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

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

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
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APPALACHAIN REGIONAL COMMISSION
AUDIT REPORT
SEPTEMBER 30, 2022

Appalachian Regional Commission

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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) 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

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).

<table>
<tr><th>FY 2021 Finding</th><th>Prior Year Recommendation</th><th>FY 2022 Status</th></tr>
<tr><td rowspan="2">Lack of Sufficient Internal Controls over the Preparation of Financial Statements and Footnote Disclosures. (2021-01)</td><td>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.</td><td>Closed</td></tr>
<tr><td>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.</td><td>Open</td></tr>
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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.

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.

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.

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.

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%

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

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.

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**

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