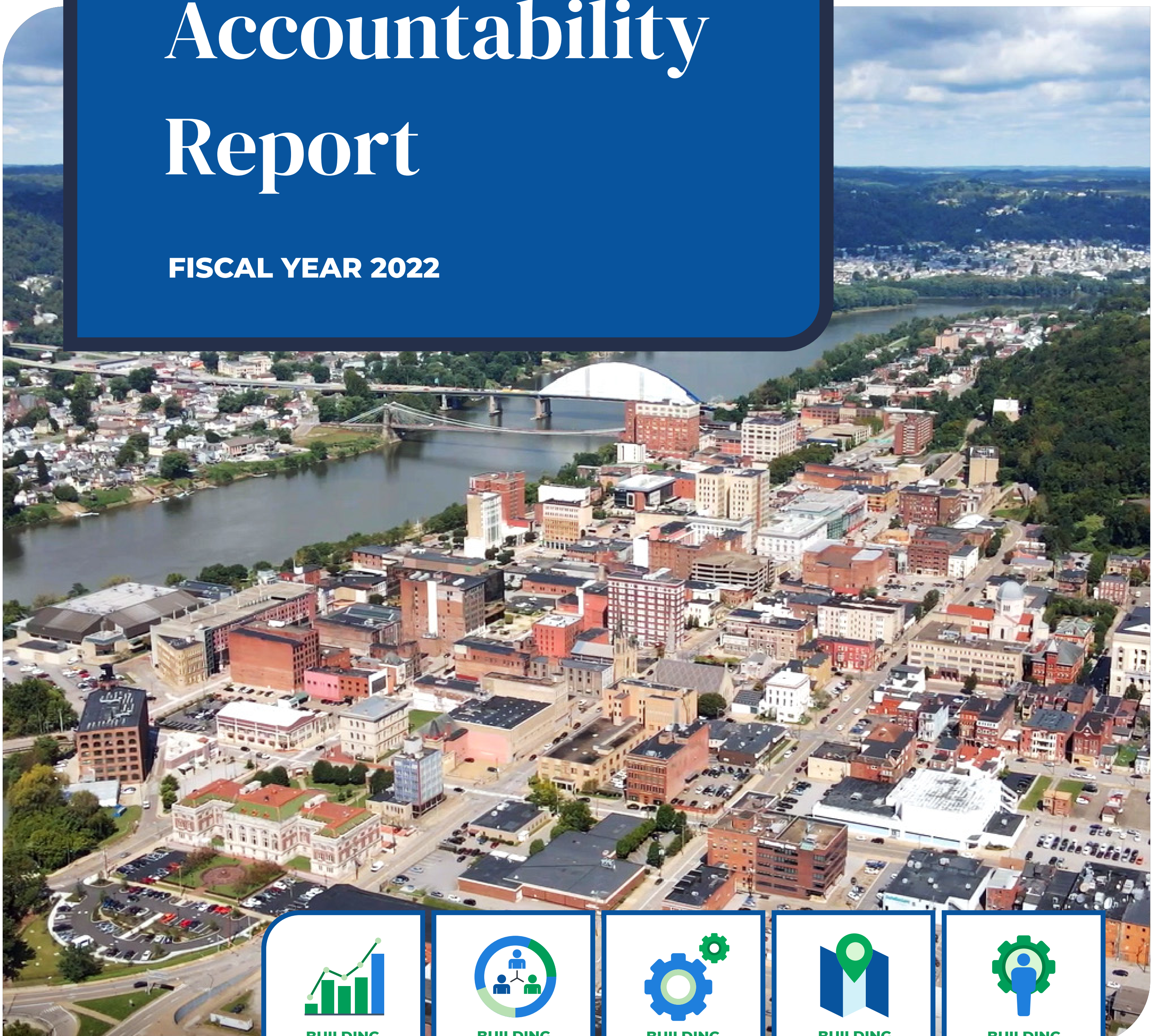
APPALACHIAN REGIONAL COMMISSION

Performance & Accountability Report

FISCAL YEAR 2022



BUILDING APPALACHIAN BUSINESSES

BUILDING APPALACHIA'S WORKFORCE ECOSYSTEM

BUILDING APPALACHIA'S INFRASTRUCTURE

BUILDING REGIONAL CULTURE AND TOURISM

BUILDING COMMUNITY LEADERS AND CAPACITY

APPALACHIAN REGIONAL COMMISSION

September 30, 2022

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Gayle C. Manchin

States' Co-Chair
Governor Larry Hogan

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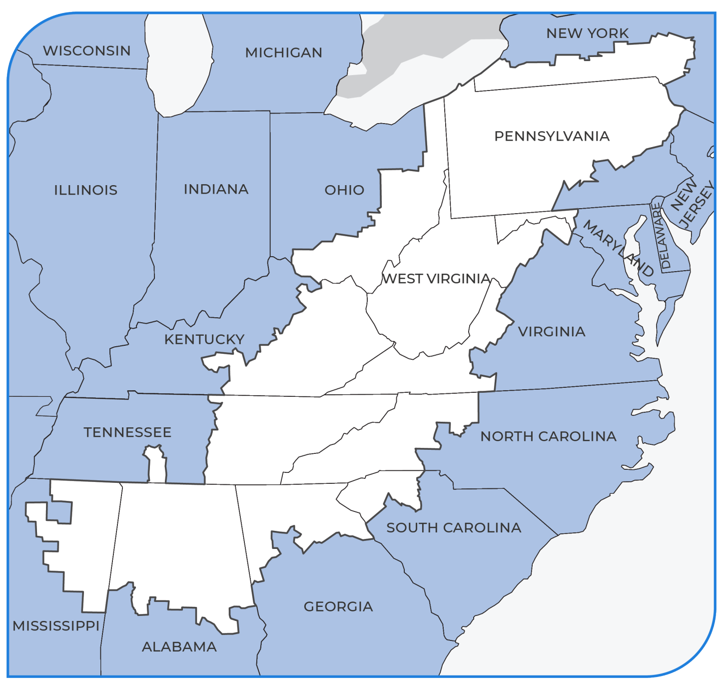
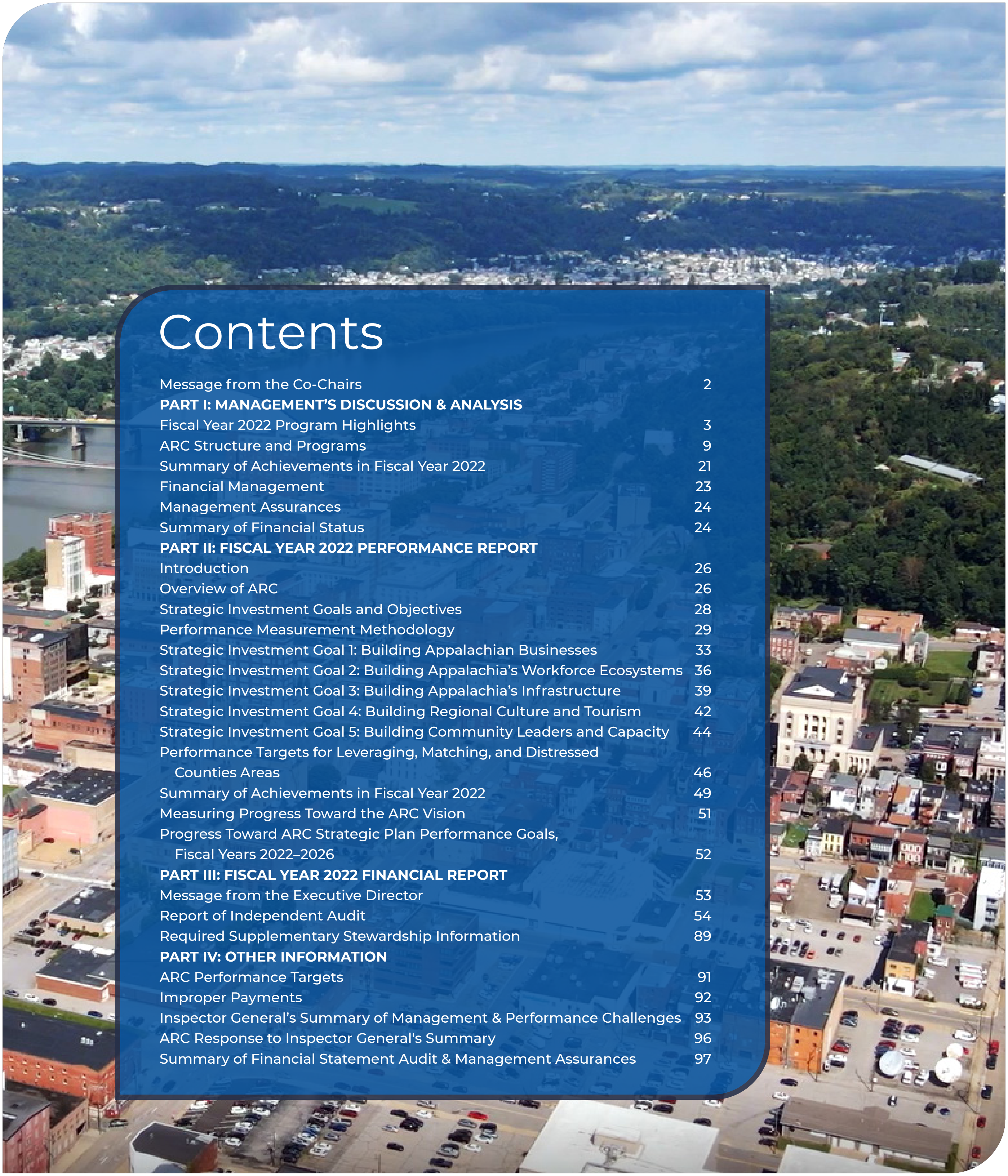
APPALACHIAN REGION

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





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Message from Federal Co-Chair Gayle C. Manchin and 2022 States' Co-Chair Governor Larry Hogan

We are pleased to present the *Appalachian Regional Commission Performance and Accountability Report* for Fiscal Year 2022.

For FY 2022, the Commission approved $239.7 million in funding for 584 area development 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 Region;
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 2022 grant funds attracted an additional $389.5 million in other project funding, an investment ratio of 2 to 1, and $1.57 billion in non-project leveraged private investment, a ratio of 7 to 1. The projects funded during FY 2022 will create or retain an estimated 22,597 jobs and provide new skills training to an estimated 41,555 students and workers.

In working toward its strategic goals in FY 2022, the Commission continued to foster entrepreneurship activities with a particular focus on emerging opportunities: diversify the Region's economy; support advanced manufacturing and workforce development initiatives to strengthen the Region's competitiveness in the global economy, including re-entry into the workforce of individuals with substance use disorder; and bolster 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 expanded 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 launched an initiative to drive large-scale, regional economic transformation through multi-state collaborative projects across Appalachia and unveiled a program to increase the capacity of local governments and regional organizations to serve as pillars for community and economic development.

This report includes information on the Commission's programming actions and financial management during FY 2022. 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,

Gayle C. Manchin
Federal Co-Chair
Appalachian Regional Commission

Larry Hogan
Governor of Maryland
2022 States' Co-Chair

November 15, 2022

PART I: MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR 2022 PROGRAM HIGHLIGHTS

In Fiscal Year (FY) 2022, 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 Justice40 Pilot Program. In FY 2022, ARC also continued to bolster community capacity building and collaboration across the Appalachian Region (the Region) through the launch of two new initiatives made possible through funding from the Bipartisan Infrastructure Law—Appalachian Regional Initiative for Stronger Economies (ARISE) and READY Appalachia.

ARISE

In FY 2022, ARC launched a new $73.5 million funding opportunity titled Appalachian Regional Initiative for Stronger Economies (ARISE) to drive large-scale, regional economic transformation through multi-state collaborative projects across Appalachia. Using funding provided by the Bipartisan Infrastructure Law, ARISE was developed to strengthen Appalachian businesses and industry, and to grow and support 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. Proposals for ARISE grants will be accepted on a rolling basis, but ARC is prioritizing the review of complete applications on a quarterly basis as funds remain available.

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

In July 2022, ARC launched READY Appalachia. This community capacity-building initiative 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. In October 2022, ARC launched the second targeted track, READY LDDs, with applications to be accepted on a rolling basis until all funds are expended. Additional learning tracks and funding opportunities for local governments and foundations will be announced in 2023.

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 2022, 84 middle school through high school students and 7 high school teachers participated in the program. In FY 2022, 19 students completed the Appalachian Entrepreneurship Academy, an experiential learning program to build high school students' entrepreneurship skills.

