



PERFORMANCE AND ACCOUNTABILITY REPORT

Appalachian Regional Commission
Fiscal Year 2016

APPALACHIAN REGIONAL COMMISSION

September 30, 2016

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Earl F. Gohl

States' Co-Chair
Governor Bill Haslam

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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.



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Message from Federal Co-Chair Earl F. Gohl and 2016 States' Co-Chair Governor Bill Haslam

We are pleased to present the Appalachian Regional Commission's (ARC) Performance and Accountability Report for fiscal year (FY) 2016.

For FY 2016, the Commission approved \$109.2 million in funding for 470 area development projects that advanced one or more of the five goals of ARC's 2016–2020 strategic plan: 1) investing in entrepreneurial and business development strategies that strengthen Appalachia's economy; 2) increasing the education, knowledge, skills, and health of residents to work and succeed in Appalachia; 3) investing in critical infrastructure—especially broadband; transportation, including the Appalachian Development Highway System; and water/wastewater systems; 4) strengthening Appalachia's community and economic development potential by leveraging the Region's natural and cultural heritage assets; and 5) building the capacity and skills of current and next-generation leaders and organizations to innovate, collaborate, and advance community and economic development.

ARC's FY 2016 grant funds attracted an additional \$173.4 million in other project funding, an investment ratio of 2 to 1, and \$349.7 million in non-project leveraged private investment, a ratio of 3 to 1. The projects funded during the year will create or retain an estimated 18,702 jobs and train an estimated 46,513 students, workers, and leaders in new skills.

In working toward its strategic goals in FY 2016, the Commission continued to foster entrepreneurship activities with a particular focus on emerging opportunities; diversify the Region's economy, with a special emphasis on communities that have been adversely affected by the decline in the coal industry; 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 2016. We are pleased to report that ARC's independent auditor, Key & Associates, P.C., has pronounced an unqualified opinion that the financial statements in this document fairly present the Commission's fiscal status.

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

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

Sincerely,

Handwritten signature of Earl F. Gohl in black ink.

Earl F. Gohl
ARC Federal Co-Chair

Handwritten signature of Bill Haslam in black ink.

Bill Haslam
2016 States' Co-Chair
Governor of Tennessee

November 10, 2016

PART I:

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR 2016 PROGRAM HIGHLIGHTS

In FY 2016, bolstered by its largest federal appropriation in more than three decades, ARC pursued the goals of its 2016–2020 strategic plan through the agency's regular program of economic and community development and through the new interagency POWER Initiative to help coal-impacted communities diversify and grow their economies. ARC's work during the fiscal year was also guided by the Commission's five-year reauthorization legislation, approved in December 2015 as part of the Fixing America's Surface Transportation (FAST) Act. This legislation authorized ARC's area development program funding, renewed the Commission's existing program authority, and created a special focus on expanding broadband deployment in Appalachia.

POWER Initiative

ARC's FY 2016 appropriation included \$50 million in funding through the Obama Administration's POWER (Partnerships for Opportunity and Workforce and Economic Revitalization) Initiative. This multi-agency initiative, launched in 2015, targets federal resources to help diversify economies in communities and regions that have been affected by job losses in coal mining, coal power plant operations, and coal-related supply chain industries due to the changing economics of America's energy production. ARC is participating in POWER with the U.S. Economic Development Administration (EDA) and eight other federal agencies. The Commission's FY 2016 POWER funding represents a significant increase from the

\$450,000 the agency invested through the initiative in FY 2015.

In March, ARC and EDA collaborated in this competitive grant program to issue a joint Federal Funding Opportunity that established priorities for 2016 POWER projects; defined the central objectives for successful grant applications; and outlined a series of funding principles designed to promote projects that are regional, collaborative, and impactful, and that will ultimately help diversify local Appalachian economies.

The Commission engaged in extensive outreach throughout the Region to raise awareness of the availability of the 2016 POWER resources and how to apply for funding. In partnership with other federal agencies, ARC hosted a series of five regional workshops that engaged more than 850 stakeholders; produced a six-part webinar series on the initiative's mission and application process that garnered more than 2,000 views; and held nine leadership sessions with state and local leaders across the Region.

At the close of FY 2016, ARC had invested nearly \$34 million in 2016 POWER grant awards. The Commission anticipates that these awards will create or retain 2,992 jobs, create or improve 2,463 businesses, improve the skills of 19,375 workers, students, and leaders, and leverage \$70.6 million in other private and public investment. The awards funded a wide range of activities in the Region targeted at strengthening the entrepreneurial ecosystem, increasing access to capital, developing regional industry clusters, capitalizing on existing regional assets, and supporting worker retraining programs focused on placing dislocated coal workers in high-demand industries.

Investing in Appalachia's Future

In November 2015, ARC adopted a new five-year strategic investment plan to address emerging economic opportunities in the Appalachian Region in the years ahead. All of the Commission's activities in FY 2016 advanced at least one of the plan's five strategic investment goals: creating economic opportunities, developing a ready workforce, investing in critical infrastructure, leveraging natural and cultural assets, and bolstering leadership and community capacity.

Goal 1: Creating Economic Opportunities

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

Fostering Entrepreneurship

Strategic investments in entrepreneurial development help create and strengthen the ecosystems that provide broad-based support for business startups and growth in Appalachia, especially in economically distressed counties and areas. One such investment ARC made in FY 2016 helped fund the Building the Market through Value-Added Production project in Binghamton, New York, which will provide business development technical assistance to food entrepreneurs working out of a new, shared-use kitchen. The project is expected to assist 40 food-based businesses, farms, and individual entrepreneurs, and help create five new businesses.

Expanding Exports

In order to strengthen and expand Appalachian export sales and attract foreign investment to the Region, ARC provided funds to send delegations of 75 Appalachian businesses and organizations to three multi-sector international trade events in FY 2016: the Hannover Messe industrial technology trade fair in Germany; the Trade Winds–Latin America trade mission in Santiago, Chile; and MINExpo International, the world's largest international mining equipment, services, and technology trade event, in Las Vegas. In addition to showcasing their products, services, and expertise at the trade shows, the Appalachian firms benefited from both pre- and post-show export training and assistance. As a result of their participation in the shows, the firms generated approxi-

mately \$40 million in new export sales. Within two months after MINExpo, the 19 companies in the Appalachian delegation reported 25 sales agreements under active discussion, representing \$3.1 million in potential sales, as well as 350 new trade leads.

Goal 2: Developing a Ready Workforce

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

Southern Appalachian Automotive and Aviation Workforce Development

ARC's FY 2016 appropriation included \$16 million to support the automotive and aviation sectors in Southern and South Central Appalachia in fostering innovative local partnerships between industry, workforce, and community stakeholders to develop strategies that meet workforce and industry needs in economically distressed areas. ARC funds strengthened the automotive supplier industry and the aviation sector by supporting key investments in the construction of training centers; development of education and training spaces for industry certification testing; purchase of demonstration machinery; and development of a pipeline of work-ready individuals through training programs designed to meet industry needs. These investments will serve an estimated 5,900 students and workers and 45 businesses and organizations.

Combating the Appalachian Opioid Epidemic

Fostering a healthy workforce is one of ARC's strategies for increasing the Region's competitiveness. In many communities, this means confronting the challenges of opioid addiction.

To more clearly understand the scope of opioid addiction and its adverse outcomes in Appalachia's coal-impacted communities, in FY 2016 ARC invested \$750,000 to fund research aimed at highlighting Appalachia's health challenges related to opioid abuse, including HIV and Hepatitis C infection. This research effort, administered by the National Institute on Drug Abuse, includes funding from the Centers for Disease Control and Prevention and the Substance Abuse and Mental Health Services Administration.

In June 2016, ARC Federal Co-Chair Earl Gohl and ARC 2016 States' Co-Chair Tennessee Governor Bill Haslam joined U.S. Department of Agriculture Secretary Tom Vilsack and Virginia Governor Terry McAuliffe in Abingdon, Virginia, for a comprehensive discussion on prescription drug abuse in Appalachia. Events included an intimate roundtable with stakeholders and state leaders, and a town hall meeting to hear from the larger community.

Goal 3: Investing in Critical Infrastructure

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

Strengthening the Region's Physical Infrastructure

ARC invested \$26.7 million during FY 2016 in 111 projects aimed at bolstering the Region's physical infrastructure. These investments—creating and expanding local water and sewer systems, providing access to broadband, and building and maintaining access roads for industrial parks—act as fundamental building blocks for further economic development in Appalachian communities. ARC's FY 2016 infrastructure grant investments were matched by \$89.2 million in other public investments, leveraged \$233.3 million in non-project private investment, and served 19,098 households and 3,195 businesses. Physical infrastructure programs have been among the primary generators of new jobs in the Region. As a result of ARC's FY 2016 infrastructure investments, an estimated 4,138 jobs will be created or retained.

Expanding Access to Broadband

ARC invested \$11.7 million in 49 telecommunications and technology projects in FY 2016, including the award of 10 competitive grants to rural communities in western North Carolina to enhance their downtowns' wi-fi capabilities. Other broadband and technology investments made during the fiscal year will allow workforce training programs to be deployed more effectively and to a wider service area; help rural schools better integrate technology into their curriculums; boost Main Street development; and give rural communities better access to health care through telemedicine.

In addition, as part of the administration's Broadband Opportunity Council, ARC developed and released a broadband planning primer and toolkit in FY 2016 that provides a guide on broadband technology and planning, along with tools and resources to assist with the broadband implementation planning process. The toolkit focuses on identifying unserved demand for broadband, forming creative partnerships, and lowering barriers to entry into underserved markets for new and existing providers; and offers examples of successful broadband planning and adoption across the Appalachian Region.

ARC also invested \$400,000 in the federal Cool & Connected broadband planning assistance program, which is administered by the U.S. EPA's Office of Sustainable Communities and includes funding from the U.S. Department of Agriculture. Through the program, a team of experts helps community members develop strategies and an action plan for using broadband to create walkable, connected, economically vibrant main streets and small-town neighborhoods. Ten Appalachian communities were selected to participate in the first round of assistance.

Appalachian Development Highway System

In FY 2016, ARC provided oversight of construction of the Appalachian Development Highway System (ADHS), a 3,090-mile system of modern highway corridors created by Congress to provide economic growth opportunities for the residents of Appalachia. The ADHS is now 90.4 percent complete or under construction. During the fiscal year, 22.3 miles of the system were completed or opened to traffic. Currently there is approximately \$1.5 billion in construction projects under way on the system, and another \$1.5 billion in work is planned for the next six years.

Goal 4: Leveraging Natural and Cultural Assets

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

Supporting the Appalachian Food Economy

In FY 2016, six Appalachian communities were selected to participate in the interagency Local Foods, Local Places initiative to integrate local food into community development efforts. Led by the White House Rural Council and

supported by six federal agencies including ARC, the program works with communities to develop strategies for local food systems that will help them create economic opportunities for local farmers and food entrepreneurs, revitalize main streets and develop economically vibrant neighborhoods, and expand access to healthy, local food. The 2016 awards build on the successful FY 2015 Local Foods, Local Places program, in which eight Appalachian communities participated.

This fiscal year, ARC also updated and expanded the Bon Appetit Appalachia! marketing map guide to local food businesses and entrepreneurs operating in Appalachia. The largest searchable online guide to the Region's local-food enterprises, the 2016 map includes more than 900 local farms, restaurants, bakeries, breweries, wineries, and festivals in the 13 Appalachian states—a 70 percent increase from the number of locations listed in the original map, launched in 2014. As part of the Bon Appetit Appalachia! campaign, ARC partnered with Edible Communities to publish an abridged print version of the map in regional Edible Communities magazines in and around Appalachia. Edible Communities also produced a companion podcast series, "Backroad Journeys," on businesses included in the map.

Investing in Downtowns, Trails, and Gateways

ARC invested in a range of downtown revitalization projects across the Region in FY 2016 to help communities strengthen their local economies and improve quality of life. In addition, to capitalize on the expanding recreational tourism industry in the Region, the Commission invested in projects creating and extending hiking, biking, and motorsports trails. ARC also continued its partnership with the National Endowment for the Arts to support the Appalachian Gateway Communities Initiative, a program that provides technical assistance with natural and cultural heritage tourism development to communities that are geographically positioned as "gateways" to the Region's public lands and heritage areas.

Goal 5: Bolstering Leadership and Community Capacity

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

Shaping Our Appalachian Region (SOAR)

During the fiscal year, ARC continued its support for and financial investment in Shaping Our Appalachian Region (SOAR), a unique bipartisan initiative created in 2013 to help eastern Kentucky assess challenges and leverage efforts to capture regional development opportunities and diversify the region's economy. ARC remains committed to the initiative's goals of fostering community engagement and supporting innovative collaborative approaches to identifying and creating opportunities that will help eastern Kentucky make a positive economic transition.

White House Rural Council

ARC has participated in the White House Rural Council—which was established by executive order to coordinate the federal government's investment in rural America—since its founding in 2011. The council's work has resulted in many positive outcomes for Appalachian communities, including increased collaboration between federal agencies and a more streamlined delivery of federal programs. One example of the council's mission in action is the Rural Integration Models for Parents and Children to Thrive (IMPACT) program, which helps communities adopt a two-generation approach to addressing the needs of both vulnerable children and their parents, with the goal of increasing parents' employment and education and improving the health and well-being of their children and families. ARC is a partner in Rural IMPACT with six other agencies and two nonprofit organizations.

Appalachia Funders Network

The Appalachia Funders Network (AFN) is a group of more than 80 public and private grant makers that works to accelerate 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. During FY 2016, AFN's programs included the Just Transition Fund, which provides catalytic funding to support coalfield and power plant communities undergoing economic transition.

Appalachian Regional Commission Projects Approved in Fiscal Year 2016

(in thousands of dollars)

	Number of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Asset-Based Development	49	\$9,364.0	\$581.1	\$6,353.1	\$16,298.3
Business Development	76	28,138.0	50.5	28,937.8	62,123.5
Civic Entrepreneurship	17	1,284.3	0.0	770.0	2,054.3
Community Development	96	16,087.6	31,065.6	52,680.1	99,833.4
Education and Workforce Development	107	36,236.2	4,081.0	20,477.8	60,795.0
Health	23	6,725.4	11,905.1	2,309.4	20,939.8
Research and Evaluation	10	1,422.6	213.0	10.1	1,645.7
State and Local Development District Planning and Administration	92	9,945.1	103.7	8,831.9	18,880.7
Totals	470	\$109,203.2	\$52,997.2	\$120,370.3	\$282,570.7

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

Taken together, these FY 2016 activities furthered progress toward ARC's strategic investment goals and helped strengthen the Appalachian Region's economy.

