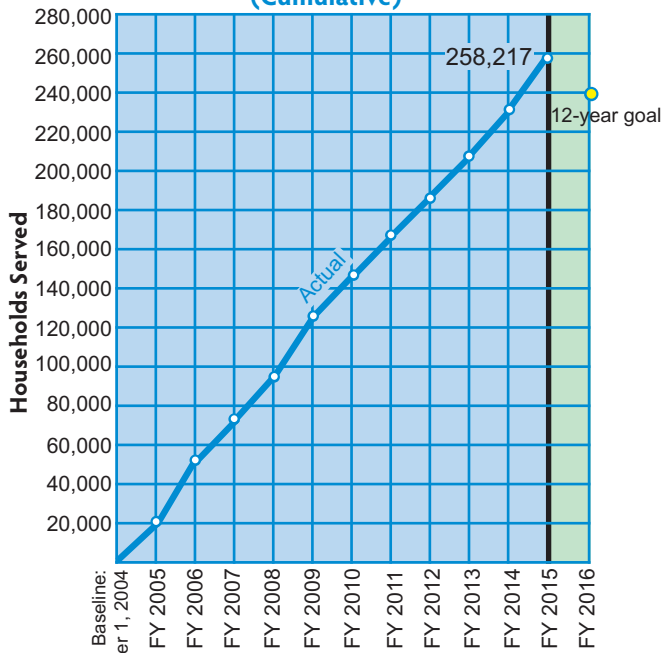
**Twelve-Year Performance Goal:**  
240,000 jobs will be created or retained.

**Goal 2: Students/Trainees with Improvements (Cumulative)**



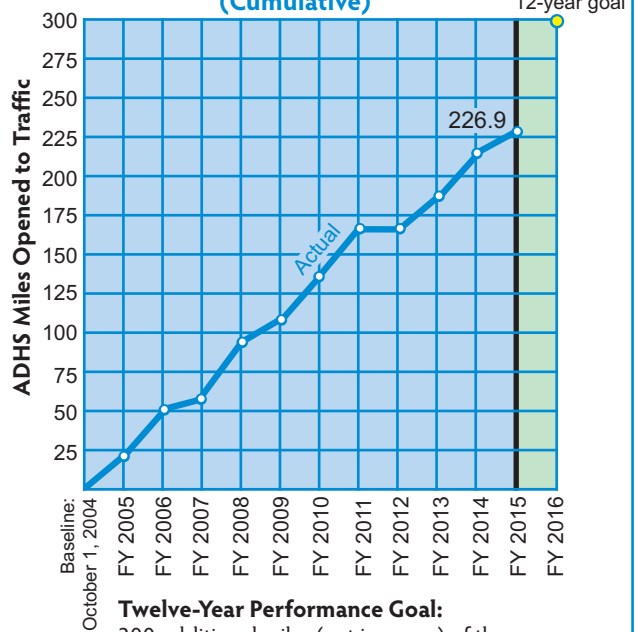
**Twelve-Year Performance Goal:**  
240,000 citizens will benefit from enhanced education and job-related skills.

**Goal 3: Households Served (Cumulative)**



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

**Goal 4: ADHS Miles Opened to Traffic (Cumulative)**



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

## FINANCIAL MANAGEMENT

### Financial Management System

In FY 2015 the Appalachian Regional Commission renewed its contract with the GSA External Services Division to perform the Commission's accounting and financial reporting. During FY 2015, the U.S. Department of Agriculture (USDA) National Finance Center acquired GSA's Financial Management Line of Business operations, including its financial services. The Appalachian Regional Commission's GSA contract was transferred to USDA. ARC supplements these financial services with ARC.net, 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. ARC.net applications are built using an industry-standard programming language.

### Management's Responsibility for Internal Control

ARC implemented a process for providing audited financial statements in FY 2002, following the guidance of the Accountability of Tax Dollars Act of 2002. ARC, strictly speaking, is not a federal agency as defined in Titles 5 and 31 of the U.S. Code; it is a 501(c)(3) organization with a quasi-federal character. While the Accountability of Tax Dollars Act applies only to executive branch agencies, the Commission has elected to comply with 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, Chortek LLP, on the fiscal year 2015 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, 2015, was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

## Internal Control over Financial Reporting

ARC conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with OMB Circulars A-123, *Management's Responsibility for Internal Control*, and A-136, *Financial Reporting Requirements*. Based on the results of this evaluation, ARC can provide reasonable assurance that internal control over financial reporting as of September 30, 2015, was operating effectively, and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

## Management Follow-Up to Inspector General Recommendations

At the start of the fiscal year, implementation actions were continuing on recommendations made in prior audit reports and evaluations. During FY 2015, the OIG issued 36 reports, including 21 grant audits, a financial statement audit, and 14 program-related evaluations/inspections, including evaluations of the status of older grants. The total dollar value of grants and payments reviewed during FY 2015 was approximately \$32 million, with approximately \$500,000 in questioned or unsupported costs and \$4 million in funds, from grant deobligations, that could be put to better use. By the end of the fiscal year, management decisions had been made regarding most issued reports, recommendations had been implemented, and several reports remained open pending final decisions.

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

## 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, Chortek LLP, the financial statements included in that section fairly represent, in all material respects, the financial position of the Commission as of September 30, 2015, 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, 2015, totaled \$230.0 million, versus \$202.2 million in FY 2014. The change was due to increases in the fund balance with the U.S. Department of the Treasury as well as to grantee advances. Liabilities equaled \$10.4 million in FY 2015 versus \$11.1 million in FY 2014. The decrease was due to reductions in liabilities for advances and prepayments, and accounts payable. The U.S. Treasury held 78 percent of ARC's assets. In addition, 12.6 percent, or \$28.9 million, represented Commission grant funds held by intermediary organizations in Appalachia for the operation of revolving loan funds promoting business development. The federal government retains a residual interest in the loan funds. ARC also advanced funds equaling \$8.2 million to two federal agencies for the purpose of servicing grants. Remaining assets are cash and advances to grantees.

The net position increased from \$191.0 million in FY 2014 to \$219.6 million in FY 2015.

Liabilities included \$7.5 million in payments due to grantees, \$723,271 in accrued benefits and pension liability, and \$530,350 in other agency transactions.

The net cost of operations for FY 2015 totaled \$60.5 million, compared with \$66.1 million in FY 2014.

ARC receives most of its resources from congressional appropriations, which totaled \$90.0 million in FY 2015. In addition, ARC received \$3.9 million from the 13 member states to pay for the Commission's operating costs. The statement of budgetary resources reported net outlays of \$64.1 million. ARC incurred obligations of \$116.5 million in FY 2015 and has an unpaid obligated balance (net, end of year) of \$153.2 million. Of FY 2015 obligations, \$106.8 million funded ARC's Area Development Program.

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

### Statement of Assurance

On the basis of ARC's comprehensive internal control program during FY 2015, ARC 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, 2015, was operating effectively. Accordingly, I am pleased to certify with reasonable assurance that 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 that internal controls over financial reporting as of September 30, 2015, were operating effectively and no material weaknesses were found in the design or operation of the controls.



Earl F. Gohl  
ARC Federal Co-Chair  
November 12, 2015



# PART II:

## FISCAL YEAR 2015 PERFORMANCE REPORT

### INTRODUCTION

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

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

To meet GPRA requirements, ARC has defined performance measures and goals for all major ARC operations. In FY 2015, ARC:

- Collected and entered state estimates of results for FY 2015 into a database as part of daily operations and project management; and
- Conducted independent evaluations to ascertain the benefits of projects.

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

The four general goals from ARC's 2011–2016 strategic plan, *Moving Appalachia Forward*, were used to evaluate performance in FY 2015.

#### Fiscal Year 2015 Outcome Goals and Intermediate Results

ANNUAL OUTCOME GOAL	INTERMEDIATE ESTIMATES
20,000 jobs created or retained	23,032 jobs created or retained
20,000 students/ trainees with improvements	23,123 students/trainees with improvements
20,000 households served	25,593 households served
25 additional miles (net increase) of the ADHS opened to traffic	11.4 additional miles (net increase) of the ADHS opened to traffic

The following sections of this report present an overview of the Appalachian Regional Commission, a list of ARC goals and objectives, a description of the methodology employed to monitor project outcomes in compliance with the GPRA, the estimated outcomes for projects funded in FY 2015 and each of the three prior fiscal years, and the results of project evaluations.

## OVERVIEW OF ARC

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

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

### Organizational Structure

The Appalachian Regional Commission is a regional economic development agency representing a unique partnership of federal, state, and local governments designed to address local needs in Appalachia. ARC was established by an act of Congress and operates under congressional authorizations.

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

### Project Funding

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

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

One of the key differences between ARC and typical federal executive agencies and departments is the flexibility given to the states in determining how their allocated funds will be spent. This flexibility exists within a framework: funds must be spent in counties designated

## GENERAL GOALS AND OBJECTIVES

GENERAL GOAL 1	GENERAL GOAL 2	GENERAL GOAL 3	GENERAL GOAL 4
<p>Increase job opportunities and per capita income in Appalachia to reach parity with the Nation.</p>	<p>Strengthen the capacity of the people of Appalachia to compete in the global economy.</p>	<p>Develop and improve Appalachia's infrastructure to make the Region economically competitive.</p>	<p>Build the Appalachian Development Highway System to reduce Appalachia's isolation.</p>
<p><b>Strategic Objectives</b></p> <ul style="list-style-type: none"> <li>1.1 Develop Leaders and Strengthen Community Capacity</li> <li>1.2 Diversify the Economic Base</li> <li>1.3 Enhance Entrepreneurial Activity in the Region</li> <li>1.4 Develop and Market Strategic Assets for Local Economies</li> <li>1.5 Increase the Domestic and Global Competitiveness of the Existing Economic Base</li> <li>1.6 Foster the Development and Use of Innovative Technologies</li> <li>1.7 Capitalize on the Economic Potential of the Appalachian Development Highway System</li> <li>1.8 Encourage Sustainable Economic Use of Natural Resources</li> <li>1.9 Encourage Investments in Energy Projects that Create Jobs</li> </ul> <p><b>Outcome measure:</b> Number of jobs created or retained.</p>	<p><b>Strategic Objectives</b></p> <ul style="list-style-type: none"> <li>2.1 Develop Leaders and Strengthen Community Capacity</li> <li>2.2 Enhance Workforce Skills through Training and Education</li> <li>2.3 Increase Access to Quality Child Care and Early Childhood Education</li> <li>2.4 Increase Educational Attainment and Achievement</li> <li>2.5 Expand Community-Based Wellness and Disease-Prevention Efforts</li> <li>2.6 Increase the Availability of Affordable, High-Quality Health Care</li> </ul> <p><b>Outcome measure:</b> Number of students/trainees with improvements.</p>	<p><b>Strategic Objectives</b></p> <ul style="list-style-type: none"> <li>3.1 Develop Leaders and Strengthen Community Capacity</li> <li>3.2 Build and Enhance Basic Infrastructure</li> <li>3.3 Increase Access to and Use of Telecommunications Technology</li> <li>3.4 Preserve and Enhance Environmental Assets</li> <li>3.5 Promote the Development of an Intermodal Transportation Network</li> </ul> <p><b>Outcome measure:</b> Number of households served with new or improved water and/or sewer infrastructure, and number of jobs created or retained.</p>	<p><b>Strategic Objectives</b></p> <ul style="list-style-type: none"> <li>4.1 Develop Leaders and Strengthen Community Capacity</li> <li>4.2 Promote the Successful Development of the Appalachian Development Highway System (ADHS)</li> <li>4.3 Improve Planning to Enhance Multi-Jurisdictional Coordination and Efficiency</li> <li>4.4 Encourage Intermodal Coordination</li> <li>4.5 Enhance the Energy Efficiency of the Transportation System</li> <li>4.6 Develop a Transportation System that Enhances and Preserves the Region's Environmental Quality</li> </ul> <p><b>Outcome measure:</b> Net increase in the number of miles of the ADHS open to traffic.</p>

as part of the Appalachian Region; projects must address one or more of the Commission's four goals; and a specified amount of the funds allocated to each state can be used only on projects that benefit counties and areas the Commission has designated as economically distressed.