ARC also supports the Appalachian Teaching Project, 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 2022, 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 2022, 39 fellows graduated from the Appalachian Leadership Institute.

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 2022, ARC awarded nearly $68 million, the largest POWER awards package to date, in 73 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.

An evaluation of the POWER Initiative, conducted by third-party research firm Chamberlin Dunn, indicates that a majority of POWER projects met or exceeded output and outcome targets, with ARC's investments projected to have helped create or retain more than 39,600 jobs and train over 100,000 workers and students for new opportunities in entrepreneurship, broadband, tourism, and other growing industries. ARC's cumulative POWER investments will leverage an additional $1.5 billion in private investment for the Region.

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 2022, ARC awarded $17.5 million in 50 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 $28.1 million in 84 projects that address Appalachia's SUD crisis across 289 counties.

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 2022, 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. ARC's Federal Co-Chair continued to serve as Chair of the Community Engagement Subcommittee. ARC deployed staff to engage in IWG outreach workshops throughout Appalachia, and partnered with the IWG on a major multi-agency funding announcement to strengthen coal-impacted communities in March of 2022. In addition, ARC helped Appalachian communities successfully compete for funding dedicated to coal-impacted communities from other agencies, such as the through the Build Back Better Regional Challenge at the U.S. Economic Development Administration.

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. The program will effectively continue through the READY LDDs track of the new READY Appalachia program.

Rural Partners Network

In April 2022, 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. Led by the U.S. Department of Agriculture (USDA), the network's first cohort included support for communities in Appalachian Georgia and Kentucky.

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. 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

Following the release of the new 2022–2026 strategic plan, ARC embarked on a virtual event series in FY 2022 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.

Three virtual *Roadshow* "stops," which took place from May to August, included the themes: Building Workforce Ecosystems, Preserving and Promoting Appalachia's Culture and Tourism, and Building Appalachian Businesses. These virtual events featured case studies and grantee success stories from 11 of ARC's 13 Appalachian states. They also featured engaging discussions between ARC Federal Co-Chair Gayle Manchin and governors Larry Hogan of Maryland, Roy Cooper of North Carolina, Bill Lee of Tennessee, Jim Justice of West Virginia, and Henry McMaster of South Carolina. The remaining two virtual events—titled respectively Building Infrastructure and Building Community Capacity—will take place in 2023.

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 2022 totaled $74.2 million across 166 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 2022, ARC continued to fund more, and larger, infrastructure grants. ARC invested $132.8 million in 221 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 2022 infrastructure grant investments were matched by $302.3 million in other public investments, leveraged $1.48 billion in non-project private investment, and served 65,081 households and 6,872 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 2022, ARC invested over $21 million in 32 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 2022, ARC invested $9.4 million in 13 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 $2.1 million in infrastructure projects in FY 2022 to help expand existing airports and training spaces 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 2022, the J1 Visa Program approved 35 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 2022, ARC continued to fund 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 2022

(in thousands of dollars)

	Number of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Asset-Based Development	52	$26,189.4	$2,920.2	$26,600.9	$55,710.5
Business Development	76	38,172.0	12,784.1	45,030.3	95,986.4
Civic Entrepreneurship	6	1,981.5	0.0	707.1	2,688.6
Community Development	172	88,337.4	54,103.1	182,089.9	324,530.4
Education and Workforce Development	146	64,256.7	5,946.5	50,265.2	120,468.4
Health	6	2,637.6	0.0	1,293.8	3,931.4
Research and Evaluation	16	2,258.4	31.0	1,305.8	3,595.2
State and Local Development District Planning and Administration	110	15,913.5	0.0	6,413.0	22,326.5
Totals	**584**	**$239,746.5**	**$75,785.0**	**$313,706.0**	**$629,237.5**

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

APPALACHIAN REGIONAL COMMISSION STRUCTURE AND PROGRAMS

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

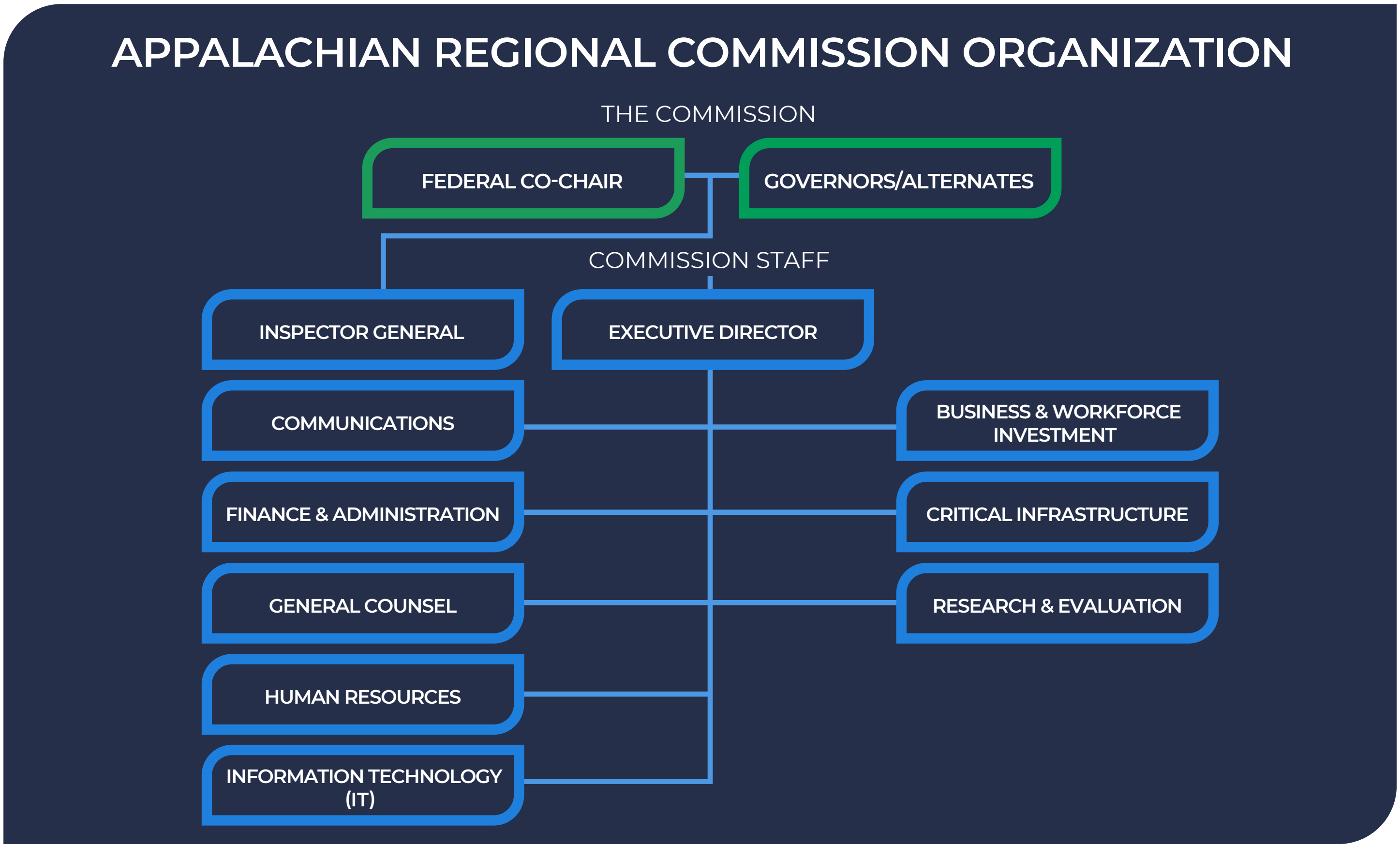
- Provide a forum for consideration of regional problems and proposed solutions, establish special advisory councils, and hold public conferences;
- Provide grants that leverage federal, state, and private resources to build infrastructure for economic and human resource development;
- Generate a diversified 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 15 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 2022.)

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

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

In FY 2022, 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 68 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.

Affordable Connectivity Program (ACP). The Consumer Outreach Division of the Federal Communications Commission (FCC) partnered with ARC this year to raise awareness for the FCC's $14 billion Affordable Connectivity Program (ACP). Together, they coordinated a four-state tour through Maryland, West Virginia, Pennsylvania, and Ohio and met with over 65 local leaders to help them develop outreach and enrollment campaigns that would improve broadband affordability in their communities.

Appalachian Cross Connect. Appalachian Cross Connect is a group of state broadband directors from all 13 Appalachian states, convened quarterly by ARC 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.

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 women-owned businesses. Of jobs created or retained, more than 40% are filled by persons from low-income households.

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's financial participation in the program created the space that allowed 12 Appalachian communities to participate in the nationwide program. The nationwide program has 25 total participating communities for 2022. ARC joins the Northern Border Regional Commission and USDA's Forest Service as federal partners to the EPA for this program. ARC actively participates in the planning process for the Appalachian communities, aiming to connect them to federal resources for the action plans that are developed as the culmination of the RERC process.

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. Although sessions have ended, a virtual community of practice—the Community Capacity Training Hub—remains as a resource for participants to access resources and past recordings and to connect with one another.

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 2022 through the ongoing maintenance and periodic updates to *healthinappalachia.org*. 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 multi-agency research initiatives.

Department of Labor: Workforce Opportunities for Rural Communities (WORC). WORC is a partnership with the Delta Regional Authority and the Employment and Training Administration in the 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 2022, the fourth round of WORC funding was announced with $17.2 million awarded to 13 projects in eight Appalachian states. To date, the DOL has awarded nearly $61 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.

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

National Energy Technology Laboratory (NETL) Regional Workforce Initiative. This regional workforce initiative helps businesses to incorporate the latest technologies in a variety of fields. NETL is a DOE research and development agency with two facilities in the Appalachian Region: Morgantown, West Virginia, and Pittsburgh, Pennsylvania. This initiative aids businesses and governments in the Appalachian Region in learning about and applying the latest scientific research in areas such as energy production, advanced manufacturing, extraction of rare earth metals, and natural gas storage. In FY 2022, ARC and NETL collaborated to continue the Advanced Welding Workforce Initiative (AWWI), a partnership to invest approximately $1 million in education and training for advanced technical workers in Appalachia. AWWI's funding is jointly provided by ARC and DOE's Office of Fossil Energy High Performance Materials program to prepare a new generation of welders to manufacture and service high- temperature alloy components in advanced coal- and natural gas-fueled electric generating stations.

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 2022 was ARC's first 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:

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 Region;
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.

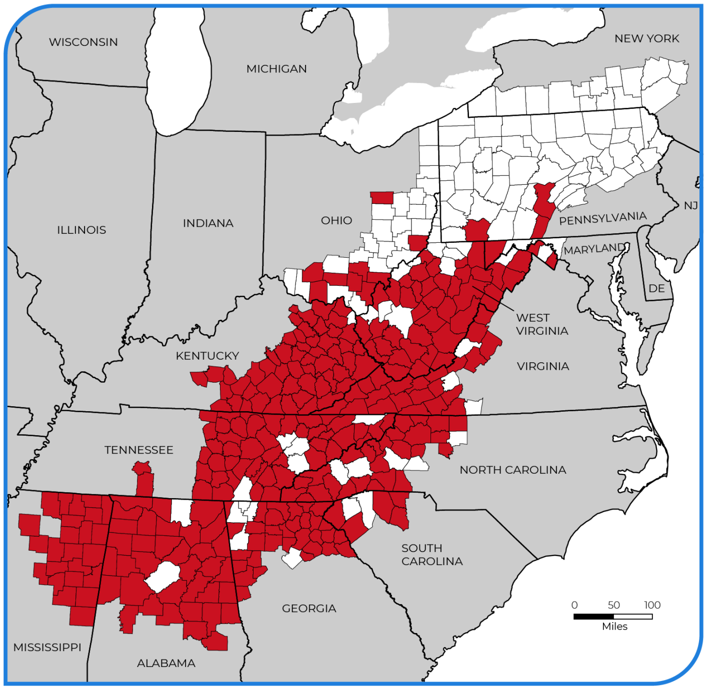
As reported in Part II of this report, the Commission demonstrated progress in FY 2022 toward achieving the performance goals set out in the strategic plan.

