Audit of MCC’s Financial Statements for Fiscal Years 2021 and 2020

Audit Report 0-MCC-22-006-C
November 12, 2021
MEMORANDUM

DATE: November 12, 2021

TO: Millennium Challenge Corporation, Vice President, Department of Administration and Finance and Chief Financial Officer, Fouad Saad

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

SUBJECT: Audit of MCC’s Financial Statements for Fiscal Years 2021 and 2020 (0-MCC-22-006-C)

Enclosed is the final audit report on the Millennium Challenge Corporation’s (MCC’s) financial statements for fiscal years 2021 and 2020. The Office of Inspector General (OIG) contracted with the independent certified public accounting firm of RMA Associates LLC (RMA) 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. 21-04, “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 RMA 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, 2021, were presented fairly, in all material respects; (2) evaluate MCC’s internal controls over financial reporting; and (3) determine whether MCC complied with applicable laws, regulations, contracts and agreements. To answer the audit objectives, the audit firm assessed risk, considered internal controls, and designed audit procedures relevant to MCC’s fair presentation of its 2021 financial statements.

RMA concluded that MCC’s financial statements for the fiscal year ending September 30, 2021, are presented fairly, in all material respects, and in accordance with accounting principles generally accepted in the United States of America. Additionally, the audit firm found no reportable noncompliance for fiscal year 2021 with provisions of applicable 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’ financial reporting (modified repeat finding).
The financial statements of MCC as of September 30, 2020, were audited by CliftonLarsonAllen LLP, whose report dated November 13, 2020, expressed an unmodified opinion on those financial statements.¹

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

**Recommendation 1.** Ensure that Millennium Challenge Account project directors receive additional training on the documentation requirements they are responsible for to ensure timely processing of payments in accordance with the Fiscal Accountability Plan.

**Recommendation 2.** Institute controls, such as automated system reminders (i.e., Outlook Calendar Reminders), with the appropriate personnel within MCC to help mitigate the risk of Millennium Challenge Accounts not meeting the Monthly Commitment and Disbursement Reports reporting time requirement.

**Recommendation 3.** Provide additional training to the Millennium Challenge Accounts regarding revisions to be made to MCC’s Grant Accrual Guidance. Specifically, emphasize the responsibility of the Millennium Challenge Accounts to identify all open contracts and require the project director/engineer over those contracts to provide an accrual estimate or a written explanation for why one is not needed to obtain full coverage.

**Recommendation 4.** Revise MCC’s Grant Accrual Guidance to incorporate current data call requirements for the Millennium Challenge Accounts to identify open contracts.

**Recommendation 5.** Provide additional training to the Millennium Challenge Accounts to ensure the Millennium Challenge Accounts have a clear understanding of the grant accrual validation requirements.

**Recommendation 6.** Include the instructions provided to the accountable entities regarding the validation process within the Grant Accrual Guidance.

In finalizing the report, the audit firm evaluated MCC’s responses to the recommendations. After reviewing that evaluation, we consider recommendations 1 through 6 resolved but open pending completion of planned activities. For recommendations 1 through 6, please provide evidence of final action to OIGAuditTracking@usaid.gov.

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

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MILLENNIUM CHALLENGE CORPORATION

Independent Auditors’ Report
of Millennium Challenge Corporation’s Financial Statements
for the Period Ending September 30, 2021
To the Inspector General  
United States Agency for International Development  

To the Board of Directors  
Millennium Challenge Corporation  

Independent Auditors’ Report  

In our audit of fiscal year 2021 financial statements of the Millennium Challenge Corporation (MCC), we found:  

• MCC’s financial statements as of and for the fiscal year ended September 30, 2021, are presented fairly, in all material respects, in accordance with the U.S. generally accepted accounting principles;  
• no material weaknesses, but one significant deficiency in internal control over financial reporting for fiscal year 2021 based on the limited procedures we performed; and  
• no reportable noncompliance for fiscal year 2021 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)\(^1\) such as Management’s Discussion and Analysis (MD&A) and other information\(^2\) 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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\(^1\) The RSI consists of Management’s Discussion and Analysis, which are included with the financial statement.  

\(^2\) 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 the accompanying financial statements of MCC which comprise the balance sheet as of September 30, 2021, and the related statement of net cost, changes in net position, and budgetary resources (hereinafter referred to as “financial statements” or “basic financial statements”), for the year then ended; and the related notes to the financial statements. The financial statements of MCC as of September 30, 2020 were audited by other auditors whose report dated November 13, 2020, expressed an unmodified opinion on those financial statements.

We conducted our audit in accordance with United States (U.S.) generally accepted government auditing standards and Office of Management and Budget (OMB) Bulletin No. 21-04, “Audit Requirements for Federal Financial Statements.” We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management’s Responsibility for the Financial Statements

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 the 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 audit. U.S. generally accepted government auditing standards and OMB Bulletin No. 21-04, “Audit Requirements for Federal Financial Statements” 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 account balances 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 auditor considers 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 the Financial Statements**

In our opinion, MCC’s financial statements present fairly, in all material respects, MCC’s financial position as of September 30, 2021, and its net cost, changes in net position, and budgetary resources for the fiscal year then ended in accordance with U.S. generally accepted accounting principles.

**Other Matters**

**Predecessor Auditor**

The financial statements of MCC for the year ended September 30, 2020, were audited by another auditor, who expressed an unmodified opinion on those statements on November 13, 2020.

