APPALACHIAN REGIONAL COMMISSION



# Performance & Accountability Report

**FISCAL YEAR 2020** 













#### APPALACHIAN REGIONAL COMMISSION

September 30, 2020

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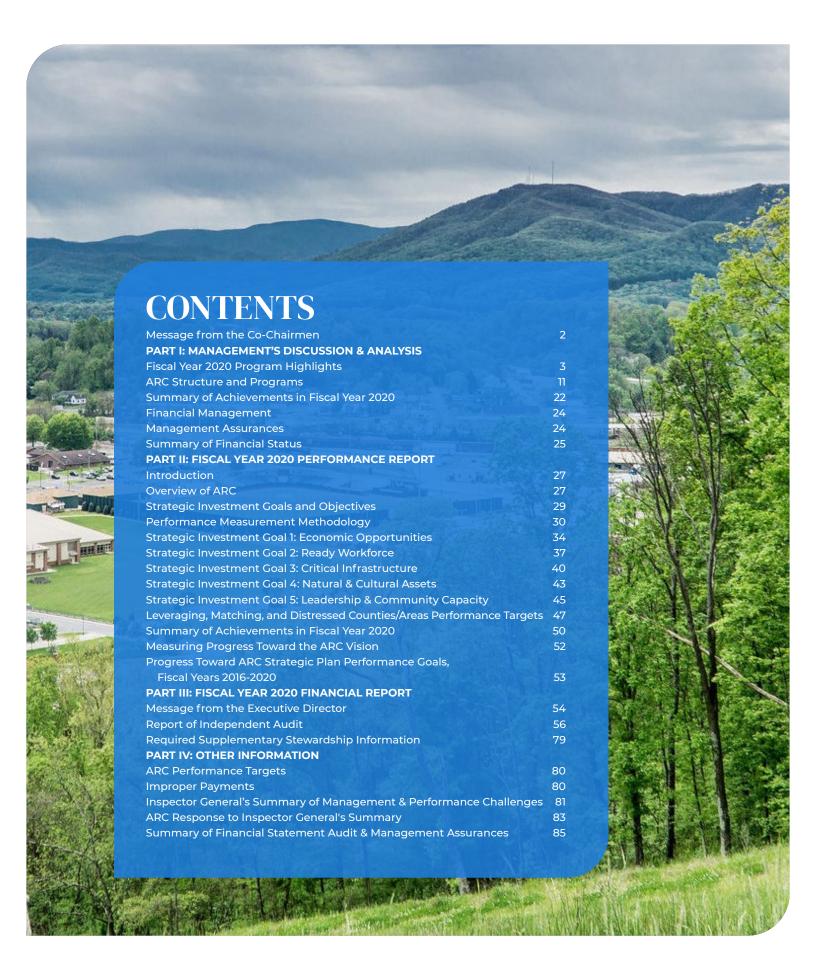
States' Washington Representative James Hyland

Interim Executive Director Charles Howard

#### **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.







#### Message from Federal Co-Chairman Tim Thomas and 2020 States' Co-Chairman Governor Mike DeWine

We are pleased to present the Appalachian Regional Commission (ARC or the Commission) Performance and Accountability Report for fiscal year (FY) 2020.

For FY 2020, the Commission approved \$161.8 million in funding for 474 area development projects that advanced one or more of the five goals of ARC's 2016–2020 strategic plan: 1) investing in entrepreneurial and business development strategies that strengthen Appalachia's economy; 2) increasing the education, knowledge, skills, and health of residents to work and succeed in Appalachia; 3) investing in critical infrastructure—especially broadband; transportation, including the Appalachian Development Highway System; and water/wastewater systems; 4) strengthening Appalachia's community and economic development potential by leveraging the natural and cultural heritage assets of the Appalachian Region (the Region); and 5) building the capacity and skills of current and next-generation leaders and organizations to innovate, collaborate, and advance community and economic development.

ARC's FY 2020 grant funds attracted an additional \$304.7 million in other project funding, an investment ratio of 2 to 1, and \$858.0 million in non-project leveraged private investment, a ratio of 5 to 1. The projects funded during this fiscal year will create or retain an estimated 26,319 jobs and train an estimated 20,792 students, workers, and leaders in new skills.

In working toward its strategic goals in FY 2020, 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. As the effects of the COVID-19 pandemic emerged and evolved, ARC responded by adjusting internal operations, allowing flexibility for grantees to align their work with local needs, and developing new initiatives to offer direct support to communities and organizations.

This report includes information on the Commission's program actions and financial management during FY 2020. 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

January 26, 2021

Mike DeWine

2020 States' Co-Chairman

Governor of Ohio

# PART I: MANAGEMENT'S DISCUSSION AND ANALYSIS

#### FISCAL YEAR 2020 PROGRAM HIGHLIGHTS

n FY 2020, 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.

As the COVID-19 pandemic emerged, ARC adapted its internal operations as well as its programming, projects, and public outreach to help Appalachia's communities respond to immediate challenges while continuing to position them to have more vibrant economies in a post-pandemic environment. Several technology advances, already in the works prior to the pandemic, facilitated a shift to more virtual operations. These included an online payment tool and grant application system as well as an electronic grant approval system. In addition, the agency implemented staff telework and moved events to virtual platforms.

ARC moved swiftly to respond to grantee and community needs, allowing flexibility for grantees to align their work with new priorities. In total, ARC amended 11 grants to cover immediate needs for items like personal protective equipment (PPE) for home health care workers, technical assistance for businesses, and broadband hotspots for school children to engage in online learning. ARC also extended the POWER 2020 application deadline and repurposed recovered POWER funds to provide operating capital bridge loans in the face of business interruptions in the Region. Additionally, the CARES Act enabled ARC to waive match requirements for projects affected by COVID-19.

Throughout the pandemic, ARC has also worked to convene stakeholders, provide technical assistance, and publish relevant research. This has included pivoting the focus and format of already-existing programs such as the Appalachian Leadership Institute, as well as developing new programming such as a virtual panel on managing food enterprises during the pandemic. The annual summit shifted to a four-week virtual seminar series showcasing examples of economic innovation and ingenuity during the pandemic throughout the Region. ARC's Research and Evaluation Division also conducted multiple outreach efforts to gauge the impact of the pandemic on Appalachian communities, and provided resources to the public such as a COVID-19 case tracking map and a searchable database that provides a snapshot of cases, deaths, and risk factors. In response to the continually evolving situation with the pandemic, ARC also made the decision to postpone the strategic planning process scheduled for FY 2020. This process is now slated to take place during FY 2021.

# Goal 1: Creating Economic Opportunities

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

#### **POWER** Initiative

ARC continues to receive funding through the Partnerships for Opportunities and Workforce and Economic Revitalization (POWER) Initiative, which helps diversify economies in communities and regions that have been affected by job losses in coal mining, coal power plant operations, and coal-related supply chain industries due to the changing economics of America's energy production. In FY 2020, ARC awarded \$44.7 million in 58 investments to help coal-impacted communities in Appalachia diversify and grow their economies. These investments will create or retain 2,215 jobs, leverage an additional \$207 million in private investment, and prepare 4,445 workers and students with globally competitive skills and opportunities in the Region's manufacturing, technology, entrepreneurship, agriculture, and other emerging sectors. The awards funded a wide range of activities in the Region, targeted at building a competitive workforce, enhancing access to and use of broadband services, fostering entrepreneurial activities, developing industry clusters in communities, and strengthening response to substance abuse disorder. In addition, COVID-19 has had a large impact on these communities and POWER grantees have developed innovative approaches for investments in broadband infrastructure, business support, and substance use disorder response.

An ongoing evaluation of the POWER Initiative, conducted by third-party research firm Chamberlin Dunn, wrapped up its second year during FY 2020. While POWER grants are relatively new and have not all had time to realize long-term impacts, the evaluators have found evidence of early impact across a broad range of project types. These shorter-term outcomes range from building hope within a community to sustained changes such as continuing enrollment in grant-funded programs. Common factors influencing the success of grants fell into the areas of

target population recruitment, organizational capacity, partnerships and collaboration, and community capacity.

#### 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 under-capitalized areas. As Appalachia is home to 737 Opportunity Zones, or 8.5% 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.

In FY 2020, ARC provided funding for the Creating Opportunity for Alabama (COAL) Initiative, which will create an Opportunity Zones-based funding and business development ecosystem within the state's Appalachian counties. The grantee, Opportunity Alabama (OPAL), will work with a team of local, state, and national partners through three phases: (1) building local capacity to prepare for and attract opportunity zone investment; (2) creating a project pipeline to attract over \$100 million in investments; and (3) developing and implementing a nationally unique impact investment data collection and analysis process. In Pennsylvania, Benjamin Franklin Technology Center and 1855 Capital will use ARC funding to work with a consultant to conduct a market assessment that identifies investor interest in financing an Opportunity Zone Fund; timing of investment opportunities; and appropriate fund structure including size, number of funds, and capital deployment strategy. It is anticipated that this Opportunity Zone Fund will be one of the first in the State of Pennsylvania focused exclusively on earlystage business investment. The fund will attract and strategically deploy much needed capital into companies that will contribute to the economic diversification of the region.

#### 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 2020, ARC worked to repurpose existing resources to rapidly respond to the impacts of the COVID-19 pandemic on Appalachian communities and businesses. Using recovered POWER funds, ARC made a \$3.75 million grant to Appalachian Community Capital (ACC) for the ARC-ACC Emergency Business Response Assistance Program to strengthen and stabilize the Region's Community Development Financial Institutions (CDFIs) and other mission-driven development finance lenders serving small businesses experiencing COVID-19 related losses. Through this partnership, the ARC-ACC Emergency Business Response Assistance Program is helping 30 designated community-based lenders cover operational costs and offset some of the income they are losing by suspending or reducing payments from their borrowers during the COVID-19 crisis. Lenders will be able to use the funds for operational support and for direct technical assistance to Appalachian small business and nonprofit borrowers. Through this initiative, ARC anticipates 400 businesses will be served; \$15 million in leveraged private investment will be attracted; and 200 jobs will be retained across the Region.

In West Virginia, ARC approved a total of \$6 million for six lending organizations and revolving loan funds currently assisting the state's thousands of small businesses. With this ARC support, these lending organizations can expand technical assistance, capital access, and other services to address COVID-19 related challenges. ARC also invested \$1 million for a revolving loan fund program in North Carolina for COVID-19 rapid recovery loans. This provides bridge loans to eligible small businesses in western North Carolina with no payments or interest for six months.



## 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 workforce development throughout the Region and preparing highly skilled workers for new high-tech jobs. Two projects funded in FY 2020 illustrate this commitment. In South Carolina, Build Carolina will fully expand the SC Codes program to provide free access to coding education to residents of six Appalachian counties. SC Codes is a learning platform that provides individuals with resources to create a career pathway in technology and programming. With ARC funds, Build Carolina will create community-specific pathways to foster public/ private partnerships that will support technology-related training; conduct outreach, events, and in-person support for new site partnerships; and implement a pilot programmer-in-residence program that will create mentorship opportunities in the region.

ARC has provided support in various states for training aviation technicians. In North Carolina, the Forsyth Aviation Systems Technologies (FAST) Forward program will broaden opportunities for training of mechanics or technicians to fill jobs in the growing aviation sector. Forsyth Tech will implement an FAA-certified aircraft maintenance technician program in the 53,000-square-foot laboratory/classroom under construction at Smith Reynolds Airport. ARC funding will support the purchase of training equipment needed to establish maintenance training so students can earn FAA certification as mechanics with an Airframe or Powerplant rating. The college will also develop a military outreach plan for experienced mechanics leaving the armed services to prepare for their oral and practical tests for FAA certification. In addition, the college will review community college programs nationally to identify opportunities for replicating non-credit workforce development in unmanned aircraft systems (drones).