## PERFORMANCE MEASUREMENT METHODOLOGY

### Overview of ARC's Performance Measurement System

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

ARC's performance measurement system has three components:

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

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

This report presents performance goal results for each of ARC's four general goal areas. It is important to note that two outcome measures cut across general goal areas. To simplify the reporting of these measures, results from each general goal area are totaled and reported under the general goal that most closely aligns with the outcome

measure. For example, one of ARC's outcome measures is jobs created or retained. ARC measures results for jobs created or retained by projects funded under General Goals 1, 2, and 3. For clarity, this outcome measure is discussed, and results from all three general goal areas are reported, under General Goal 1: "Increase job opportunities and per capita income in Appalachia to reach parity with the nation."

### Project Data Collection and Analysis

#### Annual Performance Goals and Measures

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

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

investments have been recorded by ARC in the past; however, in FY 2005 ratios of these funds to ARC funding were established as annual goals.

To address reporting requirements, ARC reports results toward reaching these three performance goals in four program categories (jobs and income, competitiveness, infrastructure, and highways) that reflect priorities within the Commission's four general goals. Although the projects funded by ARC each year generate many more measures than those reported for GPRA compliance, the measures reported relate uniquely to ARC's four general goals and to its mission (see table on page 25).

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

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

"Jobs created" 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, measured during the project period and up to three years after the project end date.

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

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

"Leveraged Private Investment" (LPI) is the dollar amount of private-sector financial commitments (non-project funds) that result from completion of an ARC project, measured during the project period and up to three years after the project end date. LPI is a performance measurement because it is a desired outcome; and it represents the private investment supporting job creation.

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

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

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

"Students with improvements" is the number of students who, as a result of an ARC-funded project, receive a diploma, certificate, or other career credential; or obtain a job in the field for which they were specifically trained; or graduate to the next grade or level necessary to continue their education. Measured for three years beyond the project end date.

"Workers/trainees with improvements" is the total number of participants who obtain new employment or enhanced employment, such as higher pay, a better position, or a certification, as a result of an ARC-funded project, measured during the project period and up to three years after the project end date.

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

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

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

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

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

1) Outcome Measure: The number of households served.

"Households served" includes the number of households with access to a new service, such as water, sewer, gas-line, or telecommunications service; or with improvements in existing infrastructure.

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

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

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

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

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

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

## Intermediate Results

Intermediate results presented in this report are derived from estimates in project applications, as reported by

grantees. When projects are closed, actual results to date are recorded; however, some estimates are based on three-year projections. More accurate results are obtained when ARC staff validate a sample of projects completed at least two years earlier. The validity of final numbers is sampled during periodic project evaluations (see below).

## Data Analysis

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

## Project Validation

Staff validation visits, confirming actual project outcomes, have become a critical part of ARC's GPRA compliance. As a general rule, in each fiscal year ARC validates the outcomes of 40 to 60 projects that had been completed at least two years earlier.

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

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

In FY 2015, in lieu of validation visits, ARC commissioned a review of the impact of its investments on the Appalachian Region over the past 50 years. The review included an analysis of data on ARC's nonhighway projects as well as input from stakeholders through 14 focus groups held throughout the Region.

### Project Evaluations: Final Results

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

# GENERAL GOAL 1

## *Increase Job Opportunities and Per Capita Income in Appalachia to Reach Parity with the Nation.*

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

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

*Strategic Objective 1.1: Develop Leaders and Strengthen Community Capacity.*

*Strategic Objective 1.2: Diversify the Economic Base.*

*Strategic Objective 1.3: Enhance Entrepreneurial Activity in the Region.*

*Strategic Objective 1.4: Develop and Market Strategic Assets for Local Economies.*

*Strategic Objective 1.5: Increase the Domestic and Global Competitiveness of the Existing Economic Base.*

*Strategic Objective 1.6: Foster the Development and Use of Innovative Technologies.*

*Strategic Objective 1.7: Capitalize on the Economic Potential of the Appalachian Development Highway System.*

*Strategic Objective 1.8: Encourage Sustainable Economic Use of Natural Resources.*

*Strategic Objective 1.9: Encourage Investments in Energy Projects that Create Jobs.*

### Per Capita Income

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

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



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

In FY 2015, 90 counties were designated distressed, 108 were designated at-risk, 210 were designated transitional, 10 were designated competitive, and 2 were designated attainment.

## Performance Goals and Results

General Goal 1 is aligned with the annual performance goals listed under the program category "jobs and income." (See page 27.)

### Outcome Goal

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

**Annual outcome goal for FY 2015:** Create/retain 20,000 jobs for Appalachians.

OUTCOME GOAL: Create/Retain 20,000 Jobs for Appalachians	
ANNUAL OUTCOME GOAL	INTERMEDIATE ESTIMATES
FY 2012: 20,000 jobs created/retained	FY 2012: 20,212 jobs created/retained
FY 2013: 19,000 jobs created/retained	FY 2013: 19,008 jobs created/retained
FY 2014: 20,000 jobs created/retained	FY 2014: 20,056 jobs created/retained
FY 2015: 20,000 jobs created/retained	FY 2015: 23,032 jobs created/retained

**Results for FY 2015:** Exceeded goal.

### Leveraging Goal

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

**Annual leveraging goal for FY 2015:** Achieve a 4:1 ratio of leveraged private investment to ARC investment.

**Results for FY 2015:** Exceeded goal: achieved a 6:1 ratio of leveraged private investment to ARC funds.

In FY 2015, ARC's General Goal 1 grant funds of \$22,347,345 attracted non-project leveraged private investment of \$133,764,367, and \$28,655,927 in matching project funds from public and other sources.

### Targeting Goal

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

**Annual targeting goal for FY 2015:** Direct 50 percent of all ARC grant funds to projects that benefit distressed counties or areas.

**Results for FY 2015:** Met goal. In FY 2015, 51 percent of General Goal 1 grant funds were directed to projects that benefit distressed counties or areas.

### Project Evaluation: Final Results

#### Entrepreneurship Initiative

In FY 2008, the Appalachian Regional Commission issued the report *Creating an Entrepreneurial Appalachian Region: Findings and Lessons from an Evaluation of the ARC's Entrepreneurship Initiative 1997–2005*, prepared by the Rural Policy Research Institute Center for Rural Entrepreneurship, EntreWorks Consulting, and RTI International. The report evaluated ARC's Entrepreneurship Initiative (EI) in terms of both outcomes achieved by a sample of funded projects and broader policy impacts across the Region. As identified through project final reports submitted to ARC, the EI led to the creation of at least 9,156 jobs, the retention of a further 3,022 jobs, the formation of 1,787 new businesses, and the provision of services to 8,242 businesses. The cost per job created was \$4,693, which compares favorably with other economic development efforts. The total ARC investment has leveraged an additional \$72.8 million in private investment for those projects that have been closed, a figure that is projected to rise to \$109.9 million when all projects in the portfolio have been completed.

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

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

Project evaluation reports are available online at [www.arc.gov/research](http://www.arc.gov/research).

## GENERAL GOAL 2

### *Strengthen the Capacity of the People of Appalachia to Compete in the Global Economy.*

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

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

*Strategic Objective 2.1: Develop Leaders and Strengthen Community Capacity.*

*Strategic Objective 2.2: Enhance Workforce Skills through Training and Education.*

*Strategic Objective 2.3: Increase Access to Quality Child Care and Early Childhood Education.*

*Strategic Objective 2.4: Increase Educational Attainment and Achievement.*

*Strategic Objective 2.5: Expand Community-Based Wellness and Disease-Prevention Efforts.*

*Strategic Objective 2.6: Increase the Availability of Affordable, High-Quality Health Care.*

### Performance Goals and Results

General Goal 2 is aligned with the annual performance goals listed under the program category "competitiveness." (See page 27.)

#### Outcome Goal

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

**Annual outcome goal for FY 2015:** Position 20,000 Appalachians for enhanced employability.

**Results for FY 2015:** Exceeded goal.

**Outcome Goal: Position 20,000 Appalachians for Enhanced Employability**

ANNUAL OUTCOME GOAL	INTERMEDIATE ESTIMATES
FY 2012: 20,000 Students/Trainees with Improvements	FY 2012: 20,315 Students/Trainees with Improvements
FY 2013: 19,000 Students/Trainees with Improvements	FY 2013: 22,749 Students/Trainees with Improvements*
FY 2014: 20,000 Students/Trainees with Improvements	FY 2014: 24,108 Students/Trainees with Improvements**
FY 2015: 20,000 Students/Trainees with Improvements	FY 2015: 23,123 Students/Trainees with Improvements***
<p>* Excludes projects that provided computers or computer equipment that will benefit 9,724 students.                      ** Excludes projects that provided computers or computer equipment that will benefit 11,069 students.                      *** Excludes projects that provided computers or computer equipment that will benefit 1,860 students.</p>	

**Matching Goal**

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

**Annual matching goal for FY 2015:** Achieve a 1:1 ratio of non-ARC matching funds to ARC investment.

**Results for FY 2015:** Met 78.1% of goal. The ratio of matching funds to ARC investments for all nonhighway project in FY 2015 was 2:1.

In FY 2015, ARC General Goal 2 grant funds of \$21,765,409 attracted \$16,992,996 in matching project funds from public and other sources and \$75,000 in leveraged private investment.

**Targeting Goal**

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

**Annual targeting goal for FY 2015:** Direct 50 percent of all ARC grant funds to projects that benefit distressed counties or areas.

**Results for FY 2015:** In FY 2015, 78 percent of General Goal 2 grant funds were directed to projects that benefit distressed counties or areas.

