PERFORMANCE AND ACCOUNTABILITY REPORT

Appalachian Regional Commission
Fiscal Year 2019

APPALACHIAN REGIONAL COMMISSION

September 30, 2019

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Tim Thomas

States' Co-Chair
Governor Roy Cooper

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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 Tim Thomas and 2019 States' Co-Chair Governor Roy Cooper

We are pleased to present the Appalachian Regional Commission's (ARC or the Commission) Performance and Accountability Report for fiscal year (FY) 2019.

For FY 2019, the Commission approved $176.8 million in funding for 482 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 Appalachian Region's (the Region) 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 2019 grant funds attracted an additional $246.8 million in other project funding, an investment ratio of 1 to 1, and $542.7 million in non-project leveraged private investment, a ratio of 3 to 1. The projects funded during this fiscal year will create or retain an estimated 17,282 jobs and train an estimated 51,204 students, workers, and leaders in new skills.

In working toward its strategic goals in FY 2019, 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, including re-entry into the workforce of individuals with substance abuse disorders; and bolster infrastructure needed to spur development in economically distressed counties, including broadband and basic infrastructure such as water and wastewater systems.

This report includes information on the Commission's program actions and financial management during FY 2019. We are pleased to report that ARC's independent auditor, Key & Associates, P.C., has pronounced an unmodified opinion that the financial statements in this document fairly present the Commission's fiscal status.

ARC has made every effort to provide a complete and accurate report of its performance and stewardship of the public funds entrusted to it. This report is based on data that is as reliable and 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,

Tim Thomas
ARC Federal Co-Chairman

Roy Cooper
2019 States' Co-Chairman
Governor of North Carolina

January 14, 2020

PART I: MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR 2019 PROGRAM HIGHLIGHTS

In FY 2019, all of ARC's activities advanced at least one of the five goals of its 2016–2020 strategic plan: creating economic opportunities, developing a ready workforce, investing in critical infrastructure, leveraging natural and cultural assets, and bolstering leadership and community capacity. These goals were pursued through the Commission's regular program of economic and community development; a special emphasis on strengthening and diversifying the economy of coal-impacted communities, including through the POWER (Partnerships for Opportunity and Workforce and Economic Revitalization) Initiative; and congressionally directed programs focusing on broadband and basic infrastructure, as well as workforce development in the automotive and aviation sectors.

Goal 1: Creating Economic Opportunities

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

POWER Initiative

ARC's FY 2019 appropriation included $50 million in funding through the POWER Initiative, which helps diversify economies in communities and regions that have been affected by job losses in coal mining, coal power plant operations, and coal-related supply chain industries due to the changing economics of America's energy production. Over the past four years, ARC has awarded over $190 million in 239 total investments to help coal-impacted communities in 326 Appalachian counties diversify and grow their economies. These investments will create or retain more than 23,000 jobs, leverage an additional $811 million in investment, and prepare thousands of workers and students with globally competitive skills and opportunities in the Region's manufacturing, technology, entrepreneurship, agriculture, and other emerging sectors. The awards funded a wide range of activities in the Region, targeted at building a competitive workforce, enhancing access to and use of broadband services, fostering entrepreneurial activities, and developing industry clusters in communities.

Opportunity Zones in Appalachia

Qualified Opportunity Zones are economically-distressed communities where new investments, under certain conditions, may be eligible for preferential tax treatment. This can help bring new investments into previously undercapitalized areas. As Appalachia is home to 737 Opportunity Zones, or 8.5 percent of the country's total, ARC is actively working with communities to leverage Opportunity Zone designations, and ARC's Federal Co-Chair serves on President Trump's White House Opportunity and Revitalization Council to better coordinate federal resources to these areas. Two of Appalachia's designated Opportunity Zones are along the Oostanaula River in Rome, Georgia. The City of Rome, using ARC support, is performing needed water infrastructure upgrades in these zones. This will help the Rome Downtown Development Authority, the Rome-Floyd Chamber of Commerce, and surrounding property and business owners make the area shovel-ready for major development, attract capital, and create jobs. In Kentucky, there are Opportunity Zone tracts in every one of the state's 54 Appalachian counties. The Kentucky

Cabinet for Economic Development (KCED) has created an online dashboard for potential Opportunity Zone investors. With ARC assistance, KCED will expand this resource to engage marketing, site and project development, project financing, and other professionals to work closely with local leaders to identify and cultivate additional Opportunity Zone investment prospects to help communities better leverage Opportunity Zone investment incentives.

Entrepreneurship and Access to Capital

Locally owned businesses are important drivers of the Region's economy. To succeed, these ventures need a strong ecosystem that encourages and supports entrepreneurship and local business development. In FY 2019, ARC funds supported the Groundswell Center Farm Business Incubator Project, a nonprofit organization sponsored by Cornell University, that operates an incubator farm in Tompkins County, New York. Groundswell provides technical assistance and training in business and farm development through access to land, infrastructure, equipment, supplies, mentoring, networking, and one-to-one guidance. The ARC grant will help the center purchase equipment to better assist beginning farmers in becoming viable business operators.

The access to capital in low-income areas is an impediment to growing local businesses. One ARC grant addressing this gap is the Northwest Georgia Small Business Development Initiative. Through this investment, Access to Capital for Entrepreneurs (ACE) will provide capital and business advisory services to small business owners seeking to start and expand successful enterprises. ACE will offer loans to small business owners and provide business development services to ensure that borrowers have the financial knowledge necessary to start and grow successful businesses and repay their loans. It is anticipated that approximately 24 businesses will successfully complete the pre-loan development process and receive capital. In addition, the project is expected to leverage more than $1.6 million of private investment.

Goal 2: Developing a Ready Workforce

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

Workforce Development and Education

ARC is committed to investing in community and technical colleges throughout the Region, which are working to prepare highly skilled workers for new high-tech jobs. Two projects funded in FY 2019 illustrate this commitment. The Cybersecurity Education Hub at Mississippi State University (MSU) will use ARC funding to purchase equipment and cloud-based platforms to expand distance learning for students (grades 8–12), teachers, and the emerging workforce throughout the Appalachian counties in Mississippi. The cyber education currently provided by MSU for teachers and students and for the Mississippi Coding Academy Golden Triangle (MCA-GT) campus will be scaled to provide access to public school districts, individuals seeking training, and companies within the ARC Mississippi counties to train their current workforce.

In Maryland, ARC funds will help Allegany County equip a newly acquired building in Cumberland to function as a state-of-the-art training facility for advanced manufacturing and other sectors. It will also include a business startup center and a makerspace, a space dedicated to creative design of new physical or digital products. The Allegany College of Maryland Continuing Education Industrial Manufacturing program will be the primary tenant of the facility, providing workforce training in machining, welding, and industrial maintenance. The college's annual training capacity will increase from 39 trainees to 68. In addition, the facility will have four offices to house new businesses. Classes for the community will be offered in the makerspace, and incubator services such as business plan development and coaching by the Small Business Development Center staff will be available to support the startup businesses.

Recovery Ecosystems for a Healthy Workforce

As the nation's substance abuse crisis continues to disproportionately impact Appalachia's workforce, ARC is supporting efforts throughout the Region to save lives and strengthen communities by investing in recovery ecosystems. A recovery ecosystem includes support services along with workforce training and employment opportunities to help people with substance use disorders achieve long-term recovery and enter the workforce. It is a series of connected interventions that leads to employment for participants and ultimately serves to strengthen communities throughout the Region. November to April 2019, ARC hosted a series of public Recovery-to-Work listening sessions to better understand the impact that the substance abuse crisis is having on economic and workforce opportunities across the Region, and to explore how communities currently engage in substance abuse treatment and recovery programs, job placement strategies, employment opportunities, and other wraparound services. In May, ARC formed the ARC Substance Abuse Advisory Council to offer additional guidance and recommendations in regards to how ARC can support the recovery ecosystem. The Council presented their recommendations to ARC in August.

Two projects funded by ARC in FY 2019 illustrate how ARC can invest in improving the health of its workforce. Reintegrate Appalachia is a job creation and workforce development project designed for those recovering from substance use disorder. A collaboration between West Virginia Sober Living, Coalfield Development Corporation, and employer partners, Reintegrate Appalachia creates jobs, provides job placement, and offers the comprehensive support needed for West Virginians recovering from substance use disorder to sustain their recovery and obtain job-related skills necessary for obtaining and maintaining employment. The program expects that at least 40 adults will obtain full-time employment and 24 will still be enrolled in the program and working towards that goal at the end of the project period.

In Kentucky, the Eastern Kentucky Addiction Recovery and Training (eKART) program will provide training, supportive services, and employment opportunities for individuals affected by substance use disorder. The project will be implemented by the Eastern Kentucky Concentrated Employment Program, Inc. (EKCEP). EKCEP will teach regional businesses how to provide a supportive environment for employees in recovery, increasing the opportunities for work-based training and apprenticeships while also partnering with treatment providers to identify and recruit recovering individuals appropriate for those opportunities. Coaches will help ensure recovering employees' success, providing support and guidance to workers and assisting employers in responding productively to problems that arise.

Goal 3: Investing in Critical Infrastructure

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

Critical Infrastructure

ARC invested $92.0 million during FY 2019 in 166 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 2019 infrastructure grant investments were matched by $164.3 million in other public investments, leveraged $417.1 million in non-project private investment, and served 69,369 households and 12,115 businesses.

In FY 2019, ARC funded more, and larger, infrastructure grants, particularly related to broadband. This year, about one in five of the businesses and households served by infrastructure projects were served by new or improved broadband. In addition, ARC funds are supporting emerging opportunities such as the development of the southern automotive and aviation clusters. Three projects supported during FY 2019 illustrate the broad impact of ARC infrastructure investments. Bibb County is an at-risk county in Alabama that has seen some economic progress in recent years thanks to a burgeoning automotive manufacturing cluster in the region. An ARC grant will help fund sewer system improvements in the towns of West Blocton and

Woodstock to accommodate anticipated new growth in the Scott G. Davis Industrial Park. A new automotive plant in the park is in its final planning stages, and additional future industrial development is anticipated.

In Pocahontas County, West Virginia, ARC funded the extension of a public wastewater collection system in order to provide new sewer service to 110 households, seven businesses, and two industrial customers. The area served by the project currently relies on septic tanks or untreated wastewater discharge into the local watershed. This project will eliminate the discharge of untreated wastewater, and will bring sewer service to an area with potential for attracting new manufacturing jobs and investment.

ARC is also funding the construction of a municipal wastewater collection and treatment system to serve 42 businesses centered around the village square in the downtown district of Hammondsport, New York. The proposed system will serve a commercial district comprised of buildings built in the early 1900s. Today, these buildings operate as restaurants and retail space supporting tourism generated from Keuka Lake. The limitation of on-site septic systems has impeded business operations by limiting seating capacity in restaurants, and preventing building owners from fully developing the multi-story historic buildings. Through this project, business and restaurant owners will be able to take full advantage of the multi-story buildings to create new businesses, jobs, and opportunities for growth in the local economy.

Access to Broadband

In order to compete in the global economy, Appalachia must continue to develop and improve the infrastructure necessary for economic development. Telecommunications infrastructure is particularly critical to reducing Appalachia's isolation and connecting its businesses and communities with information and markets around the world. Research has shown that 80 new jobs are created for every additional 1,000 broadband users served, and that gaining 4 megabits per second (mbps) of broadband speed can increase household income by $2,100 a year. In FY 2019, ARC invested $26.1 million in 48 broadband-related projects to continue its commitment to help rural Appalachian communities expand broadband service. One such project is the Twin Lakes - Rural Jackson County Fiber Broadband Construction Project in Tennessee. This grant helps construct a 51-mile fiber run that will be used to provide broadband access with speeds up to 1 gigabyte to serve the Granville community in Jackson County, Tennessee. Jackson County is very rural and highly dependent on the tourism industry. Much of the area does not have cellular service available. Nine businesses and 447 households will have broadband service available because of this grant.

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.

Natural and Recreational Assets

Appalachia's numerous natural assets are the backbone of the recreational tourism industry, which is creating opportunities for entrepreneurship in the Region. Building local businesses that support outdoor recreation and tourism is an increasingly important way to diversify rural economies. To capitalize on this expanding industry in the Region, ARC invested in several projects designed to leverage natural assets. Multiple projects focused on creating and extending hiking, biking, and motorsports trails.

In FY 2019, ARC provided a grant to Garrett County, Maryland to continue the expansion of the Eastern Continental Divide Loop Trail, an effort the county has been engaged in for many years. Over the last several years, the county has seen steady increases in the number of visitors and a corresponding increase in sales tax and lodging sales tax revenues. Through this new grant, the county will improve 11,053 linear feet of the existing foot trail as part of a multi-phased project to create a hard-pack trail that will connect the 150-mile Loop trail with the 132-mile Great Allegheny Passage. Improvements to the trail will serve and improve seven existing businesses catering to daytime and overnight visitors, serve as a lab for 40 students enrolled in the Adventure Sports Management program at Garrett College, and help retain 50 existing jobs. The improved trail segment will help Garrett County strengthen their tourism economy and support recreation in the region, such as hiking, backpacking, trail running, cross-country skiing, and educational study.

Cultural Assets

Strategic investments in cultural assets, such as downtown redevelopment, gateway communities, historic districts, tourism trails, and other unique community features, can help revitalize and enrich local economies. ARC invested in a range of cultural projects across the Region in FY 2019 to help communities strengthen their local economies and improve the quality of life. One such project is ARC's support for the second phase of the Blue Ridge Craft Trails project, an effort that will benefit 100 entrepreneurs and businesses and attract new visitors into 40 communities featured on the trails. Western North Carolina is a leading center for craft production and education in the United States, but previously lacked a coordinated strategy to promote or brand the industry. The ARC grant will continue an effort to develop regional marketing and build infrastructure to support entrepreneurs in finding new pathways to increased sales and economic stability. Funding will be used to add 100 sites and events to the existing online trail inventory, as well as create 30 curated itineraries to attract visitors to shop, eat, and lodge in towns located throughout the 25 counties of western North Carolina.

ARC also continued its partnership with the National Endowment for the Arts and the Conservation Fund 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.

Appalachian Leadership Institute

In FY 2019, ARC launched the Appalachian Leadership Institute to equip a diverse network of leaders with the skills, expertise, and vision to address Appalachia's most pressing issues. The Institute will increase the Region's economic competitiveness and help build regional leadership capacity across Appalachia by engaging key public, nonprofit, and private sector leaders and focusing on economic development and other challenges facing rural and Appalachian communities. Upon the completion of the program, participants will possess the knowledge and skills necessary to make a direct and sustainable impact in their community and state and across the Region. Applications were opened in April 2019 and ARC received 181 applications, of which 40 were selected to participate in the inaugural class. The class will graduate in July 2020 and will be integrated into an alumni program to continue networking and collective action. Applications for the class of 2020–2021 will open in March 2020.