### 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.

In FY 2020, ARC launched INvestments Supporting Partnerships in Recovery Ecosystems (INSPIRE), a \$10 million initiative addressing the substance abuse crisis by creating or expanding a recovery ecosystem that will lead to workforce entry or re-entry. Successful projects will support the post-treatment to employment continuum, which could include investments in healthcare networks that support substance abuse recovery professionals, recovery-focused job training programs, as well as initiatives designed to coordinate, or link, recovery services and training that support the recovery ecosystem, among others.

ARC also supported two workforce development initiatives that targeted individuals recovering from substance abuse disorders, in addition to displaced workers, new entrants to the workforce, and incumbent workers. ARC partnered with the U.S. Department of Labor for the second year of the Workforce Opportunity for Rural Communities (WORC) initiative, which provides funding for enhanced training and support activities for participants in the Appalachian and Delta regions. FY 2020 also saw the launch of the Advanced Welding Workforce Initiative (AWWI), a partnership between ARC and the U.S. Department of Energy's (DOE) National Energy Technology Laboratory (NETL)

to increase education and training for advanced technical workers in Appalachia. AWWI supports training facilities and programs to develop and implement specialized curricula and learning modules in welding and other advanced manufacturing skills such as robotics and process control. This investment will prepare workers for in-demand jobs in the Region's growing automotive, aerospace, aviation, and petrochemical industries.

#### Supporting Essential Workers

Two projects funded by ARC in FY 2020 illustrate how ARC has responded to the COVID-19 pandemic by supporting the production of personal protective equipment, or PPE. In North Carolina, the Industrial Commons received an ARC grant to manufacture PPE. The grantee is the nonprofit arm of a member-governed organization of textile and apparel producers from across the Mid-Atlantic region. Since the outbreak of the COVID-19 pandemic, producers have organized as one centrally operated manufacturing operation to fill orders for medical gowns, N-95 mask covers, and scrubs. To continue to meet the critical need for PPE across the Appalachian Region and the rest of the United States, the applicant has secured the use of 20,000 square feet of an idled factory owned by a local furniture manufacturer. Over 1,200 workers have been mobilized to manufacture the PPE, and the warehouse will be used to stage shipping and distribution.

ARC funding also enabled Shawnee State University in Ohio to purchase equipment to increase production of face shields manufactured by students enrolled in the Plastics Engineering Technology program using 3-D printers. The students initially made face shields for the local medical community. The additional equipment has allowed Shawnee State to meet an increase in demand from local schools, businesses, and industry, while improving production efficiency through reduction of cost.

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## 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 \$79.4 million during FY 2020 in 172 projects aimed at bolstering the Region's physical infrastructure. These investments—creating and expanding local water and sewer systems; providing access to broadband; building and maintaining access roads; and construction or rehabilitation of combined infrastructure—act as fundamental building blocks for further economic development in Appalachian communities. ARC's FY 2020 infrastructure grant investments were matched by \$231.3 million in other public investments, leveraged \$554.2 million in non-project private investment, and served 59,095 households and 9,096 businesses. Two projects supported during the fiscal year illustrate the broad impact of ARC infrastructure investments.

In Oxford, Alabama, ARC funded a project that will provide basic infrastructure to support three new businesses at an Interstate interchange that had undergone economic decline and which has since become an area of focused revitalization. Ten years ago, several restaurants and retail businesses south of the interchange closed, which left many properties vacant and many people unemployed. This project will replace an aging and undersized sewer main along the three streets in the project area. ARC funding will also be used to repair and resurface a half mile of roadway to address the surface, structural, and poor drainage issues of the aging road. Gutter and curb will be added to provide appropriate drainage and a retention pond will be built. Additionally, to address the anticipated increase in traffic volume, a left-turn lane will be added at the intersection. The interchange project is expected to generate \$20 million in leveraged private investment, create 100 new jobs, and further solidify

the revitalization that is taking place at this interstate exchange.

In FY 2020, ARC also provided funding to the Kentucky Rural Water Association (KRWA) to expand its existing circuit rider (CR) programs and provide targeted technical assistance to 25 economically distressed and at-risk communities to address urgent water and wastewater infrastructure needs. ARC funding will increase the reach of the existing CR program, and help build long-term capacity among water and sewer providers. Assistance will include developing onsite facility assessments, reviewing operations services, and creating asset management plans. In addition, KRWA will launch an apprenticeship program for water and wastewater operators, and strengthen board training services to encourage collaboration with regional, state, and federal infrastructure partners. After the expansion of the CR program, ARC will work with the KRWA and the state to solicit proposals for funding for water and wastewater implementation projects from communities that have completed an asset management plan.

#### Access to Broadband

In order to compete in the global economy, Appalachia must continue to develop and improve the infrastructure necessary for economic development. In FY 2020, ARC funded more, and larger, infrastructure grants, particularly related to broadband. Telecommunications infrastructure is particularly critical to reducing Appalachia's isolation and connecting its businesses and communities with information and markets around the world. This year, nearly one-third of the businesses and households served by infrastructure projects were served by new or improved broadband. ARC invested \$20.1 million in 24 broadband-related projects to continue its commitment to help rural Appalachian communities expand broadband service. With the advent of COVID-19, which necessitated numerous work-at-home and virtual learning programs, broadband has become even more critical. Students require adequate access to be able to participate in online learning sessions while workers need to access their company's technology platforms.

One example is the Creating a Diverse, Redundant and Resilient High Capacity Fiber Network project in New York. ARC funding will enable Southern Tier Network, Inc., a nonprofit open-access fiber network operator, to design and build nine dark fiber loops in strategic locations throughout the Southern Tier area of upstate New York. These fiber loops, consisting of 83.5 miles of fiber, will increase the fiber network's redundancy, making the network less vulnerable to outages. The project will provide more reliable internet service to 29 businesses employing over 500 people, including a hospital and 8 medical clinics, as well as to 911 emergency response services. The expansion and stabilization of the network will ensure that rural businesses have reliable access to broadband services, students will be able to complete internet-based homework, and telehealth options are available to residents. The fiber network is used by eight for-profit internet service providers who lease fiber from the Southern Tier Network in order to provide service to over 50.000 customers in the region.



# 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

Supporting outdoor recreation and tourism and the wise use of the Region's natural resources are important ways of diversifying Appalachia's rural economies. In FY 2020, ARC provided a grant to Cocke County Partnership, Inc to engage in planning activities for 50-75 miles of recreational trail within the Cherokee National Forest and Great Smoky Mountains National Park in Tennessee. The project involves a market analysis, concept design, community input, environmental review, and training for local residents in trail construction. Cocke County is an economically distressed county that lies along the travel corridor to popular national tourist attractions, but lacks recre-

ational trails and spinoff small business. This project will determine the feasibility and economic impact of developing a trail. The construction project that may follow could help the region's tourism industry recover from the pandemic.

In-2-Market, Inc. is a newly-formed nonprofit In Pittsburgh, Pennsylvania, created to bring together industry, academic, governmental, and nonprofit organizations that make up the value chain of the shale gas petrochemical, modern manufacturing, and advanced materials industry sectors. This new organization aims to facilitate collaboration between the Tri-State Region's research and innovation communities and businesses to achieve transformative technology and commercialization outcomes. During the startup phase of operations, ARC funding will enable the grantee to acquire accounting, recordkeeping, cash management, and other management assistance on an as-needed basis.

#### 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 2020 to help communities strengthen their local economies and improve the quality of life. One example is an ongoing, multiphase project to revitalize the historic Lyric Theater located in the downtown business district in St. Paul, Virginia. The renovation is an integral component of a larger effort to steer the economy from coal and rail to ecotourism. The theater, centrally located in the heart of Appalachia, will be the only public performance space of its kind in Wise County and the surrounding areas. Once completed, the venue will be able to host conferences, community events, and performing arts events. It is anticipated that the theater will become an affiliate of the Crooked Road Heritage Music Trail and host regional musical events. Phase I of the project focused on the renovation of the exterior of the theater. In FY 2020, ARC funds supported Phase 2,

which included extensive internal renovations. Once Phase 2 is complete, the theater will be operational and open to the public, though further renovations will be completed during a third and final phase.

In response to the COVID-19 pandemic, some previously funded ARC projects amended their scope of work based on changing needs and priorities. For example, an existing project with the Barter Theatre in Abingdon, Virginia, was able to repurpose ARC renovation funds to reclaim the Moonlite Theater, a nearby abandoned drive-in movie theater, and turn it into a bustling live theater venue. Instead of movies, theater goers watch live theater from the safety of their cars. In the first four weeks of operation, the Moonlite Theater attracted over 6,000 audience members, many of whom were new to the Barter Theatre experience.

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.



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

#### Academies and Institutes

ARC hosts several academies and institutes for students and adults in science, technology, engineering, and mathematics (STEM) education; entrepreneurship development; applied research; and community leadership. Through these experiential learning opportunities, participants build networks, hone skills, and cultivate an enduring commitment to Appalachia's future. While all of these programs are designed to bring

Appalachians together, due to the risks involved with onsite programming during the COVID-19 pandemic, ARC transitioned these programs to a virtual environment starting in the spring of 2020.

Programming includes the Oak Ridge National Laboratory (ORNL) summer STEM program, a twoweek, hands-on learning program delivered through Oak Ridge Associated Universities. In FY 2020, 39 high school students and 17 high school teachers, representing 13 Appalachian states, participated in the main STEM program, and an additional 32 middle school students participated in a one-week science academy. Program activities included virtual lab time with scientists at the renowned Oak Ridge National Laboratory and virtual visits 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 worldclass 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.

Remarks and the series of the Appalachian Entrepreneurship Academy (AEA) is an experiential learning program designed as a four-week residential program for rising high school seniors to build their skills in business planning, product development, idea modeling, and digital marketing. Chosen via a competitive application process, 19 high school students from across Appalachia were selected to participate in an intensive learning curriculum designed to cultivate creativity, sharpen business acumen, and develop skills essential for entrepreneurial success. Due to COVID-19, it was transitioned into a year-long virtual program.

ARC also supports the **Appalachian Teaching Project** (ATP), led by the Consortium of Appalachian Centers and Institutes, a coalition of Appalachian studies organizations located at colleges and universities throughout the Region. 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 traveled to Washington, D.C., to present their work to other participating institutions, ARC leadership, and community leaders in a formal peer-to-peer symposium. In FY 2020, 15 colleges and universities in 11 Appalachian states participated in the program.

The Appalachian Leadership Institute aims to equip a diverse network of leaders with the skills, expertise, and vision to address Appalachia's most pressing issues. 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 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. The Institute's inaugural class began their program in person, but due to the COVID-19 pandemic, transitioned to virtual learning. In FY 2020, 40 applicants were selected through a competitive process to participate in the second class.

#### ARC Nonprofit Technical Assistance

In FY 2020, ARC opened the Appalachia Nonprofit Resource Center in partnership with Hargrove International. The Center is a virtual training hub designed to help the Region's nonprofits successfully navigate the COVID-19 crisis. Teams from nonprofits throughout Appalachia were invited to apply for dedicated technical assistance coaching focusing on long-term operational sustainability during the pandemic. Topics include short-term financial management; long-term financial management; mission and operations; and fundraising. In addition to training, the Center will publish an expertly curated collection of resources open to all nonprofit operations, regardless

of participation in the coaching program. All Center services are provided free of charge.