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 13 show the Region's high-poverty counties in 1960 and current high-poverty counties. The change is dramatic. (Also see page 48 for a chart showing the number of Appalachian counties by economic quartile in FY 2016.)

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 those of 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.

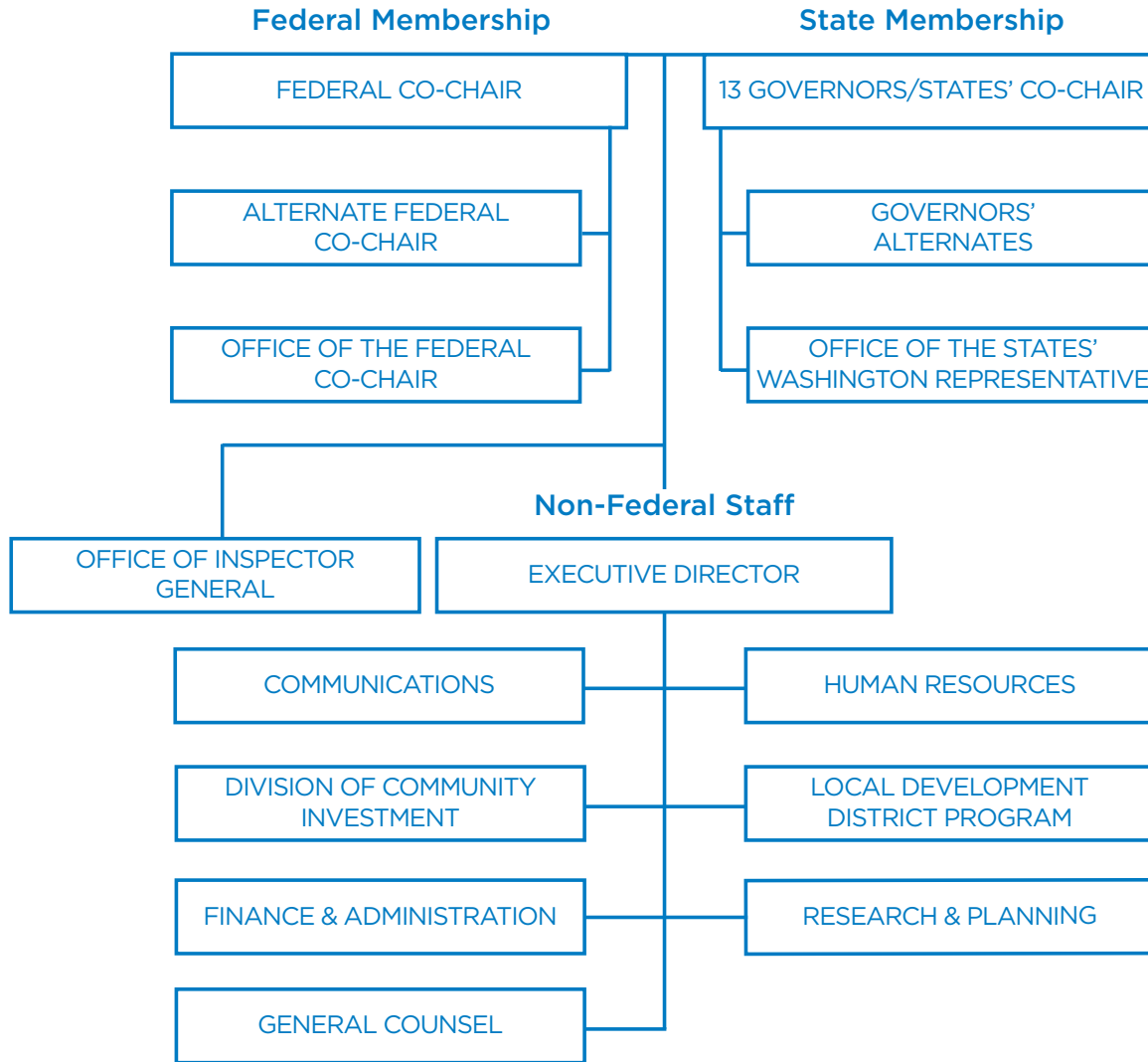
ARC's appropriation for FY 2016 area development activities was \$146 million.

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

Appalachian Regional Commission Organization Chart



it from typical federal executive agencies and departments.

State alternates appointed by the governors oversee state ARC business and serve as state-level points of contact for those seeking ARC assistance. An alternate federal co-chair appointed by the president has authority to act as the federal co-chair in his or her absence. By law, there is an inspector general for the Commission. The inspector general is under the general supervision of the Commission and has a dual and independent reporting relationship to both the Commission and Congress.

In FY 2016, there were 11 federal positions at the Commission.

The Commission members appoint an executive director to serve as the chief executive, administrative, and fiscal officer. The executive director and staff are not federal employees. The Commission has 51 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 grass-roots 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 partnerships 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)**, a multi-agency initiative to diversify the economies of communities adversely impacted by changes in the coal industry and power sector. In FY 2016, ARC and EDA issued a joint Federal Funding Opportunity for 2016 POWER grants, and the Commission and partner agencies engaged in extensive outreach throughout the Region to raise awareness of the availability of the 2016 POWER resources and how to apply for funding.
- **Bon Appétit Appalachia!**, a mapguide and online campaign that showcases hundreds of the Appalachian Region's most distinctive food destinations. In FY 2016, ARC partnered with Edible Communities to publish an abridged print version of the map in regional Edible Communities magazines in and around Appalachia. Edible Communities also produced a companion podcast series, "Backroad Journeys," on businesses included in the map.
- **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**, a civil-military program that 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.
- **Kentucky Highlands Promise Zone (KHPZ)**. ARC provides ongoing support for the Kentucky Highlands Investment Corporation (KHIC) and its partner agencies to implement the KHPZ's strategic plan in this sole federally designated rural Promise Zone. KHIC continues to make significant progress toward common goals and to be a catalyst for change with activities targeted to creating jobs, attracting public and private investment, improving educational attainment, producing more units of energy-efficient housing, and improving the standard of living in the eight-county region.
- **Diabetes Partnership**. Through a long-term partnership with the Centers for Disease Control and Prevention (CDC) and West Virginia's Marshall University, ARC continues to support grassroots coalitions working to address disproportionately high rates of type 2 diabetes in the Region. Recent activities have focused on deployment of the National Diabetes Prevention Program in rural distressed counties.
- **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 to study factors that support a culture of health in Appalachian communities and to determine whether that knowledge can be translated into actions that address health disparities between Appalachia and the nation as a whole.
- **CDC Cancer Patient Navigation Partnership**, a partnership with the Centers for Disease Control and Preven-

tion to train patient navigators and develop cancer patient navigation programs in the Appalachian Region through the University of Kentucky Prevention Research Center.

- **Researching Opioid Abuse and Related Health Challenges in Appalachia**, a partnership with the National Institute on Drug Abuse, the Centers for Disease Control and Prevention, and the Substance Abuse and Mental Health Services Administration in two research efforts focused on interventions and strategies addressing opioid drug abuse, hepatitis C, and HIV in Appalachia. The research will help deepen knowledge about Appalachia's current and future public health challenges, especially in the Region's coal-impacted communities. ARC has committed \$1 million to these multi-agency research initiatives.
- **Raising Awareness of Substance Abuse in Appalachia**, a partnership with the CDC in an effort to address substance abuse issues in the Region, including research to evaluate the use of social media and other communications approaches to help increase public awareness of substance abuse in Appalachia. The partnership enabled substantive engagement for regional partners at the 2016 National Rx Drug Abuse and Heroin Summit, the largest national collaboration of clinicians, government and business leaders, treatment professionals, advocates, and others to address the nation's growing prescription drug abuse and heroin epidemic.
- **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 2016, across all investment areas, each dollar of ARC funding was matched by \$1.59 in non-ARC project funding (public and private) and leveraged \$3.19 in private non-project 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 2016 was ARC's first year of operating under its 2016-2020 strategic plan, *Investing in Appalachia's Future*, which outlined ARC's mission to innovate, partner, and invest to build community capacity and strengthen economic growth in Appalachia, and identified five strategic goals to help Appalachia reach socioeconomic parity with the rest of the nation:

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

As reported in Part II, the Commission demonstrated progress in FY 2016 toward achieving the performance goals set out in that plan.

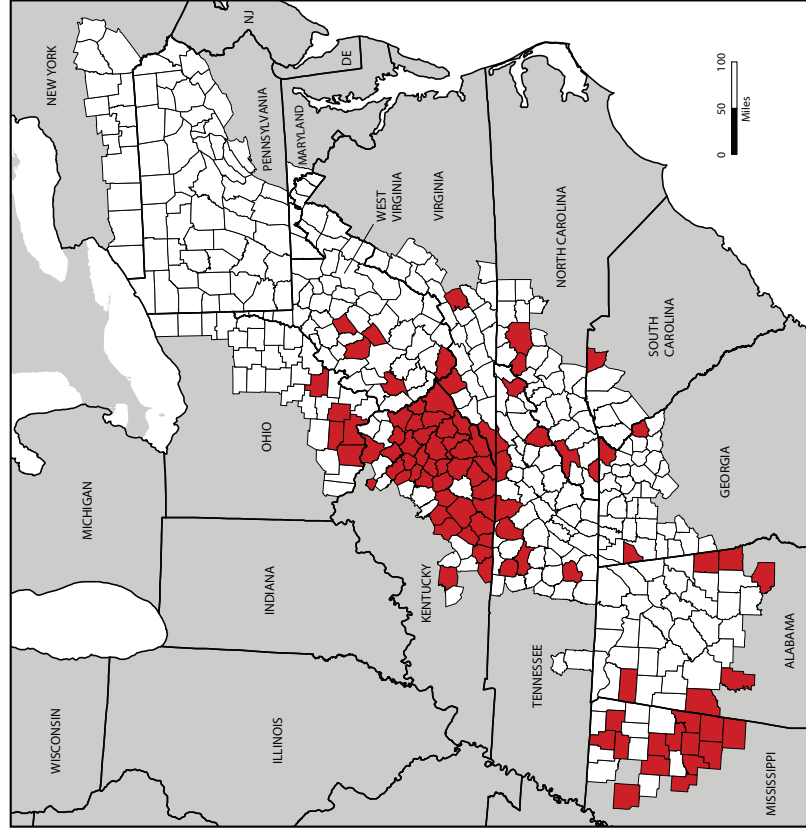
Area Development Program

Area development funds are largely allocated to the Appalachian states by formula to provide flexible assistance for individual community projects. In FY 2016, ARC received an appropriation of \$146.0 million for area development activities and allocated by formula \$86.3 million, 59.1 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 nonhighway grants are approved by a governor and by the federal co-chair.

ARC's FY 2016 appropriation included \$50 million for the administration's Partnerships for Opportunity and Workforce and Economic Revitalization (POWER) Initiative, \$16 million for a program to support the automotive and aviation sectors in Southern and South Central Appalachia, and \$10 million to continue a program of high-speed broadband deployment in economically distressed counties in central Appalachia.

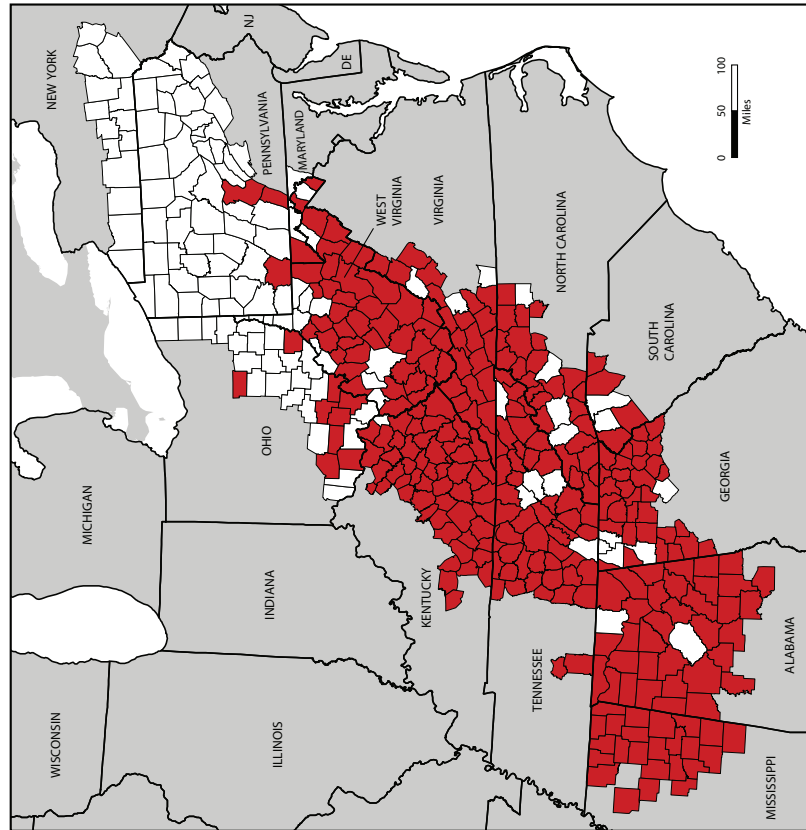
High-Poverty Counties in the Appalachian Region (Counties with Poverty Rates At Least 1.5 Times the U.S. Average)

2010–2014
91 High-Poverty Counties



Data Source: U.S. Census Bureau, American Community Survey, 5-Year Estimates, 2010–2014.

1960
295 High-Poverty Counties



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

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 2016, 93 counties were designated distressed, 110 were designated at-risk, 205 were designated transitional, 11 were designated competitive, and 1 was 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.

