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

Audit of MCC's Financial Statements for Fiscal Years 2022 and 2021

Audit Report 0-MCC-23-002-C
November 15, 2022

Financial Audits Division

MEMORANDUM

DATE: November 15, 2022

TO: Millennium Challenge Corporation/Department of Administration and Finance, Vice President 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 2022 and 2021 (0-MCC-23-002-C)

Enclosed is the final audit report on the Millennium Challenge Corporation's (MCC's) financial statements for fiscal years 2022 and 2021. 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. 22-01, 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, 2022 and 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 2022 and 2021 financial statements.

The audit firm concluded that MCC's financial statements for the fiscal years ending September 30, 2022 and 2021, are presented fairly, in all material respects, and in accordance with U.S. generally accepted accounting principles. The audit firm found no reportable noncompliance for fiscal year 2022 with provisions of applicable laws, regulations, contracts, and grant agreements. The audit firm also found no material weaknesses but reported one significant deficiency in internal control over financial reporting related to MCC oversight during Millennium Challenge Accounts' (MCA) closure activities that needs improvement.

To address the deficiency identified in the report, we recommend that MCC's Department of Administration and Finance and the Chief Financial Officer:

Recommendation 1. Develop and document MCC's oversight procedures for verification of Millennium Challenge Accounts' physical verification of all fixed assets acquired with MCC funds annually as required by the Millennium Challenge Accounts' Fiscal Accountability Plan.

Recommendation 2. Obtain the Accountable Entity's report summarizing the results of the annual physical count, inspection, and reconciliation, including explanations for any discrepancies noted and follow up on any delays.

Recommendation 3. Require the Accountable Entity Chief Financial Officer to review the annual report and approve any adjustments necessary to reconcile Fixed Assets Register with the accounting records.

Recommendation 4. Develop and document MCC's oversight procedures to ensure the Accountable Entity's physical count of all Program Fixed Assets is conducted within the required 90 days before the Compact closeout.

Recommendation 5. Update MCC's Accountable Entity Audit process to include additional internal controls and monitoring procedures to ensure that any Covered Providers are identified clearly in each Millennium Challenge Accounts Audit Plan and ensure the Millennium Challenge Accounts Audit Plan provides a detailed schedule for completing the required audits of the identified Covered Providers.

Recommendation 6. Update MCC's updated monitoring procedures to ensure that Covered Provider audits are completed prior to program closure, as well as formalizing the evaluation and documentation of approvals of any deviations or extensions arising with respect to Covered Provider audits.

In finalizing the report, the audit firm evaluated MCC's response to the recommendations. After reviewing that evaluation, we consider recommendations 1, 2, 3, 4, 5, and 6 resolved but open pending completion of planned activities. For recommendations 1, 2, 3, 4, 5, and 6. Please provide evidence of final actions 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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Independent Auditor's Report

To the Inspector General United States Agency for International Development
To the Board of Directors Millennium Challenge Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Millennium Challenge Corporation (MCC), which comprise the balance sheets as of September 30, 2022, and 2021, and the related statements of net cost and changes in net position, and statements of budgetary resources for the years then ended, and the related notes to the financial statements (hereinafter referred to as "financial statements").

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the MCC as of September 30, 2022, and 2021, and its net cost, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the Office of Management and Budget (OMB) Bulletin No. 22-01, *Audit Requirements for the Federal Financial Statements*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the MCC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the MCC's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of

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preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the Annual Management Report. The Other Information comprises the Summary of Financial Statement Audit and Management Assurances, Payment Integrity, Grant Programs, and Climate Related Risk but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Other Reporting Required by *Government Auditing Standards*

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the MCC's internal control over financial reporting (internal control) 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 the MCC's internal control. Accordingly, we do not express an opinion on the effectiveness of the MCC's internal control.

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, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified one deficiency in internal control, summarized below and described in the accompanying exhibit 1 that we consider to be a significant deficiency. The status of prior year findings can be found in exhibit 3.

- MCC oversight during Millennium Challenge Accounts' (MCA) closure activities needs improvement

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the MCC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 22-01.