#### Emerging Leaders

In FY 2020, ARC provided funding for the personnel expenses required to plan, develop, and implement the first Virginia Rural Leaders Institute (VRLI), which aims to build vibrant rural communities through developing the potential of civic leaders. The VRLI will fill a gap by providing a state-level, rurally focused civic leader development program. While existing civic leadership opportunities effectively prepare individuals, they do not cater to the knowledge and skills needed for rural leadership, leaving participants to connect the applicable concepts learned to their area. VRLI will deliver a robust curriculum involving leadership, community, and economic development competencies. During this first year of implementation, a strategic plan will be developed to highlight how the Institute can be sustainable and scaled up to continue to provide a rural-focused leadership program in Appalachian Virginia.

Taken together, these FY 2020 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 2020 (in thousands of dollars)

	Number of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Asset-Based Development	27	\$8,251.9	\$53.7	\$8,151.9	\$16,457.5
Business Development	70	35,437.1	1,934.1	42,652.4	80,023.5
Civic Entrepreneurship	9	2,567.4	0.0	1,105.6	3,673.0
Community Development	146	62,247.0	45,929.2	140,941.5	249,117.7
Education and Workforce Development	92	30,562.9	2,192.8	29,646.7	62,402.5
Health	20	9,114.0	15,095.0	8,375.9	32,584.9
Research and Evaluation	10	1,154.3	0.0	142.8	1,297.0
State and Local Development District Planning and Administration	100	12,454.7	0.0	8,434.4	20,889.1
Totals	474	\$161,789.3	\$65,204.8	\$239,451.1	\$466,445.2

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

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

Federal agencies are typically national in focus and narrow in scope, but ARC was created to be regional in focus and broad in scope. No other government agency is charged with the unique role of addressing Appalachian problems and opportunities. No other agency is charged with being simultaneously an advocate for the Region, a knowledge builder, an investor, a catalyst for economic development, and a partner at the federal, state, and local levels. These roles are essential to making federal investments work to alleviate severe regional disparities in the country: 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 17 show the Region's high-poverty counties in 1960 and current high-poverty counties. The change is dramatic. (Also see page 52 for a chart showing the number of Appalachian counties by economic quartile in FY 2020.)

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

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

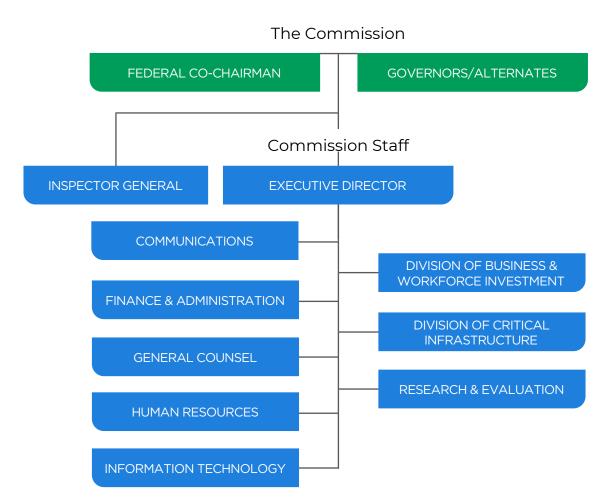
Three independent studies have found that ARC's coordinated investment strategy has paid off for the Region in ways that have not been evident in parts of the country without a regional development approach. A 1995 study funded by the National Science Foundation compared changes in Appalachian counties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

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

# APPALACHIAN REGIONAL COMMISSION ORGANIZATION



policies and for the control of funds. On all Commission decisions, the federal co-chair has one vote, and the 13 governors share one vote. Accordingly, all program strategies, allocations, and other policy must be approved by both a majority of the governors and the federal co-chair. All projects are approved by a governor and by the federal co-chair. This consensus model ensures close collaboration between the federal and state partners in carrying out the mission of the agency. It also gives the Commission a nonfederal character that distinguishes it from typical federal executive agencies and departments.

State alternates appointed by the governors oversee state ARC business and serve as state-level points of

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

In FY 2020, 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 pre-development resource, especially in economically distressed areas, providing modest amounts of initial funding that are unavailable from other sources because the community cannot qualify for the support or raise adequate matching funds. The Commission can also allow other federal agencies to use ARC funds under their statutory authorities when their own funds are insufficient for projects; in effect, ARC can provide sufficient match for federal grants on behalf of the poorest Appalachian communities. ARC works to attract a variety of partners and to secure additional resources for Appalachia. Recent partnerships include:

• Federal and State Basic Agencies. In the past, ARC construction grants were mainly administered under agreements with federal agencies, such as the U.S. Department of Agriculture Rural Development, the 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.

Since 2010, ARC has also developed agreements with 16 state agencies in each of the 13 Appalachian states 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. These Registered State Basic Agencies (RSBAs) now administer more than 80% of ARC's construction-related projects. This percentage is expected to continue to rise in the foreseeable future.

- Shaping Our Appalachian Region (SOAR). SOAR is a Kentucky state initiative established to help eastern Kentucky create local development strategies to address persistent challenges and to realize new opportunities. With support from ARC, SOAR will continue its mission to expand job creation; enhance regional opportunity, innovation, and identity; improve 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. Since its inception in 2015 through March 2020, ACC has deployed over \$18.3 million in financing to member community development financial institutions, which have financed nearly 80 small business loans that have created or retained more than 1,800 jobs

in rural Appalachia. Forty-four percent of loans were disbursed to minority- and/or women-owned businesses; of the jobs created or retained, more than 40% are filled by persons from low-income households.

- Diabetes Partnership. Through a long-term
  partnership with the Centers for Disease Control
  and Prevention (CDC) and West Virginia's Marshall
  University, ARC continues to support grassroots
  coalitions working to address disproportionately high
  rates of type 2 diabetes in the Region. Recent activities have focused on deployment of the National
  Diabetes Prevention Program in rural distressed
  counties.
- Creating a Culture of Health in Appalachia: Disparities and Bright Spots. This partnership with the Robert Wood Johnson Foundation was formed to conduct a multi-year, \$1 million research project to study factors that support a culture of health in Appalachian communities and to determine whether that knowledge can be translated into actions that address health disparities between Appalachia and the nation as a whole. The research was undertaken in past fiscal years but continued to be supported and utilized in FY 2020, through the ongoing maintenance and periodic updates to <u>healthinappalachia.org</u>, a website that allows users to interact with data from the report, create customizable maps and reports based on geographies of interest, and explore the report's three distinct yet interrelated sections: disparities, bright spots, and issue briefs.
- Researching Opioid Abuse and Related Health
  Challenges in Appalachia. This partnership with
  the National Institutes of Health, the Centers for
  Disease Control and Prevention, and the Substance
  Abuse and Mental Health Services Administration
  is composed of 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 \$3 million to these multi-agency research initiatives.
- Department of Labor: Workforce Opportunities for Rural Communities (WORC). WORC is a partnership with the Delta Regional Authority and the Employment and Training Administration in the Department of Labor, which awarded \$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. In FY 2020, a primary focus of this grant initiative was to fund projects proposing to serve eligible individuals affected by opioid or other substance use disorders. 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. This regional workforce initiative helps 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. This ongoing partnership with the
  National Endowment for the Arts 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 2020 was ARC's fifth year of operating under its 2016–2020 strategic plan, *Investing in Appalachia's Future*. The plan outlines ARC's mission to innovate, partner, and invest to build community capacity and strengthen economic growth in Appalachia, and 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.

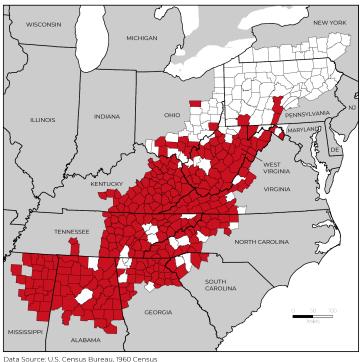
As reported in Part II of this report, the Commission demonstrated progress in FY 2020 toward achieving the performance goals set out in that plan.

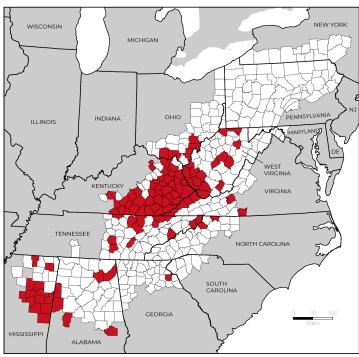
#### HIGH-POVERTY COUNTIES IN THE APPALACHIAN REGION

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

1960 295 High-Poverty Counties

2014–2018 104 High-Poverty Counties





Data Source: U.S. Census Bureau, American Community Survey, 5-Year Estimates, 2014–2018

#### 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 2020, ARC received an appropriation of \$175.0 million for area development activities and allocated by formula \$109.5 million, 62.6% 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 2020 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, \$16 million for a program of basic infrastructure improvements in distressed counties in Appalachia, and \$10 million for a program addressing the substance abuse crisis 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 county is classified within one of five economic status designations: distressed, at-risk, transitional, competitive, or attainment.

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

In FY 2020, 80 counties were designated distressed, 110 were designated at-risk, 217 were designated transitional, 10 were designated competitive, and 3 were designated attainment. ARC policy stipulates that competitive counties may receive limited assistance, while attainment counties are generally not eligible for funding. See page 19 for a map of Appalachian counties classified by economic status.

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

#### Business Development Revolving Loan Fund Grants

Business development revolving loan funds (RLFs), pools of money used by grantees for the purpose of making loans to local businesses to create and retain jobs, have been used by ARC since 1977 as an effective tool for economic development. Limited access to credit is one of the major problems in local business development in Appalachia, and is a significant contributing factor to local economic distress. Since the first RLF grants were awarded, ARC-supported RLFs have

disbursed \$225.4 million in 2,804 loans, resulting in 96,245 jobs created or retained and leveraging \$1.6 billion in private investment for the Appalachian Region.

# Highway Program: The Appalachian Development Highway System

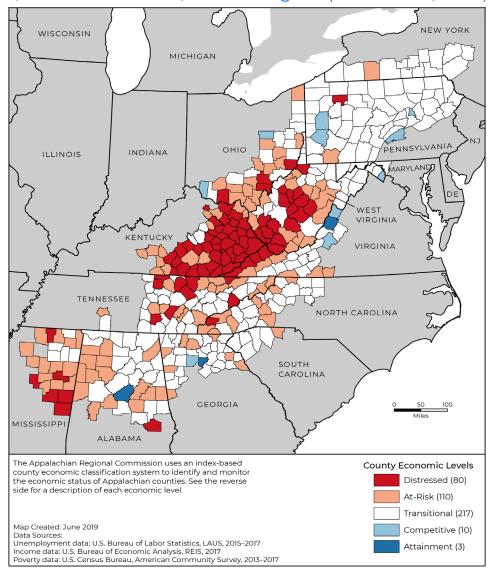
Congress created the Appalachian Development Highway System (ADHS) expressly to provide growth opportunities for the residents of Appalachia—the same benefits afforded the rest of the nation through the construction of the interstate highway system, which largely bypassed Appalachia because of the high 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 2020, funding for the ADHS was included in the overall federal-aid highway funds apportioned to the states. These funds are apportioned to the states annually, with each state using the funding at its own discretion. The federal share of funding for ADHS corridors and access roads can normally range from 80% to 100%, as determined by the state highway agencies. Although funds used for the ADHS are derived from the highway trust fund, ARC exercises policy and corridor alignment control over the system. However, in FY 2020, the Transportation Appropriation bill also included specifically dedicated ADHS funding of \$100 million, the first dedicated funding in a number of years.