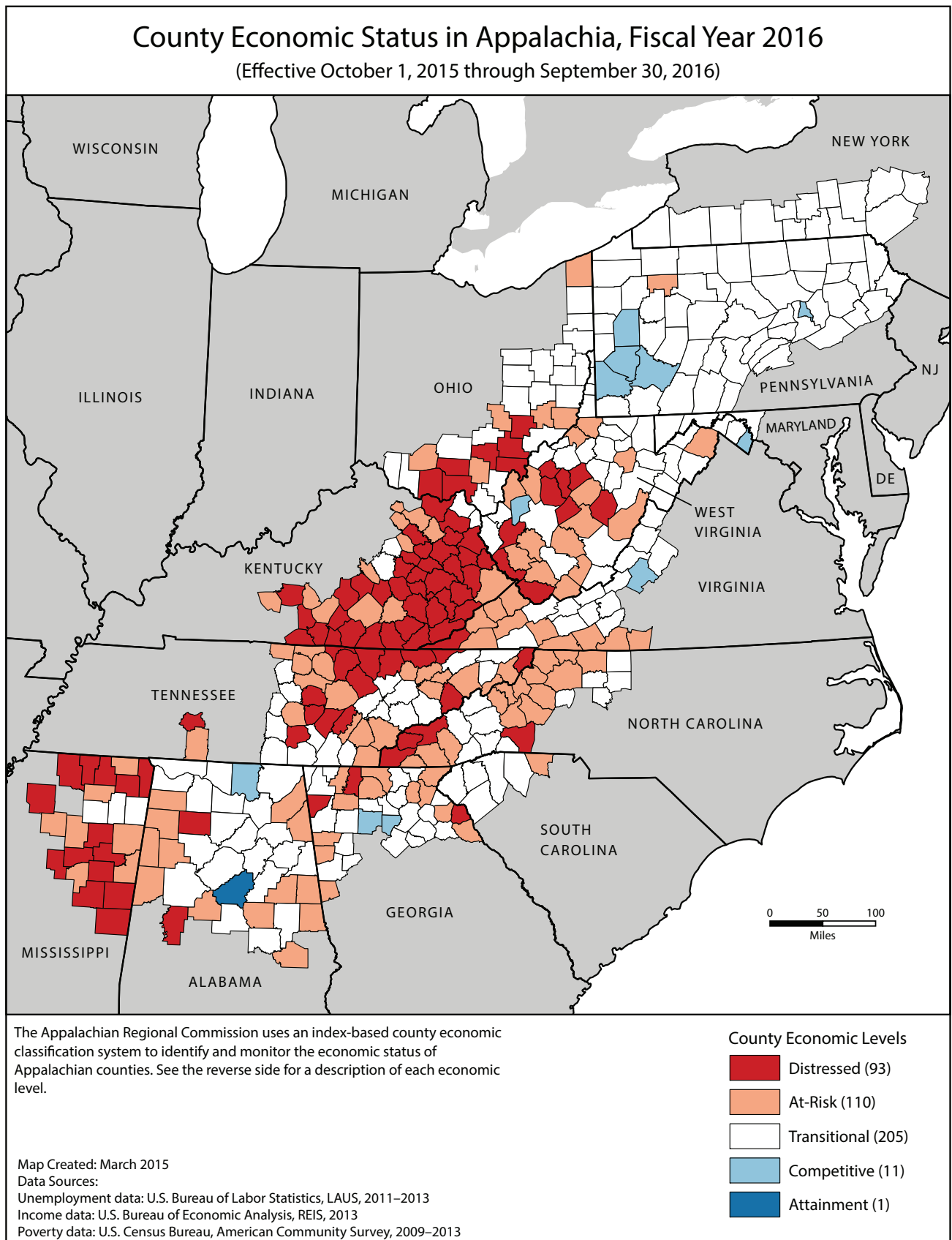
Besides allocating funding to benefit distressed counties and areas, ARC has established other policies to reduce economic distress. ARC normally limits its maximum project funding contribution to 50 percent of costs, but it can increase its funding share to as much as 80 percent in distressed counties.

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.

ARC's 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 2016 included support for skilled employee training and entrepreneurship education; business incubation and technical support programs; community leadership; and access to capital. In FY 2016 angel investment funds formed by ARC in Kentucky and Alabama were capitalized; Appalachian Community Capital, a central bank for development lenders, disbursed over \$11 million in investments in the region; and additional investment was raised for the Just Transition Fund, which is designed 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.

ARC's Telecommunications initiative is helping increase the use of advanced telecommunications and broadband throughout the Appalachian Region's unserved and underserved areas. In FY 2016, through a special broadband allocation for distressed communities in Central Appalachia that have been negatively impacted by the downturn in the coal industry, ARC helped fund projects aimed at increasing middle-mile broadband facilities throughout Eastern Kentucky. ARC also funded projects in other Appalachian states in support of



telemedicine, workforce and e-commerce development; wireless last-mile facilities, Wi-Fi access in community centers, and increased student connectivity in public schools.

ARC's Export initiative works to help small and medium-sized Appalachian enterprises export their products, services, and expertise 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 2016, ARC worked closely with the White House Rural Council in conducting a series of "Made in Rural America" local export development workshops in 10 Appalachian states. Major Appalachia USA Export delegations, featuring 75 of the Region's businesses and organizations, attended three multi-sector international trade events, including the Hannover Messe International Marketplace in Hannover, Germany; Trade Winds-South America 2016 in Santiago, Chile; and the MINExpo 2016 International Trade Exposition in Las Vegas, Nevada.

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 \$197.6 million in 2,595 loans, resulting in 91,053 jobs created or retained and leveraging \$1.48 billion in private investment for the Appalachian Region.

Highway Program: The Appalachian Development Highway System

Congress created the Appalachian Development Highway System (ADHS) expressly to provide growth opportunities for the residents of Appalachia—the same benefits afforded the rest of the nation through the construction

of the interstate highway system, which largely bypassed Appalachia because of the high cost of building roads through the Region's mountainous terrain. The ADHS, a 3,090-mile system of modern highway corridors that replaces a network of worn, winding two-lane roads, was designed to generate economic development in previously isolated areas, supplement the interstate system, and provide access to areas within the Region as well as to markets in the rest of the nation and overseas.

In FY 2016, funding for the ADHS was included in the Federal Highway Administration's overall apportionment of highway funding to the states. These funds are apportioned to the states annually, with each state using the funding at its own discretion. The federal share of funding for ADHS corridors and access roads funded through the Highway Trust Fund can normally range from 80 to 100 percent, as determined by the state highway agencies. Although funds used for the ADHS are derived from the highway trust fund, ARC exercises policy control over the system.

At the end of FY 2016, a total of 2,597.6 miles, or 84.1 percent, of the 3,090 miles authorized for the ADHS were complete; 197.1 miles were under construction, 64.4 miles were in the final design or right-of-way acquisition phase; and 231.0 miles were in the location study phase.

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 community leaders. 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.

Research completed or under way in FY 2016 includes:

- 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
- An evaluation of ARC's health-related projects

- An examination of the Appalachian coal industry, power generation, and supply chain
- A study on documenting and strengthening the entrepreneurial ecosystem in Appalachia

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 2010–2014 period (which includes years of economic downturn and recovery), 17.2 percent of Appalachian residents lived below the poverty level, well above the U.S. average of 15.6 percent. The mean income of Appalachian households was \$59,899, just 80 percent of the U.S. average of \$74,596.
- 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 330 Appalachian counties, fewer than one in five residents age 25 and over were graduates of a four-year college or university.
- Between 2011 and 2015, coal mining employment in Central Appalachia decreased 50 percent—16,000 jobs were lost—and is not expected to return to its historic high.
- Manufacturing employment has declined at a faster rate than the national trend in every Appalachian subregion 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.

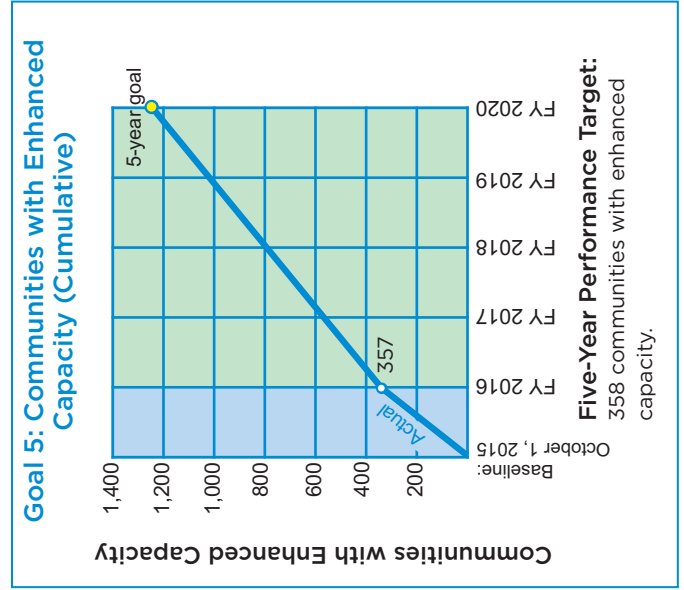
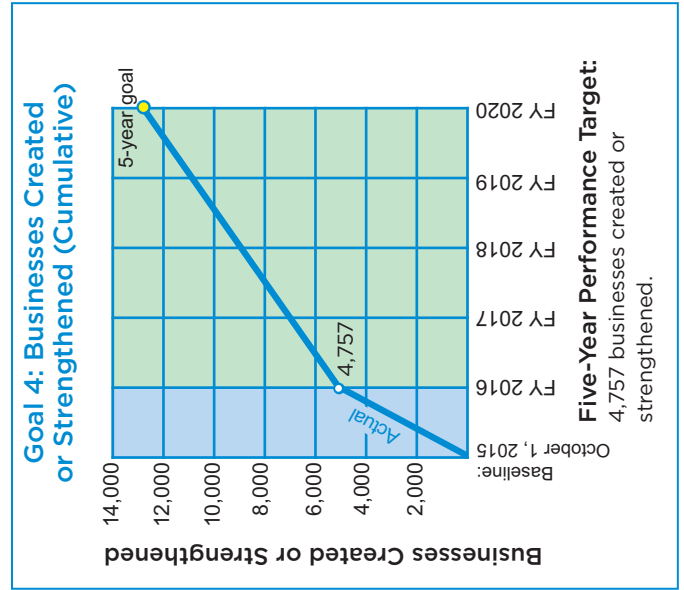
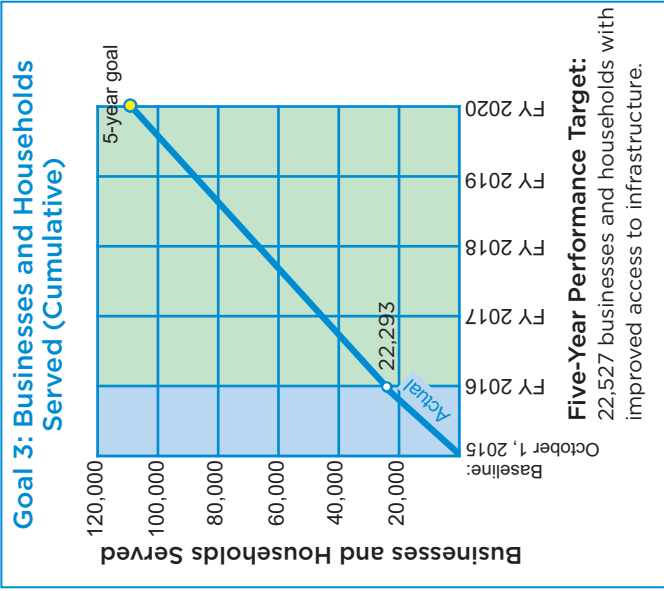
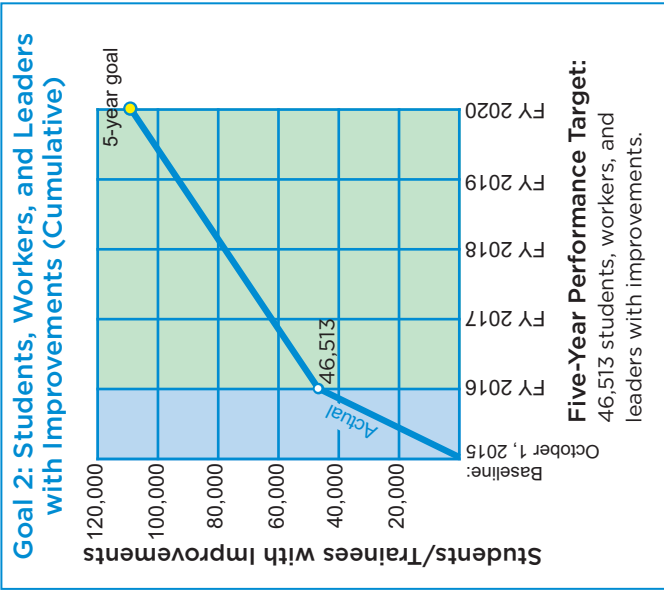
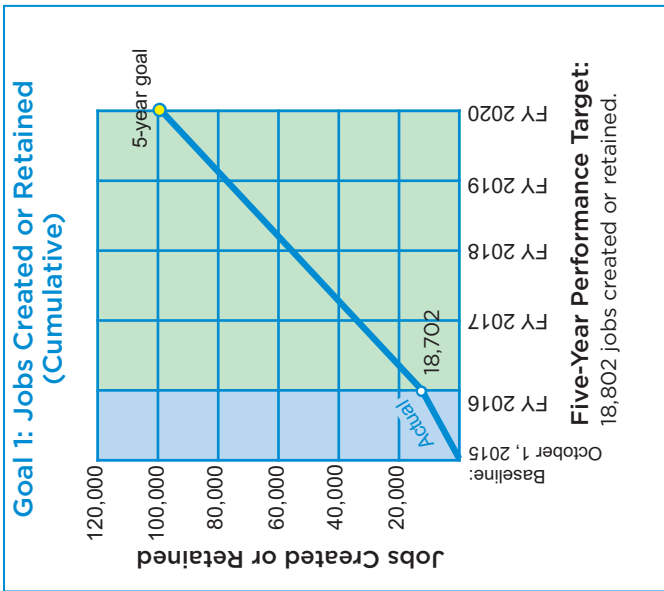
SUMMARY OF ACHIEVEMENTS

PERFORMANCE TARGETS AND RESULTS FOR FISCAL YEAR 2016 PROJECTS

ANNUAL PERFORMANCE TARGETS	RESULTS: INITIAL ESTIMATES	RESULTS ACHIEVED
Outcome Targets		
20,000 jobs created or retained	18,702 jobs created or retained	Met 94% of Target
22,000 students, workers, and leaders with improvements	46,513 students, workers, and leaders with improvements	Exceeded Target by 111%
22,000 businesses and households with access to improved infrastructure	22,293 businesses and households with access to improved infrastructure	Met Target
2,500 businesses created or strengthened	4,757 businesses created or strengthened	Exceeded Target by 90%
250 communities with enhanced capacity	357 communities with enhanced capacity	Exceeded Target by 43%
Leverage Target		
Achieve a 6:1 ratio of leveraged private investment to ARC funds	Achieved a 3:1 ratio	Met 50% of Target
Matching Target		
Achieve a 2:1 ratio of matching funds to ARC funds	Achieved a 2:1 ratio	Met Target
Distressed Counties/Areas Target		
Direct 50% of ARC funds to benefit distressed counties or areas	Directed 79% of funds*	Exceeded Target by 29 percentage points
<i>*Project funds are included if the project primarily or substantially benefits distressed counties or areas.</i>		

Performance results are assessed in detail in Part II (page 23).