**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 auditor’s 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 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 MCC’s financial statements, we considered MCC’s internal control over financial reporting, consistent with our auditor’s 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 misstatement, whether due to fraud or error.

Auditor’s Responsibility

In planning and performing our audit of MCC’s financial statements as of and for the year ended September 30, 2021, in accordance with U.S. generally accepted government auditing standards, we considered the 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. 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 of 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 in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies or to express an opinion on the effectiveness of the MCC's internal control over financial reporting and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, we identified one deficiency in internal control, summarized below and described in Exhibit 1, that we consider to be a significant deficiency:

- MCC oversight and internal control over the Millennium Challenge Accounts’ (MCA) financial reporting (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.

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 auditor’s 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 standards.

Management’s Responsibility

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

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 2021 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to 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 standards 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 Recommendations

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 13, 2020. The status of prior year recommendations is presented in Exhibit 3.

RMA Associates

Arlington, Virginia
November 10, 2021
Exhibit 1 - Significant Deficiency in Internal Control

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 three 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:

MCA invoices paid late and late Monthly Commitment and Disbursement Reports (MCDR) submission — 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. An MCA submitted the MCDR for November 2021 to MCC on December 23, 2020, which was nine days after the submission deadline. The delay was due to:

- Lack of training to ensure that MCA project management provides complete and timely invoice support documentation addressing issues concerning late deliverables and payment penalties, so the Fiscal Agent can approve the invoice for payment.
- Lack of management oversight to ensure that the MCDR was submitted on time.

Grant accrual liability and validation reporting errors — One MCA did not report a grant accrual estimate in accordance with MCC guidance resulting in an understatement of $648,218 in quarter one and $581,710 in quarter two. For another MCA, one out of nine grant accrual validation (GAV) transactions tested was incorrect due to the project engineer not providing the accurate percentage of completion resulting in an overstatement of $60,497 in quarter one; three out of nine GAV transactions tested were not reported, resulting in an understatement of $627,161 in quarter one and $509,695 in quarter two; and two out of nine GAV transactions tested resulted in an overstatement of $684,781 in quarter one and $3,401,521 in quarter two. We also noted an MCA could not provide evidence that it reported an accrual estimate of $100,000 for two out of eight GAV transactions. The reporting errors were due to incomplete MCC guidance and MCA procedures which do not establish a responsibility for the MCA to identify all open contracts and
require the project direct/engineer over those contracts to provide an accrual estimate or written explanation for why one is not needed to obtain full coverage.

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

**Recommendation 1** – Ensure that MCA project directors receive additional training on the documentation requirements they are responsible for to ensure timely processing of payments in accordance with the FAP.

**Recommendation 2** – Institute controls such as automated system reminders (i.e., Outlook Calendar Reminders) with the appropriate personnel within MCC to help mitigate the risk of MCAs not meeting the MCDR reporting time requirement.

**Recommendation 3** – Provide additional training to the MCAs regarding revisions to be made to MCC’s Grant Accrual Guidance. Specifically, emphasize the responsibility of the MCA to identify all open contracts and require the project director/engineer over those contracts to provide an accrual estimate or a written explanation for why one is not needed to obtain full coverage.

**Recommendation 4** – Revise MCC’s Grant Accrual Guidance to incorporate current data call requirements for the MCAs to identify open contracts.

**Recommendation 5** – Provide additional training to the MCAs to ensure the MCAs have a clear understanding of the grant accrual validation requirements.

**Recommendation 6** – Include the instructions provided to the accountable entities regarding the validation process within the Grant Accrual Guidance.
Exhibit 2 – Management’s Response to the Audit Findings

DATE: November 9, 2021

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

FROM: Fouad P. Saad
Vice President and Chief Financial Officer
Department of Administration and Finance
Millennium Challenge Corporation


The Millennium Challenge Corporation (MCC) appreciates the opportunity to respond to the draft report on the Office of Inspector General (OIG)’s audit, “Audit of MCC’s Financial Statements for Fiscal Years 2021 and 2020,” dated November 4, 2021. MCC concurs with the conclusions of the report and provides a management response, which includes the management decision, to each recommendation below.

OIG Recommendation 1 – Ensure that MCA project directors receive additional training on the documentation requirements they are responsible for to ensure timely processing of payments in accordance with the Fiscal Accountability Plan.

MCC Response – MCC concurs with the recommendation. MCC will ensure that the management of each MCA is providing additional training to relevant MCA staff on the responsibilities and requirements inherent in the timely processing of payments in accordance with each Fiscal Accountability Plan, as applicable. MCC will complete the final action no later than April 29, 2022.
OIG Recommendation 2 – Institute controls, such as automated system reminders (i.e., Outlook Calendar Reminders), with the appropriate personnel within MCC to help mitigate the risk of MCAs not meeting the Monthly Commitment and Disbursement Reports reporting time requirement.

MCC Response – MCC concurs with the recommendation. Recognizing that MCC’s controls are those which we institute over MCC’s systems and personnel rather than those of each MCA, MCC will institute a step as part to the quarterly disbursement process whereby the agency will send a regular, periodic reminder to the appropriate MCA personnel to remind them of monthly financial reporting responsibilities in order to mitigate the risk of late Monthly Commitment and Disbursement Reports. MCC will complete the final action no later than March 18, 2022.