At the end of FY 2020, a total of 2,655.4 miles, or 85.9%, of the 3,090 miles authorized for the ADHS were complete; 158.6 miles were under construction or partially complete and open to traffic; 44.7 miles were in the final design or right-of-way acquisition phase; and 231.4 miles were in the location study phase.

#### COUNTY ECONOMIC STATUS IN APPALACHIA, FISCAL YEAR 2020

(Effective October 1, 2019 through September 30, 2020)



#### **Local Development Districts**

ARC's statute underlines the importance of supporting Local Development Districts (LDDs) in the Region. These multi-county planning and development organizations serve as local partners for ARC across the Region. Every county in the Region is served by an LDD. Each LDD is governed by a board of directors composed of both elected officials and non-elected community leaders. 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 posted on ARC's website at <a href="www.arc.gov/research-and-data">www.arc.gov/research-and-data</a>.

Research completed or in progress in FY 2020 included:

- A research report analyzing industry-specific employment and earnings throughout Appalachia, broken down by fifteen distinct categories, including both trend analysis and comparisons to the United States overall
- A research project examining local foods and agricultural activity throughout the Region
- An update to the 2017 "Diseases of Despair" report looking at deaths due to overdose, suicide, and liver disease
- 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; a look at industries, occupations, and entrepreneurship in Appalachia; and an analysis of available datasets for substance abuse treatment centers

- A research report examining the tourism industry in Appalachia
- A data overview study examining state- and countylevel data for the 13 Appalachian states on topics including population, age, race, ethnicity, housing, education, labor force, employment, income, poverty, health insurance, disability status, and migration
- Ongoing maintenance and periodic updates to healthinappalachia.org, an interactive website housing data and reports from the "Creating Culture of Health in Appalachia: Disparities and Bright Spots" initiative
- Updates to <u>overdosemappingtool.norc.org</u> documenting overdose deaths in Appalachia, along with socioeconomic and economic indicators
- A report summarizing the FY 2020 findings from the ongoing evaluation of the impact of ARC's POWERfunded investments
- A report summarizing the evaluation of ARC's water and wastewater investments
- A report summarizing a process review of external grant administration for ARC construction grants
- A report on the experiences of alumni of the Appalachian Teaching Project
- An evaluation of ARC's grant performance measurement system
- 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, have declined significantly since the turn of the century. Many communities still rely on a single economic sector. Despite progress in some areas, Appalachia still does not enjoy the same economic vitality and living conditions as the rest of the nation, 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 2014–2018 period, 15.8% of Appalachian residents lived below the poverty level, well above the U.S. average of 14.1%. The median income of Appalachian households was \$49,747, just 83% of the U.S. average of \$60,293.

#### **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 296 Appalachian counties,
fewer than one in five residents age 25 and over
were graduates of a four-year college or university.

#### **Employment**

- The Appalachian Region lost over 600,000 jobs between 2007 and 2010, with losses taking place both during and after the Great Recession. It took the Region until 2015 to achieve its pre-recession level of employment: There were 13.1 million jobs in Appalachia in 2007, 12.5 million in 2010, and 13.2 million in 2015. Meanwhile, the United States as a whole was able to match its 2007 employment level of 179.5 million jobs by 2013, when total employment was reported at 182.3 million.
- Employment growth in the Appalachian Region lagged behind that of the United States overall between 2000 and 2018. While the country overall saw an increase of 21% in total employment, the Region experienced growth of just 10%. Central Appalachia fared the worst among the subregions, losing 4% of its total employment over the time period.
- Between 2011 and 2019, coal mining employment in Central Appalachia decreased 57%—over 21,000 jobs were lost—and is not expected to return to its historic high.
- Between 2000 and 2018, manufacturing employment declined at a faster rate than the national trend in every Appalachian subregion. In Northern, North Central, and South Central Appalachia, employment in the industry fell by around 34% over the time period, compared to a decline of 24% at the national level.
- Employment in the health and social services sector has grown more slowly in the Appalachian Region than in the nation as a whole. While the United States overall experienced growth of 51% between

2000 and 2018, employment in the industry grew by just 34% in Appalachia. Growth has been especially slow in Central Appalachia (23% over the time period), a subregion with particularly poor performance in health measures.

#### **Population Health**

- Over the 2014–2018 period, the opioid-related overdose mortality rate for people ages 15–64 was 57% 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.

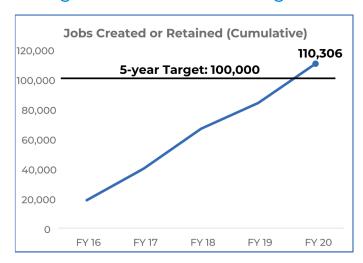
#### **SUMMARY OF ACHIEVEMENTS**

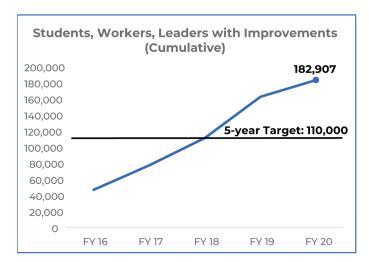
#### PERFORMANCE TARGETS AND INITIAL ESTIMATES FOR FISCAL YEAR 2020 PROJECTS

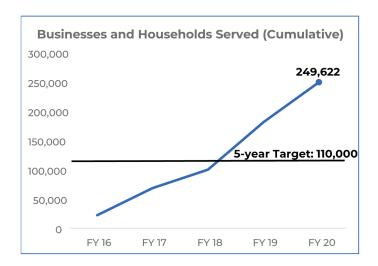
ANNUAL PERFORMANCE TARGETS	INITIAL ESTIMATES	EXPECTED RESULTS			
Outcome Targets					
20,000 jobs created or retained	26,319 jobs created or retained	Exceed target by 32%			
22,000 students, workers, and leaders with improvements	20,792 students, workers, and leaders with improvements	Meet 95% of target			
22,000 businesses and households with access to improved infrastructure	68,191 businesses and households with access to improved infrastructure	Exceed target by 210%			
2,500 businesses created or strengthened	3,361 businesses created or strengthened	Exceed target by 34%			
250 communities with enhanced capacity	335 communities with enhanced capacity	Exceed target by 34%			
Leverage Target					
Achieve a 6:1 ratio of leveraged private investment to ARC funds (\$6 per \$1 ARC investment)	5:1 ratio* (\$5.30 per \$1 ARC investment)	Meet 88% of target			
Matching Target					
Achieve a 2:1 ratio of matching funds to ARC funds (\$2 per \$1 ARC investment)	2:1 ratio* (\$1.88 per \$1 ARC investment)	Meet 94% of target			
Distressed Counties/Areas Target					
Direct 50% of ARC funds to benefit distressed counties or areas	72% of funds**	Exceed target by 22 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.					

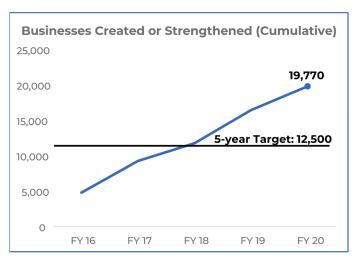
Performance results are assessed in detail in Part II (page 27).

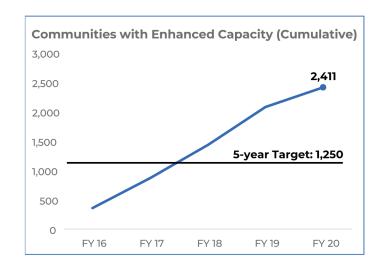
#### Progress Toward ARC Strategic Plan Performance Goals, Fiscal Years 2016–2020











#### FINANCIAL MANAGEMENT

#### Financial Management System

In FY 2020, 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 FY 2020 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, 2020, 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, 2020, 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 2020, the OIG issued 21 reports, including 20 grant audits and a Financial Statement audit.

The dollar value of grants and payments reviewed during FY 2020 was approximately \$16.7 million, and results included \$1.2 million in unsupported costs. By the end of the fiscal year, management decisions had been made for all but two reports.

Office of Inspector General reports are available at <a href="https://www.arc.gov/office-of-inspector-general">www.arc.gov/office-of-inspector-general</a>.

# 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, 2020, 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, 2020, totaled \$521.0 million, versus \$484.3 million in FY 2019. The change was due to an increase in the fund balance with the U.S. Department of the Treasury. Liabilities equaled \$28.4 million in FY 2020 versus \$29.2 million in FY 2019. The increase was due to an increase in accounts payable. The U.S. Treasury held 91.0% of ARC's assets. In addition, 5.2%, or \$27.1 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 \$455.1 million in FY 2019 to \$492.6 million in FY 2020. FY 2020 liabilities included \$25.2 million in payments due to grantees, \$1.1 million of accrued salary and benefits, and \$2.1 million in cash and advances from federal and non-federal sources.

The net cost of operations for FY 2020 totaled \$138.0 million, compared with \$110.8 million in FY 2019. ARC receives most of its resources from congressional appropriations, which totaled \$175.0 million in FY 2020. In addition, ARC received \$3.04 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 \$145.6 million.

ARC incurred obligations of \$176.2 million in FY 2020 and has an unpaid obligated balance (net, end of year)

of \$371.7 million. Of FY 2020 obligations, \$161.8 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 2020, 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, 2020, 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, 2020, were operating effectively and no material weaknesses were found in the design or operation of the controls.

ARC Federal Co-Chairman

January 26, 2021

## PART II: FISCAL YEAR 2020 PERFORMANCE REPORT

#### INTRODUCTION

he 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 progress of the Appalachian Regional Commission (ARC) toward fulfilling its mission and goals. The report does the following:

- 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 2020.

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 2020 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 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 2020, in addition to funding for ARC's base Area Development Program, the Commission's appropriation included funding for the Partnerships for Opportunity and Workforce and Economic Revitalization (POWER) Initiative, a multi-agency initiative that targets federal resources to help diversify economies in communities and regions affected by job losses in the coal mining industry; for support of the automotive and aviation sectors in Southern and South Central Appalachia; for efforts to support a broadband deployment program in Central Appalachia; and for an initiative addressing the substance abuse crisis by creating or expanding recovery ecosystems.

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

ARC holds itself and its local, state, and regional partners accountable for setting and achieving performance outcomes associated with ARC-supported investments. ARC measures the effectiveness of investments by tracking progress on several performance targets. ARC's strategic plan sets out annual and five-year outcome targets (see page 80).

In FY 2020, ARC met or exceeded most of its performance outcome targets. Initial estimates were particularly strong for investments in infrastructure improvements and job creation and retention. These investments address the needs of many communities across Appalachia—especially those hit hard by recent declines in coal-related industries—to diversify their employment base and build critical infrastructure needed to strengthen the Region's economy.

FISCAL YEAR 2020 INVESTMENT TARGETS AND INITIAL ESTIMATES				
ANNUAL OUTCOME TARGETS	INITIAL ESTIMATES			
20,000 jobs created or retained	26,319 jobs created or retained			
22,000 students, workers, and leaders with improvements	20,792 students, workers, and leaders with improvements			
22,000 businesses and households with improved infrastructure	68,191 businesses and households with improved infrastructure			
2,500 businesses created or strengthened	3,361 businesses created or strengthened			
250 communities with enhanced capacity	335 communities with enhanced capacity			

# STRATEGIC INVESTMENT GOALS AND OBJECTIVES

Investment Goal 1

# Economic

Opportunities

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

# Strategic Objectives

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

Outcome measure: Number of jobs created or retained.

Investment Goal 3 Investment Goal 2

# Infrastructure Critical

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

and succeed in Appalachia.

