APPALACHIAN REGIONAL COMMISSION



Performance & Accountability Report

FISCAL YEAR 2023

APPALACHIAN

BUSINESSES



ΔΡΡΔΙ ΔΟΗΙΔ'S

WORKFORCE

ECOSYSTEM

APPALACHIA'S

INFRASTRUCTURE

REGIONAL

CULTURE AND

TOURISM

COMMUNITY

LEADERS AND

CAPACITY

APPALACHIAN REGIONAL COMMISSION

September 30, 2023

Federal Co-Chair Gayle C. Manchin States' Co-Chair Governor Andy Beshear

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Governor Henry McMaster Jordan Marsh

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Governor Bill Lee Brooxie Carlton

Virginia

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West Virginia

Governor Jim Justice Jennifer Ferrell

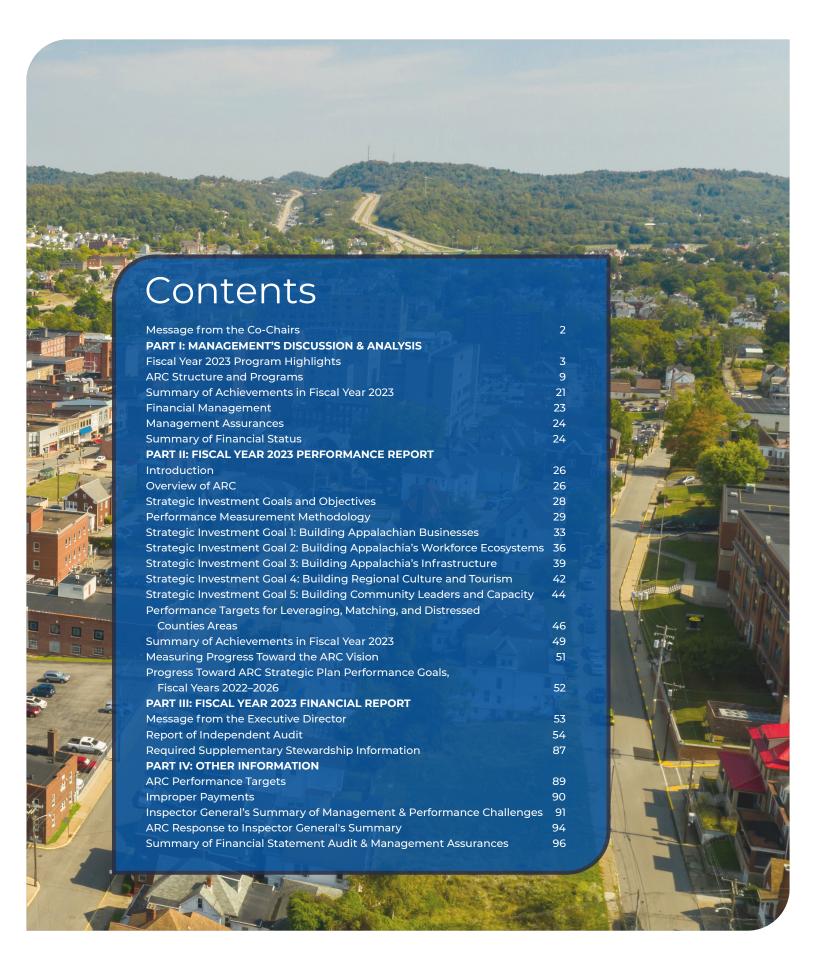
States' Washington Representative James Hyland

Executive Director Brandon McBride

APPALACHIAN REGION

The Appalachian Region includes all of West Virginia and parts of Alabama, Georgia, Kentucky, Maryland,
Mississippi, New York, North Carolina,
Ohio, Pennsylvania, South Carolina,
Tennessee, and Virginia. The Region is home to more than 26 million people and covers 423 counties and almost 206,000 square miles.







Message from Federal Co-Chair Gayle C. Manchin and 2023 States' Co-Chair Governor Andy Beshear

We are pleased to present the Appalachian Regional Commission Performance and Accountability Report for Fiscal Year 2023.

For FY 2023, the Commission approved \$322.9 million in funding for 701 projects that advance one or more of the five goals of ARC's 2022–2026 strategic plan:

- 1) strengthen and diversify the Region's economy through inclusive economic development strategies and investments in entrepreneurship and business development;
- 2) expand and strengthen community systems (education, healthcare, housing, childcare, and others) that help Appalachians obtain a job, stay on the job, and advance along a financially sustaining career pathway;
- 3) ensure that the residents and businesses of Appalachia have access to reliable, affordable, resilient, and energy-efficient utilities and infrastructure to successfully live and work in the
- 4) strengthen Appalachia's community and economic development potential by preserving and investing in the Region's local cultural heritage and natural assets; and
- 5) invest in the capacity of local leaders, organizations, and communities to address local challenges by providing technical assistance and support to access resources, engage partners, identify strategies and tactics, and conduct effective planning and project execution.

ARC's FY 2023 grant funds attracted an additional \$406.6 million in other project funding, an investment ratio of 1.3 to 1, and \$3.13 billion in non-project leveraged private investment, a ratio of 10 to 1. The projects funded during FY 2023 will create or retain an estimated 50,189 jobs and provide new skills training to an estimated 46,990 students and workers.





In working toward its strategic goals in FY 2023, the Commission continued to foster entrepreneurship activities with a particular focus on emerging opportunities: diversifying the Region's economy; supporting advanced manufacturing and workforce development initiatives to strengthen the Region's competitiveness in the global economy, including re-entry into the workforce of individuals with substance use disorder; and bolstering infrastructure needed to spur development in economically distressed counties, including broadband and basic infrastructure such as water and wastewater systems.

As a member of the White House Interagency Working Group on Coal and Power Plant Communities and Economic Revitalization, the Commission strengthened its relationship with other federal agencies and deepened its focus on helping communities that have been adversely affected by the decline in the coal industry. With additional funding provided through the Bipartisan Infrastructure Law, the Commission not only increased investments through its Area Development Program, it also began to fund projects in the new ARISE initiative to drive large-scale, regional economic transformation through multistate collaborative projects across Appalachia and the READY Appalachia initiative to increase the capacity of local governments, regional organizations, and community foundations to serve as pillars for community and economic development.

This report includes information on the Commission's programming actions and financial management during FY 2023. We are pleased to report that ARC's independent auditor, Allmond & Company LLC, has pronounced an unmodified opinion that the financial statements in this document fairly present the Commission's fiscal status.

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

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

Sincerely,

Federal Co-Chair

Appalachian Regional Commission

November 15, 2023

2023 States' Co-Chair

Jayle G. Manchin

PART I: MANAGEMENT'S DISCUSSION AND **ANALYSIS**

FISCAL YEAR 2023 PROGRAM HIGHLIGHTS

In Fiscal Year (FY) 2023, the Appalachian Regional Commission's activities advanced the five goals of its 2022–2026 strategic plan: building Appalachian businesses, building Appalachia's workforce ecosystem, building Appalachia's infrastructure, building regional cultural and tourism, and building community leaders and capacity. The Appalachian Regional Commission (ARC, the Commission) supported these goals through multiple grant programs; by providing training, technical assistance, and leadership development; and through interagency efforts such as President Biden's Interagency Working Group on Coal and Power Plant Communities and Economic Revitalization and the Justice 40 Pilot Program. In FY 2023, ARC also continued to bolster community capacity building and collaboration across the Appalachian Region (the Region) through its two initiatives made possible through funding from the Bipartisan Infrastructure Law—Appalachian Regional Initiative for Stronger Economies (ARISE) and READY Appalachia. The following sections highlight these and other ARC initiatives that advanced each of the Commission's strategic investment priorities in FY 2023.

ARISE

In FY 2023, ARC made available \$73.5 million for the Appalachian Regional Initiative for Stronger Economies (ARISE) to drive large-scale, regional economic transformation through multi-state collaborative projects across Appalachia. In FY 2023, ARC awarded \$50.4 million to 17 projects that expand broadband access, educate workers in emerging sectors, bolster green manufacturing, and support workforce and business opportunities across 12 states. Using funding provided by the Bipartisan Infrastructure Law, ARISE strengthens Appalachian businesses and industry, and grows and supports the creation of new economic opportunities across multiple states in the Region. In addition to being multistate collaborations, ARISE proposals must address at least one of ARC's five strategic investment priorities.

POWER Initiative

ARC continues to provide funding through the Partnerships for Opportunities and Workforce and Economic Revitalization (POWER) Initiative, which helps diversify the economies of communities and regions affected by job losses in coal mining, coal power plant operations, and coal-related supply chain and logistics industries due to the changing economics of America's energy production. In FY 2023, ARC awarded nearly \$56.0 million in 70 investments to help coal-impacted communities in Appalachia diversify and grow their economies.

The awards funded a wide range of activities in the Region, targeted at building a competitive workforce, enhancing access to broadband services, fostering entrepreneurial activities, and developing industry clusters in communities.

INSPIRE Initiative

Because the nation's substance use crisis continues to disproportionately impact Appalachia's workforce, ARC is supporting efforts throughout the Region to save lives and strengthen communities. As such, ARC's INSPIRE (INvestments Supporting Partnerships in Recovery Ecosystems) grant initiative addresses the substance use crisis by creating or expanding a recovery ecosystem that will lead to workforce entry or re-entry of individuals in recovery from substance use disorder (SUD). In FY 2023, ARC awarded \$14.1 million in 44 investments to fund support services along with workforce training and employment opportunities to help people with SUD achieve long-term recovery and enter the workforce. These projects aim to be part of a recovery ecosystem—a series of connected interventions that leads to employment for participants and ultimately serves to strengthen communities throughout the Region. Since April 2021, ARC has invested \$43.4 million in 130 projects that address Appalachia's SUD crisis across 349 counties.

Community Capacity Building

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

READY Appalachia

READY Appalachia is a community capacity-building initiative that offers flexible funding to Appalachian nonprofit organizations, community foundations, local governments, and Local Development Districts (LDDs), and no-cost cohort-based learning and hands-on training to the Appalachians who work for them. This initiative is part of ARC's larger investment priority of building community leaders and local capacity to effect sustainable economic development, and is supported by funding through the Bipartisan Infrastructure Law. Participants in each READY Appalachia learning track access 10 weeks of cohort-based learning, skill development, and grant opportunities to enhance their ability to solve pressing issues and create positive economic change.

The first track of the initiative, READY Nonprofits, launched in July 2022; ARC announced 75 nonprofit participants at the end of August 2022. These organizations represent 52 counties across all 13 Appalachian states and cover a wide variety of sectors. Seventy-four organizations successfully completed the training, and thus were eligible to apply for a \$25,000 organizational capacity grant from ARC with optional match commitment. Seventy-three of those organizations submitted applications, and by the end of FY 2023, 59 projects had been approved for a total of \$1.5 million.

The second targeted track, READY LDDs, launched in October 2022, with applications from ARC's Local Development Districts, to be accepted on a rolling basis until all funds are expended. In FY 2023, ARC funded 41 READY LDD grants for a total of \$3.6 million.

In FY 2023, ARC also launched RFPs for contractors to support the third and fourth tracks, READY Local Governments Training Program and READY Community Foundations Training Program, as well as the development of a long-term capacity strategy for fiscal years 2025–2029.

Across all learning tracks, ARC is focused on serving Appalachia's most underrepresented communities, including economically distressed areas, counties targeted by the Interagency Working Group on Coal and Power Plant Communities, and marginalized populations.

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.

Programming includes the Appalachian STEM Academy, a two-week, hands-on learning program delivered through Oak Ridge Associated Universities. In FY 2023, 95 middle school through high school students and 6 high school teachers participated in the program. In FY 2023, 21 students completed the Appalachian Entrepreneurship Academy, an experiential learning program to build high school students' entrepreneurship skills.

ARC also supports the Appalachian Collegiate Research Initiative, an applied research program where participating colleges and universities offer a directed seminar that guides students in developing and executing field-based research projects specific to the needs of their surrounding communities and in alignment with one or more of the ARC strategic goals. In FY 2023, 16 colleges and universities in 10 Appalachian states participated in the program. Finally, the Appalachian Leadership Institute aims to equip a diverse network of leaders with the skills, expertise, and vision to address Appalachia's most pressing issues. Fellows participate in seven sessions that focus on economic development and other challenges facing Appalachian communities. In FY 2023, 39 fellows graduated from the Appalachian Leadership Institute.

Appalachian Regional Energy Hub Initiative

Included in the 2022 reauthorization of the Commission in the Infrastructure and Investment Jobs Act (IIJA), was a provision establishing the Appalachian Regional Energy Hub Initiative which the Commission was directed to provide \$5 million a year for 5 years to carry out. Pursuant with that direction, in FY 2023 ARC contracted with the American Institutes for Research (AIR) to provide stakeholder engagement and program design support for the new Appalachian Regional Energy Hub Initiative. AIR completed their work which included a review of available research and over 50 interviews with subject matter experts in the natural gas and natural gas liquids sectors, regional collaboratives and organizations working in this space, and ARC state and regional partners.

Interagency Partnerships

ARC continues to work in partnership with multiple federal agencies to better support communities across Appalachia. Participation in working groups and partner networks increases not only the capacity of the Commission, but the impact ARC's work has on the Region.

Interagency Working Group on Coal and Power Plant Communities and Economic Revitalization

In FY 2023, ARC played an increasingly prominent role in national conversations about economic development, particularly related to coal and coal-fired power plant communities. ARC continued work in President Biden's Interagency Working Group (IWG) on Coal and Power Plant Communities and Economic Revitalization, a collaborative

effort of multiple federal agencies to promote and support economic revitalization in communities impacted by coal-specific job losses. The ARC Federal Co-Chair serves as the Chair of the Community Engagement Subcommittee of the IWG. ARC continues to collaborate with other agencies to deploy solutions and information to build community capacity, including a July of 2023 multi-agency webinar focused on water, sewer and broadband infrastructure programs in coal-impacted communities. In addition, ARC led the effort to create a Rapid Response Team for coal communities in Eastern Kentucky, designed to help the communities better access federal resources.

U.S. Environmental Protection Agency

In November 2021, ARC announced a partnership with the U.S. Environmental Protection Agency on the Community Capacity-Building Pilot Program to help local development districts (LDDs) and local elected officials strategically deploy American Rescue Plan Act funds to reignite their regional economies.

The pilot program launched in January 2022 and served more than 650 participants representing 408 counties from all 13 Appalachian states and 90% of Appalachia's LDDs. ARC and EPA agreed that the remainder of the funding from the partnership for the Community Capacity-Building Pilot Program would be utilized to supplement ARC's READY LDDs funding program.

Through a separate partnership with EPA, the Commission joined the Forest Service and the Northern Border Regional Commission in 2022 in sponsoring 12 Appalachian communities to take part in the Recreation Economy for Rural Communities (RERC) program, a planning assistance program for communities wishing to bolster their outdoor recreation sector and connect it with other economic assets in their communities. The program features a 2-day workshop, extensive support calls, and the creation of an action plan that includes potential sources of funding for the actions. As of August 2023, all 12 Appalachian communities have had their workshops and are in various stages of finalizing their actions plans. The workshops and technical assistance occurred throughout FY 2023.

Rural Partners Network

In April 2023, ARC was one of 16 federal agencies and regional commissions that joined the Rural Partners Network, an alliance working directly with rural communities to expand prosperity through job creation, infrastructure development, and community improvement. In FY 2023, ARC partnered with the U.S. Department of Agriculture (USDA) and Kentucky Highlands Investment Corporation to host a forum in Appalachian Kentucky designed to build collaboration, capacity, and relationships by connecting community networks with targeted federal and civic partners.

