



OFFICE OF INSPECTOR GENERAL  
U.S. Agency for International Development

# Audit of MCC's Fiscal Years 2020 and 2019 Financial Statements

**AUDIT REPORT 0-MCC-21-002-C**  
**NOVEMBER 14, 2020**

1300 Pennsylvania Avenue NW • Washington, DC 20523  
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Office of Inspector General, U.S. Agency for International Development

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## MEMORANDUM

DATE: November 14, 2020

TO: Millennium Challenge Corporation, Chief Financial Officer, Ken Jackson

FROM: Deputy Assistant Inspector General for Audit, Alvin Brown /s/

SUBJECT: Audit of MCC's Fiscal Years 2020 and 2019 Financial Statements (0-MCC-21-002-C)

Enclosed is the final audit report on Millennium Challenge Corporation's (MCC) fiscal years 2020 and 2019 financial statements. The Office of Inspector General (OIG) contracted with the independent certified public accounting firm of CliftonLarsonAllen LLP (CLA) to conduct the audit. The contract required the audit firm to perform the audit in accordance with generally accepted government auditing standards and Office of Management and Budget Bulletin No. 19-03, "Audit Requirements for Federal Financial Statements."

In carrying out its oversight responsibilities, OIG reviewed the audit firm's report and related audit documentation and inquired of its representatives. Our review, which was different from an audit performed in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on MCC's financial statements. The audit firm is responsible for the enclosed auditor's report and the conclusions expressed in it. We found no instances in which CLA did not comply, in all material respects, with applicable standards.

The audit objectives were to: (1) express an opinion on whether the financial statements as of September 30, 2020 and 2019, were presented fairly, in all material respects; (2) report on internal control over financial reporting; and (3) report on compliance with applicable provisions of laws, regulations, contracts, and grant agreements. To answer the audit objective, the audit firm assessed risk, considered internal control and designed audit procedures relevant to MCC's fair presentation of its 2020 and 2019 financial statements.

The audit firm concluded that MCC's financial statements for the fiscal years ending September 30, 2020 and 2019, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles. The audit firm also found no instance of noncompliance with provisions of laws, regulations, contracts, and grant agreements.

The audit firm found no material weaknesses, but reported one significant deficiency related to MCC oversight and internal control over the Millennium Challenge Accounts' (MCA) financial reporting (modified repeat finding).

To address the deficiency identified in the report, we recommend that MCC's Chief Financial Officer:

**Recommendation 1.** Revise MCC's "Grant Accrual Estimation: Millennium Challenge Account Guidance" to state that when a MCA identifies an advance, the MCA will exclude the advance amount from the grant accrual amount to ensure that the advance is not included in the grant accrual estimate reported to MCC.

**Recommendation 2.** Request the MCAs to establish a documented control mechanism to verify that the grant accrual estimates reported to MCC agrees with the support document used by the MCAs to complete the grant accrual estimates data call template.

**Recommendation 3.** Provide additional training to the MCAs to ensure the MCAs have a clear understanding of the grant accrual estimation and validation requirements.

**Recommendation 4.** Require the MCAs to document improved budgeting process to ensure future payment needs are properly considered at the detail compact program/activity level as part of its quarterly budgeting process.

**Recommendation 5.** Require the MCA Director of Administration and Finance and relevant Program Directors to (1) determine the root cause for delayed payments and report that information to MCC, and (2) timely provide all relevant and applicable payment support and approval documentation (including but not limited to purchase order, contract, acceptance note, delivery note, delivery confirmation receipt, etc.) to the MCA Fiscal Agent for required payment verification procedures and timely process the invoice for payment.

**Recommendation 6.** Provide an additional reminder to the MCAs regarding the payment requirements in the Fiscal Accountability Plan and instruct them to monitor their compliance.

**Recommendation 7.** Revise the "Accountable Entities Guidelines for Contracted Financial Audits" to address the timing of the audit review process to ensure that independent public accountant firms are able to meet the 90-day delivery deadline for issuing the audit report.

**Recommendation 8.** Revise the "Accountable Entities Guidelines for Contracted Financial Audits" to establish a requirement after the initial compact or threshold audit to determine if the 90-day audit report deadline is still appropriate for the next audit given the circumstances (i.e., prior audit delays). If not, then issue an Implementation Letter to establish the new audit report deadline.

**Recommendation 9.** Revise the "Audit, Risk, and Control (ARC) Branch Process for Screening Potential Independent Public Accountant Firms" to clarify when ARC will begin and complete the screening process for a new compact or threshold program.

In finalizing the report, the audit firm evaluated MCC's responses to the recommendations. After reviewing that evaluation, we consider all recommendations open and unresolved. We ask that you provide written notification of actions planned or taken to reach management decisions on recommendations 1 through 9.

We appreciate the assistance provided to our staff and the audit firm's employees during the engagement.

**MILLENNIUM CHALLENGE CORPORATION**

**Independent Auditors' Report  
of Millennium Challenge Corporation's Financial Statements  
for the Periods Ending September 30, 2020 and 2019**

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To the Inspector General  
United States Agency for International Development

To the Board of Directors  
Millennium Challenge Corporation

## **INDEPENDENT AUDITORS' REPORT**

In our audits of the fiscal years 2020 and 2019 financial statements of the Millennium Challenge Corporation (MCC), we found

- MCC's financial statements as of and for the fiscal years ended September 30, 2020, and 2019, are presented fairly, in all material respects, in accordance with United States of America (U.S.) generally accepted accounting principles;
- no material weaknesses, but one significant deficiency in internal control over financial reporting for fiscal year 2020 based on the limited procedures we performed; and
- no reportable noncompliance for fiscal year 2020 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements, which includes required supplementary information (RSI)<sup>1</sup> such as Management's Discussion and Analysis (MD&A) and other information<sup>2</sup> included with the financial statements; (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, contracts, and grant agreements; and (4) MCC's response to our findings and recommendations.

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<sup>1</sup> The RSI consists of Management's Discussion and Analysis, which are included with the financial statements.

<sup>2</sup> Other information consists of Management Challenges, Summary of Financial Statement Audit and Management Assurances, and information included with the financial statements, other than the RSI and the auditors' report.



## **Report on the Financial Statements**

We have audited MCC's financial statements in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 19-03). MCC's financial statements comprise the balance sheets as of September 30, 2020, and 2019; 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.

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Management's Responsibility***

MCC management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditors' report, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. U.S. generally accepted government auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also responsible for applying certain limited procedures to RSI and other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the auditors' assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to MCC's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MCC's internal control.

Accordingly, we express no such opinion. An audit of financial statements also involves 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. Our audit also included performing such other procedures, as we considered necessary in the circumstances.

### ***Opinion on Financial Statements***

In our opinion, MCC's financial statements present fairly, in all material respects, MCC's financial position as of September 30, 2020, and 2019, and its net cost, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

### ***Other Matters***

#### ***Required Supplementary Information***

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information 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 the auditors' inquiries, the financial statements, and other knowledge we obtained during the audit of the 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 us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

MCC'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. In addition, management has included references to information on websites or other data outside of the Agency Financial Report. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on MCC's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

## **Report on Internal Control over Financial Reporting**

In connection with our audit of the MCC's financial statements, we considered MCC's internal control over financial reporting, consistent with our auditors' responsibility discussed below. We performed our procedures related to MCC's internal control over financial reporting in accordance with U.S. generally accepted government auditing standards.

### ***Management's Responsibility***

MCC management is responsible for maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

### ***Auditors' Responsibility***

In planning and performing our audit of MCC's financial statements as of and for the year ended September 30, 2020, in accordance with U.S. generally accepted government auditing standards, we considered MCC's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MCC's internal control over financial reporting or on management's assurance statement on the overall effectiveness on internal control over financial reporting. Accordingly, we do not express an opinion on MCC's internal control over financial reporting or on management's assurance statement on the overall effectiveness on 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.

### ***Results of Our Consideration of Internal Control over Financial Reporting***

Our consideration of internal control was for the limited purpose described above, and was not designed to identify all deficiencies in internal control that might be material weaknesses and significant deficiencies or to express an opinion on the effectiveness of MCC's internal control over financial reporting. Given these limitations, material weaknesses and/or significant deficiencies may exist that have not been identified. However, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did, however, identify a deficiency in internal control over financial reporting that we considered to be a significant deficiency, as described below and in Exhibit I.

*MCC's oversight and internal controls over Millennium Challenge Accounts' (MCAs') financial reporting needs to be strengthened (Modified Repeat Finding)*

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 a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of MCC'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 attention by those charged with governance.

During our fiscal year 2020 audit, we identified deficiencies in MCC's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant MCC management's attention. We have communicated these matters to MCC management and, where appropriate, will report on them separately.

### ***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 MCC's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of MCC'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 audit of MCC's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditors' responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standard.

### ***Management's Responsibility***

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

### ***Auditors' Responsibilities***

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to MCC that have a direct effect on the determination of material amounts and disclosures in MCC's financial statements, and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to MCC.