Strategic Objectives

health of residents to work

knowledge, skills, and

'ncrease the education,

Workforce

Ready

# Strategic Objectives

post-secondary education and the

workforce.

institutions to prepare students for

educational programs and

Develop and support

2.1

2.2 Support programs that provide

prepare workers for employment.

basic and soft-skills training to

2.3 Develop and support careerspecific education and skills training for students and workers,

- and strategic use of broadband and other telecommunications 3.1 Promote the productive connectivity and strengthen economic competitiveness. infrastructure to increase
- **3.2** Ensure that communities have adequate basic infrastructure to implement their community and economic development objectives.
- and adaptive reuse of businessfacilities to generate economic development sites and public 3.3 Support the construction growth and revitalize local economies.

2.4 Increase local residents' access

and regionally and that provide

especially in sectors that are experiencing growth locally opportunities for advancement.

on state-of-the-art technology and

to STEAM and other skills training

processes across all educational

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

high-quality health care for workers

and their families.

2.5 Improve access to affordable,

practices and establish sustainable conditions that affect the Region's

2.6 Use proven public health

clinical services to address health

economic competitiveness.

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

sustainable programs that remove

2.7 Develop and support

barriers to participating in the

workforce.

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

students, workers, and leaders with

improvements.

Outcome measure: Number of

Investment Goal 4

# **Cultural Assets** Natural and

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

# Strategic Objectives

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

Outcome measure: Number of businesses created or strengthened.

Investment Goal 5

# **Community Capacity** Leadership and

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

# Strategic Objectives

- thinking community improvement champion and mobilize forward-4.1 Develop and support robust inclusive leadership that can
- encourage authentic engagement in local and regional economic and community development. 4.3 Strengthen the capacity of community organizations and next-generation leaders and 4.2 Empower and support
- planning and implementation, and ransformative community change. resident engagement approaches implement a vision for sustainable, 4.4 Support visioning, strategic institutions to articulate and

to foster increased community

4.5 Develop and support networks, collaboration that catalyze public, partnerships, and other models of resilience and generate positive private, and nonprofit action for economic impacts. community impact

Outcome measure: Number of communities with enhanced

#### 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 2020, 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 may shift from year to year, occasionally producing unanticipated results.

To address reporting requirements, ARC reports initial estimates toward reaching performance targets as stated in the strategic plan. Although the projects funded by ARC each year generate many more measures than those reported for GPRA compliance, the measures reported relate uniquely to ARC's five strategic investment goals (see table on page 29).

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

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 measurable improvement as a result of an ARC project. This measure is used for business development and improvement projects, such as business technical assistance, market expansion, tourism development, and value-added agriculture.

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

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

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

This measure is reported as "communities with enhanced capacity."

#### Leverage, Matching, and Distressed Counties Measures

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

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

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

#### STRATEGIC INVESTMENT GOAL 1



# **Economic Opportunities**

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

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

#### **Action Objectives**

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

#### **Performance Targets and Initial Estimates**

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

#### **Outcome Measures**

ARC's strategic plan describes the major outcome measures for Strategic Investment Goal 1 as the number of jobs created or retained, the number of businesses created or strengthened, and the amount of leveraged private investment. Because Strategic Investment Goal 1 is most closely aligned with the performance measure "jobs created and retained," initial estimates and verification results for jobs created or retained under all strategic investment goals are reported under this goal. Initial estimates and verification results for businesses created or strengthened are reported under Strategic Goal 4. The initial estimates for leveraged private investment under all strategic investment goals are reported on page 47.

### **Outcome Target and Initial Estimates**

JOBS CREATED OR RETAINED IN FISCAL YEAR 2020		
ANNUAL OUTCOME TARGET	INITIAL ESTIMATE	
FY 2020: 20,000 jobs created or retained	FY 2020: 26,319 jobs created or retained	

FY 2020: Expected to exceed target by 32%. In FY 2020, many projects refocused their efforts to assist small businesses impacted by COVID-related restrictions.

JOBS CREATED OR RETAINED IN FISCAL YEARS 2015–2019		
ANNUAL OUTCOME TARGETS INITIAL ESTIMATES		
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	
FY 2019: 20,000 jobs created or retained	FY 2019: 17,282 jobs created or retained	

### **Project Verification Sampling**

In FY 2020, members of ARC's verification team surveyed 14 projects completed in FY 2016 through FY 2018 that had targets for jobs created or retained to compare estimated and actual results.

Number of Projects Surveyed	Projected Number of Jobs Created or Retained	Actual Number of Jobs Created or Retained	Results Achieved
14	2,559	3,127	122%

As shown above, the projects surveyed achieved 122% of projected results for jobs created or retained.

### **Project Evaluation: Final Results**

### **POWER Monitoring and Evaluation**

In October 2020, findings and recommendations from the second 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. POWER grants are organized into four broad development categories: workforce development, broadband and telecommunications, entrepreneurship, and business cluster development. The 2020 evaluation encompassed around 200 POWER grants funded by ARC and other federal, state, and local partners in fiscal years 2015–2019. This second phase of the evaluation expanded on the overall goal of assessing grantee successes, challenges, and outcomes, and included a deeper focus on grants addressing substance use disorder (SUD), technical assistance grants, and grants operating in communities with high concentrations of POWER projects. It also included an initial look at the impact of the COVID-19 pandemic.

In FY 2021, Chamberlin Dunn will continue to monitor implementation of POWER grants with a focus on the experiences of grantee beneficiaries as well as the continuing impacts of and response to the COVID-19 pandemic.

### 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.

### 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 healthcare infrastructure, and other health barriers that keep residents from being active and productive workers.

### **Action Objectives**

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

### Performance Targets and Initial Estimates

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

### **Outcome Measures**

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

### Outcome Target and Initial Estimates

STUDENTS, WORKERS, AND LEADERS WITH IMPROVEMENTS IN FISCAL YEAR 2020		
ANNUAL OUTCOME TARGET	INITIAL ESTIMATE*	
FY 2020: 22,000 students, workers, and leaders with improvements	FY 2020: 20,792 students, workers, and leaders with improvements	
*Excludes projects that provided computers or computer equipment that will benefit large numbers of students.		

FY 2020: Met 95% of target. Outcome results typically fluctuate over the years as the states' investment priorities vary.

ANNUAL OUTCOME TARGETS	INITIAL ESTIMATES**
FY 2015: 20,000 students/trainees with improvements*	FY 2015: 23,123 students/trainees with improvements*
FY 2016: 20,000 students, workers, and leaders with improvements	FY 2016: 46,513 students, workers, and leaders with improvements
FY 2017: 22,000 students, workers, and leaders with improvements	FY 2017: 30,263 students, workers, and leaders with improvements
FY 2018: 22,000 students, workers, and leaders with improvements	FY 2018: 34,135 students, workers, and leaders with improvements
FY 2019: 22,000 students, workers, and leaders with improvements	FY 2019: 51,204 students, workers, and leaders with improvements

<sup>\*\*</sup>Excludes projects that provided computers or computer equipment that will benefit large numbers of students.

### **Project Verification Sampling**

In FY 2020, members of ARC's verification team surveyed nine projects completed in FY 2017 through FY 2019 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
9	8,603	12,089	141%

As shown above, the projects surveyed achieved 141% 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% of survey respondents said that without ARC funding their project would have been cancelled, downsized, or delayed by more than a year. The projects contributed to a number of outcomes, including workforce training, health-care provision, public health promotion, and public policy development. Analysis of data from ARC's grants management database showed that on average, ARC's health projects have made a substantial impact on participants and patients.

### **Education and Workforce Development**

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

### STRATEGIC INVESTMENT GOAL 3



### Critical Infrastructure

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

ARC investments in infrastructure have helped reduce the Region's isolation, spur economic activity, and improve public health and safety. 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 multimodal 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 2020		
ANNUAL OUTCOME TARGET INITIAL ESTIMATE*		
FY 2020: 22,000 businesses and households served FY 2020: 68,191 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 2020: Expected to exceed target by 210%. In FY 2020, 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 nearly a third of the anticipated businesses and households served. In addition to the result above, ARC funded water-storage projects in FY 2020 that expect to serve a total of 3,160 additional businesses and households and a large system-wide project that expects to serve an additional 21,700 businesses and households.

BUSINESSES AND HOUSEHOLDS SERVED IN FISCAL YEARS 2015–2019*		
ANNUAL OUTCOME TARGETS	INITIAL ESTIMATES**	
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	
FY 2019: 22,000 businesses and households served	FY 2019: 81,295 businesses and households served***	

<sup>\*</sup>Prior to FY 2016, businesses were not included in this performance measure.

### **Project Verification Sampling**

In FY 2020, members of ARC's verification team surveyed six projects completed in FY 2016 through FY 2019 that had targets for businesses and households served to compare estimated and actual results. Verification is for businesses and households served with infrastructure projects.

Number of Projects Surveyed	Projected Number of Businesses and Households Served	Actual Number of Businesses and Households Served	Results Achieved
6	7,342	7,667	104%

As shown above, the projects surveyed achieved 104% of projected results for businesses and households served with infrastructure.

### Project Evaluation: Final Results

### **Drinking Water and Wastewater Infrastructure Projects**

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

<sup>\*\*</sup>Initial estimates do not include households served by ARC-funded water storage tank construction and improvement projects with large service areas.
\*\*\*FY 2019 number adjusted from published total to accommodate one project that was changed from an FY19 to FY20 project due to delays.

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

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

In July 2017, ARC published the report *Economic Analysis of Completing the Appalachian Development Highway System* led by Economic Development Research Group 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 was to estimate the economic benefits and costs of system and corridor completion to inform stakeholders as they work on funding and constructing the final segments of the ADHS. The study's key findings include the following:

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

### **Telecommunications and Technology**

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

### STRATEGIC INVESTMENT GOAL 4



## Natural and Cultural Assets

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

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

### **Action Objectives**

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

### Performance Targets and Initial Estimates

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

### **Outcome Measures**

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

### **Outcome Target and Initial Estimates**

BUSINESSES CREATED OR STRENGTHENED IN FISCAL YEAR 2020		
ANNUAL OUTCOME TARGET	INITIAL ESTIMATE	
FY 2020: 2,500 businesses created or strengthened	FY 2020: 3,361 businesses created or strengthened	

FY 2020: Expected to exceed target by 34%. 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 2016–2019*		
ANNUAL OUTCOME TARGET INITIAL ESTIMATE		
FY 2016: 2,500 businesses created or strengthened	FY 2016: 4,757 businesses created or strengthened	
FY 2017: 2,500 businesses created or strengthened	FY 2017: 4,474 businesses created or strengthened	
FY 2018: 2,500 businesses created or strengthened	FY 2018: 2,500 businesses created or strengthened	
FY 2019: 2,500 businesses created or strengthened	FY 2019: 4,678 businesses created or strengthened	
*FY 2016 was the first year with a performance target for businesses created or strengthened.		

### **Project Verification Sampling**

In FY 2020, members of ARC's verification team surveyed 15 projects completed in FY 2016 through FY 2018 that had targets for businesses created or strengthened to compare estimated and actual results.

Number of Projects Surveyed	Projected Number of Businesses Created or Strengthened	Actual Number of Businesses Created or Strengthened	Results Achieved
15	841	925	110%

As shown above, the projects surveyed achieved 110% of projected results for businesses created or strengthened.

### **Project Evaluation: Final Results**

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

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

### STRATEGIC INVESTMENT GOAL 5



# **Leadership and Community Capacity**

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

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

### **Action Objectives**

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

### Performance Targets and Initial Estimates

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

### **Outcome Measures**

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

### **Outcome Target and Initial Estimates**

COMMUNITIES WITH ENHANCED CAPACITY IN FISCAL YEAR 2020		
ANNUAL OUTCOME TARGET INITIAL ESTIMATE		
FY 2020: 250 communities with enhanced capacity	FY 2020: 335 communities with enhanced capacity	

FY 2020: Expected to exceed target by 34%. This is due in part to priorities established for the POWER Initiative.