ARC-Sponsored Student Programs

To help build student leadership capacity, ARC funded the Appalachian Teaching Project (ATP) in FY 2019, led by the Consortium of Appalachian Centers and Institutes, a coalition of 16 Appalachian studies organizations in 11 Appalachian states. Schools participating in ATP offer a directed seminar that guides students in developing and executing field-based research projects specific to the needs of their surrounding, often distressed, communities and in alignment with one or more of the ARC strategic goals. As a capstone to this work, students and their faculty sponsors travel to Washington, DC to present their work to other ATP-participating institutions, ARC leadership, and community leaders in a formal peer-to-peer symposium.

In FY 2019, ARC also supported the Oak Ridge National Laboratory (ORNL) summer science, technology, engineering, and mathematics (STEM) program, a two-week, residential, hands-on learning program delivered through Oak Ridge Associated Universities. This year, 36 high school students and 16 high school teachers, representing 10 Appalachian states, participated in the main STEM program, and an additional 26 middle school students participated in a one-week science academy. Program activities included lab time at the renowned Oak Ridge National Laboratory and visits to nearby industries, universities, and museums to experience real-world applications of science, math, and technology. These annual summer STEM programs provide a unique opportunity for students to work in collaborative teams with world-class scientists at ORNL to investigate science and technology, ranging from robotics to alternative energy to building a supercomputer. Teacher participants have the opportunity to enhance their teaching skills by learning how to translate their program research into classroom learning.

Emerging Leaders

In FY 2019, ARC provided a grant to Auburn University for the Alabama Community Capacity Network (ACCN), a new educational initiative made up of 12 participating colleges and universities from 12 counties across Appalachian Alabama. The ACCN will develop leadership skills for 72 students each year, expand awareness of community assets, and provide a platform for collaboration between students and community members with a focus on identifying opportunities and addressing challenges related to sustainable community and economic development in the region. This network will give next-generation leaders the opportunity to develop their leadership and communication skills and build awareness of community assets and challenges to economic development, while fostering student and local university ties to the community. The program will provide a platform for participating students, faculty, and community partners to enhance existing relationships and create new collaborative partnerships that will build community capacity and strengthen economic growth in Appalachian Alabama.

Taken together, these FY 2019 activities furthered progress toward ARC's strategic investment goals and helped strengthen the Appalachian Region's economy.

Appalachian Regional Commission Projects Approved in Fiscal Year 2019

(in thousands of dollars)

	Number of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Asset-Based Development	35	$13,520.3	$948.5	$11,093.1	$25,561.9
Business Development	79	41,135.3	3,078.5	45,005.5	89,219.3
Civic Entrepreneurship	8	1,126.1	0.0	468.8	1,594.8
Community Development	136	62,190.6	26,830.9	97,370.9	186,392.5
Education and Workforce Development	94	38,778.7	4,133.1	31,946.0	74,857.7
Health	22	7,561.8	6,006.8	11,162.4	24,730.9
Research and Evaluation	13	1,299.7	55.0	483.0	1,837.7
State and Local Development District Planning and Administration	95	11,161.9	60.6	8,195.2	19,417.7
Totals	**482**	**$176,774.3**	**$41,113.4**	**$205,724.8**	**$423,612.6**

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

APPALACHIAN REGIONAL COMMISSION STRUCTURE AND PROGRAMS

Congress established ARC to address the profound economic and social problems in the Appalachian Region that made it a "region apart" from the rest of the nation. The Commission was charged to:

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

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

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

The Commission by law directs at least half of its grant funds to projects that benefit economically distressed counties and areas in the Region. In part, ARC gauges its long-term progress toward helping the Region achieve economic parity with the nation in terms of the gradual reduction in the number of such counties and areas over time. The maps on page 15 show the Region's high-poverty counties in 1960 and current high-poverty counties. The change is dramatic. (Also see page 50 for a chart showing the number of Appalachian counties by economic quartile in FY 2019.)

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 predevelopment 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.

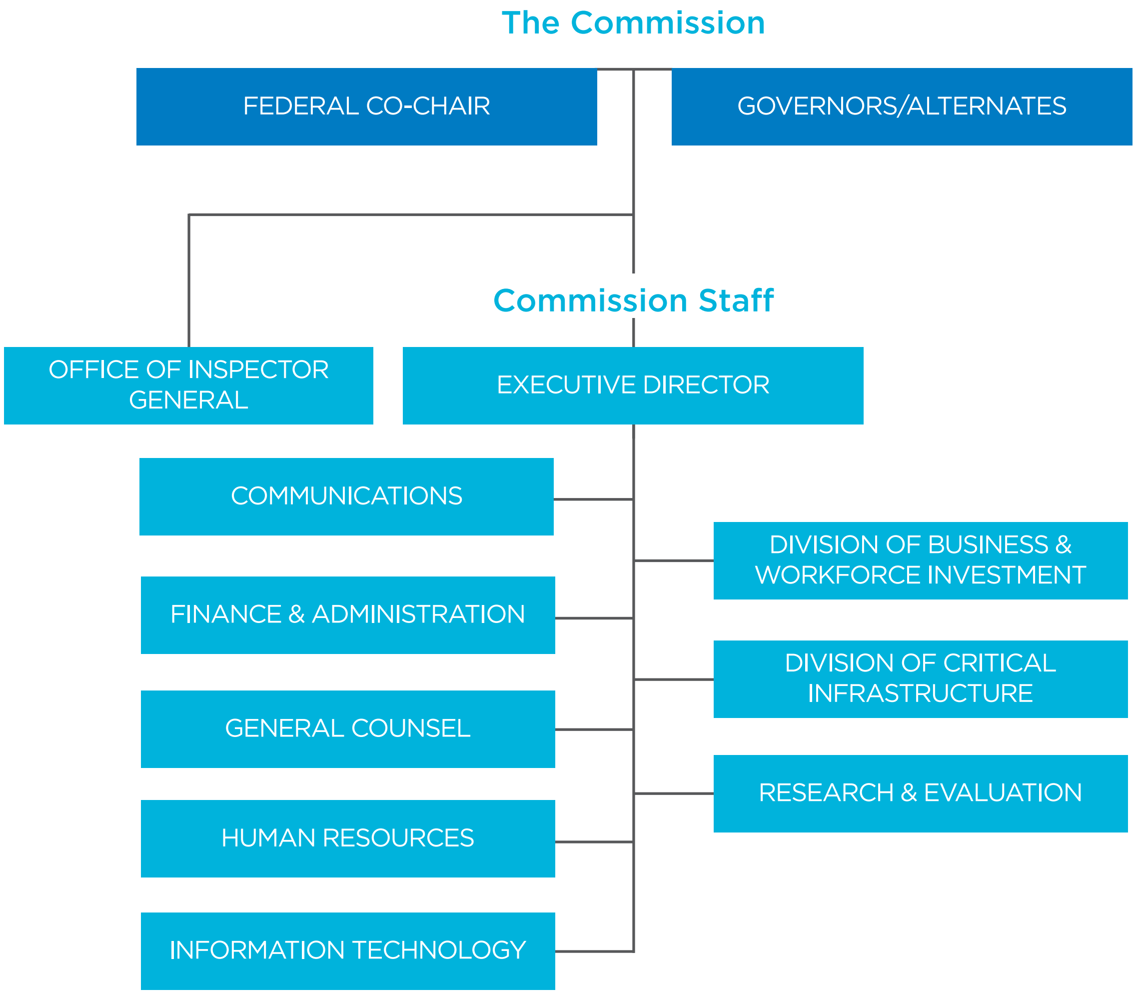
Three independent studies have found that ARC's coordinated investment strategy has paid off for the Region in ways that have not been evident in parts of the country without a regional development approach. A 1995 study funded by the National Science Foundation compared changes in Appalachian counties with their socioeconomic "twin" counties outside the Region over 26 years, from 1965 to 1991. This analysis, controlled for factors such as urbanization and industrial diversification, found that the economies of the Appalachian counties grew significantly faster than those of their non-Appalachian counterparts. A later report by Economic Development Research Group extended this analysis to 2000 and confirmed the earlier findings on the impact of ARC's investment. The study found that, on average, the gap between Appalachian counties and their non-Appalachian twin counties grew significantly in the 1990s. Most recently, ARC commissioned a report (in 2005) that analyzed 50 years of socioeconomic trends in Appalachia and summarized the economic impacts accruing to the Region through ARC's non-highway investments. The report also includes results from a rigorous quasi-experimental research method indicating that counties that received ARC investments increased per capita income and added employment at a faster rate than similar counties that did not receive ARC investments.

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

APPALACHIAN REGIONAL COMMISSION ORGANIZATION



vote. Accordingly, all program strategies, allocations, and other policy must be approved by both a majority of the governors and the federal co-chair. All projects are approved by a governor and by the federal co-chair. This consensus model ensures close collaboration between the federal and state partners in carrying out the mission of the agency. It also gives the Commission a nonfederal character that distinguishes it from typical federal executive agencies and departments.

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

In FY 2019, 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 56 nonfederal positions. Commission staff are charged with serving both the federal and the state members impartially in carrying out ARC programs and activities, and they provide the legal support, technical program management, planning and research, and financial/administrative management necessary for ARC's programs.

Public and Private Partnerships

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

- **Federal and State Basic Agencies**. About half of past ARC grants have been administered under agreements with federal agencies, mainly U.S. Department of Agriculture 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, the U.S. Forest Service, and the U.S. Departments of Energy, Labor, and Health and Human Services.

  ARC has also developed agreements with 15 state agencies in the Appalachian Region to administer construction-related projects. These partners include the Alabama Department of Economic and Community Affairs, the Georgia Environmental Finance Authority, the Kentucky Department of Local Government, the New York State Department of Economic Development, the Ohio Environmental Protection Agency, and the Pennsylvania Department of Community and Economic Development.

- **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.

- **Appalachian Community Capital (ACC)**. To address the gap in available business funding, particularly in economically distressed communities, ARC made the lead investment of $3.45 million in equity and operating support for the fund. Its regional lending partners raised an additional $12 million in debt and equity from Bank of America, Deutsche Bank, Calvert Foundation, and the Ford Foundation. Additional supporters include the Mary Reynolds Babcock Foundation, the Claude Worthington Benedum Foundation, the Annie E. Casey Foundation, and BB&T Bank. To date, ACC has deployed over $16 million in financing to member community development financial institutions, which have financed 70 businesses that have created or retained 1,800 new jobs in rural Appalachia.

- **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 multi-year, $1 million research project to study factors that support a culture of health in Appalachian communities and to determine whether that knowledge can be translated into actions that address health disparities between Appalachia and the nation as a whole.

- **Researching Opioid Abuse and Related Health Challenges in Appalachia**. A partnership with the National Institutes of Health, 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 $1.75 million to these multi-agency research initiatives.

- **Department of Labor: Workforce Opportunities for Rural Communities (WORC).** A partnership with the Delta Regional Authority and the Employment and Training Administration in the Department of Labor, which awarded $29.2 million in demonstration grant funds to expand the impact of workforce development initiatives in the Appalachian and Delta Regions. The WORC Initiative enables impacted communities to develop local and regional workforce development solutions aligned with existing economic development strategies and community partnerships to promote new, sustainable job opportunities and long-term economic vitality. These demonstration grant projects will provide valuable career, training, and support services to dislocated workers, new entrants to the workforce, and incumbent workers in counties and parishes and/or areas currently underserved by other resources.

- **West Virginia POWER Support Project.** The West Virginia Hub, the Benedum Foundation, and ARC have partnered in an initiative to support the teams behind the WV POWER projects. The initiative aims to help grantees to carry out their projects successfully, to align their work with other projects occurring in the same counties, and to find technical assistance to address challenges and needs emerging in project implementation. This collaborative initiative brings together current and past POWER grantees to network, problem solve, build new collaborations, and deepen relationships with project funders and technical assistance providers.

- **Regional Educational Laboratory for Appalachia (REL-AP).** ARC serves on the governing board of the U.S. Department of Education-funded REL-AP, operated by SRI, Inc. The board provides guidance that supports the SRI team's success in carrying out rigorous research, technical support, and dissemination efforts that focus on high-leverage problems in their four-state region of Kentucky, Tennessee, Virginia, and West Virginia. ARC helps REL-AP amplify its reach by helping connect REL staff with other service providers working on similar issues, and by sharing information from high-quality research, technical support, and dissemination efforts. These efforts help inform and build educator and policymaker capacity to improve outcomes for all students in the Region and help both organizations achieve their mutual goals.

- **National Energy Technology Laboratory (NETL) Regional Workforce Initiative.** A regional workforce initiative that is a means of assisting businesses to incorporate the latest technologies. NETL is a U.S. Department of Energy research and development agency with two facilities in the Appalachian Region: Morgantown, West Virginia, and Pittsburgh, Pennsylvania. This initiative aids businesses and governments in the Appalachian Region in learning about and applying the latest scientific research in areas such as energy production, advanced manufacturing, extraction of rare earth metals, and natural gas storage. ARC has been working to connect NETL with colleges, Local Development Districts, state and local governments, and others so they and their clients can make use of NETL's resources. Through ARC facilitation, NETL has also become active with the Tristate Energy and Advanced Manufacturing (TEAM) program, funded by the ARC POWER initiative.

- **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.

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 2019 was ARC's fourth 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 2019 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 2019, ARC received an appropriation of $165.0 million for area development activities and allocated by formula $103.3 million, 62.6 percent of the appropriation, to the states. Within the framework of the strategic plan, the states have wide discretion in the use of these funds. Priorities for area development funding are set forth in the Commission's strategic plan, and state and community leaders work together to package funding from public and private organizations to implement those priorities. All ARC non-highway grants are approved by a governor and by the federal co-chair.

ARC's FY 2019 appropriation included $50 million for the Partnerships for Opportunity and Workforce and Economic Revitalization (POWER) Initiative, $16 million for a program to support the automotive and aviation sectors in Southern and South Central Appalachia, $10 million to continue a program of high-speed broadband deployment in economically distressed counties in central Appalachia, and $16 million for a program of basic infrastructure improvements in distressed counties in Appalachia.