OIG Recommendation 3 – Provide additional training to the MCAs regarding revisions to be made to MCC’s Grant Accrual Guidance. Specifically, emphasize the responsibility of the MCA to identify all open contracts and require the project director/engineer over those contracts to provide an accrual estimate or a written explanation for why one is not needed to obtain full coverage.

MCC Response – MCC concurs with the recommendation. MCC will provide additional training to the MCAs related to future Grant Accrual Guidance, including MCA responsibility to identify open contracts and the effects on the grant accrual estimate. MCC will complete the final action no later than March 18, 2022.

OIG Recommendation 4 – Revise MCC’s Grant Accrual Guidance to incorporate current data call requirements for the MCAs to identify open contracts.

MCC Response – MCC concurs with the recommendation. MCC will revise the Grant Accrual Guidance to incorporate current MCA data call requirements related to open contract identification. MCC will complete the final action no later than March 18, 2022.

OIG Recommendation 5 – Provide additional training to the MCAs to ensure the MCAs have a clear understanding of the grant accrual validation requirements.

MCC Response – MCC concurs with the recommendation. MCC will provide additional training to the MCAs to improve their understanding of the grant validation requirements no later than March 18, 2022.
OIG Recommendation 6 – Include the instructions provided to the accountable entities regarding the validation process within the Grant Accrual Guidance.

MCC Response – MCC concurs with the recommendation. MCC will provide instructions related to the validation process within the Grant Accrual Guidance to the accountable entities no later than March 18, 2022.

If you have any questions or require additional information, please contact me via phone, 202-521-3885; or by email at saadfp@mcc.gov. Additionally, you can also contact Jude Koval, Senior Director of Internal Controls and Audit Compliance (ICAC) via phone, 202-521-7280; or by email at kovaljg@mcc.gov.

CC: Damian Wilson, Principal Director, OIG, USAID
    Anna Elias, Assistant Audit Director, Financial Audits Division, OIG, USAID
    Adam Bethon, Deputy Chief Financial Officer, FMD, A&F, MCC
    Lori Giblin, Chief Risk Officer, A&F, MCC
    Michael Wright, Controller, FMD, A&F, MCC
    Jude Koval, Senior Director, ICAC, A&F, MCC
### Exhibit 3 – Status of Prior Year Recommendations