COMMUNITIES WITH ENHANCED CAPACITY IN FISCAL YEAR 2016–2019*			
ANNUAL OUTCOME TARGET	INITIAL ESTIMATE		
FY 2016: 250 communities with enhanced capacity	FY 2016: 357 communities with enhanced capacity		
FY 2017: 250 communities with enhanced capacity	FY 2017: 510 communities with enhanced capacity		
FY 2018: 250 communities with enhanced capacity	FY 2018: 562 communities with enhanced capacity		
FY 2019: 250 communities with enhanced capacity	FY 2019: 647 communities with enhanced capacity		
*FY 2016 was the first year with a performance target for communities with enhanced capacity.			

### **Project Verification Sampling**

In FY 2020, members of ARC's verification team surveyed nine projects completed in FY 2016 through FY 2018 that had targets for communities with enhanced capacity to compare estimated and actual results.

Number of Projects Surveyed	Projected Number of Businesses Created or Strengthened	Actual Number of Businesses Created or Strengthened	Results Achieved
9	20	49	245%

As shown above, the project surveyed achieved 245% of projected results for communities with enhanced capacity.

### **Project Evaluation: Final Results**

### **Community Capacity Building**

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

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

## 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 2020		
ANNUAL TARGET	INITIAL ESTIMATES	
FY 2020: 6:1 ratio of leveraged private investment to ARC investment	FY 2020: 5:1 ratio	

FY 2020: Expected to meet 88% of target. Every dollar of ARC funding is estimated to attract \$5.30 of leveraged private investment (non-project funds). Outcome results typically fluctuate over the years as the states' investment priorities vary.

LEVERAGED PRIVATE INVESTMENT RATIO IN FISCAL YEARS 2015–2019*		
ANNUAL TARGET	INITIAL ESTIMATES	
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 2019: 6:1 ratio of leveraged private investment to ARC investment	FY 2019: 3:1 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 2020		
ANNUAL TARGET	RESULT	
FY 2020: 2:1 ratio of matching funds to ARC investment	FY 2020: 2:1 ratio*	
*Ratios are rounded to the nearest whole number.		

FY 2020: Met 94% of target. Every dollar of ARC funding attracted \$1.88 in matching project funds.

MATCHING PROJECT FUNDS RATIO IN FISCAL YEARS 2015–2019*		
ANNUAL TARGET	RESULTS**	
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 2019: 2:1 ratio of matching funds to ARC investment	FY 2019: 1:1 ratio	

<sup>\*</sup>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 2020*		
ANNUAL TARGET	RESULT	
FY 2020: Direct 50% of ARC funds to distressed counties or areas	FY 2020: 72% of funds	
*Project funds are included if the project primarily or substantially benefits distressed counties or areas.		

FY 2020: Exceeded target by 22 percentage points. ARC continues to encourage directing investment to distressed counties and areas.

PERCENTAGE OF FUNDS TO DISTRESSED COUNTIES/AREAS IN FISCAL YEARS 2015–2019*			
ANNUAL TARGETS	RESULTS		
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		
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.			

### **SUMMARY OF ACHIEVEMENTS**

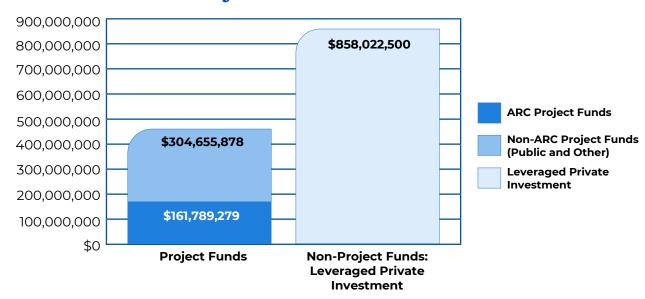
### PERFORMANCE TARGETS AND INITIAL ESTIMATES FOR FISCAL YEAR 2020 PROJECTS

ANNUAL PERFORMANCE TARGETS	INITIAL ESTIMATES	EXPECTED RESULTS
Outcome Targets		
20,000 jobs created or retained	26,319 jobs created or retained	Exceed target by 32%
22,000 students, workers, and leaders with improvements	20,792 students, workers, and leaders with improvements	Meet 95% of target
22,000 businesses and households with access to improved infrastructure	68,191 businesses and households with access to improved infrastructure	Exceed target by 210%
2,500 businesses created or strengthened	3,361 businesses created or strengthened	Exceed target by 34%
250 communities with enhanced capacity	335 communities with enhanced capacity	Exceed target by 34%
Leverage Target		
Achieve a 6:1 ratio of leveraged private investment to ARC funds (\$6 per \$1 ARC investment)	5:1 ratio* (\$5.30 per \$1 ARC investment)	Meet 88% of target
Matching Target		
Achieve a 2:1 ratio of matching funds to ARC funds (\$2 per \$1 ARC investment)	2:1 ratio* (\$1.88 per \$1 ARC investment)	Meet 94% of target
Distressed Counties/Areas Target		
Direct 50% of ARC funds to benefit distressed counties or areas	72% of funds**	Exceed target by 22 percentage points
*Ratios are rounded to the nearest whole number. **Project funds are included if the project primarily or substantially be	enefits distressed counties or areas.	

### Investment Summary for FY 2020 Projects

LEVERAGE, MATCHING, AN	D DISTRESSEI	O COUNTIES/AREAS SUMMARY
Leveraged private investment	\$858,022,500	5:1 ratio of leveraged private investment to ARC investment
Non-ARC matching project funds	\$304,655,878	2:1 ratio of non-ARC project investment to ARC project investment
ARC project funds targeted to distressed counties or areas	\$115,909,997*	72% 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 2020



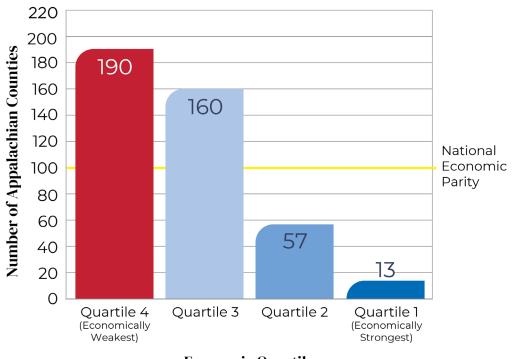
### MEASURING PROGRESS TOWARD THE ARC VISION

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.

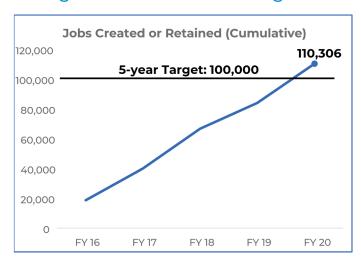
Using this index, ARC can compute annually the number of Appalachian counties in each quartile, as well as an overall regional index value. This can be directly compared with the national index value to measure progress. In addition, progress can be clearly measured by reductions in the number of Appalachian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

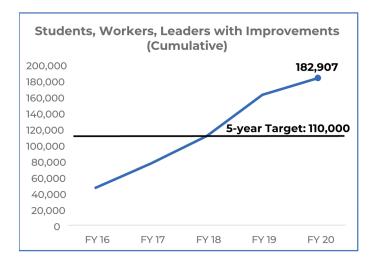
### Number of Appalachian Counties by Economic Quartile, Fiscal Year 2020

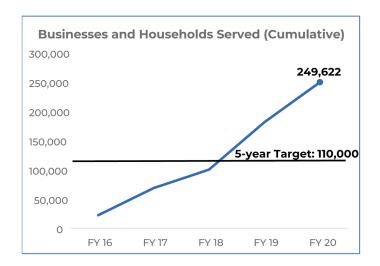


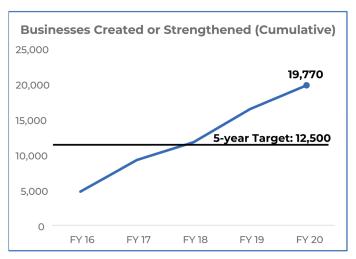
**Economic Quartile** 

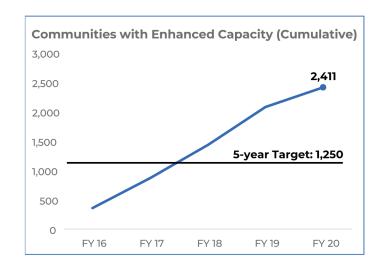
### Progress Toward ARC Strategic Plan Performance Goals, Fiscal Years 2016–2020











### PART III: FISCAL YEAR 2020 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 2020, 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 26, 2021

### **REPORT OF INDEPENDENT AUDIT**



Office of Inspector General

January 28, 2021

Federal Co-Chair and Executive Director:

This memorandum transmits the results of the audit of the Commission's financial statements for the fiscal year ended September 30, 2019 and 2020. We contracted with the independent certified public accounting firm Key & Associates, P.C. to conduct this audit. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards.

My office has policies and procedures that are designed to provide assurance that work performed by non-Federal auditors complies with the auditing standards. These procedures follow the guidelines provided in the GAO/CIGIE Financial Audit Manual. In connection with this contract, we reviewed the final report of Key & Associates, P.C. and related documentation and made inquiries of its representatives. Our involvement in the audit process included monitoring audit activities, participating in discussions, reviewing audit plans, and the inspection of selected documentation, conclusions, and results.

Our involvement and review of Key & Associates, P.C. work disclosed no instances where they did not comply, in all material respects, with the U.S. generally accepted government auditing standards; however, this review cannot be construed as an audit, and is not intended to enable us to express, and we do not express, any opinion on the Commission's financial statements. Key & Associates, P.C. is solely responsible for the audit report dated January 26, 2021 and the conclusions expressed in the report.

Thank you for the cooperation and courtesies extended to both Key & Associates, P.C. and my staff during this audit.

Sincerely,

Philip M. Heneghan Inspector General

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### Appalachian Regional Commission

### FINANCIAL STATEMENTS

As of And For The Years Ended September 30, 2020 and 2019

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#### 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, 2020 and 2019 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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#### **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.

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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.