**Program Evaluation: Final Results**

**Health**

In FY 2015, the Community and Economic Development Initiative of Kentucky at the University of Kentucky completed a [program evaluation of health projects](#) funded by ARC between fiscal years 2004 and 2010. During this time period, ARC invested \$30.9 million in 202 health projects, an average investment of nearly \$153,000 per project. The evaluation analyzed ARC's grants database, administered an online survey to past grant recipients, and conducted in-depth case studies of 13 projects. The analysis of data from ARC's grants database showed that on average, ARC's health projects made a great impact on participants and patients, and that equipment-based projects that improve health-care access and clinical services contribute most to these categories. The survey indicated that the projects served 131,464 participants, 359,860 patients, 7,118 students and 5,056 workers/trainees. ARC's health projects have a number of diverse outcomes, including improvements to formal education, workforce training, health-care provision, public health promotion, and public policy development. While ARC investments in small, innovative projects can be risky, the review team notes that these projects have the potential for significant, long-term impacts in the Region.

### Education and Workforce Development Projects, FY 2000–2008

In FY 2011, Westat, the Nick J. Rahall II Appalachian Transportation Institute, and Economic Development Research Group undertook a [program evaluation of ARC education and workforce development projects](#) funded between fiscal years 2000 and 2008. Among students served by ARC projects, the most common 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, the most common benefits included improved skills in a new area—including vocational and technical skills, employability, and basic or academic skills. For all projects, questionnaire respondents reported meeting or exceeding pre-project predictions, both for the number of students and workers trained, and for those who received career credentials, obtained jobs in that field, or continued their education beyond the lifecycle of the grant. Other project outcomes included job creation and retention, business creation, leveraged private investment, and improvement in employment rates for those participating in ARC-sponsored education/training programs.

### Math-Science-Technology Summer Institute

A March 2006 [evaluation of the ARC–Oak Ridge National Laboratory Math-Science-Technology Summer Institute](#) by the Academy for Educational Development assessed the effectiveness of the program in encouraging more Appalachian high school students to continue their studies beyond high school and to pursue careers in science, technology, engineering, and math. It also assessed how the program helped participating high school teachers raise the level of math, science, and technology instruction in their schools.

The study found that participation in the summer institute influenced 24 percent of students to take more science classes and 22 percent to take more math classes when they returned to high school. Slightly more than half the students reported that their summer institute experience reinforced prior decisions about the science and math courses they had already chosen to take. Students also reported that the summer institute had reinforced their intention to go to college and reduced some of the barriers. Ninety-six percent of the student participants who had graduated from high school at the time of the survey had continued their formal education beyond high school, with more than half receiving degrees in science, technology, engineering, or math fields. Participating teachers reported that they had incorporated activities and approaches learned at the summer institute into their classrooms: 77 percent reported that they drew on the experience for explanations and examples; 52 percent reported that they drew on the experience for classroom demonstrations; and 50 percent reported that they had incorporated new knowledge into their lab experiments.

Project evaluation reports are available online at [www.arc.gov/research](http://www.arc.gov/research).

## GENERAL GOAL 3

### *Develop and Improve Appalachia's Infrastructure to Make the Region Economically Competitive.*

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

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

*Strategic Objective 3.1: Develop Leaders and Strengthen Community Capacity.*

*Strategic Objective 3.2: Build and Enhance Basic Infrastructure.*

*Strategic Objective 3.3: Increase Access to and Use of Telecommunications Technology.*

*Strategic Objective 3.4: Preserve and Enhance Environmental Assets.*

*Strategic Objective 3.5: Promote the Development of an Intermodal Transportation Network.*

### Performance Goals and Results

General Goal 3 is aligned with the annual performance goals listed under the program category "infrastructure." (See page 28.) All projects with these annual performance goals are in General Goal 3.

#### Outcome Goal

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

**Annual outcome goal for FY 2015:** Provide 20,000 households with basic infrastructure services.

**Results for FY 2014:** Exceeded goal. In addition to the number recorded below, in FY 2015 ARC funded water storage tank construction and improvement projects that will serve a total of 5,445 households, and system improvements that will serve an additional 16,666 households.

Outcome Goal: Provide 20,000 Households with Basic Infrastructure Services	
ANNUAL OUTCOME GOAL	INTERMEDIATE ESTIMATES*
FY 2012: 20,000 Households Served	FY 2012: 19,708 Households Served
FY 2013: 19,000 Households Served	FY 2013: 21,863 Households Served
FY 2014: 20,000 Households Served	FY 2014: 23,989 Households Served
FY 2015: 20,000 Households Served	FY 2015: 25,593 Households Served

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

### Matching Goal

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

**Annual matching goal for FY 2015:** Achieve a 2:1 ratio of non-ARC matching funds to ARC investment.

**Results for FY 2015:** Exceeded goal: Achieved a 3:1 ratio.

ARC FY 2015 General Goal 3 grant funds of \$57,745,091 attracted \$159,270,539 in matching project funds from public and other sources, and \$631,931,295 in non-project leveraged private investment.

### Targeting Goal

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

**Annual targeting goal for FY 2015:** Direct 50 percent of all ARC grant funds to projects that benefit distressed counties or areas.

**Results for FY 2015:** In FY 2015, 78 percent of General Goal 3 grant funds were directed to projects that benefit distressed counties or areas.

### Project Evaluation: Final Results

#### Infrastructure and Public Works Projects, FY 2004–2010

In FY 2013, ARC released an independent [program evaluation of ARC infrastructure and public works projects](#) conducted by HDR Decision Economics, Cambridge Systematics Economic Development Research Group, and Mt. Auburn Associates. The Program Evaluation of the Appalachian Regional Commission's Infrastructure and Public Works Projects assessed the impact of ARC infrastructure grant investments funded in fiscal years 2004 through 2010, and included in-depth case studies of 13 infrastructure projects funded during that time period. The study's findings suggest that infrastructure projects are successful in meeting their goals of improving water and wastewater services, attracting new industry, encouraging business expansion, and spurring long-term job creation. They also show that in many cases, the actual outcome per dollar spent was greater than the pre-project estimated outcome per dollar spent; suggesting that grant recipients tend to underestimate the job and business impacts the investments will have on their communities. The case studies documented a wide variety of economic and community benefits, including leveraged private investment, job creation and retention, and improved infrastructure services to local households and businesses. The case studies also documented other impacts that have contributed to the local economy and broader community, including increased residential property values, enhanced environmental quality, and improved public health. Other benefits included reduced water loss, a sounder financial footing for water system operators, reduction or elimination of the need for tax subsidies to keep systems solvent, increased property tax revenues from new and expanding businesses, and the opportunity to sell water to additional users.

Project evaluation reports are available online at [www.arc.gov/research](http://www.arc.gov/research).

## GENERAL GOAL 4

### *Build the Appalachian Development Highway System to Reduce Appalachia's Isolation.*

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

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

*Strategic Objective 4.1: Develop Leaders and Strengthen Community Capacity.*

*Strategic Objective 4.2: Promote the Successful Development of the ADHS.*

*Strategic Objective 4.3: Improve Planning to Enhance Multi-Jurisdictional Coordination and Efficiency.*

*Strategic Objective 4.4: Encourage Intermodal Coordination.*

*Strategic Objective 4.5: Enhance the Energy Efficiency of the Transportation System.*

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

### Performance Goal and Results

General Goal 4 is aligned with the annual performance goal listed under the program category "highways." (See page 28.)

#### Outcome Goal

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

**Annual outcome goal for FY 2015:** Open 25 additional miles (net increase) of the ADHS to traffic.

**Result for FY 2015:** Met 46% of goal. Construction schedules are often delayed by weather, environmental conditions, or traffic issues.



At the end of FY 2015, a total of 2,577.4 miles, or 83.4 percent, of the 3,090 miles authorized for the ADHS were complete; 206.4 miles were under construction, 75.3 miles were in the final design or right-of-way acquisition phase; and 231.0 miles were in the location study phase.

Outcome Goal: Open 25 Additional Miles (Net Increase) of the ADHS to Traffic	
ANNUAL OUTCOME GOAL	INTERMEDIATE ESTIMATES
FY 2012: Open 25 additional miles (net increase) of the ADHS to traffic.	FY 2012: Opened 0 additional miles (net increase) of the ADHS to traffic.
FY 2013: Open 25 additional miles (net increase) of the ADHS to traffic.	FY 2013: Opened 21.5 additional miles (net increase) of the ADHS to traffic.
FY 2014: Open 25 additional miles (net increase) of the ADHS to traffic.	FY 2014: Opened 28.2 additional miles (net increase) of the ADHS to traffic.
FY 2015: Open 25 additional miles (net increase) of the ADHS to traffic.	FY 2015: Opened 11.4 additional miles (net increase) of the ADHS to traffic.

### Project Validation Sampling

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

### Project Evaluation: Final Results

#### Impact of Highway Investments on Economic Growth in the Appalachian Region

In January 2007, Economic Development Research Group completed the report *The Impact of Highway Investments on Economic Growth in the Appalachian Region, 1969-2000: An Update and Extension of the Twin County Study*. The report, part of a larger study on sources of regional growth in Appalachia, updated the 1995 "twin county" study by Andrew Isserman and Terance Rephann, which found statistically significant differences in economic growth rates between Appalachian counties and their non-Appalachian counterparts during the years 1965 to 1991, and also found that counties served by the Appalachian Development Highway System had higher rates of income, population, and per-capita income growth than similar non-Appalachian counties. The new study extended the analysis to the year 2000 and assessed whether the amount, characteristics, and timing of ADHS investments can explain some of the differences in economic outcomes. The study, which used survey-based data, showed that there is a robust statistical link between ADHS investments and differential income and earnings growth between Appalachian counties and similar non-Appalachian counties.

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

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

### Economic Benefits of the ADHS

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

### Economic Impact of Completing the ADHS

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

Project evaluation reports are available online at [www.arc.gov/research](http://www.arc.gov/research).