HIGH-POVERTY COUNTIES IN THE APPALACHIAN REGION

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

1960

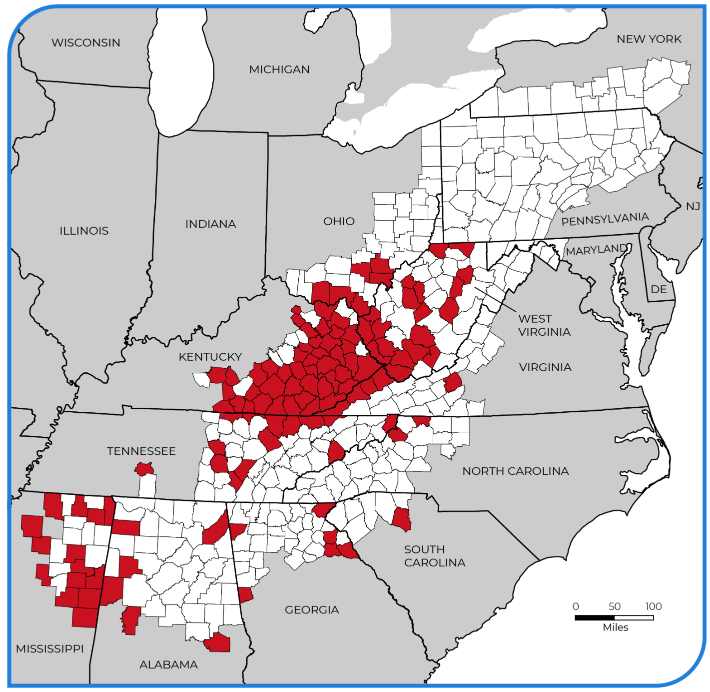
297 High-Poverty Counties



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

2016–2020

117 High-Poverty Counties



Data Source: U.S. Census Bureau, American Community Survey, 5-Year Estimates, 2016–2020

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 2022, ARC received an appropriation of $195.0 million for area development activities and allocated by formula $110.36 million, 56.6% of the appropriation, to the states. Within the framework of the strategic plan, the states have wide discretion in the use of these funds. Priorities for area development funding are set forth in the Commission's strategic plan, and state and community leaders work together to package funding from public and private organizations to implement those priorities. All ARC non-highway grants are approved by a governor and by the federal co-chair.

ARC's FY 2022 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 2022, ARC received an appropriation of $200.0 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 $10 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.

In FY 2022, 81 counties were designated distressed, 95 were designated at-risk, 231 were designated transitional, 12 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.

Business Development Revolving Loan Fund Grants

Business development revolving loan funds (RLFs), pools of money used by grantees for the purpose of making loans to local businesses to create and retain jobs, have been used by ARC since 1977 as an effective tool for economic development. Limited access to credit is one of the major problems in local business development in Appalachia and is a significant contributing factor to local economic distress. Since the first RLF grants were awarded through FY 2021, ARC-supported RLFs have disbursed $232.1 million in 2,873 loans, resulting in 96,389 jobs created or retained and leveraging $1.64 billion in private investment for the Appalachian Region.

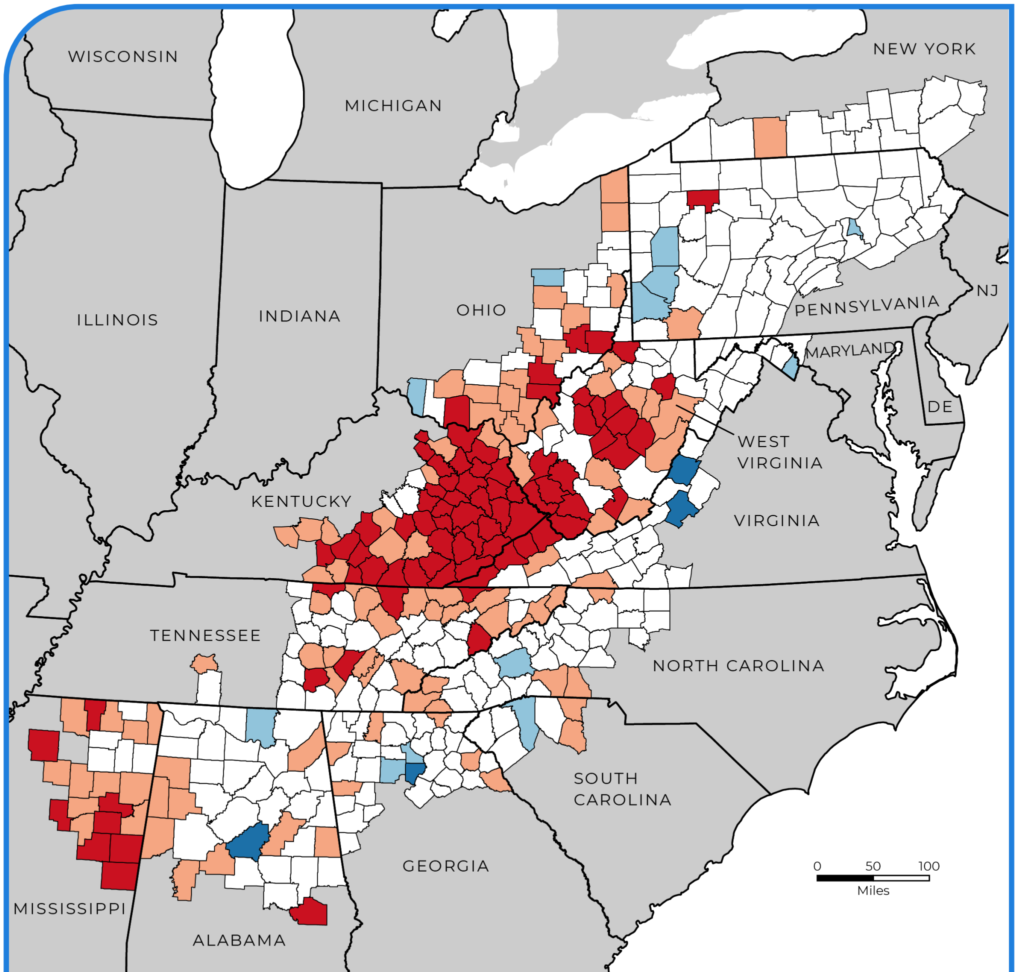
In FY 2022, ARC merged its RLF program with other ARC-funded loan and equity grants. These changes to the system, reflecting recently-approved guidelines, will allow ARC to better capture more comprehensive performance data in the future.

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.

COUNTY ECONOMIC STATUS IN APPALACHIA, FISCAL YEAR 2022

(Effective October 1, 2021, through September 30, 2022)



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

Revised with 3 new counties on November 15, 2021
Map Created: June 2021
Data Sources:
Unemployment data: U.S. Bureau of Labor Statistics, LAUS, 2017–2019
Income data: U.S. Bureau of Economic Analysis, LAPI, 2019
Poverty data: U.S. Census Bureau, American Community Survey, 2015–2019

County Economic Levels

- Distressed (81)
- At-Risk (95)
- Transitional (231)
- Competitive (12)
- Attainment (4)

In FY 2022, funding for the ADHS was included in the overall federal-aid highway funds apportioned to the states. These funds are apportioned to the states annually, with each state using the funding at its own discretion. The federal share of funding for ADHS corridors and access roads can normally range from 80% to 100%, as determined by the state highway agencies. Although funds used for the ADHS are derived from the highway trust fund, ARC exercises policy and corridor alignment control over the system. In FY 2022, the Transportation Appropriation bill also included specifically dedicated ADHS funding of $100 million from the General Fund, the third 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 2022, 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 2022, this amount was up to $75 million; however as of October 1, 2022, FHWA has not announced FY 2022 awards. 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 2022, a total of 2,660.9 miles, or 86.1%, of the 3,090 miles authorized for the ADHS were complete; 153.9 miles were under construction or partially complete and open to traffic; 57.7 miles were in the final design or right-of-way acquisition phase; and 217.6 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 high-quality 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 2022 included the following:

- Development of ARC's new five-year strategic plan
- A research project to gather stakeholder input for ARC's new multi-state ARISE initiative
- A research project examining local foods and agricultural activity throughout the Region
- A research project examining food insecurity and access throughout Appalachia
- A survey of ARC stakeholders to better understand research interests and needs, which will help inform future research and evaluation projects
- An update to the 2017 and 2020 *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 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 *healthinappalachia.org*, 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
- A report summarizing the FY 2022 findings from the ongoing evaluation of the impact of ARC's POWER-funded investments
- An ongoing evaluation of ARC's INSPIRE-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

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 2016–2020 period, 14.3% of Appalachian residents lived below the poverty level, well above the U.S. average of 12.1%. The median income of Appalachian households was $53,546, just 82% of the U.S. average of $64,994.

Educational Attainment

- During the same time period, the share of adults with a bachelor's degree or more was 7.5 percentage points lower in Appalachia than in the nation as a whole; and in 283 Appalachian counties, fewer than one in five residents age 25 and over were graduates of a four-year college or university.

Employment

- The Appalachian Region lost over 620,000 jobs between 2007 and 2010, with losses taking place both during and after the Great Recession. It took the Region until 2015 to achieve its pre-recession level of employment: There were 13.3 million jobs in Appalachia in 2007, 12.7 million in 2010, and 13.4 million in 2015. Meanwhile, the United States as a whole was able to match its 2007 employment level of 179.5 million jobs by 2013, when total employment was reported at 182.3 million.
- Employment growth in the Appalachian Region lagged behind that of the United States overall between 2000 and 2020. While the country overall saw an increase of 15% in total employment, the Region experienced growth of just 4%. Central Appalachia fared the worst among the subregions, losing over 8% of its total employment over the time period.
- Between 2011 and 2021, coal mining employment in Central Appalachia decreased 72%—over 22,000 jobs were lost—and it is not expected to return to its historic high.
- Between 2000 and 2020, manufacturing employment 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 approximately 40% over the time period, compared to a decline of 28% 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 49% between 2000 and 2020, employment in health and social services grew by just 34% in Appalachia. Growth has been especially slow in Central Appalachia (24% over the time period), a subregion with particularly poor performance in health measures. Growth was also much lower in Northern Appalachia over the time period (19%).

Population Health

- Over the 2015–2019 period, the opioid-related overdose mortality rate for people ages 15–64 was 52% higher in Appalachia than in the United States overall.
- A report released in 2017 documenting population health in Appalachia included 7 of the 10 leading causes of death in the United States: heart disease, cancer, chronic obstructive pulmonary disease (COPD), injury, stroke, diabetes, and suicide—and the Appalachian Region had higher mortality rates than the nation for each.
- Obesity, smoking, and physical inactivity—risk factors for a number of health outcomes—are all higher in Appalachia than in the nation overall.
- The Region also has a lower number of healthcare professionals when compared to the United States as a whole, including primary care physicians, mental health providers, specialty physicians, and dentists.

Broadband Access

- The Region lags behind the rest of the nation in access to affordable broadband telecommunications service. 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