Equity

ARC continues its mission to bring Appalachia into socioeconomic parity with the nation by responding to Executive Order 13985, "Advancing Racial Equity and Support for Underserved Communities through the Federal Government," and Executive Order 14008, "Tackling the Climate Crisis at Home and Abroad." ARC is a participant in the Biden Administration's Justice40 Pilot Program, which directs agencies to address barriers that have prevented underserved communities from participating fully in aspects of economic, social, and civic life. By law, ARC must direct at least half of its grant funds to projects that benefit economically distressed counties and areas in the Region. However, the agency routinely exceeds that requirement with 70 percent of appropriations invested in distressed counties or areas in FY 2023. ARC's collaborative nature and grassroots delivery system can help to provide small, rural communities with the strategic technical assistance necessary to achieve economic transformation.

Strategic Plan Virtual Event Series

Soon after the release of the new 2022-2026 strategic plan, ARC launched a virtual event series to highlight how ARC's investments are transforming Appalachian communities in each of its 13 states. The series, titled the Appalachia Envisioned Roadshow, showcases the voices and experiences of Appalachian communities leveraging ARC grant funding to strengthen and fuel economic growth in the Region. The Roadshow events spotlight one of ARC's five strategic investment priorities and feature governors, community members, and economic development partners.

Following the launch of three virtual Roadshow "stops" in FY 2022 (featuring three of ARC's five strategic investment priorities: Building Workforce Ecosystems, Preserving and Promoting Appalachia's Culture and Tourism, and Building Appalachian Businesses), ARC facilitated the remaining two events that highlighted its remaining strategic priorities— Building Appalachian Infrastructure and Building Leaders and Community Capacity. These virtual events featured case studies and grantee success stories from each of ARC's 13 Appalachian states. They also featured engaging discussions between ARC Federal Co-Chair Gayle Manchin, Secretary Pete Buttigieg of the U.S. Department of Transportation, and governors Wes Moore of Maryland, Glenn Youngkin of Virginia, Mike DeWine of Ohio, and Andy Beshear of Kentucky.

Workforce Ecosystem

A ready and productive workforce is the backbone of economic development. ARC investments supported educational opportunities and institutions, especially by connecting skill training with local and regional business needs. Investments also supported workers overcoming challenges like substance use disorder. The goal is to create a seamless system enabling Appalachians to succeed in existing industries, empower displaced workers to transition into new opportunities, and equip all workers with the skills needed for jobs in emerging, high-growth sectors. Together, ARC's workforce ecosystem investments in FY 2023 totaled \$71.3 million across 173 projects.

Infrastructure Investment

In order to compete in the global economy, Appalachia must continue to develop and improve the infrastructure necessary for economic development. In FY 2023, ARC continued to fund more, and larger, infrastructure grants. ARC invested \$185.4 million in 206 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 2023 infrastructure grant investments were matched by \$301.2 million in other public investments, leveraged \$2.8 billion in non-project private investment, and served 49,259 households and 2,940 businesses. Telecommunications infrastructure is particularly critical to the reduction of Appalachia's isolation and the connection of its businesses and communities with information and markets around the world. The COVID-19 pandemic magnified the importance of device access and broadband subscriptions, with recent studies showing that over 19% of Appalachian households lack a broadband internet subscription.

Diversifying Local Economies

ARC recognizes that the Region's economic future will require building and strengthening a variety of economic sectors. As the Region diversifies its economy, ARC continues to invest in entrepreneurial ecosystems that support locally owned businesses and help existing businesses grow and prosper. To succeed, these ventures need access to capital and vital technical assistance. ARC's investments afford opportunities for communities and nonprofit

organizations to pivot towards innovative programming that adapts to a new economy. In FY 2022, ARC funding supported a wide variety of economic sectors and industries in an effort to strengthen local businesses and growth while taking advantage of opportunities in emerging industries. Emerging industries include outdoor recreation; food and agriculture; aviation/aerospace; advanced manufacturing; healthcare; and energy.

Outdoor recreation

In FY 2023, ARC invested over \$14 million in 41 projects supporting the Region's entrepreneurs, artisans, and small-scale manufacturers to meet the demands for products, services, and experiences of the growing outdoor recreation industry. Appalachia's forests, parks, water bodies, and mountains anchor the Region's outdoor recreation industry and attract thousands of visitors to hike, bike, climb, paddle and explore. Connecting rural communities with trails and guiding visitors into small towns boosts local tourism, increases tax revenues, and supports the hospitality industry and related businesses. Investing in this industry supports growth for manufacturers of gear and equipment and providers of tours, experiences, and lodging, while also building amenities that make the Region more attractive to outside investors and catalyzing greater economic activity.

Food and agriculture

The development of local and regional food systems is increasingly recognized as a key lever for economic development in Appalachia. In FY 2023, ARC invested \$7.8 million in 22 food and agricultural projects in the Region. Given its proximity to large urban markets and boasting more farmers per capita than the United States overall, the Appalachian Region is well positioned to use local and regional food systems as an economic development tool. In April 2022, ARC released the Agriculture and Local Food Economies in the Appalachian Region report, which highlights promising solutions and innovative approaches for building more thriving and resilient food systems across the Region. The report also characterizes current dynamics in the Region's farm and food economies, based primarily on analysis of the most recent USDA Census of Agriculture (2017).

Aviation/aerospace

Appalachia has a burgeoning aerospace and aviation industry. ARC continued supporting workforce development and training projects throughout the Region that are helping to meet the demand for avionics specialists, FAA-certified aviation maintenance technicians, and other skilled workers. To spur further economic development, ARC invested \$3.1 million in infrastructure and workforce development projects in FY 2023 to help expand existing airports and training to support the workforce and economic needs of communities across the Region.

Advanced manufacturing

There is a growing demand in Appalachia for workers who are trained in advanced manufacturing techniques across a number of industries, from automotive to petrochemical. In fact, *The Appalachian Energy and Petrochemical Renaissance*, a recent report from the U.S. Department of Energy (DOE), found that, by 2025 petrochemical manufacturing already in development in Appalachia is projected to attract between \$16 billion and \$20 billion in capital investment, and directly or indirectly create more than 9,800 jobs.

Healthcare

As part of its focus on job creation and entrepreneurship, ARC is supporting the creation, growth, and access to capital for businesses in the healthcare sector. Doing so expands residents' access to care and diversifies the local economy.

ARC programs have also supported education and training programs to meet the growing demand for healthcare

professionals in Appalachia, including infrastructure projects that provide access to healthcare services to communities in the Region. In FY 2023, the J1 Visa Program approved 73 visa waiver requests, helping place physicians in Appalachian communities experiencing shortages of healthcare workers.

Energy

Communities across Appalachia continue to develop sustainable clean energy solutions at a local and regional scale. Encouraging investments in energy resources in Appalachia can increase job opportunities, strengthen energy independence, boost business viability, and bolster long-term climate resilience. In FY 2023, ARC invested \$27.2 million in 13 projects that either directly or indirectly worked to develop energy efficiency improvements, strengthen the utility grid, increase solar and wind energy production, and boost the green economy.

Appalachian Regional Commission Projects Approved in Fiscal Year 2023 (in thousands of dollars)

Number of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
43	\$15,817.4	\$1,352.0	\$12,154.2	\$29,323.6
86	66,911.7	8,103.2	60,997.0	136,011.9
102	7,511.3	77.5	1,416.8	9,005.7
199	143,770.5	34,570.0	201,729.6	380,070.1
143	64,102.9	3,416.8	69,314.8	136,834.5
15	6,070.1	1,000.0	5,765.5	12,835.6
14	2,321.3	0.0	100.0	2,421.3
99	16,394.6	70.0	6,553.1	23,017.7
701	\$322,899.8	\$48,589.6	\$358,031.0	\$729,520.3
	of Grants 43 86 102 199 143 15 14 99	of Grants Funds 43 \$15,817.4 86 66,911.7 102 7,511.3 199 143,770.5 143 64,102.9 15 6,070.1 14 2,321.3 99 16,394.6	Number of Grants ARC Federal Funds 43 \$15,817.4 \$1,352.0 86 66,911.7 8,103.2 102 7,511.3 77.5 199 143,770.5 34,570.0 143 64,102.9 3,416.8 15 6,070.1 1,000.0 14 2,321.3 0.0 99 16,394.6 70.0	Number of Grants ARC Funds Federal Funds and Local Funds 43 \$15,817.4 \$1,352.0 \$12,154.2 86 66,911.7 8,103.2 60,997.0 102 7,511.3 77.5 1,416.8 199 143,770.5 34,570.0 201,729.6 143 64,102.9 3,416.8 69,314.8 15 6,070.1 1,000.0 5,765.5 14 2,321.3 0.0 100.0 99 16,394.6 70.0 6,553.1

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

- Improve the skills of the Region's workforce;
- Adapt new technologies for the use of the Region's businesses, including eco-industrial development technologies;
- Improve the access of the Region's businesses to the technical and financial resources necessary for 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 healthcare. But because the nation and the Region now compete in the global economy, the threshold for success is higher than it once was. The Region now needs high-technology jobs rather than manual labor, college education rather than basic literacy, and telecommunications arteries in addition to highways.

Federal agencies are typically national in focus and narrow in scope, but ARC was created to be regional in focus and broad in scope. No other government agency is charged with the unique role of addressing Appalachian problems and opportunities. No other agency is charged with being simultaneously an advocate for the Region, a knowledge builder, an investor, a catalyst for economic development, and a partner at the federal, state, and local levels. These roles are essential to making federal investments work to alleviate severe regional disparities in the country.

By law, the Commission 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 16 show the Region's high-poverty counties in 1960 and current high-poverty counties. The change is dramatic. (Also see page 51 for a chart showing the number of Appalachian counties by economic quartile in FY 2023.)

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.

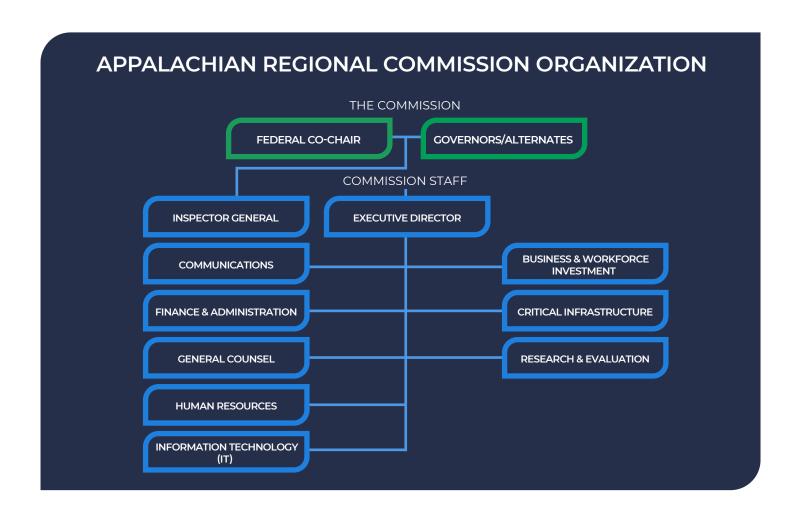
Through the years, ARC support has helped address the problem of historically low public and private investment in Appalachia. ARC has effectively used its funds to help communities qualify for, and make better use of, limited resources from other federal agencies. These federal funds, combined with 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 studies have found that ARC's coordinated investment strategy has paid off for the Region in ways that have not been evident in parts of the country without a regional development approach. A 1995 study funded by the National Science Foundation compared changes in Appalachian counties with their socioeconomic "twin" counties outside the Region over 26 years, from 1965 to 1991. This analysis, controlled for factors such as urbanization and industrial diversification, found that the economies of the Appalachian counties grew significantly faster than those of their

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

Organization: The ARC Partnership Model

The Appalachian Regional Commission has 14 members: the governors of the 13 Appalachian states and a federal cochair, who is appointed by the president of the United States 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 policymaking. The governors and the federal co-chair share responsibility for determining all policies and for the control of funds. On all Commission decisions, the federal co-chair has one vote, and the 13 governors share one vote. Accordingly, all program strategies, allocations, and other policies 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 2023, 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 75 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 may also allow other federal agencies to use ARC funds under their statutory authorities when their own funds are insufficient for projects; in effect, ARC can provide sufficient match for federal grants on behalf of the poorest Appalachian communities. ARC works to attract a variety of partners and to secure additional resources for Appalachia. Recent partnerships include the following.

Federal and State Basic Agencies. In the past, ARC construction grants were mainly administered under agreements with federal agencies, such as the USDA Rural Development, the U.S. Department of Housing and Urban Development, the Federal Highway Administration, and the U.S. Economic Development Administration. Other agreements have involved such agencies as the U.S. Army Corps of Engineers, the U.S. Environmental Protection Agency, the U.S. Forest Service, and the U.S. departments of Energy, Labor, and Health and Human Services.

Since 2010, ARC has also developed agreements with 16 agencies across all 13 states to administer construction-related projects. These partners include the Alabama Department of Economic and Community Affairs, the Kentucky Department of Local Government, the New York State Department of Economic Development, the Ohio Department of Development, the Pennsylvania Department of Community and Economic Development, and the West Virginia Department of 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.

Appalachian Cross Connect. Appalachian Cross Connect is a group of state broadband directors from all 13 Appalachian states that convene to discuss issues related to broadband. The group shares lessons learned, provides feedback on ARC's broadband priorities and policies, and identifies potential opportunities to collaborate across state borders.

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 realize new opportunities. With support from ARC, SOAR will continue its mission to expand job creation; enhance regional opportunity, innovation, and identity; improve quality of life; and support all those working to achieve these goals in Appalachian Kentucky. In Fiscal Year 2023, ARC provided POWER funds for SOAR to develop a technology-focused entrepreneurial ecosystem in Eastern Kentucky. The project develops an accelerator to speed up company launch and growth through critical resources like coaching and capital matchmaking. While non-students will benefit, the primary beneficiaries include students from the region's colleges and universities.

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. Regional lending partners raised an additional \$12 million in debt and equity from Bank of America, Deutsche Bank, the Calvert Foundation, and the Ford Foundation. Additional supporters include the Mary Reynolds Babcock Foundation, the Claude Worthington Benedum Foundation, the Annie Casey Foundation, and BB&T Bank. Since the inception of its lending program in 2015 through June 2022, ACC has deployed over \$22.2 million in financing to member community development financial institutions (CDFIs). In turn, the CDFIs have financed 107 small business loans that have created or retained more than 2,000 jobs in rural Appalachia. Fifty percent of loans were disbursed to minority- and/or womenowned businesses.

Recreation Economies for Rural Communities (RERC). In 2022, ARC partnered with the Environmental Protection Agency (EPA) on the RERC program, a planning assistance program that helps communities identify strategies to grow their outdoor recreation economy and revitalize their main streets. ARC joins the Northern Border Regional Commission and USDA's Forest Service as federal partners to the EPA for this program. The nationwide program had 25 total participating communities for 2022. ARC's financial participation created the space that allowed 12 Appalachian communities to participate in the program. As of August 2023, all 12 Appalachian communities have had their workshops and are in various stages of finalizing their action plans. The workshops and technical assistance occurred throughout FY 2023.

Community Capacity-Building Pilot Program. ARC, in partnership with the EPA, launched the Community Capacity-Building Pilot Program in January 2022. The American Rescue Plan Act (ARPA) Coronavirus State and Local Fiscal Recovery Fund (SLFRF), announced in March 2021, made \$5.3 billion available for Appalachian communities, presenting an opportunity to spark transformative economic change throughout the Region. The purpose was to help local government officials, key staff, and local development districts (LDDs) leverage the ARPA SLFRF for projects that would have long-lasting economic impacts. The effort served more than 650 participants who represented 408 counties from all 13 Appalachian states and 90% of Appalachia's LDDs. ARC and EPA agreed that the remainder of the funding from this partnership would be utilized to supplement ARC's READY LDDs funding program, which announced its first round of funding in June 2023.