Progress toward ARC Strategic Plan Performance Goals, Fiscal Years 2016-2020



FINANCIAL MANAGEMENT

Financial Management System

In FY 2016 the Appalachian Regional Commission renewed its contract with USDA Pegasys Financial Services to perform the Commission's accounting and financial reporting. 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, Key & Associates, P.C., on the fiscal year 2016 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, 2016, 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, 2016, 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 2016, the OIG issued 33 reports, including 24 grant audits, a financial statement audit, and 8 program-related evaluations, including grant administration issues related to older inactive grants, timely applications and obligations, and performance measures. The dollar value of grants and payments reviewed during FY 2016 was approximately \$23 million, with approximately \$415,000 in questioned or unsupported costs and \$1 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 implementation actions.

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

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, Key & Associates, P.C., the financial statements included in that section fairly represent, in all material respects, the financial position of the Commission as of September 30, 2016, 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, 2016, totaled \$306.0 million, versus \$230 million in FY 2015. The change was due to an increase in the fund balance with the U.S. Department of the Treasury. Liabilities equaled \$11.76 million in FY 2016 versus \$10.4 million in FY 2015. The increase was due to increases in liabilities for advances and prepayments, and accounts payable. The U.S. Treasury held 86 percent of ARC's assets. In addition, 9.1 percent, or \$27.9 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 \$3.8 million to three federal agencies for the purpose of servicing grants. Remaining assets are cash and advances to grantees.

The net position increased from \$219.6 million in FY 2015 to \$294.1 million in FY 2016. FY 2016 Liabilities included \$8.3 million in payments due to grantees, \$833,030 of accrued salary and benefits, and \$2.6 million in cash and advances from federal and non-federal sources.

The net cost of operations for FY 2016 totaled \$71.6 million, compared with \$60.5 million in FY 2015. ARC receives most of its resources from congressional appropriations, which totaled \$146.0 million in FY 2016. In addition, ARC received \$4.0 million from the 13 member states to pay their 50% share of the Commission's operating costs. The Statement of Budgetary Resources reported net outlays of \$63.6 million.

ARC incurred obligations of \$123.2 million in FY 2016 and has an unpaid obligated balance (net, end of year) of \$197.5 million. Of FY 2016 obligations, \$113.6 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 2016, 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, 2016, 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, 2016, 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 10, 2016

PART II:

FISCAL YEAR 2016 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 targets to estimated results reported by the projects of the 13 Appalachian states;
- Summarizes the findings of several ARC-initiated evaluations; and
- Describes unmet performance targets and explains why those targets were not met, and, if targets are impractical or infeasible, identifies steps to be taken to address the problem.

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

This report presents an overview of the Appalachian Regional Commission; the methodology used to monitor project outcomes in compliance with the GPRA; ARC's strategic investment goals and action objectives; performance targets and results for FY 2016 and for each of the five prior fiscal years, where applicable; the results of program evaluation; progress toward the ARC vision; and cumulative progress toward five-year performance targets.

OVERVIEW OF ARC

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

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

Organizational Structure

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

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

Project Funding

ARC funds approximately 450 projects annually throughout the 13-state Appalachian Region through its Area Development Program. All of the projects must address one of the five goals in ARC's 2016–2020 strategic plan: invest in entrepreneurial and business development strategies that strengthen Appalachia's economy; increase the education, knowledge, skills, and health of residents to work and succeed in Appalachia; invest in critical infrastructure—especially broadband, transportation, and water/wastewater systems; strengthen Appalachia's community and economic development potential by leveraging the Region's natural and cultural heritage assets; and build the capacity and skills of current and next-generation leaders and organizations to innovate, collaborate, and advance community and economic development.

In FY 2016, in addition to funding for ARC's base Area Development Program, the Commission's appropriation included funding for the administration's Partnerships for Opportunity and Workforce and Economic Revitalization (POWER) Initiative, a multi-agency initiative that targets federal resources to help diversify economies in communities and regions affected by job losses in the coal mining industry; for support of the automotive and aviation sectors in Southern and South Central Appalachia; and for efforts to support a broadband deployment program in Central Appalachia.

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

ARC holds itself and its local, state, and regional partners accountable for setting and achieving performance outcomes associated with ARC-supported investments. ARC measures the effectiveness of investments by tracking progress on several performance targets. ARC's strategic plan sets out annual and five-year outcome targets (see page 81).

In FY 2016, ARC met or exceeded most of its performance outcome targets. Results were particularly strong for investments in business creation and support, workforce training, education, and infrastructure improvements. These investments address the critical need of many communities across Appalachia—especially those hit hard by recent declines in coal-related industries—to diversify their employment base, enhance workforce development, and invest in entrepreneurial strategies for long-term economic growth.

FISCAL YEAR 2016 INVESTMENT TARGETS AND RESULTS

ANNUAL OUTCOME TARGETS	RESULTS: INITIAL ESTIMATES
20,000 jobs created or retained	18,702 jobs created or retained
22,000 students, workers, and leaders with improvements	46,513 students, workers, and leaders with improvements
22,000 businesses and households with improved infrastructure	22,293 businesses and households with improved infrastructure
2,500 businesses created or strengthened	4,757 businesses created or strengthened
250 communities with enhanced capacity	357 communities with enhanced capacity

STRATEGIC INVESTMENT GOALS AND OBJECTIVES

Investment Goal 1

Economic Opportunities

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

Strategic Objectives

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

Outcome measure: Number of jobs created or retained.

Investment Goal 2

Ready Workforce

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

Strategic Objectives

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

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

Investment Goal 3

Critical Infrastructure

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

Strategic Objectives

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

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

Investment Goal 4

Natural and Cultural Assets

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

Strategic Objectives

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

Outcome measure: Number of businesses created or strengthened.

Investment Goal 5

Leadership and Community Capacity

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

Strategic Objectives

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

Outcome measure: Number of communities with enhanced capacity.

PERFORMANCE MEASUREMENT METHODOLOGY

Overview of ARC’s Performance Measurement System

ARC’s performance measurement system was designed to accomplish two primary objectives: compliance with the 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,
- Validation of outcomes, and
- Independent evaluations.

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

Performance Estimates: Initial Results

Initial results presented in this report are outcome estimates gathered from project applications, as reported by grantees. Critical data from projects submitted to ARC for funding are entered into the Commission’s grants management information system to facilitate monitoring of projects. Throughout the fiscal year, ARC staff review performance measurement data to better understand emerging trends, improve data integrity, and shape policy to improve the ARC program. At the close of each fis-

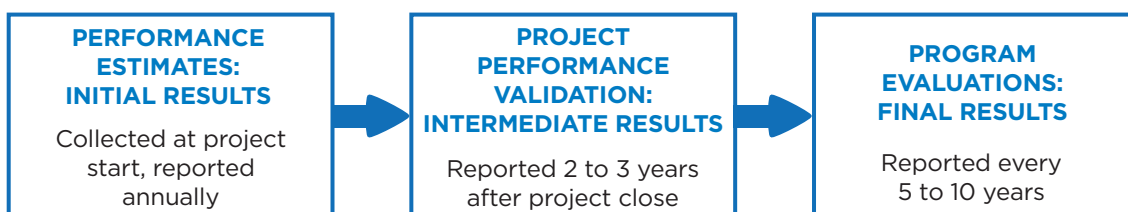
cal year, ARC staff review results and prepare the data for submission to OMB and Congress.

Project Performance Validation: Intermediate Results

The validation process is designed to confirm project outcomes after the projects have been completed. In FY 2016, ARC began an effort to expand the performance validation process in order to achieve a more comprehensive sample of projects. Under this process, project performance will be validated for projects that have been closed for three years in order to capture more accurate data on performance measures, which can continue to accrue after a project has been completed. ARC staff is in the process of developing protocols for the performance validations, including grantee interviews, follow-up documentation, and verification of metrics, as well as systems for recording, reporting, and using this information to improve ARC programs. Because this process is still under development, performance validation results are not reported in the FY 2016 PAR.

Program Evaluations: Final Results

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



This report presents outcome targets and results for each of ARC's five strategic investment goals, as well as overall targets for leveraged private investment, matching project funds, and funds directed to distressed counties or areas.

Annual Performance Targets and Measures

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

To address reporting requirements, ARC reports results toward reaching performance targets as stated in the strategic plan. Although the projects funded by ARC each year generate many more measures than those reported for GPRA compliance, the measures reported relate uniquely to ARC's five strategic investment goals (see table on page 25).

It is important to note that some outcome measures cut across goal areas. To simplify the reporting of these measures, results from each strategic investment goal area are totaled and reported under the strategic investment goal that most closely aligns with the outcome measure. For example, one of ARC's outcome measures is jobs created or retained. ARC measures results for jobs created or retained by projects funded under all of the strategic goals. For clarity, this outcome measure is discussed, and results from all strategic investment goal areas are

reported, under Strategic Investment Goal 1 "Economic Opportunities: Invest in entrepreneurial and business development strategies that strengthen Appalachia's economy."

Before FY 2005, ARC focused on assessing progress toward reaching outcome performance targets as described in the Commission's strategic plan. 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 three additional performance targets: leveraging private non-project investments resulting from the completion of ARC-funded projects, leveraging non-ARC project funding (matching funds), and targeting ARC funds to benefit distressed counties and areas. 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 targets.

Outcome Measures

Strategic Investment Goal One: Economic Opportunities.

The following outcome measures are presented in Goal 1: The number of jobs created and the number of jobs retained.

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

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

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

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

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

Strategic Investment Goal Three: Critical Infrastructure.

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

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

services—such as water, sewer, natural gas or telecommunications service—or residential customers with improvements in existing infrastructure services.

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

Strategic Investment Goal Four: Natural and Cultural Assets.

The following outcome measures are presented in Goal 4: The number of businesses created and the number of businesses strengthened.

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

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

Strategic Investment Goal Five: Leadership and Community Capacity.

The following outcome measure is presented in Goal 5: The number of communities with enhanced capacity.

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

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

Leverage, Matching, and Distressed Counties Measures

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

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

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

STRATEGIC INVESTMENT GOAL 1

Economic Opportunities

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

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

Action Objectives

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

Performance Targets and Results

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

Outcome Measures

ARC's strategic plan describes the major outcome measures for Strategic Investment Goal 1 as the number of jobs created or retained, the number of businesses created or strengthened, and the amount of leveraged private investment. Because Strategic Investment Goal 1 is most closely aligned with the performance measure "jobs created and retained," results for jobs created or retained under all strategic investment goals are reported under this goal. Results for businesses created or strengthened are reported under Strategic Goal 4. The results for leveraged private investment under all Strategic Investment Goals are reported on page 43.

Outcome Target and Result

JOBS CREATED OR RETAINED IN FISCAL YEAR 2016	
ANNUAL OUTCOME TARGET	RESULT: INITIAL ESTIMATE
FY 2016: 20,000 jobs created or retained	FY 2016: 18,702 jobs created or retained

Result for FY 2016: Met 94 percent of target. ARC has exceeded this target for the past five years. Outcome results typically fluctuate slightly over the years as the states' investment priorities vary. The decrease in FY 2016 reflects a greater emphasis by the states on critical needs in entrepreneurship, workforce development, and broadband infrastructure improvements.

JOBS CREATED OR RETAINED IN FISCAL YEARS 2011–2015	
ANNUAL OUTCOME TARGETS	RESULTS: INITIAL ESTIMATES
FY 2011: 20,000 jobs created or retained	FY 2011: 22,816 jobs created or retained
FY 2012: 20,000 jobs created or retained	FY 2012: 20,112 jobs created or retained
FY 2013: 19,000 jobs created or retained*	FY 2013: 19,008 jobs created or retained
FY 2014: 20,000 jobs created or retained	FY 2014: 20,056 jobs created or retained
FY 2015: 20,000 jobs created or retained	FY 2015: 23,032 jobs created or retained

*The decrease in the outcome target in FY 2013 was due to budget cuts mandated by the Budget Control Act of 2011.

Project Evaluation: Final Results

Job Creation and Retention

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

Entrepreneurship

In April 2008, 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 (RUPRI), the RUPRI Center for Rural Entrepreneurship, EntreWorks Consulting, and RTI International. The report evaluated ARC's Entrepreneurship Initiative (EI), which invested \$43 million during that time span in projects to stimulate and support entrepreneurship across Appalachia. The evaluation included development of a

metrics framework; analysis of data from ARC's grants management database, including project outcomes; four site visits; and interviews with stakeholders, economic development experts, and project grantees. The study found that the EI projects created 9,156 jobs, retained 3,022 jobs, created 1,787 new businesses, and provided services to 8,242 existing businesses, and were projected to leverage \$109.9 million in private investment. Interviewees reported that EI projects raised the profile of entrepreneurship within the Appalachian Region, provided start-up funding for innovative projects, leveraged additional resources that allowed projects to achieve scale and impact, and facilitated networking and collaboration among practitioners.

Project evaluation reports are available online at <http://www.arc.gov/research/>.

STRATEGIC INVESTMENT GOAL 2

Ready Workforce

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

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

Action Objectives

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

Performance Targets and Results

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

Outcome Measure

ARC's strategic plan describes the major outcome measure for Strategic Investment Goal 2 as the number of students, workers, and leaders with improvements. Because Strategic Investment Goal 2 is most closely aligned with the performance measure "students, workers, and leaders with improvements," results for students, workers, and leaders with improvements under all strategic investment goals are reported under this goal.