Special Focus on Distressed Counties

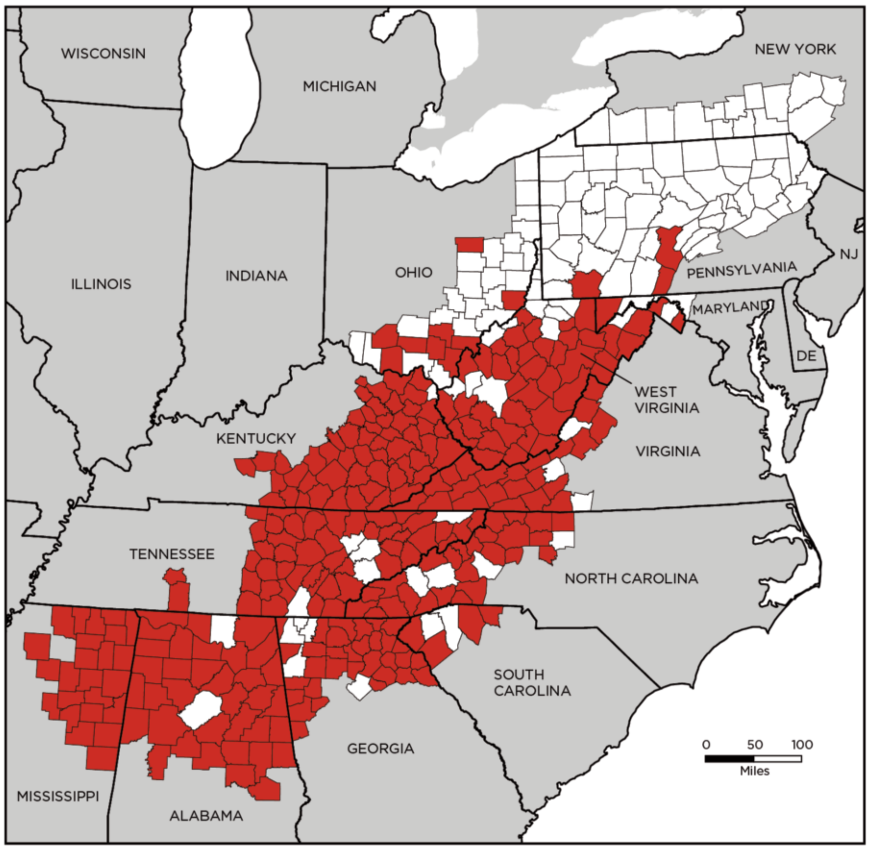
The Commission targets special resources to the most economically distressed counties and areas in the Region, using a very conservative measure of economic distress based on three economic indicators: three-year average unemployment rates, per capita market income, and poverty rates. ARC uses an index-based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

High-Poverty Counties in the Appalachian Region

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

1960

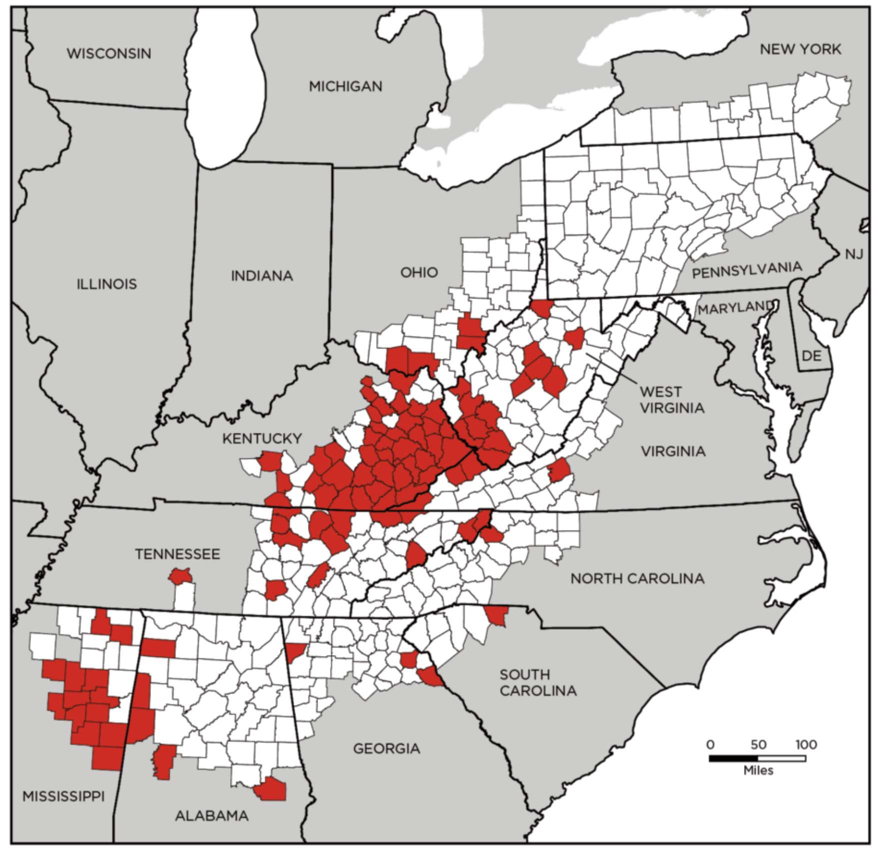
295 High-Poverty Counties



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

2013–2017

98 High-Poverty Counties



Data Source: U.S. Census Bureau, American Community Survey, 5-Year Estimates, 2013–2017 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 2019, 81 counties were designated distressed, 119 were designated at-risk, 205 were designated transitional, 14 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 17 for a map of Appalachian counties classified by economic status.

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

Business Development Revolving Loan Fund Grants

Business development revolving loan funds (RLFs), pools of money used by grantees for the purpose of making loans to local businesses to create and retain jobs, have been used by ARC since 1977 as an effective tool for economic development. Limited access to credit is one of the major problems in local business development in Appalachia, and is a significant contributing factor to local economic distress. Since the first RLF grants were awarded, ARC-supported revolving loan funds have disbursed $222.3 million in 2,774 loans, resulting in 95,916 jobs created or retained and leveraging $1.57 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 2019, funding for the ADHS was included in the overall federal-aid highway funds apportioned to the states. These funds are apportioned to the states annually, with each state using the funding at its own discretion. The federal share of funding for ADHS corridors and access roads can normally range from 80 to 100 percent, as determined by the state highway agencies. Although funds used for the ADHS are derived from the highway trust fund, ARC exercises policy and corridor alignment control over the system.

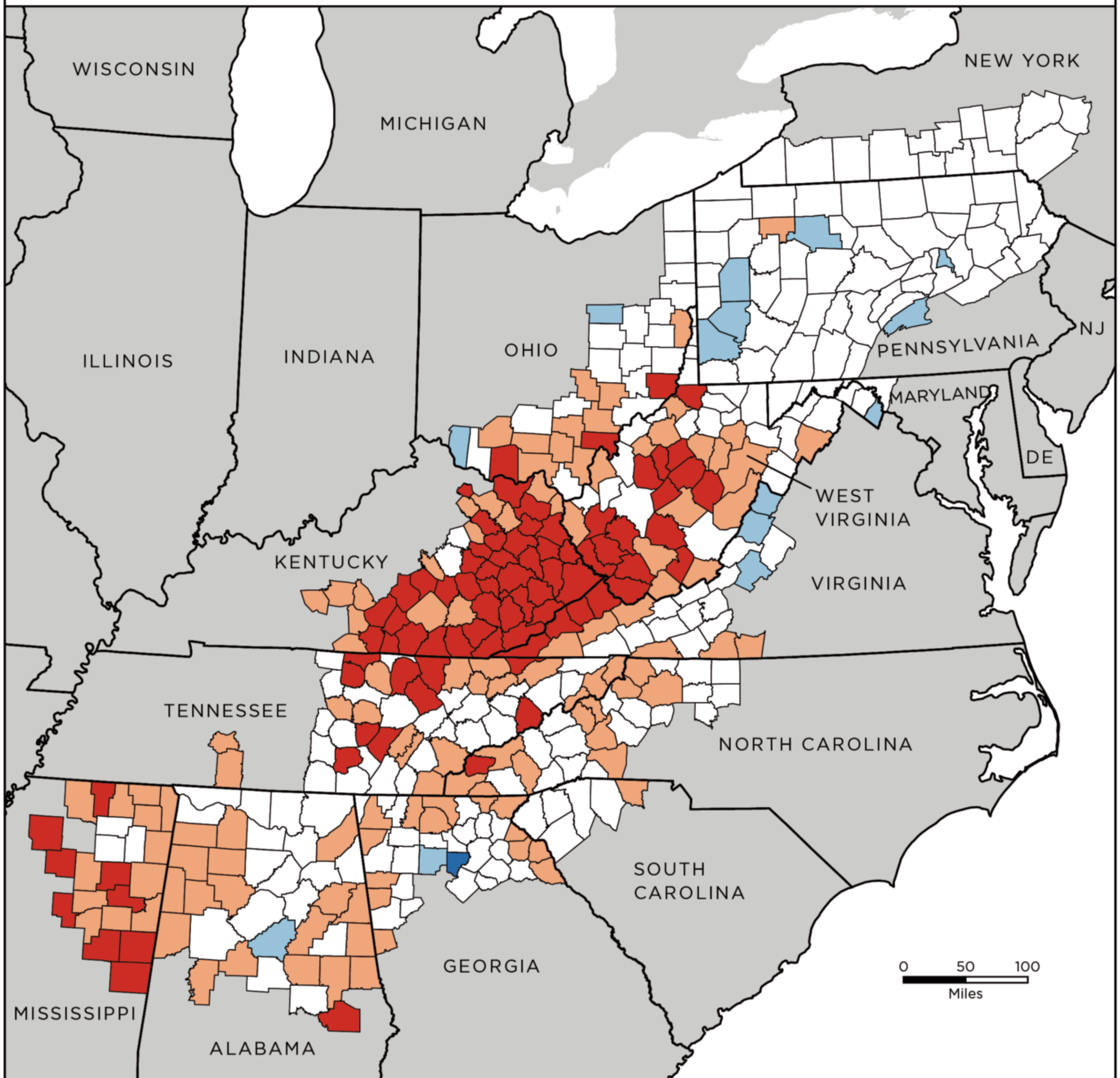
At the end of FY 2019, a total of 2,645.4 miles, or 85.6 percent, of the 3,090 miles authorized for the ADHS were complete; 158.2 miles were under construction or partially complete and open to traffic; 56.9 miles were in the final design or right-of-way acquisition phase; and 229.6 miles were in the 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

County Economic Status in Appalachia, Fiscal Year 2019

(Effective October 1, 2018 through September 30, 2019)



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

County Economic Levels

- Distressed (81)
- At-Risk (119)
- Transitional (205)
- Competitive (14)
- Attainment (1)

Map Created: August 2018
Data Sources:
Unemployment data: U.S. Bureau of Labor Statistics, LAUS, 2014–2016
Income data: U.S. Bureau of Economic Analysis, REIS, 2016
Poverty data: U.S. Census Bureau, American Community Survey, 2012–2016

elected officials and non-elected community leaders. While LDDs have a wide array of responsibilities as determined by their individual boards of directors, they typically are involved in four key areas that support the development of the Region: providing area-wide planning and program development, and coordination of federal and state funding sources; assisting local governments in providing services, especially in poorer, more isolated communities; promoting public-private partnerships and assisting in business development; and helping communities assess, plan, and conduct a wide range of activities such as job training, business development, telecommunications planning and implementation, and municipal government support. The Commission has also supported the training and technical assistance activities of the Development District Association of Appalachia, an organization of the Region's 73 LDDs.

Research and Technical Assistance Activities

ARC funds research and evaluation studies that produce information on socioeconomic and demographic conditions in the Region, including baseline data and trend analysis, economic impact analysis, program evaluation, and regional economic and transportation modeling. ARC-funded research focuses on strategic analyses of key economic, demographic, and quality-of life factors that affect Appalachia's current and future development prospects. The aim of this research is to help policy makers, administrators, and staff target resources efficiently, and to provide high-quality research for the general public and researchers. ARC also funds project evaluations by outside researchers or consultants to assess whether Commission-funded projects have made a measurable difference in social or economic outcomes. The purpose of these evaluations is to determine the extent to which the projects have contributed to the attainment of economic development objectives identified in ARC's strategic plan. In addition, evaluations are used to verify project results and to assess the validity of specific performance measurements for monitoring and evaluating specific types of projects.

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

Research completed or in progress in FY 2019 included:

- Three reports offering Appalachian communities' recommendations to address the health issues of obesity, opioid misuse, and smoking
- An update to the data component of a research report examining entrepreneurship in Appalachia
- Extended work on the coal industry ecosystems research that includes a shift-share refinement of the ecosystem; an analysis of the power industry ecosystem; an assessment of local funding support for elementary and secondary education; a cluster analysis; and a look at industries, occupations, and entrepreneurship in Appalachia
- A study of economic resilience in Appalachian communities
- A research report examining the tourism industry in Appalachia
- A data overview study examining state- and county-level data for the 13 Appalachian states on topics including population, age, race, ethnicity, housing, education, labor force, employment, income, poverty, health insurance, disability status, and migration
- A website featuring all of the reports and data from the "Creating a Culture of Health in Appalachia: Disparities and Bright Spots" initiative
- Updates to a website documenting overdose deaths as well as socioeconomic and economic indicators in Appalachia
- A report monitoring and evaluating the impact of ARC's POWER-funded investments
- A program evaluation of ARC's water and wastewater investments
- A process review of external grant administration for ARC construction grants
- An evaluation of the experiences of alumni of the Appalachian Teaching Project
- An ongoing analysis of coal production trends and the resulting impacts on transportation in Appalachia
- An update and expansion of previous research regarding the impact of Interstate 81 on the Appalachian Region

- A case study assessing the anticipated economic benefits of completing the Appalachian Development Highway System (ADHS) Corridor V in Northeast Mississippi
- A study examining traffic safety trends in Appalachia, including the impact of the ADHS and the effect of the substance abuse epidemic on traffic safety in Appalachia
- A study to identify variables impacting transportation on accessibility in Appalachia and create a research framework to quantify accessibility in a future study
- A study to inventory and assess public transportation in Appalachia
- A case study assessing the anticipated economic benefits of completing ADHS Corridor N in Maryland and Pennsylvania

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, and continues to face many challenges when it comes to poverty, educational attainment, employment, population health, and broadband access.

Poverty

- According to the U.S. Census Bureau's American Community Survey, over the 2013–2017 period (which includes years of economic downturn and recovery), 16.3 percent of Appalachian residents lived below the poverty level, well above the U.S. average of 14.6 percent. The mean income of Appalachian households was $64,880, just 80 percent of the U.S. average of $81,283.

Educational Attainment

- During the same time period, the share of adults with a bachelor's degree or more was seven percentage points lower in Appalachia than in the nation as a whole; and in 306 Appalachian counties, fewer than one in five residents age 25 and over were graduates of a four-year college or university.

Employment

- The Appalachian Region lost over 600,000 jobs between 2007 and 2010, with losses taking place both during and after the Great Recession. It took the Region until 2015 to achieve its pre-recession level of employment: there were 13.1 million jobs in Appalachia in 2007, 12.5 million in 2010, and 13.2 million in 2015. Meanwhile, the United States as a whole was able to match its 2007 employment level of 199.5 million jobs by 2013, when total employment was reported at 182.3 million.
- Employment growth in the Appalachian Region lagged behind that experienced in the United States overall between 2000 and 2017. While the country overall saw an increase of 19 percent in total employment, the Region experienced growth of just 8 percent. Central Appalachia fared the worst among the subregions, losing 5 percent of its total employment over the time period.
- Between 2011 and 2018, coal mining employment in Central Appalachia decreased 59 percent—over 19,000 jobs were lost—and is not expected to return to its historic high.
- Between 2000 and 2017, manufacturing employment declined at a faster rate than the national trend in every Appalachian subregion. In Northern, North Central, and South Central Appalachia, employment in the industry fell 35 percent over the time period, compared to a decline of 25 percent at the national level.
- Employment in the health and social services sector has grown more slowly in the Appalachian Region than in the nation as a whole. While the United States overall experienced growth of 47 percent between 2000 and 2017, employment in the industry grew by

just 34 percent in Appalachia. Growth has been especially slow in Central Appalachia (21 percent over the time period), a subregion with particularly poor performance in health measures.