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 2023 through the ongoing maintenance and periodic updates to <u>healthinappalachia.org</u>. The website allows users to interact with data from the report, create customizable maps and reports based on geographies of interest, and explore the report's three distinct yet interrelated sections: disparities, bright spots, and issue briefs.

Researching Opioid Use and Related Health Challenges in Appalachia. This partnership with the National Institutes of Health, the 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 use, hepatitis C, and HIV in Appalachia. The research will help deepen knowledge about Appalachia's current and future public health challenges, especially in the Region's coal-impacted communities. ARC has committed \$3.75 million to these multiagency 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 U.S. Department of Labor (DOL). 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. A primary focus of this grant initiative is to fund projects that assist eligible communities that currently or historically have had a high concentration of employment in energy extraction and related industries. In FY 2023, the fifh round of WORC funding was announced with \$19.76 million awarded to 14 projects in 10 Appalachian states. To date, the DOL has awarded nearly \$80 million in total funding to workforce development projects in Appalachia. These projects have provided and will continue to provide valuable career, training, and support services to dislocated workers, new entrants to the workforce, and incumbent workers in counties, parishes, or areas currently underserved by other resources.

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

With the passage of the Appalachian Regional Development Act in 1965, Congress gave ARC 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 healthcare, broadband, and tourism development. In addition, ARC has consistently maintained a focus on the construction of development highways and basic water and wastewater facilities.

ARC Strategic Plan

FY 2023 was ARC's second year of operating under its 2022–2026 strategic plan, *Appalachia Envisioned: A New Era of Opportunity*. The plan outlines ARC's mission to innovate, partner, and invest to build community capacity and strengthen economic growth in Appalachia, and identifies five strategic goals to help Appalachia reach socioeconomic parity with the rest of the nation:

- Strengthen and diversify the Region's economy through inclusive economic development strategies and investments in entrepreneurship and business development;
- Expand and strengthen community systems (education, healthcare, housing, childcare, and others) that help Appalachians obtain a job, stay on the job, and advance along a financially sustaining career pathway;
- Ensure that the residents and businesses of Appalachia have access to reliable, affordable, resilient, and energy-efficient utilities and infrastructure to successfully live and work in the Region;
- Strengthen Appalachia's community and economic development potential by preserving and investing in the Region's local cultural heritage and natural assets; and
- Invest in the capacity of local leaders, organizations, and communities to address local challenges by providing technical assistance and support to access resources, engage partners, identify strategies and tactics, and conduct effective planning and project execution.

As reported in Part II of this report, the Commission demonstrated progress in FY 2023 toward achieving the performance goals set out in the strategic plan.

Area Development Program

Area development funds are largely allocated to the Appalachian states by formula to provide flexible assistance for individual community projects. In FY 2023 ARC received an appropriation of \$200 million for area development activities and allocated by formula \$110.11 million, 55% 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 2023 appropriation included \$65 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, \$15 million for a program addressing North Central/North Appalachian broadband, \$16 million for a program of basic infrastructure improvements in distressed counties in Appalachia, and \$13 million for the INvestments Supporting Partnerships in Recovery Ecosystems (INSPIRE) Initiative.

In addition to the regular Area Development Program, in FY 2023, ARC received an appropriation of \$200 million through the Infrastructure Investment and Jobs Act (IIJA), also known as the Bipartisan Infrastructure Law. ARC allocated by formula \$100 million, 50% of the appropriation, to the states. The allocation of the IIJA appropriation also included \$80 million for the Appalachian Regional Initiative for Stronger Economies (ARISE), and \$9.5 million for READY Appalachia, a new community capacity-building initiative.

Special Focus on Distressed Counties and Areas

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

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

HIGH-POVERTY COUNTIES IN THE APPALACHIAN REGION

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

1960 297 High-Poverty Counties

WISCONSIN

MICHICAN

MICHICAN

NEW YORK

NEW YORK

NEW YORK

NORTH CAROLINA

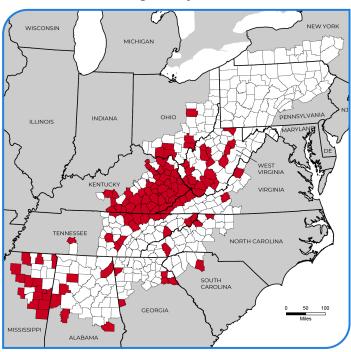
SOUTH CAROLINA

SOUTH CAROLINA

MISSISSIPPI

ALABAMA

2017–2021116 High-Poverty Counties



Data Source: U.S. Census Bureau, American Community Survey, 5-Year Estimates, 2017–2021

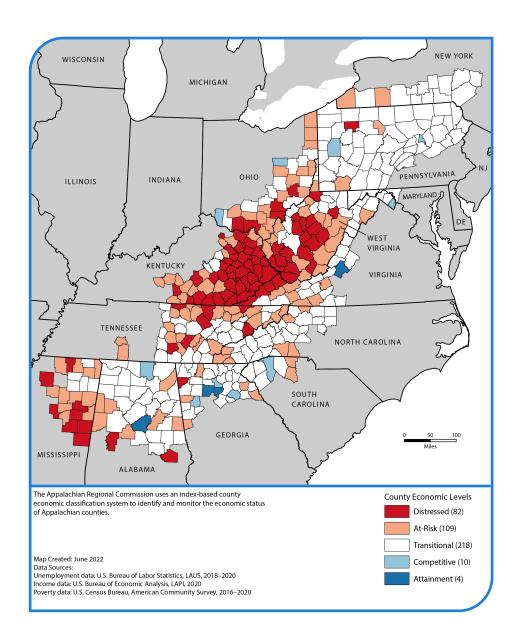
In FY 2023, 82 counties were designated distressed, 109 were designated at-risk, 218 were designated transitional, 10 were designated competitive, and four were designated attainment. ARC policy stipulates that competitive counties may receive limited assistance, while attainment counties are generally not eligible for funding. See page 17 for a map of Appalachian counties classified by economic status.

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

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

COUNTY ECONOMIC STATUS IN APPALACHIA, FISCAL YEAR 2023

(Effective October 1, 2022, through September 30, 2023)



Business Development Revolving Loan Fund and Investment Capital Grants

Since 1977, ARC provided grants to business development revolving loan funds (RLFs) and other investment capital to make loans and investments to local businesses to create and retain jobs. Limited access to credit stalls startup and business expansion activity in Appalachia and contributes to local economic distress. Since ARC awarded the first RLF grants through FY 2023, ARC-supported RLFs and investment funds have disbursed \$539.87 million in 3,101 loans, resulting in 131,832 jobs created or retained and leveraging \$1.84 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 2023, 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 federal-aid highway funds, ARC exercises policy and corridor alignment control over the system. In FY 2023, the Transportation Appropriation bill also included specifically dedicated ADHS funding of \$100 million from the General Fund, the fourth consecutive year of dedicated funding. The Bipartisan Infrastructure Law, signed in 2022, included an additional appropriation of \$1.25 billion for ADHS projects over five years. In FY 2023, this amounted to a total of \$246.25 million being apportioned to states for ADHS projects. Similar appropriations will continue each year through FY 2026. The Bipartisan Infrastructure Law also mandated that 25% of its \$2 billion discretionary Rural Surface Transportation Grant Program awards be reserved for ADHS projects. For FY 2023, this amount was up to \$87.5 million. The amount to be awarded from this discretionary program for ADHS projects will increase each year up to a final amount of \$125 million in FY 2026.

At the end of FY 2023, a total of 2,711.9 miles, or 87.8%, of the 3,090 miles authorized for the ADHS were complete; 125.2 miles were under construction or partially complete and open to traffic; 35.5 miles were in the final design or right-of-way acquisition phase; and 217.5 miles were in the location study phase.

Local Development Districts

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

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

Reports and data products are posted on ARC's website at www.arc.gov/research-and-data.

Research completed or in progress in FY 2023 included the following:

- A research project soliciting stakeholder input and developing a grantee toolkit for ARC's new multi-state ARISE initiative
- A research project examining food insecurity and access throughout Appalachia
- An update to the Diseases of Despair reports looking at deaths due to overdose, suicide, and liver disease
- Ongoing analysis of coal production and employment trends in Appalachia
- An update to a past study examining the coal industry ecosystem throughout the Region, which will serve as the basis for measuring coal impact for POWER applications
- A research project examining worker displacement throughout Appalachia, including worker characteristics, trends, and industries most affected
- A research project analyzing access to capital and credit for entrepreneurs and small businesses throughout the Region
- A data overview of private-sector employment trends in each of the Region's 13 states
- A data overview study examining state- and county-level data for the 13 Appalachian states on topics including population, age, race, ethnicity, housing, education, labor force, employment, income, poverty, health insurance, disability status, and migration
- Ongoing maintenance and periodic updates to <u>healthinappalachia.org</u>, an interactive website housing data and reports from the Creating a Culture of Health in Appalachia: Disparities and Bright Spots initiative
- An evaluation of ARC's education and workforce investments
- An evaluation of ARC's INSPIRE-funded investments
- An ongoing evaluation of ARC's business development investments
- An ongoing evaluation of ARC's J-1 visa waiver program
- An ongoing evaluation of ARC's ARISE-funded investments
- Projects with two state departments of transportation to pilot the use of accessibility metrics developed in past ARC research to inform investment prioritization
- A research report examining the Region's intermodal transportation facilities and systems
- A research study to develop recommendations on policies, initiatives, and investment priorities for truck parking throughout the Region

Impediments to Progress

The Region's isolation and its difficulty in adapting to economic change 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 21st century. Despite progress in some areas, Appalachia still does not enjoy the same economic vitality and living conditions as the rest of the nation; it continues to face many challenges when it comes to poverty, educational attainment, employment, population health, and broadband access.

Poverty

• According to the U.S. Census Bureau's American Community Survey, over the 2017–2021 period, 14.5% of Appalachian residents lived below the poverty level, well above the U.S. average of 12.6%. The median income of Appalachian households was \$56,780, just 82% of the U.S. average of \$69,021.

Educational Attainment

• During the same time period, the share of adults with a bachelor's degree or more was 7.7 percentage points lower in Appalachia than in the nation as a whole; and in 281 Appalachian counties, fewer than one in five residents ages 25 and over were graduates of a four-year college or university.

Employment

- The Appalachian Region lost over 625,000 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: meanwhile, the United States as a whole reached its pre-recession level of employment in 2013. More recent trends continue to show a gap between the Region and the country as a whole: Appalachia saw its total employment grow by 4.2% from 2016–2021, compared to 8.0% in the United States as a whole.
- During the 2016 to 2021 period, three of Appalachia's five subregions experienced declines in total employment: Northern Appalachia (-3.1%), North Central Appalachia (-2.9%), and Central Appalachia (-1.6%). In particular, rural counties showed especially slow (or negative) growth.
- Between 2011 and 2022, coal mining employment in Central Appalachia decreased 66%—over 20,000 jobs were lost—and it is not expected to return to its historic high.
- Since 2000, manufacturing employment has declined at a faster rate in three of the five Appalachian subregions when compared to the national trend: In Northern, North Central, and South Central Appalachia, employment in manufacturing fell by over 35% from 2000 to 2021, compared to a decline of 26% 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 17.9% between 2011 and 2021, employment in health and social services grew by just 6.3% in Appalachia. Northern Appalachia experienced a decline in the sector over the past decade, losing 1.2% of its employment level, and Central Appalachia experienced particularly slow growth, at just 2.0%.

Population Health

- From 2019 to 2021, Appalachia experienced a 36% increase in its all cause-mortality rate among people ages 15-64; the rest of the country saw a slightly lower increase of 33%. In 2021, the all-cause mortality rate was 36% higher in Appalachia than in the rest of the United States; a little over two decades ago, in 1999, this gap was just 12%.
- In 2021 the opioid-related overdose mortality rate for people ages 15–64 was 63% higher in Appalachia than in the rest of the United States.

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

Broadband Access

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

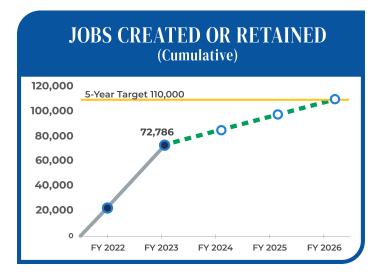
SUMMARY OF ACHIEVEMENTS

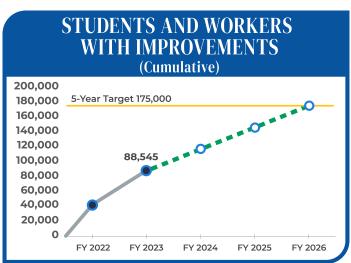
PERFORMANCE TARGETS AND INITIAL ESTIMATES FOR FISCAL YEAR 2023 PROJECTS

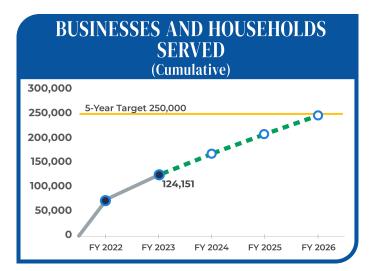
ANNUAL PERFORMANCE TARGETS	INITIAL ESTIMATES	EXPECTED RESULTS	
Outcome Targets			
22,000 jobs created or retained	50,189 jobs created or retained	Exceed target by 128%	
35,000 students and workers with improvements	46,990 students and workers with improvements	Exceed target by 34%	
50,000 businesses and households with access to improved infrastructure	52,199 businesses and households with access to improved infrastructure	Exceed target by 4%	
4,000 businesses created or strengthened	8,139 businesses created or strengthened	Exceed target by 103%	
400 communities with enhanced capacity	1,700 communities with enhanced capacity	Exceed target by 325%	
Leverage Target			
Achieve a 6:1 ratio of leveraged private investment to ARC funds (\$6 per \$1 ARC investment)	10:1 ratio* (\$9.69 per \$1 ARC investment)	Exceed target by 62%	
Matching Target			
Achieve a 2:1 ratio of matching funds to ARC funds (\$2 per \$1 ARC investment)	1:1 ratio* (\$1.26 per \$1 ARC investment)	Meet 63% of target	
Distressed Counties/Areas Target			
Direct 50% of ARC funds to benefit distressed counties or areas	70% of funds**	Exceed target by 20 percentage points	
*Ratios are rounded to the nearest whole number. **Project funds are included if the project primarily or substantially benefits distressed counties or areas.			

Performance results are assessed in detail in Part II (page 26).

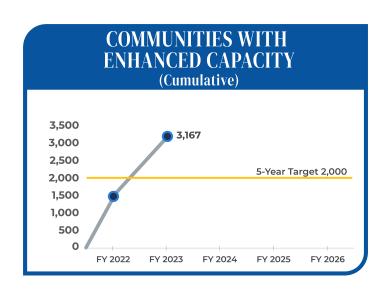
Progress Toward ARC Strategic Plan Performance Goals, Fiscal Years 2022–2026











FINANCIAL MANAGEMENT

Financial Management System

In FY 2023, the Appalachian Regional Commission continued to contract with General Services Administration (GSA) Pegasys Financial Services to perform the Commission's accounting and financial reporting. ARC supplements these financial services with ARCnet, a grant 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.

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. ARC keeps accurate and complete records of its doings and transactions pursuant to Section 107 of the Appalachian Regional Development Act of 1965, as amended, 40 USC 14308 (2021). Moreover, the Internal Revenue Services, (IRS) has recognized ARC with a 501(c)(3) designation. Consistent with this, the Commission has elected to follow the Office of Management and Budget (OMB) guidance in its reporting 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 maintains a plan of internal control development and testing, as required by the Federal Managers' Financial Integrity Act of 1982. ARC makes management controls an integral part of the entire cycle of planning, budgeting, management, accounting, and financial auditing. ARC maintains 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.