Outcome Target and Result

STUDENTS, WORKERS, AND LEADERS WITH IMPROVEMENTS IN FISCAL YEAR 2016	
ANNUAL OUTCOME TARGET	RESULTS: INITIAL ESTIMATE*
FY 2016: 22,000 students, workers, and leaders with improvements	FY 2016: 46,513 students, workers, and leaders with improvements
<i>*Excludes projects that provided computers or computer equipment that will benefit large numbers of students.</i>	

Result for FY 2016: Exceeded target by 111%. ARC has exceeded this target in all but one of the past five years. The increase in the outcome result in FY 2016 is likely due to the additional funding ARC received for the POWER Initiative and for efforts to support the automotive and aviation sectors in Southern and South Central Appalachia, both of which emphasized investments in workforce training.

In addition to the result above, in FY 2016 ARC funded projects that provided computers or computer equipment that will benefit 7,089 students.

STUDENTS AND WORKERS WITH IMPROVEMENTS IN FISCAL YEARS 2011–2015*	
ANNUAL OUTCOME TARGETS	RESULTS: INITIAL ESTIMATES**
FY 2011: 20,000 students/trainees with improvements	FY 2011: 18,335 students/trainees with improvements
FY 2012: 20,000 students/trainees with improvements	FY 2012: 20,315 students/trainees with improvements
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
<i>*Prior to FY 2016, leaders were not included in this performance measure. **Excludes projects that provided computers or computer equipment that will benefit large numbers of students. ***The decrease in the outcome target in FY 2013 was due to budget cuts mandated by the Budget Control Action of 2011.</i>	

Project Evaluation: Final Results

Health

In August 2015, the Appalachian Regional Commission issued the report *Program Evaluation of the Appalachian Regional Commission's Health Projects, 2004–2010*, prepared by the Community and Economic Development Initiative of Kentucky at the University of Kentucky. The report evaluated health projects funded by ARC between fiscal years 2004 and 2010. During this time period, ARC invested \$30.9 million in 202 health projects. The evaluation analyzed data from ARC's grants management database, administered an online survey to project grantees, and conducted in-depth case studies of 13 projects. The study found that the health projects had met their goals of serving 359,860 patients, 131,464 non-clinical participants, 7,118 students, and 5,056 workers/trainees; and that ARC funding had

helped attract additional government or philanthropic funding. In addition, more than 95 percent of survey respondents said that without ARC funding their project would have been cancelled, downsized, or delayed by more than a year. The projects contributed to a number of outcomes, including workforce training, health-care provision, public health promotion, and public policy development. Analysis of data from ARC's grants management database showed that on average, ARC's health projects have made a substantial impact on participants and patients.

Education and Workforce Development

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

Project evaluation reports are available online at www.arc.gov/research.

STRATEGIC INVESTMENT GOAL 3

Critical Infrastructure

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

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

Action Objectives

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

Performance Target and Result

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

Outcome Measure

ARC's strategic plan describes the major outcome measure for Strategic Investment Goal 3 as the number of businesses and households with access to improved infrastructure.

Outcome Target and Result

BUSINESSES AND HOUSEHOLDS SERVED IN FISCAL YEAR 2016

ANNUAL OUTCOME TARGET	RESULTS: INITIAL ESTIMATE*
FY 2016: 22,000 businesses and households served	FY 2016: 22,293 businesses and households served

**Initial estimates do not include households served by ARC-funded water storage tank construction and improvement projects with large service areas.*

Result for FY 2016: Met target. ARC has met or exceeded this target for the past five years. In addition to the result above, in FY 2016 ARC funded water-storage projects that will serve a total of 490 businesses and households, and two large system-wide projects that will serve an additional 10,380 businesses and households.

HOUSEHOLDS SERVED IN FISCAL YEARS 2011-2015*

ANNUAL OUTCOME TARGETS	RESULTS: INITIAL ESTIMATES**
FY 2011: 20,000 households served	FY 2011: 20,986 households served
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

**Prior to FY 2016, businesses were not included in this performance measure.
 **Initial estimates do not include households served by ARC-funded water storage tank construction and improvement projects with large service areas.
 ***The decrease in the outcome target in FY 2013 was due to budget cuts mandated by the Budget Control Act of 2011.*

Project Evaluation: Final Results

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

In FY 2016, a team led by Economic Development Research Group undertook an economic analysis study of the ADHS. The study includes four major components: 1) a synthesis of findings related to ADHS corridor completion as of 2015; 2) a new estimation of the transportation and economic impacts of investments in ADHS completion using advanced analytical techniques; 3) an estimation of the future economic impacts, benefits, and costs of completing the ADHS; and 4) additional future scenario analyses of the implications of delayed (or accelerated) ADHS completion, and a return-on-investment analysis of the impacts of completing six of the largest corridors remaining to be built. The study applies a mix of data and modeling efforts to measure passenger and freight traffic, the costs of corridor completion, time savings and other user benefits of the ADHS, and the broader economic development and trade impacts of the ADHS. The main purpose of the study is to estimate the economic benefits and costs of system and corridor completion to inform regional, state, and federal stakeholders as they work on funding and constructing the final segments of the ADHS. Informant interviews will also be conducted to complete case studies of major corridors and multimodal facilities. An interim report on the synthesis of previous findings has been completed and is available on the ARC website at www.arc.gov. A final report will be available in FY 2017.

Telecommunications and Technology

In November 2015, the Appalachian Regional Commission issued the report *Program Evaluation of the Appalachian Regional Commission's Telecommunications and Technology Projects: FY 2004–FY 2010*, prepared by RTI International and independent consultants. The report evaluated 322 telecommunications and technology projects ARC had

funded between fiscal years 2004 and 2010, with \$41 million in ARC investments. The evaluation employed a variety of techniques to conduct the research, including a literature review, a survey of project grantees, and case studies of 18 projects that highlighted elements that helped foster project success. The study found that the ARC projects improved 41,000 households; served over 5,000 businesses; created 2,800 jobs; leveraged over \$10 million in private investment; and served 286,000 patients, 152,000 students, and 22,500 workers. The study found that ARC projects expanded the capacities of technology-assisted teachers in the Appalachian Region, increased capacity of local institutions to deliver better services, and bolstered economic vitality.

Infrastructure and Public Works

In August 2013, the Appalachian Regional Commission issued the report *Program Evaluation of the Appalachian Regional Commission's Infrastructure and Public Works Projects*, prepared by HDR Decision Economics, Cambridge Systematics Economic Development Research Group, and Mt. Auburn Associates. The evaluation assessed the impact of 811 ARC infrastructure projects funded between fiscal years 2004 and 2010, with a total of \$206.4 million in investments. The study included an analysis of data from ARC's grants management database, an extensive survey of project grantees, and case studies of 13 infrastructure projects. Survey responses showed that nearly 27,500 households were served through the surveyed projects, well above the estimated 13,000, and 5,051 jobs were created, above the estimated 4,181. 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.

Project evaluation reports are available online at www.arc.gov/research.

STRATEGIC INVESTMENT GOAL 4

Natural and Cultural Assets

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

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

Action Objectives

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

Performance Targets and Results

Strategic Investment Goal 4 is aligned with the performance measure "Businesses Created or strengthened."

Outcome Measures

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

BUSINESSES CREATED OR STRENGTHENED IN FISCAL YEAR 2016	
ANNUAL OUTCOME TARGET	RESULT: INITIAL ESTIMATE
FY 2016: 2,500 businesses created or strengthened	FY 2016: 4,757 businesses created or strengthened

Outcome Target and Result

Result for FY 2016: Exceeded Target by 90 percent. POWER Initiative priorities placed an emphasis on investments that strengthen entrepreneurship and business development.

BUSINESSES CREATED OR STRENGTHENED IN FISCAL YEARS 2011-2015

Fiscal Year 2016 is the first year with a performance target for businesses created or strengthened, so there are no historic data to report.

Project Evaluation: Final Results

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

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

Project evaluation reports are available online at www.arc.gov/research.

STRATEGIC INVESTMENT GOAL 5

Leadership and Community Capacity

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

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

Action Objectives

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

Performance Targets and Results

Strategic Investment Goal 5 is aligned with the performance measure “Communities with Enhanced Capacity.”

Outcome Measures

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

Outcome Target and Result

COMMUNITIES WITH ENHANCED CAPACITY IN FISCAL YEAR 2016	
ANNUAL OUTCOME TARGET	RESULT: INITIAL ESTIMATE
FY 2016: 250 communities with enhanced capacity	FY 2016: 357 communities with enhanced capacity

Result for FY 2016: Exceeded target by 43 percent. The strong result in FY 2016 for this measure is due in part to priorities established for the POWER Initiative.

COMMUNITIES WITH ENHANCED CAPACITY IN FISCAL YEARS 2011–2015

Fiscal Year 2016 is the first year with a performance target for communities with enhanced capacity, so there is no historic data to report.

Project Evaluation: Final Results

Leadership and Community Capacity

A new evaluation of ARC's Leadership and Community Capacity Projects will be completed in FY 2017.

In July 2004, the Appalachian Regional Commission issued the report *Evaluation of the Appalachian Regional Commission's Community Capacity-Building Projects*, prepared by the Westat Corporation. The purpose of the evaluation was to assess factors associated with successful capacity-building projects and to recommend a range of performance measures that could be used to document the impact of successful initiatives. One hundred projects were examined in the study, all of which were funded by ARC between 1995 and 2003, with total ARC funding of approximately \$7 million. The report's evaluation includes both quantitative and qualitative findings on outcomes, based on documentary evidence, interviews, and case studies; and incorporated lessons learned about community capacity building. Most (70 percent) of the 179 outcomes proposed by interviewed project grantees were successfully achieved. Many projects benefited organizations by increasing collaboration and the sharing of ideas and strategies for community development, and by enhancing their efficiency and effectiveness, as well as their stability and growth. Projects also benefited communities more broadly by improving strategic planning, enhancing the sense of community self-reliance and pride, increasing civic and political participation, and improving infrastructure and educational opportunities.

Project evaluation reports are available online at www.arc.gov/research.

LEVERAGE, MATCHING, AND DISTRESSED COUNTIES/AREAS PERFORMANCE TARGETS

Leverage Target

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

LEVERAGED PRIVATE INVESTMENT RATIO IN FISCAL YEAR 2016	
ANNUAL TARGET	RESULT
FY 2016: 6:1 ratio of leveraged private investment to ARC investment	FY 2016: Achieved 3:1 Ratio*
<i>*One large-scale project that had limited ARC participation was not included in this table.</i>	

Result for FY 2016: Met 50 percent of target. Outcome results typically fluctuate slightly over the years as the states' investment priorities vary. The decrease in leveraged private investment in FY 2016 could reflect a greater emphasis by the states on critical needs in entrepreneurship, workforce development, and broadband infrastructure improvements, all of which are critical foundations for economic development but do not typically leverage large amounts of private investment.

LEVERAGED PRIVATE INVESTMENT RATIO IN FISCAL YEARS 2011–2015*	
ANNUAL TARGET	RESULTS
FY 2011: N/A	FY 2011: Achieved 6:1 Ratio
FY 2012: N/A	FY 2012: Achieved 4:1 Ratio
FY 2013: N/A	FY 2013: Achieved 9:1 Ratio
FY 2014: N/A	FY 2014: Achieved 13:1 Ratio
FY 2015: N/A	FY 2015: Achieved 8:1 Ratio
<i>*Fiscal Year 2016 is the first year with performance targets for leveraged private investment for all ARC strategic goal areas, so there are no historic targets to report.</i>	

Matching Target

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

MATCHING PROJECT FUNDS RATIO IN FISCAL YEAR 2016	
ANNUAL TARGET	RESULT
FY 2016: 2:1 ratio of matching funds to ARC investment	FY 2016: Achieved 2:1 Ratio

Result for FY 2016: **Met target.**

MATCHING PROJECT FUNDS RATIO IN FISCAL YEARS 2011-2015*	
ANNUAL TARGET	RESULTS
FY 2011: N/A	FY 2011: Achieved 3:1 Ratio
FY 2012: N/A	FY 2012: Achieved 2:1 Ratio
FY 2013: N/A	FY 2013: Achieved 2:1 Ratio
FY 2014: N/A	FY 2014: Achieved 2:1 Ratio
FY 2015: N/A	FY 2015: Achieved 2:1 Ratio
*Fiscal Year 2016 is the first year with performance targets for matching project funds for all ARC strategic goal areas, so there are no historic targets to report.	

Distressed Counties/Areas Target

The Distressed Counties/Areas target for ARC investments is the percentage of total ARC funds directed to projects that benefit distressed counties or areas. Project funds are included if the project primarily or substantially benefits distressed counties or areas.

PERCENTAGE OF FUNDS TO DISTRESSED COUNTIES/AREAS IN FISCAL YEAR 2016*	
ANNUAL TARGET	RESULT
FY 2016: Direct 50% of ARC funds to distressed counties or areas	FY 2016: Directed 79% of funds
<i>*Project funds are included if the project primarily or substantially benefits distressed counties or areas.</i>	

Result for FY 2016: Exceeded target by 29 percentage points. The percentage of ARC funds directed to distressed counties or areas has steadily increased over the last several years. In addition, ARC's POWER Initiative funding targets coal-impacted communities, which are often located in economically distressed counties.