<table>
<thead>
<tr>
<th>FY 2020 Recommendations</th>
<th>Type</th>
<th>FY 2021 Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Revise MCC’s Grant Accrual Estimation: Millennium Challenge Account Guidance to state when an 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.</td>
<td>Significant Deficiency</td>
<td>Closed</td>
</tr>
<tr>
<td>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.</td>
<td>Significant Deficiency</td>
<td>Open</td>
</tr>
<tr>
<td>3. Provide additional training to the MCAs to ensure the MCAs have a clear understanding of the grant accrual estimation and validation requirements.</td>
<td>Significant Deficiency</td>
<td>Closed</td>
</tr>
<tr>
<td>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.</td>
<td>Significant Deficiency</td>
<td>Closed</td>
</tr>
<tr>
<td>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.</td>
<td>Significant Deficiency</td>
<td>Open</td>
</tr>
<tr>
<td>FY 2020 Recommendations</td>
<td>Type</td>
<td>FY 2021 Status</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------------------</td>
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</tr>
<tr>
<td>6. Provide an additional reminder to the MCAs regarding the payment requirements in the Fiscal Accountability Plan and instruct them to monitor their compliance.</td>
<td>Significant Deficiency</td>
<td>Closed</td>
</tr>
<tr>
<td>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.</td>
<td>Significant Deficiency</td>
<td>Open</td>
</tr>
<tr>
<td>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.</td>
<td>Significant Deficiency</td>
<td>Open</td>
</tr>
<tr>
<td>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.</td>
<td>Significant Deficiency</td>
<td>Closed</td>
</tr>
</tbody>
</table>
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 10, 2021). 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, 2020 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, 2021 and 2020
(in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intragovernmental</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fund Balance with Treasury (Note 2)</td>
<td>$5,962,129</td>
<td>$5,774,489</td>
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<tr>
<td>Advances and Prepayments (Note 3)</td>
<td>6,538</td>
<td>8,260</td>
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<tr>
<td>Total Intragovernmental</td>
<td>$5,968,667</td>
<td>$5,782,749</td>
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<td>With the Public:</td>
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<tr>
<td>Accounts Receivable, net (Note 4)</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>General Property, Plant, and Equipment, net (Note 5)</td>
<td>9,919</td>
<td>14,237</td>
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<tr>
<td>Advances and Prepayments (Note 3)</td>
<td>47,251</td>
<td>49,198</td>
</tr>
<tr>
<td>Total with the Public</td>
<td>$57,173</td>
<td>$63,438</td>
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<tr>
<td><strong>Total Assets:</strong></td>
<td>$6,025,840</td>
<td>$5,846,187</td>
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<tr>
<td><strong>Liabilities:</strong></td>
<td></td>
<td></td>
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<tr>
<td>Intragovernmental</td>
<td></td>
<td></td>
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<tr>
<td>Accounts Payable</td>
<td>$698</td>
<td>$651</td>
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<tr>
<td>Advances from Others and Deferred Revenue</td>
<td>4,000</td>
<td>-</td>
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<td>Other Liabilities (Note 7)</td>
<td>242</td>
<td>219</td>
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<tr>
<td>Total Intragovernmental</td>
<td>$4,940</td>
<td>870</td>
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<tr>
<td>With the Public</td>
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<td></td>
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<tr>
<td>Accounts Payable</td>
<td>13,500</td>
<td>7,982</td>
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<tr>
<td>Federal Employee [and Veteran] Benefits Payable</td>
<td>5,402</td>
<td>5,560</td>
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<tr>
<td>Other Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued Grant Liabilities (Note 9)</td>
<td>115,209</td>
<td>97,576</td>
</tr>
<tr>
<td>Other (Note 7)</td>
<td>7,719</td>
<td>7,635</td>
</tr>
<tr>
<td>Total with the Public</td>
<td>$141,830</td>
<td>$118,753</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>$146,770</td>
<td>$119,623</td>
</tr>
<tr>
<td><strong>Commitment and Contingencies (Note 10)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net Position</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unexpected Appropriations-Funds from Other than Dedicated Collections</td>
<td>$5,878,985</td>
<td>$5,721,158</td>
</tr>
<tr>
<td>Total Unexpended Appropriations</td>
<td>$5,878,985</td>
<td>$5,721,158</td>
</tr>
<tr>
<td>Cumulative Results of Operations-Funds from other than Dedicated Collections</td>
<td>85</td>
<td>5,406</td>
</tr>
<tr>
<td>Total Cumulative Results of Operations</td>
<td>85</td>
<td>5,406</td>
</tr>
<tr>
<td><strong>Total Net Position</strong></td>
<td>$5,879,070</td>
<td>$5,726,564</td>
</tr>
<tr>
<td><strong>Total Liabilities and Net Position</strong></td>
<td>$6,025,840</td>
<td>$5,846,187</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these statements.
## STATEMENTS OF NET COST
For the Years Ended September 30, 2021 and 2020
(in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compact Assistance</td>
<td>$ 541,370</td>
<td>$ 412,353</td>
</tr>
<tr>
<td>Compact Development Funding</td>
<td>14,187</td>
<td>22,800</td>
</tr>
<tr>
<td>Threshold</td>
<td>23,380</td>
<td>23,500</td>
</tr>
<tr>
<td>Due Diligence</td>
<td>58,986</td>
<td>67,320</td>
</tr>
<tr>
<td>Audit</td>
<td>3,316</td>
<td>4,489</td>
</tr>
<tr>
<td>Administrative</td>
<td>120,766</td>
<td>119,270</td>
</tr>
<tr>
<td><strong>Net cost of Operations</strong></td>
<td><strong>$ 762,005</strong></td>
<td><strong>$ 649,732</strong></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these statements.
## STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2021 and 2020
(in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unexpended Appropriations</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning Balance, as Adjusted</td>
<td>$ 5,721,158</td>
<td>$ 5,459,097</td>
</tr>
<tr>
<td>Appropriations Received</td>
<td>912,000</td>
<td>905,000</td>
</tr>
<tr>
<td>Other Adjustments</td>
<td>11</td>
<td>-</td>
</tr>
<tr>
<td>Appropriations Used</td>
<td>(754,184)</td>
<td>(642,939)</td>
</tr>
<tr>
<td>Change in Unexpended Appropriations</td>
<td>157,827</td>
<td>262,061</td>
</tr>
<tr>
<td><strong>Total Unexpended Appropriations</strong></td>
<td>$5,878,985</td>
<td>$5,721,158</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cumulative Results of Operations</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning Balance, as Adjusted</td>
<td>5,406</td>
<td>10,007</td>
</tr>
<tr>
<td>Appropriations Used</td>
<td>754,184</td>
<td>642,939</td>
</tr>
<tr>
<td>Donations and Forfeitures of Property <em>(Note 11)</em></td>
<td>22</td>
<td>53</td>
</tr>
<tr>
<td>Imputed Financing</td>
<td>2,478</td>
<td>2,139</td>
</tr>
<tr>
<td><strong>Net Cost of Operations</strong></td>
<td>(762,005)</td>
<td>(649,732)</td>
</tr>
<tr>
<td><strong>Change in Cumulative Results of Operations</strong></td>
<td>(5,321)</td>
<td>(4,601)</td>
</tr>
<tr>
<td>Cumulative Results of Operations</td>
<td>85</td>
<td>5,406</td>
</tr>
<tr>
<td><strong>Net Position</strong></td>
<td>$ 5,879,070</td>
<td>$ 5,726,564</td>
</tr>
</tbody>
</table>

*The accompanying notes are an integral part of these statements.*
## STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2021 and 2020
(in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Budgetary Resources</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unobligated Balance from Prior Year Budget Authority, Net <em>(Note 12)</em></td>
<td>$3,641,522</td>
<td>$2,936,762</td>
</tr>
<tr>
<td>Appropriations (Discretionary and Mandatory)</td>
<td>912,000</td>
<td>905,000</td>
</tr>
<tr>
<td>Spending Authority from Offsetting Collections (Discretionary and Mandatory)</td>
<td>4,000</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Budgetary Resources</strong></td>
<td>$4,557,522</td>
<td>$3,841,762</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Status of Budgetary Resources</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Obligations and Upward Adjustments (total)</td>
<td>$1,097,317</td>
<td>$248,992</td>
</tr>
<tr>
<td>Unobligated Balance, end of year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Apportioned, Unexpired Accounts</td>
<td>3,421,316</td>
<td>3,571,780</td>
</tr>
<tr>
<td>Unapportioned, Unexpired Accounts</td>
<td>38,889</td>
<td>20,990</td>
</tr>
<tr>
<td>Unexpired Unobligated Balance, end of year</td>
<td>3,460,205</td>
<td>3,592,770</td>
</tr>
<tr>
<td><strong>Total Budgetary Resources</strong></td>
<td>$4,557,522</td>
<td>$3,841,762</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Outlays, Net, and Disbursements, Net</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outlays, Net (total) (Discretionary and Mandatory)</td>
<td>724,361</td>
<td>607,376</td>
</tr>
<tr>
<td>Agency Outlays, Net (Discretionary and Mandatory)</td>
<td>$724,361</td>
<td>$607,376</td>
</tr>
</tbody>
</table>