ARC's 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 ARC provides independent assessments of the adequacy of internal controls. The internal control plan assigns responsibility within the Commission for follow-up action on any deficiencies.

ARC is pleased to report that it received an unmodified opinion from its independent auditor, Allmond & Company LLC, on the FY 2023 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, 2023, was operating effectively.

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 assessment, ARC can provide reasonable assurance that internal control over financial reporting as of September 30, 2023, was operating effectively.

Management Follow-Up to Inspector General Recommendations

During FY23, the OIG issued 28 reports and 20 recommendations. Management decisions were made for all 20 recommendations. In addition, management decisions were made for 2 recommendations from the prior year. Fourteen final actions were completed during this period of performance. The dollar value of disallowed costs recovered by ARC was \$67,248. In addition, ARC has settled with a grantee to recover certain questioned and unsupported costs from a prior period. The grantee will refund ARC \$250,000 in equal installments of \$50,000 over a five-year period.

Office of Inspector General reports are available at www.arc.gov/office-of-inspector-general.

SUMMARY OF FINANCIAL STATUS

Part III of this *Performance and Accountability Report* includes information about the financial status of the Appalachian Regional Commission. In the FY 2023 unmodified opinion of ARC's independent auditor, Allmond & Company LLC, the financial statements included in that section fairly represent, in all material respects, the financial position of the Commission as of September 30, 2023, and ARC's net costs, changes in net position, and budgetary resources for the year ended in conformity with generally accepted accounting principles (GAAP) issued by the Financial Accounting Standards Board 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, 2023, totaled \$1,110.0 million, versus \$847.4 million in FY 2022. This amount corresponds to a 31 percent increase relative to FY 2022; the net increase in total assets is primarily due to additional appropriated funds provided by Congress through appropriations bills and obligated balances not yet disbursed. Liabilities equaled \$11.9 million in FY 2023 versus \$35.0 million in FY 2022. The decrease is due primarily to accounts payable, which includes

payments made to grantees. The U.S. Treasury held 95% of ARC's total assets. In addition, 2.5%, or \$27.9 million, represents 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. The remaining amount is spread across other assets such as cash and advances to grantees, accounts receivable and property, plant, and equipment.

The net position increased from \$812.4 million in FY 2022 to \$1,097.1 million in FY 2023. The net cost of operations for FY 2023 totaled \$114.8 million, compared with \$131.6 million in FY 2022. ARC receives most of its resources from congressional appropriations, which totaled \$400.0 million in FY 2023. In addition, ARC receives 50 percent share of the Commission's administrative budgeted expenses from the 13 member states. In FY 2023, this amount was set at \$3.66 million. The Statement of Budgetary Resources reported net outlays of \$146.7 million in FY 2023. ARC incurred obligations of \$346.0 million in FY 2023 and has an unpaid obligated balance (net, end of year) of \$666.3 million.

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

Statement of Assurance

I am pleased to certify with reasonable assurance that 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, 2023, were operating effectively.

Gayle C. Manchin
ARC Federal Co-Chair
November 15, 2023

PART II: FISCAL YEAR 2023 PERFORMANCE REPORT

INTRODUCTION

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

- an overview of the Appalachian Regional Commission;
- methodology used to monitor project outcomes in compliance with the GPRA;
- ARC's strategic investment goals and action objectives;
- performance targets and initial estimates for FY 2023 and for each of the five prior fiscal years;
- results of project verification and program evaluation;
- progress toward the ARC vision; and
- cumulative progress toward five-year performance targets.

The five strategic investment goals from ARC's 2022–2026 strategic plan, *Appalachia Envisioned: A New Era of Opportunity*, were used to evaluate performance in FY 2023.

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 of the United States. Local participation is provided through multi-county local development districts (LDDs).

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

In FY 2023, ARC funded 701 projects throughout the 13-state Appalachian Region (the Region) through its Area Development Program. All projects must address one of the five goals in ARC's 2022–2026 strategic plan: building Appalachian businesses, building Appalachia's workforce ecosystem, building Appalachia's infrastructure, building regional cultural and tourism, and building community leaders and capacity.

In addition to funding for ARC's Area Development Program, in FY 2023 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;
- the INvestments Supporting Partnerships in Recovery Ecosystems (INSPIRE) Initiative, a program addressing the substance use crisis in Appalachia;
- the Appalachian Regional Initiative for Stronger Economies (ARISE) to drive large-scale, regional economic transformation through multi-state collaborative projects across Appalachia;
- the READY Appalachia initiative, a community capacity-building initiative that offers flexible funding to Appalachian nonprofit organizations, community foundations, local governments, and Local Development Districts (LDDs);
- support of the automotive and aviation sectors in Southern and South Central Appalachia;
- efforts to support a broadband deployment program in Central Appalachia;
- a program of basic infrastructure improvements in distressed counties in Appalachia; and
- a program addressing North Central/North Appalachian broadband.

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 91).

In FY 2023, ARC met or exceeded all of its performance outcome targets. Initial estimates were particularly strong for investments in job creation and retention, business development and improvement, and community capacity.

FISCAL YEAR 2023 INVESTMENT TARGETS AND INITIAL ESTIMATES			
ANNUAL OUTCOME TARGETS	INITIAL ESTIMATES		
22,000 jobs created or retained	50,189 jobs created or retained		
35,000 students and workers with improvements	46,990 students and workers with improvements		
50,000 businesses and households with improved infrastructure	52,198 businesses and households with improved infrastructure		
4,000 businesses created or strengthened	8,139 businesses created or strengthened		
400 communities with enhanced capacity	1,700 communities with enhanced capacity		

STRATEGIC INVESTMENT GOALS AND OBJECTIVES



Building Appalachian Businesses

Strengthen and diversify the Region's economy through inclusive economic development strategies and investments in entrepreneurship and business development.

Objectives:

- 1. Provide financing, technical assistance, and other support for entrepreneurship and small business development in the Region.
- 2. Pursue economic and enterprise development strategies that grow existing industries, support economic diversification, and advance economic prosperity at the regional level.

(2)

Building Appalachia's Workforce Ecosystem

Expand and strengthen community systems (education, healthcare, housing, childcare, and others) that help Appalachians obtain a job, stay on the job, and advance along a financially sustaining career pathway.

Objectives:

- 1. Develop and support educational programs and institutions from early childhood through postsecondary that provide the building blocks for skills development and long-term employment success.
- 2. Invest in workforce development programs and strategies informed by industry talent needs and designed to allow workers to simultaneously earn, learn, and advance along a career pathway.
- 3. Develop a network of employment supports to help Appalachians enter and remain in the workforce.
- 4. Expand access to high quality healthcare as well as programs and services that support overall mental and physical health for workers and their families.



Building Appalachia's Infrastructure

Ensure that the residents and businesses of Appalachia have access to reliable, affordable, resilient, and energy-efficient utilities and infrastructure to successfully live and work in the Region.

Obiectives:

- 1. Ensure the availability of quality, affordable basic infrastructure to meet the needs of the residents and businesses of Appalachia.
- 2. Ensure that all Appalachians have access to quality and affordable telecommunications and broadband services.
- 3. Support proactive efforts to adopt alternative energy strategies and bolster energy infrastructure.
- 4. Complete the Appalachian Development Highway System (ADHS) and invest in innovative intermodal transportation systems to connect businesses and residents within the Region with global opportunities.
- 5. Support construction of business development sites and public facilities and the adaptive reuse of obsolete and/or unsafe properties to stimulate economic and community development.



Building Regional Culture and Tourism

Strengthen Appalachia's community and economic development potential by preserving and investing in the Region's local cultural heritage and natural assets.

Objectives:

- 1. Invest in the development of vibrant Appalachian downtowns and provide support for Appalachian placemaking.
- 2. Invest in economic and community development initiatives that preserve and promote Appalachian communities' vibrant arts, cultural, and heritage traditions.
- 3. Preserve and expand Appalachia's natural resources to increase outdoor recreation opportunities for residents and visitors and support sustainable economic growth.



Building Community Leaders and Capacity

Invest in the capacity of local leaders, organizations, and communities to address local challenges by providing technical assistance and support to access resources, engage partners, identify strategies and tactics, and conduct effective planning and project execution.

Objectives:

- 1. Develop, support, and empower community leaders that are representative of local communities, inclusive in their approach, and focused on long-term, innovative strategies and solutions.
- 2. Build capacity of community organizations and local development districts (LDDs) to effectively access and manage funding, administer programs, and execute projects through implementation.
- 3. Invest in developing the capacity of communities to build ecosystems where government, nonprofits, businesses, and philanthropic partners coalesce around a shared vision for economic and community prosperity and collaborate to implement that vision.

PERFORMANCE MEASUREMENT METHODOLOGY

Overview of ARC's Performance Measurement System

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

ARC's performance measurement system has three components:

- Project data collection and analysis
- Verification of outcomes
- 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 and summarize initial estimates for submission to the Office of Management and Budget (OMB) and Congress.

Project Performance Verification: Intermediate Results

The performance verification process, a critical part of ARC's GPRA compliance, is designed to confirm project outcomes after the projects have been completed. In FY 2023, project performance was verified through a grantee survey for projects that were closed in FY 2020, to capture more accurate data on performance measures, which can continue to accrue for up to three years after a project has been completed.



Program Evaluations: Final Results

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

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

Annual Performance Targets and Measures

Each fiscal year, ARC submits to the OMB annual performance targets for projects to be funded in coming years, as required in the budget submission process. In determining these targets, ARC develops likely investment scenarios for the 13 Appalachian states, anticipating how each state will direct ARC funds in addressing the five strategic investment goals. The scenarios are based on state development plans, strategy statements, historical trends, and communication with the states. ARC uses these scenarios to project results; however, the states have flexibility in spending decisions, although all projects are reviewed and approved by the ARC 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 28).

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, "Building Appalachian Businesses."

Outcome Measures

Strategic Investment Goal One: Building Appalachian Businesses. 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: **Building Appalachia's Workforce Ecosystem**. The following outcome measures are presented in Goal 2: *The number of students with improvements and the number of workers/trainees 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).

These two measures are combined and reported together as "students and workers improved."

Strategic Investment Goal Three: **Building Appalachia's 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: **Building Regional Culture and Tourism.** 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: Building Community Leaders and 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



Building Appalachian Businesses

Strengthen and diversify the Region's economy through inclusive economic development strategies and investments in entrepreneurship and business development.

Collaborative and inclusive approaches to economic development in Appalachia are essential to supporting the Region's businesses and industries and ensuring economic opportunity for its residents. ARC's stakeholders emphasized the importance of investment in economic growth strategies that capitalize on the Region's unique assets and prioritize assistance for small businesses and entrepreneurs. Stakeholders further noted the importance of providing business support and capacity-building assistance to help established businesses and industries expand their reach in national and international markets and help new businesses to establish themselves and grow.

Objectives

1.1 Provide financing, technical assistance, and other support for entrepreneurship and small business development in the Region.

1.2 Pursue economic and enterprise development strategies that grow existing industries, support economic diversification, and advance economic prosperity at the regional level.

Performance Targets and Initial Estimates

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

Outcome Measures

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 46.

Outcome Target and Initial Estimates

JOBS CREATED OR RETAINED IN FISCAL YEAR 2023			
ANNUAL OUTCOME TARGET INITIAL ESTIMATE			
FY 2023: 22,000 jobs created or retained	FY 2023: 50,189 jobs created or retained		

FY 2023: Expected to exceed target by 128%. The large numbers are due in part to the priorities of the POWER and ARISE initiatives as well as the choice of states to fund more projects with these measures.

JOBS CREATED OR RETAINED IN FISCAL YEARS 2018–2022			
ANNUAL OUTCOME TARGETS	INITIAL ESTIMATES		
FY 2018: 20,000 jobs created or retained	FY 2018: 26,662 jobs created or retained		
FY 2019: 20,000 jobs created or retained	FY 2019: 17,282 jobs created or retained		
FY 2020: 20,000 jobs created or retained	FY 2020: 26,319 jobs created or retained		
FY 2021: 20,000 jobs created or retained	FY 2021: 20,624 jobs created or retained		
FY 2022: 22,000 jobs created or retained	FY 2022: 22,597 jobs created or retained		

Project Verification Sampling

In FY 2023, members of ARC's verification team surveyed 41 projects closed in FY 2020 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
41	10,928	20,551	188%

As shown above, the projects surveyed achieved 188% of projected results for jobs created or retained.

Project Evaluation: Final Results

Business Development

In October 2023, ARC finalized the report, Evaluation of ARC Business Development Projects Closed in 2017-2021: Making Connections for Stronger Businesses and Resilient Communities, prepared by a team of consulting firms: Working Partner, Wright Venture Services, Buzzworthy Biz, and P/Strada. The report evaluated 220 grants that closed between fiscal years 2017 and 2021, representing nearly \$75 million of ARC investment. The evaluation included analysis of data from ARC's grants management database, an extensive survey of grantees and related focus groups, and 10 in-depth case studies.

The evaluation found that ARC's business development grants closed during that timeframe led to improvements for nearly 11,000 businesses and facilitated the creation of over 14,500 jobs and 1,944 businesses. In addition, ARC-funded business development projects leveraged over \$923 million in private investment. These grants helped beneficiaries start or grow their businesses, access affordable loans or other capital, develop new marketing skills which in turn increased access to new markets, establish new networks, and strengthen their

entrepreneurial mindset. Grantees described additional long-term impacts of their projects, such as increased awareness or enhanced reputation for their projects that extended their reach to new populations; new partnerships and community connections that brought new capacities to the projects; new ways to leverage technology to support rural entrepreneurs; stronger entrepreneur ecosystems; and community improvements that increased community pride.

POWER Monitoring and Evaluation

In September 2022, ARC issued the report POWER Initiative Evaluation: The Value of POWER, prepared by Chamberlin Dunn. This report summarized findings and recommendations from the fourth phase of an ongoing formative evaluation of the POWER Initiative. POWER (Partnerships for Opportunities and Workforce and Economic Revitalization) is a congressionally funded initiative that targets federal resources to help communities affected by job losses in coal mining, coal power plant operations, and coal-related supply chain industries due to the changing economics of America's energy production. POWER grants are organized into four broad development categories: workforce development, broadband and telecommunications, entrepreneurship, and business cluster development.

The 2022 evaluation focused on medium- to long-term impacts of closed POWER grants. The evaluation found that most POWER grants with updated post-closeout performance measures were successful at meeting or exceeding their output and outcome targets. Collectively to date, the POWER initiative has led to improvements for more than 160,000 individuals, over \$1 billion in leveraged private investment, over \$54 million in increased sales, nearly 21,000 jobs created or retained, and over 1,500 businesses created. Grantees described other long-term impacts of their projects, such as project sustainability or expansion; new or enhanced regional ecosystems; increased organizational capacity and momentum for grantee organizations; and changing mindsets.

Job Creation and Retention

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

STRATEGIC INVESTMENT GOAL 2



Building Appalachia's Workforce Ecosystem

Expand and strengthen community systems (education, healthcare, housing, childcare, and others) that help Appalachians obtain a job, stay on the job, and advance along a financially sustaining career pathway.

Developing and sustaining a strong workforce is a critical component of economic development, both in Appalachia and across the country. A strong workforce is one that has the soft and technical skills to meet local industry needs as well as access to fundamental supports to keep workers on the job, such as reliable transportation, appropriate healthcare, safe and affordable housing, and quality childcare. Stakeholders noted that the Appalachian Region cannot achieve its vision for economic prosperity without investment in two key components: talent and skill development AND employment supports to keep people in the labor force and contributing to economic and community development.