PERCENTAGE OF FUNDS TO DISTRESSED COUNTIES/AREAS IN FISCAL YEARS 2011–2015*	
ANNUAL TARGETS	RESULTS
Direct 50% of ARC funds to distressed counties or areas	FY 2011: Directed 55% of funds
Direct 50% of ARC funds to distressed counties or areas	FY 2012: Directed 57% of funds
Direct 50% of ARC funds to distressed counties or areas	FY 2013: Directed 61% of funds
Direct 50% of ARC funds to distressed counties or areas	FY 2014: Directed 64% of funds
Direct 50% of ARC funds to distressed counties or areas	FY 2015: Directed 72% of funds
<i>*Project funds are included if the project primarily or substantially benefits distressed counties or areas.</i>	

SUMMARY OF ACHIEVEMENTS

PERFORMANCE TARGETS AND RESULTS FOR FISCAL YEAR 2016 PROJECTS

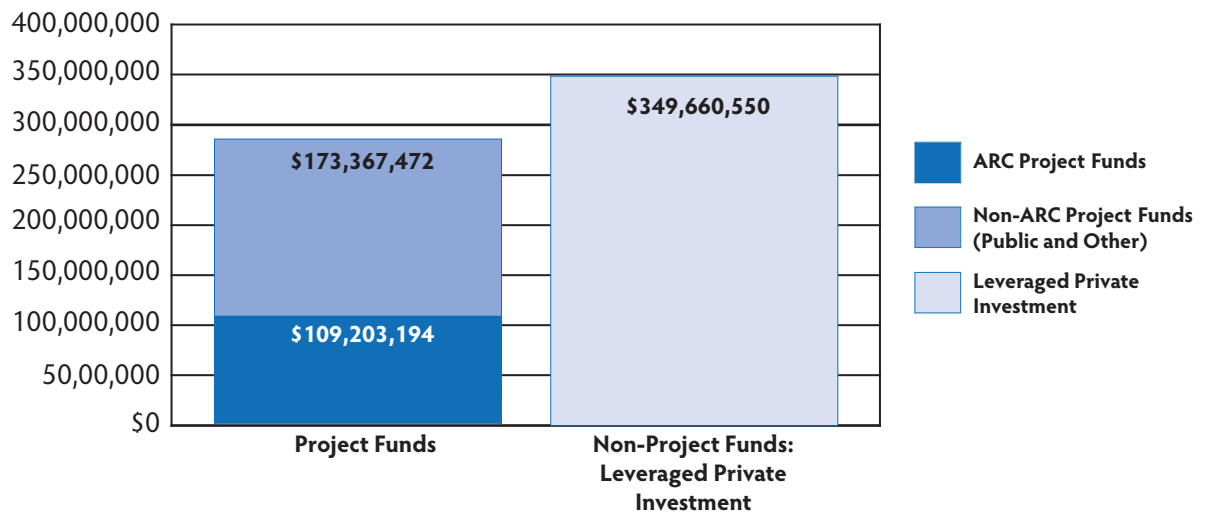
ANNUAL PERFORMANCE TARGETS	RESULTS: INITIAL ESTIMATES	RESULTS ACHIEVED
Outcome Targets		
20,000 jobs created or retained	18,702 jobs created or retained	Met 94% of Target
22,000 students, workers, and leaders with improvements	46,513 students, workers, and leaders with improvements	Exceeded Target by 111%
22,000 businesses and households with access to improved infrastructure	22,293 businesses and households with access to improved infrastructure	Met Target
2,500 businesses created or strengthened	4,757 businesses created or strengthened	Exceeded Target by 90%
250 communities with enhanced capacity	357 communities with enhanced capacity	Exceeded Target by 43%
Leverage Target		
Achieve a 6:1 ratio of leveraged private investment to ARC funds	Achieved a 3:1 ratio	Met 50% of Target
Matching Target		
Achieve a 2:1 ratio of matching funds to ARC funds	Achieved a 2:1 ratio	Met Target
Distressed Counties/Areas Target		
Direct 50% of ARC funds to benefit distressed counties or areas	Directed 79% of funds*	Exceeded Target by 29 percentage points
<i>*Project funds are included if the project primarily or substantially benefits distressed counties or areas.</i>		

Investment Summary for FY 2016 Projects

LEVERAGE, MATCHING, AND DISTRESSED COUNTIES/AREAS SUMMARY for All ARC Nonhighway Projects Fiscal Year 2016		
Leveraged private investment	\$349,660,550*	3:1 ratio of leveraged private investment to ARC investment
Non-ARC matching project funds	\$173,367,472	2:1 ratio of non-ARC project investment to ARC project investment
ARC project funds targeted to distressed counties or areas	\$86,214,533**	79% of total ARC project funds directed to projects that benefit distressed counties or areas

*One large-scale project that had limited ARC participation was not included in this table.
**Project files are included if the project primarily or substantially benefits distressed counties or areas.

Funding and Leveraged Private Investment for all ARC Projects in Fiscal Year 2016



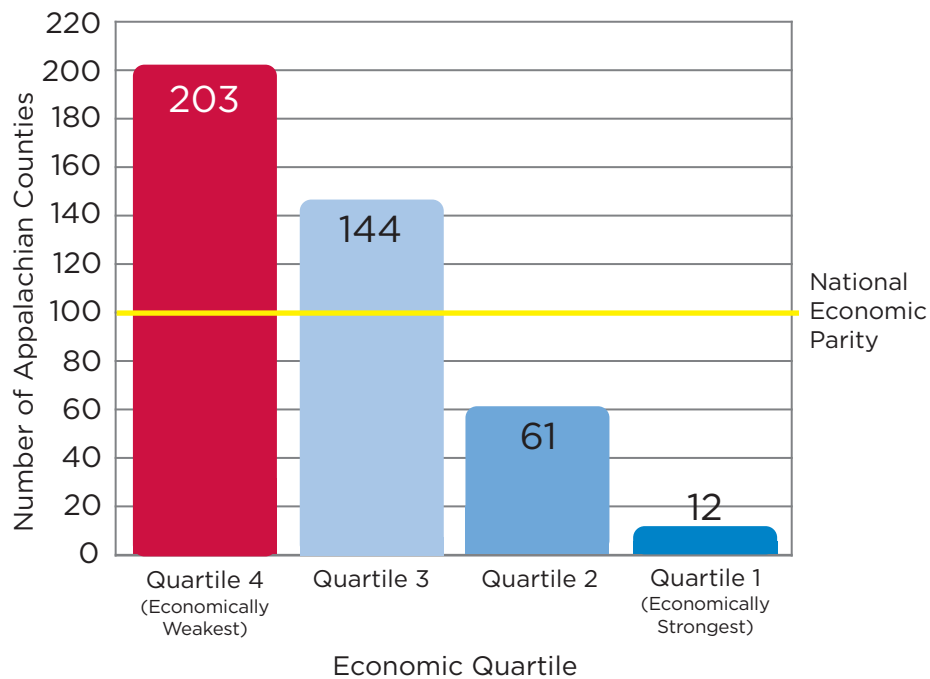
MEASURING PROGRESS TOWARD THE ARC VISION

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

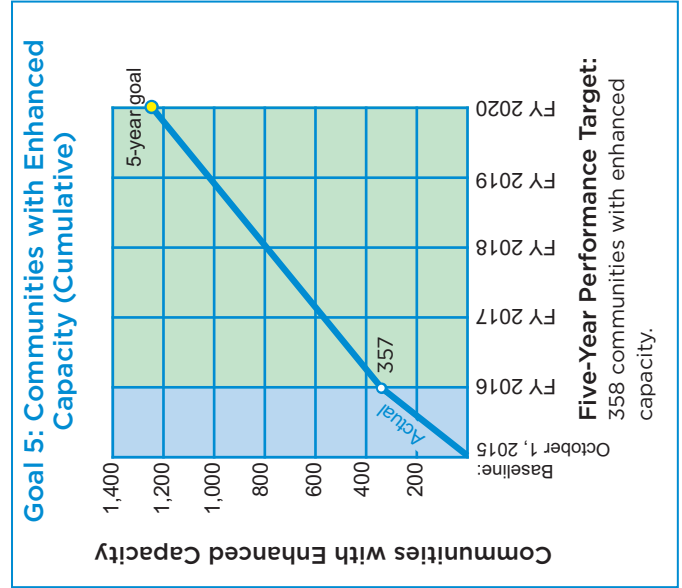
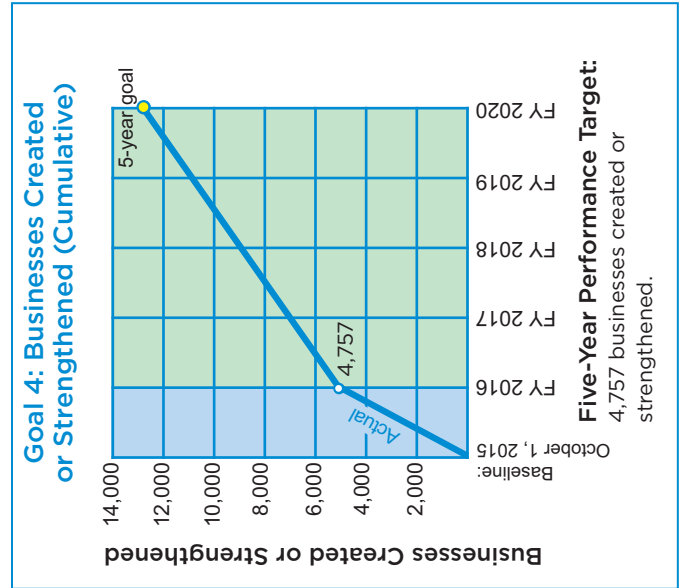
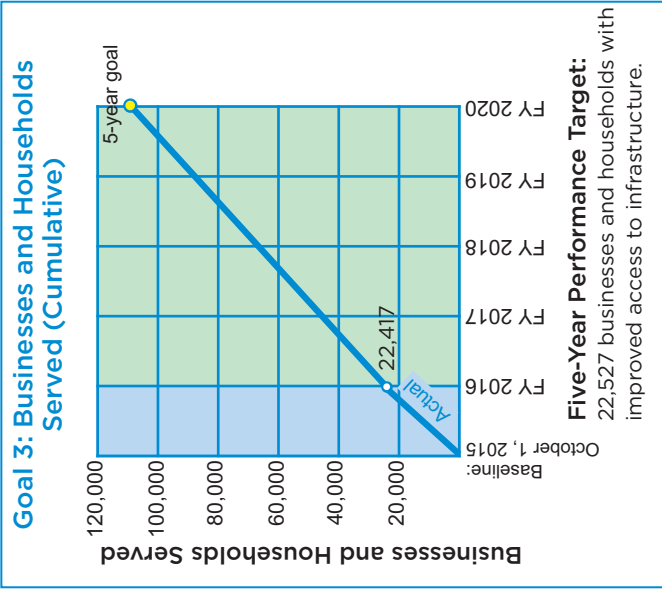
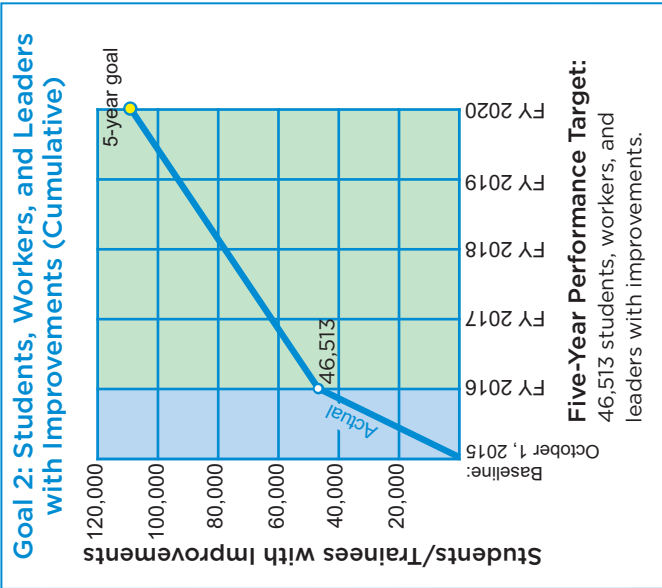
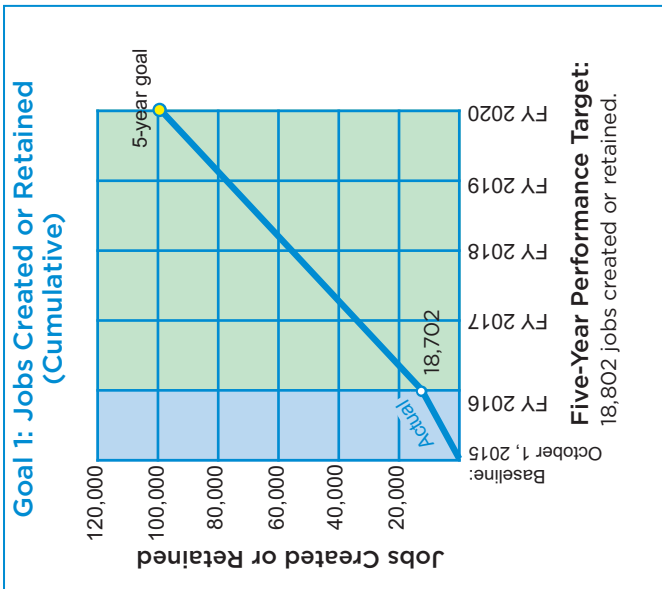
In order to provide a single unified measure of regional progress and economic change, ARC developed an index to track improvement over time. Drawing on the three variables ARC uses annually to determine the economic status of the Region's counties, staff developed a national composite index of distress. 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 an approximately equal number of counties in each group.

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

Number of Appalachian Counties by Economic Quartile, Fiscal Year 2016



Progress toward ARC Strategic Plan Performance Goals, Fiscal Years 2016-2020



PART III: FISCAL YEAR 2016 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 Key & Associates, P.C., the independent auditor of ARC's financial statements for 2016, has rendered an unmodified opinion about the adequacy of the statements. All prior year findings were cleared, with no findings in this fiscal year. 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 10, 2016

REPORT OF INDEPENDENT AUDIT



**APPALACHIAN
REGIONAL
COMMISSION**

*A Proud Past,
A New Vision*

Office of Inspector General

November 23, 2016

Memorandum for: The Federal Co-Chair
ARC Executive Director

Subject: OIG Report 17-07
Fiscal Year 2016 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, 2016. 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 Key & Associates, P.C., to audit the financial statements of the Commission as of and for the fiscal year ended September 30, 2016. 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 Key's audit of ARC's financial statements for the fiscal year ended September 30, 2016.

- Key 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.
- Key was not contracted for and did not provide an opinion on the effectiveness of ARC's internal controls over financial reporting. However, Key did state that they did not identify any deficiencies in internal control that were considered to be material weaknesses, relative to their expressing an opinion on ARC's financial statements.
- No significant deficiencies were reported.
- Key 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.