Population Health

- Over the 2013–2017 period, the opioid-related overdose mortality rate for people ages 15–64 was 79 percent higher in Appalachia than in the United States overall.
- A report released in 2017 documenting population health in Appalachia included 7 of the 10 leading causes of death in the United States: heart disease, cancer, chronic obstructive pulmonary disease (COPD), injury, stroke, diabetes, and suicide—and the Appalachian Region had higher mortality rates than the nation for each.
- Obesity, smoking, and physical inactivity—risk factors for a number of health outcomes—are all higher in Appalachia than in the nation overall.
- The Region also has a lower number of healthcare professionals when compared to the United States as a whole, including primary care physicians, mental health providers, specialty physicians, and dentists.

Broadband Access

- The Region lags behind the rest of the nation in access to affordable broadband telecommunications service. The role of the Commission is to help Appalachia reach parity with the nation. In an era of global competition, this requires a special emphasis on helping the people of Appalachia become a globally competitive workforce.

SUMMARY OF ACHIEVEMENTS

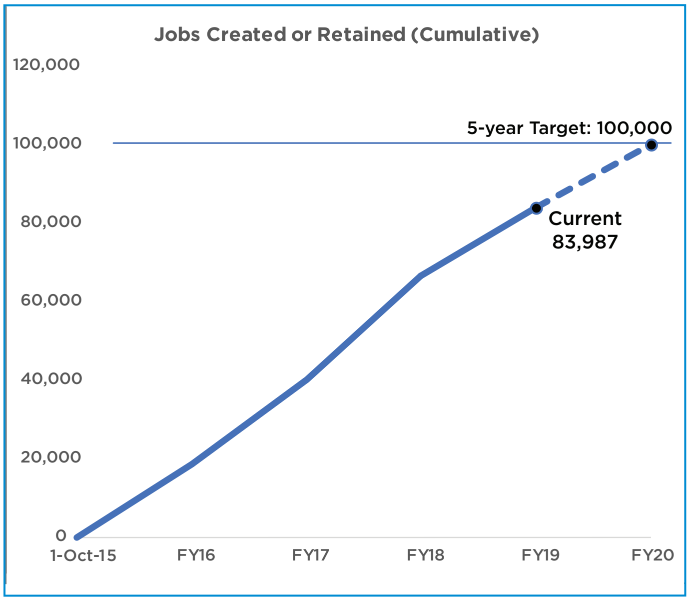
PERFORMANCE TARGETS AND INITIAL ESTIMATES FOR FISCAL YEAR 2019 PROJECTS

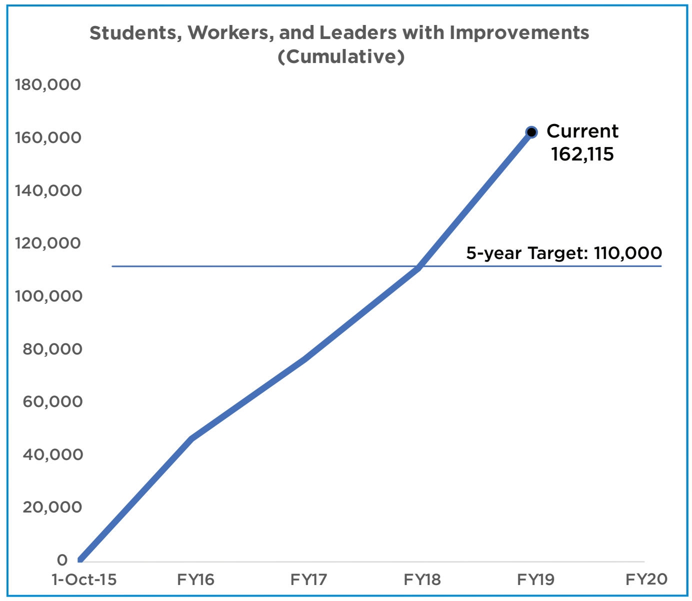
ANNUAL PERFORMANCE TARGETS	INITIAL ESTIMATES	EXPECTED RESULTS
Outcome Targets		
20,000 jobs created or retained	17,282 jobs created or retained	Meet 86% of target
22,000 students, workers, and leaders with improvements	51,204 students, workers, and leaders with improvements	Exceed target by 133%
22,000 businesses and households with access to improved infra-structure	81,484 businesses and households with access to improved infrastructure	Exceed target by 270%
2,500 businesses created or strengthened	4,678 businesses created or strengthened	Exceed target by 87%
250 communities with enhanced capacity	647 communities with enhanced capacity	Exceed target by 159%
Leverage Target		
Achieve a 6:1 ratio of leveraged private investment to ARC funds	3:1 ratio	Meet 51% of target
Matching Target		
Achieve a 2:1 ratio of matching funds to ARC funds	1:1 ratio*	Meet 70% of target
Distressed Counties/Areas Target		
Direct 50% of ARC funds to benefit distressed counties or areas	70% of funds**	Exceed target by 20 percentage points

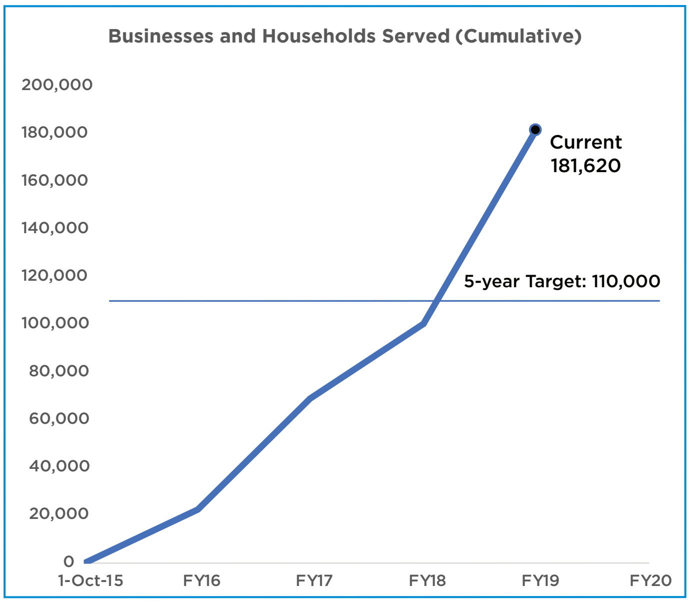
**Ratios are rounded to the nearest whole number.*
***Project funds are included if the project primarily or substantially benefits distressed counties or areas.*

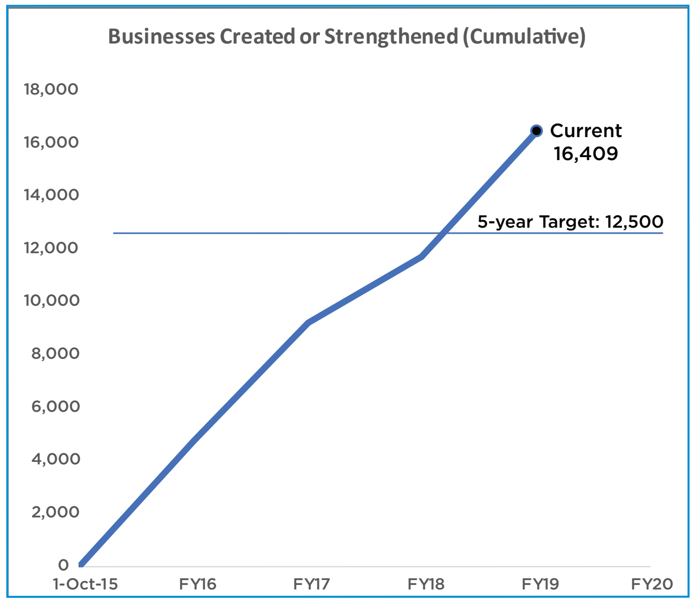
Performance results are assessed in detail in Part II (page 25).

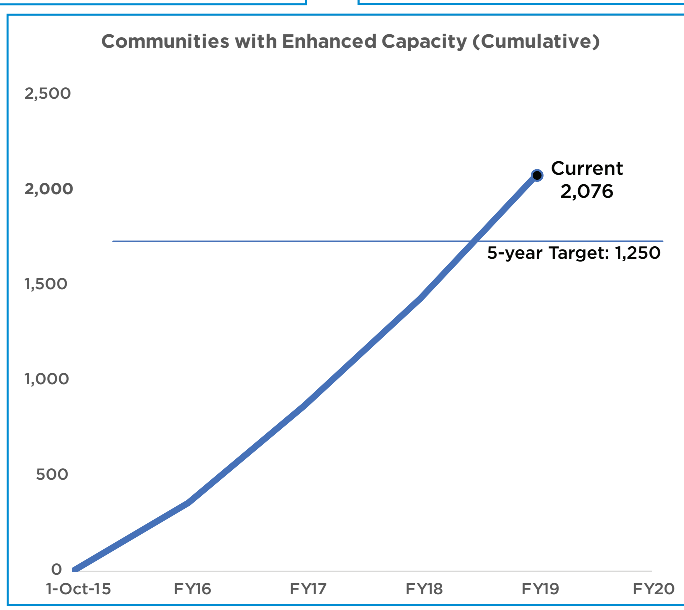
Progress Toward ARC Strategic Plan Performance Goals, Fiscal Years 2016–2020











FINANCIAL MANAGEMENT

Financial Management System

In FY 2019 the Appalachian Regional Commission renewed its contract with United States Department of Agriculture (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 2019 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, 2019, 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, 2019, 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 reviews. During FY 2019, the OIG issued 44 reports, including 34 grant audits, a Financial Statement audit, and nine program-related reviews. The reviews included the timely use of advances, large balances, status of older grants, performance period end-dates, performance measures, and applications and approvals.

The dollar value of grants and payments reviewed during FY 2019 was approximately $43 million, and results included $3.8 million in deobligations that could be put to better use. By the end of the fiscal year, management decisions had been made regarding most issued reports, and recommendations had been implemented. Several reports remained open pending final actions.

Office of Inspector General reports are available 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, 2019, 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, 2019, totaled $484.3 million, versus $427.8 million in FY 2018. The change was due to an increase in the fund balance with the U.S. Department of the Treasury. Liabilities equaled $29.2 million in FY 2019 versus $27.0 million in FY 2018. The increase was due to an increase in accounts payable. The U.S. Treasury held 91.2 percent of ARC's assets. In addition, 5.4 percent, or $26.3 million, represented Commission grant funds held by intermediary organizations in Appalachia for the operation of revolving loan funds promoting business development. The federal government retains a residual interest in the loan funds. Remaining assets are cash and advances to grantees.

The net position increased from $400.8 million in FY 2018 to $455.1 million in FY 2019. FY 2019 liabilities included $25.8 million in payments due to grantees, $840,014 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 2019 totaled $110.8 million, compared with $91.5 million in FY 2018. ARC receives most of its resources from congressional appropriations, which totaled $165.0 million in FY 2019. In addition, ARC received $2.83 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 $107.2 million.

ARC incurred obligations of $181.6 million in FY 2019 and has an unpaid obligated balance (net, end of year) of $355.4 million. Of FY 2019 obligations, $176.8 million funded ARC's Area Development Program.

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

Statement of Assurance

On the basis of ARC's comprehensive internal control program during FY 2019, 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, 2019, 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, 2019, were operating effectively and no material weaknesses were found in the design or operation of the controls.

Tim Thomas
ARC Federal Co-Chair

January 14, 2020

PART II:
FISCAL YEAR 2019 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 initial estimates reported by the projects of the 13 Appalachian states;
- Summarizes the findings of ARC-initiated evaluations and project verification; 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 2019.

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 initial estimates for FY 2019 and for each of the five prior fiscal years, where applicable; the results of project verification; 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 500 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 2019, in addition to funding for ARC's base Area Development Program, the Commission's appropriation included funding for the Partnerships for Opportunity and Workforce and Economic Revitalization (POWER) Initiative, a multi-agency initiative that targets federal resources to help diversify economies in communities and regions affected by job losses in the coal mining industry; for support of the automotive and aviation sectors in Southern and South Central Appalachia; 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 80).

In FY 2019, ARC met or exceeded most of its performance outcome targets. Initial estimates were particularly strong for investments in workforce training, education, and infrastructure improvements. These investments address the needs of many communities across Appalachia—especially those hit hard by recent declines in coal-related industries—to diversify their employment base, enhance workforce development, and build critical infrastructure needed to strengthen the Region's economy.

FISCAL YEAR 2019 INVESTMENT TARGETS AND INITIAL ESTIMATES	
ANNUAL OUTCOME TARGETS	INITIAL ESTIMATES
20,000 jobs created or retained	17,282 jobs created or retained
22,000 students, workers, and leaders with improvements	51,204 students, workers, and leaders with improvements
22,000 businesses and households with improved infrastructure	81,484 businesses and households with improved infrastructure
2,500 businesses created or strengthened	4,678 businesses created or strengthened
250 communities with enhanced capacity	647 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,
- Verification of outcomes, and
- Independent evaluations.

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

Performance Estimates: Initial Estimates

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

Project Performance Verification: Intermediate Results

The performance verification process, a critical part of ARC's GPRA compliance, is designed to confirm project outcomes after the projects have been completed. In FY 2019, ARC continued an effort to expand the performance verification process in order to achieve a more comprehensive sample of projects. Under the process, project performance is verified for projects that have been closed for at least two years, in order to capture more accurate data on performance measures, which can continue to accrue after a project has been completed. As a general rule, in each fiscal year ARC verifies the outcomes of 40 to 60 projects.

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

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

Program Evaluations: Final Results

Independent, external evaluation of ARC initiatives and sub-programs is a critical component of ARC's GPRA compliance. Evaluations confirm both the outcomes and

the overall effectiveness of projects. Evaluations focus on the extent to which the projects have achieved, or contributed to the attainment of, their objectives. Particular emphasis is placed on assessing the utility and validity of the outcome measures. The findings of these project evaluations are summarized and made available to state and local organizations engaged in carrying out projects under the five general goals in ARC's strategic plan, and are published on ARC's website. Summaries of recent evaluations are included in this report under each strategic investment goal area.

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

Annual Performance Targets and Measures

Each fiscal year, ARC submits to the 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 initial estimates toward reaching performance targets as stated in the strategic plan. Although the projects funded by ARC each year generate many more measures than those reported for GPRA compliance, the measures reported relate uniquely to ARC's five strategic investment goals (see table on page 27).