Objectives

- 2.1 Develop and support educational programs and institutions from early childhood through post secondary that provide the building blocks for skills development and long-term employment success.
- 2.2 Invest in workforce development programs and strategies informed by industry talent needs and designed to allow workers to simultaneously earn, learn, and advance along a career pathway.
- 2.3 Develop a network of employment supports to help Appalachians enter and remain in the workforce.
- 2.4 Expand access to high quality healthcare as well as programs and services that support overall mental and physical health for workers and their families.

Performance Targets and Initial Estimates

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

Outcome Measures

Initial estimates and verification results for students and workers with improvements under all strategic investment goals are reported under Goal 2.

Outcome Target and Initial Estimates

STUDENTS AND WORKERS WITH IMPROVEMENTS IN FISCAL YEAR 2023			
ANNUAL OUTCOME TARGET INITIAL ESTIMATE*			
FY 2023: 35,000 students and workers with improvements FY 2023: 46,990 students and workers with improvements			
*Excludes projects that provided computers or computer equipment that will benefit large numbers of students.			

FY 2023: Expected to exceed target by 34%. Outcome results typically fluctuate over the years as the states' investment priorities vary.

ANNUAL OUTCOME TARGETS	INITIAL ESTIMATES*
FY 2018: 22,000 students, workers, and leaders with improvements	FY 2018: 34,135 students, workers, and leaders with improvements
FY 2019: 22,000 students, workers, and leaders with improvements	FY 2019: 51,204 students, workers, and leaders with improvements
FY 2020: 22,000 students, workers, and leaders with improvements	FY 2020: 20,792 students, workers, and leaders with improvements
FY 2021: 22,000 students, workers, and leaders with improvements	FY 2021: 25,102 students, workers, and leaders with improvements
FY 2022: 35,000 students and workers with improvements	FY 2022: 41,555 students and workers with improvements

Project Verification Sampling

In FY 2023, members of ARC's verification team surveyed 58 projects closed in FY 2020 that had targets for students and workers with improvements to compare estimated and actual results.

Number of Projects Surveyed	Projected Number of Students and Workers with Improvements	Actual Number of Students and Workers with Improvements	Results Achieved
58	22,703	25,704	113%

As shown above, the projects surveyed achieved 113% of projected results for students/trainees with improvements.

Project Evaluation: Final Results

INSPIRE Initiative

In July 2023, ARC issued the report Evaluation of ARC's INSPIRE Initiative, prepared by The East Tennessee State University (ETSU) Center for Rural Health Research, in collaboration with the ETSU Addiction Science Center. INSPIRE (INvestments Supporting Partnerships in Recovery Ecosystems) is a grant program aimed at helping communities and states address the workforce impacts of the substance use disorder (SUD) crisis. The goal of the recovery ecosystem is to help individuals in SUD recovery access the support services and training they need to maintain recovery and successfully obtain sustainable employment. INSPIRE projects primarily focus on education and workforce development.

The evaluation focused on the first two cohorts of INSPIRE grants. These 50 grants were awarded in 2021 and represented close to \$15 million in ARC investment. At the time of the evaluation, most of the grants were still open but were able to report preliminary impacts: INSPIRE projects had led to improvements for over 1,000 workers and almost 400 businesses. In addition, the evaluators found that grantees experienced early successes that expanded beyond performance measures, including establishing and expanding partner networks; securing community and organizational support; and providing comprehensive services to individuals in recovery.

Education and Workforce Development

In October 2022, ARC finalized the report, Evaluation of ARC's Education and Workforce Development Projects Closed in 2015-2019, prepared by ICF International, Inc. The report evaluated 383 grants that closed between fiscal years 2015 and 2019, representing more than \$62.5 million of ARC investment. The evaluation included analysis of data from ARC's grants management database, grantee focus groups, 10 in-depth case studies, and an extensive survey of grantees.

The evaluation found that ARC's education and workforce grants that closed during that timeframe served around 440,000 students and 20,000 workers, leading to improvements for over 309,000 students and 16,000 workers. These grants helped beneficiaries earn credentials or certificates, enroll in or complete postsecondary coursework, increase college readiness, improve their academic skills, and have access to increased employment and job placement opportunities.

Health

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

STRATEGIC INVESTMENT GOAL 3



Building Appalachia's Infrastructure

Ensure that the residents and businesses of Appalachia have access to reliable, affordable, resilient, and energy-efficient utilities and infrastructure in order to successfully live and work in the Region.

Businesses and residents alike require access to affordable, energy-efficient, and reliable utilities as well as safe, connected, and strategic transportation systems. However, residents and leaders within Appalachia cited aging, inadequate, and unavailable infrastructure as a significant and crosscutting barrier to community prosperity that negatively impacts business talent attraction and retention; workforce development; community and individual prosperity; and access to healthcare and education. Difficult geography, traditionally underfunded infrastructure systems, natural disasters, and declining revenue are just some of the barriers to building and sustaining Appalachia's infrastructure.

Objectives

- 3.1 Ensure the availability of quality, affordable basic infrastructure to meet the needs of the residents and businesses of Appalachia.
- 3.2 Ensure that all Appalachians have access to quality and affordable telecommunications and broadband services.
- 3.3 Support proactive efforts to adopt alternative energy strategies and bolster energy infrastructure.
- 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 Support construction of business development sites and public facilities and the adaptive reuse of obsolete and/or unsafe properties to stimulate economic and community development.

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

Initial estimates and verification results for the number of businesses and households with access to improved infrastructure under all strategic investment goals are reported under Goal 3.

Outcome Target and Initial Estimates

BUSINESSES AND HOUSEHOLDS SERVED IN FISCAL YEAR 2023			
ANNUAL OUTCOME TARGET INITIAL ESTIMATE*			
FY 2023: 50,000 businesses and households served FY 2023: 52,199 businesses and households served			
*Initial estimate does not include households served by ARC-funded water storage tank construction.			

FY 2023: Expected to exceed target by 4%. In addition to the result above, ARC funded water-storage projects in FY 2023 that expect to serve a total of 11,354 additional businesses and households.

DUON ESSES AND HOUSEHOLD SERVED IN FISCAL VEADS SOLD			
BUSINESSES AND HOUSEHOLDS SERVED IN FISCAL YEARS 2018–2022			
ANNUAL OUTCOME TARGETS	INITIAL ESTIMATES*		
FY 2018: 22,000 businesses and households served	FY 2018: 31,378 businesses and households served		
FY 2019: 22,000 businesses and households served	FY 2019: 81,295 businesses and households served**		
FY 2020: 22,000 businesses and households served	FY 2020: 68,191 businesses and households served		
FY 2021: 22,000 businesses and households served	FY 2021: 69,825 businesses and households served		
FY 2022: 50,000 businesses and households served	FY 2022: 71,953 businesses and households served		

*Initial estimates do not include households served by ARC-funded water storage tank construction and improvement projects with large service areas. **FY 2019 number adjusted from published total to accommodate one project that was changed from an FY 2019 to FY 2020 project due to delays.

Project Verification Sampling

In FY 2023, members of ARC's verification team surveyed 37 projects closed in FY 2020 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
37	11,684	12,691	108%

As shown above, the projects surveyed achieved 108% of projected results for businesses and households served with infrastructure.

Project Evaluation: Final Results

Drinking Water and Wastewater Infrastructure Projects

In May 2020, ARC issued the report Evaluation of the Appalachian Regional Commission's Drinking Water and Wastewater Infrastructure Projects: FY 2009-FY 2016, prepared by the University of North Carolina Environmental Finance Center and Virginia Tech. ARC's water and wastewater infrastructure projects include new water and/ or wastewater systems that serve residential, commercial, or industrial properties, or some combination thereof; rehabilitation of existing water and/or wastewater systems; and the construction or rehabilitation of water storage tanks. The report evaluated 379 drinking water and wastewater projects funded by ARC between FY 2009 and FY 2016, with more than \$115 million in ARC investments. Water and wastewater projects funded by ARC during that time directly benefited more than 294,100 households and at least 17,410 businesses. These projects also led to the creation of 11,668 jobs and the retention of 22,179 jobs. The evaluation also found that communities value the drinking water and wastewater projects, as evidenced by high demand, their key role in project completion, and how they serve to attract and actively leverage additional public and private sector funding. Findings showed the grant portfolio successfully targeted the neediest locations, led to significant improvements in local economic conditions, and met or surpassed locally determined performance goals.

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

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

- 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.
- 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.
- 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.
- 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



Building Regional Culture and Tourism

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

Appalachia is a region with unique downtown communities, a vibrant cultural and arts tradition, and diverse natural spaces. Stakeholders emphasized the importance of preserving and leveraging these regional assets to support quality of life for residents, community development, economic opportunity, and tourism. ARC can support these objectives by investing in the revitalization of Appalachian downtowns, providing support for the maintenance and promotion of the Region's arts and cultural heritage, and assisting communities in preserving and harnessing natural resources and outdoor spaces for recreation and tourism purposes.

Objectives

- 4.1 Invest in the development of vibrant Appalachian downtowns and provide support for Appalachian placemaking.
- 4.2. Invest in economic and community development initiatives that preserve and promote Appalachian communities' vibrant arts, cultural, and heritage traditions.
- 4.3 Preserve and expand Appalachia's natural resources to increase outdoor recreation opportunities for residents and visitors and support sustainable economic growth.

Performance Targets and Initial Estimates

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

Outcome Measures

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 2023			
ANNUAL OUTCOME TARGET INITIAL ESTIMATE			
FY 2023: 4,000 businesses created or strengthened FY 2023: 8,139 businesses created or strengthened			

FY 2023: Expected to exceed target by 103%. The large numbers are due in part to the priorities of the POWER, ARISE, and INSPIRE initiatives as well as the choice of states to fund more projects with these measures.

BUSINESSES CREATED OR STRENGTHENED IN FISCAL YEARS 2018–2022			
ANNUAL OUTCOME TARGET	INITIAL ESTIMATE		
FY 2018: 2,500 businesses created or strengthened	FY 2018: 2,500 businesses created or strengthened		
FY 2019: 2,500 businesses created or strengthened	FY 2019: 4,678 businesses created or strengthened		
FY 2020: 2,500 businesses created or strengthened	FY 2020: 3,361 businesses created or strengthened		
FY 2021: 2,500 businesses created or strengthened	FY 2021: 3,709 businesses created or strengthened		
FY 2022: 4,000 businesses created or strengthened	FY 2022: 6,338 businesses created or strengthened		

Project Verification Sampling

In FY 2023, members of ARC's verification team surveyed 32 projects closed in FY 2020 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
32	2,849	6,130	215%

As shown above, the projects surveyed achieved 215% 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



Building Community Leaders and Capacity

Invest in the capacity of local leaders, organizations, and communities to address local challenges by providing technical assistance and support to access resources, engage partners, identify strategies and tactics, and conduct effective planning and project execution.

Achieving economic development goals for the Region is dependent upon local ability to prioritize challenges and implement the solutions most impactful to their communities. Stakeholders noted that many areas in the Region, particularly in rural and/or economically distressed areas, lack the capacity at the leadership, organizational, or community level to effectively drive the planning and implementation of strategies, projects, and investments. Out-migration and a lack of focus and investment in leadership and community development has left many communities in the Region without the capacity needed to capitalize on funding opportunities and steer investments to successful outcomes. ARC will use evaluations, performance metrics, and other tools to guide investment strategies and will share outcomes among grantees, beneficiaries, and communities in Appalachia. Stakeholders repeatedly noted that ARC's investment in capacity building and planning support, technical assistance and training, and leadership development and empowerment is equally important as any other funding or program to growing the Region's economic and community prosperity.

Objectives

- 5.1 Develop, support, and empower community leaders that are representative of local communities, inclusive in their approach, and focused on long-term, innovative strategies and solutions.
- 5.2. Build capacity of community organizations and local development districts (LDDs) to effectively access and manage funding, administer programs, and execute projects through implementation.
- 5.3 Invest in developing the capacity of communities to build ecosystems where government, nonprofits, businesses, and philanthropic partners coalesce around a shared vision for economic and community prosperity and collaborate to implement that vision.

Performance Targets and Initial Estimates

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

Outcome Measures

Initial estimates and verification results for communities with enhanced capacity are reported under this goal.

Outcome Target and Initial Estimates

COMMUNITIES WITH ENHANCED CAPACITY IN FISCAL YEAR 2023		
ANNUAL OUTCOME TARGET INITIAL ESTIMATE		
FY 2023: 400 communities with enhanced capacity	FY 2023: 1,700 communities with enhanced capacity	

FY 2023: Expected to exceed target by 325%. This is due in part to priorities established for the READY Appalachia and POWER Initiatives.

COMMUNITIES WITH ENHANCED CAPACITY IN FISCAL YEARS 2018–2022			
ANNUAL OUTCOME TARGET INITIAL ESTIMATE			
FY 2018: 250 communities with enhanced capacity	FY 2018: 562 communities with enhanced capacity		
FY 2019: 250 communities with enhanced capacity	FY 2019: 647 communities with enhanced capacity		
FY 2020: 250 communities with enhanced capacity	FY 2020: 335 communities with enhanced capacity		
FY 2021: 250 communities with enhanced capacity	FY 2021: 493 communities with enhanced capacity		
FY 2022: 400 communities with enhanced capacity	FY 2022: 1,467 communities with enhanced capacity		

Project Verification Sampling

In FY 2023, members of ARC's verification team surveyed 41 projects closed in FY 2020 that had targets for communities with enhanced capacity to compare estimated and actual results.

Number of Projects Surveyed	Projected Number of Communities with Enhanced Capacity	Actual Number of Communities with Enhanced Capacity	Results Achieved
41	328	339	103%

As shown above, the projects surveyed achieved 103% 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 benefits accruing to distressed counties and rural or underserved communities.

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

Leverage Target

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

LEVERAGED PRIVATE INVESTMENT RATIO IN FISCAL YEAR 2023			
ANNUAL TARGET INITIAL ESTIMATES			
FY 2023: 6:1 ratio of leveraged private investment to ARC investment	FY 2023: 10:1 ratio		

FY 2023: Expected to exceed target by 62%. Every dollar of ARC funding is estimated to attract \$9.69 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 2018–2022		
ANNUAL TARGET	INITIAL ESTIMATES	
FY 2018: 6:1 ratio of leveraged private investment to ARC investment	FY 2018: 12:1 ratio	
FY 2019: 6:1 ratio of leveraged private investment to ARC investment	FY 2019: 3:1 ratio	
FY 2020: 6:1 ratio of leveraged private investment to ARC investment	FY 2020: 5:1 ratio	
FY 2021: 6:1 ratio of leveraged private investment to ARC investment	FY 2021: 6:1 ratio	
FY 2022: 6:1 ratio of leveraged private investment to ARC investment	FY 2022: 7:1 ratio	

Matching Target

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

MATCHING PROJECT FUNDS RATIO IN FISCAL YEAR 2023			
ANNUAL TARGET	RESULT		
FY 2023: 2:1 ratio of matching funds to ARC investment	FY 2023: 1:1 ratio*		
*Ratios are rounded to the nearest whole number.			

FY 2023: Met 63% of target. Every dollar of ARC funding attracted \$1.26 in matching project funds. The match rate closely corresponds with funding to distressed counties and areas, as projects in these areas require a lower percentage of matching funds. ARC continues to encourage states and regional partners to direct investment to distressed counties and areas, which could lead to a lower amount of matching funds.