## SUMMARY OF ACHIEVEMENTS

### Performance Goals and Results for Fiscal Year 2015 Projects

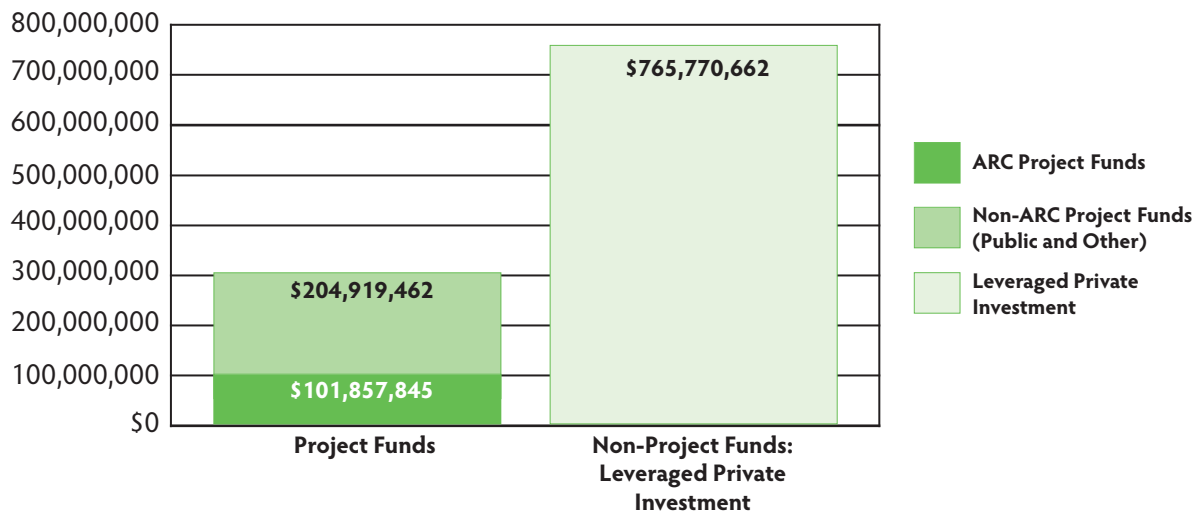
ANNUAL PERFORMANCE GOALS	FISCAL YEAR 2015 INTERMEDIATE ESTIMATES	RESULTS ACHIEVED
<b>Jobs and Income</b>		
<i>Outcome Goal:</i> 20,000 jobs created or retained	23,032 jobs created or retained	Exceeded goal
<i>Leveraging Goal:</i> Achieve a 4:1 ratio of leveraged private investment to ARC investment for projects in General Goal 1	Achieved a 6:1 ratio	Exceeded goal
<i>Targeting Goal:</i> Direct 50% of grant funds to benefit distressed counties or areas for projects in General Goal 1	Directed 51% of funds*	Met goal
<b>Competitiveness</b>		
<i>Outcome Goal:</i> 20,000 students/trainees with improvements	23,123 students/trainees with improvements	Exceeded goal
<i>Matching Goal:</i> Achieve a 1:1 ratio of non-ARC to ARC investment for projects in General Goal 2	Achieved nearly a 1:1 ratio	Met 78% of goal
<i>Targeting Goal:</i> Direct 50% of grant funds to benefit distressed counties or areas for projects in General Goal 2	Directed 78% of funds*	Exceeded goal
<b>Infrastructure</b>		
<i>Outcome Goal:</i> 20,000 households served	25,593 households served	Exceeded goal
<i>Matching Goal:</i> Achieve a 2:1 ratio of non-ARC to ARC investment for projects in General Goal 3	Achieved a 3:1 ratio	Exceeded goal
<i>Targeting Goal:</i> Direct 50% of grant funds to benefit distressed counties or areas for projects in General Goal 3	Directed 78% of funds*	Exceeded goal
<b>Highways</b>		
<i>Outcome Goal:</i> 25 additional miles (net increase) of the ADHS opened to traffic	Opened 11.4 additional miles (net increase) of the ADHS to traffic	Met 46% of Goal

\* In FY 2015, 72 percent of total grant funds were directed to projects that benefit distressed counties or areas. Project funds are included if the project primarily or substantially benefits distressed counties or areas.

### Investment Summary for FY 2015 Projects

LEVERAGING, MATCHING, AND TARGETING SUMMARY for All ARC Nonhighway Projects Fiscal Year 2015		
Leveraged private investment	\$765,770,662	8:1 ratio of leveraged private investment to ARC investment
Non-ARC matching project funds	\$204,919,462	2:1 ratio of non-ARC project investment to ARC project investment
ARC project funds targeted to distressed counties or areas	\$73,402,111*	72% of total ARC project funds directed to projects that benefit distressed counties or areas
<i>*Project funds are included if the project primarily or substantially benefits distressed counties or areas.</i>		

### Funding and Leveraged Private Investment for ARC Projects in Fiscal Year 2015

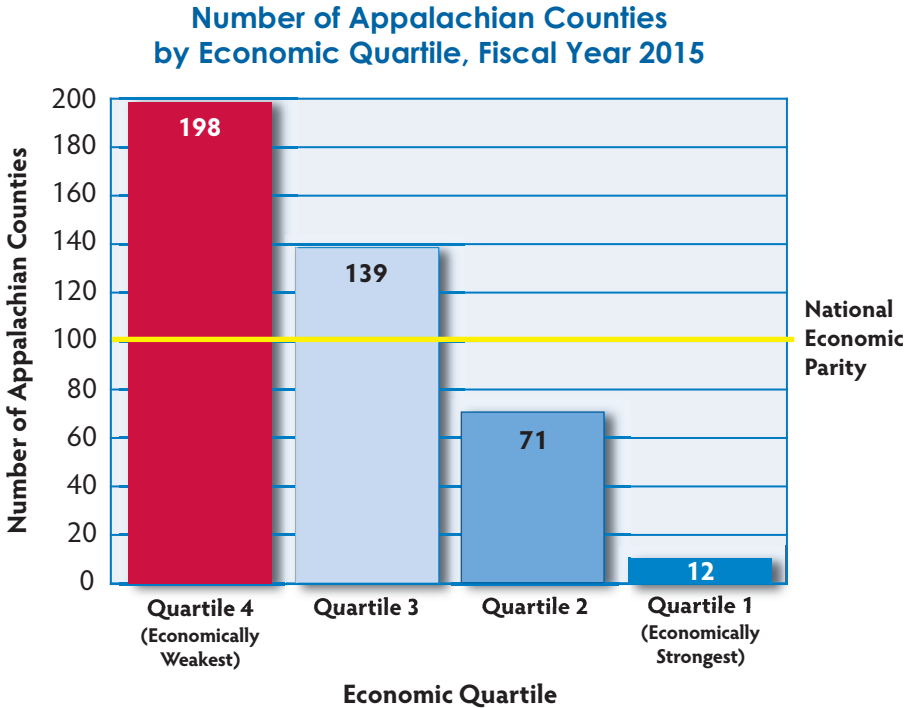


# MEASURING PROGRESS TOWARD THE ARC VISION

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

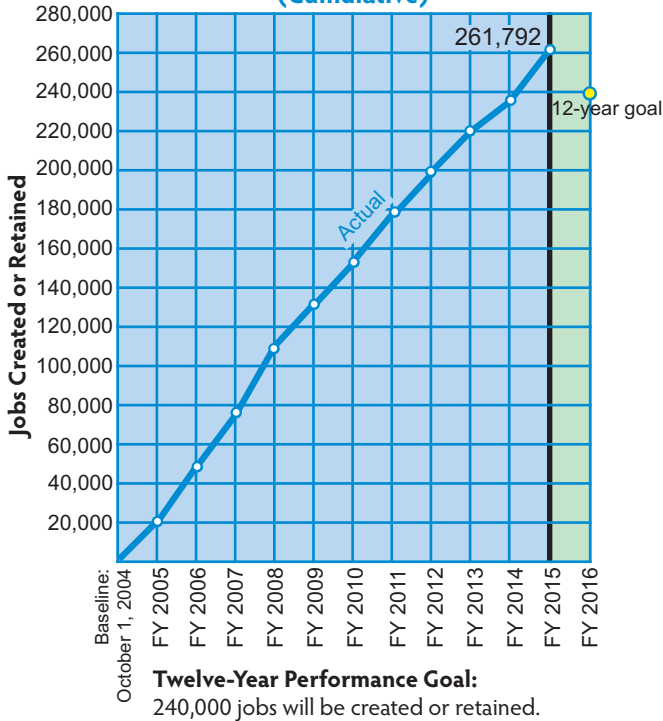
In order to provide a single unified measure of regional progress and economic change, ARC developed an index to track improvement over time. Drawing on the three variables ARC uses annually to determine the economic status of the Region's counties, staff developed a national composite index of distress.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

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

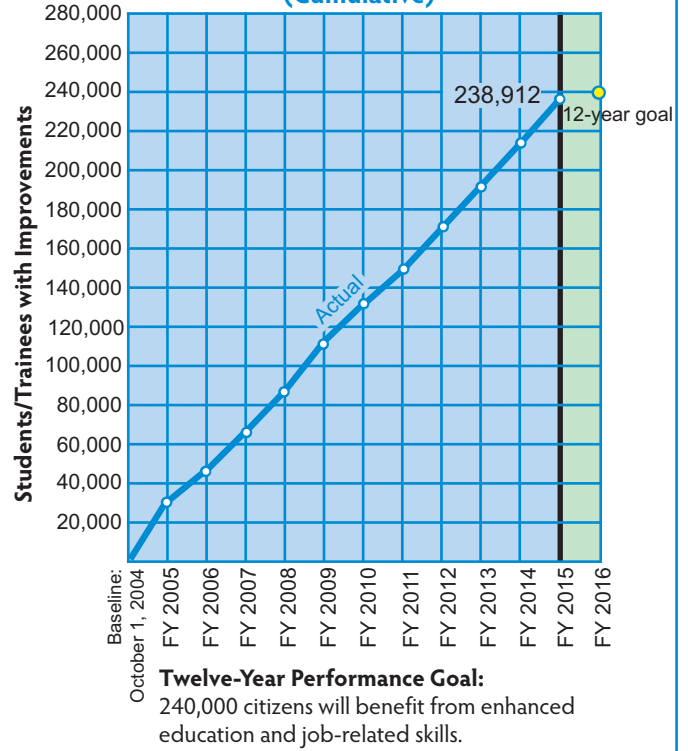


Progress toward ARC Strategic Plan Performance Goals  
Fiscal Years 2005–2016

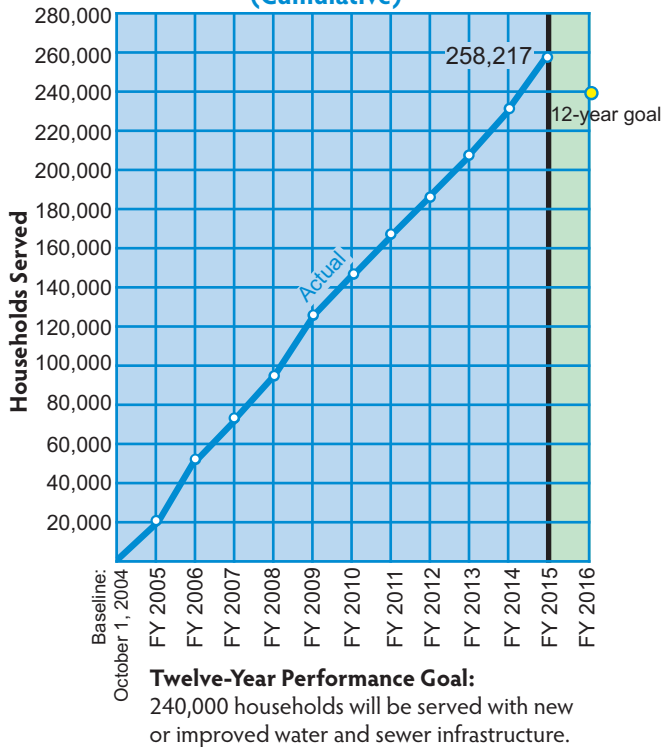
**Goal 1: Jobs Created or Retained (Cumulative)**