### ***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 2020 that would be reportable under U.S. generally accepted government auditing standard. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to MCC. Accordingly, we do not express such an opinion.

### ***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 standard in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

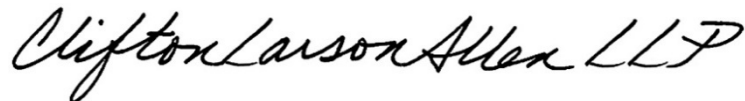
### ***MCC's Response to Audit Findings and Recommendations***

MCC's response to the findings and recommendations identified in our report is described in Exhibit 2. MCC's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### ***Status of Prior Year's Control Deficiencies***

We have reviewed the status of MCC's corrective actions with respect to the findings and recommendations included in the prior year's Independent Auditors' Report, dated November 15, 2019. The status of prior year recommendations is presented in Exhibit 3.

### **CliftonLarsonAllen LLP**

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

Arlington, Virginia  
November 13, 2020

**EXHIBIT I**  
**Significant Deficiency in Internal Controls**

**MCC's oversight and internal controls over MCAs' financial reporting needs to be strengthened (Modified Repeat Finding)**

The Department of Compact Operations, through collaboration with the Department of Administration and Finance, establishes operational oversight and financial reporting controls and procedures to govern the conduct and administration of MCC's Compact/Threshold portfolio by the MCA entities. The MCAs' financial operations, including their compliance with applicable laws, regulations, contracts, and grant agreements are crucial to MCC's financial statements as their financial activities are material and significant. During our virtual site visits to four selected MCAs, we evaluated the MCAs' design and effectiveness of internal controls. As a result of procedures performed, we identified the following control deficiencies that collectively we considered a significant deficiency in controls over financial reporting. Some of the control deficiencies we identified this year were repeat deficiencies reported in prior years.

*Oversight over MCA's Financial Reporting* – Every quarter, MCC obtained financial data through the data calls from MCAs for its financial statement reporting. As in the past years, our audit disclosed that MCC continues to have challenges in ensuring that MCAs accurately, completely, and properly report financial activities and balances that are significant and relevant to MCC's financial statements. For example:

*Grant accrual liability and validation reporting errors* – Grant accrual liability prepared by MCAs includes estimated works completed by vendors/contractors but not yet invoiced for payments or paid by MCAs. For quarter one through three of FY 2020, we found two MCAs incorrectly included estimated contract advance payments in the reported grant accrual liability for \$130,889 in quarter one, \$1,180,587 in quarter two, and \$299,260 in quarter three, resulting in an overstatement of grant accrual liability. Our inquiry with MCC indicated they wanted to track MCA invoices that are for advances, but not to include them in the grant accrual reporting. For another MCA, we identified the reported grant accrual liability and related accrual validation was understated by \$900 and \$67,267, respectively for the first quarter. In another instance, for the second quarter, one MCA overstated reported grant accrual liability by \$1,046,138. Collectively, the reporting errors identified were due to manual data input errors by the MCA and the lack of a written/documented guidance/process to instruct relevant MCA Project Directors and Engineers on how to capture work completed by vendors/contractors but not yet billed or paid at the end of each respective reporting quarter/period.

*MCA invoices paid late* – During our testing we found that certain MCAs did not make payments within a month (recognized as 30 – 31 calendar days) after receipt of valid invoices. Late payments ranged from 4 to 67 days. Due to MCAs are on a cash basis, delay in payments may result in MCAs' expenses not being timely recognized and recorded by MCC. The causes for these payment delays are primarily attributed to:

**EXHIBIT I**  
**Significant Deficiency in Internal Controls**

- MCC did not timely provide instruction to direct the MCA on the payment tranche (tranche 1 or 2) to be used by the MCA to process vendor invoices.
- Ineffective budgeting of the compact program/activity by the MCA that require reallocation of other compact program/activity budget funding in order to process vendor invoices.
- MCA Department of Administration and Finance and its relevant Program Directors did not timely provide the required invoice support documentation to the MCA Fiscal Agent to process the Payment Request Form.
- Impact of the COVID-19 pandemic on the MCA operation, in which the MCA had not established a process to ensure that the MCA can process vendor invoice payments within time frame required by the MCA Fiscal Accountability Plan.

*Late audit reports and audit delay* – The Accountable Entity (AE or MCA), under the terms of the compact or threshold agreement, is required to undergo annual and in some cases semi-annual financial audits of all MCC funding disbursements. Audit reports are due no later than 90 days after the applicable audit periods, or such other period as MCC and the MCA may otherwise agree to in writing. Our audit identified one compact where no audit has been conducted since signing of the compact agreement on July 27, 2018. In addition, we identified two compacts and three thresholds where audit reports were late. Below table illustrates the extent of the late audit reports.

<b>Accountable Entity</b>	<b>Audit Period</b>	<b>Audit Report Due Date</b>	<b>Report Issued</b>	<b>Days Late</b>
Compact #1	April 1, 2019 - March 31, 2020	June 29, 2020	Not Issued	Over 130
Threshold #1	Sept. 12, 2017 - Sept. 30, 2019	Dec. 29, 2019	March 13, 2020	75
Threshold #2	Oct. 1, 2018 – Sept. 30, 2019	Dec. 29, 2019	March 5, 2020	67
Threshold #3	April 1, 2019 – March 31, 2020	June 29, 2020	August 5, 2020	37
Compact #2	Nov. 7, 2017 – March 31, 2020	Sept. 30, 2020	Oct. 12, 2020	12

MCC provided the following explanation as to reason for not meeting the compact and threshold audit requirement:

- Delays in vetting independent public accountant (IPA) firms to solicit audit services and in procuring the audit services.
- MCC did not timely receive audit planning documents, support documents, and audit documents from contracted IPA firms. Audits for the above referenced audit periods could not begin until MCC approves the prior MCA audit reports.



## **EXHIBIT I**

### **Significant Deficiency in Internal Controls**

- MCC provided an extension of the initial compact audit period long after the audit reporting deadline were not met per the compact agreement.

Financial audit is a key control for MCC to obtain assurance that the MCAs' funds are being used appropriately and implemented financial recording and reporting controls over the compact or threshold funds are working as intended. Delays in the required audits and the audit reports issuance increase the risk that potential fraud, waste, and abuse may not be detected. In addition, it will delay appropriate corrective actions and timely recovery of questioned costs. MCC is responsible for monitoring and ensuring that the required MCA audits are performed in a timely manner and that all required audits are completed with audit reports issued no later than 90 days after the end of period except for close out audits, which are due no later than 150 days after compact end date.

We recommend that MCC's Department of Administration and Finance and the Chief Financial Officer:

**Recommendation 1.** Revise MCC's *Grant Accrual Estimation: Millennium Challenge Account Guidance* to state that when a MCA identifies an advance, the MCA will exclude the advance amount from the grant accrual amount to ensure that the advance is not included in the grant accrual estimate reported to MCC.

**Recommendation 2.** Request the MCAs to establish a documented control mechanism to verify that the grant accrual estimates reported to MCC agrees with the support document used by the MCAs to complete grant accrual estimates data call template.

**Recommendation 3.** Provide additional training to the MCAs to ensure the MCAs have a clear understanding of the grant accrual estimation and validation requirements.

**Recommendation 4.** Require the MCAs to document improved budgeting process to ensure future payment needs are properly considered at the detail compact program/activity level as part of its quarterly budgeting process.

**Recommendation 5.** Require the MCA Director of Administration and Finance and relevant Program Directors to (1) determine the root cause for delayed payments and report that information to MCC, and (2) timely provide all relevant and applicable payment support and approval documentation (including but not limited to purchase order, contract, acceptance note, delivery note, delivery confirmation receipt, etc.) to the MCA Fiscal Agent for required payment verification procedures and timely process the invoice for payment.

**EXHIBIT I**  
**Significant Deficiency in Internal Controls**

**Recommendation 6.** Provide additional reminder to the MCAs regarding the payment requirements in the Fiscal Accountability Plan and instruct them to monitor their compliance.

**Recommendation 7.** Revise *The Accountable Entities Guidelines for Contracted Financial Audits* to:

- a. Address the timing of the audit review process to ensure that independent public accountant firms are able to meet the 90-day delivery deadline for issuing the audit report.
- b. Establish a requirement after the initial compact or threshold audit to determine if the 90-day audit report deadline is still appropriate for the next audit given the circumstances (i.e., prior audit delays). If not, then issue an Implementation Letter to establish the new audit report deadline.

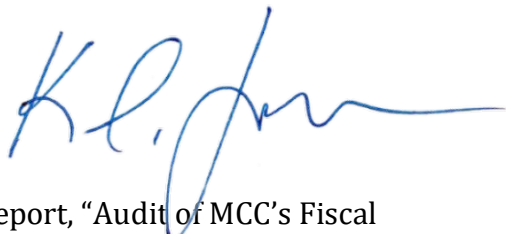
**Recommendation 8.** Revise the *Audit, Risk, and Control (ARC) Branch Process for Screening Potential Independent Public Accountant Firms* to clarify when ARC will begin and complete the screening process for a new compact or threshold program.