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

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 Initial Estimates

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

Outcome Measures

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

Outcome Target and Initial Estimates

JOBS CREATED OR RETAINED IN FISCAL YEAR 2019	
ANNUAL OUTCOME TARGET	INITIAL ESTIMATE
FY 2019: 20,000 jobs created or retained	**FY 2019:** 17,282 jobs created or retained

FY 2019: **Expected to meet 86% of target.** In FY 2019, states chose to fund more education, workforce, and broadband infrastructure projects, which will not lead to as many jobs as in past years.

JOBS CREATED OR RETAINED IN FISCAL YEARS 2014–2018	
ANNUAL OUTCOME TARGETS	INITIAL ESTIMATES
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
FY 2016: 20,000 jobs created or retained	**FY 2016:** 18,702 jobs created or retained
FY 2017: 20,000 jobs created or retained	**FY 2017:** 21,341 jobs created or retained
FY 2018: 20,000 jobs created or retained	**FY 2018:** 26,662 jobs created or retained

Project Verification Sampling

In FY 2019, members of ARC's verification team surveyed 18 projects completed in FY 2015 through FY 2018 that had targets for jobs created or retained to compare estimated and actual results.

Number of Projects Surveyed	Projected Number of Jobs Created or Retained	Actual Number of Jobs Created or Retained	Results Achieved
18	654	2,195	336%

As shown above, the projects surveyed achieved 336% of projected results for jobs created or retained.

Project Evaluation: Final Results

POWER Monitoring and Evaluation

In October 2019, findings and recommendations from the first phase of an evaluation of the POWER Initiative conducted by Chamberlin Dunn, were finalized. POWER (Partnerships for Opportunities and Workforce and Economic Revitalization) is a congressionally funded initiative that targets federal resources to help communities affected by job losses in coal mining, coal power plant operations, and coal-related supply chain industries due to the changing economics of America's energy production. This evaluation encompassed approximately 125 POWER grants funded by ARC and other federal, state, and local partners in fiscal years 2015–2017. POWER grants are organized into four broad development categories: workforce development, broadband and telecommunications, entrepreneurship, and business cluster development. The purpose of the evaluation was to determine the extent to which POWER grantees are progressing toward their stated performance outputs and outcomes, highlight success stories, flag potential issues or challenges, and recommend technical assistance and training needs for grantees.

In FY 2020, Chamberlin Dunn will continue to monitor implementation of POWER grants with a focus on the special needs of POWER substance abuse recovery projects, technical assistance grants, and other high priority areas.

Job Creation and Retention

In September 2015, ARC issued the report *Program Evaluation of the Appalachian Regional Commission's Job Creation and Retention Projects*, prepared by HDR, Inc., with Jack Faucett Associates, Inc. The report evaluated 286 job creation and retention projects funded between 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, ARC issued the report *Creating an Entrepreneurial Appalachian Region: Findings and Lessons from an Evaluation of the ARC's Entrepreneurship Initiative 1997–2005*, prepared by the Rural Policy Research Institute (RUPRI), the RUPRI Center for Rural Entrepreneurship, EntreWorks Consulting, and RTI International. The report evaluated ARC's Entrepreneurship Initiative (EI), which invested $43 million during that time span in projects to stimulate and support entrepreneurship across Appalachia. The evaluation included development of a metrics framework; analysis of data from ARC's grants management database, including project outcomes; four site visits; and interviews with stakeholders, economic development experts, and project grantees. The study found that the EI projects created 9,156 jobs, retained 3,022 jobs, created 1,787 new businesses, and provided services to 8,242 existing businesses, and were projected to leverage $109.9 million in private investment. Interviewees reported that EI projects raised the profile of entrepreneurship within the Appalachian Region, provided start-up funding for innovative projects, leveraged additional resources that allowed projects to achieve scale and impact, and facilitated networking and collaboration among practitioners.

Project evaluation reports are available online at 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 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 Initial Estimates

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

Outcome Measures

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

Outcome Target and Initial Estimates

STUDENTS, WORKERS, AND LEADERS WITH IMPROVEMENTS IN FISCAL YEAR 2019	
ANNUAL OUTCOME TARGET	INITIAL ESTIMATE*
FY 2019: 22,000 students, workers, and leaders with improvements	**FY 2019:** 51,204 students, workers, and leaders with improvements
**Excludes projects that provided computers or computer equipment that will benefit large numbers of students.*	

FY 2019: **Expected to exceed target by 133%.** This is likely due to additional funding ARC received for the POWER Initiative, which emphasized investments in workforce training. Also, in FY 2019 ARC funded two projects that provided computers or computer equipment that are estimated to benefit 2,552 students and workers, and three projects that will provide new or improved broadband access to an estimated 33,843 additional students.

STUDENTS, WORKERS, AND LEADERS WITH IMPROVEMENTS IN FISCAL YEARS 2014–2018*	
ANNUAL OUTCOME TARGETS	INITIAL ESTIMATES**
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*
FY 2016: 22,000 students, workers, and leaders with improvements	**FY 2016:** 46,513 students, workers, and leaders with improvements
FY 2017: 22,000 students, workers, and leaders with improvements	**FY 2017:** 30,263 students, workers, and leaders with improvements
FY 2018: 22,000 students, workers, and leaders with improvements	**FY 2018:** 34,135 students, workers, and leaders with improvements
**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.*	

Project Verification Sampling

In FY 2019, members of ARC's verification team surveyed 17 projects completed in FY 2015 through FY 2018 that had targets for students/trainees with improvements to compare estimated and actual results.

Number of Projects Surveyed	Projected Number of Students/Trainees with Improvements	Actual Number of Students/Trainees with Improvements	Results Achieved
17	4,921	11,792	240%

As shown above, the projects surveyed achieved 240 percent of projected results for students/trainees with improvements.

Project Evaluation: Final Results

Health

In August 2015, ARC issued the report *Program Evaluation of the Appalachian Regional Commission's Health Projects, 2004–2010*, prepared by the Community and Economic Development Initiative of Kentucky at the University of Kentucky. The report evaluated health projects funded by ARC between 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, ARC issued the report *Evaluation of the Appalachian Regional Commission's Education and Workforce Development Projects: 2000–2008*, prepared by the Westat Corporation, the Nick J. Rahall II Appalachian Transportation Institute, and the Economic Development Research Group. The report evaluated 386 education and workforce development projects funded by ARC between 2000 and 2008, with a total of $65 million in ARC investment. The evaluation included analysis of data from ARC's grants management database, grantee interviews, 15 in-depth case studies, and an extensive survey of project grantees. Survey responses showed that these projects had served more students and worker/trainees than projected (141,037, compared with 77,606) and substantially more students and workers/trainees were improved than originally projected (41,481, compared with 27,502). Among the students served by ARC projects, benefits included increased vocational and technical skills, enrollment in a college or postsecondary program, achievement of basic or academic skills in a specific subject, and achievement of a postsecondary degree, credential, or certification. Among workers/trainees served by ARC projects, benefits included improved skills in a new area—including vocational and technical skills, and basic or academic skills.

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 Initial Estimate

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

Outcome Measure

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

Outcome Target and Initial Estimates

BUSINESSES AND HOUSEHOLDS SERVED IN FISCAL YEAR 2019	
ANNUAL OUTCOME TARGET	INITIAL ESTIMATE*
FY 2019: 22,000 businesses and households served	**FY 2019:** 81,484 businesses and households served
**Initial estimate does not include households served by ARC-funded water storage tank construction and one outlier project with a large service area.*	

FY 2019: **Expected to exceed target by 270%.** In FY 2019, states chose to fund more infrastructure projects than in previous years. The number and size of broadband projects particularly have increased greatly, and this year account for one in five of the anticipated businesses and households served. In addition, ARC funded water-storage projects in FY 2019 that expect to serve a total of 8,442 additional businesses and households.

BUSINESSES AND HOUSEHOLDS SERVED IN FISCAL YEARS 2014–2018*	
ANNUAL OUTCOME TARGETS	INITIAL ESTIMATES**
FY 2014: 20,000 households served*	**FY 2014:** 23,989 households served*
FY 2015: 20,000 households served*	**FY 2015:** 25,593 households served*
FY 2016: 22,000 businesses and households served	**FY 2016:** 22,293 businesses and households served
FY 2017: 22,000 businesses and households served	**FY 2017:** 46,465 businesses and households served
FY 2018: 22,000 businesses and households served	**FY 2018:** 31,378 businesses and households served
**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.*	

Project Verification Sampling

In FY 2019, members of ARC's verification team surveyed eight projects completed in FY 2015 through FY 2018 that had targets for businesses and households served to compare estimated and actual results. Verification is for businesses and households served with water/sewer projects.

Number of Projects Surveyed	Projected Number of Businesses and Households Served	Actual Number of Businesses and Households Served	Results Achieved
8	4,967	4,272	86%

As shown above, the projects surveyed achieved 86 percent of projected results for businesses and households served. Results were skewed by one project that overestimated the households that would be served by a large amount.

Project Evaluation: Final Results

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

In FY 2017, ARC published a report led by Economic Development Research Group that analyzed the effect of ADHS development on economic growth in Appalachia, and quantified the future economic benefits and costs of completing the system. The study applies a mix of data and modeling efforts to measure passenger and freight traffic, the costs of corridor completion, time savings, and other user benefits of the ADHS, and the broader economic development and trade impacts of the ADHS. The main purpose of the study is to estimate the economic benefits and costs of system and corridor completion to inform stakeholders as they work on funding and constructing the final segments of the ADHS. The study's key findings include: 1) Increased economic activity associated with the ADHS system has helped create or support more than 168,000 jobs across the 13 Appalachian states, with nearly $7.3 billion of added worker income annually; 2) ADHS investments made between 1965 and 2015 generated more than $19.6 billion per year of added business sales in Appalachia, representing over $9 billion of added gross regional product; 3) The ADHS saves 231 million hours of travel time annually. Twenty percent of car vehicle hours saved and 31 percent of freight truck vehicle hours saved are associated with trips with at least one end located outside the Appalachian states; and 4) As of 2015, the value of transportation cost savings and productivity gains associated with the ADHS amounts to $10.7 billion annually. Informant interviews were conducted to complete case studies of major corridors and multimodal facilities located on or near corridors to show the connection with intermodal transportation.

Telecommunications and Technology

In November 2015, ARC issued the report *Program Evaluation of the Appalachian Regional Commission's Telecommunications and Technology Projects: FY 2004–FY 2010*, prepared by RTI International and independent consultants. The report evaluated 322 telecommunications and technology projects ARC had funded between 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 September 2018, ARC launched a new program evaluation of ARC-funded water and wastewater infrastructure projects in the Appalachian Region. The evaluation will encompass approximately 385 projects funded from fiscal year 2009 through fiscal year 2016. ARC's water and wastewater infrastructure projects include new water and/or wastewater systems that serve residential, commercial, or industrial properties, or some combination thereof; rehabilitation to existing water and/or wastewater systems; and the construction or rehabilitation of water storage tanks. The main purpose of the evaluation is to determine the extent to which these projects have succeeded in achieving ARC's strategic goals; inform ARC of ways to better encourage innovation as well as develop, assess, and manage water and wastewater infrastructure projects; and enhance ARC's ability to document and report program impacts.

In September 2013, ARC 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 Initial Estimates

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

Outcome Measures

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

Outcome Target and Initial Estimates

BUSINESSES CREATED OR STRENGTHENED IN FISCAL YEAR 2019	
ANNUAL OUTCOME TARGET	INITIAL ESTIMATE
FY 2019: 2,500 businesses created or strengthened	**FY 2019:** 4,678 businesses created or strengthened

FY 2019: **Expected to exceed target by 87%.** The large numbers are due to the priorities of the POWER program as well as the choice of states to fund more projects with these measures.

BUSINESSES CREATED OR STRENGTHENED IN FISCAL YEARS 2016–2018*	
ANNUAL OUTCOME TARGET	INITIAL ESTIMATE
FY 2016: 2,500 businesses created or strengthened	**FY 2016:** 4,757 businesses created or strengthened
FY 2017: 2,500 businesses created or strengthened	**FY 2017:** 4,474 businesses created or strengthened
FY 2018: 2,500 businesses created or strengthened	**FY 2018:** 2,500 businesses created or strengthened
**FY 2016 was the first year with a performance target for businesses created or strengthened.*	

Project Verification Sampling

In FY 2019, members of ARC's verification team surveyed 13 projects completed in FY 2015 through FY 2018 that had targets for businesses created or strengthened to compare estimated and actual results.

Number of Projects Surveyed	Projected Number of Businesses Created or Strengthened	Actual Number of Businesses Created or Strengthened	Results Achieved
13	288	627	218%

As shown above, the projects surveyed achieved 218% of projected results for communities with enhanced capacity.

Project Evaluation: Final Results

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

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

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 Initial Estimates

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

Outcome Measures

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

Outcome Target and Initial Estimates

COMMUNITIES WITH ENHANCED CAPACITY IN FISCAL YEAR 2019	
ANNUAL OUTCOME TARGET	INITIAL ESTIMATE
FY 2019: 250 communities with enhanced capacity	**FY 2019:** 647 communities with enhanced capacity

FY 2019: **Expected to exceed target by 159 percent.** This is due in part to priorities established for the POWER Initiative.

COMMUNITIES WITH ENHANCED CAPACITY IN FISCAL YEAR 2016–2018*	
ANNUAL OUTCOME TARGET	INITIAL ESTIMATE
FY 2016: 250 communities with enhanced capacity	**FY 2016:** 357 communities with enhanced capacity
FY 2017: 250 communities with enhanced capacity	**FY 2017:** 510 communities with enhanced capacity
FY 2018: 250 communities with enhanced capacity	**FY 2018:** 562 communities with enhanced capacity
**FY 2016 was the first year with a performance target for communities with enhanced capacity.*	

Project Verification Sampling

In FY 2019, members of ARC's verification team surveyed five projects completed in FY 2015 thorugh FY 2018 that had targets for communities with enhanced capacity to compare estimated and actual results.

Number of Projects Surveyed	Projected Number of Businesses Created or Strengthened	Actual Number of Businesses Created or Strengthened	Results Achieved
5	13	12	92%

As shown above, the project surveyed achieved 92% of projected results for communities with enhanced capacity.

Project Evaluation: Final Results

Community Capacity Building

In March 2019, ARC issued the report *Evaluation of the Appalachian Regional Commission's Leadership and Community Capacity Projects FY 2008–FY 2015*, prepared by the Westat Corporation. The evaluation encompassed 152 projects representing $14.4 million in investments, and included a wide range of project types, including leadership programs, community and organizational capacity-building projects, downtown revitalization efforts, network and partnership-building projects, strategic planning, and technical assistance. The purpose was to determine the extent to which this set of projects has succeeded in attaining its economic development objectives. Through a mix of surveys, site visits, and phone interviews, evaluation results suggested that most projects met or exceeded their own goals, underscoring the effectiveness of their efforts. Projects met or exceeded expected outcomes for the following measures: number of communities improved (91 percent of grantees using this measure reported meeting or exceeding expected outcomes); number of organizations improved (89 percent of grantees using this measure reported meeting or exceeding expected outcomes); number of programs implemented (82 percent of grantees using this measure reported meeting or exceeding expected outcomes); and number of participants improved (78 percent of grantees using this measure reported meeting or exceeding expected outcomes). Additionally, the report highlights the sustainability of this set of projects, as survey findings indicate that many of the projects surveyed have continued to operate beyond the Commission-supported grant period, and for nearly half of projects for which a survey was completed, respondents reported expanding their efforts. Finally, the projects highlight the benefit accruing to distressed counties and rural or underserved communities.