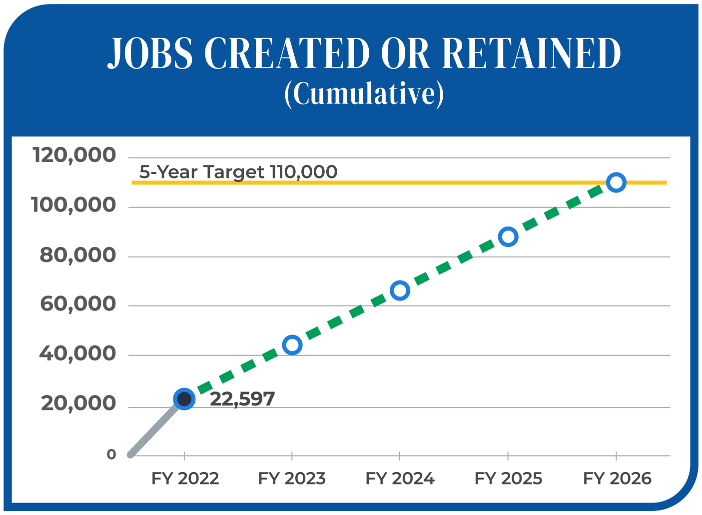
PERFORMANCE TARGETS AND INITIAL ESTIMATES FOR FISCAL YEAR 2022 PROJECTS

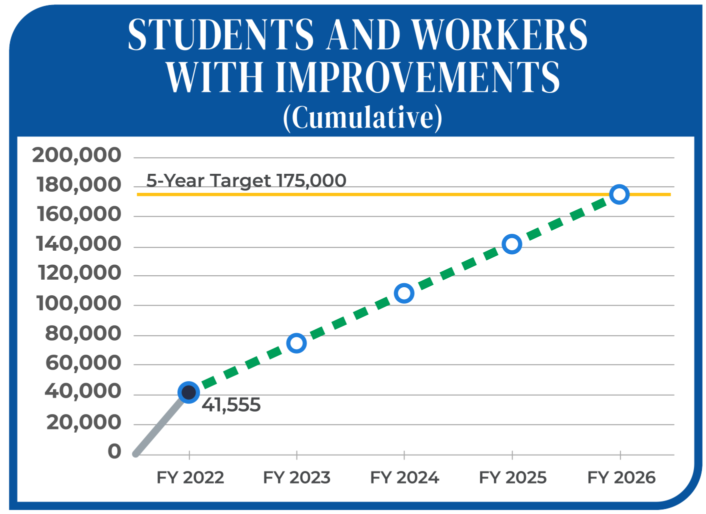
ANNUAL PERFORMANCE TARGETS	INITIAL ESTIMATES	EXPECTED RESULTS
Outcome Targets		
22,000 jobs created or retained	22,597 jobs created or retained	Exceed target by 3%
35,000 students, workers, and leaders with improvements	41,555 students, workers, and leaders with improvements	Exceed target by 19%
50,000 businesses and households with access to improved infrastructure	71,953 businesses and households with access to improved infrastructure	Exceed target by 44%
4,000 businesses created or strengthened	6,338 businesses created or strengthened	Exceed target by 58%
400 communities with enhanced capacity	1,467 communities with enhanced capacity	Exceed target by 267%
Leverage Target		
Achieve a 6:1 ratio of leveraged private investment to ARC funds ($6 per $1 ARC investment)	7:1 ratio* ($6.54 per $1 ARC investment)	Exceed target by 9%
Matching Target		
Achieve a 2:1 ratio of matching funds to ARC funds ($2 per $1 ARC investment)	2:1 ratio* ($1.62 per $1 ARC investment)	Meet 81% of target
Distressed Counties/Areas Target		
Direct 50% of ARC funds to benefit distressed counties or areas	74% of funds**	Exceed target by 24 percentage points

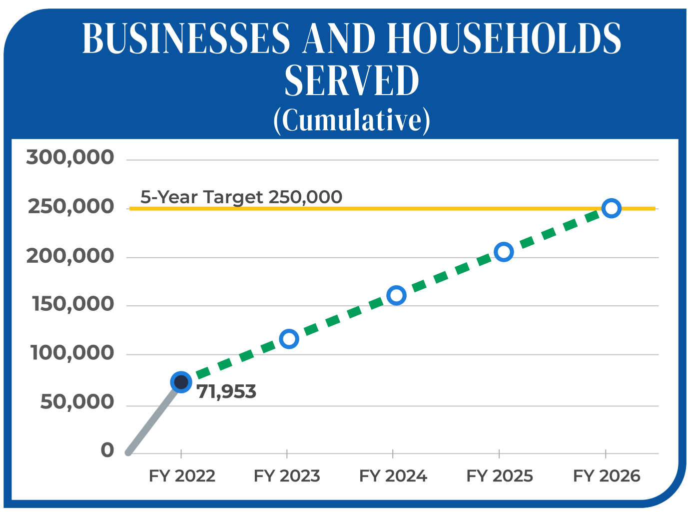
**Ratios are rounded to the nearest whole number.*
***Project funds are included if the project primarily or substantially benefits distressed counties or areas.*

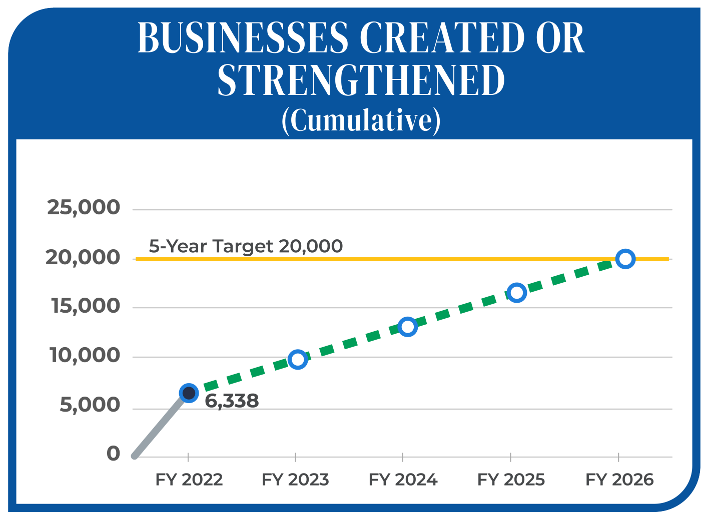
Performance results are assessed in detail in Part II (page 26).

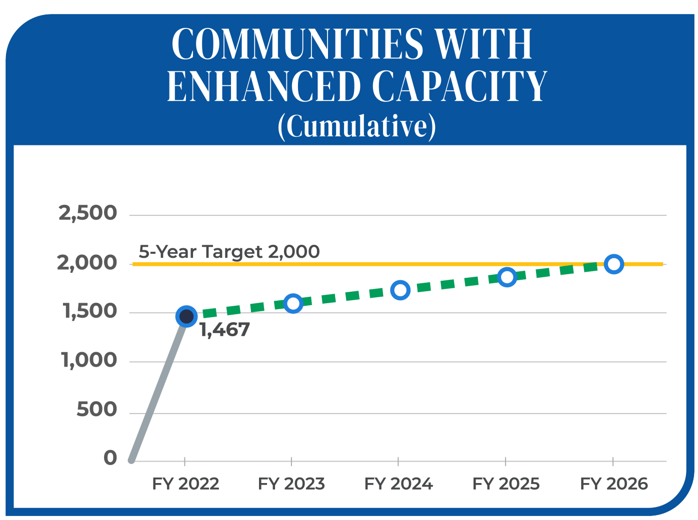
Progress Toward ARC Strategic Plan Performance Goals, Fiscal Years 2022–2026











FINANCIAL MANAGEMENT

Financial Management System

In FY 2022, the Appalachian Regional Commission renewed its contract with USDA Pegasys Financial Services to perform the Commission's accounting and financial reporting. ARC supplements these financial services with ARCnet, a management information system that provides real-time funding, grant-status, and performance-measurement information, as well as grant-related financial data, in an intranet environment available to staff and key state officials. ARCnet applications are built using an industry-standard programming language.

Management's Responsibility for Internal Control

ARC implemented a process for providing audited financial statements in FY 2002, following the guidance of the Accountability of Tax Dollars Act of 2002. ARC, strictly speaking, is not a federal agency as defined in Titles 5 and 31 of the U.S. Code; it is a 501(c)(3) organization with a quasi-federal character. While the Accountability of Tax Dollars Act applies only to executive branch agencies, the Commission has elected to comply with Office of Management and Budget (OMB) guidance because full disclosure of financial information is consistent with the governmental nature of ARC's mission and operations and its stewardship of public funds. ARC also follows OMB and U.S. Department of the Treasury financial reporting requirements, as appropriate.

ARC maintains a plan of internal control development and testing, as required by the Federal Managers' Financial Integrity Act of 1982. ARC's approach is to make management controls an integral part of the entire cycle of planning, budgeting, management, accounting, and auditing. ARC strives to maintain an environment of accountability in which all employees help ensure that government resources are used efficiently and effectively to achieve intended program results with minimal potential for waste, fraud, and mismanagement.

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 2022 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, 2022, 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 results of this evaluation, ARC can provide reasonable assurance that internal control over financial reporting as of September 30, 2022, was operating effectively.

Management Follow-Up to Inspector General Recommendations

During FY 2022, ARC engaged in settlement negotiations to recover questioned and unsupported costs from a prior period. Significant progress has been made and the parties have agreed in principle to settle the claim. In addition, ARC recovered $104,848 from another grantee, also from a previous period of performance. During FY 2022, the OIG issued 16 reports, including 11 grant audits, a financial statement audit, two management letters, and two management and performance challenges reports. The dollar value of the payments reviewed was approximately $8.1 million, which resulted in $26,264 of unsupported costs. By the end of FY 2022, management decisions had been made for all but one report.

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 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, 2022, 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, 2022, totaled $847.4 million, versus $578.8 million in FY 2021. This amount corresponds to a 46.4 percent increase relative to FY 2021; the net increase in total assets is primarily due to additional appropriated funds provided by Congress through appropriations bills. Liabilities equaled $35.0 million in FY 2022 versus $29.9 million in FY 2021. The increase is due to accounts payable, which primarily includes $31.2 million in payments due to grantees. The U.S. Treasury held 94% of ARC's total assets. In addition, 3.3%, or $28.2 million, represented Commission grant funds held by intermediary organizations in Appalachia for the operation of revolving loan funds promoting business development. The federal government retains a residual interest in the loan funds. Remaining assets are cash and advances to grantees.

The net position increased from $548.9 million in FY 2021 to $812.4 million in FY 2022. The net cost of operations for FY 2022 totaled $131.6 million, compared with $124.0 million in FY 2021. ARC receives most of its resources from congressional appropriations, which totaled $395.0 million in FY 2022. In addition, ARC receives 50 percent share of the Commission's administrative budgeted expenses from the 13 member states. In FY 2022, this amount was set at $3.43 million. The Statement of Budgetary Resources reported net outlays of $127.9 million. ARC incurred obligations of $250.3 million in FY 2022 and has an unpaid obligated balance (net, end of year) of $481.0 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, 2022, were operating effectively.

Gayle C. Manchin

Gayle C. Manchin
ARC Federal Co-Chair
November 15, 2022

PART II: FISCAL YEAR 2022 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 2022 and for each of the five prior fiscal years, where applicable;
- 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 2022.

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

ARC funds approximately 500 projects annually 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 FY 2022, in addition to funding for ARC's Area Development Program, the Commission's appropriation included funding for the Partnerships for Opportunity and Workforce and Economic Revitalization (POWER) Initiative, a multi-agency initiative that targets federal resources to help diversify economies in communities and regions affected by job losses in the coal mining industry; for the INvestments Supporting Partnerships in Recovery Ecosystems (INSPIRE) Initiative, a program addressing the substance use crisis in Appalachia; for support of the automotive and aviation sectors in Southern and South Central Appalachia; for efforts to support a broadband deployment program in Central Appalachia; for a program of basic infrastructure improvements in distressed counties in Appalachia; and for 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 2022, ARC met or exceeded all of its performance outcome targets. Initial estimates were particularly strong for investments in infrastructure improvements and business development and improvement.

FISCAL YEAR 2022 INVESTMENT TARGETS AND INITIAL ESTIMATES

ANNUAL OUTCOME TARGETS	INITIAL ESTIMATES
22,000 jobs created or retained	22,597 jobs created or retained
35,000 students, workers, and leaders with improvements	41,555 students, workers, and leaders with improvements
50,000 businesses and households with improved infrastructure	71,953 businesses and households with improved infrastructure
4,000 businesses created or strengthened	6,338 businesses created or strengthened
400 communities with enhanced capacity	1,467 communities with enhanced capacity

STRATEGIC INVESTMENT GOALS AND OBJECTIVES

1 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.

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 to successfully live and work in the Region.

Objectives:

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.

4 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.

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.

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 2022, ARC revised the performance verification process to achieve a more comprehensive sample of projects closed for three years. Under the process, project performance is verified for projects that were closed in FY 2019 to capture more accurate data on performance measures, which can continue to accrue 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."

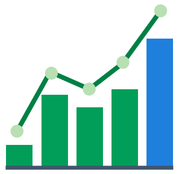
Leverage, Matching, and Distressed Counties Measures

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 2022	
ANNUAL OUTCOME TARGET	INITIAL ESTIMATE
FY 2022: 22,000 jobs created or retained	FY 2022: 22,597 jobs created or retained

FY 2022: **Expected to exceed target by 3%.**

JOBS CREATED OR RETAINED IN FISCAL YEARS 2017–2022	
ANNUAL OUTCOME TARGETS	INITIAL ESTIMATES
FY 2017: 20,000 jobs created or retained	FY 2017: 21,341 jobs created or retained
FY 2018: 20,000 jobs created or retained	FY 2018: 26,662 jobs created or retained
FY 2019: 20,000 jobs created or retained	FY 2019: 17,282 jobs created or retained
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

Project Verification Sampling

In FY 2022, members of ARC's verification team surveyed 28 projects closed in FY 2019 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
28	14,205	18,565	131%

As shown above, the projects surveyed achieved 131% of projected results for jobs created or retained.

Project Evaluation: Final Results

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.