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West Virginia

In connection with the contract, we reviewed Key's report and related documentation and inquired of its representatives. Our involvement in the audit process consisted of monitoring of 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. Key is responsible for the attached auditor's report dated November 10, 2016 and the conclusions expressed in the report. However, our review disclosed no instances where Key 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
Key & Associates, LLP



**APPALACHIAN
REGIONAL
COMMISSION**

APPALACHIAN REGIONAL COMMISSION

FINANCIAL STATEMENTS

As of and For The Years Ended September 30, 2016 and 2015

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Key & Associates, P.C.

INDEPENDENT AUDITOR'S REPORT

To the Federal Co-Chair and the Executive Director
The Appalachian Regional Commission

In accordance with the Accountability of Tax Dollars Act of 2002 and at the request of the Inspector General, we are responsible for conducting the audit of the financial statements of the Appalachian Regional Commission. We have audited the accompanying balance sheet of the Appalachian Regional Commission as of September 30, 2016 and the related statements of net cost, changes in net position, and budgetary resources for the years then ended, and the related notes to the financial statements (hereinafter referred to as "financial statements").

Management's Responsibility for the Financial Statements

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

Auditor's Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin 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 risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Appalachian Regional Commission internal control. Accordingly, we do not express such an opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion on 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, 2016, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with U.S. generally accepted accounting principles.

The financial statements of the Appalachian Regional Commission as of September 30, 2015 were audited by other auditors whose report dated November 16, 2015 expressed an unqualified opinion on those statements.

Other Matters

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

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Chairperson’s message and other information sections of the Appalachian Regional Commission’s *Agency Financial Report* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Appalachian Regional Commission’s internal control over the financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Appalachian Regional Commission’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Appalachian Regional Commission’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 significant deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the Responsibility section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of Other Reporting Required by Government Auditing Standards

The purpose of the communication provided 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 results of that testing, and not to provide an opinion on the effectiveness of the agency's internal control or on compliance. Accordingly, this communication is not suitable for any other purpose.

Restriction of Use of the Report on the Financial Statements

This report is intended solely for the information and use of the management and members of the Appalachian Regional Commission, U.S. Department of Treasury, the U.S. Office of Management and Budget, the U.S. Government Accountability Office, and the U.S. Congress in connection with the preparation and audit of the Financial Report of the U.S. Government and is not intended to be and should not be used by anyone other than these specified parties.

Key & Associates, PC

Silver Spring, Maryland
November 10, 2016

The prior year report on internal control over financial reporting and compliance and other matters was presented in accordance with Government Auditing Standards, issued by the Comptroller General of the United States. The internal control weaknesses and findings related to compliance with certain laws, regulations, contracts, and grant agreements presented herein were identified during our audit of the Appalachian Regional Commission(ARC's) financial statements as of, and for the year ended, September 30, 2015. This exhibit presents our assessment of the current status of each prior year finding.

Significant Deficiencies from FY 2015 audit:

1. Review of Financial Transactions Needs Improvement

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

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.

Key & Associates' Response

We performed extensive testing of internal controls as required as part of a federal financial statement audit. During our audit fieldwork, we re-performed the monthly reconciliations as of March and September 2016 as well as tested the details of sampled obligations from the total population. Our test results did not identify any errors or omissions and therefore, we consider this finding as being cleared.

B. Review of Unexpended Appropriations and Cumulative Results of Operations

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. 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.

Key & Associates' Response

During our audit fieldwork, we observed that management obtained a copy of the reconciliation being performed by the accounting contractor and reviewed the reconciliation as of September 2016. Based on our procedures, management has properly reviewed the reconciliation at year end and therefore, we consider this finding as being cleared.

C. Recording and Reviewing Obligations Related to Grants

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.

Key & Associates' Response

During our audit fieldwork, we re-performed the monthly reconciliations as of March and September 2016. Based on our review, management has properly recorded obligations and therefore, we consider this finding as being cleared.

APPALACHIAN REGIONAL COMMISSION
BALANCE SHEETS

As Of September 30, 2016 and 2015

	2016	2015
Assets:		
Intragovernmental:		
Fund Balance With Treasury	(Note 1 & 2) \$ 261,826,010.06	\$ 179,381,387.31
Accounts Receivable	869.42	
Advances and Prepayments	(Note 1 & 3) 3,821,991.49	8,166,738.39
Total Intragovernmental	<u>265,648,870.97</u>	<u>187,548,125.70</u>
Assets With The Public:		
Cash, Foreign Currency and Other Monetary Assets	(Note 1) 1,434,740.66	1,360,382.20
Advances and Prepayments	(Note 1 & 3) 38,807,862.28	41,069,866.54
Total Assets	<u>\$ 305,891,473.91</u>	<u>\$ 229,978,374.44</u>
Liabilities:		
(Note 4)		
Intragovernmental:		
Other:		
Employer Contributions and Payroll Taxes Payable	(Note 4 & 5) \$ 23,744.20	\$ 17,080.73
Liability for Advances and Prepayments	803,022.59	646,490.05
Total Intragovernmental	<u>826,766.79</u>	<u>663,570.78</u>
Liabilities With the Public:		
Accounts Payable	(Note 1 & 4) 8,297,296.36	7,481,391.17
Other:		
Accrued Funded Payroll and Leave	(Note 1, 4 & 5) 255,968.34	179,479.43
Employer Contributions and Payroll Taxes Payable	1,805.94	1,246.24
Unfunded Leave	464,188.40	464,188.40
Liability for Advances and Prepayments	392,254.12	186,494.80
Other Liabilities Without Related Budgetary Obligations	1,522,063.45	1,447,704.99
Total Liabilities	<u>\$ 11,760,343.40</u>	<u>\$ 10,424,075.81</u>
Net Position:		
Unexpended Appropriations - All Other Funds		
(Consolidated Totals)	292,154,635.17	217,367,835.29
Cumulative Results of Operations - All Other		
Funds (Consolidated Totals)	<u>1,976,495.34</u>	<u>2,186,463.34</u>
Total Net Position - All Other Funds		
(Consolidated Totals)	<u>294,131,130.51</u>	<u>219,554,298.63</u>
Total Net Position	<u>294,131,130.51</u>	<u>219,554,298.63</u>
Total Liabilities and Net Position	<u>\$ 305,891,473.91</u>	<u>\$ 229,978,374.44</u>

The accompanying notes are an integral part of these statements.

APPALACHIAN REGIONAL COMMISSION
STATEMENTS OF NET COST
 As of and For The Years Ended September 30, 2016 and 2015

	2016	2015
Program Costs:		
ARC:		
Gross Costs	\$ 76,063,512.36	\$ 65,263,214.25
Less: Earned Revenue	4,461,363.00	4,794,697.74
Net Program Costs	71,602,149.36	60,468,516.51
Net Cost of Operations	\$ 71,602,149.36	\$ 60,468,516.51

(Note 8)

The accompanying notes are an integral part of these statements.

APPALACHIAN REGIONAL COMMISSION
 STATEMENTS OF CHANGES IN NET POSITION
 As of and For The Years Ended September 30, 2016 and 2015

FY 2016 (CY)

	Funds From Dedicated Collections (Consolidated Totals)	All Other Funds (Consolidated Totals)	Eliminations	Consolidated Total
Cumulative Results of Operations:				
Beginning Balances		\$ 2,186,463.34		\$ 2,186,463.34
Beginning balance, as adjusted		2,186,463.34		2,186,463.34
Budgetary Financing Sources:				
Appropriations used		71,213,200.12		71,213,200.12
Other Financing Sources (Non-Exchange):				
Imputed financing		178,981.24		178,981.24
Total Financing Sources		<u>71,392,181.36</u>		<u>71,392,181.36</u>
Net Cost of Operations		<u>71,602,149.36</u>		<u>71,602,149.36</u>
Net Change		<u>(209,968.00)</u>		<u>(209,968.00)</u>
Cumulative Results of Operations		<u><u>1,976,495.34</u></u>		<u><u>1,976,495.34</u></u>
Unexpended Appropriations:				
Beginning Balance		<u>217,367,835.29</u>		<u>217,367,835.29</u>
Beginning Balance, as adjusted		217,367,835.29		217,367,835.29
Budgetary Financing Sources:				
Appropriations received		146,000,000.00		146,000,000.00
Appropriations used		<u>(71,213,200.12)</u>		<u>(71,213,200.12)</u>
Total Budgetary Financing Sources		<u>74,786,799.88</u>		<u>74,786,799.88</u>
Total Unexpended Appropriations		<u>292,154,635.17</u>		<u>292,154,635.17</u>
Net Position		<u>\$ 294,131,130.51</u>		<u>\$ 294,131,130.51</u>

The accompanying notes are an integral part of these statements.

APPALACHIAN REGIONAL COMMISSION
STATEMENTS OF CHANGES IN NET POSITION
 As of and For The Years Ended September 30, 2016 and 2015

FY 2015 (PY)

	Funds From Dedicated Collections (Consolidated Totals)	All Other Funds (Consolidated Totals)	Eliminations	Consolidated Total
Cumulative Results of Operations:				
Beginning Balances		\$ 2,493,959.47		\$ 2,493,959.47
Adjustments:				
Changes in accounting principles		<u>(1,185,774.28)</u>		<u>(1,185,774.28)</u>
Beginning balance, as adjusted		1,308,185.19		1,308,185.19
Budgetary Financing Sources:				
Appropriations used		61,173,868.87		61,173,868.87
Other Financing Sources (Non-Exchange):				
Imputed financing		172,925.79		172,925.79
Total Financing Sources		<u>61,346,794.66</u>		<u>61,346,794.66</u>
Net Cost of Operations		<u>60,468,516.51</u>		<u>60,468,516.51</u>
Net Change		878,278.15		878,278.15
Cumulative Results of Operations		2,186,463.34		2,186,463.34
Unexpended Appropriations:				
Beginning Balance		<u>188,541,704.16</u>		<u>188,541,704.16</u>
Beginning Balance, as adjusted		188,541,704.16		188,541,704.16
Budgetary Financing Sources:				
Appropriations received		90,000,000.00		90,000,000.00
Appropriations used		<u>(61,173,868.87)</u>		<u>(61,173,868.87)</u>
Total Budgetary Financing Sources		<u>28,826,131.13</u>		<u>28,826,131.13</u>
Total Unexpended Appropriations		<u>217,367,835.29</u>		<u>217,367,835.29</u>
Net Position		<u>\$ 219,554,298.63</u>		<u>\$ 219,554,298.63</u>

The accompanying notes are an integral part of these statements.

APPALACHIAN REGIONAL COMMISSION

STATEMENTS OF BUDGETARY RESOURCES

As of and For The Years Ended September 30, 2016 and 2015

	2016 <u>Budgetary</u>	2015 <u>Budgetary</u>
BUDGETARY RESOURCES		
Unobligated balance brought forward, October 1	\$ 25,478,161.75	\$ 37,213,490.38
Unobligated balance brought forward, October 1, adjusted	25,478,161.75	37,213,490.38
Recoveries of prior year unpaid obligations (unobligated balances)	<u>9,074,669.76</u>	<u>10,511,876.68</u>
Unobligated balance from prior year budget authority, net	34,552,831.51	47,725,367.06
Appropriations (discretionary and mandatory)	146,000,000.00	89,719,096.00
Spending authority from offsetting collections	6,433,758.68	4,552,122.60
Total budgetary resources	<u>\$ 186,986,590.19</u>	<u>\$ 141,996,585.66</u>
STATUS OF BUDGETARY RESOURCES		
Obligations incurred	\$ 123,196,503.75	\$ 116,518,423.91
Apportioned	54,972,214.18	25,478,161.75
Unapportioned	<u>8,817,872.26</u>	<u></u>
Unobligated balance brought forward, end of year	<u>63,790,086.44</u>	<u>25,478,161.75</u>
Total budgetary resources	<u>\$ 186,986,590.19</u>	<u>\$ 141,996,585.66</u>
CHANGE IN OBLIGATED BALANCE		
Unpaid obligations, brought forward, October 1 (gross)	\$ 153,208,915.56	\$ 115,824,478.34
Obligations incurred (Note 9)	123,196,503.75	116,518,423.91
Outlays (gross) (-)	(69,788,266.51)	(68,622,110.01)
Recoveries of prior year unpaid obligations (-)	<u>(9,074,669.76)</u>	<u>(10,511,876.68)</u>
Unpaid obligations, end of year	197,542,483.04	153,208,915.56
Change in uncollected pymts, Fed sources	(200,869.42)	
Uncollected pymts, Fed sources, end of year (-)	(200,869.42)	
Obligated balance, start of year (net)	<u>153,208,915.56</u>	<u>115,824,478.34</u>
Obligated balance, end of year (net)	<u>\$ 197,341,613.62</u>	<u>\$ 153,208,915.56</u>
BUDGET AUTHORITY AND OUTLAYS, NET		
Budget authority, gross (discretionary and mandatory)	\$ 152,433,758.68	\$ 94,271,218.60
Actual offsetting collections (discretionary and mandatory) (-)	(6,232,889.26)	(4,552,122.60)
Change in uncollected payments from Federal Sources (discretionary and mandator	(200,869.42)	
Budget authority, net (discretionary and mandatory)	146,000,000.00	89,719,096.00
Outlays, gross (discretionary and mandatory)	69,788,266.51	68,622,110.01
Actual offsetting collections (discretionary and mandatory) (-)	<u>(6,232,889.26)</u>	<u>(4,552,122.60)</u>
Outlays, net (discretionary and mandatory)	<u>\$ 63,555,377.25</u>	<u>\$ 64,069,987.41</u>
Agency outlays, net (discretionary and mandatory)	<u>\$ 63,555,377.25</u>	<u>\$ 64,069,987.41</u>

The accompanying notes are an integral part of these statements.

Appalachian Regional Commission
Notes to Financial Statements
September 30, 2016 and 2015

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

Funds from Dedicated Collections

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

Appalachian Regional Commission
Notes to Financial Statements
September 30, 2016 and 2015

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 \$1,434,740.66 and \$1,360,382.20 at September 30, 2016 and 2015, respectively.

Appalachian Regional Commission
Notes to Financial Statements
September 30, 2016 and 2015

Advances

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

ARC also has advances made to grantees. These are primarily made to non-federal entities operating revolving loan fund payments in order 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, 2016 and 2015.