**EXHIBIT 2**  
**Management's Response to Audit Findings**



DATE: November 13, 2020

TO: Alvin Brown  
Deputy Assistant Inspector General for Audit  
Office of Inspector General  
United States Agency for International Development  
Millennium Challenge Corporation

FROM: Ken Jackson  
Vice President and Chief Financial Officer  
Department of Administration and Finance  
Millennium Challenge Corporation 

SUBJECT: MCC's Management Response to the Audit Report, "Audit of MCC's Fiscal Years 2020 and 2019 Financial Statements," dated November 13, 2020

The Millennium Challenge Corporation (MCC) appreciates the opportunity to respond to the report on the Office of Inspector General (OIG)'s audit, "Audit of MCC's Fiscal Years 2020 and 2019 Financial Statement," dated November 13, 2020. MCC concurs with the conclusions of the report where noted and provides a management response to each recommendation below. MCC will provide a management decision for each recommendation no later than six months after the final report date.

*OIG Recommendation 1 – Revise MCC's "Grant Accrual Estimation: Millennium Challenge Account Guidance" to state that when a MCA identifies an advance, the MCA will exclude the advance amount from the grant accrual amount to ensure that the advance is not included in the grant accrual estimate reported to MCC.*

MCC Response – MCC concurs with Recommendation 1 and notes a revision will be made to the "MCC Grant Accrual Estimation: Millennium Challenge Account Guidance" emphasizing the correct reporting requirements for in-house invoices for pending advances.

*OIG Recommendation 2 – Request the MCAs to establish a documented control mechanism to verify that the grant accrual estimates reported to MCC agrees with the support document used by the MCAs to complete the grant accrual estimates data call template.*

MCC Response – MCC concurs with the recommendation.

*OIG Recommendation 3 – Provide additional training to the MCAs to ensure that the MCAs have a clear understanding of the MCC’s grant accrual estimation and validation requirements.*

MCC Response – MCC concurs with the recommendation.

*OIG Recommendation 4 – Require the MCAs to document improved budgeting process to ensure future payment needs are properly considered at the detail compact program/activity level as part of its quarterly budgeting process.*

MCC Response – MCC concurs with the recommendation.

*OIG Recommendation 5 – Require the MCA Director of Administration and Finance and relevant Program Directors to (1) determine the root cause for delayed payments and report that information to MCC, and (2) timely provide all relevant and applicable payment support and approval documentation (including but not limited to purchase order, contract, acceptance note, delivery note, delivery confirmation receipt, etc.) to the MCA Fiscal Agent for required payment verification procedures and timely process the invoice for payment.*

MCC Response – MCC concurs with the recommendation.

*OIG Recommendation 6 – Provide an additional reminder to the MCAs regarding the payment requirements in the Fiscal Accountability Plan and instruct them to monitor their compliance.*

MCC Response – MCC concurs with the recommendation.

*OIG Recommendation 7 – Revise the “Accountable Entities Guidelines for Contracted Financial Audits” to address the timing of the audit review process to ensure that independent public accountant firms are able to meet the 90-day delivery deadline for issuing the audit report.*

MCC Response – MCC concurs with the recommendation.

*OIG Recommendation 8 – Revise the “Accountable Entities Guidelines for Contracted Financial Audits” to establish a requirement after the initial compact or threshold audit to determine if the 90-day audit report deadline is still appropriate for the next audit given the circumstances (i.e., prior audit delays). If not, then issue an Implementation Letter to establish the new audit report deadline.*

MCC Response – MCC concurs with Recommendation 8 and started taking steps with its update of the “Guidance for Accountable Entity Contracted Financial Audits” in June 2020. This document provides guidance for staff to ensure compliance with the audit requirements as noted in the Compact, Threshold Program Grant Agreement, and the Program Implementation Agreement. MCC looks forward to future assessments to evaluate its progress.

*OIG Recommendation 9 – Revise the “Audit, Risk, and Control (ARC) Branch Process for Screening Potential Independent Public Accountant Firms” to clarify when ARC will begin and complete the screening process for a new compact or threshold program.*

MCC Response – MCC concurs with Recommendation 9.

If you have any questions or require additional information, please contact me via phone, 202-521-2686; or by email [jacksonks@mcc.gov](mailto:jacksonks@mcc.gov). Additionally, you can also contact Jude Koval, Director of Internal Controls and Audit Compliance (ICAC) via phone, 202-521-7280; or by email [kovaljg@mcc.gov](mailto:kovaljg@mcc.gov).

CC: Damian Wilson, Principal Director, OIG, USAID  
Amy Markel, Assistant Audit Director, OIG, USAID  
Anna Elias, Auditor, Financial Audits Division, OIG, USAID  
Adam Bethon, Deputy Chief Financial Officer, FMD, A&F, MCC  
Lori Giblin, Chief Risk Officer, A&F, MCC  
Eric Redmond, Controller, FMD, A&F, MCC  
Michael Wright, Director, FMD, A&F, MCC  
Jude Koval, Director, ICAC, A&F, MCC

**EXHIBIT 3**  
**Status of Prior Year Recommendations**

Our assessment of the current status of the recommendations related to findings identified in the prior year audit is presented below:

<i><b>FY 2019 Recommendations</b></i>	<i><b>Type</b></i>	<i><b>Fiscal Year 2020 Status</b></i>
<p>I. Update the “Grant Accrual Financial Management Division Desktop Procedures” to:</p> <p>a. Document and determine what MCC should do with validated costs identified that were not part of the accrued costs and what was the root cause of the initial omission by MCA. Base on that outcome, MCC should revise MCA guidance as appropriate or provide additional training to prevent reoccurrence in the future.</p> <p>b. Require MCC to review the adequacy of the MCAs’ procedure manual that addresses the MCA internal process with its Project Directors and Engineers for capturing work completed but not yet billed or paid. MCC should provide recommendations for improvement where it is warranted.</p> <p>c. Address and document what additional steps should be taken to ensure that the reliability of the grant accrual estimate and the validation process when the compact is entering into its final year and or closure period (i.e., 120 days after the compact end date).</p>	Significant Deficiency (SD)	<p>Closed</p> <p>Closed</p> <p>Open</p>
<p>2. Develop, document and implement an internal procedure that requires the Department of Compact Operations to disclose unique financial aspects of the compact, or additional financial agreements impacting the compact, to Financial Management Division for review to determine if the MCA needs additional guidance to properly accrue for those costs.</p>	SD	Open

**EXHIBIT 3**  
**Status of Prior Year Recommendations**

<i><b>FY 2019 Recommendations</b></i>	<i><b>Type</b></i>	<i><b>Fiscal Year 2020 Status</b></i>
3. Update the “Retentions Data Call: Millennium Challenge Account Guidance” to provide additional requirements for MCAs to reconcile retention balances reported in the quarterly data calls with the relevant balances recorded in the MCAs’ financial system and investigate any variances noted, and submit this reconciliation along with the quarterly data call to MCC for review.	SD	Closed
4. We recommend that the Vice President of Administration and Finance/CFO coordinate with the Vice President of Department of Compact Operations the updating of the “Fiscal Accountability Plans” to: <ul style="list-style-type: none"> <li>• Require MCAs to develop an internal process with Project Directors and Engineers on how to capture work completed but not yet billed or paid and document in a desktop procedure manual.</li> <li>• Require MCAs to ensure that the Fiscal Agent is integrated within the grant accrual process to verify when grant accruals have been paid and should no longer be reported as an accrual in the data call.</li> </ul>	SD	Open  Open
5. Provide MCAs with additional training concerning the reporting of advance liquidations in the grant accrual process for in-house invoices and works completed but not invoiced as of quarter end.	SD	Open
6. Develop, implement, and document procedures for how MCC will assist the MCAs to enable them to meet the compact/threshold audit requirements.	SD	Closed

## Financial Statements

The principal financial statements have been prepared to report the financial position and the results of operations of MCC. The financial statements have been prepared from MCC's books and records in accordance with formats prescribed in OMB Circular No. A-136, *Financial Reporting Requirements* (revised on August 27, 2020). The financial statements should be read with the understanding that they are for a component of the USG, a sovereign entity. Comparative data for September 30, 2019 has been included. MCC is presenting the following financial statements and notes to the financial statements:

- ▶ Balance Sheet
- ▶ Statement of Net Cost
- ▶ Statement of Changes in Net Position
- ▶ Statement of Budgetary Resources
- ▶ Notes to the Financial Statements

*Note that totals may vary slightly due to rounding.*



## Balance Sheets

As of September 30, 2020 and September 30, 2019 (in thousands)		
Assets	FY 2020	FY 2019
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 5,774,489	\$ 5,476,864
Advances (Note 3)	8,260	9,735
<b>Total Intragovernmental</b>	<b>5,782,749</b>	<b>5,486,599</b>
With the Public:		
Accounts Receivable, Net (Note 4)	3	2,024
General Property, Plant, and Equipment, Net (Note 5)	14,237	18,561
Advances (Note 3)	49,198	29,241
<b>Total with the Public</b>	<b>63,438</b>	<b>49,826</b>
<b>Total Assets</b>	<b>\$ 5,846,187</b>	<b>\$ 5,536,425</b>
Liabilities		
Intragovernmental:		
Accounts Payable	\$ 128	\$ 821
Other Liabilities (Note 7)	742	624
<b>Total Intragovernmental</b>	<b>870</b>	<b>1,445</b>
With the Public:		
Accounts Payable	7,982	8,493
Accrual — Grant Liabilities (Note 8)	97,576	44,859
Other Liabilities (Note 7)	13,195	12,524
<b>Total with the Public</b>	<b>118,753</b>	<b>65,876</b>
<b>Total Liabilities</b>	<b>\$ 119,623</b>	<b>\$ 67,321</b>
<b>Commitment and Contingencies (Note 9)</b>		
Net Position		
Unexpended Appropriations — All Other Funds	\$ 5,721,158	\$ 5,459,097
Cumulative Results of Operations — All Other Funds	5,406	10,007
<b>Total Net Position</b>	<b>5,726,564</b>	<b>5,469,104</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 5,846,187</b>	<b>\$ 5,536,425</b>

The accompanying notes are an integral part of these statements.