Entrepreneurship

In April 2008, ARC issued the report *Creating an Entrepreneurial Appalachian Region: Findings and Lessons from an Evaluation of the ARC's Entrepreneurship Initiative 1997–2005*, prepared by the Rural Policy Research Institute (RUPRI), the RUPRI Center for Rural Entrepreneurship, EntreWorks Consulting, and RTI International. The report evaluated ARC's Entrepreneurship Initiative (EI), which invested $43 million during that time span in projects to stimulate and support entrepreneurship across Appalachia. The evaluation included development of a metrics framework; analysis of data from ARC's grants management database, including project outcomes; four site visits; and interviews with stakeholders, economic development experts, and project grantees. The study found that the EI projects created 9,156 jobs, retained 3,022 jobs, created 1,787 new businesses, and provided services to 8,242 existing businesses, and were projected to leverage $109.9 million in private investment. Interviewees reported that EI projects raised the profile of entrepreneurship within the Appalachian Region, provided start-up funding for innovative projects, leveraged additional resources that allowed projects to achieve scale and impact, and facilitated networking and collaboration among practitioners.

STRATEGIC INVESTMENT GOAL 2

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 2022	
ANNUAL OUTCOME TARGET	INITIAL ESTIMATE*
FY 2022: 35,000 students and workers with improvements	FY 2022: 41,555 students and workers with improvements
**Excludes projects that provided computers or computer equipment that will benefit large numbers of students.*	

FY 2022: **Expected to exceed target by 19%.** Outcome results typically fluctuate over the years as the states’ investment priorities vary.

STUDENTS, WORKERS, AND LEADERS WITH IMPROVEMENTS IN FISCAL YEARS 2017–2021	
ANNUAL OUTCOME TARGETS	INITIAL ESTIMATES*
FY 2017: 22,000 students, workers, and leaders with improvements	FY 2017: 30,263 students, workers, and leaders with improvements
FY 2018: 22,000 students, workers, and leaders with improvements	FY 2018: 34,135 students, workers, and leaders with improvements
FY 2019: 22,000 students, workers, and leaders with improvements	FY 2019: 51,204 students, workers, and leaders with improvements
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
*Excludes projects that provided computers or computer equipment that will benefit large numbers of students.	

Project Verification Sampling

In FY 2022, members of ARC's verification team surveyed 33 projects closed in FY 2019 that had targets for students/trainees with improvements to compare estimated and actual results.

Number of Projects Surveyed	Projected Number of Students/Trainees with Improvements	Actual Number of Students/Trainees with Improvements	Results Achieved
33	9,784	15,079	154%

As shown above, the projects surveyed achieved 154% of projected results for students/trainees with improvements.

Project Evaluation: Final Results

Health

In August 2015, ARC issued the report *Program Evaluation of the Appalachian Regional Commission's Health Projects, 2004–2010*, prepared by the Community and Economic Development Initiative of Kentucky at the University of Kentucky. The report evaluated health projects funded by ARC between 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.

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.

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 2022	
ANNUAL OUTCOME TARGET	INITIAL ESTIMATE*
FY 2022: 50,000 businesses and households served	FY 2022: 71,953 businesses and households served
*Initial estimate does not include households served by ARC-funded water storage tank construction.	

FY 2022: **Expected to exceed target by 44%.** In FY 2022, states chose to fund more infrastructure projects than in previous years. In addition to the result above, ARC funded water-storage projects in FY 2022 that expect to serve a total of 10,911 additional businesses and households.

BUSINESSES AND HOUSEHOLDS SERVED IN FISCAL YEARS 2017–2021	
ANNUAL OUTCOME TARGETS	INITIAL ESTIMATES*
FY 2017: 22,000 businesses and households served	FY 2017: 46,465 businesses and households served
FY 2018: 22,000 businesses and households served	FY 2018: 31,378 businesses and households served
FY 2019: 22,000 businesses and households served	FY 2019: 81,295 businesses and households served**
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
*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 2022, members of ARC's verification team surveyed 23 projects closed in FY 2019 that had targets for businesses and households served to compare estimated and actual results. Verification is for businesses and households served with infrastructure projects.

Number of Projects Surveyed	Projected Number of Businesses and Households Served	Actual Number of Businesses and Households Served	Results Achieved
23	19,680	19,657	99.9%

As shown above, the projects surveyed achieved 99.9% 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 2022	
ANNUAL OUTCOME TARGET	INITIAL ESTIMATE
FY 2022: 4,000 businesses created or strengthened	FY 2022: 6,338 businesses created or strengthened

FY 2022: **Expected to exceed target by 58%.** The large numbers are due in part to the priorities of the POWER and INSPIRE initiatives as well as the choice of states to fund more projects with these measures.

BUSINESSES CREATED OR STRENGTHENED IN FISCAL YEARS 2017–2021	
ANNUAL OUTCOME TARGET	INITIAL ESTIMATE
FY 2017: 2,500 businesses created or strengthened	FY 2017: 4,474 businesses created or strengthened
FY 2018: 2,500 businesses created or strengthened	FY 2018: 2,500 businesses created or strengthened
FY 2019: 2,500 businesses created or strengthened	FY 2019: 4,678 businesses created or strengthened
FY 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

Project Verification Sampling

In FY 2022, members of ARC's verification team surveyed 20 projects closed in FY 2019 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
20	1,097	1,664	152%

As shown above, the projects surveyed achieved 152% 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 2022	
ANNUAL OUTCOME TARGET	INITIAL ESTIMATE
FY 2022: 400 communities with enhanced capacity	FY 2022: 1,467 communities with enhanced capacity

FY 2022: **Expected to exceed target by 267%.** This is due in part to priorities established for the ARC Community Capacity-Building Pilot, as well as the POWER and INSPIRE Initiatives.

COMMUNITIES WITH ENHANCED CAPACITY IN FISCAL YEARS 2017–2021	
ANNUAL OUTCOME TARGET	INITIAL ESTIMATE
FY 2017: 250 communities with enhanced capacity	FY 2017: 510 communities with enhanced capacity
FY 2018: 250 communities with enhanced capacity	FY 2018: 562 communities with enhanced capacity
FY 2019: 250 communities with enhanced capacity	FY 2019: 647 communities with enhanced capacity
FY 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

Project Verification Sampling

In FY 2022, members of ARC's verification team surveyed 16 projects closed in FY 2019 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
16	160	156	98%

As shown above, the projects surveyed achieved 98% of projected results for communities with enhanced capacity.

Project Evaluation: Final Results

Community Capacity Building

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

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 2022	
ANNUAL TARGET	INITIAL ESTIMATES
FY 2022: 6:1 ratio of leveraged private investment to ARC investment	FY 2022: 7:1 ratio

FY 2022: **Expected to exceed target by 9%.** Every dollar of ARC funding is estimated to attract $6.54 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 2017–2021	
ANNUAL TARGET	INITIAL ESTIMATES
FY 2017: 6:1 ratio of leveraged private investment to ARC investment	FY 2017: 5:1 ratio
FY 2018: 6:1 ratio of leveraged private investment to ARC investment	FY 2018: 12:1 ratio
FY 2019: 6:1 ratio of leveraged private investment to ARC investment	FY 2019: 3:1 ratio
FY 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

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 2022	
ANNUAL TARGET	RESULT
FY 2022: 2:1 ratio of matching funds to ARC investment	FY 2022: 2:1 ratio*
**Ratios are rounded to the nearest whole number.*	

FY 2022: **Met 81% of target.** Every dollar of ARC funding attracted $1.62 in matching project funds.

MATCHING PROJECT FUNDS RATIO IN FISCAL YEARS 2017–2021	
ANNUAL TARGET	RESULTS*
FY 2017: 2:1 ratio of matching funds to ARC investment	FY 2017: 1:1 ratio
FY 2018: 2:1 ratio of matching funds to ARC investment	FY 2018: 2:1 ratio
FY 2019: 2:1 ratio of matching funds to ARC investment	FY 2019: 1:1 ratio
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
**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 2022*	
ANNUAL TARGET	RESULT
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.*	

FY 2022: **Exceeded target by 24 percentage points.** ARC continues to encourage directing investment to distressed counties and areas.

PERCENTAGE OF FUNDS TO DISTRESSED COUNTIES/AREAS IN FISCAL YEARS 2017–2021	
ANNUAL TARGETS	RESULTS
FY 2017: Direct 50% of ARC funds to distressed counties or areas	FY 2017: 73% of funds
FY 2018: Direct 50% of ARC funds to distressed counties or areas	FY 2018: 64% of funds
FY 2019: Direct 50% of ARC funds to distressed counties or areas	FY 2019: 70% of funds
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
**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 2022 PROJECTS

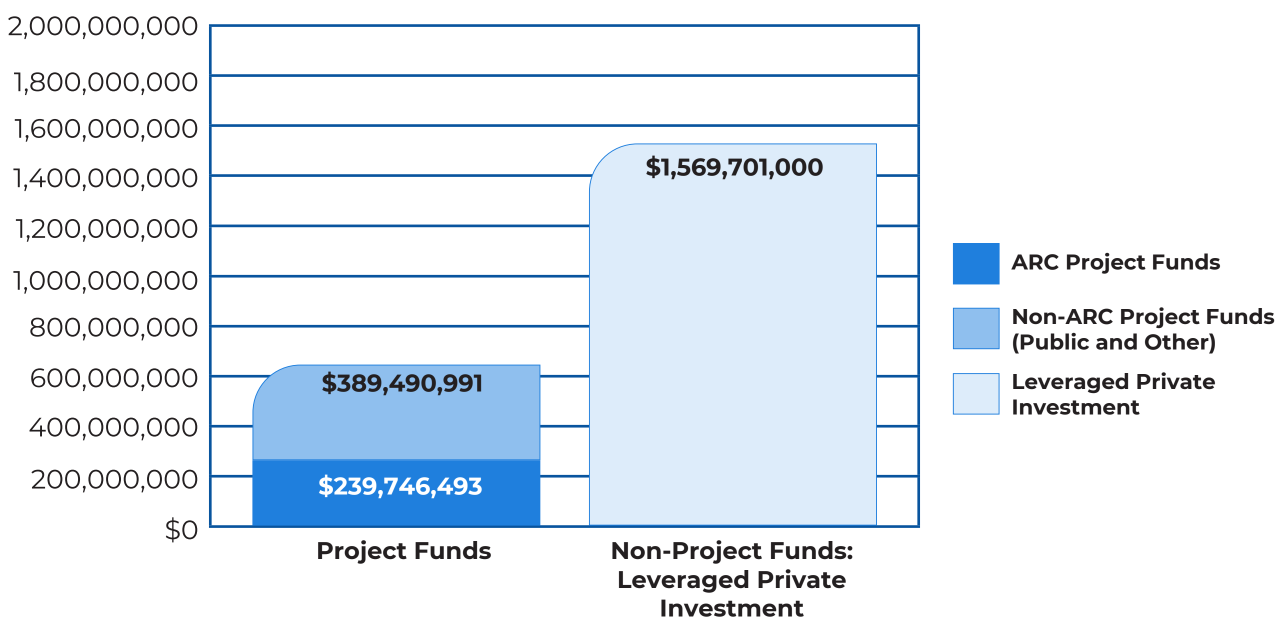
ANNUAL PERFORMANCE TARGETS	INITIAL ESTIMATES	EXPECTED RESULTS
Outcome Targets		
22,000 jobs created or retained	22,597 jobs created or retained	Exceed target by 3%
35,000 students, workers, and leaders with improvements	41,555 students and workers with improvements	Exceed target by 19%
50,000 businesses and households with access to improved infrastructure	71,953 businesses and households with access to improved infrastructure	Exceed target by 44%
4,000 businesses created or strengthened	6,338 businesses created or strengthened	Exceed target by 58%
400 communities with enhanced capacity	1,467 communities with enhanced capacity	Exceed target by 267%
Leverage Target		
Achieve a 6:1 ratio of leveraged private investment to ARC funds ($6 per $1 ARC investment)	7:1 ratio* ($6.54 per $1 ARC investment)	Exceed target by 9%
Matching Target		
Achieve a 2:1 ratio of matching funds to ARC funds ($2 per $1 ARC investment)	2:1 ratio* ($1.62 per $1 ARC investment)	Meet 81% of target
Distressed Counties/Areas Target		
Direct 50% of ARC funds to benefit distressed counties or areas	74% of funds**	Exceed target by 24 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 2022 Projects

LEVERAGE, MATCHING, AND DISTRESSED COUNTIES/AREAS SUMMARY		
Leveraged private investment	$1,569,701,000	7:1 ratio of leveraged private investment to ARC investment
Non-ARC matching project funds	$389,490,991	2:1 ratio of non-ARC project investment to ARC project investment
ARC project funds targeted to distressed counties or areas	$176,571,063*	74% of total ARC project funds directed to projects that benefit distressed counties or areas
*Project funds are included if the project primarily or substantially benefits distressed counties or areas.		