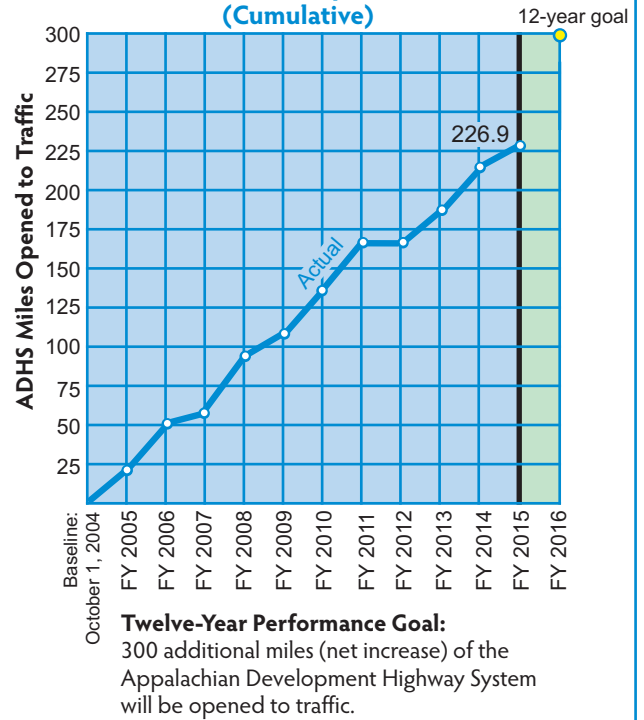
**Goal 2: Students/Trainees with Improvements (Cumulative)**



**Goal 3: Households Served (Cumulative)**



**Goal 4: ADHS Miles Opened to Traffic (Cumulative)**



# PART III: FISCAL YEAR 2015 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 Chortek LLP, the independent auditor of ARC's financial statements for 2015, has rendered an unmodified opinion about the adequacy of the statements. 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 "Scott T. Hamilton".

Scott T. Hamilton  
Executive Director

November 12, 2015

## REPORT OF INDEPENDENT AUDIT



**APPALACHIAN  
REGIONAL  
COMMISSION**

*A Proud Past,  
A New Vision*

*Office of Inspector General*

November 30, 2015

Memorandum for: The Federal Co-Chair  
ARC Executive Director

Subject: OIG Report 16-04  
Fiscal Year 2015 Financial Statement Audit

The enclosed report presents the results of the audit of the Commission's financial statements for the fiscal year ended September 30, 2015. The report should be read in conjunction with the Commission's financial statements and notes to fully understand the context of the information contained therein.

The Appalachian Regional Commission (ARC) contracted with the independent certified public accounting firm of Chortek LLP to audit the financial statements of the Commission as of and for the fiscal year ended September 30, 2015. The contract required that the audit be conducted in accordance with U.S. generally accepted government auditing standards and OMB audit guidance. ARC's Office of Inspector General monitored audit activities to help ensure audit quality.

The following results were noted from Chortek's audit of ARC's financial statements for the fiscal year ended September 30, 2015.

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

In connection with the contract, we reviewed Chortek's report and related documentation and inquired of its representatives. Our involvement in the audit process consisted of monitoring of

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Tennessee  
Virginia

[www.arc.gov](http://www.arc.gov)

West Virginia



audit activities, reviewing auditor independence and qualifications, attending meetings, participating in discussions, and reviewing audit planning and conclusion workpapers and reports. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on the Appalachian Regional Commission's financial statements, conclusions about the effectiveness of internal control, or conclusions about compliance with laws and regulations. Chortek is responsible for the attached auditor's report dated November 12, 2015, and the conclusions expressed in the report. However, our review disclosed no instances where Chortek did not comply, in all material respects, with U.S. generally accepted government auditing standards.



Hubert Sparks  
Inspector General

Attachment

cc: Director, Finance and Administration Division  
Chortek LLP



**APPALACHIAN  
REGIONAL  
COMMISSION**

**APPALACHIAN REGIONAL COMMISSION**

**FINANCIAL STATEMENTS**

**September 30, 2015 and 2014**

**APPALACHIAN REGIONAL COMMISSION**

**TABLE OF CONTENTS**

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	Page(s)
<b>Independent Auditor’s Report</b>	
<b>Financial Statements</b>	
Balance Sheet .....	1
Statement of Net Cost .....	2
Statement of Changes in Net Position .....	3
Statement of Budgetary Resources .....	4
Notes to Financial Statements .....	5



**November 12, 2015**

**Independent Auditor's Report**

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

**Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of the Appalachian Regional Commission (ARC), which comprise the consolidated balance sheets as of September 30, 2015 and 2014, and the related consolidated statements of net cost, changes in net position, and combined budgetary resources for the years then ended, and the related notes to the financial statements (hereinafter referred to as "financial statements").

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinion on the Financial Statements***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Appalachian Regional Commission as of September 30, 2015 and 2014, and its net costs, 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***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the information in the Management's Discussion and Analysis section be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Co-Chair's message, performance, and other information sections of ARC's *Performance and Accountability Report* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

***Other Reporting Required by Government Auditing Standards***

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2015, we considered ARC's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ARC's internal control. Accordingly, we do not express an opinion on the effectiveness of ARC's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, as described in accompanying Exhibit I, we identified certain deficiencies in internal control that we consider to be a significant deficiency.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether ARC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 15-02.

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

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of ARC's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.



Chortek LLP  
November 12, 2015

## 1. Review of Financial Transactions Needs Improvement

### A. Recording and Reviewing of Advances Related to Local Development Districts Grants

The Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*, states the following related to advances and prepayments:

- Advances are cash outlays made by a federal entity to its employees, contractors, grantees, or others to cover a part or all of the recipients' anticipated expenses or as advance payments for the cost of goods and services the entity acquires.
- Advances and prepayments should be recorded as assets. Advances and prepayments are reduced when goods or services are received, contract terms are met, progress is made under a contract, or prepaid expenses expire.

ARC provides advances on a quarterly basis to Local Development Districts (LDD) grant recipients. Generally, the funds are provided to the grantees at the beginning of each quarter, causing a reduction to Fund Balance with Treasury and a correlating expense for the amount disbursed. According to ARC management, rather than recording numerous entries between the time of the advance and the end of the quarter, ARC has elected to record the advances as expenses at the time of disbursement. Due to the nature of the spending patterns associated with these funds, by September 30<sup>th</sup> of each fiscal year, any advanced funds are immaterial and the associated expense is reasonably stated within the financial records.

On September 11, 2015 ARC made an advance of approximately \$1.8 million to LDD grant recipients. The advance was made for expenditures related to October 1, 2015 through December 31, 2015. Management stated that the advance was made to the LDD grantees earlier than usual due to the uncertainty surrounding the FY 2016 budget process. Management also indicated, as we observed, that payment prior to the beginning of a new fiscal year is not typical.

In recording the disbursement of \$1.8 million to the LDD grant recipients, ARC did not modify its current procedures as it related to advances, given that advance payment prior to the start of a fiscal year is not common practice. Accordingly, as of September 30, 2015, expenses were overstated and advances were understated by \$1.8 million, as the funds pertained to FY 2016 expenditures. Although this matter was identified by management, the misstatement in the financial records was not determined through the standard financial reporting procedures or related internal controls. It should be noted that there was no impact on Fund Balance with Treasury, as a result of the manner in which ARC processed disbursements to the LDD grant recipients.

Consistent with accounting standards, ARC should have debited the Advance account rather than expenses and credited Fund Balance with Treasury (FBWT). As expenses are incurred, ARC should debit the appropriate expense account and credit the advance to recognize the expenditures in the period incurred. This is consistent with accrual accounting. Under the current method, there is a risk that the financial records may not accurately reflect the position of the entity at a specific period of time. Furthermore, bypassing use of the advance account for transactions of this nature causes ARC to not fully comply with accounting standards.

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**B. Review of Unexpended Appropriations and Cumulative Results of Operations**

Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of operations, reporting and compliance of an entity will be achieved. Internal control is not one event, but a series of actions that occur throughout an entity's operations. Internal control is recognized as an integral part of the operational processes management uses to guide its operations rather than as a separate system within an entity.

During our review of the FY 2015 financial statements, we noted a variance of \$936,000 between the financial statements and ARC's year-end trial balance as it related to Unexpended Appropriations and Cumulative Results of Operations. Specifically, line items of Unexpended Appropriation and Cumulative Results of Operations reflected on the Balance Sheet and the Statement of Changes in Net Position did not agree with the supporting documentation.

Management indicated that an on-top adjustment was posted to the trial balances of ARC and ARC's child agencies at year-end. However, the on-top adjusting entries posted to ARC and the child agency accounts were not included in the supporting schedule of adjusting entries. Paragraph OV4.08 of the *Federal Internal Control Standards*, published by the Government Accountability Office states:

Documentation is a necessary part of an effective internal control system. The level and nature of documentation vary based on the size of the entity and the complexity of the operational processes the entity performs. Management uses judgment in determining the extent of documentation that is needed. Documentation is required for the effective design, implementation, and operating effectiveness of an entity's internal control system.

Therefore, financial statement line items did not materially agree to the supporting documentation. Furthermore, account balances for Unexpended Appropriation and Cumulative Results of Operations were misstated; however, total Net Position was accurately reflected.

**C. Recording and Reviewing Obligations Related to Grants**

The Statement of Budgetary Resources includes a line item for the Status of Budgetary Resources which displays the disposition of the budgetary resources made available. It consists of obligations incurred; the unobligated balances that are available; and the unobligated balances with lapsed budget authority. Obligations incurred are amounts of new orders placed, contracts awarded, services received, and other similar transactions during the period that will require payments during the same or a future period.

GAO Appropriations Law Volume II, Chapter 7 Section B, *Criteria for Recording Obligations*, discusses recording obligations for grants, and it references 31 U.S.C. § 1501 (a) (5) which requires that a grant obligation be supported by documentary evidence of a grant or subsidy



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payable from appropriations made under formulas prescribed by law; or under an agreement authorized by law; or under plans approved consistent with or authorized by law.

During the financial statement audit, ARC discovered a grant in the amount of \$273,000 that was approved in August 2015, but not recorded as an obligation in its accounting system. This resulted in obligations incurred being understated, as well as unexpended appropriations to be misstated. Accordingly, the Balance Sheet and the Statements of Changes in Net Position and the Budgetary Resources included certain lines items that were misstated by the \$273,000.

Upon discovery in November 2015, management immediately notified the auditors and recorded the obligation in its accounting system. However, initially, the grant was recorded as a FY 2016 transaction rather than a FY 2015 obligation. Therefore, an adjustment was necessary to the FY 2015 financial statements, in the amount of \$273,000 to properly reflect obligations incurred.