*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 Assistance** – Compact Assistance funds comprise large, five-year grants for countries meeting MCC’s eligibility criteria. Under the Consolidated Appropriations Act, 2021 MCC may, subject to the availability of funds, extend any compact in effect as of January 29, 2020, for up to one additional year, to account for delays related to coronavirus subject to notification to the appropriate congressional committees prior to providing any such extension. As of September 30, 2021 an extension had been approved for the Ghana II Compact for 9 months and the Benin II Compact for 12 months (see also Note 16).

- **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 generally support the cost of evaluating and appraising compact projects, compact implementation performance oversight, and compact assessment of results during and after implementation.

- **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 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 their respective accountable entities (AE’s). 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 FY. 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 report.

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 AE’s, maintain their accounting records on a modified cash basis. The AE’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 AE’s for current and past works, goods, and services incurred/delivered/received and for which AE’s can request disbursement in a given quarter.

For AE’s with large infrastructure projects are structured to include retentions on invoices. The contract retentions represent a percentage of invoice amounts retained by the AE’s 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. AE’s do not release the retentions or request MCC payment for the retentions until the AE’s have verified that the contractor has met all the requirements and obligations under the contract.

Where an AE 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 AE 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, AE’s, and local vendors. Federal agencies are funded through Inter Agency Agreements. AE’s 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 AE’s, or to meet contractual requirements of AE’s 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 AE’s through the local permitted account is tracked and liquidated on a monthly basis via the Monthly Commitments and Disbursements Reports provided by the AE’s 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 AE 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, 2021 and September 30, 2020, 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, 2021, and September 30, 2020, 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 was performed by USAID acting as the child in this financial relationship. The relationship under this allocation ended on June 30, 2021. 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. Intrageographical 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 AEs 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. As of September 30, 2021 and 2020, respectively FBwT is comprised as follows:

Status of Fund Balance with Treasury (in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unobligated Balance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Available</td>
<td>$3,421,316</td>
<td>$3,571,780</td>
</tr>
<tr>
<td>Unavailable</td>
<td>38,889</td>
<td>20,990</td>
</tr>
<tr>
<td>Obligated Balance not yet Dispersed</td>
<td>2,501,867</td>
<td>2,181,663</td>
</tr>
<tr>
<td>Non-Budgetary FBwT</td>
<td>57</td>
<td>56</td>
</tr>
<tr>
<td>Total</td>
<td>$5,962,129</td>
<td>$5,774,489</td>
</tr>
</tbody>
</table>

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, 2021, the amounts reported in intragovernmental advances and to the public were $6,538 thousand and $47,251 thousand respectively. As of September 30, 2020, MCC reported intragovernmental advances totaling $8,260 thousand and public advances totaling $49,198 thousand. Intragovernmental advances decreased due to advance refunds and liquidations. Public advances decreased primarily due to advance liquidations for the Benin II and Ghana II compacts, and the El Salvador II Compact which ended on September 9, 2020.

Note 4 – Accounts Receivable, Net

Total receivables as of September 30, 2021 and 2020 were $3 thousand (net of allowance for doubtful accounts of $1 thousand) and $3 thousand (net of allowance for doubtful accounts of $16 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.

General Property, Plant, and Equipment, Net as of September 30, 2021 (in thousands)

<table>
<thead>
<tr>
<th>Estimated Useful Life</th>
<th>Cost</th>
<th>Accumulated Depreciation</th>
<th>Book Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>General PP&amp;E:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leasehold Improvements</td>
<td>10 Years</td>
<td>$ 8,392</td>
<td>$ (4,835)</td>
</tr>
<tr>
<td>Furniture</td>
<td>10 Years</td>
<td>3,788</td>
<td>(2,199)</td>
</tr>
<tr>
<td>Internal Use Software</td>
<td>5 Years</td>
<td>15,094</td>
<td>(10,326)</td>
</tr>
<tr>
<td>Vehicles</td>
<td>5 Years</td>
<td>232</td>
<td>(227)</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$ 27,506</td>
<td>$ (17,587)</td>
</tr>
</tbody>
</table>

General Property, Plant, and Equipment, Net as of September 30, 2020 (in thousands)

<table>
<thead>
<tr>
<th>Estimated Useful Life</th>
<th>Cost</th>
<th>Accumulated Depreciation</th>
<th>Book Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>General PP&amp;E:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leasehold Improvements</td>
<td>10 Years</td>
<td>$ 8,392</td>
<td>$ (3,982)</td>
</tr>
<tr>
<td>Furniture</td>
<td>10 Years</td>
<td>3,788</td>
<td>(1,817)</td>
</tr>
<tr>
<td>Internal Use Software</td>
<td>5 Years</td>
<td>15,095</td>
<td>(7,290)</td>
</tr>
<tr>
<td>Vehicles</td>
<td>5 Years</td>
<td>316</td>
<td>(265)</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$ 27,591</td>
<td>$ (13,354)</td>
</tr>
</tbody>
</table>