Funding and Leveraged Private Investment for All ARC Projects in Fiscal Year 2022



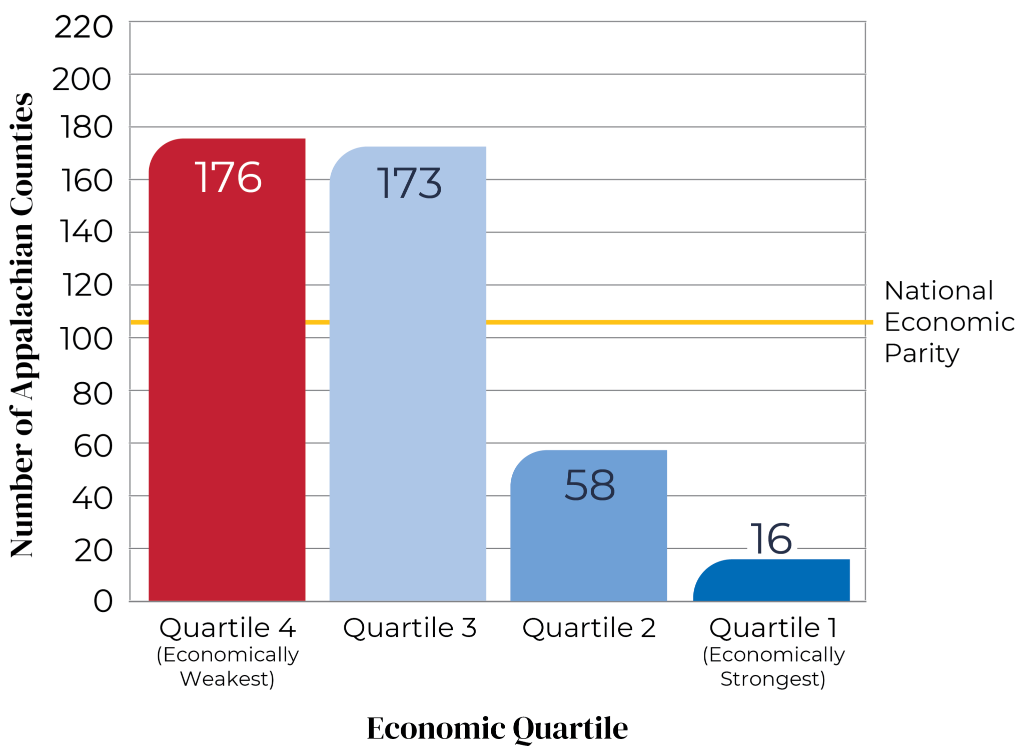
MEASURING PROGRESS TOWARD THE ARC VISION

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.

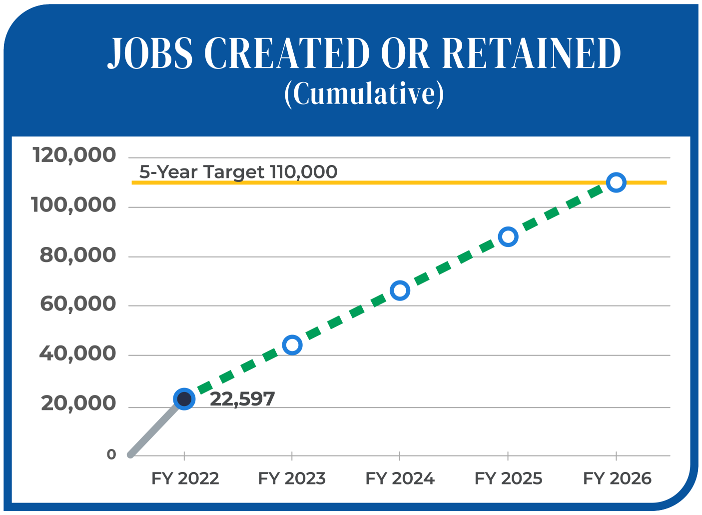
In order to provide a single unified measure of regional progress and economic change, ARC developed an index to track improvement over time. Drawing on the three variables ARC uses annually to determine the economic status of the Region's counties, staff developed a national composite index of distress.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

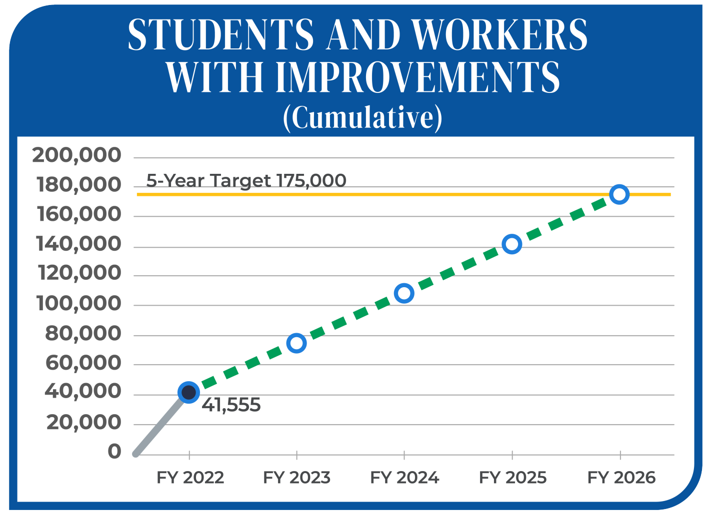
Using this index, ARC can compute annually the number of Appalachian counties in each quartile, as well as an overall regional index value. This can be directly compared with the national index value to measure progress. In addition, progress can be clearly measured by reductions in the number of Appalachian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

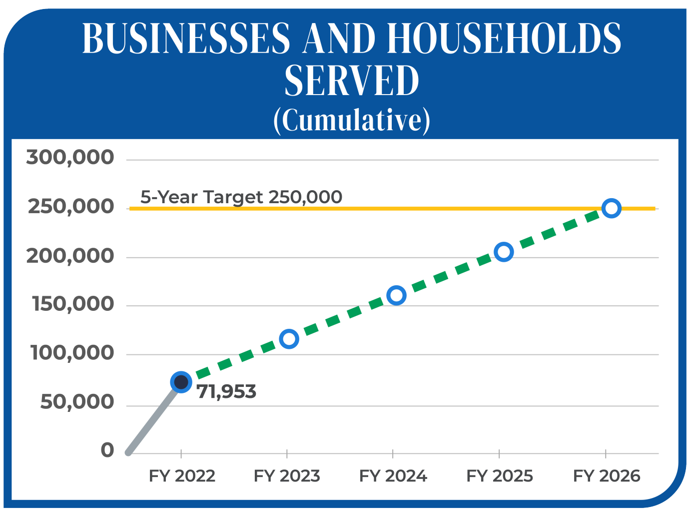
Number of Appalachian Counties by Economic Quartile, Fiscal Year 2022

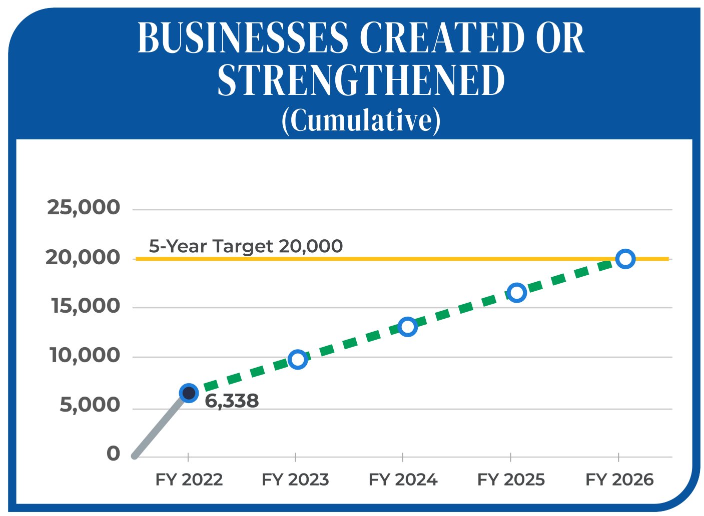


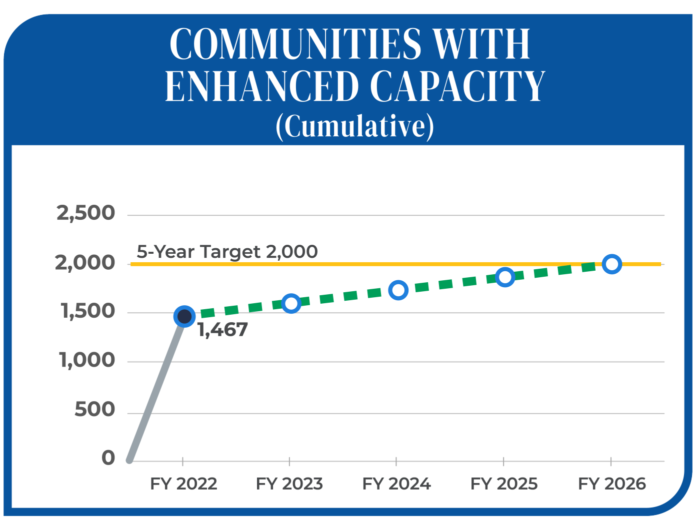
Progress Toward ARC Strategic Plan Performance Goals, Fiscal Years 2022–2026











PART III: FISCAL YEAR 2022 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 2022, has rendered an unmodified opinion about the adequacy of the statements. The independent audit was performed in cooperation with the Office of Inspector General (OIG).

The Commission maintains clearly written financial management guidelines governing accounts, payments, procurement, administration, and travel policy. The guidelines are provided to all staff and are reviewed at least annually and are amended to reflect changes in policy or revised procedures resulting from tests of internal controls.

On behalf of the entire Commission, I pledge a continued commitment to promptly address all financial management issues that need further attention and to maintain the strengths the Commission has achieved.

Brandon McBride
Executive Director
Appalachian Regional Commission

November 15, 2022

REPORT OF INDEPENDENT AUDIT

Office of Inspector General

Appalachian Regional Commission

Fiscal Year 2022

Financial Statement Audit Opinion

Report Prepared by Allmond and Company

Report Number 23-03

November 15, 2022

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

Office of Inspector General

Appalachian Regional Commission

November 15, 2022

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, 2022 and 2021. We contracted with the independent certified public accounting firm Allmond & Company, LLC to conduct this audit. Allmond and 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 15,2022 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

Philip M. Heneghan

ARC– 2022 Financial Statement Audit
Contract: 47QRAA21D0026/ARC21P052

Appalachian Regional Commission (ARC)
Fiscal Year 2022 Financial Statement Audit

Final Independent Auditors' 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
Engagement Member
Allmond & Company, LLC
7501 Forbes Boulevard, Suite 200
Lanham, MD 20706
301-918-8200
mailto:jallmond@allmondcpa.com

Final Independent Auditors' 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, 2022

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

ALLMOND & COMPANY, LLC
CERTIFIED PUBLIC ACCOUNTANTS
7501 FORBES BOULEVARD, SUITE 200
LANHAM, MARYLAND 20706
(301) 918-8200
FACSIMILE (301) 918-8201

Independent Auditors' 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, 2022 and 2021; the related statements of net cost, 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, 2022 and 2021, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (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. 22-01, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 22-01 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 ARC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

ARC management is responsible for (1) the preparation and fair presentation of these financial statements accounting principles generally accepted in the United States of America; (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)

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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 obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and 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. 22-01 will always detect a material misstatement 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. 22-01, our responsibilities are to 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. 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, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during the audit of the 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 *Message from the Executive Director, Management's Discussion and Analysis,* and *Other Information* 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 as of and for the year ended September 30, 2022, 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[1] or to express an opinion on the effectiveness of ARC's internal control

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.

over financial reporting. Accordingly, we do not 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.

During our fiscal year 2022 audit, we identified a deficiency in ARC's internal control over financial reporting that we do not consider to be a material weakness or significant deficiency that, nonetheless, warrants management's attention. We have communicated this matter to ARC management and, where appropriate, will report on it separately. Exhibit I presents the status of prior year findings and recommendations.

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.

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, 2022, 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 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.

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 2022 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.

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

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.