Paragraph 10.03 of the *Federal Internal Control Standards*, published by the Government Accountability Office, outlines common control activity categories that are useful to management, which may include:

- Reviews by management at the functional or activity level. Management compares actual performance to planned or expected results throughout the organization and analyzes significant differences.
- Controls over information processing. A variety of control activities are used in information processing. Examples include edit checks of data entered; accounting for transactions in numerical sequences; comparing file totals with control accounts; and controlling access to data, files, and programs.
- Accurate and timely recording of transactions. 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 classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.
- Appropriate documentation of transactions and internal controls. Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained.

Management is ultimately responsible for its financial operations and reports. Inaccurate or untimely posting of transactions may lead to the reporting and presenting of inaccurate information.

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**Recommendations:**

We recommend that ARC management review and update, as necessary, its financial management policies and procedures. In particular, management should review the current policies and procedures as they relate to the following:

1. Recording of advances;
2. Reconciliation procedures for financial data obtained from its financial management service provider to ensure all transactions are captured as ARC management intended; and
3. Reconciliation of obligations to supporting documentation to ensure completeness in its financial records.

**Management's Response :**

Management concurs with the recommendations outlined above.

**Review of Financial Transactions Needs Improvement**

ARC shall pay the Local Development District grant payments within the quarter in which the grantee expenditures will occur. In the rare event that these payments are paid in advance then they shall be recorded as an advance in ARCnet and with the accounting service provider. Cost transfers shall be submitted at fiscal year-end based on the Local Development District's historical expenditure patterns.

**Review of Unexpended Appropriations and Cumulative Results of Operations**

ARC will double check the trial balances in the future to ensure all adjusting entries are provided by ARC's accounting service provider.

**Recording and Reviewing Obligations Related to Grants**

ARC shall perform reconciliations between approved and obligated grants within ARCnet and then between these results and its accounting records. These reconciliations shall occur on a quarterly basis for the first three quarters of the fiscal year and then monthly during the last quarter of the fiscal year.

**APPALACHIAN REGIONAL COMMISSION**

**BALANCE SHEET**

As of September 30, 2015 and 2014

		<u>2015</u>	<u>2014</u>
<b>Assets:</b>			
<b>Intragovernmental:</b>			
Fund Balance With Treasury	(Notes 1 & 2)	\$ 179,381,387	\$ 153,451,375
Advances and Prepayments	(Notes 1 & 3)	<u>8,166,738</u>	<u>13,761,696</u>
<b>Total Intragovernmental</b>		<b>187,548,125</b>	<b>167,213,071</b>
<b>Assets With The Public:</b>			
Cash, Foreign Currency and Other Monetary Assets	(Note 1)	1,360,382	144,084
Advances and Prepayments	(Notes 1 & 3)	<u>41,069,867</u>	<u>34,813,335</u>
<b>Total Assets</b>		<b><u>\$ 229,978,374</u></b>	<b><u>\$ 202,170,490</u></b>
<b>Liabilities:</b>			
<b>Intragovernmental:</b>			
Accounts Payable	(Notes 1 & 4)	\$ -	\$ 6,000
Other:	(Notes 4 & 5)		
Employer Contributions and Payroll Taxes Payable		17,081	14,132
Liability for Advances and Prepayments		<u>646,490</u>	<u>530,350</u>
<b>Total Intragovernmental</b>		<b>663,571</b>	<b>550,482</b>
<b>Liabilities With the Public:</b>			
Accounts Payable	(Notes 1 & 4)	7,481,391	8,853,265
Other:	(Notes 1, 4 & 5)		
Accrued Funded Payroll and Leave		179,479	156,548
Employer Contributions and Payroll Taxes Payable		1,246	1,080
Unfunded Leave		464,188	464,188
Liability for Advances and Prepayments		186,495	877,856
Other Liabilities Without Related Budgetary Obligations		<u>1,447,705</u>	<u>231,407</u>
<b>Total Liabilities</b>		<b><u>10,424,075</u></b>	<b><u>11,134,826</u></b>
<b>Net Position:</b>			
Unexpended Appropriations - All Other Funds		217,367,835	188,541,705
Cumulative Results of Operations - All Other Funds		<u>2,186,464</u>	<u>2,493,959</u>
<b>Total Net Position</b>		<b><u>\$ 219,554,299</u></b>	<b><u>\$ 191,035,664</u></b>
<b>Total Liabilities and Net Position</b>		<b><u>\$ 229,978,374</u></b>	<b><u>\$ 202,170,490</u></b>

The accompanying notes are an integral part of these statements.

**APPALACHIAN REGIONAL COMMISSION**

STATEMENT OF NET COST

For the Years Ended September 30, 2015 and 2014

		<u>2015</u>	<u>2014</u>
Program Costs:	(Note 8)		
Gross Costs		\$ 65,263,214	\$ 69,513,915
Less: Earned Revenue		<u>4,794,698</u>	<u>3,412,609</u>
Net Cost of Operations		<u>\$ 60,468,516</u>	<u>\$ 66,101,306</u>

The accompanying notes are an integral part of these statements.

**APPALACHIAN REGIONAL COMMISSION**

**STATEMENT OF CHANGES IN NET POSITION**  
**For the Years Ended September 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Cumulative Results of Operations:</b>		
Beginning Balances	\$ 2,493,959	\$ 3,714,679
Adjustments:		
Change in accounting principles (Note 12)	<u>(1,185,774)</u>	<u>-</u>
Beginning balance, as adjusted	1,308,185	3,714,679
<b>Budgetary Financing Sources:</b>		
Appropriations used	61,173,869	64,853,502
<b>Other Financing Sources (Non-Exchange):</b>		
Imputed financing	<u>172,926</u>	<u>27,084</u>
Total Financing Sources	61,346,795	64,880,586
Net Cost of Operations	<u>60,468,516</u>	<u>66,101,306</u>
Net Change	878,279	(1,220,720)
<b>Cumulative Results of Operations</b>	<u><u>\$ 2,186,464</u></u>	<u><u>\$ 2,493,959</u></u>
<b>Unexpended Appropriations:</b>		
Beginning Balance	\$ 188,541,704	\$ 173,078,206
<b>Budgetary Financing Sources:</b>		
Appropriations received	90,000,000	80,317,000
Appropriations used	<u>(61,173,869)</u>	<u>(64,853,501)</u>
Total Budgetary Financing Sources	<u>28,826,131</u>	<u>15,463,499</u>
Total Unexpended Appropriations	<u>217,367,835</u>	<u>188,541,705</u>
Net Position	<u><u>\$ 219,554,299</u></u>	<u><u>\$ 191,035,664</u></u>

The accompanying notes are an integral part of these statements.

APPALACHIAN REGIONAL COMMISSION

STATEMENT OF BUDGETARY RESOURCES  
For the Years Ended September 30, 2015 and 2014

	2015	2014
<b>BUDGETARY RESOURCES</b>		
Unobligated balance brought forward, October 1	\$ 37,213,490	\$ 27,331,424
Recoveries of prior year unpaid obligations (unobligated balances)	10,511,877	7,188,386
Unobligated balance from prior year budget authority, net	47,725,367	34,519,810
Appropriations (discretionary and mandatory)	90,000,000	80,317,000
Adjustment to Appropriations (Temporary Sequestration) (Note 2)	(280,904)	-
Appropriations, net (discretionary and mandatory)	89,719,096	80,317,000
Spending authority from offsetting collections	4,552,123	7,522,871
<b>Total budgetary resources</b>	<b>\$ 231,715,682</b>	<b>\$ 122,359,681</b>
<b>STATUS OF BUDGETARY RESOURCES</b>		
Obligations incurred	\$ 116,518,424	\$ 85,146,191
Apportioned	25,478,162	37,213,490
Unobligated balance, end of year	25,478,162	37,213,490
<b>Total budgetary resources</b>	<b>\$ 141,996,586</b>	<b>\$ 122,359,681</b>
<b>CHANGE IN OBLIGATED BALANCE</b>		
Unpaid obligations, brought forward, October 1 (gross)	\$ 115,824,478	\$ 112,569,538
Obligations incurred (Note 9)	116,518,424	85,146,191
Outlays (gross) (-)	(68,622,110)	(74,702,865)
Recoveries of prior year unpaid obligations (-)	(10,511,877)	(7,188,386)
Unpaid obligations, end of year (Note 10)	\$ 153,208,915	\$ 115,824,478
Obligated balance, start of year (net)	\$ 115,824,478	\$ 112,569,538
Obligated balance, end of year (net)	\$ 153,208,915	\$ 115,824,478
<b>BUDGET AUTHORITY AND OUTLAYS, NET</b>		
Budget authority, gross (discretionary and mandatory)	\$ 94,271,219	\$ 87,839,871
Actual offsetting collections (discretionary and mandatory) (-)	(4,552,123)	(7,522,871)
Budget authority, net (discretionary and mandatory)	\$ 89,719,096	\$ 80,317,000
Outlays, gross (discretionary and mandatory)	\$ 68,622,110	\$ 74,702,865
Actual offsetting collections (discretionary and mandatory) (-)	(4,552,123)	(7,522,871)
Outlays, net (discretionary and mandatory)	64,069,987	67,179,994
Agency outlays, net (discretionary and mandatory)	\$ 64,069,987	\$ 67,179,994

The accompanying notes are an integral part of these statements.

Appalachian Regional Commission  
Notes to Financial Statements  
September 30, 2015 and 2014

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

### **Reporting Entity**

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

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

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

### **Fund Accounting Structure**

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

### **Funds from Dedicated Collections**

Statement of Federal Financial Accounting Standards (SFFAS) 43 replaced SFFAS 27 and resulted in a significant change in the definition of what was previously known as "earmarked funding." SFFAS 43 states that funds from dedicated collections are financed by specifically identified revenues, provided to the government by non-federal sources (contribution from member states), often supplemented by other financing sources (reimbursable revenues through inter-agency agreement with CDC, NEA and etc.), which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes, and must be accounted for separately from the government's general revenues.

Appalachian Regional Commission  
Notes to Financial Statements  
September 30, 2015 and 2014

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

#### **Budgets and Budgetary Accounting**

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

#### **Basis of Accounting and Presentation**

These financial statements present the financial position, net cost of operations, changes in net position, and budgetary resources of ARC in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and form and content requirements of OMB Circular A-136 Financial Reporting Requirements. GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard-setting body for the federal government. The financial statements have been prepared from the books and records of ARC, and include the accounts of all funds under the control of the ARC reporting entity.

U.S. generally accepted accounting principles encompass both accrual and budgetary transactions. Under accrual accounting, revenues are recognized when earned, and expenses are recognized when incurred. Budgetary accounting facilitates compliance with legal constraints on, and controls over, the use of federal funds. These financial statements are prepared by ARC pursuant to OMB directives and used to monitor ARC's use of budgetary resources.

#### **Fund Balance with U.S. Treasury**

ARC's cash receipts and disbursements are processed by the U.S. Treasury. Funds with U.S. Treasury represent obligated and unobligated no-year funds available to finance allowable current and future expenditures.

#### **Cash in Commercial Institutions**

ARC uses commercial bank accounts to accommodate collections and payments that cannot be processed by the U.S. Treasury. Cash in commercial institutions totaled \$1,360,382 and \$144,084 at September 30, 2015 and 2014, respectively.