## Statements of Net Cost

For the Years Ended September 30, 2020 and September 30, 2019 (in thousands)		
Program Costs	FY 2020	FY 2019
Compact	\$ 412,353	\$ 305,183
Compact Development Funding	22,800	20,407
Threshold	23,500	22,543
Due Diligence	67,320	70,797
Audit	4,489	4,149
Administrative	119,270	122,437
<b>Net Cost of Operations</b>	<b>\$ 649,732</b>	<b>\$ 545,516</b>

The accompanying notes are an integral part of these statements.

## Statements of Changes in Net Position

For the Years Ended September 30, 2020 and September 30, 2019 (in thousands)		
	FY 2020	FY 2019
<b>Unexpended Appropriations</b>	<b>\$ 5,459,097</b>	<b>\$ 5,095,176</b>
<b>Budgetary Financing Sources:</b>		
Appropriations Received	905,000	905,000
Appropriations Used	(642,939)	(541,079)
<b>Total Budgetary Financing Sources</b>	<b>262,061</b>	<b>363,921</b>
<b>Total Unexpended Appropriations</b>	<b>5,721,158</b>	<b>5,459,097</b>
<b>Cumulative Results of Operations:</b>		
Beginning Balances, as adjusted	10,007	11,450
<b>Budgetary Financing Sources:</b>		
Appropriations Used	642,939	541,079
<b>Other Financing Sources:</b>		
Donations and Forfeitures of Property (Note 11)	53	66
Imputed Financing	2,139	2,928
<b>Total Financing Sources</b>	<b>645,131</b>	<b>544,073</b>
<b>Net Cost of Operations</b>	<b>(649,732)</b>	<b>(545,516)</b>
<b>Net Change</b>	<b>(4,601)</b>	<b>(1,443)</b>
<b>Cumulative Results of Operations</b>	<b>5,406</b>	<b>10,007</b>
<b>Net Position</b>	<b>\$ 5,726,564</b>	<b>\$ 5,469,104</b>

The accompanying notes are an integral part of these statements.

## Statements of Budgetary Resources

For the Years Ended September 30, 2020 and September 30, 2019 (in thousands)		
	FY 2020	FY 2019
<b>Budgetary Resources:</b>		
Unobligated Balance from Prior Year Budget Authority, Net	\$ 2,936,762	\$ 2,553,718
Appropriations (discretionary and mandatory) <i>(Note 1E)</i>	<u>905,000</u>	<u>905,000</u>
<b>Total Budgetary Resources</b>	<b><u>\$ 3,841,762</u></b>	<b><u>\$ 3,458,718</u></b>
<b>Status of Budgetary Resources:</b>		
New Obligations and Upward Adjustments (Total)	\$ 248,992	\$ 737,660
Unobligated balance, end of year		
Apportioned, unexpired accounts	3,571,780	2,678,747
Unapportioned, unexpired accounts	<u>20,990</u>	<u>42,311</u>
Unexpired unobligated balance, end of year	<u>3,592,770</u>	<u>2,721,058</u>
Unobligated Balance, End of Year (Total)	<u>3,592,770</u>	<u>2,721,058</u>
<b>Total Budgetary Resources</b>	<b><u>\$ 3,841,762</u></b>	<b><u>\$ 3,458,718</u></b>
<b>Outlays, Net (Total) (discretionary and mandatory)</b>	<b><u>\$ 607,376</u></b>	<b><u>\$ 632,147</u></b>

*The accompanying notes are an integral part of these statements.*

# Notes to the Financial Statements

## Note 1 — Summary of Significant Accounting Policies

### A. Reporting Entity

The Millennium Challenge Act of 2003, 22 U.S.C. 7701-7718, established MCC as a wholly owned Government corporation, as defined by the Government Corporation Control Act of 1945. MCC's mission is to reduce poverty through grants by supporting sustainable, transformative economic growth in developing countries that maintain sound policy environments.

MCC is a component entity of the U.S. Government. For this reason, some of the assets and liabilities reported by MCC 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, a sovereign entity.

### B. Reporting by Operational Components

MCC reports the results of its operations, as a whole, by its major programs or appropriation fund categories, which consist of the following:

- ▶ **Compact** — Compact funds comprise large, five-year grants for countries meeting MCC's eligibility criteria.
- ▶ **Compact Development Funding** — Contracts or grants that facilitate the development of a compact between MCC and a partner country.
- ▶ **614(g) of the Millennium Challenge Act of 2003** — 614(g) funds comprise research contracts to improve data related to eligibility criteria. The contracts may be with a university, independent foundation, government entity, or other organization in the U.S. or a candidate country where such entity or country is undertaking research to improve data related to eligibility criteria under this title.
- ▶ **Threshold** — Threshold programs are smaller grants awarded to countries that come close to meeting the eligibility criteria for compacts.
- ▶ **Due Diligence** — Due Diligence funds support the cost of assessing compact proposals and providing compact implementation oversight.
- ▶ **Audit** — Audit funds cover audits of MCC operations and programs. The USAID/OIG performs and manages MCC programmatic and financial audits.
- ▶ **Administrative** — Administrative funds cover MCC's operating expenses.

### C. Basis of Accounting and Presentation

The accompanying financial statements have been prepared in accordance with GAAP in the U.S. and accounting standards issued by the Federal Accounting Standards Advisory Board (FASAB) in the format prescribed by the OMB Circular No. A-136, *Financial Reporting Requirements*, as amended. FASAB is recognized by the AICPA as the official accounting standards-setting body for USG entities. The financial statements present the financial position, net cost of operations, changes in net position, and budgetary resources of MCC, as required by the CFO

Act of 1990, the Government Management Reform Act of 1994, and the Government Corporation Control Act (31 U.S.C. §9106).

The accounting structure of Federal activities is designed to reflect both the accrual and budgetary basis of accounting. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. The accompanying Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position are prepared using the accrual method of accounting. The Statement of Net Cost reports MCC's gross and net cost of operations. MCC has no earned revenue. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. Budgetary accounting principles are designed to recognize the obligation of funds according to legal requirements, which may be prior to the occurrence of an accrual-based transaction. The Statement of Budgetary Resources (SBR) is prepared in accordance with budgetary accounting rules.

While the financial statements have been prepared from the books and records of MCC in accordance with the formats prescribed by OMB, these financial statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. Intradepartmental transactions and balances have been eliminated from the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position.

#### **D. Use of Estimates in Preparing Financial Statements**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions, and exercise judgment that affects the reported amounts of assets, liabilities, net position, and disclosure of contingent assets and liabilities as of the date of the financial statements, as well as the reported amounts of financing sources, expenses, and obligations incurred during the reporting period. The assumptions made and estimates used by MCC Management to prepare the financial statements are based upon the facts that exist when the statements are prepared, and on various other assumptions that are believed to be reasonable under the circumstances. Changes in estimates are reflected in the period in which they become known. Actual results may differ from those estimates. The Notes to the Financial Statements include information to assist the reader in understanding the effect of changes in assumptions on the related information.

The most significant estimates are a result of the accrued expenses recorded by MCC for grant liabilities incurred by MCAs. The majority of those liabilities are related to large infrastructure projects and estimates made on works performed but not yet invoiced as of the end of the fiscal year. Due to the nature of the infrastructure contracts, the variability in quantities estimated or projected may differ from actual quantities billed through interim or final invoicing.

#### **E. Budgetary Basis of Accounting**

As a component of the Government-wide reporting entity, MCC is subject to the Federal budget process, which involve no-year appropriations that are provided annually and appropriations that are provided on a permanent basis. The financial transactions that are supported by budgetary resources, which include appropriations, are generally the same transactions reflected in agency and the Government-wide financial reports.