Auditor's Responsibilities for Tests of Compliance with Laws, Regulations, Contracts, and Grant 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.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

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 15, 2022

Independent Auditors' Report

Exhibit I
Status of Prior Year Findings and Recommendations

The following table provides the fiscal year (FY) 2022 status of all recommendations included in the Audit Report on the Appalachian Regional Commission FY 2021 Financial Statements (January 19, 2022).

FY 2021 Finding	Prior Year Recommendation	FY 2022 Status
Lack of Sufficient Internal Controls over the Preparation of Financial Statements and Footnote Disclosures. (2021-01)	**Recommendation:** We recommend that ARC management: 1. Ensure the updated OMB Circular A-136 is utilized when preparing and reviewing the financial statements and footnote disclosures. 2. Update service provider agreement with USDA OCFO to require the financial statements to be prepared and submitted on a timely basis in order to adhere to the reporting deadline set forth in the updated OMB Circular A-136. 4. Design and implement a checklist that describes key items and expectations regarding the presentation of the financial statements and footnote disclosures.	Closed
	Recommendation: We recommend that ARC management: 3. 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. 5. Design and implement policies and procedures to ensure the account balances, line items, and all corresponding balances agree to the agency's financial system. 6. Subsequent to the review process, ARC management should ensure that all reviews are thoroughly documented.	Open

ARC

Appalachian Regional Commission

FINANCIAL STATEMENTS

As of And For The Years Ended September 30, 2022 and 2021

APPALACHIAN REGIONAL COMMISSION
BALANCE SHEET
As of September 30, 2022 and 2021
(in thousands)

		2022	2021
Assets:			
Intragovernmental:			
Fund Balance with Treasury	(Note 2)	$ 796,720	$ 529,656
Advances and prepayments	(Note 4)	30	
Total intragovernmental		796,750	529,656
With the public:			
Cash and Other Monetary Assets	(Note 3)	1,064	1,289
Advances and prepayments	(Note 4)	49,573	47,887
Total with the public		50,637	49,176
Total Assets		$ 847,387	$ 578,832
Liabilities:	(Note 5)		
Intragovernmental:			
Advances from others and deferred revenue		167	167
Other liabilities	(Note 6)	62	49
Total intragovernmental		229	216
With the public:			
Accounts payable		31,172	26,294
Federal employee and veterans benefits payable		636	612
Advances from others and deferred revenue		1,229	959
Other liabilities	(Note 6)	1,746	1,826
Total with the public		34,783	29,691
Total liabilities		$ 35,012	$ 29,907
Net Position:			
Unexpended Appropriations - Funds from Other than Dedicated		$ 830,240	$ 568,215
Total Unexpended Appropriations (Consolidated)		830,240	568,215
Cumulative Results of Operations - Funds from Other than Dedicated		(17,865)	(19,289)
Total Cumulative Results of Operations (Consolidated)		(17,865)	(19,289)
Total Net Position		812,375	548,926
Total Liabilities and Net Position		$ 847,387	$ 578,833

The accompanying notes are an integral part of these statements.

1

APPALACHIAN REGIONAL COMMISSION
STATEMENT OF NET COST
For the Years Ended September 30, 2022 and 2021
(in thousands)

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	2022	2021
Gross Program Costs:		
ARC:		
Gross Cost	$ 134,989	$126,704
Less: Earned Revenue	3,409	2,747
Net Program Costs	131,580	123,957
Net Cost of Operations	$ 131,580	$ 123,957

The accompanying notes are an integral part of these statements.

2

APPALACHIAN REGIONAL COMMISSION
STATEMENT OF CHANGES IN NET POSITION
For the Years Ended September 30, 2022 and 2021
(in thousands)

		2022	2021
Unexpended Appropriations:			
Beginning Balance		$ 568,215	$ 511,068
Appropriations received		395,000	180,000
Appropriations used		(132,975)	(122,853)
Change in Unexpended Appropriations		262,025	57,147
Total Unexpended Appropriations		830,240	568,215
Cumulative Results from Operations:			
Beginning Balance		(19,289)	(18,423)
Other Adjustments		(3)	
Appropriations used		132,975	122,852
Transfers-in/out without reimbursement (+/-)			250
Imputed Financing	(Note 10)	32	(11)
Net Cost of Operations		131,580	123,957
Change in Cumulative Results of Operations		1,424	(866)
Total Cumulative Results of Operations		(17,865)	(19,289)
Net Position		$ 812,375	$ 548,926

The accompanying notes are an integral part of these statements.

3

APPALACHIAN REGIONAL COMMISSION

STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2022 and 2021

(in thousands)

		2022 Budgetary	2021 Budgetary
Budgetary resources:			
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	(Note 11)	$ 134,404	$ 121,473
Appropriations (discrectionary and mandatory)		395,000	180,000
Spending authority from offsetting collections (discretionary and mandatory)		4,030	3,289
Total budgetary resources		$ 533,434	$ 304,762
Status of budgetary resources:			
New obligations and upward adjustments (total)	(Note 9)	$ 250,260	$ 185,232
Unobligated balance, end of year:			
Apportioned, unexpired account		264,380	88,085
Unapportioned, unexpired accounts		18,793	31,445
Unexpired unobligated balance, end of year		283,173	119,530
Unobligated balance, end of year (total)		283,173	119,530
Total budgetary resources		$ 533,433	$ 304,762
Outlay, net:			
Outlays, net (total) (discretionary and mandatory)	(Note 15)	$ 127,936	$ 124,355
Agency outlays, net (discretionary and mandatory)		$ 127,936	$ 124,355

The accompanying notes are an integral part of these statements.

APPALACHIAN REGIONAL COMMISSION
Notes to the Financial Statements
September 30, 2022 and 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

ARC supports economic and social development in the Appalachian Region. The Appalachian Region is 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, 2022.

Fund Accounting Structure

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

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

Budgets and Budgetary Accounting

ARC receives an annual congressional appropriation from which it makes financial assistance awards and carries out activities, funds the administrative costs of the Office of the Federal Co-Chairman, the Inspector General, the non-federal programmatic costs, and half the cost of the non-federal administrative costs. Contributions from 13 states in the Appalachian Region cover 50% of the Commission Administrative Budget.

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

Basis of Accounting and Presentation

These financial statements present the financial position, net cost of operations, changes in net position, and budgetary resources of ARC in accordance with U.S. generally accepted accounting principles (GAAP) and form and content requirements of OMB Circular A-136 Financial Reporting Requirements. GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard-setting body for the federal government. The 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 thousand dollar. 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's flexible benefits.

Accounts Receivable

Accounts receivable, net usually represents monies owed to ARC by ARC's Office of the States' Washington Representative 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

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

ARC also has advances made to grantees. These primarily include revolving loan fund 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.

Equipment

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

Liabilities

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

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

Accounts Payable

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

Benefits Due and Payable:

Unfunded Annual Leave

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

Retirement Benefits

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

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

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

ARC also has a Defined Benefit Pension Plan which was open to all employees not participating in CSRS and FERS. ARC uses an October 1 measurement date for its plan. 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 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, U.S. Army Corps of Engineers and the Economic Development Agency. Additionally, ARC receives allocation transfers, as the child agency from the U.S. Department of Transportation to cover Appalachian Development Highway System administrative costs.

Net Position

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

Net Cost of Operations

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

Budgetary Financing Sources

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

Use of Estimates

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

Tax Exempt Status

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

NOTE 2 – FUND BALANCE WITH TREASURY

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

	2022	2021
A. Fund Balances		
General Funds	$796,307	$529,243
Trust Funds	413	413
Total Fund Balance with Treasury	$796,720	$529,656
B. Status of Fund Balance with Treasury		
1) Unobligated Balance		
(a) Available	$264,380	$88,086
(b) Unavailable	18,793	31,445
2) Obligated Balance not yet Disbursed	512,938	409,542
3) Temporary Sequestration	609	583
Total	$796,720	$529,656

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

NOTE 3 – CASH AND OTHER MONETARY ASSETS

Cash as of September 30 was as follows:

	2022	2021
Commercial Bank Balance	**$1,064**	**$1,289**

NOTE 4 – ADVANCE AND PREPAYMENTS

Advances as of September 30 consisted of the following:

	2022	2021
Intragovernmental		
USDA	$ 30	-
Total Intragovernmental	**$ 30**	**-**
With the Public		
Advances to Grantees to Finance Program Expenditures		
-Revolving Loan Fund	28,184	27,697
-Non-Federal Grantees	18,281	17,083
Prepaid Pension Expense	3,108	3,108
Total With the Public	**$49,573**	**$47,887**
Total Advances and Prepayments	**$49,603**	**$47,887**

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

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

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

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

NOTE 5 – 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 liabilities not covered by budgetary resources is the unfunded leave in the amount of $631 for FY2022 and $608 for FY2021.

Liabilities as of September 30, 2022 and 2021 consisted of the following:

Liabilities	2022	2021
Total Liabilities Not Covered by Budgetary Resources	$631	$608
Total Liabilities Covered by Budgetary Resources	33,225	27,929
Total Liabilities Not Requiring Budgetary Resources	1,156	1,370
Total Liabilities	**$35,012**	**$29,907**

NOTE 6 – OTHER LIABILITIES

As of September 30, 2022, and 2021, 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.

	2022	
	Non-Current	Current
Intragovernmental		
Employer Contributions and Payroll Taxes Payable	-	$62
Total Intragovernmental	**-**	**$62**
With the Public		
Accrued Funded Payroll & Leave		589
Other Liabilities Without Related Budgetary Obligations	-	1,156
Total With the Public	**-**	**$1,746**
Total Other Liabilities	**-**	**$1,808**

	2021	
	Non-Current	Current
Intragovernmental		
Employer Contributions and Payroll Taxes Payable	-	$49
Total Intragovernmental	**-**	**$49**
With the Public		
Accrued Funded Payroll & Leave		456
Other Liabilities Without Related Budgetary Obligations	-	1,370
Total With the Public	**-**	**$1,826**
Total Other Liabilities	**-**	**$1,875**

NOTE 7 – 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 for FY 2022 was $283 and contributions for FY 2021 were $237.

Several employees also participate in the Federal Employees Health Benefit plan (FEHB) and the Federal Employees Group Life Insurance program (FEGLI), also administered by OPM. ARC pays a portion of the cost of current employees. Post-retirement benefits are paid by OPM. ARC's contributions to these plans for FY 2022 were $83 and $2 and for FY 2021 were $75 and $1 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 2022, ARC contributed $16 and $58 to the Federal Thrift Savings Basic and Matching Plans respectively, and for FY 2021, ARC contributed $14 and $53 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 2022 and 2021:

Net Periodic Benefit Cost

	2022	2021
Service Cost	$285	$329
Interest Cost	925	867
Expected Return	(2,491)	(2,220)
Amortization of prior service cost	275	624
Recognized loss	-	1,795
Net periodic benefits cost	**$(1,006)**	**$1,397**

The following tables present the accumulated contributions in excess of net period benefit cost and projected benefit obligations for fiscal years 2022 and 2021:

Accumulated Contributions in Excess of Net Period Benefit Cost

	2022	2021
Accumulated Amount at Beginning of Period	$3,108	$4,005
Net period benefit cost	1,006	(1,397)
Employer Contributions	601	500
Accumulated Amount at End of Period	**$4,716**	**$3,108**

Reconciliation of Projected Benefit Obligation

	2022	2021
PBO at the beginning of period	$35,679	$36,882
Service cost	285	329
Interest cost	925	867
Participant contributions	-	-
Actuarial (Gain)/Loss	412	299
Change in Discount Rate (Gain)/Loss	(9,540)	(1,253)
Change in Mortality Assumption (Gain)/Loss	113	(454)
Benefits Paid	(1,089)	(992)
PBO at End of Period	**$26,785**	**$35,679**

The following tables present funded status as well as plan assets for fiscal years 2022 and 2021:

Funded Status

	2022	2021
Projected Benefit Obligation	$(26,785)	$(35,679)
Fair Value of Assets	28,298	35,118
Funded Status	**$1,513**	**$(561)**

Plan Assets

	2022	2021
Fair Value of Assets at Beginning of Period	$35,118	$31,348
Actual Return on Assets	(6,332)	4,262
Employer Contributions	601	500
Participant Contributions	-	-
Benefits Paid	(1,089)	(992)
Fair Value of Assets at End of Period	**$28,298**	**$35,118**

The accumulated benefit obligation was $26,245 and $34,760 at September 30, 2022 and 2021, respectively.