Silver Spring, Maryland January 26, 2021

Key & Associates, PC

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### APPALACHIAN REGIONAL COMMISSION

BALANCE SHEET

As Of September 30, 2020 and 2019

			2020		2019
Assets:					
Intragovernmental:					
Fund Balance With Treasury	(Note 1 & 2)	\$	474,011,189.56	\$	441,841,082.93
Accounts Receivable	(Note 3)				254.74
Other:					
Advances and Prepayments	(Note 1 & 5)				71,677.81
Total Intragovernmental			474,011,189.56		441,913,015.48
Cash and Other Monetary Assets Other:	(Note 1 & 6)		1,286,724.64		1,260,481.03
Advances and Prepayments	(Note 1 & 5)		45,745,405.27		41,165,387.33
Total Assets		\$	521,043,319.47		484,338,883.84
Liabilities:	(Note 1 & 7)				
Intragovernmental:	(,				
·	(Note 7 & 8)				
Employer Contributions and Payroll Taxes Payable		\$	40,159.13	\$	31,638.61
Liability for Advances and Prepayments			167,190.61		411,326.86
Liability for Non-Entity Assets Not Reported on					
the Statement of Custodial Activity					37,742.86
Total Intragovernmental			207,349.74		480,708.33
Accounts Payable Other:	(Note 1 & 7) (Note 1, 7 & 8)		25,165,421.56		25,806,502.68
Accrued Funded Payroll and Leave	, ,		384,020.01		286,283.64
Employer Contributions and Payroll Taxes Payable			3,732.09		3,304.09
Unfunded Leave			593,482.16		440,544.83
Liability for Advances and Prepayments			683,103.44		911,894.45
Other Liabilities Without Related Budgetary Obligations			1,361,977.22		1,300,981.03
Total Liabilities		\$	28,399,086.22	\$	29,230,219.05
Net Position:					
Unexpended Appropriations - All Other Funds					
(Consolidated Totals)		\$	511,067,608.61	\$	474,327,258.61
Cumulative Results of Operations - All Other					
Funds (Consolidated Totals) Total Net Position - All Other Funds			(18,423,375.36)		(19,218,593.82)
(Consolidated Totals)			492,644,233.25		455,108,664.79
Total Net Position			492,644,233.25		455,108,664.79
Total Liabilities and Net Position		\$	521,043,319.47		484,338,883.84
Total Elabilities alla Net Fusitivii		Ψ	321,043,313.47	<u> </u>	+04,330,003.04

### APPALACHIAN REGIONAL COMMISSION STATEMENT OF NET COST

As of And For The Years Ended September 30, 2020 and 2019

	2020	2019
Gross Program Costs:	 	
ARC:		
Gross Costs	\$ 141,612,652.47	\$ 113,925,168.97
Less: Earned Revenue	3,604,271.92	3,116,158.95
Net Program Costs	 138,008,380.55	110,809,010.02
Net Cost of Operations	\$ 138,008,380.55	\$ 110,809,010.02

### APPALACHIAN REGIONAL COMMISSION

STATEMENT OF CHANGES IN NET POSITION
As of And For The Years Ended September 30, 2020 and 2019

	2020 Consolidated Totals	2019 Consolidated Totals	
Unexpended Appropriations:  Beginning Balance	\$ 474,327,258.61	\$ 414,634,326.08	
Beginning balance, as adjusted	474,327,258.61	414,634,326.08	
Budgeton, Financing Courses			
Budgetary Financing Sources:	175,000,000.00	165,000,000.00	
Appropriations received	• • •	, ,	
Appropriations used	(138,259,650.00)	(105,307,067.47)	
Total Budgetary Financing Sources	36,740,350.00	59,692,932.53	
Total Unexpended Appropriations	511,067,608.61	474,327,258.61	
Cumulative Results from Operations			
Beginning Balances	(19,218,593.82)	(13,801,575.01)	
Beginning balances, as adjusted	(19,218,593.82)	(13,801,575.01)	
Budgetary Financing Sources:			
Appropriations used	138,259,650.00	105,307,067.47	
Transfers-in/out without reimbursement (+/-)	500,000.00	, ,	
Other Financing Sources (Nonexchange):			
Imputed Financing	43,949.01	84,923.74	
Total Financing Sources	138,803,599.01	105,391,991.21	
Net Cost of Operations	138,008,380.55	110,809,010.02	
Net Change	795,218.46	(5,417,018.81)	
Cumulative Results of Operations	(18,423,375.36)	(19,218,593.82)	
Net Position	\$ 492,644,233.25	\$ 455,108,664.79	

### APPALACHIAN REGIONAL COMMISSION STATEMENT OF BUDGETARY RESOURCES

As of And For The Years Ended September 30, 2020 and 2019

	2020 Budgetary		2019 Budgetary	
Budgetary resources:				
Unobligated balance from prior year budget authority, net (discretionary and mandatory) Appropriations (discrectionary and mandatory) Spending authority from offsetting collections (discretionary and mandatory)	\$	102,049,791.70 175,000,000.00 848,759.94	\$	99,122,196.85 165,000,000.00 3,354,963.00
Total budgetary resources	\$	277,898,551.64	\$	267,477,159.85
Status of budgetary resources: New obligations and upward adjustments (total)	\$	176,152,412.02	\$	181,613,766.49
Unobligated balance, end of year: Apportioned, unexpired account Unapportioned, unexpired accounts		63,630,417.12 38,115,722.50		77,796,716.64 8,066,676.72
Unexpired unobligated balance, end of year Unobligated balance, end of year (total)		101,746,139.62 101,746,139.62		85,863,393.36 85,863,393.36
Total budgetary resources	\$	277,898,551.64	\$	267,477,159.85
Outlay, net:				
Outlays, net (total) (discretionary and mandatory)	\$	145,579,556.17	\$	107,200,442.03
Agency outlays, net (discretionary and mandatory)	\$	145,579,556.17	\$	107,200,442.03

### 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 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 financialstatements 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.

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.

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.

### **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.

### Note 2 - Fund Balance With Treasury

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

A. Fund Balances	2020	2019
General Funds	\$ 473,597,783.56	\$ 441,427,676.93
Trust Fund	413,406.00	413,406.00
Total Fund Balance with Treasury	474,011,189.56	441,841,082.93
B. Status of Fund Balance with Treasury		
1) Unobligated Balance		
a) Available	63,630,417.12	77,796,716.64
b) Unavailable	38,115,722.50	8,066,676.72
2) Obligated Balance not yet Disbursed	371,672,165.94	355,388,637.57
3) Temporary Sequestration	592,884.00	589,052.00
Total	\$ 474,011,189.56	\$ 441,841,082.93

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.

	2020	2019		
Accounts Receivable	\$0.00	\$254.74		

### 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, 2020, ARC has no title to general property, plant and equipment, including internal use software, of \$35,000 or more.

#### Note 5 – Other Assets

Advances at September 30 consist of the following:

A.	Intragovernmental	2020	2019
	Advances to the Tennessee Value Authority	\$ -	\$ 71,677.81
		-	71,677.81
В.	Other		
	Advances to grantees to finance program expenditures		
	-Revolving Loan Fund	27,075,420.71	26,299,281.72
	-Non-Federal Grantees	14,665,201.56	10,997,691.60
	Prepaid Pension Expense	4,004,783.00	3,868,414.00
		45,745,405.27	41,165,387.32
	Total	45,745,405.27	41,237,065.13

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

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

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

### Note 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.

	2020	 2019
Commercial Bank Balance	\$ 1,286,724.64	\$ 1,260,481.03

### 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, 2020 and 2019 consist of the following:

	2020	2019
With the Public		
Unfunded annual leave	\$ 593,482.16	\$ 440,544.83
Total liabilities not covered by budgetary resources	593,482.16	440,544.83
<u>Advances</u>		
Advances from Centers for Disease Control	167,190.61	411,326.86
Advances from Non-Federal Vendors	683,103.44	911,894.45
Total Advances	850,294.05	1,323,221.31
Benefits Due		
Accrued health and flexible spending benefits	75,252.58	78,242.86
Accrued salaries and benefits	427,911.23	321,226.34
Total benefits due	503,163.81	399,469.20
Payments Due to grantees to finance program expenditures	25,165,421.56	25,806,502.68
Commercial Bank Balance	1,286,724.64	1,260,481.03
Total liabilities covered by budgetary resources	27,805,604.06	28,789,674.22
Total Liabilities	28,399,086.22	29,230,219.05

### Note 8 – Other Liabilities

As of September 30, 2020, and 2019, 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.

FY2020	FY2020				
	Non-Current	Current	Total		
Intragovernmental					
Employer Contributions and Payroll Taxes Payable	-	\$ 40,159.13	40,159.13		
Unfunded annual leave	-	\$ 167,190.61	167,190.61		
Total Intragovernmental	-	207,349.74	207,349.74		
Liabilities with the Public					
Accrued Funded Payroll and Leave	-	384,020.01	384,020.01		
Employer Contributions and Payroll Taxes Payable	-	3,732.09	3,732.09		
Unfunded Leave	593,482.16	-	593,482.16		
Liability for Advances from Non Federal Sources	-	683,103.44	683,103.44		
Accrued Health and Flexible Spending Benefits	-	75,252.58	75,252.58		
Commericial Bank Balance	1,286,724.64	-	1,286,724.64		
Total Liabilities with the Public	1,880,206.80	1,146,108.12	3,026,314.92		
Total Other Liabilities	1,880,206.80	1,353,457.86	3,233,664.66		

FY2019	)		
	Non-Current	Current	Total
Intragovernmental			
<b>Employer Contributions and Payroll Taxes Payable</b>	-	31,638.61	31,638.61
Unfunded annual leave	-	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
Commericial 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

### 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 2020 were \$0.00 and \$255,881.53 for CSRS and FERS, respectively and contributions for FY 2019 were \$1,186.65 and \$233,054.25 for CSRS and FERS, respectively. ARC's last CSRS-benefited employee retired in FY 2019.

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 2020 were \$77,845.46 and \$1,591.86 and for FY 2019 were \$83,571.87 and \$1,709.69 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 2020, ARC contributed \$16,311.54 and \$65,085.69 to the Federal Thrift Savings Basic and Matching Plans respectively, and for FY 2019, ARC contributed \$17,122.63 and \$61.041.63 respectively.

#### Non-Federal

The following table presents the pension benefit expense for the defined benefit pension plan by component for fiscal years 2020 and 2019:

	2020	2019
Service cost	\$ 678,908.00	\$ 495,201.00
Interest cost	996,282.00	1,130,648.00
Expected return	(2,036,026.00)	(1,874,280.00)
Amortization of prior service cost	690,724.00	690,723.00
Recognized loss	533,747.00	-
Net periodic benefit cost	\$ 863,635.00	\$ 442,292.00

The following table presents the pension liability or prepayment by component for fiscal years 2020 and 2019:

	2020	2019
Pension liability at October 1	\$ (3,868,414.00)	\$ (3,410,706.00)
Net periodic benefit cost	863,635.00	442,292.00
Contributions	(1,000,004.00)	(900,000.00)
Pension Prepayment at September 30	\$ (4,004,783.00)	\$ (3,868,414.00)

Additional Information	2020	2019
Projected Benefit obligation	\$ (36,882,195.00)	\$ (33,888,344.00)
Fair value of plan assets	31,348,293.00	28,755,140.00
Funded status	(5,533,902.00)	(5,133,204.00)
Employer contribution	1,000,004.00	900,000.00
Participant contribution	-	-
Benefits paid	1,200,715.00	879,038.00

The accumulated benefit obligation was \$35,808,753 and \$32,669,701 at September 30, 2020 and 2019, respectively.