The table below provides a reconciliation of the carrying value of net Property, Plant and Equipment between October 1 and September 30 (in thousands):

<table>
<thead>
<tr>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>Book Value</td>
</tr>
<tr>
<td>Balance Beginning of Year</td>
<td>$ 27,591</td>
</tr>
<tr>
<td>Dispositions</td>
<td>(85)</td>
</tr>
<tr>
<td>Depreciation and Amortization</td>
<td>(85)</td>
</tr>
<tr>
<td>Balance at End of Year</td>
<td>$ 27,506</td>
</tr>
</tbody>
</table>

Note 6 – 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, 2021 and 2020, liabilities not covered by budgetary resources were as follows:
Liabilities Not Covered by Budgetary Resources as of September 30, 2021 (in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intragovernmental</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Unfunded Unemployment Related Benefits</td>
<td>$ 46</td>
<td>$ 9</td>
</tr>
<tr>
<td>Total Intragovernmental</td>
<td>46</td>
<td>9</td>
</tr>
<tr>
<td>Annual Leave Liability</td>
<td>5,258</td>
<td>5,459</td>
</tr>
<tr>
<td>Franklin Court Unamortized Rent Abatement</td>
<td>4,534</td>
<td>5,296</td>
</tr>
<tr>
<td>Total Liabilities Not Covered by Budgetary Resources</td>
<td>9,838</td>
<td>10,764</td>
</tr>
<tr>
<td>Total Liabilities Covered by Budgetary Resources</td>
<td>136,932</td>
<td>108,859</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$ 146,770</td>
<td>$ 119,623</td>
</tr>
</tbody>
</table>

Note 7 – Other Liabilities

MCC’s total other liabilities as of September 30, 2021 and 2020, respectively is comprised as follows:

Other Liabilities as of September 30, 2021 (in thousands)

<table>
<thead>
<tr>
<th></th>
<th>Non-Current Liabilities</th>
<th>Current Liabilities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intragovernmental</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employer Contributions &amp; Payroll Taxes Payable</td>
<td>$ -</td>
<td>$ 186</td>
<td>$ 186</td>
</tr>
<tr>
<td>Liabilities for Non-Entity Assets</td>
<td>-</td>
<td>56</td>
<td>56</td>
</tr>
<tr>
<td>Total Intragovernmental Other Liabilities</td>
<td>$ -</td>
<td>$ 242</td>
<td>$ 242</td>
</tr>
<tr>
<td>With the Public</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employer Contributions &amp; Payroll Taxes Payable</td>
<td>$ -</td>
<td>$ 3,185</td>
<td>$ 3,185</td>
</tr>
<tr>
<td>Rent Abatement Liability</td>
<td>3,724</td>
<td>810</td>
<td>4,534</td>
</tr>
<tr>
<td>Total Other Liabilities With the Public</td>
<td>$ 3,724</td>
<td>$ 3,995</td>
<td>$ 7,719</td>
</tr>
<tr>
<td>Total Other Liabilities</td>
<td>$ 3,724</td>
<td>$ 4,237</td>
<td>$ 7,961</td>
</tr>
</tbody>
</table>

Other Liabilities as of September 30, 2020 (in thousands)

<table>
<thead>
<tr>
<th></th>
<th>Non-Current Liabilities</th>
<th>Current Liabilities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intragovernmental</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employer Contributions &amp; Payroll Taxes Payable</td>
<td>$ -</td>
<td>$ 163</td>
<td>$ 163</td>
</tr>
<tr>
<td>Liabilities for Non-Entity Assets</td>
<td>-</td>
<td>56</td>
<td>56</td>
</tr>
<tr>
<td>Total Intragovernmental Other Liabilities</td>
<td>$ -</td>
<td>$ 219</td>
<td>$ 219</td>
</tr>
<tr>
<td>With the Public</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employer Contributions &amp; Payroll Taxes Payable</td>
<td>$ -</td>
<td>$ 2,339</td>
<td>2,339</td>
</tr>
<tr>
<td>Rent Abatement Liability</td>
<td>4,534</td>
<td>762</td>
<td>5,296</td>
</tr>
<tr>
<td>Total Other Liabilities With the Public</td>
<td>$ 4,534</td>
<td>$ 3,101</td>
<td>$ 7,635</td>
</tr>
<tr>
<td>Total Other Liabilities</td>
<td>$ 4,534</td>
<td>$ 3,320</td>
<td>$ 7,854</td>
</tr>
</tbody>
</table>
Note 8 – 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 $28,437 thousand with a termination liability as of September 30, 2021 in the amount of $13,996 thousand excluding rent.