Appalachian Regional Commission  
Notes to Financial Statements  
September 30, 2015 and 2014

### **Advances**

ARC advances funds to other federal agencies for work performed on its behalf under various reimbursable agreements. These intra-governmental advances are recorded as an asset, which is reduced when actual expenditures or the accrual of unreported expenditures are recorded.

ARC also has advances made to grantees. These primarily include revolving loan fund payments to provide pools of funds to be made available to grantees to create and retain jobs. These advance payments are recorded by ARC as an asset, which is reduced if the revolving fund is terminated.

### **Equipment**

ARC's equipment is recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The capitalization threshold is \$35,000. All equipment was fully depreciated at September 30, 2015 and 2014.

### **Liabilities**

Liabilities represent probable amounts to be paid by ARC as a result of past transactions. Liabilities covered by budgetary or other resources are those for which Congress has appropriated funds or funding is otherwise available to pay amounts due.

Liabilities not covered by budgetary or other resources represent amounts owed in excess of available congressionally appropriated funds or other amounts. The liquidation of liabilities not covered by budgetary or other resources is dependent on future Congressional appropriations or other funding.

### **Accounts Payable**

Accounts payable consists of amounts owed to grantees and amounts owed to federal and nonfederal entities for goods and services received by ARC.

### **Benefits Due and Payable:**

#### ***Unfunded Annual Leave***

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued leave account is adjusted to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

Appalachian Regional Commission  
Notes to Financial Statements  
September 30, 2015 and 2014

### ***Retirement Benefits***

ARC's federal and certain non-federal employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). FERS was established by the enactment of Public Law 99-335. Pursuant to this law, FERS and the Social Security and the Thrift Savings Plan program automatically cover most employees hired after December 31, 1983. Employees hired before January 1, 1984 elected to participate in the FERS and Social Security or to remain in CSRS.

All federal and certain non-federal employees are eligible to contribute to the Thrift Savings Plan (TSP). For those employees participating in the FERS, a TSP account is automatically established and ARC makes a mandatory one percent contribution to this account. In addition, ARC makes matching contributions, ranging from one to four percent, for FERS eligible employees who contribute to their TSP accounts. Matching contributions are not made to the TSP accounts established by CSRS employees. FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, ARC remits the employer's share of the required contribution.

The Office of Personnel Management (OPM) actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future and communicate these factors to ARC. OPM also provides information regarding the full cost of health and life insurance benefits. Reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any, is the responsibility of OPM.

ARC also has a Defined Benefit Pension Plan which was open to all employees not participating in CSRS and FERS. ARC uses an October 1 measurement date for its plan.

In February 2000 ARC established a 401(k) retirement plan that mirrors FERS. The plan covers substantially all non-federal employees. Employees are eligible to participate in and are fully vested in the plan upon employment. ARC's funding policy is to make a 3% contribution of total salary and a matching 3% of the first 50% of the participants' contributions to the plan up to 6% of total salary.

### **Parent Child Reporting**

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

Appalachian Regional Commission  
Notes to Financial Statements  
September 30, 2015 and 2014

financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived. ARC allocates funds, as the parent agency, to the U.S. Department of Transportation (DOT), Housing and Urban Development (HUD), the Rural Development Agency (RDA), U.S. Army Corps of Engineers and the Economic Development Agency (EDA). Additionally, ARC receives allocation transfers, as the child agency from the U.S. Department of Transportation to cover Appalachian Development Highway System administrative costs.

### **Net Position**

Net position is the residual difference between assets and liabilities and is comprised of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent the amount of unobligated and unexpended budget authority. Unobligated balances are the amount of appropriations or other authority remaining after deducting the cumulative obligations from the amount available for obligation. The cumulative results of operations are the net results of ARC's operations since inception.

### **Net Cost of Operations**

Earned revenues arise from the collection of state contributions and are deducted from the full cost of ARC's major programs to arrive at net program cost. Earned revenues are recognized by ARC to the extent reimbursements are payable from the public, as a result of costs incurred or services performed on the public's behalf.

### **Budgetary Financing Sources**

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

### **Use of Estimates**

Management has made certain estimates when reporting assets, liabilities, revenue, and expenses, and in the note disclosures. The preparation of financial statements in conformity with GAAP 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.

Appalachian Regional Commission  
 Notes to Financial Statements  
 September 30, 2015 and 2014

**Note 2 – Fund Balance with Treasury**

ARC’s Fund Balance with Treasury at September 30 consisted of the following:

	2015	2014
A. Fund Balances		
Trust Fund	\$ 413,406	413,406
Appropriated Funds	178,967,981.00	153,037,969
Total Fund Balance with Treasury	179,381,387	153,451,375
B. Status of Fund Balance with Treasury		
1) Unobligated Balance		
a) Available	25,478,162	37,213,490
b) Unavailable		
2) Obligated Balance not yet Disbursed	153,208,915	115,824,478
3) Temporary Sequestration	694,310	413,407
Total	\$ 179,381,387	\$ 153,451,375

**Note 3 – Advances**

Advances at September 30 consist of the following:

	2015	2014
1. Intragovernmental		
Advances to the Tennessee Valley Authority	\$ 8,160,054	\$ 13,737,816
Advances to the Environmental Protection Agency	6,684	23,880
	8,166,738	13,761,696
2. Other		
Advances to grantees to finance future program expenditures		
-Revolving Loan Fund	28,934,614	29,218,072
-Non-Revolving Loan Fund	8,487,757	2,594,260
Prepaid Pension Expense	3,647,496	3,001,003
	41,069,867	34,813,335
Total	\$ 49,236,605	\$ 48,575,031

*Intragovernmental:* ARC advances funds to other federal agencies for work performed on its behalf under various reimbursable agreements for construction projects. These intragovernmental advances are recorded as an asset, which is reduced when actual expenditures or the accrual of unreported expenditures are recorded.

Appalachian Regional Commission  
Notes to Financial Statements  
September 30, 2015 and 2014

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

- Revolving Loan Fund Grantees - ARC provides grants to revolving loan funds operating in its region for the purpose of saving and creating private-sector jobs. Because of the revolving nature of the funds, the grants have no fixed end date. Grant funds provided to revolving loan funds retain their federal identity and are subject to the Cash Management Improvement Act of 1990 (Public Law 101-453), for which the Appalachian Regional Commission has established a policy on excess cash. Accounting treatment of RLF transactions is that cash outlays are recorded as increases to SGL 1410 Advances and Prepayments and refunds of excess cash are recorded as decreases to SGL 1410 Advances and Prepayments.
- Non-Revolving Loan Fund Grantees – ARC advances funds to non-federal grantees for work performed on its behalf under various grant agreements. These advances are recorded as an asset, which is reduced when actual expenditures or the accrual of unreported expenditures are recorded.

**Note 4 – 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.

Appalachian Regional Commission  
Notes to Financial Statements  
September 30, 2015 and 2014

Liabilities at September 30, 2015 and 2014 consist of the following:

	2015	2014
With the Public		
Unfunded annual leave	\$ 464,188	\$ 464,188
Total liabilities not covered by budgetary resources	464,188	464,188
<u>Advances</u>		
Advances from Centers for Disease Control	646,490	530,350
Advances from Non Federal Vendors	186,495	877,856
Total Advances	832,985	1,408,206
<u>Benefits Due</u>		
Accrued health and flexible spending benefits	87,323	87,323
Accrued salaries and benefits	197,806	171,760
Total benefits due	285,129	259,083
Intragovernmental Accounts Payable		6,000
Payments Due to grantees to finance program expenditures	7,481,391	8,853,265
Commercial Bank Balance	1,360,382	144,084
Total liabilities covered by budgetary resources	9,959,887	10,670,638
Total Liabilities	\$ 10,424,075	\$ 11,134,826

**Note 5 – Other Liabilities**

As of September 30, 2015, other liabilities with the public consist of Accrued Funded Payroll and Leave of \$464,188; Employer Contribution and Taxes Payable of \$1,246; Benefits Due and Payable of \$179,479; Advances from Non Federal Sources of \$186,495; and Accrued Health and Flexible Spending Benefits of \$87,323 and Commercial Bank Balance of \$1,360,382. Other Liabilities Federal consists of Advances from Other – Federal in the amount of \$646,490; and Employer Contributions and Taxes Payable of \$17,081.

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

Appalachian Regional Commission  
Notes to Financial Statements  
September 30, 2015 and 2014

	With the Public	Non-Current	Current	Total
2015	Other Liabilities	\$ 2,098,388	180,725	\$ 2,279,113
2014	Other Liabilities	\$ 1,573,452	157,628	\$ 1,731,080
	Intragovernmental	Non-Current	Current	Total
2015	Other Liabilities	646,490	17,081	\$ 663,571
2014	Other Liabilities	\$ 530,350	14,132	\$ 544,482

**Note 6 – Retirement Plans**

**Federal**

ARC participates in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) for federal and certain non-federal employees. The CSRS and FERS plans are administered by the OPM. ARC's contributions to these plans for FY 2015 were \$5,244 and \$114,304 for CSRS and FERS, respectively and contributions for FY 2014 were \$5,192 and \$101,122 for CSRS and FERS, respectively.

Several employees also participate in the Federal Employees Health Benefit plan (FEHB) and the Federal Employees Group Life Insurance program (FEGLI), also administered by OPM. ARC pays a portion of the cost of current employees. Post-retirement benefits are paid by OPM. ARC's contributions to these plans for FY 2015 were \$43,757 and \$783 and for FY 2014 were \$41,405 and \$769 for FEHB and FEGLI, respectively.

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

ARC also contributed \$39,981 and \$39,269 to the Federal Thrift Savings plan for all eligible employees for the years ended September 30, 2015 and 2014, respectively.

Appalachian Regional Commission  
 Notes to Financial Statements  
 September 30, 2015 and 2014

**Non-Federal**

The following table presents the pension benefit expense for the defined benefit pension plan by component for fiscal years 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Service cost	\$ 745,859	\$ 820,266
Interest cost	904,837	921,154
Expected return	(1,462,247)	(1,341,778)
Amortization of prior service cost	415,646	
Recognized loss	49,412	315,874
Net periodic benefit cost	<u>\$ 653,507</u>	<u>\$ 715,516</u>

The following table presents the pension liability or prepayment by component for fiscal years 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Pension liability at October 1	\$ (3,001,003)	\$ (1,646,166)
Net periodic benefit expense	653,507	715,516
Contributions	(1,300,000)	(2,070,353)
Pension Prepayment at September 30	<u>\$ (3,647,496)</u>	<u>\$ (3,001,003)</u>

	<u>2015</u>	<u>2014</u>
<u>Additional Information</u>		
Benefit obligation	\$ (24,921,305)	\$ (22,728,377)
Fair value of plan assets	20,985,727	20,275,543
Funded status	\$ (3,935,578)	\$ (2,452,834)
Employer contribution	\$ 1,300,000	\$ 2,070,353
Participant contribution	-	6,351
<u>Benefits paid</u>	427,794	274,444
Net periodic benefit expense	\$ 20,985,727	\$ 20,275,543

The accumulated benefit obligation was \$23,207,749 and \$21,069,822 at September 30, 2015 and 2014, respectively.