MATCHING PROJECT FUNDS RATIO IN FISCAL YEARS 2018–2022			
ANNUAL TARGET	RESULTS*		
FY 2018: 2:1 ratio of matching funds to ARC investment	FY 2018: 2:1 ratio		
FY 2019: 2:1 ratio of matching funds to ARC investment	FY 2019: 1:1 ratio		
FY 2020: 2:1 ratio of matching funds to ARC investment	FY 2020: 2:1 ratio		
FY 2021: 2:1 ratio of matching funds to ARC investment	FY 2021: 2:1 ratio		
FY 2022: 2:1 ratio of matching funds to ARC investment	FY 2022: 2:1 ratio*		
*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 2023*			
ANNUAL TARGET RESULT			
FY 2023: Direct 50% of ARC funds to distressed counties or areas FY 2023: 70% of funds			
*Project funds are included if the project primarily or substantially benefits distressed counties or areas.			

FY 2023: Exceeded target by 20 percentage points. ARC continues to encourage states and regional partners to direct investment to distressed counties and areas.

PERCENTAGE OF FUNDS TO DISTRESSED COUNTIES/AREAS IN FISCAL YEARS 2018–2022			
ANNUAL TARGETS	RESULTS		
FY 2018: Direct 50% of ARC funds to distressed counties or areas	FY 2018: 64% of funds		
FY 2019: Direct 50% of ARC funds to distressed counties or areas	FY 2019: 70% of funds		
FY 2020: Direct 50% of ARC funds to distressed counties or areas	FY 2020: 72% of funds		
FY 2021: Direct 50% of ARC funds to distressed counties or areas	FY 2021: 70% of funds		
FY 2022: Direct 50% of ARC funds to distressed counties or areas	FY 2022: 74% of funds		
*Project funds are included if the project primarily or substantially benefits distressed counties or areas.			

SUMMARY OF ACHIEVEMENTS

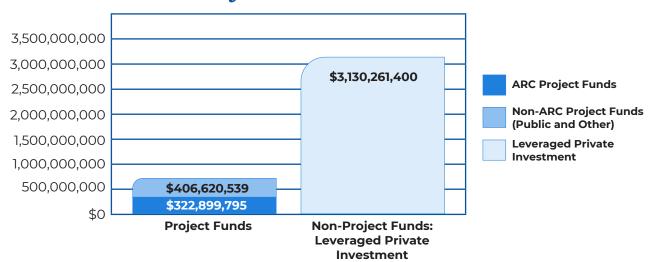
PERFORMANCE TARGETS AND INITIAL ESTIMATES FOR FISCAL YEAR 2023 PROJECTS

ANNUAL PERFORMANCE TARGETS	INITIAL ESTIMATES	EXPECTED RESULTS	
Outcome Targets			
22,000 jobs created or retained	50,189 jobs created or retained	Exceed target by 128%	
35,000 students and workers with improvements	46,990 students and workers with improvements	Exceed target by 34%	
50,000 businesses and households with access to improved infrastructure	52,199 businesses and households with access to improved infrastructure	Exceed target by 4%	
4,000 businesses created or strengthened	8,139 businesses created or strengthened	Exceed target by 103%	
400 communities with enhanced capacity	1,700 communities with enhanced capacity	Exceed target by 325%	
Leverage Target			
Achieve a 6:1 ratio of leveraged private investment to ARC funds (\$6 per \$1 ARC investment)	10:1 ratio* (\$9.69 per \$1 ARC investment)	Exceed target by 62%	
Matching Target			
Achieve a 2:1 ratio of matching funds to ARC funds (\$2 per \$1 ARC investment)	1:1 ratio* (\$1.26 per \$1 ARC investment)	Meet 63% of target	
Distressed Counties/Areas Target			
Direct 50% of ARC funds to benefit distressed counties or areas	70% of funds**	Exceed target by 20 percentage points	
*Ratios are rounded to the nearest whole number. **Project funds are included if the project primarily or substantially benefits distressed counties or areas.			

Investment Summary for FY 2023 Projects

LEVERAGE, MATCHING, AN	D DISTRESSEI	O COUNTIES/AREAS SUMMARY
Leveraged private investment	\$3,130,261,400	10:1 ratio of leveraged private investment to ARC investment
Non-ARC matching project funds	\$406,620,539	1:1 ratio of non-ARC project investment to ARC project investment
ARC project funds targeted to distressed counties or areas	\$226,997,660*	70% of total ARC project funds directed to projects that benefit distressed counties or areas
distressed counties or areas *Project funds are included if the project r	, , ,	counties or areas

Funding and Leveraged Private Investment for All ARC Projects in Fiscal Year 2023



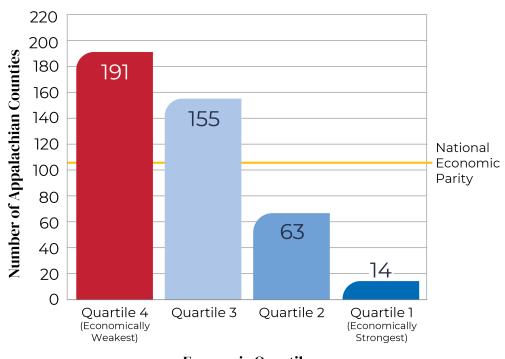
MEASURING PROGRESS TOWARD THE ARC VISION

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

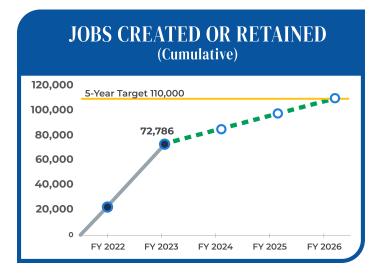
In order to provide a single unified measure of regional progress and economic change, ARC developed an index to track improvement over time. Drawing on the three variables ARC uses annually to determine the economic status of the Region's counties, staff developed a national composite index of distress.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

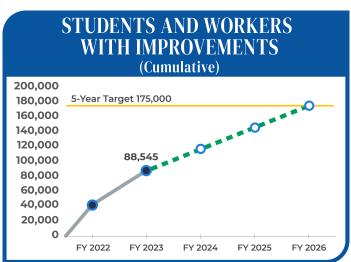
Using this index, ARC can compute annually the number of Appalachian counties in each quartile, as well as an overall regional index value. This can be directly compared with the national index value to measure progress. In addition, progress can be clearly measured by reductions in the number of Appalachian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

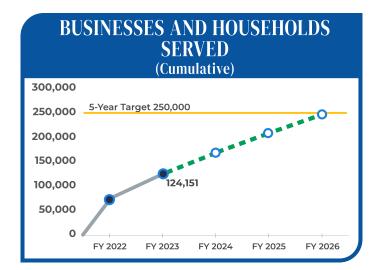
Number of Appalachian Counties by Economic Quartile, Fiscal Year 2023



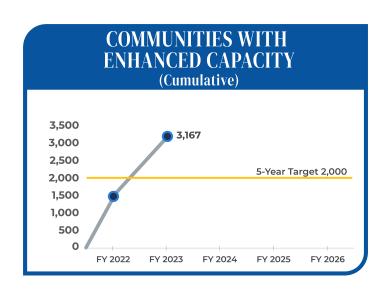
Progress Toward ARC Strategic Plan Performance Goals, Fiscal Years 2022–2026











PART III: FISCAL YEAR 2023 FINANCIAL REPORT



MESSAGE FROM THE EXECUTIVE DIRECTOR

The executive director of the Appalachian Regional Commission is appointed by the federal co-chair and the governors of the 13 member states to be the chief executive officer of the organization, a responsibility that includes financial management. ARC recognizes its responsibility to demonstrate to the American public that it exercises proper stewardship of the public resources entrusted to it. The financial statements in this Performance and Accountability Report fairly present the financial position of ARC.

I am very pleased to report that Allmond & Company LLC, the independent auditor of ARC's financial statements for 2023, has rendered an unmodified opinion about the adequacy of the statements. The independent audit was performed in cooperation with the Office of Inspector General (OIG).

The Commission maintains written financial management guidelines and accounting internal control policies and procedures 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.

Brandon McBride **Executive Director**

Appalachian Regional Commission

In Matrile

November 15, 2023

REPORT OF INDEPENDENT AUDIT



Office of Inspector General

Appalachian Regional Commission

Fiscal Year 2023 Financial Statement Audit Opinion

Report Prepared by Allmond and Company

Report Number 24-02

November 15, 2023

Appalachian Regional Commission
Office of Inspector General
1666 Connecticut Avenue, Suite 718
Washington, D.C. 20009



November 15, 2023

Brandon McBride Executive Director, ARC

This memorandum transmits the results of the audit of the Commission's financial statements for the fiscal year ended September 30, 2023 and 2022. We contracted with the independent certified public accounting firm Allmond & Company, LLC to conduct this audit. Allmond & Company, LLC expressed an unmodified opinion that concluded the financial statements were presented fairly, in all material respects, in accordance with the applicable financial reporting standards.

My office has policies and procedures that are designed to provide assurance that work performed by non-Federal auditors complies with the auditing standards. In connection with this contract, we reviewed the final report of Allmond & Company, LLC and related documentation and made inquiries of its representatives.

Our oversight of Allmond & Company, LLC's audit did not disclose any instances where they did not comply, in all material respects, with the U.S. generally accepted government auditing standards; however, this review cannot be construed as an audit, and is not intended to enable us to express, and we do not express, any opinion on the Commission's financial statements. Allmond & Company, LLC is solely responsible for the audit report dated November 14, 2023 and the conclusions expressed in the report.

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

Sincerely,

Philip M. Heneghan Inspector General

Philip Hampha

Attachment

ARC-2023 Financial Statement Audit Contract: 47QRAA21D0026/ARC21P052

Appalachian Regional Commission (ARC) Fiscal Year 2023 Financial Statement Audit

Final Independent Auditor's Report

Submitted for review and acceptance to: Rhonda Turnbow, Deputy Inspector General Office of Inspector General Appalachian Regional Commission 1666 Connecticut Ave, NW, Suite 700 Washington, DC 20009-1068

Submitted by:
Jason L. Allmond, CPA, CGFM, CISA, CISM
Managing Member
Allmond & Company, LLC
7501 Forbes Boulevard, Suite 200
Lanham, MD 20706
301-918-8200
mailto:jallmond@allmondepa.com

Final Independent Auditor's Report

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

APPALACHAIN REGIONAL COMMISSION AUDIT REPORT **SEPTEMBER 30, 2023**



Appalachian Regional Commission

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



CERTIFIED PUBLIC ACCOUNTANTS

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

Independent Auditor's Report

Federal Co-Chair and Executive Director Appalachian Regional Commission:

Report on the Financial Statements

Opinion

Pursuant to the Accountability of Tax Dollars Act of 2002, we have audited the accompanying financial statements of the Appalachian Regional Commission (ARC), which comprise the balance sheets as of September 30, 2023 and 2022; the related statements of net costs, changes in net position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements (hereinafter referred to as the financial statements).

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Appalachian Regional Commission as of September 30, 2023 and 2022, and its net costs, changes in net position, and budgetary resources for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with U.S. generally accepted auditing standards (GAAS); 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. 24-01, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 24-01 are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the ARC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting Required Supplementary Information (RSI) in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in ARC's Performance and Accountability Report and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) designing, implementing, and maintaining effective internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to (1) obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and (2) to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and

therefore is not a guarantee that an audit conducted in accordance with GAAS, generally accepted government auditing standards (GAGAS), and OMB Bulletin No. 24-01 will always detect a material misstatement or material weakness when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, GAGAS, and OMB Bulletin No. 24-01, we exercise professional judgment and maintain professional skepticism throughout the audit, identify and assess risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures that are responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements in order to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. In addition, in making those risk assessments, we obtain an understanding of internal control relevant to an audit of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ARC's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements, and performing other procedures we consider necessary in the circumstances. We are required to communicate with those charged with governance regarding, among other matters, the planned scope of and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the financial statement audit.

Required Supplementary Information (RSI)

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the information in the RSI be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by FASAB, which considers it to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context.

We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards. These procedures consisted of (1) inquiring of management about the methods used to prepare the RSI and (2) comparing the RSI for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during the audit of ARC's financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

ARC's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a

required part of the financial statements or the RSI. Management is responsible for the other information included in ARC's Performance Accountability Report. The other information comprises the *Management and Discussion Analysis (MD&A)* and *Performance* sections but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exist between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Report on Internal Control over Financial Reporting

In connection with our audits of ARC's financial statements, we considered ARC's internal control over financial reporting, consistent with the auditor's responsibilities discussed below.

Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described below and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies or to express an opinion on the effectiveness of ARC's internal control over financial reporting. 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 or significant deficiencies may exist that have not been identified.

Basis for Results of Our Consideration of Internal Control over Financial Reporting

We performed our procedures related to ARC's internal control over financial reporting in accordance with U.S. generally accepted government auditing standards and OMB audit guidance.

Responsibilities of Management for Internal Control over Financial Reporting

ARC management is responsible for designing, implementing, and maintaining effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for Internal Control over Financial Reporting

In planning and performing our audit of ARC's financial statements as of and for the fiscal year ended September 30, 2023, in accordance with U.S. generally accepted government auditing standards, we considered ARC's internal control relevant to the financial statement audit in order to design audit

¹ A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, 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 over financial reporting that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance.

procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ARC's internal control over financial reporting. Accordingly, we do not express an opinion on ARC's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses. We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations. Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

Intended Purpose of Report on Internal Control over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of ARC's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of ARC's internal control over financial reporting. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audits of ARC's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibilities discussed below.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2023 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to ARC. Accordingly, we do not express such an opinion.

<u>Basis for Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements</u>

We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for Tests of Compliance section below.

Responsibilities of Management for Compliance with Laws, Regulations, Contracts, and Grant Agreements

ARC management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to ARC.

<u>Auditor's Responsibilities for Tests of Compliance with Laws, Regulations, Contracts, and Grant</u> Agreements

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to ARC that have a direct effect on the determination of material amounts and disclosures in ARC's financial statements, and to perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to ARC. We caution that noncompliance may occur and not be detected by these tests.

<u>Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements</u>

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Allmond & Company, LLC

Lanham, MD November 14, 2023

Exhibit I Status of Prior Year Findings and Recommendations

The following table provides the fiscal year (FY) 2023 status of all recommendations included in the Audit Report on the Appalachian Regional Commission FY 2022 Financial Statements (November 15, 2022).