MCC also has short-term leases for 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 (in thousands)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Vehicle</th>
<th>Copier</th>
<th>Building</th>
<th>Totals</th>
<th>Federal</th>
<th>Non-Federal</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2022</td>
<td>$11</td>
<td>$55</td>
<td>$6,622</td>
<td>$6,688</td>
<td>$55</td>
<td>$6,633</td>
</tr>
<tr>
<td>FY 2023</td>
<td>11</td>
<td>5</td>
<td>6,749</td>
<td>6,765</td>
<td>5</td>
<td>6,760</td>
</tr>
<tr>
<td>FY 2024</td>
<td>9</td>
<td>-</td>
<td>6,880</td>
<td>6,889</td>
<td>-</td>
<td>6,889</td>
</tr>
<tr>
<td>FY 2025</td>
<td>-</td>
<td>-</td>
<td>7,013</td>
<td>7,013</td>
<td>-</td>
<td>7,013</td>
</tr>
<tr>
<td>FY 2026</td>
<td>-</td>
<td>-</td>
<td>1,173</td>
<td>1,173</td>
<td>-</td>
<td>1,173</td>
</tr>
<tr>
<td>After FY 2027</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Future Lease Payment</strong></td>
<td><strong>$31</strong></td>
<td><strong>$60</strong></td>
<td><strong>$28,437</strong></td>
<td><strong>$28,528</strong></td>
<td><strong>$60</strong></td>
<td><strong>$28,468</strong></td>
</tr>
</tbody>
</table>

Note 9 – Accrual - Grant Liabilities

As of September 30, 2021, the grant accrual liabilities reported were $115,209 thousand, comprised of grant accruals of $90,151 thousand and retentions of $25,058 thousand. 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. Grant accruals and retentions increased primarily due to the Benin II, Ghana II, Morocco II, and Niger compacts. This was offset by a decrease in both grant accrual and retentions for the El Salvador II and the Liberia Compact which ended on September 9, 2020 and January 20, 2021, respectively.

Note 10 - 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 smaller 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, 2021, MCC had commitments for the Burkina Faso II and Nepal compacts totaling $876,079 thousand. Similarly, as of September 30, 2020, MCC had commitments for the Burkina Faso II, Mongolia II, Nepal, and Senegal II compacts totaling $1,710,219 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 AE’s may contain performance guarantees which may or may not result in the AE being reimbursed for nonperformance. These performance guarantees are not recorded until the non-performance event is triggered and result in a receivable to the AE. As of September 30, 2021, seven AEs had agreements subject to performance guarantees which in aggregate are not to exceed $47,538 thousand.

**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 $22 thousand for FY 2021 and $53 thousand for FY 2020.

**Note 12 – Net Adjustments to Unobligated Balance, Brought Forward, October 1**

During the years ended September 30, 2021 and 2020, certain adjustments were made to the balance of unobligated budgetary resources available as of October 1, 2020 and 2019. 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, 2021 and 2020, are presented as follows:

**Net Adjustments to Unobligated Balance, Brought Forward, October 1** (in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unobligated balance bought forward from prior year</td>
<td>$3,592,770</td>
<td>$2,721,058</td>
</tr>
<tr>
<td>Adjustments to budgetary resources made during current year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>downward adjustments of prior year orders</td>
<td>48,752</td>
<td>215,704</td>
</tr>
<tr>
<td>Unobligated budgetary resources from prior year budget authorities, (net discretionary and mandatory)</td>
<td>$3,641,522</td>
<td>$2,936,762</td>
</tr>
</tbody>
</table>
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, 2021 and 2020, respectively is comprised as follows:

**Undelivered Orders at End of Period** (in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intragovernmental</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paid</td>
<td>$6,538</td>
<td>$8,260</td>
</tr>
<tr>
<td>Unpaid</td>
<td>12,043</td>
<td>13,752</td>
</tr>
<tr>
<td>Total Intragovernmental</td>
<td>18,581</td>
<td>22,012</td>
</tr>
<tr>
<td>Public</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paid</td>
<td>47,251</td>
<td>49,198</td>
</tr>
<tr>
<td>Unpaid</td>
<td>2,356,931</td>
<td>2,059,092</td>
</tr>
<tr>
<td>Total Public</td>
<td>2,404,182</td>
<td>2,108,290</td>
</tr>
<tr>
<td>Total</td>
<td>$2,422,763</td>
<td>$2,130,302</td>
</tr>
</tbody>
</table>

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 2020 Statement of Budgetary Resources and the actual amounts reported for FY 2020 in the Budget of the U.S. Government released in 2021. Since the FY 2021 financial statements will be reported prior to the release of the Budget of the U.S. Government, MCC is reporting for FY 2020 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 2021 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 thousands)

<table>
<thead>
<tr>
<th>Statement of Budgetary Resources</th>
<th>Budgetary Resource</th>
<th>New Obligations &amp; Upward Adjustments (Total)</th>
<th>New Outlays</th>
</tr>
</thead>
<tbody>
<tr>
<td>$3,842</td>
<td>$3,842</td>
<td>$249</td>
<td>$(607)</td>
</tr>
</tbody>
</table>

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.