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, 2016 and 2015

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

Appalachian Regional Commission
Notes to Financial Statements
September 30, 2016 and 2015

appropriations and budget apportionments are derived. ARC allocates funds, as the parent agency, to the U.S. Department of Transportation, Housing and Urban Development, the Rural Development Agency, U.S. Army Corps of Engineers and the Economic Development Agency. Additionally, ARC receives allocation transfers, as the child agency from the U.S. Department of Transportation to cover Appalachian Development Highway System administrative costs.

Net Position

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

Net Cost of Operations

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

Budgetary Financing Sources

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

Use of Estimates

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

Tax Exempt Status

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

Appalachian Regional Commission
Notes to Financial Statements
September 30, 2016 and 2015

Note 2 – Fund Balance With Treasury

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

	2016	2015
A. Fund Balances		
Trust Fund	\$ 413,406.00	\$ 413,406.00
Appropriated Funds	261,412,604.06	178,967,981.31
Total Fund Balance with Treasury	261,826,010.06	179,381,387.31
 B. Status of Fund Balance with Treasury		
1) Unobligated Balance		
a) Available	54,972,214.18	25,478,161.75
b) Unavailable	8,817,872.26	
2) Obligated Balance not yet Disbursed	197,341,613.62	153,208,915.56
3) Temporary Sequestration	694,310.00	694,310.00
Total	\$ 261,826,010.06	\$ 179,381,387.31

A trust fund was once established to receive, hold, and disburse monies collected to cover the administrative expenses of ARC. This fund has not been used since FY 2014. The balance in the trust fund is the amount sequestered in prior years.

Note 3 – Advances

Advances at September 30 consist of the following:

	2016	2015
1. Intragovernmental		
Advances to the Tennessee Valley Authority	\$ 3,490,307.62	\$ 8,160,054.52
Advances to the Environmental Protection Agency	256,683.87	6,683.87
Advances to the Corps of Engineers	75,000.00	
	3,821,991.49	8,166,738.39
2. Other		
Advances to grantees to finance future program expenditures		
-Revolving Loan Fund	27,861,432.49	28,934,613.97
-Non-Revolving Loan Fund	7,373,497.79	8,487,756.57
Prepaid Pension Expense	3,572,932.00	3,647,496.00
	38,807,862.28	41,069,866.54
Total	\$ 42,629,853.77	\$ 49,236,604.93

Appalachian Regional Commission
Notes to Financial Statements
September 30, 2016 and 2015

Intragovernmental: ARC advances funds to 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.

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, 2016 and 2015

Liabilities at September 30, 2016 and 2015 consist of the following:

	2016	2015
With the Public		
Unfunded annual leave	\$464,188.40	\$464,188.40
Total liabilities not covered by budgetary resources	464,188.40	464,188.40
<u>Advances</u>		
Advances from Centers for Disease Control	773,022.59	646,490.05
Advances from the National Endowment for the Arts	30,000.00	
Advances from Non Federal Vendors	392,254.12	186,494.80
Total Advances	1,195,276.71	832,984.85
<u>Benefits Due</u>		
Accrued health and flexible spending benefits	87,322.79	87,322.79
Accrued salaries and benefits	281,518.48	197,806.40
Total benefits due	368,841.27	285,129.19
Payments Due to grantees to finance program expenditure:	8,297,296.36	7,481,391.17
Commercial Bank Balance	1,434,740.66	1,360,382.20
Total liabilities covered by budgetary resources	11,296,155.00	9,959,887.41
Total Liabilities	\$11,760,343.40	\$10,424,075.81

Note 5 – Other Liabilities

As of September 30, 2016, other liabilities with the public consist of Accrued Funded Payroll and Leave of \$464,188.40; Employer Contribution and Taxes Payable of \$1,805.94; Benefits Due and Payable of \$255,968.34; Advances from Non Federal Sources of \$392,254.12; and Accrued Health and Flexible Spending Benefits of \$87,322.79 and Commercial Bank Balance of \$1,434,740.66. Other Liabilities Federal consists of Advances from Other – Federal in the amount of \$803,022.59; and Employer Contributions and Taxes Payable of \$23,744.20.

As of September 30, 2015, other liabilities with the public consist of Accrued Funded Payroll and Leave of \$464,188.40; Employer Contribution and Taxes Payable of \$1,246.24; Benefits Due and Payable of \$179,479.43; Advances from Non Federal Sources of \$186,494.80; and Accrued Health and Flexible Spending Benefits of \$87,322.79 and Commercial Bank Balance of \$1,360,382.20. Other Liabilities Federal consists of Advances from Other – Federal in the amount of \$646,490.05; and Employer Contributions and Taxes Payable of \$17,080.73.

Appalachian Regional Commission
Notes to Financial Statements
September 30, 2016 and 2015

	<u>With the Public</u>	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
2016	Other Liabilities	2,378,505.97	257,774.28	\$ 2,636,280.25
2015	Other Liabilities	2,098,388.19	180,725.67	\$ 2,279,113.86
	<u>Intragovernmental</u>	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
2016	Other Liabilities	803,022.59	23,744.20	\$ 826,766.79
2015	Other Liabilities	646,490.05	17,080.73	\$ 663,570.78

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 2016 were \$5,472 and \$136,313 for CSRS and FERS, respectively and contributions for FY 2015 were \$5,244 and \$114,304 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 2016 were \$43,757 and \$783 and for FY 2015 were \$43,757 and \$783 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 \$32,601 and \$39,981 to the Federal Thrift Savings plan for all eligible employees for the years ended September 30, 2016 and 2015, respectively.

Non-Federal

The following table presents the pension benefit expense for the defined benefit pension plan by component for fiscal years 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Service cost	\$701,404.00	\$ 745,859.00
Interest cost	1,004,440.00	904,837.00
Expected return	(1,509,109.00)	(1,462,247.00)
Amortization of prior service cost	415,646.00	415,646.00
Recognized loss	307,643.00	49,412.00
Net periodic benefit cost	<u>\$ 920,024.00</u>	<u>\$ 653,507.00</u>

Appalachian Regional Commission
Notes to Financial Statements
September 30, 2016 and 2015

The following table presents the pension liability or prepayment by component for fiscal years 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Pension liability at October 1	(\$3,647,496.00)	\$ (3,001,003.00)
Net periodic benefit expense	920,024.00	653,507.00
Contributions	(845,460.00)	(1,300,000.00)
Pension Prepayment at September 30	<u>\$ (3,572,932.00)</u>	<u>\$ (3,647,496.00)</u>
Employer contribution	\$ 845,460.00	\$ 1,300,000.00
Participant contribution	0.00	0.00
<u>Benefits paid</u>	355,733.00	427,794.00
Net periodic benefit expense	\$ 23,076,946.00	\$ 20,985,727.00

The accumulated benefit obligation was \$26,184 and \$23,207,749 at September 30, 2016 and 2015, respectively.

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

	2016	2015
Discount rate	3.40%	4.15%
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:

	2016	2015
Discount rate	4.15%	4.00%
Expected return on plan assets	7.25%	7.25%
Rate of compensation increase	3.00%	3.00%

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Plan Assets

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

<u>Asset Category</u>	<u>2016</u>	<u>2015</u>
Equity securities	34.00%	33.51%
Debt securities	61.07%	61.43%
Real Estate	4.93%	5.02%
Other	0.00%	0.04%
Total assets	<u>100.00%</u>	<u>100.00%</u>

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

<u>Fiscal Year</u>	<u>Amount</u>
2017	960,776
2018	1,042,766
2019	1,078,270
2020	1,115,926
2021	1,230,544
Years 2022-2026	6,804,954

ARC contributed \$265,820 and \$258,243 to the 401(k) plan for the years ended September 30, 2016 and 2015, 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>
2017	924,965
2018	946,841
2019	968,148
2020	989,911
2021	1,012,129
Thereafter	<u>3,261,647</u>
Total	<u>\$ 8,103,641</u>

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Rent expense for the years ended September 30, 2016 and 2015 was \$953,397.86 and \$925,987.14 respectively.

Note 8 – Intragovernmental Costs and Exchange Revenue

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

	Total 2016	Total 2015
ARC		
Intragovernmental costs	\$ 5,949,560.64	\$ 6,987,327.27
Public costs	70,113,951.72	60,078,903.48
Total ARC Program costs	<u>76,063,512.36</u>	<u>67,066,230.75</u>
Intragovernmental earned revenue	481,965.32	305,257.95
Public earned revenue	3,979,397.68	4,489,439.79
Total ARC Program earned revenue	<u>4,461,363.00</u>	<u>4,794,697.74</u>
Total ARC Program Net Costs	<u>\$ 71,602,149.36</u>	<u>\$ 62,271,533.01</u>

Public earned revenue represents state contributions for half of ARC non-federal administrative expenses, and other minor items unrelated to state contributions.

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:

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	<u>2016</u>	<u>2015</u>
Direct Obligations		
Category A		
Category B	\$ 118,638,701.97	\$ 110,940,034.01
Exempt		
Total direct obligations	<u>118,638,701.97</u>	<u>110,940,034.01</u>
Reimbursable Obligations		
Category B	4,557,801.78	5,305,389.90
Exempt		
Total reimbursable obligations	<u>4,557,801.78</u>	<u>5,305,389.90</u>
Total Obligations	<u>\$ 123,196,503.75</u>	<u>\$ 116,245,423.91</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.
- 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, was reconciled to the Statement of Budgetary resources as follows:

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(Dollars in Millions)	2015			
	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	\$142	\$111	\$5	\$64
<u>Reconciling Items</u>				
Offsetting collections and receipts	2	15	1	12
Budget of the U.S. Government	<u>\$140</u>	<u>\$96</u>	<u>\$6</u>	<u>\$76</u>

Note 10 – Undelivered Orders at the End of the Period

The amount of ARC’s budgetary resources obligated for undelivered orders was \$231,593,521.97 and \$194,766,322.92 as of September 30, 2016 and 2015, respectively.

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:

Appalachian Regional Commission
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	2016	2015
Budgetary Resources Obligated	\$ 123,196,503.75	\$ 116,518,423.91
Spending Authority from Recoveries and Offsetting Collections	(15,508,428.44)	(15,063,999.28)
Distributed Offsetting Receipts		
Imputed Financing from Costs Absorbed by Others	178,981.24	172,925.79
Changes in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided	(36,208,108.60)	(39,973,059.63)
Other	(56,798.59)	
Resources that Finance the Acquisition of Assets		
Resources that Do Not Affect Net Cost of Operations		
Financing Sources Yet to be Provided		
Other	0.00	(1,185,774.28)
Net Cost of Operations	\$ 71,602,149.36	\$ 60,468,516.51

Note 12 – Subsequent Events

ARC has evaluated subsequent events occurring after the balance sheet date and through the date of November 10, 2016, 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 2016, 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 2012	\$45,613,656
Fiscal Year 2013	\$41,265,515
Fiscal Year 2014	\$31,413,574
Fiscal Year 2015	\$34,823,339
Fiscal Year 2016	\$34,522,482

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 invest-

ments in human capital in FY 2016 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 2012	\$9,334,227
Fiscal Year 2013	\$8,634,520
Fiscal Year 2014	\$8,060,378
Fiscal Year 2015	\$6,813,073
Fiscal Year 2016	\$11,504,662

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 2016, ARC invested in applied research through the following projects: a program evaluation of ARC's health programs; a program evaluation of ARC's telecommunications and technology programs; a program evaluation of non-infrastructure job creation and retention projects; a study examining the impact of completing the Appalachian Development Highway System; an examination of the Appalachian coal industry, power generation, and supply chain; and a study examining state- and county-level socioeconomic data for the 13 Appalachian states.

ARC Investment in Research and Development	
Fiscal Year 2012	\$729,493
Fiscal Year 2013	\$422,764
Fiscal Year 2014	\$553,462
Fiscal Year 2015	\$449,590
Fiscal Year 2016	\$237,000

PART IV: OTHER INFORMATION

ARC PERFORMANCE TARGETS, 2016–2020

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

	Annual Performance Target	5-Year Performance Target
Businesses created and/or strengthened	2,500	12,500
Jobs created and/or retained	20,000	100,000
Ratio of leveraged private investment	6 to 1	100,000
Students, workers, and leaders improved	22,000	110,000
Communities with enhanced capacity	250	1,250
Businesses and households with access to improved infrastructure	22,000	110,000

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 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, 2016, the Commission concluded that the program was not susceptible to significant improper payments.



**APPALACHIAN
REGIONAL
COMMISSION**

*A Proud Past,
A New Vision*

Office of Inspector General

October 20, 2016

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

The unique State/Federal partnership has been very successful in addressing economic development in the Appalachian Region. From a grant administration view the partnership of 13 States and a Federal entity present challenges with respect to implementation of some policies dealing with issues such as timely grant applications and obligations, action on inactive grants, receipt of progress reports, performance within established time frames and identification of actual performance results. A related challenge is identification of incentives to better assure implementation of controls established for these issues.

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.

A management challenge involves older inactive grants for which grants and obligated funds remain open for long periods. Contributing factors are the required transfer of grant administration for construction related projects to other Federal Agencies (Child Agencies) and limited use of ARC policies with respect to revocation of grants when the project has not started within a specified period. The transfer of grant administration to other agencies 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

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Tennessee
Virginia

www.arc.gov

West Virginia

Appalachia. In order to reduce Child Agency issues ARC is emphasizing use of State agencies to provide grant administration for construction related grants.

ARC has initiated actions and controls to address the noted issues and continued action to follow-up on such grants including timely receipt of Basic Agency Monitoring Reports (BAMR) are considered continuing challenges.

Financial Reporting

The FY 2016 and prior year's audits of financial statements rendered a "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 three departments and agencies to each of whom it transfers 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 previously transferred its accounting function to a shared services accounting platform which is now USDA Pegasys Accounting Services. 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 and cyber security protections. 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.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The following tables provide a summarized report on ARC's financial statement audit and its management assurances. For more details see the auditor's report on pages 51–79 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
Total Material Weaknesses	0	0	0	0	0

Summary of Management Assurances

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

Statement of Assurance: Unmodified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Effectiveness of Internal Control over Operations—FMFIA 2

Statement of Assurance: Unmodified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Conformance with Financial Management System Requirements—FMFIA 4

Statement of Assurance: Systems conform with financial management system requirements

Non-Conformance	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Non-Conformance	0	0	0	0	0

Compliance with *Federal Management Improvement Act*

	Agency	Auditor
Overall Substantial Compliance		
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	

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