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 2019	
ANNUAL TARGET	INITIAL ESTIMATES
FY 2019: 6:1 ratio of leveraged private investment to ARC investment	**FY 2019:** 3:1 Ratio

FY 2019: **Expected to meet 51% of target.** Every dollar of ARC funding is estimated to attract $3.07 of leveraged private investment (non-project funds). Outcome results typically fluctuate over the years as the states' investment priorities vary. FY 2019 saw a marked increase in education and workforce projects, which tend to have low, if any, leveraged private investment.

LEVERAGED PRIVATE INVESTMENT RATIO IN FISCAL YEARS 2014–2018*	
ANNUAL TARGET	INITIAL ESTIMATES
FY 2014: N/A	**FY 2014:** 13:1 Ratio
FY 2015: N/A	**FY 2015:** 8:1 Ratio
FY 2016: 6:1 ratio of leveraged private investment to ARC investment	**FY 2016:** 3:1 Ratio
FY 2017: 6:1 ratio of leveraged private investment to ARC investment	**FY 2017:** 5:1 Ratio
FY 2018: 6:1 ratio of leveraged private investment to ARC investment	**FY 2018:** 12:1 Ratio

**FY 2016 was the first year with performance targets for leveraged private investment for all ARC strategic goal areas.*

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 2019	
ANNUAL TARGET	RESULT
FY 2019: 2:1 ratio of matching funds to ARC investment	**FY 2019:** 1:1 Ratio*

**Ratios are rounded to the nearest whole number.*

FY 2019: **Met 70% of target.** Every dollar of ARC funding attracted $1.40 in matching project funds. The target was not met in part because of continued emphasis on funding directed to distress. The match rate closely corresponds with funding to distressed counties and areas, as projects in these areas require a lower percentage of matching funds. ARC continues to encourage directing investment to distressed counties and areas, which could lead to a lower amount of matching funds.

MATCHING PROJECT FUNDS RATIO IN FISCAL YEARS 2014–2018*	
ANNUAL TARGET	RESULTS**
FY 2014: N/A	**FY 2014:** 2:1 Ratio
FY 2015: N/A	**FY 2015:** 2:1 Ratio
FY 2016: 2:1 ratio of matching funds to ARC investment	**FY 2016:** 2:1 Ratio
FY 2017: 2:1 ratio of matching funds to ARC investment	**FY 2017:** 1:1 Ratio
FY 2018: 2:1 ratio of matching funds to ARC investment	**FY 2018:** 2:1 Ratio

**FY 2016 is the first year with performance targets for matching project funds for all ARC strategic goal areas.*
***Ratios are rounded to the nearest whole number.*

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 2019*	
ANNUAL TARGET	RESULT
FY 2019: Direct 50% of ARC funds to distressed counties or areas	**FY 2019:** 70% of funds
**Project funds are included if the project primarily or substantially benefits distressed counties or areas.*	

FY 2019: **Exceeded target by 20 percentage points.** ARC continues to encourage directing investment to distressed counties and areas.

PERCENTAGE OF FUNDS TO DISTRESSED COUNTIES/AREAS IN FISCAL YEARS 2014–2018*	
ANNUAL TARGETS	RESULTS
FY 2014: Direct 50% of ARC funds to distressed counties or areas	**FY 2014:** 64% of funds
FY 2015: Direct 50% of ARC funds to distressed counties or areas	**FY 2015:** 72% of funds
FY 2016: Direct 50% of ARC funds to distressed counties or areas	**FY 2016:** 79% of funds
FY 2017: Direct 50% of ARC funds to distressed counties or areas	**FY 2017:** 73% of funds
FY 2018: Direct 50% of ARC funds to distressed counties or areas	**FY 2018:** 64% of funds
**Project funds are included if the project primarily or substantially benefits distressed counties or areas.*	

SUMMARY OF ACHIEVEMENTS

PERFORMANCE TARGETS AND INITIAL ESTIMATES FOR FISCAL YEAR 2019 PROJECTS

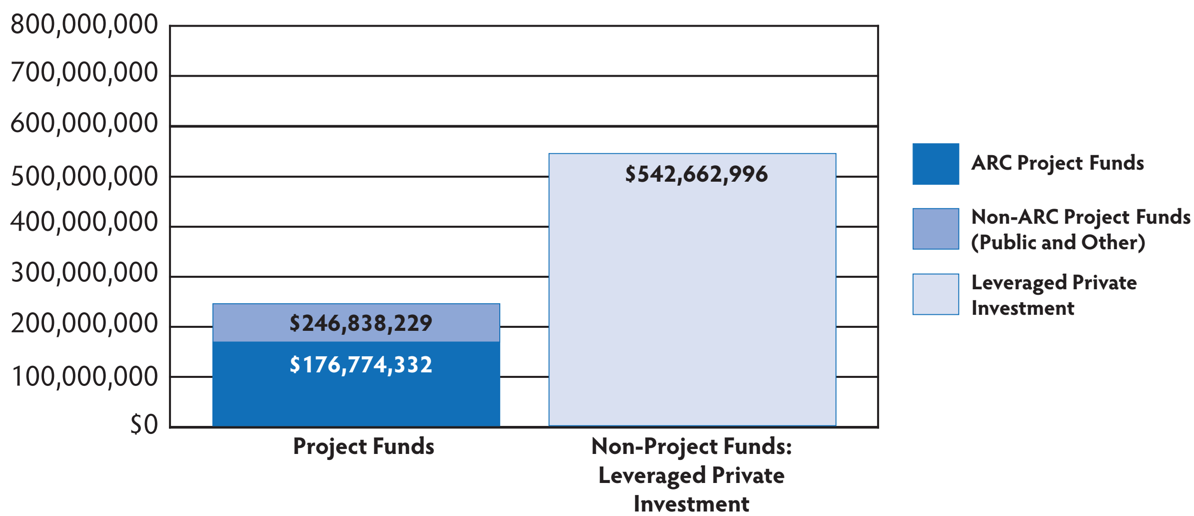
ANNUAL PERFORMANCE TARGETS	INITIAL ESTIMATES	EXPECTED RESULTS
Outcome Targets		
20,000 jobs created or retained	17,282 jobs created or retained	Meet 86% of target
22,000 students, workers, and leaders with improvements	51,204 students, workers, and leaders with improvements	Exceed target by 133%
22,000 businesses and households with access to improved infra-structure	81,484 businesses and households with access to improved infrastructure	Exceed target by 270%
2,500 businesses created or strengthened	4,678 businesses created or strengthened	Exceed target by 87%
250 communities with enhanced capacity	647 communities with enhanced capacity	Exceed target by 159%
Leverage Target		
Achieve a 6:1 ratio of leveraged private investment to ARC funds	3:1 ratio	Meet 51% of target
Matching Target		
Achieve a 2:1 ratio of matching funds to ARC funds	1:1 ratio*	Meet 70% of target
Distressed Counties/Areas Target		
Direct 50% of ARC funds to benefit distressed counties or areas	70% of funds**	Exceed target by 20 percentage points

**Ratios are rounded to the nearest whole number.*
***Project funds are included if the project primarily or substantially benefits distressed counties or areas.*

Investment Summary for FY 2019 Projects

LEVERAGE, MATCHING, AND DISTRESSED COUNTIES/AREAS SUMMARY		
Leveraged private investment	$542,662,996	3:1 ratio of leveraged private investment to ARC investment
Non-ARC matching project funds	$246,838,229	1:1 ratio of non-ARC project investment to ARC project investment
ARC project funds targeted to distressed counties or areas	$123,324,332*	70% of total ARC project funds directed to projects that benefit distressed counties or areas
**Project funds are included if the project primarily or substantially benefits distressed counties or areas.*		

Funding and Leveraged Private Investment for all ARC Projects in Fiscal Year 2019



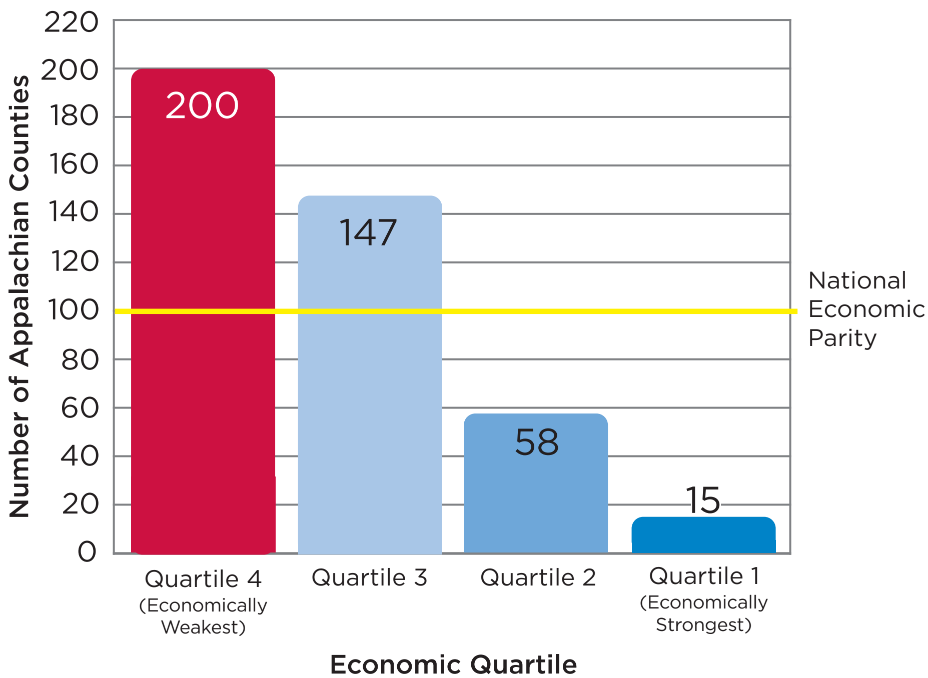
MEASURING PROGRESS TOWARD THE ARC VISION

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.

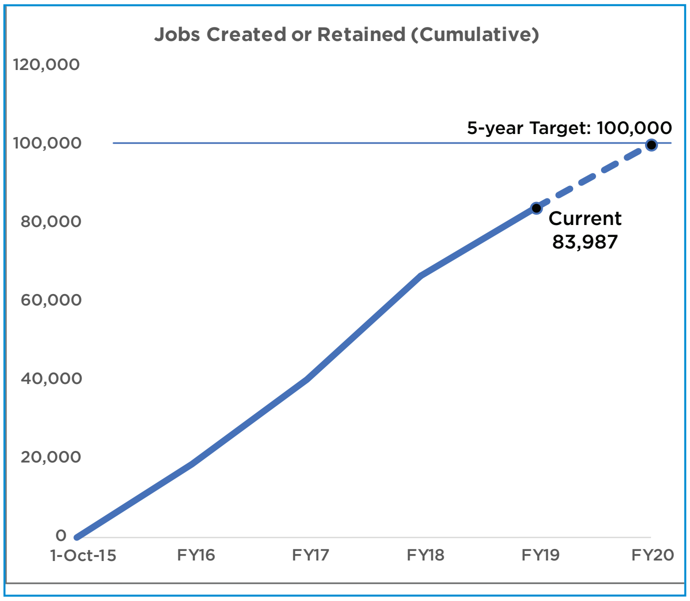
In order to provide a single unified measure of regional progress and economic change, ARC developed an index to track improvement over time. Drawing on the three variables ARC uses annually to determine the economic status of the Region's counties, staff developed a national composite index of distress.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

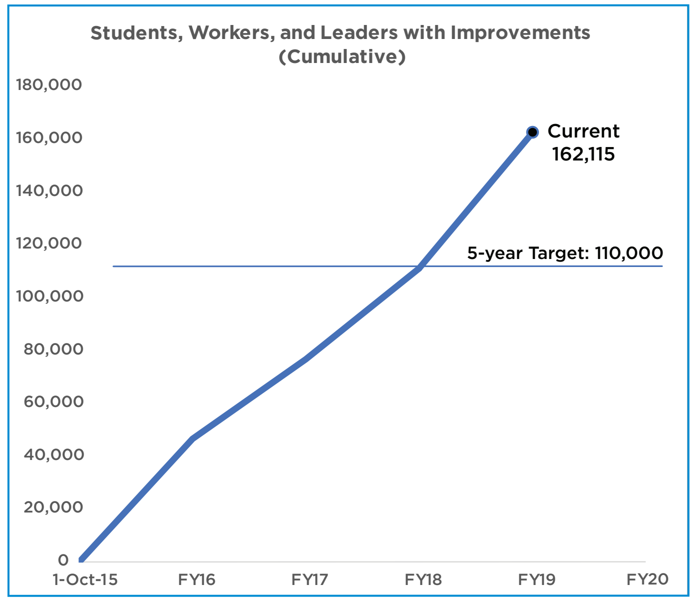
Using this index, ARC can compute annually the number of Appalachian counties in each quartile, as well as an overall regional index value. This can be directly compared with the national index value to measure progress. In addition, progress can be clearly measured by reductions in the number of Appalachian 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.