**Reconciliation of Net Cost to Net Outlays (in thousands)**

<table>
<thead>
<tr>
<th></th>
<th>Intragovernmental</th>
<th>With the Public</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Cost</strong></td>
<td>$36,502</td>
<td>$725,503</td>
<td>$762,005</td>
</tr>
<tr>
<td><strong>Components of Net Cost Not Part of the</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Budgetary Outlays</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, Plant, and Equipment Depreciation Expense</td>
<td>-</td>
<td>(4,318)</td>
<td>(4,318)</td>
</tr>
<tr>
<td><strong>Increase/(Decrease) in Assets:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Assets</td>
<td>(1,722)</td>
<td>(1,947)</td>
<td>(3,669)</td>
</tr>
<tr>
<td><strong>Increase/(Decrease) in Liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>(47)</td>
<td>(5,518)</td>
<td>(5,565)</td>
</tr>
<tr>
<td>Federal Employee and Veteran Benefits Payable</td>
<td>-</td>
<td>158</td>
<td>158</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>(4,023)</td>
<td>(84)</td>
<td>(4,107)</td>
</tr>
<tr>
<td>Accrues Grant Liabilities</td>
<td>-</td>
<td>(17,633)</td>
<td>(17,633)</td>
</tr>
<tr>
<td><strong>Financing Sources:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Imputed Cost</td>
<td>(2,478)</td>
<td>-</td>
<td>(2,478)</td>
</tr>
<tr>
<td><strong>Total Components of the Net Operating Cost Not Part of the</strong></td>
<td>(8,270)</td>
<td>(29,342)</td>
<td>(37,612)</td>
</tr>
<tr>
<td><strong>Budgetary Outlays</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Financing Sources:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donated Revenue</td>
<td>-</td>
<td>(22)</td>
<td>(22)</td>
</tr>
<tr>
<td><strong>Total Components of the Budget Outlays that are Not Part of the Net Operating Cost</strong></td>
<td>-</td>
<td>(22)</td>
<td>(22)</td>
</tr>
<tr>
<td><strong>Misc Items</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Temporary Timing Differences</td>
<td>(10)</td>
<td>-</td>
<td>(10)</td>
</tr>
<tr>
<td><strong>Total Other Reconciling Items</strong></td>
<td>(10)</td>
<td>-</td>
<td>(10)</td>
</tr>
<tr>
<td><strong>Total Net Outlays</strong></td>
<td><strong>$28,222</strong></td>
<td><strong>$696,139</strong></td>
<td><strong>$724,361</strong></td>
</tr>
<tr>
<td><strong>Budgetary Agency Outlays, Net</strong></td>
<td></td>
<td></td>
<td><strong>$724,361</strong></td>
</tr>
</tbody>
</table>

**Note 16 - COVID-19 Activity**

In FY 2021, MCC did not receive any supplemental appropriations to respond to COVID-19 under the Families First Act; P.L. 116-127 or the CARES Act; P.L. 116-136.

As set out in Note 1 the Consolidated Appropriations Act, 2021 authorized MCC, subject to the availability of funds, to extend any compact in effect as of January 29, 2020, for up to one additional year, to account for delays related to COVID-19. MCC has used budgetary resources from prior year appropriations for COVID-19 related activities obligating $7.7 million and $16.0 million in support of the extension of the Ghana II and Benin II Compact, respectively, to mitigate implementation delays due to the COVID-19 pandemic and to complete infrastructure projects as originally contemplated. As of September 30, 2021 there has been minimal impact on costs and no impact on, liabilities, costs, and net position.

To prepare the Financial Report (FR) of the U.S. Government, 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 Government-wide 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 (specifically the Statement of Net Cost and the Statement of Changes in Net Position) and the MCC reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated FR line items. A copy of the 2020 FR can be found here: https://www.fiscal.treasury.gov/reports-statements/ and a copy of the 2021 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.

<p>| Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost for the Year Ending September 30, 2021 (in thousands) |
|-------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|
| FY 2021 MCC Statement of Net Cost                          | Line Items Used to Prepare FY 2021 Government-wide Statement of Net Cost                                                      |</p>
<table>
<thead>
<tr>
<th>Financial Statement Line</th>
<th>Amounts</th>
<th>Amounts</th>
<th>Reclassified Financial Statement</th>
</tr>
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<tbody>
<tr>
<td>Gross Costs</td>
<td>$ 762,005</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Federal Costs</td>
<td>$ 725,503</td>
<td></td>
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<tr>
<td>Non-Federal Gross Cost</td>
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<td></td>
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<tr>
<td>Total Non-Federal Costs</td>
<td>725,503</td>
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<td></td>
</tr>
<tr>
<td>Intragovernmental Costs</td>
<td>10,878</td>
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<tr>
<td>Benefit Program Costs</td>
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<tr>
<td>Imputed Costs</td>
<td>19,962</td>
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<tr>
<td>Buy/Sell Costs</td>
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<tr>
<td>Other Expenses (w/o Reciprocal)</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Total Intragovernmental Costs</td>
<td>36,502</td>
<td></td>
<td></td>
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<tr>
<td>Total Gross Costs</td>
<td>762,005</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Cost</td>
<td>$ 762,005</td>
<td></td>
<td></td>
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<tr>
<td>Net Cost</td>
<td>$ 762,005</td>
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</table>
Reclassification of Statement of Changes in Net Position to Line Items
Used for the Government-wide Statement of Changes in Net Position for the Year Ending
September 30, 2021 (in thousands)

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Financial Statement Line</td>
<td>Amounts</td>
</tr>
<tr>
<td>Unexpended Appropriations</td>
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<td>Unexpended Appropriations, Beginning Balance</td>
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<td>Appropriations Received</td>
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<td>Other Adjustments</td>
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<td>Appropriations Used</td>
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<td><strong>Total Unexpended Appropriations</strong></td>
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<td>Cumulative Results of Operations</td>
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<td>Cumulative Results, Beginning Balance</td>
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<td>Non-Exchange Revenues</td>
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<td>Donations and Forfeitures of Property</td>
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<tr>
<td><strong>Total Non-Exchange Revenues</strong></td>
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<tr>
<td>Imputed Financing</td>
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<td><strong>Total Financing Sources</strong></td>
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<td>Net Cost of Operations</td>
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<tr>
<td>Ending Balance - Cumulative Results of Operations</td>
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<tr>
<td>Total Net Positions</td>
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</tbody>
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