Appropriations are recognized as an accrual-based financing source at the time they are used to pay program or administrative expenses, except for expenses to be funded by future appropriations. These funds are available for obligation without FY limitation and remain available until expended. OMB apportions MCC program and administrative funds on an annual basis pursuant to statutory limitations in the annual appropriations bill both current and past

MCC's budgetary resources reflect past congressional action and enable MCC to incur budgetary obligations, but they do not reflect assets to the Government as a whole. Budgetary obligations are legal obligations for goods, services, or amounts to be paid based on statutory provisions (e.g., Social Security benefits).

## F. Accrual — Grant Liabilities

MCC's partner countries, through their respective accountable entities, maintain their accounting records on a modified cash basis. The MCA's are allocated a spending authority each quarter or as appropriate. A spending authority for a given period is the portion of the compact or threshold that MCC authorized, approved, and made available to MCAs for current and past works, goods, and services incurred/delivered/received and for which MCAs can request disbursement in a given quarter.

For MCAs with large infrastructure projects are structured to include retentions on invoices. The contract retentions represent a percentage of invoice amounts retained by the MCAs as a guarantee for completion of works contractually agreed upon. The contract retentions are for works completed and are owed to the contractor contingent upon the fulfillment of specific requirements stipulated in the respective contracts. MCAs do not release the retentions or request MCC payment for the retentions until the MCAs have verified that the contractor has met all the requirements and obligations under the contract.

Where an MCA has expenditures under the grant at the end of each quarter that have not been paid, such amounts are recorded as an accrual by MCC as grant expenses at the end of each quarter. Similarly, MCC recognizes MCA contract retentions that have not been paid as part of the Grant Accrual Liability.

## G. Fund Balance with Treasury

Fund Balance with Treasury (FBWT) represents the aggregate amount of MCC's accounts with the Department of the Treasury available to pay current and future liabilities and finance authorized purchases, except where prohibited by law. As such the FBWT is reported as an asset by MCC and a liability of the General Fund.

The Department of Treasury processes all cash receipts and disbursements on behalf of MCC. When MCC seeks to use FBWT to liquidate budgetary obligations, Treasury will finance the disbursements in the same way it finances all other disbursements, which is to borrow from the public if there is a budget deficit (and to use current receipts if there is a budget surplus). MCC's records are reconciled with those of The Department of Treasury on a monthly basis.

## H. Advances

MCC makes funding available to Federal agencies, MCAs, and local vendors. Federal agencies are funded through Inter Agency Agreements. MCAs are funded either directly through a local bank account called the permitted account, or indirectly through vendor advance payments in accordance with the compact agreement. The provision of such funding is mainly to address cash flow flexibility for operating and administrative cost, to leverage better foreign exchange translation for the MCAs, or to meet contractual requirements of MCAs such as mobilization of equipment on large infrastructure projects. MCC records advances as assets. The advances are liquidated or amortized as follows: the funding made available to MCAs through the local permitted account is tracked and liquidated on a monthly basis via the *Monthly Commitments and Disbursements Reports* provided by the MCAs to MCC. The funding advanced to contractors or vendors (mobilization advances) is amortized via contractually agreed upon schedules.

## I. Accounts Receivable, Net

Accounts receivable reflect overpayments of payroll, travel, and other MCC current and former employee expenses. Accounts receivable also reflect disallowed and sustained MCA expenditures. Receivables that exist with foreign countries are considered sovereign debt. Public accounts receivables are presented net of an allowance for doubtful accounts, which is based on analyses of debtors' ability to pay, specific identification of probable losses, aging analyses of past-due receivables, or historical collection experience.

## J. General Property, Plant, and Equipment, Net

MCC's general Property Plant and Equipment (PP&E) consists of capitalized general equipment costs. MCC's capitalization threshold is \$100,000 for all assets, except for IT equipment, for which the capitalization threshold is \$200,000. The basis for recording purchased PP&E is the full cost of the acquired asset, including all costs required to bring the asset to the form and location suitable for its intended use.

MCC controls, values, and reports purchased or developed software as tangible property assets, in accordance with the FASAB Statement of Federal Financial Accounting Standards (SFFAS) No. 10, *Accounting for Internal Use Software*. MCC identifies software investments as capital property for items that, in aggregate, cost \$500,000 or more to purchase, develop, enhance or modify a new or existing system. Software projects that are not completed at year end and are expected to exceed the capitalization threshold are recorded as software in development. All internal use software meeting the capitalization threshold is amortized over a five-year period using the straight-line half-year convention.

Leasehold improvements and furniture are depreciated using the straight-line method of depreciation over the estimated useful lives of the improvements (10 years). All other general PP&E is depreciated using the straight-line method over an estimated useful life of five years.

## K. Liabilities

Liabilities represent the probable and measurable future outflow or other use of resources as a result of past transactions or events. Liabilities covered by budgetary resources are those liabilities for which Congress has appropriated funds or for which 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, where there is no certainty that the appropriations will be enacted.

## L. Accounts Payable

Accounts payable represent amounts due to Federal and Non-Federal entities for goods and services received by MCC that have not been paid at the end of the accounting period. Intragovernmental accounts payable represents payable transactions with other Federal Government agencies (e.g., USAID, Department of the Interior, etc.), while Non-Federal accounts payable represents transactions with Non-Federal entities.

## M. Other Liabilities — Intragovernmental

### ACCRUED PAYROLL

Accrued payroll consists of salaries, wages, and other compensation earned by the employees but not disbursed as of September 30, 2020 and September 30, 2019, respectively. The liability is estimated for reporting purposes based on historical pay information.

## EMPLOYEE RETIREMENT BENEFITS

MCC's employees participate in either the Federal Employees Retirement System (FERS) or the Civil Service Retirement System (CSRS). FERS was established by Public Law (PL) 99-335. Pursuant to this law, most USG employees hired after December 31, 1983, are covered by FERS and Social Security. FERS consists of Social Security, a gross annuity plan, and a Federal Thrift Savings Plan (TSP). MCC and the employee contribute to Social Security and the gross annuity plan at rates prescribed by law. In addition, each year MCC is required to contribute to the Federal TSP a minimum of one percent of the gross pay of employees covered by this system, match voluntary employee contributions up to three percent of the employees' gross pay, and match one-half of contributions between three and five percent of the employees' gross pay, for a maximum MCC contribution of five percent of pay. For FERS employees, MCC also contributes the employer's share of Medicare.

Federal employees hired prior to January 1, 1984, were allowed to elect whether they desired to participate in FERS (with Social Security coverage) or remain in CSRS. For employees covered by CSRS, MCC contributes seven percent of their gross pay toward their retirement benefits. A matching contribution of seven percent is required and is automatically deducted from the employees' gross pay. Employees under CSRS may participate in the TSP but will not receive MCC's automatic or matching contributions.

Federal employee benefit costs paid by the Office of Personnel Management (OPM) and imputed by MCC are reported on the Statement of Net Cost. Contributions for FERS, CSRS, and other retirement benefits are insufficient to fund the programs fully and are subsidized by OPM. MCC imputes its share of the OPM subsidy, using cost factors provided by OPM, and reports the full cost of the programs related to its employees.

## N. Liabilities Not Covered by Budgetary Resources

As of September 30, 2020 and September 30, 2019, budgetary resources have not yet been made available to fund certain liabilities reported on the Balance Sheet. Liabilities not covered by budgetary resources represent amounts for which Congressional appropriation is required and funding is generally made available in the year payments are due or anticipated. Liabilities not covered by budgetary resources include the Judgment Fund, unfunded leave, Federal Employees Compensation Act (FECA), unemployment compensation, and unamortized rent abatement liability.

Regardless of when the congressional action occurs, when the liabilities are liquidated, Treasury will finance the liquidation in the same way that it finances all other disbursements, which is to borrow from the public if the Government has a budget deficit (and to use current receipts if the Government has a budget surplus).

### JUDGMENT FUND

Certain legal matters to which MCC can be named as a party may be administered, and in some instances, litigated and paid by other Federal agencies. In general, amounts paid for Federal Tort Claims Act settlements or awards pertaining to these litigations are funded from a special appropriation administered by The Department of Treasury called the Judgment Fund. Although the ultimate disposition of any potential Judgment Fund proceedings cannot be determined, MCC Management expects that any liability or expense that might ensue would not be material to MCC's financial statements.

### UNFUNDED LEAVE

A liability for annual and other vested compensatory leave is accrued as earned and reduced when taken. The value of employees' unused annual leave at the end of each fiscal quarter is accrued as a liability. At the end of each fiscal quarter, the balance in the accrued annual leave account is adjusted to reflect current pay rates and leave balances. To the extent that 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 when used, and in accordance with Federal requirements, no accruals are recorded for unused sick leave.

#### UNFUNDED FEDERAL EMPLOYEES COMPENSATION ACT

FECA (established by PL 103-3) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred work-related occupational diseases, and beneficiaries of employees.

Claims incurred for benefits for MCC employees under FECA are administered by the Department of Labor (DOL) and later billed to MCC. MCC's liability for workers' compensation includes any costs incurred but unbilled as of quarter end, as calculated by DOL, and not funded by current appropriations.