FY 2022 Finding	Prior Year Recommendation	FY 2023 Status
Lack of Sufficient Internal Controls over the Preparation of Financial Statements and Footnote Disclosures. (2022-01)	 Recommendation: We recommend that ARC management: Design and implement policies and procedures to have the reviewer of the financial statements and note disclosures review for completeness, accuracy, and compliance with financial reporting requirements. Design and implement policies and procedures to ensure the account balances, line items, and all corresponding balances agree to the agency's financial system. Subsequent to the review process, ARC management should ensure that all reviews are thoroughly documented. 	Closed
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Appalachian Regional Commission

FINANCIAL STATEMENTS

As of And For The Fiscal Years Ended September 30, 2023 and 2022

APPALACHIAN REGIONAL COMMISSION BALANCE SHEETS

As of September 30, 2023 and 2022 (in thousands)

		2023		2022
Assets:				
Intragovernmental:				
Fund Balance with Treasury	(Note 2) \$	1,050,005	\$	796,720
Accounts receivable		1,252		0
Advances and prepayments	(Note 4)	0		30
Total intragovernmental	· · · · · · · · · · · · · · · · · · ·	1,051,257		796,750
With the public:				
Cash and Other Monetary Assets	(Note 3)	2,396		1,064
Accounts Receivable, net		11		0
Property, Plant and Equipment, net	(Note 5)	722		0
Advances and prepayments	(Note 4)	55,439		49,573
Total With the public	· ,	58,568		50,637
Total Assets	\$	1,109,825	\$	847,387
Liabilities:	(Note 6 and Not	e 7)		
Intragovernmental:	`	,		
Advances from others and deferred revenue	\$	105	\$	167
Other liabilities	(Note 7)	62		62
Total intragovernmental	· /	167		229
With the public:				
Accounts payable		8,551		31,172
Federal employee and veterans benefits payable		727		636
Advances from others and deferred revenue		917		1,229
Other liabilities	(Note 7)	1,567		1,746
Total With the public	· /	11.762		34,783
Total liabilities	\$	11,929	\$	35,012
Net Position:				
Unexpended Appropriations - Funds from Other than Dedicated Collections	\$	1,113,798	\$	830,240
Cumulative Results of Operations - Funds from Other than Dedicated Collections	•	(15,902)	Ψ	(17,865)
Total Net Position		1,097,896	-	812,375
Total Liabilities and Net Position	\$	1,109,825	\$	847,387
·	<u> </u>	.,.00,020		211,001

STATEMENTS OF NET COST

For the Fiscal Years Ended September 30, 2023 and 2022 (in thousands)

	2023		2022	
Gross Program Costs:				
ARC:				
Gross Cost	\$	120,547	\$	134,989
Less: Earned Revenue		5,789		3,409
Net Program Costs	\$	114,758	\$	131,580
Net Cost of Operations	\$	114,758	\$	131,580

STATEMENTS OF CHANGES IN NET POSITION For the Fiscal Years Ended September 30, 2023 and 2022 (in thousands)

	2023	2022
Unexpended Appropriations:		
Beginning Balance	\$ 830,240	\$ 568,215
Appropriations received Appropriations used Net Change in Unexpended Appropriations	400,000 (116,442) 283,558	395,000 (132,975) 262,025
Total Unexpended Appropriations	\$ 1,113,798	\$ 830,240
Cumulative Results from Operations:		
Beginning Balance Corrections of errors (+/-) Beginning balance, as adjusted	\$ (17,865) 193 (17,672)	\$ (19,289) 0 (19,289)
Other Adjustments Appropriations used Imputed Financing Net Cost of Operations Net Change in Cumulative Results of Operations	0 116,442 (Note 11) 86 (114,758) 1,770	(3) 132,975 32 (131,580) 1,424
Total Cumulative Results of Operations	(15,902)	(17,865)
Net Position	\$ 1,097,896	\$ 812,375

STATEMENTS OF BUDGETARY RESOURCES

For the Fiscal Years Ended September 30, 2023 and 2022 (in thousands)

		2023 Budgetary		2022 Budgetary	
Pudgetoni Pegguraga					
Budgetary Resources: Unobligated balance from prior year budget authority, net (discretionary and mandatory)	(Note 12)		316,000		134,404
	(Note 12)		*		
Appropriations (discrectionary and mandatory)			400,000		395,000
Spending authority from offsetting collections (discretionary and mandatory)			6,014		4,029
Total budgetary resources	;	\$	722,014	\$	533,433
Status of Budgetary Resources:					
New obligations and upward adjustments (total)	(Note 10)	\$	346,035	\$	250,260
Unobligated balance, end of year:					
Apportioned, unexpired account			370,976		264,380
Unapportioned, unexpired accounts			5,003		18,793
Unexpired unobligated balance, end of year	•		375,979		283,173
Unobligated balance, end of year (total)			375,979		283,173
Total budgetary resources		\$	722,014	\$	533,433
Outlays, net:					
Outlays, net (total) (discretionary and mandatory)			146,715		127,936
Agency outlays, net (discretionary and mandatory)	(Note 15)	\$	146,715	\$	127,936

Notes to the Financial Statements September 30, 2023, and 2022

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, strictly speaking, is not a federal executive branch agency as defined in Titles 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 almost a 206,000 square mile region from Southern New York to Northern Mississippi. The ARC programs affect 423 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.

The reporting entity is a component of the U.S Government. For this reason, some of the assets and liabilities reported by the entity may be eliminated for Government-wide reporting because they are offset by assets and liabilities of another U.S. Government entity. These financial statements should be read with the realization that they are for a component of the U.S. Government.

Classified Activities

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if need, to prevent the disclosure of classified information. ARC did not have classified activities as of September 30, 2023.

Fund Accounting Structure

ARC's financial activities are accounted for by utilizing individual funds and fund accounts in reporting to the U.S. Treasury and the Office of Management and Budget (OMB). For financial statement purposes, these funds are classified as 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 financial statements have been prepared from the books and records of ARC and include the accounts of all funds under the control of the ARC reporting entity.

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

All dollar amounts included in the financial statements and footnotes have been rounded to the nearest thousands. Due to rounding, totals presented may not add up.

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 payroll and flexible benefits.

Accounts Receivable

Accounts receivable, net represents monies owed to ARC, including collectibles from the ARC's Office of the States' Washington Representative; U.S. Department of Labor (DOL) and from U.S. Department of Agriculture (USDA) for expenses incurred on the Office's behalf. ARC has historically collected any receivables due and has had no need to establish allowance for uncollectible accounts.

Advances and Prepayments

Advances are cash outlays made by a federal entity to its employees, contractors, grantees, or others to cover a part or all the recipients' anticipated expenses or as advance payments for the costs of goods and services the entity receives. Prepayments are payments made by a Federal entity to cover certain periodic expenses before those expenses are incurred.

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.

In addition, ARC has advances made to grantees. These primarily include revolving loan fund and 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.

ARC also has prepayments made to cover certain periodic expenses before those expenses are incurred.

Property, Plant, and Equipment (PP&E), Net

Property, Plan, and Equipment (PP&E) is reported at acquisition cost. Depreciation is computed using the straight-line method over the estimated useful life of the assets with zero salvage value and depreciation begins in the month it is placed in service The capitalization threshold is \$35,000. Maintenance and repairs are expensed as incurred unless expenditure materially increases the value or useful life of the existing assets which are then capitalized.

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. The Defined Benefit Pension Plan was frozen in 2020.

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 who opted out of the Defined Benefit Pension Plan receive a discretionary contribution of 6% of salary and a matching contribution up to 6%. Those who remain participants in the Defined Benefit Pension Plan receive a discretionary contribution of 3% of salary and a matching contribution maximum of 3% (50% match of 6% contribution or under). All new employees hired after the freezing of the Defined Benefit Pension Plan are eligible to receive a discretionary contribution of 4% of base salary and a matching contribution up to 4%. All participants are fully vested.

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, 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 amounts 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 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.

Permanent Indefinite Appropriations

The Commission's permanent indefinite appropriation includes the trust fund which has not been used since FY 2014. This trust fund was once established to receive, hold, and disburse monies collected to cover the administrative expenses of ARC.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Tax Exempt Status

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

NOTE 2 – FUND BALANCE WITH TREASURY

ARC's Fund Balance with Treasury as of September 30, 2023, consisted of the following:

	2023	2022
A. Fund Balances		
General Funds	\$1,049,592	\$796,307
Trust Funds	413	413
Total Fund Balance with Treasury	1,050,005	796,720
	· · · · · · · · · · · · · · · · · · ·	
B. Status of Fund Balance with Treasury		
1) Unobligated Balance		
(a) Available	368,901	264,380

(b) Unavailable	5,003	18,793
2) Obligated Balance not yet Disbursed	675,479	512,938
3) Temporary Sequestration	622	609
Total	\$1,050,005	\$796,720

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 of \$413 in the trust fund continues to be sequestered as of September 30, 2023.

NOTE 3 – CASH AND OTHER MONETARY ASSETS

Cash as of September 30, 2023, was as follows:

	2023	2022
Commercial Bank Balance	\$2,396	\$1,064

NOTE 4 – ADVANCE AND PREPAYMENTS

Advances as of September 30, 2023, consisted of the following:

_	2023	2022
Intragovernmental		
USDA	\$	\$ 30
Total Intragovernmental	-	30
With the Public		
Advances to Grantees to Finance Program Expenditures		
-Revolving Loan Fund	27,857	28,184
-Non-Federal Grantees	22,866	18,281
Prepaid Pension Expense	4,716	3,108
Total With the Public	55,439	49,573
Total Advances and Prepayments	\$55,439	\$49,603

Intragovernmental: ARC advances funds to federal agencies for work performed on its behalf under various reimbursable agreements for construction projects. These intra-governmental

advances are recorded as an asset, which is reduced when actual expenditures or the accrual of unreported expenditures are recorded.

With the public: ARC also has advances made to grantees that are not federal entities. Most of these advances are disbursed to grantees operating revolving loan funds (RLF), the remaining amounts are to all other grantees.

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

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT (PP&E), NET

Property, Plan, and Equipment (PP&E) is reported at acquisition cost. The capitalization threshold is \$35,000 and the depreciation uses a straight-line method with no salvage value. In FY2023, ARC acquired office furniture, which was put in service on June 1, 2023. The estimated useful life of office furniture is seven years and equipment is five years. The total acquisition cost of office furniture and equipment is \$761.

The general components of capitalized property and equipment, net of accumulated depreciation as of September 30, 2023:

	2023	2022
Cost Balance, beginning of year	\$ -	\$ -
Capitalized Acquisitions – Furniture & Equipment	761	<u>-</u> _
Cost Balance, end of year	761	-
Accumulated Depreciation	(39)	
Net Book Value	\$722	\$ -

Any equipment capitalized prior to FY2023 was fully depreciated at September 30, 2018.

NOTE 6 – 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. The only liability not covered by budgetary resources is the unfunded leave in the amount of \$723 for FY2023 and \$631 for FY2022.

Liabilities as of September 30, 2023, and 2022 consisted of the following:

	2023	2022
Other than Intragovernmental		
Unfunded Leave	\$723	\$631
Total Liabilities not covered by budgetary resources	723	631
Total Liabilities covered by budgetary resources	10,278	33,225
Total Liabilities not requiring budgetary resources	928	1,156
Total Liabilities	\$11,929	\$35,012

NOTE 7 – OTHER LIABILITIES

As of September 30, 2023, and 2022, Other Liabilities with the Public consisted of Accrued Funded Payroll and Leave and Other Liabilities Without Related Budgetary Obligations. Intragovernmental Other Liabilities consisted of Employer Contributions and Payroll Taxes Payable.

	2023		
	Non-Current	Current	Total
Intragovernmental			
Employer Contributions and Payroll Taxes Payable	\$ -	\$62	\$62
Total Intragovernmental	-	62	62
With the Public			
Accrued Funded Payroll & Leave	-	639	639
Other Liabilities Without Related Budgetary Obligations	-	928	928
Total With the Public		1,567	1,567
Total Other Liabilities	\$ -	\$1,629	\$1,629

	2022		
	Non-Current	Current	Total
Intragovernmental			
Employer Contributions and Payroll Taxes Payable	\$ -	\$62	\$62
Total Intragovernmental	-	62	62
With the Public			
Accrued Funded Payroll & Leave	-	590	590
Other Liabilities Without Related Budgetary Obligations	-	1,156	1,156
Total With the Public	-	1,746	1,746
Total Other Liabilities	\$ -	\$1,808	\$1,808

NOTE 8 – RETIREMENT PLANS

Federal

ARC participates in the Federal Employees Retirement System (FERS) for federal and certain non-federal employees. The FERS plans are administered by the OPM. ARC's contributions to the FERS plans were \$281 and 283, for FY 2023 and FY 2022 respectively.

Several employees also participate in the Federal Employees Health Benefit plan (FEHB) and the Federal Employees Group Life Insurance program (FEGLI), also administered by OPM. ARC pays a portion of the cost of current employees. Post-retirement benefits are paid by OPM. ARC's contributions to these plans were \$78 and \$2 for FY 2023 and \$83 and \$2 for FY2022 for FEHB and FEGLI, respectively.

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

For FY 2023, ARC contributed \$16 and \$61 to the Federal Thrift Savings Basic and Matching Plans respectively, and for FY 2022, ARC contributed \$16 and \$58 respectively.

Non-Federal

Findley, Inc., a division of USI Insurance Services, is ARC's administrator for ARC's non-federal retirement plans. The following table presents the net periodic benefit cost for the defined benefit pension plan by component for fiscal years 2023 and 2022:

Net Periodic Benefit Cost

	<u>2023</u>	<u>2022</u>
Service Cost	\$187	\$285
Interest Cost	1,339	925
Expected Return on Assets	(1,995)	(2,491)
Amortization of Prior Service Cost	212	275
Amortization of Net (Gain)/Loss	66	-
Net Periodic Benefits Cost	\$(192)	\$(1,006)

The following tables present the accumulated contributions in excess of net period benefit cost and projected benefit obligations for fiscal years 2023 and 2022:

Accumulated Contributions in Excess of Net Period Benefit Cost

	<u>2023</u>	<u>2022</u>
Accumulated Amount at Beginning of Period	\$4,716	\$3,108
Net Period Benefit Cost	192	1,006
Employer Contributions	150	601
Accumulated Amount at End of Period	\$5.057	\$4.716

Reconciliation of Projected Benefit Obligation

	<u>2023</u>	<u>2022</u>
PBO at the Beginning of Period	\$26,785	\$35,679
Service Cost	187	285
Interest Cost	1,339	925
Participant Contributions	-	-
Actuarial (Gain)/Loss	59	412
Change in Discount Rate (Gain)/Loss	(1,271)	(9,540)
Change in Mortality Assumption (Gain)/Loss	-	113
Benefits Paid	(1,121)	(1,089)
PBO at End of Period	\$25,978	\$26,785

The following tables present funded status as well as plan assets for fiscal years 2023 and 2022:

Funded Status

	<u>2023</u>	<u> 2022</u>
Projected Benefit Obligation	\$(25,978)	\$(26,785)
Fair Value of Assets	30,018	28,298
Funded Status	\$4,040	\$1,513

Plan Assets

	<u>2023</u>	<u>2022</u>
Fair Value of Assets at Beginning of Period	\$28,298	\$35,118
Actual Return on Assets	2,691	(6,332)
Employer Contributions	150	601
Participant Contributions	-	-
Benefits Paid	(1,121)	(1,089)
Fair Value of Assets at End of Period	\$30,018	\$28,298

The accumulated benefit obligation was \$24,476 and \$26,245 at September 30, 2023 and 2022, respectively.

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

	<u>2023</u>	<u> 2022</u>
Discount rate	5%	5%
Rate of compensation increase	3%	3%

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

	<u>2023</u>	<u>2022</u>
Discount rate	5%	3%
Rate of compensation increase	3%	3%
Expected long-term return on plan assets	7%	7%

Plan Assets

Pension plan weighted-average asset allocations at September 30, 2023, are as follows:

Asset Category	<u>2023</u>	<u>2022</u>
Equity securities	41%	38%
Debt securities	54%	56%
Real Estate	4%	5%
Other	1%	1%
Total assets	100%	100%

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

Fiscal Year	Amount
2024	\$1,659
2025	1,725
2026	1,738
2027	1,785
2028	1,787
2029 - 2033	\$9,594

Paylocity Corporation processes payroll for ARC's non-federal employees while John Hancock Financial administers the 401K plan. ARC contributed \$616 and \$502 to the 401(k) plan for the years ended September 30, 2023, and 2022, respectively. For Health Benefits Insurance, ARC contributed \$675 and \$498 for the year ended September 20, 2023, and 2022 respectively. For Group Life Insurance, ARC contributed \$6 and \$5 for the year ended September 30, 2023, and 2022 respectively.