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

	2020	2019
Discount rate	2.40%	3.00%
Rate of compensation increase	3.00%	3.00%

Weighted-average of economic assumptions used to determine net periodic benefit cost for the years ended September 30:

	2020	2019
Discount rate	3.00%	4.10%
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:

Total assets	100%	100%
Other	1.34%	0.00%
Real Estate	3.85%	5.20%
Debt securities	59.62%	57.32%
Equity securities	35.19%	37.48%
Asset Category	2020	2019

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

<u>Fiscal Year</u>	<u>Amount</u>
2021	1,489,619.00
2022	1,507,340.00
2023	1,516,466.00
2024	1,567,017.00
2025	1,626,859.00
2026 - 2030	8,543,390.00

ARC contributed \$361,973.28 and \$248,411.36 to the 401(k) plan for the years ended September 30, 2020 and 2019, 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
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	4,838,577.00

Rent expense for the years ended September 30, 2020 and 2019 was \$978,214.05 and \$974,716 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:

- 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:

	<u>2020</u>	<u>2019</u>
Direct Category B Obligations		
Cat B- Non-Highway Programs	150,880,201.07	151,800,622.64
Cat B- RD (12-46X0200.020)	13,432,706.70	22,845,692.00
Cat B- EDA (13-46X0200.020)	7,018,534.00	2,758,098.00
Cat B- FHWA Non-Highway Programs(69-46X0200.05)	404,345.76	1,279,628.40
Cat B- HUD (86-46X0200)	950,000.00	175,000.00
Total direct obligations	172,685,787.53	178,859,041.04
Reimbursable Category B Obligations		
Cat B- Non-Highway Programs	3,466,624.49	2,754,525.45
Total reimbursable obligations	3,466,624.49	2,754,525.45
Total Obligations	\$ 176,152,412.02	\$ 181,613,566.49

### 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.

	<u>2020</u>	<u>2019</u>
Unpaid Undelivered Orders	\$ 371,672,165.91	\$ 332,544,386.66
Paid Undelivered Orders	\$ 45,745,405.27	\$ 41,251,987.14
Total Undelivered Orders	\$ 417,417,571.18	\$ 373,796,373.80

### 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, 2020.

### 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 2020 actual budgetary execution information is scheduled for publication in February 2021, which will be available through OMB's website at

http://www.whitehouse.gov/omb. Accordingly, information required for such disclosure is not available at the time of publication of these financial statements. Balances reported in the FY 2019 SBR and the related President's Budget reflected the following: (Dollars in Millions)

FY2019	Budgetary Resources		Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	267	182	-	108
Budget o the U.S. Government	267	182	-	108
Difference	-	-	-	-

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.

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

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

### Note 16 – Subsequent Events

ARC has evaluated subsequent events occurring after the balance sheet date and through the date of January 26, 2021 the date the financial statements were available for release. Based upon this evaluation, ARC has determined that no subsequent events have occurred which require disclosure in the financial statements.

### REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

### Stewardship Investments

Stewardship investments are substantial investments that are made by the federal government for the benefit of the nation but are not physical assets owned by the federal government. Such investments are measured in terms of expenses incurred for non-federal physical property, human capital, and research and development. ARC invests in non-federal physical property, human capital, and research and development through its Area Development Program, which funds projects that support the goals and objectives set forth in the Commission's strategic plan.

# ARC Investment in Non-Federal Physical Property

Non-federal physical property investments are expenses included in net cost of operations for the purchase, construction, or major renovation of physical property owned by state and local governments. In FY 2020, 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 2016	\$34,522,482				
Fiscal Year 2017	\$32,100,717				
Fiscal Year 2018	\$36,962,756				
Fiscal Year 2019	\$41,085,774				
Fiscal Year 2020	\$69,186,941				

### 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 2020 included grants for education and job training programs in areas including workforce training, vocational education, dropout prevention, math and science, and health.

ARC Investment in Human Capital					
Fiscal Year 2016	\$11,504,662				
Fiscal Year 2017	\$21,077,501				
Fiscal Year 2018	\$29,925,465				
Fiscal Year 2019	\$31,671,742				
Fiscal Year 2020	\$26,406,576				

# 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 2020, ARC invested in applied research through the following projects: a program evaluation of ARC's water and wastewater projects; a report monitoring and evaluating the impact of ARC's POWER-funded investments; an evaluation of ARC's grant performance measurement system; a process review of external grant administration for ARC construction grants; a research report examining the tourism industry in Appalachia; a website and data update to a report on the entrepreneurial ecosystems in Appalachia; a report examining mortality from diseases of despair in Appalachia; a continued analysis of coal industry ecosystems, incorporating several research projects including a shift-share analysis, the broader power industry ecosystem, assessment of coal industry impact on funding for education, and a report on industries, occupations and entrepreneurship; 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 2016	\$237,000				
Fiscal Year 2017	\$588,310				
Fiscal Year 2018	\$633,418				
Fiscal Year 2019	\$616,790				
Fiscal Year 2020	\$913,063				

# PART IV: OTHER INFORMATION

ARC PERFORMANCE TARGETS AND RESULTS, 2016-2020						
Targets are based on level annual appropriations of \$70 million.						
Annual 5-Year 5-Year Performance Performance Expected Target Target Results						
Businesses created and/or strengthened	2,500	12,500	19,770			
Job created and/or retained	20,000	100,000	110,306			
Ratio of leveraged private investment	6 to 1	6 to 1	5 to 1 (\$5.48 per \$1 ARC)			
Students, workers, and leaders improved	22,000	100,000	182,907			
Communities with enhanced capacity	250	1,250	2,411			
Businesses and households with access to improved infrastructure	22,000	110,000	249,622			

### **IMPROPER PAYMENTS**

# Improper Payments Information Act (IPIA) 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% 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 missionaligned 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, 2020, the Commission concluded that the program was not susceptible to significant improper payments.



# Office of Inspector General

October 15, 2020

Report Number 21-03

Commissioners:

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

I have identified three management and performance challenges: (1) the COVID-19 pandemic, (2) information systems, and (3) risks associated with the rapid growth of ARC funding. These challenges were identified based on work by the Office of Inspector General, input from Commission management, and knowledge of the Commission's programs and operations.

### COVID-19

Like the rest of the world, the Commission faced an immediate threat to operations when the COVID-19 pandemic required it to close its offices and have staff work from home. In early 2020, the Commission did not include telework as part of its normal business processes. Responding to COVID-19, the Commission sent the entire staff home to work and successfully met the challenge of establishing work processes for remotely implementing its programs and continuing to accomplish its mission.

The Commission faces a dual challenge: Ensuring the health and safety of its staff, grantees and other partners, while simultaneously accomplishing the work needed to respond to the increased need for its programs in the Appalachian region. In addition, the Commission will need to understand how the pandemic has changed how it works—and whether some of the changes are or should be permanent. For example, remote meetings are able to bring more people together from throughout the Appalachian region at a lower cost, but effectively staging these remote sessions requires a different set of skills than conducting in-person training.

### **IT Systems**

The Commission had already moved its email service to the cloud before the pandemic forced it to have its staff work remotely. The ARC responded rapidly to new technical challenges brought on by the change to a 100% remote work operation. The Commission created and made available a VPN so that staff would have seamless access to their files and the ARC portal. In addition, the Commission made sure that staff had access to virtual meeting platforms and provided the technical capacity to support various online meetings. The Commission has been automating its business processes by implementing an automated payment tool and eliminating the need for paper for much of the grant approval process.

1666 CONNECTICUT AVENUE, NW, SUITE 700 WASHINGTON, DC 20009-1068 PH. 202 884 7675 The challenge moving forward will be to continue to modernize the Commission's business systems to improve the efficiency and effectiveness of the grant management process. The Commission needs to minimize its reliance on paper processes and deploy automation when possible. This will require a clear IT strategy to identify the systems and available technologies to automate the grant-making process from the pre-award through post-award phases, without compromising the Commission's management and oversight responsibilities.

### Risks associated with rapid growth of ARC funding

Over the past six years, the Commission experienced a 118% increase in program funding. From May 2014 to May 2020, the Commission's staff increased from 39 to 49, or about 25%. With the increase in funding and the scope of its grant-funded endeavors, the Commission was challenged to continue to implement its program. This challenge was met. However, it was not and is not without risks.

In 2014 the Commission had 441 projects with an average size of \$136 thousand. Six years later, the Commission had 478 projects with an average size of \$366 thousand. A significant percentage of these grants are awarded in the last quarter of the fiscal year. Increasing the size and number of grants being awarded and managed creates risk, and may make it more difficult for the Commission to assess program performance and conduct oversight.

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

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

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

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

Philip M. Heneghan Inspector General

Appalachian Regional Commission

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Date: November 15, 2020

To: Phillip Heneghan, ARC Inspector General

From: Charles Howard, ARC Interim Executive Director

Re: Report Number 21-03

This memorandum responds to the ARC Inspector General's (IG) Report Number 21-03, transmitting to the Commission the IG's summary of the top management and performance challenges currently facing the Commission. The IG identifies three challenges in his Report: the COVID-19 pandemic, IT systems, and the rapid increase of ARC funding.

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

### COVID-19

Suddenly, last March, the COVID-19 pandemic presented an unprecedented threat to Commission operations. From one day to the next, the Commission was forced, for the health and safety of its staff and partners, to undertake a radical realignment of essential business practices, converting to a complete teleworking platform that relies exclusively on telephonic and virtual meetings and email, as well as electronic processing of grants. The Commission, as a whole, quickly adjusted operations across the board, utilizing the high level of professionalism, collaboration and extensive experience among staff and among our State and local partners.

Recent technological and administrative efficiency improvements at the Commission came into play as well, allowing ARC to successfully complete its annual grant cycle with no drop off in performance. In addition, several important public-interfacing programs were reconfigured on the fly as entirely virtual and effectively reached probably more Appalachian residents, businesses and communities than had been originally anticipated. The Commission is continuing to monitor this situation and will adjust operations as necessary.

The IG also notes the importance of deriving lessons from the experience of the pandemic that may inform improvements to future Commission operations. We agree with the IG's advice in this regard and intend to consider whether continuing alterations in the delivery of the ARC program may be warranted, giving due regard to the competing interest of cost and efficiency and the added value of in-person contacts with their recognized tangential social/business benefits from casual interactions.

### **IT Systems**

We appreciate the IG's recognition that the Commission was equal to the technical challenges presented by the sudden necessity of total telework as well as his understanding that recent Commission actions to automate business processes left us in a better position to react successfully to the pandemic crisis.

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The Commission concurs with the IC's recommendations regarding the modernization of ARC business systems. In this respect, the Commission is pursuing a three-fold strategy with focus on grants, IT infrastructure and communications and information sharing with partners.

ARC will continue to modernize and develop enhancements in ARCNet and the digital payment tool. We are also completing work on an online grant application system. This will make the process of applying for area development grants more efficient for applicants and ARC State partners, as well as for Commission staff reviewing them.

We will continue to transition internal systems and servers to the cloud as needed and budget permitting. While not all systems need to be migrated to the cloud, there can be substantial efficiencies gained by doing so, like increasing system up-time, as an example.

ARC will continue to find new and innovative ways to enhance communication and information sharing between our staff and our partners in the region. (The completion of the improved ARC web site in September 2020 is a recent instance of this effort.) We continue to look for ways to create the best platform and delivery for ARC's virtual events. And we are developing better tools that will provide faster access to demographic information to all stakeholders.

### Risks Associated with Rapid Growth of ARC Funding

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

The Commission concurs with the IG's assessment of the risks these increases present relating to human capital capacity and we remain committed to analyzing, assessing and addressing staffing issues in light of the recent increase in appropriated funds. In addition to reviewing vacant positions and hiring staff with relevant skills and competencies to meet the evolving program needs, the Commission continues to focus on technology and administrative efficiency improvements and is significantly increasing staff training and coaching.

We fully concur, as well, with the IG's emphasis on the importance of concentrating on capacity issues and technical competencies of ARC State partners and grantees. In this regard, in recent years, the Commission has provided supplemental funding for State personnel responsible for administering ARC grants and offered numerous training opportunities for applicants and grantees to enhance grants management skills. We are aware of the benefits of these actions for the ARC program as a whole and intend to continue to implement them.

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

Charles Howard Interim Executive Director

Appalachian Regional Commission

# SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The following tables provide a summarized report on ARC's financial statement audit and its management assurances. For more details, see the auditor's report on pages 56–78 and ARC's management assurances on pages 24–25.

### 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 Consolidate		Ending Balance
Total Non-Conformance	0	0	0	0	0

Compliance with Federal Management Improvement Act

demphanee with reactar management improvement fier				
	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 2020, ARC had no federal grant or cooperative agreement awards and balances for which closeout had not occurred but for which the period of performance had elapsed by more than two years.

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

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### **APPALACHIAN REGIONAL COMMISSION**

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