#### UNFUNDED UNEMPLOYMENT

DOL's unemployment programs provide unemployment benefits to eligible workers who become unemployed through no fault of their own and meet certain other eligibility requirements. The Unemployment Compensation for Federal Employees program provides benefits for eligible, unemployed, former civilian Federal employees. MCC's liability for unemployment includes any costs incurred but unbilled as of quarter end, as calculated by DOL, and not funded by current appropriations.

#### UNAMORTIZED RENT ABATEMENT LIABILITY

The rent abatement represents MCC's period of free rent awarded by the lessor of the Franklin Court building. MCC maintains a 10-year operating lease for office space at Franklin Court, on which lease payments commenced in FY 2017. Per the terms of the contract, MCC was awarded approximately 15 months of rent abatement beginning on December 1, 2015. As a result of this 15 month rent abatement, and in accordance with the Financial Accounting Standards Board Accounting Standards Codification No. 842, *Leases*, MCC recorded a liability which will be amortized on a monthly basis utilizing a straight-line approach over the 10 year lease period.

## O. Net Position

Net position is composed of unexpended appropriations and cumulative results of operations. Unexpended appropriations are funds appropriated by Congress to MCC that are still available for expenditure. Cumulative results of operations represent the net differences between financing sources and expenses since MCC's inception.

## P. Parent/Child Relationships with Other Federal Agencies

MCC is a party to allocation transfers with other Federal agencies as both a transferring (parent) entity and receiving (child) entity. Allocation transfers are legal delegations by one department of its ability to obligate budget authority and outlay funds to another department. 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 also charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, 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. Per OMB guidance, child transfer activities are to be included and parent transfer activities are to be excluded in trial balances. In accordance with OMB guidance, child transfer activities are to be included in and parent transfer activities are to be excluded from the trial balances.

As the parent entity, MCC allocated funds to USAID. As a result, there are amounts reported in MCC's Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and SBR for which the activity is performed by USAID acting as the child in this financial relationship. MCC was allocated funds from the U.S. President's Emergency Plan for AIDS Relief, Office of the U.S. Global AIDS Coordinator through the Department of State. These activities are reported in Department of States' financial statements based on an exception applicable to funds for which the Executive Office of the President is the parent.

## Q. Intragovernmental Transactions and Relationships

Intragovernmental transactions are transactions in which only Federal entities are parties to the transaction. MCC has intragovernmental relationships with various Federal entities. Transactions with the public are transactions in which one party to the transaction is a Federal entity and the other is a Non-Federal entity.

If a Federal entity purchases goods or services from another Federal entity and sells them to the public, the exchange revenue is classified as with the public, but the related costs are classified as intragovernmental. The purpose of the classification is to enable the Federal Government to prepare consolidated financial statements which eliminate intragovernmental transactions.

## R. Foreign currency transactions

The functional currency of the agency is United States Dollars (USD) and these financial statements are presented in that currency. Each MCC compact's budget amount is fixed and denominated in USD. The financial execution of our compacts cannot exceed the total budgeted amount. Disbursements occurring in other currencies are translated into USD and recorded in USD. The MCAs bear all currency translation risk, and as such, MCC does not record any foreign translation gain or loss in its financial statements.

## S. Classified activities

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

## Note 2 — Fund Balance with Treasury

MCC's FBWT balance is comprised of only General Funds, which primarily consist of no-year appropriated funds.

<b>Status of Fund Balance with Treasury as of September 30, 2020 and September 30, 2019 (in thousands)</b>		
<b>Status of Fund Balance with Treasury</b>	<b>2020</b>	<b>2019</b>
Unobligated Balance		
Available	\$ 3,571,780	\$ 2,678,747
Unavailable	20,990	42,311
Obligated Balance not yet Disbursed	2,181,663	2,755,751
Non-Budgetary FBWT	56	55
<b>Total</b>	<b>\$ 5,774,489</b>	<b>\$ 5,476,864</b>

MCC's fund balance with Treasury is classified as unobligated balance available and unavailable, obligated balance not yet disbursed, and non-budgetary fund balance with Treasury. Unobligated available balances represent amounts that are apportioned for obligation in the current fiscal year and unexpired appropriations available for incurring new obligations. Unobligated balances unavailable represent the amount remaining in appropriated funds subject to OMB apportionment. Obligated balances not yet disbursed include undelivered orders or orders received but not yet paid. Non-budgetary fund balance with Treasury includes unavailable receipt accounts and clearing accounts that do not have budget authority.

### Note 3 — Advances

As of September 30, 2020, MCC reported intragovernmental advances totaling \$8,260 thousand and public advances totaling \$49,198 thousand. As of September 30, 2019, the amounts reported were \$9,735 thousand and \$29,241 thousand respectively. Intragovernmental advances decreased due to advance refunds and liquidations. Public advances increased primarily due to new advances for the Benin II, Ghana II, and Morocco II compacts.

### Note 4 — Accounts Receivable, Net

Total receivables at September 30, 2020 and 2019 were \$3 thousand (net of allowance for doubtful accounts of \$16 thousand) and \$2,024 thousand (net of allowance for doubtful accounts of \$4 thousand), respectively. The accounts receivable balance represents net valid claims by MCC to cash or other assets of other entities. A periodic evaluation of public accounts receivable is performed to estimate any uncollectible amounts based on current status. An allowance for doubtful accounts is recorded for accounts receivable due from the public, to bring accounts receivable to its net realizable value in accordance with SFFAS No. 1, *Accounting for Selected Assets and Liabilities*.

### Note 5 — General Property, Plant, and Equipment, Net

MCC reports depreciation expense using the straight-line method over an asset's estimated useful life, beginning with the month the asset is placed in service. General PP&E is presented net of accumulated depreciation.

Status of General Property, Plant, and Equipment, Net as of September 30, 2020 (in thousands)				
	Estimated Useful Life	Cost	Accumulated Depreciation	Book Value
General PP&E				
Leasehold Improvements	10 years	\$ 8,392	\$ (3,982)	\$ 4,410
Furniture	10 years	3,788	(1,817)	1,971
Internal Use Software	5 years	15,095	(7,290)	7,805
Vehicles	5 years	316	(265)	51
<b>Total</b>		<b>\$ 27,591</b>	<b>\$ (13,354)</b>	<b>\$ 14,237</b>

Status of General Property, Plant, and Equipment, Net as of September 30, 2019 (in thousands)				
	Estimated Useful Life	Cost	Accumulated Depreciation	Book Value
General PP&E				
Leasehold Improvements	10 years	\$ 8,392	\$ (3,129)	\$ 5,263
Furniture	10 years	3,788	(1,436)	2,352
Internal Use Software	5 years	15,095	(4,263)	10,832
Vehicles	5 years	316	(202)	114
<b>Total</b>		<b>\$ 27,591</b>	<b>\$ (9,030)</b>	<b>\$ 18,561</b>

The table below provides a reconciliation of the carrying value of net Property, Plant and Equipment between October 1, 2019 and September 30, 2020:

(in thousands)	Book Value
Balance beginning of the year	\$ 18,561
Depreciation expense	(4,324)
<b>Balance at end of year</b>	<b>\$ 14,237</b>

## Note 6 — Leases

MCC leases office space at the Franklin Court building in Washington, DC. The lease is an operating lease with a 10-year lease term with an effective date of December 1, 2015, and a termination date of November 30, 2025. The total Franklin Court lease is valued at \$34,935 thousand with a termination liability as of September 30, 2020 in the amount of \$15,639 thousand excluding rent.

MCC also has short-term leases for one corporate vehicle (through January 31, 2021) and 19 copier machines (through October 31, 2022). The future lease payments due for the building, vehicle, and copier machines are depicted below.

Future Lease Payments Due — Buildings, Franklin Court (in thousands)							
Fiscal Year	Asset Category				Totals	Federal	Non-Federal
	Vehicle	Copier	Building				
FY 2021	\$ 2	\$ 55	\$ 6,499	\$ 6,556	\$ 55	\$ 6,501	
FY 2022	—	55	6,622	6,677	55	6,622	
FY 2023	—	5	6,749	6,754	5	6,749	
FY 2024	—	—	6,880	6,880	—	6,880	
FY 2025	—	—	7,013	7,013	—	7,013	
After FY 2025	—	—	1,172	1,172	—	1,172	
<b>Total Future Lease Payments</b>	<b>\$ 2</b>	<b>\$ 115</b>	<b>\$ 34,935</b>	<b>\$ 35,052</b>	<b>\$ 115</b>	<b>\$ 34,937</b>	

## Note 7 – Other Liabilities

MCC's total other liabilities as of September 30, 2020 and 2019, respectively is comprised as follows:

<b>Other Liabilities as of September 30, 2020 (in thousands)</b>			
	<b>Non-Current Liabilities</b>	<b>Current Liabilities</b>	<b>Total</b>
<b>Intragovernmental</b>			
Employer Contributions & Payroll Taxes Payable	\$ —	\$ 676	\$ 676
FECA	—	—	—
Unemployment	—	10	10
Liabilities for Non-Entity Assets	—	56	56
<b>Total Intragovernmental Other Liabilities</b>	<b>\$ —</b>	<b>\$ 742</b>	<b>\$ 742</b>
<b>With the Public</b>			
Employer Contributions & Payroll Taxes Payable	\$ —	\$ 101	\$ 101
Accrued Funded Payroll Benefits	—	2,339	2,339
Accrued Unfunded Annual Leave	—	5,459	5,459
Rent Abatement Liability	4,534	762	5,296
<b>Total Other Liabilities with the Public</b>	<b>\$ 4,534</b>	<b>\$ 8,661</b>	<b>\$ 13,195</b>

<b>Other Liabilities as of September 30, 2019 (in thousands)</b>			
	<b>Non-Current Liabilities</b>	<b>Current Liabilities</b>	<b>Total</b>
<b>Intragovernmental</b>			
Employer Contributions & Payroll Taxes Payable	\$ —	\$ 490	\$ 490
FECA	—	74	74
Unemployment	—	5	5
Liabilities for Non-Entity Assets	—	55	55
<b>Total Intragovernmental Other Liabilities</b>	<b>\$ —</b>	<b>\$ 624</b>	<b>\$ 624</b>
<b>With the Public</b>			
Employer Contributions & Payroll Taxes Payable	\$ —	\$ 87	\$ 87
Accrued Funded Payroll Benefits	—	1,937	1,937
Accrued Unfunded Annual Leave	—	4,563	4,563
Rent Abatement Liability	5,296	641	5,937
<b>Total Other Liabilities with the Public</b>	<b>\$ 5,296</b>	<b>\$ 7,228</b>	<b>\$ 12,524</b>

## Note 8 — Accrual - Grant Liabilities

As of September 30, 2020, MCC reported grant accrual liabilities of \$97,576 thousand, comprised of grant accruals of \$87,524 thousand and retentions of \$10,052 thousand. As of September 30, 2019, the grant accrual liabilities reported were \$44,859 thousand, comprised of grant accruals of \$41,437 thousand and retentions of \$3,422 thousand. Grant accruals and retentions increased primarily due to the Benin II, Ghana II, and Morocco II compacts.

## Note 9 — Commitments and Contingencies

MCC's program execution results in commitments of future obligations with country-specific accountable entities. Upon signing the agreement with the government, MCC obligates a small portion of the funding to support the pre-implementation activities and commits the remainder of the funding until Entry into Force (EIF). When the necessary milestones for EIF are met, the committed funds are recorded as an obligated. As of September 30, 2020, MCC had commitments for the Burkina Faso, Mongolia II, Nepal, and Senegal II compacts totaling \$1,710,219 thousand and the Togo Threshold for \$34,407 thousand. Similarly, as of September 30, 2019, MCC had commitments for the Mongolia II, Nepal, and Senegal II compacts totaling \$1,293,640 thousand and the Togo Threshold for \$34,407 thousand.

A loss contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible loss to MCC. The uncertainty ultimately should be resolved when one or more future events occur or fail to occur. The likelihood that the future event or events will occur confirms the loss; the incurrence of a liability can range from probable to remote. SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS No. 12, *Recognition of Contingent Liabilities from Litigation*, contains the criteria for recognition and disclosure of contingent liabilities.

MCC could be a party to various administrative proceedings, legal actions, and claims brought by or against it. With the exception of pending, threatened, or potential litigation, a contingent liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is more likely than not to occur, and the related future outflow or sacrifice of resources is measurable. For pending, threatened, or potential litigation, a contingent liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is likely to occur, and the related future outflow or sacrifice of resources is measurable.

Certain contracts entered into by MCA's may contain performance guarantees which may or may not result in the MCA being reimbursed for nonperformance. These performance guarantees are not recorded until the non-performance event is triggered and result in a receivable to the MCA. As of September 30, 2020, eight MCAs had agreements subject to performance guarantees which in aggregate are not to exceed \$59,536 thousand. As of September 30, 2019, five MCAs had agreements subject to performance guarantees which in aggregate are not to exceed \$22,073 thousand.

## Note 10 — Liabilities Not Covered by Budgetary Resources

Liabilities of Federal agencies are classified as liabilities covered or not covered by budgetary resources. MCC's liabilities not covered by budgetary resources primarily consist of accrued unfunded annual leave and unamortized rent abatement. As of September 30, 2020 and 2019, liabilities not covered by budgetary resources were as follows:

<b>Liabilities Not Covered by Budgetary Resources (in thousands)</b>		
	2020	2019
<b>Intragovernmental</b>		
FECA	\$ —	\$ 74
Unemployment	9	5
Total Intragovernmental	9	79
Annual Leave Liability	5,459	4,563
Franklin Court Unamortized Rent Abatement	5,296	5,937
Total Liabilities Not Covered by Budgetary Resources	10,764	10,579
Total Liabilities Covered by Budgetary Resources	108,859	56,742
<b>Total Liabilities</b>	<b>\$ 119,623</b>	<b>\$ 67,321</b>

### Note 11 — Donated Services

On occasion, MCC may utilize donated services from other Federal agencies, individuals, and private firms in the course of its normal business operations. The approximate fair market value of donated services was \$53 thousand for FY 2020 and \$66 thousand for FY 2019.

### Note 12 — Net Adjustments to Unobligated Balance, Brought Forward, October 1

During the years ended September 30, 2020 and 2019, certain adjustments were made to the balance of unobligated budgetary resources available as of October 1, 2019 and 2018. These adjustments include, among other things downward adjustments to undelivered orders that were obligated in a prior fiscal year. The adjustments for the years ended September 30, 2020 and 2019 are presented below:

<b>Net adjustment to Unobligated Balance, Brought Forward October 1 (in thousands)</b>		
	2020	2019
Unobligated balance brought forward from prior year	\$ 2,721,058	\$ 2,459,432
Adjustments to budgetary resources made during current year		
Downward adjustments of prior year orders	215,704	94,286
<b>Unobligated budgetary resources from prior year budget authorities, (net discretionary and mandatory)</b>	<b>\$ 2,936,762</b>	<b>\$ 2,553,718</b>

### Note 13 — Undelivered Orders at the End of the Period

Undelivered Orders represent the amount of goods and/or services ordered to perform MCC's program activities, which have not been received. MCC's undelivered orders as of September 30, 2020 and 2019, respectively is comprised as follows:

Undelivered Orders at September 30, 2020 and September 30, 2019 (in thousands)		
	2020	2019
<b>Intragovernmental</b>		
Paid	\$ 8,260	\$ 9,735
Unpaid	13,752	14,267
Total Intragovernmental	22,012	24,002
<b>Public</b>		
Paid	49,198	29,241
Unpaid	2,059,092	2,684,780
Total Public	2,108,290	2,714,021
<b>Total</b>	<b>\$ 2,130,302</b>	<b>\$ 2,738,023</b>

### Note 14 — Explanation of Differences between the Combined Statement of Budgetary Resources and the Budget of the U.S. Government

The table below documents the differences between the FY 2019 Statement of Budgetary Resources and the actual amounts reported for FY 2019 in the Budget of the U.S. Government released in 2020. Since the FY 2020 financial statements will be reported prior to the release of the Budget of the U.S. Government, MCC is reporting for FY 2019 only. Typically, the Budget of the U.S. Government with the current year actual data is published in February of the subsequent year. Once published, the FY 2020 actual data will be available on <https://www.whitehouse.gov/omb/budget/>

Explanation of Differences between the Combined Statement of Budgetary Resources and the Budget of the U.S. Government (in millions)			
	Budgetary Resources	New Obligations & Upward Adjustments (Total)	Net Outlays
Statement of Budgetary Resources	\$ 3,459	\$ 738	\$ (632)
Other: Rounding	(1)	—	—
<b>Budget of the U.S. Government</b>	<b>\$ 3,458</b>	<b>\$ 738</b>	<b>\$ (632)</b>



## Note 15 — Reconciliation of Net Cost to Net Outlays

SFFAS 53, *Budget and Accrual Reconciliation*, requires a reconciliation of the entity's net outlays on a budgetary basis and the net cost of operations during the reporting period. The reconciliation of net outlays (reported on the Statement of Budgetary Resources) and net cost (reported on the Statement of Net Cost) clarifies the relationship between budgetary and financial accounting information. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays.