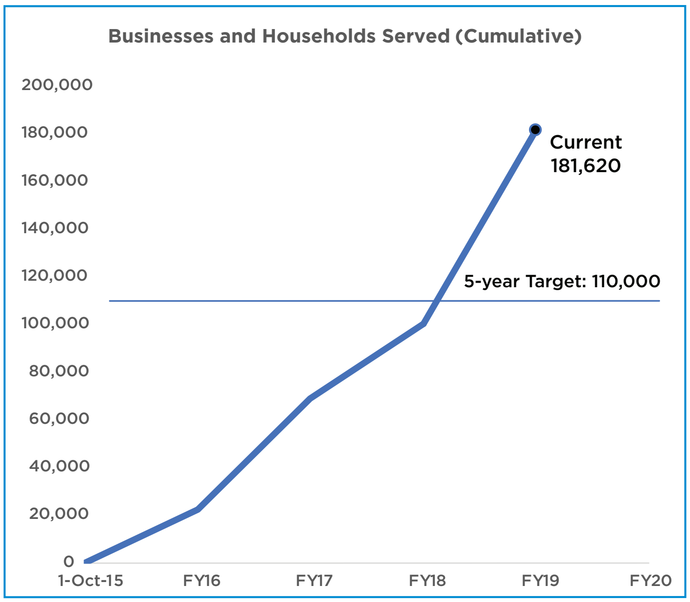
Number of Appalachian Counties by Economic Quartile, Fiscal Year 2019

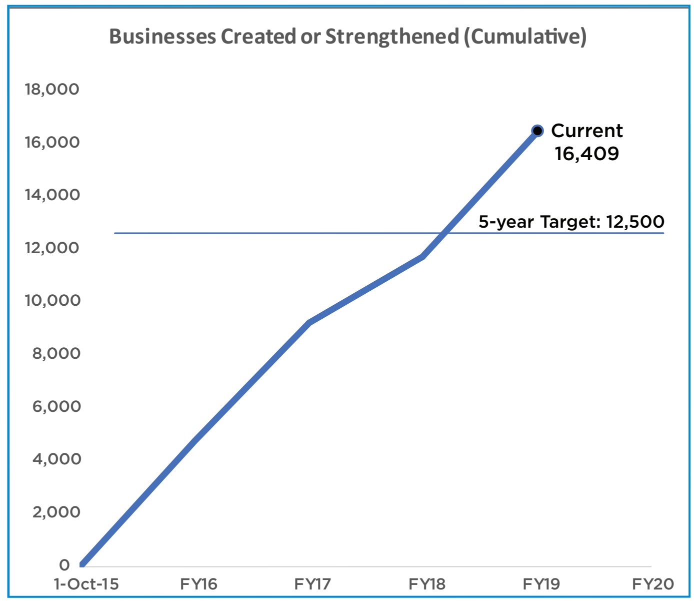


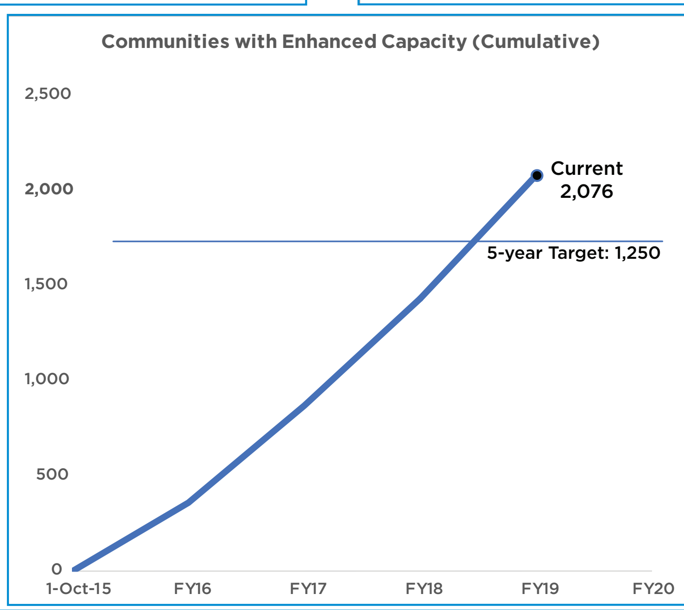
Progress Toward ARC Strategic Plan Performance Goals, Fiscal Years 2016–2020











PART III:
FISCAL YEAR 2019 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 2019, has rendered an unmodified opinion about the adequacy of the statements. There were 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.

Charles Howard
Interim Executive Director
Appalachian Regional Commission

January 14, 2020

REPORT OF INDEPENDENT AUDIT

APPALACHIAN REGIONAL COMMISSION
ARC

A Proud Past, A New Vision

Office of Inspector General

January 21, 2020

Memorandum for: The Federal Co-Chair
Interim ARC Executive Director

Subject: OIG Report 20-07
Fiscal Year 2019 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, 2019. 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. (KEY), to audit the financial statements of the Commission as of and for the fiscal year ended September 30, 2019. 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 ARCs financial statements for the fiscal year ended September 30, 2019.

- 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.

- 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 the laws or regulations required to be reported.

- Although Key was not contracted to provide an opinion on the effectiveness of ARC's internal controls over financial reporting. Key stated they did not identify any deficiencies in internal control that they considered to be material weaknesses, relative to their expressing an opinion on ARC's financial statements.

In connection with the contract, we reviewed Key's report and related documentation and met with and discussed applicable issues with its representatives. Our involvement in the audit

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

process consisted of monitoring 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 January 14, 2020 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.

E. William Rine
for
Hubert Sparks
Inspector General

Attachment

APPALACHIAN
REGIONAL
COMMISSION

FINANCIAL STATEMENTS

As of And For The Years Ended September 30, 2019 and 2018

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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 sheets of the Appalachian Regional Commission as of September 30, 2019 and 2018 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin 19-03 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.

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SILVER SPRING, MD 20910

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, 2019 and 2018, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters
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, performance 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. We read the information included with the financial statements in order to identify material inconsistencies, if any, with the audited 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, as of and for the year ended September 30, 2019, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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.

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.

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. 19-03. 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. 19-03.

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. This communication is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control and compliance with provisions of laws, regulations, contracts, and grant agreements noncompliance with which could have a material effect on the closing package financial statements. 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
January 14, 2020

APPALACHIAN REGIONAL COMMISSION

BALANCE SHEET

As Of September 30, 2019 and 2018

		2019	2018
Assets:			
Intragovernmental:			
Fund Balance With Treasury	(Note 1 & 2)	$ 441,841,082.93	$ 384,041,524.96
Accounts Receivable	(Note 3)	254.74	6,709.36
Other:			
Advances and Prepayments	(Note 1 & 5)	71,677.81	1,176,766.71
Total Intragovernmental		441,913,015.48	385,225,001.03
Cash and Other Monetary Assets	(Note 1 & 6)	1,260,481.03	1,516,135.30
General Property, Plant and Equipment, Net	(Note 1 & 4)	-	
Other:			
Advances and Prepayments	(Note 1 & 5)	41,165,387.33	41,071,706.86
Total Assets		$ 484,338,883.84	$ 427,812,843.19
Liabilities:	(Note 1 & 7)		
Intragovernmental:			
	(Note 7 & 8)		
Employer Contributions and Payroll Taxes Payable		$ 31,638.61	$ 26,755.67
Liability for Advances and Prepayments		411,326.86	492,020.49
Other Liabilities Without Related Budgetary Obligations		37,742.86	
Total Intragovernmental		480,708.33	518,776.16
Accounts Payable	(Note 1 & 7)	25,806,502.68	23,417,954.91
Other:	(Note 1, 7 & 8)		
Accrued Funded Payroll and Leave		286,283.64	239,699.26
Employer Contributions and Payroll Taxes Payable		3,304.09	2,306.08
Unfunded Leave		440,544.83	464,049.73
Liability for Advances and Prepayments		911,894.45	733,847.89
Other Liabilities Without Related Budgetary Obligations		1,300,981.03	1,603,458.09
Total Liabilities		$ 29,230,219.05	$ 26,980,092.12
Net Position:			
Unexpended Appropriations - All Other Funds (Consolidated Totals)		$ 474,327,258.61	$ 414,634,326.08
Cumulative Results of Operations - All Other Funds (Consolidated Totals)		(19,218,593.82)	(13,801,575.01)
Total Net Position - All Other Funds (Consolidated Totals)		455,108,664.79	400,832,751.07
Total Net Position		455,108,664.79	400,832,751.07
Total Liabilities and Net Position		$ 484,338,883.84	$ 427,812,843.19

The accompanying notes are an integral part of these statements.

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APPALACHIAN REGIONAL COMMISSION
STATEMENT OF NET COST

As of And For The Years Ended September 30, 2019 and 2018

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	2019	2018
Gross Program Costs:		
ARC:		
Gross Costs	$ 113,925,168.97	$ 96,344,492.05
Less: Earned Revenue	3,116,158.95	4,886,355.98
Net Program Costs	110,809,010.02	91,458,136.07
Net Cost of Operations	$ 110,809,010.02	$ 91,458,136.07

The accompanying notes are an integral part of these statements.

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APPALACHIAN REGIONAL COMMISSION

STATEMENT OF CHANGES IN NET POSITION

As of And For The Years Ended September 30, 2019 and 2018

	2019 Consolidated Totals	2018 Consolidated Totals
Unexpended Appropriations:		
Beginning Balance	$ 414,634,326.08	$ 359,419,274.95
Beginning balance, as adjusted	414,634,326.08	359,419,274.95
Budgetary Financing Sources:		
Appropriations received	165,000,000.00	155,000,000.00
Appropriations used	(105,307,067.47)	(99,784,948.87)
Total Budgetary Financing Sources	59,692,932.53	55,215,051.13
Total Unexpended Appropriations	474,327,258.61	414,634,326.08
Cumulative Results from Operations		
Beginning Balances	(13,801,575.01)	(22,177,490.71)
Beginning balances, as adjusted	(13,801,575.01)	(22,177,490.71)
Budgetary Financing Sources:		
Appropriations used	105,307,067.47	99,784,948.87
Other Financing Sources (Nonexchange):		
Imputed Financing	84,923.74	49,102.90
Total Financing Sources	105,391,991.21	99,834,051.77
Net Cost of Operations	110,809,010.02	91,458,136.07
Net Change	(5,417,018.81)	8,375,915.70
Cumulative Results of Operations	(19,218,593.82)	(13,801,575.01)
Net Position	$ 455,108,664.79	$ 400,832,751.07

The accompanying notes are an integral part of these statements.

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APPALACHIAN REGIONAL COMMISSION
STATEMENT OF BUDGETARY RESOURCES

As of And For The Years Ended September 30, 2019 and 2018

		2019 Budgetary	2018 Budgetary
Budgetary resources:			
Unobligated balance from prior year budget authority, net (discretionary and mandatory)		$ 99,122,196.85	$ 73,401,223.69
Appropriations (discrectionary and mandatory)		165,000,000.00	155,000,000.00
Spending authority from offsetting collections (discretionary and mandatory)		3,354,963.00	5,232,194.30
Total budgetary resources		$ 267,477,159.85	$ 233,633,417.99
Status of budgetary resources:			
New obligations and upward adjustments (total)	(Note 11)	$ 181,613,766.49	$ 143,421,451.46
Unobligated balance, end of year:			
Apportioned, unexpired account		77,796,716.64	84,074,409.90
Unapportioned, unexpired accounts		8,066,676.72	6,137,556.63
Unexpired unobligated balance, end of year		85,863,393.36	90,211,966.53
Unobligated balance, end of year (total)		85,863,393.36	90,211,966.53
Total budgetary resources		$ 267,477,159.85	$ 233,633,417.99
Outlay, net:			
Outlays, net (total) (discretionary and mandatory)		$ 107,200,442.03	$ 100,602,817.04
Agency outlays, net (discretionary and mandatory)		$ 107,200,442.03	$ 100,602,817.04

The accompanying notes are an integral part of these statements.

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Appalachian Regional Commission
Notes to Financial Statements
September 30, 2019 and 2018

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

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

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

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

Fund Accounting Structure

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

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

Budgets and Budgetary Accounting

ARC receives an annual congressional appropriation from which it makes financial

Appalachian Regional Commission
Notes to Financial Statements
September 30, 2019 and 2018

assistance awards and carries out activities, funds the administrative costs of the Office of the Federal Co-Chairman, the Inspector General, the non-federal programmatic costs, and half the cost of the non-federal administrative costs. Contributions from 13 states in the Appalachian Region cover 50% of the Commission Administrative Budget.

Funds appropriated to ARC are available without fiscal year limitation and remain available until expended. Because of the no-year status of the funds, unobligated amounts are not returned to the U.S. Treasury.

Basis of Accounting and Presentation

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

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

Fund Balance with U.S. Treasury

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

Cash in Commercial Institutions

ARC uses commercial bank accounts to accommodate collections and payments that cannot be processed by the U.S. Treasury. ARC maintains commercial bank accounts for the purpose of processing its non-federal employee's flexible benefits.

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.

Appalachian Regional Commission
Notes to Financial Statements
September 30, 2019 and 2018

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

Equipment

ARC's equipment is recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The capitalization threshold is $35,000. All equipment was fully depreciated at September 30, 2019 and 2018.

Liabilities

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

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

Accounts Payable

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

Benefits Due and Payable:

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

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

Appalachian Regional Commission
Notes to Financial Statements
September 30, 2019 and 2018

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, without federal benefits. 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 entity of its authority to obligate budget authority and outlay funds to another entity. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived. ARC allocates funds, as the parent agency, to the U.S. Department of Transportation, Housing and Urban Development, the Rural Development Agency, U.S. Army Corps of Engineers and the Economic Development Agency. Additionally, ARC receives allocation transfers, as the child agency from the U.S. Department of Transportation to cover Appalachian Development Highway System administrative costs.

Appalachian Regional Commission
Notes to Financial Statements
September 30, 2019 and 2018

Net Position

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

Net Cost of Operations

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

Budgetary Financing Sources

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

Use of Estimates

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

Tax Exempt Status

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

Appalachian Regional Commission
Notes to Financial Statements
September 30, 2019 and 2018

Note 2 – Fund Balance With Treasury

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

	2019	2018
A. Fund Balances		
General Funds	$ 441,427,676.93	$ 383,628,118.96
Trust Fund	413,406.00	413,406.00
Total Fund Balance with Treasury	441,841,082.93	384,041,524.96
B. Status of Fund Balance with Treasury		
1) Unobligated Balance		
a) Available	77,796,716.64	84,074,409.90
b) Unavailable	8,066,676.72	6,137,556.63
2) Obligated Balance not yet Disbursed	355,388,637.57	293,136,543.43
3) Temporary Sequestration	589,052.00	693,015.00
Total	$ 441,841,082.93	$ 384,041,524.96

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

Note 3 – Accounts Receivable, net

This line item represents the gross amount of monies owed to the ARC for expenses incurred for the Office of the States' Washington Representative. ARC has historically collected any receivables due and thus has not established an allowance for uncollectible accounts.

	2019	2018
Accounts Receivable	$254.74	$6,709.36

Note 4 - General Property, Plant and Equipment, Net

Assets are recorded at cost. The depreciation calculation method used is Straight Line with an estimated useful life of the asset. A $35,000 threshold is used as the capitalized threshold. As of September 30, 2019, ARC has no title to general property, plant and equipment, including internal use software, of $35,000 or more.

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Appalachian Regional Commission
Notes to Financial Statements
September 30, 2019 and 2018

Note 5 – Other Assets

Advances at September 30 consist of the following:

	2019	2018
1. Intragovernmental		
Advances to the Tennessee Valley Authority	$ 71,677.81	$ 1,065,761.62
Advances to the Environmental Protection Agency	0.00	36,005.09
Advances to the Corps of Engineers	0.00	75,000.00
	71,677.81	1,176,766.71
2. Other		
Advances to grantees to finance future program expenditures		
-Revolving Loan Fund	26,299,281.72	26,638,036.45
-Non-Federal Grantees	10,997,691.60	11,022,964.41
Prepaid Pension Expense	3,868,414.00	3,410,706.00
	41,165,387.32	41,071,706.86
Total	$ 41,237,065.13	$ 42,248,473.57

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

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

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

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

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Appalachian Regional Commission
Notes to Financial Statements
September 30, 2019 and 2018

Note 6 – Cash and Other Monetary Assets

ARC uses commercial bank accounts to accommodate collections and payments that cannot be processed by the U.S. Treasury.