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

	2022	2021
Discount rate	5%	3%
Rate of compensation increase	3%	3%

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

	2022	2021
Discount rate	3%	2%
Rate of compensation increase	3%	3%
Expected long-term return on plan assets	7%	7%

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Plan Assets

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

Asset Category	2022	2021
Equity securities	38%	41%
Debt securities	56%	53%
Real Estate	5%	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
2023	$1,579
2024	1,632
2025	1,696
2026	1,707
2027	1,753
2028 - 2032	$ 9,212

Paylocity Corporation processes payroll for ARC's non-federal-benefitted employees while John Hancock Financial administers the 401K plan. ARC contributed $502 and $442 to the 401(k) plan for the years ended September 30, 2022 and 2021, respectively. For Health Benefits Insurance, ARC contributed $498 and $431 for the year ended September 20, 2022 and 2021 respectively. For Group Life Insurance, ARC contributed $5 and $4 for the year ended September 30, 2022 and 2021 respectively.

NOTE 8 – LEASES

ARC's lease for its office commenced on April 30, 2013 and extends through March 31, 2035. These leases are non-federal leases. The future minimum lease payments required under this lease are as follows:

Fiscal Year	Amount
2023	$1,363
2024	1,385
2025	1,416
2026	1,448
2027	1,481
2028 - 2035	12,222
Total	**$19,316**

Rent expense for the years ended September 30, 2022 and 2021 was $1,078 and $1,025 respectively.

NOTE 9 – 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:

	2022	2021
Direct Category B Obligations		
Cat B - Non-Highway Programs - Unadjusted	$213,163	$157,911
Beginning obligations balance adjustment	-	864
Cat B - Non-Highway Programs - Adjusted	$213,163	$158,775
Cat B - RD (12-46X0200.020)	28,305	16,339
Cat B - EDA (13-46X0200.020)	3,631	4,295
Cat B - FHWA Non-Highway Programs (69-46X0200.05)	500	2,972
Cat B - HUD (86-46X0200)	1,470	80
Total Direct Obligations	$247,069	$182,460
Reimbursable Category B Obligations		
Cat B - Non-Highway Programs	3,191	2,772

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Total Reimbursable Obligations	$3,191	$2,772
Total Obligations	$250,260	$185,232

NOTE 10 – 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 $32 for FY 2022. 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 11 – NET ADJUSTMENTS TO UNOBLIGATED BALANCE BROUGHT FORWARD, OCTOBER 1

During the years ended September 30, 2022 and 2021, certain adjustments were made to the balance of unobligated budgetary resources available as of October 1, 2021 and 2020. 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, 2022 and 2021 are presented below.

	2022	2021
Unobligated balance, brought forward from prior year	$120,395	$101,746
Adjustments made during the current year		
Recoveries of prior year unpaid obligations	13,815	19,316
Recoveries of prior year paid obligations	194	411
Unobligated balance brought from prior year budget authority	$134,404	$121,473

NOTE 12 - UNDELIVERED ORDERS AT THE END OF THE PERIOD

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

	2022	2021
Federal Undelivered Orders	$766	$103
Non-Federal Undelivered Orders	530,350	430,543
Total Federal/Non-Federal Undelivered Orders	**$531,117**	**$430,645**
Paid Undelivered Orders - Federal	266	-
Paid Undelivered Orders - Non-Federal	49,337	47,887
Unpaid Undelivered Orders - Federal	500	103
Unpaid Undelivered Orders - Non-Federal	481,014	382,655
Total Paid/Unpaid Undelivered Orders	**$531,117**	**$430,645**
Total Undelivered Orders	**$531,117**	**$430,645**

NOTE 13 – PERMANENT INDEFINITE APPROPRIATIONS

The Commission’s permanent indefinite appropriation includes the trust fund which has not been used since FY 2014. Total sequestered trust balance remains $413 as of September 30, 2022.

NOTE 14 – EXPLANATION OF DIFFERENCES BETWEEN THE SBR AND THE BUDGET OF THE U.S. GOVERNMENT

SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, requires an explanation of material differences between budgetary resources available, the status of those resources and outlays as presented in the Statement of Budgetary Resources to the related actual balances published in the *Budget of the United States Government* (Budget).

The Budget that will include FY 2022 actual budgetary execution information is scheduled for publication in February 2023, 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 2021 SBR and the related President's Budget reflected the following:

FY 2021	Budgetary Resources	New Obligations & Upward Adjustments (Total)	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	$305	$185	-	$124
Difference 1 - Rounding (+/-)	-	(1)	-	-
Budget of the US Government	**$305**	**$184**	**-**	**$124**

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.

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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.

FY2022

	Intragovernmental	Other than Intragovernmental	Total
Net Operating Cost (SNC)	**$1,442**	**$130,138**	**$131,580**
Components of Net Operating Cost Not Part of the Budgetary Outlays			
Increase/(Decrease) in Assets not affecting Budget Outlays:			
Other assets	30	1,461	1,491
(Increase)/Decrease in Liabilities not affecting Budget Outlays:			
Accounts payable	-	(5,149)	(5,149)
Other liabilities (accrued funded payroll and leave and employer contributions and payroll taxes payable)	(13)	(134)	(146)
Federal employee and veteran benefits payable	-	190	190
Federal employee retirement benefits costs	(32)	-	(32)
Total Components of Net Operating Cost Not Part of the Budget Outlays	**$(14)**	**$(3,632)**	**$(3,646)**
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Other	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**
Budgetary Agency Outlays, net (SBR Line 4210)			**$127,936**

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FY2021

	Intragovernmental	Other than Intragovernmental	Total
Net Operating Cost (SNC)	$2,267	$121,691	$ 123,957
Components of Net Operating Cost Not Part of the Budgetary Outlays			
Increase/(Decrease) in Assets not affecting Budget Outlays:			
Other assets	-	2,144	2,144
(Increase)/Decrease in Liabilities not affecting Budget Outlays:			
Accounts payable	-	(1,077)	(1,077)
Salaries and benefits	(28)	(380)	(408)
Other liabilities (Unfunded leave, unfunded FECA, actuarial FECA)	-	(22)	(22)
Federal employee retirement benefit costs	11	-	11
Transfers out (in) without reimbursement	(250)	-	(250)
Total Components of Net Operating Cost Not Part of the Budget Outlays	$(268)	665	398
Net Outlays (Calculated Total)	$1,999	$122,356	$124,355
Budgetary Agency Outlays, net (SBR Line 4210)			$124,355

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REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

Stewardship Investments

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

ARC Investment in Non-Federal Physical Property

Non-federal physical property investments are expenses included in net cost of operations for the purchase, construction, or major renovation of physical property owned by state and local governments. In FY 2022, 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-Federal Physical Property	
Fiscal Year 2018	$36,962,756
Fiscal Year 2019	$41,085,774
Fiscal Year 2020	$69,186,941
Fiscal Year 2021	$51,443,262
Fiscal Year 2022	$52,278,994

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 2022 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 2018	$29,925,465
Fiscal Year 2019	$31,671,742
Fiscal Year 2020	$26,406,576
Fiscal Year 2021	$27,207,627
Fiscal Year 2022	$33,686,031

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 2022, ARC invested in applied research through the following projects:

- ARC's new five-year strategic plan.
- Programmatic development of the new multi-state ARISE initiative.
- Monitoring and evaluating the impact of ARC's POWER investments.
- Evaluation of ARC's education and workforce development grants.
- Evaluation and monitoring of ARC's INSPIRE initiative.
- Evaluation and monitoring of ARC's POWER initiative.
- Examination of mortality from diseases of despair in Appalachia.
- Analysis of coal production and employment trends.
- Coal industry ecosystem study update.
- Data overview study examining state- and county-level data for the 13 Appalachian states.

ARC Investment in Research and Development	
Fiscal Year 2018	$633,418
Fiscal Year 2019	$616,790
Fiscal Year 2020	$913,063
Fiscal Year 2021	$864,705
Fiscal Year 2022	$637,267

PART IV: OTHER INFORMATION

ARC PERFORMANCE TARGETS, 2022-2026

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

Grant Outcomes	Annual Perf ormance 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, 2022, the Commission concluded that the program was not susceptible to significant improper payments.

Office of Inspector General

Appalachian Regional Commission

September 30, 2022

Report Number 22-16

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) upgrading 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.

Upgrading 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 identified an acquisition approach and the budgetary resources to upgrade ARCNet, its primary business information system for managing grants. 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; and this year funding doubled again. This rapid increase in funding changed how the Commission implemented its program. However, it was 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 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

Appalachian Regional Commission

Date: November 14, 2022

To: Phillip Heneghan, ARC Inspector General
From: Brandon McBride, ARC Executive Director
Re: Report Number 22-16

This memorandum responds to the ARC Inspector General's (IG) Report Number 22–16, transmitting to the Commission the IG's summary of the top management and performance challenges currently facing the Commission. The IG identifies two challenging areas in his Report: upgrading management information systems and the rapid growth of ARC funding.

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

Upgrading Management Information Systems

As the IG report indicates, the Commission has undertaken several efforts to adapt our network to meet today's hybrid work activities and has made progress toward automating certain business processes. We appreciate the IG's recognition of these successfully completed and ongoing efforts.

The Commission also concurs with the IG's recommendations regarding further modernization of ARC business systems, with a specific focus on implementing a new business information system for managing grants.

Over the last year, ARC restarted these efforts and made great progress in undertaking a thorough review of our work, how the current system supported that work, what shortcomings existed and what paths forward would look like. We hired an independent group, Barker & Scott Consulting (B&S), to conduct the review, and that engagement began in earnest in December. B&S consulted staff, state program managers, grantees and other stakeholders, and then made a comprehensive analysis of how all these partners interact with the ARCnet system.

This led to the determination that although ARC does have a lot of complexity around its structure and work, a commercially-developed grants management system with the appropriate configuration should certainly be able to meet ARC's needs. We then developed a request for proposals that was released in early August to the vendors most likely to be able to meet those needs. We received responses in late September and have invited the most promising candidates to demonstrate their systems. The vendors are given a list of the things we feel are most important and expected to configure a demonstration system showing in detail how those needs are met. This multi-phase process and the demonstration format will enable us to evaluate all types of challenges, including implementation processes, that come with transitioning to a new business information system.

Following these demonstrations, we will enter the selection phase and aim to start implementation in early 2023. Similarly-sized projects often take 9-12 months to complete, and that is our guiding expectation for this system.

Risks associated with rapid growth of ARC funding

As the IG notes, Commission funding levels have risen in recent years and doubled from Fiscal Year 2021 to Fiscal Year 2022 as a result of additional funding Congress appropriated through the Bipartisan Infrastructure Law. As indicated, both the average dollar amount of a grant as well as the number of grants ARC makes in a year have increased. ARC has and will continue to make capacity and operations adjustments to continue meeting the high standards of program implementation at the Commission.

The Commission agrees with the IG's assessment of the risks these funding increases present relating to human capital capacity and we remain committed to analyzing, assessing and addressing staffing levels in light of the increase in appropriated funds. As such, throughout the last year, the Commission filled positions in program management, IT, office of general counsel, finance, and new positions related to the infrastructure funds. We have also renewed efforts on enterprise risk management activities and grants management trainings for new and existing staff to refresh and further build up technical expertise. The Commission will continue regularly assessing staffing needs and internal processes to ensure we can continue to meet evolving program needs.

The Commission also appreciates the IG's inclusion of the importance of being cognizant of risks, emerging issues, or new challenges state partner and grantees may face. The Commission continues to provide supplemental funding for State personnel responsible for administering ARC grants and offers numerous training opportunities for applicants and grantees to enhance grants management skills.

In addition to these long-standing activities, ARC has launched a multi-pronged community capacity building initiative called READY Appalachia focused on building the capacity of different segments of Appalachian communities including Local Development Districts, nonprofits, foundations and local governments. The Commission has also hired dedicated technical assistance staff to help identify, coordinate, and deliver technical assistance activities. The Commission believes these types of capacity activities result in benefits to the ARC program as a whole and more broadly across the ARC region.

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

Brandon McBride

Brandon McBride
Executive Director
Appalachian Regional Commission

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 54–88 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	1	0	1	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	1	0	1	0	0

ARC cleared the conditions that gave rise to the material weakness identified by the auditor. Our FY 2021 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	1	0	1	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 2022, ARC had no federal grant or cooperative agreement awards and balances for which closeout had not occurred but for which the period of performance had elapsed by more than two years.

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

This report is available on ARC's website at www.arc.gov.

APPALACHIAN REGIONAL COMMISSION
1666 Connecticut Avenue, NW, Suite 700
Washington, DC 20009-1068
202.884.7700 | info@arc.gov
www.arc.gov