<b>Reconciliation of Net Cost of Operations to Budget Outlays for the Year Ending September 30, 2020 (in thousands)</b>			
	<b>Intra- governmental</b>	<b>With the Public</b>	<b>Total</b>
<b>Net Operating Cost</b>	<b>\$ 34,604</b>	<b>\$ 615,128</b>	<b>\$ 649,732</b>
<b>Components of Net Operating Cost Not Part of the Budget Outlays</b>			
Property, Plant and Equipment Depreciation	—	(4,324)	(4,324)
<b>Increase/(Decrease) in Assets:</b>			
Accounts Receivable	—	(2,021)	(2,021)
Advances	(1,475)	19,957	18,482
<b>(Increase)/Decrease in Liabilities Not Affecting Budget Outlays:</b>			
Accounts Payable	693	511	1,204
Salaries and Benefits	(186)	(416)	(602)
Other Liabilities (Rent Abatement, Unfunded Leave, Unfunded FECA)	68	(255)	(187)
Grant Accrual Liability	—	(52,717)	(52,717)
<b>Other Financing Sources:</b>			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to the Agency	(2,139)	—	(2,139)
Donated Services	—	(53)	(53)
<b>Total Components of Net Operating Cost Not Part of the Budget Outlays</b>	<b>(3,039)</b>	<b>(39,318)</b>	<b>(42,357)</b>
<b>Components of the Budget Outlays That Are Not Part of Net Operating Cost</b>			
Acquisition of Capital Assets	—	—	—
Other	—	1	1
<b>Total Components of the Budget Outlays That Are Not Part of Net Operating Cost</b>	<b>—</b>	<b>1</b>	<b>1</b>
<b>Net Outlays</b>	<b>\$ 31,565</b>	<b>\$ 575,811</b>	<b>\$ 607,376</b>

**Reconciliation of Net Cost of Operations to Budget Outlays for the Year Ending September 30, 2019  
(in thousands)**

	Intra- governmental	With the Public	Total
<b>Net Operating Cost</b>	<b>\$ 33,283</b>	<b>\$ 512,233</b>	<b>\$ 545,516</b>
<b>Components of Net Operating Cost Not Part of the Budget Outlays</b>			
Property, Plant and Equipment Depreciation	—	(4,263)	(4,263)
<b>Increase/(Decrease) in Assets:</b>			
Accounts Receivable	—	1,964	1,964
Advances	6,187	22,618	28,805
<b>(Increase)/Decrease in Liabilities Not Affecting Budget Outlays:</b>			
Accounts Payable	(673)	(766)	(1,439)
Salaries and Benefits	(63)	77	14
Other Liabilities (Rent Abatement, Unfunded Leave, Unfunded FECA)	7	564	571
Grant Accrual Liability	—	63,687	63,687
<b>Other Financing Sources:</b>			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to the Agency	(2,928)	—	(2,928)
Donated Services	—	(66)	(66)
<b>Total Components of Net Operating Cost Not Part of the Budget Outlays</b>	<b>2,530</b>	<b>83,815</b>	<b>86,345</b>
<b>Components of the Budget Outlays That Are Not Part of Net Operating Cost</b>			
Acquisition of Capital Assets	—	274	274
Other	—	12	12
<b>Total Components of the Budget Outlays That Are Not Part of Net Operating Cost</b>	<b>—</b>	<b>286</b>	<b>286</b>
<b>Net Outlays</b>	<b>\$ 35,813</b>	<b>\$ 596,334</b>	<b>\$ 632,147</b>

## Note 16 — Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position for FR Compilation Process

To prepare the Financial Report of the U.S. Government (FR), the Department of the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position for each agency, which are accessed using GTAS. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements. This note shows the MCC's financial statements and the MCC reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated FR line items. A copy of the 2019 FR can be found here: <https://www.fiscal.treasury.gov/reports-statements/> and a copy of the 2020 FR will be posted to this site as soon as it is released.

The term "intragovernmental" is used in this note to refer to amounts that result from other components of the Federal Government.

The term “non-Federal” is used in this note to refer to Federal Government amounts that result from transactions with non-Federal entities. These include transactions with individuals, businesses, non-profit entities, and State, local, and foreign governments.

MCC is not funded by any sources of Dedicated Collections.

<b>Reclassification of Balance Sheet to Line Items Used for the Government-wide Balance Sheet as of September 30, 2020 (in thousands)</b>			
<b>FY 2020 MCC Balance Sheet</b>		<b>Line Items Used to Prepare FY 2020 Government-wide Balance Sheet</b>	
<b>Financial Statement Line</b>	<b>Amounts</b>	<b>Amounts</b>	<b>Reclassified Financial Statement Line</b>
<b>Intragovernmental Assets</b>			<b>Intragovernmental Assets</b>
Fund Balance with Treasury	\$ 5,774,489	\$ 5,774,489	Fund Balance with Treasury
Advances	8,260	8,260	Advances to Others and Prepayments
Total Advances	8,260	8,260	Total Reclassified Other
<b>Total Intragovernmental Assets</b>	<b>5,782,749</b>	<b>5,782,749</b>	<b>Total Intragovernmental Assets</b>
Accounts Receivable, Net	3	3	Accounts Receivable, Net
General Property Plant & Equipment, Net	14,237	14,237	General Property, Plant, & Equipment, Net
Advances	49,198	49,198	Other Assets
<b>Total Assets</b>	<b>\$ 5,846,187</b>	<b>\$ 5,846,187</b>	<b>Total Assets</b>
<b>Intragovernmental Liabilities</b>			<b>Intragovernmental Liabilities</b>
Accounts Payable	\$ 128	\$ 128	Accounts Payable
Total Accounts Payable	128	128	Total Reclassified Accounts Payable
Other Liabilities	742	523	Benefit program contributions payable
		56	Liability to the General Fund of the U.S. Government for Custodial and Other Non-Entity Assets
		163	Other Liabilities (without reciprocals)
Total Other Liabilities	742	742	Total Reclassified Other — Miscellaneous Liabilities
<b>Total Intragovernmental Liabilities</b>	<b>870</b>	<b>870</b>	<b>Total Intragovernmental Liabilities</b>
Accounts Payable	7,982	7,982	Accounts Payable
		5,560	Federal Employee and Veteran Benefits Payable
Accrual — Grant Liabilities	97,576		
Other Liabilities	13,195	105,211	Other Liabilities
<b>Total Liabilities</b>	<b>\$ 119,623</b>	<b>\$ 119,623</b>	<b>Total Liabilities</b>
<b>Net Position</b>			<b>Net Position</b>
Unexpended Appropriations — All Other Funds	\$ 5,721,158	\$ 5,721,158	Unexpended Appropriations — All Other Funds
Cumulative Results of Operations — All Other Funds	5,406	5,406	Cumulative Results of Operations — All Other Funds
Total Net Position	5,726,564	5,726,564	Total Net Position
<b>Total Liabilities &amp; Net Position</b>	<b>\$ 5,846,187</b>	<b>\$ 5,846,187</b>	<b>Total Liabilities &amp; Net Position</b>

**Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost for the Year Ending September 30, 2020 (in thousands)**

FY 2020 MCC Statement of Net Cost		Line Items Used to Prepare FY 2020 Government-wide Statement of Net Cost	
Financial Statement Line	Amounts	Amounts	Reclassified Financial Statement Line
Gross Costs	\$ 649,732		<b>Non-Federal Costs</b>
		\$ 615,128	Non-Federal Gross Cost
		<u>615,128</u>	<b>Total Non-Federal Gross Cost</b>
			<b>Intragovernmental Costs</b>
		9,928	Benefit Program Costs
		2,139	Imputed Costs
		19,415	Buy/Sell Costs
		<u>3,122</u>	Other Expenses (w/o Reciprocals)
		<u>34,604</u>	<b>Total Intragovernmental Costs</b>
Total Gross Costs	<u>649,732</u>	<u>649,732</u>	Total Reclassified Gross Costs
Net Cost of Operations	<u>\$ 649,732</u>	<u>\$ 649,732</u>	Net Cost of Operations

**Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost for the Year Ending September 30, 2020 (in thousands)**

FY 2020 MCC Statement of Net Cost		Line Items Used to Prepare FY 2020 Government-wide Statement of Net Cost	
Financial Statement Line	Amounts	Amounts	Reclassified Financial Statement Line
<b>Unexpended Appropriations</b>			
Unexpended Appropriations, Beginning Balance	\$ 5,459,097	\$ 5,459,097	Net Position, Beginning of Period
Appropriations Received	905,000	905,000	Appropriations Received as Adjusted
Appropriations Used	<u>(642,939 )</u>	<u>(642,939 )</u>	Appropriations Used (Federal)
<b>Total Unexpended Appropriations</b>	<u>\$ 5,721,158</u>	<u>\$ 5,721,158</u>	
<b>Cumulative Results of Operations</b>			
Cumulative Results, Beginning Balance	\$ 10,007	\$ 10,007	Net Position, Beginning of Period
Appropriations Used	642,939	642,939	Budgetary Financing Sources
Donations and Forfeitures of Cash and Cash Equivalents	53	53	Other Taxes and Receipts (Non-Federal)
Imputed Financing	2,139	2,139	Imputed Financing Sources (Federal)
Total Financing Sources	<u>645,131</u>	<u>645,131</u>	Total Financing Sources
<b>Net Cost of Operations</b>	<u>(649,732)</u>	<u>(649,732)</u>	Net Cost of Operations
<b>Ending Balance — Cumulative Results of Operations Total</b>	<u>5,406</u>	<u>5,406</u>	<b>Net Position – Ending Balance</b>
<b>Net Position</b>	<u>\$ 5,726,564</u>	<u>\$ 5,726,564</u>	<b>Total Net Position</b>