NOTE 9 – LEASES

ARC's headquarters lease commenced on April 30, 2013, and extends through March 31, 2035. ARC had a lease for an office space in Charleston, West Virginia, that commenced on July 1, 2022, and ended on June 30, 2023. The rent for the office in Charleston transitioned to a month-to-month basis after June 30, 2023. These leases were non-federal leases. The future minimum lease payments required are as follows:

Fiscal Year	Amount
2024	\$1,211
2025	1,238
2026	1,266

Total	\$17,445
2029 - 2035	10,848
2028	1,457
2027	1,425

Lease expenses for the years ended September 30, 2023, and 2022 totaled \$905 and \$1,069 respectively. The lower lease expense in FY2023 relative to FY2022 was a result of lease abatement provided in the lease agreement. As per the terms of the lease agreement, ARC was provided with lease incentives for the renovation of the office space related expenses. As of September 30, 2023, ARC incurred lease incentive related expenses totaling \$827, of which \$353 have been reimbursed. ARC will receive the remaining amount in FY2024.

ARC has an auto lease which is in the process of being renewed. For FY2023, the auto lease expenses were \$3K. ARC also has a copier lease and the total copier lease expenses for FY2023 were \$6k.

NOTE 10 – 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.

New Obligations and Upward Adjustments reported on the Statement of Budgetary Resources consist of the following:

	2023	2022
Direct Category B Obligations		
Cat B - Non-Highway Programs	\$313,584	\$213,163
Cat B - RD (12-46X0200.020)	26,646	28,305
Cat B - EDA (13-46X0200.020)	1,800	3,631
Cat B - FHWA Non-Highway Programs (69-46X0200.05)	91	500
Cat B - HUD (86-46X0200)	-	1,470
Total Direct Obligations	342,121	247,069

Reimbursable Category B Obligations		
Cat B - Non-Highway Programs	3,914	3,191
Total Reimbursable Obligations	3,914	3,191
Total New Obligations and Upward adjustments	\$346,035	\$250,260

NOTE 11 – INTER-ENTITY COSTS

Goods and services are received from other federal entities at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by ARC are recognized as imputed cost and are offset by imputed revenue. The amounts of Imputed Costs and Financing Sources were \$86 for FY 2023. Such imputed costs and revenues relate to business-type activities (if applicable), employee benefits, and claims to be settled by the Treasury Judgment Fund. However, unreimbursed costs of goods and services other than those identified above are not included in our financial statements.

NOTE 12 – NET ADJUSTMENTS TO UNOBLIGATED BALANCE BROUGHT FORWARD, OCTOBER 1

During the years ended September 30, 2023, and 2022, certain adjustments were made to the balance of unobligated budgetary resources available as of October 1, 2022, and 2021. These adjustments include, among other things, upward adjustments to undelivered and delivered orders that were obligated in a prior year fiscal year. The adjustments during the years ended September 30, 2023, and 2022 are presented below.

	2023	2022
Unobligated balance, brought forward from prior year	\$283,173	\$120,395
Adjustments made during the current year		
Recoveries of prior year unpaid obligations	30,241	13,815
Recoveries of prior year paid obligations	2,586	194
Unobligated balance brought from prior year budget authority	\$316,000	\$134,404

NOTE 13 - 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.

	2023	2022
Federal Undelivered Orders	\$2,080	\$767
Non-Federal Undelivered Orders	721,108	530,350
Total Federal/Non-Federal Undelivered Orders	723,188	531,117
Paid Undelivered Orders - Federal	236	266
Paid Undelivered Orders - Non-Federal	56,703	49,337
Unpaid Undelivered Orders - Federal	1,903	500
Unpaid Undelivered Orders - Non-Federal	664,346	481,014
Total Paid/Unpaid Undelivered Orders	723,188	531,117
Total Undelivered Orders	\$723,188	\$531,117

NOTE 14 – EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES (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 2023 actual budgetary execution information is scheduled for publication in February 2024, 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 2022 SBR and the related President's Budget reflected the following:

FY 2022	Budgetary Resources	New Obligations & Upward Adjustments (Total)	Net Outlays
Statement of Budgetary Resources	\$533	\$250	\$128
Difference 1 - Rounding of Spending Authority from Offsetting Collections	(1)	-	-
Difference 2 - Rounding (+/-)	-	-	(1)
Budget of the US Government	\$532	\$250	\$129

The difference between the SBR and the *Budget of the United States Government* for budgetary resources, new obligations, and upward adjustments (total) 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.

FY2023

	Intragovernmental	Other than Intragovernmental	Total
Net Operating Cost (SNC)	(\$660)	\$115,418	\$114,758
Components of Net Operating Cost Not Part of the Budgetary Outlays			
Property, plant, and equipment depreciation	-	-39	-39
Increase/(Decrease) in Assets not affecting Budget Outlays:			
Accounts receivable	1,252	11	1,263
Other assets	(30)	7,197	7,167
(Increase)/Decrease in Liabilities not affecting Budget Outlays:			
Accounts payable	62	23,162	23,224
Other liabilities (accrued funded payroll and leave and employer contributions and payroll taxes payable)	-	(50)	(50)
Federal employee and veteran benefits payable	-	(92)	(92)
Other financing sources			
Imputed Cost	(85)		(85)
Total Components of Net Operating Cost Not Part of the Budget Outlays	1,199	30,189	31,388
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Other	-	762	762
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost		762	762
Other Temporary Timing Differences	-	(193)	(193)
Net Outlays (Calculated Total)	\$539	\$146,176	\$146,715
Budgetary Agency Outlays, net (SBR Line 4210)		-	\$146,715

Budgetary Agency Outlays, net (SBR Line 4210)

FY2022 Intragovernmental Other than Intragovernmental Total Net Operating Cost (SNC) \$1,442 \$130,138 \$131,580 Components of Net Operating Cost Not Part of the Budgetary Outlays Increase/(Decrease) in Assets not affecting Budget Outlays: Other assets 30 1,461 1,491 (Increase)/Decrease in Liabilities not affecting Budget Outlays: (5,149) (5,149) Other liabilities (accrued funded payroll and leave and employer contributions and payroll taxes payable) (13) (134) (146) Federal employee and veteran benefits payable 190 190 Federal employee retirement benefits costs (32) (32) (3,632) Total Components of Net Operating Cost Not Part of the Budget Outlays (14) (3,646) Components of the Budget Outlays That Are Not Part of Net Operating Cost 3 3 Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost 3 3 Net Outlays (Calculated Total) \$1,430 \$126,506 \$127,936

\$127,936

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 2023, ARC's investment in non-federal physical property included grants for water and wastewater system construction and improvements; broadband expansion; infrastructure improvements; and access road construction.

ARC Investment in Non-Fe	ederal Physical Property
Fiscal Year 2019	\$41,085,774
Fiscal Year 2020	\$69,186,941
Fiscal Year 2021	\$51,443,262
Fiscal Year 2022	\$52,278,994
Fiscal Year 2023	\$44,691,208

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 2023 included grants for education and job training programs in areas including workforce training, vocational education, dropout prevention, math and science, substance use disorder response, and health.

ARC Investment in Human Capital				
Fiscal Year 2019	\$31,671,742			
Fiscal Year 2020	\$26,406,576			
Fiscal Year 2021	\$27,207,627			
Fiscal Year 2022	\$33,686,031			
Fiscal Year 2023	\$45,363,058			

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 2023, ARC invested in applied research through the following projects:

- Programmatic development of the new multi-state ARISE initiative.
- Evaluation of ARC's education and workforce development grants.
- Evaluation of ARC's INSPIRE initiative.
- Evaluation of ARC's business development grants.
- Evaluation and monitoring of ARC's J-1 visa waiver program.
- Evaluation and monitoring of ARISE-funded investments.
- Examination of mortality from diseases of despair.
- Analysis of coal production and employment trends.
- Coal industry ecosystem study update.
- Research examining food insecurity and access.
- Analysis of capital and credit access for entrepreneurs and small businesses.
- Research examining worker displacement.
- Data overviews of private-sector employment trends for each of ARC's 13 states.
- Data overview study examining state- and county-level data for the 13 Appalachian states.

ARC Investment in Resea	rch and Development
Fiscal Year 2019	\$616,790
Fiscal Year 2020	\$913,063
Fiscal Year 2021	\$864,705
Fiscal Year 2022	\$637,267
Fiscal Year 2023	\$1,018,661

PART IV: OTHER INFORMATION

ARC PERFORMANCE TARGETS, 2022-2026

Targets are based on level annual appropriations of \$180 million.

Grant Outcomes	Annual Performance Target	5-Year Performance Target
Jobs created or retained	22,000	110,000
Students and workers with improvements	35,000	175,000
Businesses and households with access to improved infrastructure	50,000	250,000
Businesses created or strengthened	4,000	20,000
Communities with enhanced capacity	400	2,000
Leverage		
Ratio of leveraged private investment to ARC dollars	6 to 1	6 to 1
Matching		
Ratio of matching project funds to ARC dollars	2 to 1	2 to 1
Distressed Counties/Areas		
Percentage of ARC funds directed to benefit economically distressed counties or areas	50%	50%

IMPROPER PAYMENTS

Improper Payments Information Act of 2002, as Amended

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

In accordance with the IPIA, as amended, and OMB implementing guidance, ARC assessed its program and activities for susceptibility to significant improper payments. Based on the results of the risk assessment for the period ended September 30, 2023, the Commission concluded that the program was not susceptible to significant improper payments.



Office of Inspector General

Appalachian Regional Commission

Management and Performance Challenges Report

Appalachian Regional Commission Office of Inspector General

Report Number 23-28

September 29, 2023

Appalachian Regional Commission Office of Inspector General 1666 Connecticut Avenue, Suite 718 Washington, D.C. 20009



Office of Inspector General

Appalachian Regional Commission

September 29, 2023

Report Number 23-28

Commissioners:

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

I have identified two management and performance challenges: (1) improving management information systems, and (2) addressing 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.

Improving Management Information Systems

During the pandemic, the Commission adapted its network to meet new remote work requirements. Meeting the challenge included moving its email service to the cloud and establishing a virtual private network (VPN) to enable staff to have seamless access to their files and the ARC portal. In addition, the Commission made sure that staff had access to virtual meeting platforms and provided the technical capacity to support various online meeting formats.

The challenge moving forward will be 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. The Commission has selected a vender and entered into a contract to replace ARCNet, its primary business information system for managing grants. They have started the process of identifying and defining the overall system requirements and setting the priorities for identifying detailed system requirements.

Transitioning to a new system will create challenges such as:

- Defining systems requirements,
- Planning communications strategies,
- Establishing roles and responsibilities,
- Implementing a data migration plan,
- Training staff, and
- Preparing a "change management" approach.

These challenges will require the Commission to thoughtfully engage stakeholders to ensure that the transition is carefully planned and sensibly executed.

Risks Associated with the Rapid Growth of ARC Funding

The Commission's appropriated funding doubled between 2015 and 2021. This rapid increase in funding has changed how the Commission implements its programs. However, it is not without the presence of risks, and the possibility of future risks.

Both the rapid growth of grant award sizes and the increased complexity of the grants under new programs pose risks to the Commission. In 2014, the Commission awarded grants with an average size of \$136,000. Seven years later, the Commission was awarding grants with an average size of \$370,000. Increasing the size of grants being awarded and managed creates risks. It will be more challenging for the Commission to evaluate grant proposals, measure program performance, and conduct appropriate oversight.

Commission capacity requires having both appropriate resources and using the resources to effectively manage its grants program. Building sufficient capacity is a challenge that will involve significant costs or tradeoffs for the Commission. 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 will shift over time as programs change or the programs address new challenges. A lack of capacity can result in less staff time administering and monitoring grant programs. Given the importance of grants management at the Commission, it is critical that the Commission 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

Philip Hampha



VIA EMAIL

November 15, 2023

Philip M. Heneghan Inspector General **Appalachian Regional Commission**

RE: Management and Performance Challenges Report, Report 23-28

Dear Mr. Heneghan:

This communication provides an update on the Appalachian Regional Commission's (ARC) management actions to address the two (2) identified top management and performance challenges facing the Commission as described in Report 23-28.

1. Improving Management Information Systems

ARC is migrating staff's folders to the MS OneDrive platform. Through this action, ARC staff will be able to more easily and efficiently collaborate in document reviews and other operational activities that require crosssectional collaboration even when staff is working remotely. This action also aims at centralizing the repository of ARC electronic records to meet its open records policy efficiently and effectively. Through the implementation of the OneDrive initiative, ARC will improve its cybersecurity posture, particularly in its hybrid operational mode.

As for the transition from the ARCnet platform, the IT division is aware of the identified risks and is bearing that in mind as the new platform for grants management is developed. The project is in the detailed requirements gathering phase for one of the ARC programs that system will serve. The whole organization has been involved in the system selection process and the requirements gathering has been a collaborative effort with the input of all stakeholders. Over 200 requirements have been generated from that effort. Furthermore, the roles and responsibilities have been defined in the early phase of the process as these are key to implementing a secure system, and foundational to documentation and training.

Staff is actively engaged with our vendor on the data migration strategy and have expanded our internal capacity to validate and normalize the data in the current system and to perform the transformations necessary to target the data schema of the new. ARC is aware of the training load necessary to accomplish its goals and upon findings from the acquisition activities has decided to implement the training strategy internally. Additional elements of the implementation and adoption of the new system, like the communication strategy, will be developed during the implementation phase and shared with the stakeholders prior to the complete migration to the new platform for grants management. ARC has recruited new staff to support the new grants management system platform.

2. Risks Associated with the Rapid Growth of ARC Funding

ARC leadership is aware of the operational needs associated with the material increment in ARC funding and the volume of transactions generated by the additional resources. As such, ARC has adjusted its operational

units to better align with the organizational needs. Representative actions in that regard include the consolidation of the ARISE and POWER initiatives under a single coordinating unit and the assignment of additional resources to manage the volume of transactions associated with those two programs.

In addition, ARC has engaged in a robust training program to enhance its internal capabilities to manage federal financial assistance. Staff in the two primary grant management operational units, BWI and DCI, have been taking training on 1-monitoring grants and cooperative agreements, 2-fundamentals of revolving loan funds, 3-uniform administration requirements for federal grants, and 4-cost principles applicable to federal financial assistance. Furthermore, a staff member in the BWI division is actively pursuing a certification in grants management which includes courses in revolving loan fund management.

To maintain the optimal standard of integrity in its operations and program delivery, ARC staff has been trained in ethics, performance management and goal setting standards, and effective communication and organizational collaboration. The Human Resources Division has set up a mechanism to ensure the onboarding process includes adequate training for new staff members. In addition, the Office of the General Counsel is hosting monthly meetings with staff to discuss compliance related matters and brief the staff on the latest developments in the legal and regulatory field that impact ARC operations and program delivery.

In the interest of mitigating risks, ARC will engage in a cross-divisional effort to frequently assess its exposure to emerging issues. ARC will develop a systematic approach to mitigate the risks associated with the increased average grant size and evolving economic development efforts in the region.

ARC appreciates the opportunity to express the efforts it has been undertaking to address the management and performance challenges identified in the above-mentioned report.

Cordially,

Brandon McBride Executive Director

n Masine

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The following tables provide a summarized report of ARC's financial statement audit and its management assurances. For more details, see the auditor's report on pages 54–86 and ARC's management assurances on page 24.

Summary of Financial Statement Audit

Audit Opinion: Unmodified

Restatement: No

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

Summary of Management Assurances

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

Statement of Assurance: Unmodified

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

Our FY 2023 financial statements and Notes to the financial statements are free of material misclassifications.

Effectiveness of Internal Control over Operations—FMFIA 2

Statement of Assurance: Unmodified

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

Conformance with Financial Management System Requirements—FMFIA 4

Statement of Assurance: Systems conform with financial management system requirements

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

Compliance with Federal Management Improvement Act

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

Grants Oversight and New Efficiency Act Requirements

In FY 2023, 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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This report is available on ARC's website at www.arc.gov.

APPALACHIAN REGIONAL COMMISSION

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