	2019	2018
Commercial Bank Balance	$ 1,260,481.03	$ 1,516,135.30

Note 7 – Liabilities Not Covered by Budgetary Resources

The accrued liabilities of ARC are comprised of program expense accruals, payroll accruals and unfunded annual leave earned by employees. Program expense accruals represent expenses that were incurred prior to year-end but were not paid. Similarly, payroll accruals represent payroll expenses that were incurred prior to year-end but were not paid.

Liabilities at September 30, 2019 and 2018 consist of the following:

	2019	2018
With the Public		
Unfunded annual leave	$440,544.83	$464,049.73
Total liabilities not covered by budgetary resources	440,544.83	464,049.73
Advances		
Advances from Centers for Disease Control	411,326.86	462,020.49
Advances from the National Endowment for the Arts	0.00	30,000.00
Advances from Non Federal Vendors	911,894.45	733,847.89
Total Advances	1,323,221.31	1,225,868.38
Benefits Due		
Accrued health and flexible spending benefits	78,242.86	87,322.79
Accrued salaries and benefits	321,226.34	268,761.01
Total benefits due	399,469.20	356,083.80
Payments Due to grantees to finance program expenditure	25,806,502.68	23,417,954.91
Commercial Bank Balance	1,260,480.03	1,516,135.30
Total liabilities covered by budgetary resources	28,789,673.22	26,516,042.39
Total Liabilities	$29,230,218.05	$26,980,092.12

Appalachian Regional Commission
Notes to Financial Statements
September 30, 2019 and 2018

Note 8 – Other Liabilities

As of September 30, 2019, and 2018, other liabilities with the public consist of Accrued Funded Payroll and Leave, Employer Contributions and Payroll Taxes Payable, Unfunded Leave, Liability for Advances from Non-Federal Sources, Accrued Health and Flexible Spending Benefits and Commercial Bank Balance. Other Liabilities Federal consists of Liability for Advances from Federal Sources and Employer Contributions and Payroll Taxes Payable.

FY 2019	Non-Current	Current	Total
Intragovernmental			
Employer Contributions and Payroll Taxes Payable	-	31,638.61	31,638.61
Liability for Advances from Federal Sources	-	411,326.86	411,326.86
Total Intragovernmental	-	442,965.47	442,965.47
Liabilities with the Public			
Accrued Funded Payroll and Leave	-	286,283.64	286,283.64
Employer Contributions and Payroll Taxes Payable	-	3,304.09	3,304.09
Unfunded Leave	440,544.83	-	440,544.83
Liability for Advances from Non Federal Sources	-	911,894.45	911,894.45
Accrued Health and Flexible Spending Benefits	-	78,242.86	78,242.86
Commercial Bank Balance	1,260,480.03	-	1,260,480.03
Total Liabilities with the Public	1,701,024.86	1,279,725.04	2,980,749.90
Total Other Liabilities	1,701,024.86	1,722,690.51	3,423,715.37

FY 2018	Non-Current	Current	Total
Intragovernmental			
Employer Contributions and Payroll Taxes Payable	-	26,755.67	26,755.67
Liability for Advances from Federal Sources	-	492,020.49	492,020.49
Total Intragovernmental	-	518,776.16	518,776.16
Liabilities with the Public			
Accrued Funded Payroll and Leave	-	239,699.26	239,699.26
Employer Contributions and Payroll Taxes Payable	-	2,306.08	2,306.08
Unfunded Leave	464,049.73	-	464,049.73
Liability for Advances from Non Federal Sources	-	733,847.89	733,847.89
Accrued Health and Flexible Spending Benefits	87,322.79	-	87,322.79
Commercial Bank Balance	1,516,135.30	-	1,516,135.30
Total Liabilities with the Public	2,067,507.82	975,853.23	3,043,361.05
Total Other Liabilities	2,067,507.82	1,494,629.39	3,562,137.21

Appalachian Regional Commission
Notes to Financial Statements
September 30, 2019 and 2018

Note 9 – 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 2019 were $1,186.65 and $233,054.25 for CSRS and FERS, respectively and contributions for FY 2018 were $6,128.02 and $169,956.49 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 2019 were $83,571.87 and $1,709.69 and for FY 2018 were $60,132 and $1.202 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.

For FY 2019, ARC contributed $17,122.63 and $61.041.63 to the Federal Thrift Savings Basic and Matching Plans respectively, and for FY 2018, ARC contributed $12,405.46 and $42,365.88 respectively.

Non-Federal
The following table presents the pension benefit expense for the defined benefit pension plan by component for fiscal years 2019 and 2018:

	2019	2018
Service cost	$495,201.00	$632,939.00
Interest cost	1,130,648.00	1,050,904.00
Expected return	(1,874,280.00)	(1,783,606.00)
Amortization of prior service cost	690,723.00	690,723.00
Recognized loss	-	264,586.00
Net periodic benefit cost	$442,292.00	$855,546.00

The following table presents the pension liability or prepayment by component for fiscal years 2019 and 2018:

	2019	2018
Pension liability at October 1	$ (3,410,706.00)	$ (3,450,252.00)
Net periodic benefit cost	442,292.00	855,546.00
Contributions	(900,000.00)	(816,000.00)
Pension Prepayment at September 30	$ (3,868,414.00)	$ (3,410,706.00)

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Notes to Financial Statements
September 30, 2019 and 2018

	2019	2018
Additional Information		
Projected Benefit obligation	$ (33,888,344.00)	$ (28,197,381.00)
Fair value of plan assets	28,755,140.00	26,468,081.00
Funded status	**(5,133,204.00)**	**(1,729,300.00)**
Employer contribution	900,000.00	816,000.00
Participant contribution	-	-
Benefits paid	879,038.00	654,802.00

The accumulated benefit obligation was $32,669,701 and $27,144,679 at September 30, 2019 and 2018, respectively.

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

	2019	2018
Discount rate	3.00%	4.10%
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:

	2019	2018
Discount rate	4.10%	3.65%
Rate of compensation increase	3.00%	3.00%
Expected return on plan assets	7.25%	7.25%

Plan Assets

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

Asset Category	2019	2018
Equity securities	37.48%	41.89%
Debt securities	57.32%	53.52%
Real Estate	5.20%	4.59%
Other	0.00%	0.00%
Total assets	100%	100%

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

Fiscal Year	Amount
2020	1,367,982.00
2021	1,457,053.00
2022	1,474,229.00
2023	1,483,029.00
2024	1,533,014.00
2025 - 2029	8,301,156.00

ARC contributed $248,411.36 and $269,633 to the 401(k) plan for the years ended September 30, 2019 and 2018, respectively.

Note 10 – Leases

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

Fiscal Year	Amount
2020	989,911.00
2021	1,012,129.00
2022	1,051,894.00
2023	1,092,571.00
2024	1,117,182.00
2025	564,801.00
Total	5,828,488.00

Rent expense for the years ended September 30, 2019 and 2018 was $974,716 and $944,139 respectively.

Note 11 – Apportionment Categories of New Obligations and Upward Adjustments: Direct vs. Reimbursable Obligations

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

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

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

	2019	2018
Direct Category B Obligations		
Cat B- Non-Highway Programs	151,800,622.64	121,563,602.51
Cat B- RD (12-46X0200.020)	22,845,692.00	10,883,614.09
Cat B- EDA (13-46X0200.020)	2,758,098.00	3,762,544.00
Cat B- FHWA Non-Highway Programs(69-46X0200.05)	1,279,628.40	503,758.02
Cat B- HUD (86-46X0200)	175,000.00	1,899,830.00
Total direct obligations	178,859,041.04	138,613,348.62
Reimbursable Category B Obligations		
Cat B- Non-Highway Programs	2,754,525.45	4,808,102.84
Total reimbursable obligations	2,754,525.45	4,808,102.84
Total Obligations	$ 181,613,566.49	$ 143,421,451.46

Note 12 – Undelivered Orders at the End of the Period

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

	2019	2018
Unpaid Undelivered Orders	$ 332,544,386.66	$ 269,456,536.87
Paid Undelivered Orders	$ 41,251,987.14	$ 42,248,473.57
Total Undelivered Orders	$ 373,796,373.80	$ 311,705,010.44

Note 13 – Permanent Indefinite Appropriations

The Commission's permanent indefinite appropriation includes the trust fund which has not been used since FY 2014. Total sequestered trust balance remains $413,406 as of September 30, 2019.

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Appalachian Regional Commission
Notes to Financial Statements
September 30, 2019 and 2018

Note 14 – Explanation of Differences between the SBR and the Budget of the U.S. Government

SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, requires an explanation of material differences between budgetary resources available, the status of those resources and outlays as presented in the Statement of Budgetary Resources to the related actual balances published in the *Budget of the United States Government* (Budget). The Budget that will include FY 2019 actual budgetary execution information is scheduled for publication in February 2020, which will be available through OMB's website at http://www.whitehouse.gov/omb. Accordingly, information required for such disclosure is not available at the time of publication of these financial statements. Balances reported in the FY 2018 SBR and the related President's Budget reflected the following: (Dollars in Millions)

FY2018	Budgetary Resources	New Obligations & Upward Adjustments (Total)	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	234	143	0	101
Budget of the U.S. Government	234	143	0	101
Difference	0	0	0	0

The difference between the Statement of Budgetary Resources and the *Budget of the United States Government* for budgetary resources, obligations incurred and net outlays are primarily due to rounding.

Note 15 – Reconciliation of Net Cost to Outlays

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

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Notes to Financial Statements
September 30, 2019 and 2018

	Intragovernmental	With the Public	Total
Net Operating Cost (SNC)	**110,969,088.02**		**110,969,088.02**
Components of Net Operating Cost Not Part of the Budgetary Outlays			
Budget Outlays:			
Accounts receivable	(6,454.62)	-	(6,454.62)
Other assets	(1,105,088.90)	(147,051.50)	(1,252,140.40)
(Increase)/Decrease in Liabilities not affecting Budget Outlays:			
Accounts payable	80,693.63	(2,566,594.33)	(2,485,900.70)
Salaries and benefits	(4,882.94)	(47,582.39)	(52,465.33)
Other liabilities (Unfunded leave, unfunded FECA,	(37,742.86)	325,981.96	288,239.10
Other financing sources			
Federal employee retirement benefit costs	(84,923.74)		(84,923.74)
Total Components of Net Operating Cost Not Part of the Budget Outlays	**(1,158,399.43)**	**(2,435,246.56)**	**(3,593,645.99)**
Net Outlays (Calculated Total)	**109,635,688.59**	**(2,435,246.56)**	**107,200,442.03**
Related Amounts on the Statement of Budgetary Resources			
Outlays, net (SBR Line 4190)			107,200,442.03
Agency Outlays, Net (SBR Line 4210)			**107,200,442.03**

Note 16 – Subsequent Events

ARC has evaluated subsequent events occurring after the balance sheet date and through the date of January 14, 2020, 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.

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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 2019, ARC's investment in non-federal physical property included grants for water and wastewater system construction and improvements; broadband expansion; utilities installation; and access road construction.

ARC Investment in Non-Federal Physical Property	
Fiscal Year 2015	$34,823,339
Fiscal Year 2016	$34,522,482
Fiscal Year 2017	$32,100,717
Fiscal Year 2018	$36,962,756
Fiscal Year 2019	$41,085,774

ARC Investment in Human Capital

Human capital investments are expenses included in net cost of operations for education and training programs that are intended to increase or maintain national economic productive capacity and that produce outputs and outcomes that provide evidence of maintaining or increasing national productive capacity. ARC's investments in human capital in FY 2019 included grants for education and job training programs in areas including workforce training, dropout prevention, math and science, early childhood education, technology, leadership, and health.

ARC Investment in Human Capital	
Fiscal Year 2015	$6,813,073
Fiscal Year 2016	$11,504,662
Fiscal Year 2017	$21,077,501
Fiscal Year 2018	$29,925,465
Fiscal Year 2019	$31,671,742

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 2019, ARC invested in applied research through the following projects: a program evaluation of ARC's leadership and community capacity projects; a study of economic resilience in Appalachian communities; a website featuring all the reports and data from the "Creating a Culture of Health in Appalachia: Disparities and Bright Spots" initiative; a research report examining the tourism industry in Appalachia; a report on the entrepreneurial ecosystems in Appalachia; a website focusing on Appalachian overdose mortality; a program evaluation of ARC's investments in water and wastewater infrastructure; a report monitoring and evaluating the impact of ARC's POWER-funded investments; a process review of external grant administration for ARC construction grants and a data overview study examining state- and county-level data for the 13 Appalachian states on topics including population, age, race, ethnicity, housing, education, labor force, employment, income, poverty, health insurance, disability status, and migration

ARC Investment in Research and Development	
Fiscal Year 2015	$449,590
Fiscal Year 2016	$237,000
Fiscal Year 2017	$588,310
Fiscal Year 2018	$633,418
Fiscal Year 2019	$616,790

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	6 to 1
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 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, 2019, 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

January 21, 2020

MEMORANDUM FOR FEDERAL CO-CHAIR

E. William Rine for

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 (PAR). 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 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.

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 for which a 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. Obtaining basic agency monitoring reports (BAMR) in some instances and updating MOUs with basic agencies are considered challenges. Timely ARC and State follow-up action on inactive grants to determine the potential for grant closings, cancellation and de-obligations could make funds available for other needed economic development projects in Appalachia.

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

Expired end dates (performance periods) continue to be a significant issue. A large amount of unliquidated obligations was noted for grants with expired end dates and large balances as of September 30, 2019. Regulations provide that grant expenditures after the end dates are not eligible for reimbursement. This condition increases potential for ineligible payments and some payments significantly after the end date have been identified.

Although controls are in place with respect to due dates for submission of applications and approvals, revocation of inactive grants, extension of end dates and Basic Agency Monitoring Reports (BAMR) hindered grantee incentive and agency action to implement and enforces controls.

Performance Measures

A continuing challenge involves obtaining additional information based on actual outcomes rather than use of estimates in the Performance and Accountability Report (PAR). However, ARC has increased efforts to identify actual outcomes with respect to key performance measures such as jobs created, jobs retained and leverage of other investments.

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 but continued follow-up on the noted issues remain a challenge.

Financial Reporting

The FY 2019 and prior year's audits of financial statements rendered an unmodified "clean opinion".

An ongoing challenge for ARC is to comply with OMB Circular A-136. One of ARC's challenges is to satisfy the A-136, 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. However, ARC continues coordinating activities with basic agencies to assure that required audit transaction testing data is received more timely from child agencies.

ARC contracts for its accounting functions with USDA 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 continues to contract for IT support.

Data Act

Resolving issues with OMB with respect to information required by the Data Act continues to be addressed by ARC finance staff.

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 53–78 and ARC's management assurances on pages 22–24.

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	

Grants Oversight and New Efficiency Act Requirements

In FY 2019, ARC had no federal grant or cooperative agreement awards and balances for which closeout had not occurred but for which the period of performance had elapsed by more than two years.

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

This report is available on ARC's Web site at *www.arc.gov/publications*.

To order copies of the report, contact:

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