Appalachian Regional Commission  
Notes to Financial Statements  
September 30, 2015 and 2014

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

	<u>2015</u>	<u>2014</u>
Discount rate	4.15%	4.00%
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:

	<u>2015</u>	<u>2014</u>
Discount rate	4.00%	4.65%
Expected return on plan assets	7.25%	7.25%
Rate of compensation increase	3.00%	3.00%

**Plan Assets**

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

<u>Asset Category</u>	<u>2015</u>	<u>2014</u>
Equity securities	33.51%	34.68%
Debt securities	61.43%	59.99%
Real Estate	5.02%	5.30%
Other	0.04%	0.03%
Total assets	<u>100.00%</u>	<u>100.00%</u>

Appalachian Regional Commission  
 Notes to Financial Statements  
 September 30, 2015 and 2014

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

<u>Fiscal Year</u>	<u>Amount</u>
2016	878,362
2017	949,381
2018	1,026,085
2019	1,055,039
2020	1,084,912
Years 2021-2025	6,105,798

ARC contributed \$258,243 and \$222,180 to the 401(k) plan for the years ended September 30, 2015 and 2014, respectively.

**Note 7 – Operating Lease**

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

<u>Fiscal Year</u>	<u>Amount</u>
2016	903,544
2017	924,965
2018	946,841
2019	968,148
Thereafter	<u>5,828,487</u>
Total	<u>\$ 9,571,985</u>

Rent expense for the years ended September 30, 2015 and 2014 was \$925,987 and \$858,459, respectively.

Appalachian Regional Commission  
 Notes to Financial Statements  
 September 30, 2015 and 2014

**Note 8 – Intragovernmental Costs and Exchange Revenue**

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

	Total 2015	Total 2014
Intragovernmental costs	\$ 6,987,327	\$ 7,196,728
Public costs	58,275,887	62,317,187
Total Program costs	<u>65,263,214</u>	<u>69,513,915</u>
Intragovernmental earned revenue	305,258	
Public earned revenue	4,489,440	3,412,609
Total Program earned revenue	<u>4,794,698</u>	<u>3,412,609</u>
Total Program Net Costs	<u>\$ 60,468,516</u>	<u>\$ 66,101,306</u>

**Note 9 – Status of Budgetary Resources**

A. Apportionment Categories of Obligations Incurred

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

	<u>2015</u>	<u>2014</u>
Direct Obligations		
Category A		
Category B	\$ 111,213,034	\$ 79,098,495
Exempt		2,017,690
Total direct obligations	<u>111,213,034</u>	<u>81,116,185</u>
Reimbursable Obligations		
Category B	5,305,390	2,012,316
Exempt		2,017,690
Total reimbursable obligations	<u>5,305,390</u>	<u>4,030,006</u>
Total Obligations	<u>\$ 116,518,424</u>	<u>\$ 85,146,191</u>

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.

Appalachian Regional Commission  
 Notes to Financial Statements  
 September 30, 2015 and 2014

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

B. Permanent Indefinite Appropriations

The Commission’s permanent indefinite appropriation includes the trust fund.

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

Statement of Federal Financial Accounting Standards No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, calls for explanations of material differences between amounts reported in the Statement of Budgetary Resources (SBR) and the actual balances published in the Budget of the U.S. Government (President’s Budget). The Budget of the U. S. Government, with the Actual column completed for 2015 and 2014, was reconciled to the Statement of Budgetary resources as follows:

	<b>2014</b>			
	Budgetary	Obligations	Distributed Offsetting	Net
(Dollars in Millions)	<u>Resources</u>	<u>Incurred</u>	<u>Receipts</u>	<u>Outlays</u>
Statement of Budgetary Resources	\$122	\$85	\$8	\$67
<u>Reconciling Items</u>				
Offsetting collections and receipts	<u>2</u>	<u>3</u>	<u>(3)</u>	<u>21</u>
Budget of the U.S. Government	<u><u>\$124</u></u>	<u><u>\$88</u></u>	<u><u>\$5</u></u>	<u><u>\$88</u></u>

**Note 10 – Undelivered Orders at the End of the Period**

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

	<u>Undelivered Orders</u>	<u>Accounts Payable</u>	<u>Unpaid Obl. Balance, Net</u>
2015	\$ 145,529,718	\$ 7,679,197	\$ 153,208,915
2014	\$ 106,793,454	\$ 9,031,024	\$ 115,824,478

Appalachian Regional Commission  
 Notes to Financial Statements  
 September 30, 2015 and 2014

**Note 11 – Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing)**

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

	2015	2014
Budgetary Resources Obligated	\$ 116,518,424	85,146,191
Spending Authority from Recoveries and Offsetting Collections	(15,064,000)	(14,711,257)
Distributed Offsetting Receipts		
Imputed Financing from Costs Absorbed by Others	172,926	27,084
Changes in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided	(39,973,060)	(4,335,578)
Other		
Resources that Finance the Acquisition of Assets	-	6,854
Resources that Do Not Affect Net Cost of Operations		
Financing Sources Yet to be Provided	-	(31,988)
Other	(1,185,774)	-
Net Cost of Operations	\$ 60,468,516	\$ 66,101,306

**Note 12 – Change in Accounting Principles**

In the beginning of FY 2015, ARC revised the manner in which it classified the funding received from the Member States. This reclassification is an acceptable change in accounting principle. As a result of the change, an adjustment was made to the FY 2015 beginning Cumulative Results of Operations. The beginning unobligated balance that was brought forward from FY 2014 was adjusted by \$1,185,774 to be reflected as an advance from the Member States. The SGL Account 740100, *Prior-Period Adjustments Due to Changes in Accounting Principles*, was used in order to offset the impact to the Statement of Net Cost.

**Note 13 – Subsequent Events**

ARC has evaluated subsequent events occurring after the balance sheet date and through the date of November 12, 2015, the date the financial statements were available for release. Based upon this evaluation, ARC has determined that no subsequent events have occurred which require disclosure in the financial statements.

## 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 2015, ARC's investment in non-federal physical property included grants for water and sewer system construction and improvements; storm sewer construction; utilities installation; and access road construction.

ARC Investment in Non-Federal Physical Property	
Fiscal Year 2011	\$30,983,135
Fiscal Year 2012	\$45,613,656
Fiscal Year 2013	\$41,265,515
Fiscal Year 2014	\$31,413,574
Fiscal Year 2015	\$34,823,339

### 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 2015 included grants for education and job training programs in areas including workforce training, dropout prevention, math and science, early childhood education, and health.

ARC Investment in Human Capital	
Fiscal Year 2011	\$8,931,430
Fiscal Year 2012	\$9,334,227
Fiscal Year 2013	\$8,634,520
Fiscal Year 2014	\$8,060,378
Fiscal Year 2015	\$6,813,073

### 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 2015, ARC invested in applied research through the following projects: an evaluation of the contribution made by forests and wood products to sustainable economic growth in the Appalachian Region; a study looking at college completion rates in the Appalachian Region; a program evaluation of ARC's job-creation programs; a program evaluation of ARC's health programs; a program evaluation of ARC's telecommunications and technology programs; an analysis of demographic and socioeconomic changes to the Region since 1965; a report documenting food and farm activity and the local food economy in the Region; and a study examining state- and county-level socioeconomic data for the 13 Appalachian states.

ARC Investment in Research and Development	
Fiscal Year 2011	\$269,232
Fiscal Year 2012	\$729,493
Fiscal Year 2013	\$422,764
Fiscal Year 2014	\$553,462
Fiscal Year 2015	\$449,590

# PART IV: OTHER INFORMATION

## ARC PERFORMANCE MEASURES

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

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

## PERFORMANCE GOALS

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

### Six-Year Performance Goals

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

### Twelve-Year Performance Goals

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

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



**APPALACHIAN  
REGIONAL  
COMMISSION**

*A Proud Past,  
A New Vision*

*Office of Inspector General*

October 6, 2015

MEMORANDUM FOR FEDERAL CO-CHAIR

From: Hubert N. Sparks, Inspector General

Subject: Management and Performance Challenges Facing the Appalachian Regional Commission

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

#### **Grant Management**

A continuing management challenge derives from the required transfer of grant administration for construction related projects to other Federal Agencies (Child Agencies). This contributes to delays in obtaining information on project status and timely ARC and State follow-up action on inactive grants to determine the potential for grant closings, cancellation and de-obligations that would make funds available for other needed economic development projects in Appalachia. In order to reduce Child Agency issues ARC is emphasizing use of State agencies to provide grant administration for construction related grants.

A particular and continuing challenge involves addressing the grant application and approval process that results in an inordinate number of grant applications and approvals being processed in the latter three months of the fiscal year. As a result there is an unbalanced staff workload and the significant year end approvals and obligations could be subject to criticism. This challenge involves various factors including delayed grant application submissions by States and availability of funding due in part to the OMB apportionment process used for ARC.

ARC has initiated actions and controls with respect to older inactive grants that results in action to close grants and deobligate funds for use on other projects in Appalachia. Continued action with respect to follow-up on such grants including timely receipt of Basic Agency Monitoring Reports (BAMR) identifying grant status are considered continuing challenges.

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Continued upgrading of the grant management system including implementation of automated controls that provide project coordinators timely information, including grant progress and reporting is considered beneficial.

### **Financial Reporting**

The accuracy of Financial Reporting continued to improve. The FY 2015 audit of financial statements rendered another “clean opinion”.

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

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

ARC for Fiscal Year 2010, transferred its accounting function to a GSA shared services accounting platform. Aside from resolving some initial difficulties of coordination, the platform has helped improve accounting and control functions, especially those related to budgetary accounting.

### **IT Support Infrastructure**

Management has continued to address upgrading agency IT support infrastructure. ARC continues emphasis and action on full implementation of ARC.net, its grant management system, which provides online availability and control of operational information. Management continued to contract with outside vendors providing IT support and completed its sixth fiscal year utilizing accounting services provided by GSA. The FY 2015 Financial Statement Audit indicates ARC’s arrangement with GSA is delivering acceptable results, despite the many challenges associated with this action.

# 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 the auditor’s report can be found on pages 46–75 and ARC’s management assurances on pages 20–22.

## 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	0	0	0	0

## Summary of Management Assurances

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

Statement of Assurance: Unmodified

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

### Effectiveness of Internal Control over Operations—FMIA 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—FMIA 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	

# IMPROPER PAYMENTS

## Improper Payments Information Act of 2002, as Amended

The 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 that are 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 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year reported, or (2) \$100,000 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, 2015, the Commission concluded that the program was not susceptible to significant improper payments.

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This report is available on ARC's Web site at [www.arc.gov/publications](http://www.arc.gov/publications).

To order copies of the report, contact:

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