Management's Response to Audit Findings and Recommendations

MCC's comments can be found in Exhibit 2. MCC's response was not subject to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of the Other Reporting Required by *Government Auditing Standards*

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the MCC's internal control or compliance. This section is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the MCC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RMA Associates

RMA Associates

Arlington, VA
November 15, 2022

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Exhibit 1 – Significant Deficiency in Internal Control

MCC oversight during Millennium Challenge Accounts' (MCA) closure activities needs improvement

Compact Closure – Physical Inspection and Count of Fixed Assets - The Millennium Challenge Accounts (MCAs) are required to perform physical inspection and count of fixed assets at least once a year, or more frequently as required especially towards the end of the Compact closeout. Per the approved Fiscal Accountability Plan and Compact Closure Plan, the physical inspection and count should be performed by the Internal Audit Director and non-MCA Finance staff. The Internal Audit Director is also required to compile a Final Asset Inventory of all Program Assets not later than ninety-days prior to Compact End Date. One Accountable Entity (AE) could not provide the report, however management indicated they performed some type of physical verification of assets. In one instance, the Internal Audit Director was not allowed by the implementing entity to perform a full inventory count of all fixed assets as required by the Fiscal Accountability Plan. Additionally, there was no evidence the Internal Audit Director had performed a physical count of all fixed assets within the required 90 days before the Compact closeout. The lack of an asset inventory was due to:

- The Internal Audit Director and management was not given adequate access by the principal implementing entity to perform an adequate inventory count of all assets including Program Fixed Assets.
- Management noted they were not able to do a full count of program fixed assets within 90 days prior to Compact End Date due to extension of the Compact.

MCA Grant Monitoring - During our testing of internal controls over grant disbursement, we identified three Millennium Challenge Account (MCA) grant recipients requiring an audit due to annual expenditures over $750,000. The MCA grant recipients' annual expenditure is approximately $5.3 million as shown in the table below. We found that the MCA did not conduct the audits timely for the grants awarded.

#	Grantees (Covered Providers)	Grant Award	MCA Annual Expenditure	Funds Remaining[1]	Draft Audit Report Due Date	Audit Report Issuance Date
1	Grantee 1	$2,386,087	$1,247,000	$1,139,087	July 29, 2021	July 8, 2022[2]
2	Grantee 2	$1,851,487	$1,281,570	$569,917	July 29, 2021	July 22, 2022[2]
3	Grantee 3	$5,252,131	$2,813,523	$2,438,608	July 29, 2022	In Progress[2]
	Total	**$9,489,705**	**$5,342,093**	**$4,147,612**		

[1] Funds Remaining as of August 5, 2022.

[2] *The MCA was late to procure audits for the 3 covered providers for the period April 1, 2021, through March 31, 2022. The audit contract that was signed late on July 30, 2022, to conduct the audit and provide a draft audit report by July 29, 2022.

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The cause of the delay was due to MCC not documenting its consideration and approval of the extended timeline in response to this delay. The contract amendment process was not conducted in a timely manner to begin the audits with sufficient time to complete by the deadline specified in the Audit Guidelines.

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

Recommendation 1 – Develop and document MCC's oversight procedures for verification of MCA's physical verification of all fixed assets acquired with MCC funds annually as required by the MCA's Fiscal Accountability Plan

Recommendation 2 – Obtain the Accountable Entity's report summarizing the results of the annual physical count, inspection, and reconciliation, including explanations for any discrepancies noted and follow up on any delays.

Recommendation 3 – Require the Accountable Entity (AE) CFO review the annual report and approve any adjustments necessary to reconcile Fixed Assets Register with the accounting records.

Recommendation 4 – Develop and document MCC's oversight procedures to ensure the AE's physical count of all Program Fixed Assets is conducted within the required 90 days before the Compact closeout.

Recommendation 5 - Update the MCC's Accountable Entity Audit process to include additional internal controls and monitoring procedures to ensure that any Covered Providers are identified clearly in each Millennium Challenge Accounts Audit Plan and ensure the Millennium Challenge Accounts Audit Plan provides a detailed schedule for completing the required audits of the identified Covered Providers.

Recommendation 6 - Update MCC's updated monitoring procedures to ensure that Covered Provider audits are completed prior to program closure, as well as formalizing the evaluation and documentation of approvals of any deviations or extensions arising with respect to Covered Provider audits.

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Exhibit 2 – Management's Response to the Audit Findings

MILLENNIUM CHALLENGE CORPORATION
UNITED STATES OF AMERICA

DATE:	November 10, 2022
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 /s/ Vice President and Chief Financial Officer Department of Administration and Finance Millennium Challenge Corporation
SUBJECT:	MCC's Management Response to the Draft Audit Report, "Audit of MCC's Financial Statements for Fiscal Years 2022 and 2021," dated November 7, 2022

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 2022 and 2021," dated November 7, 2022. 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 – Develop and document MCC's oversight procedures for verification of MCA's physical verification of all fixed assets acquired with MCC funds annually as required by the MCA's Fiscal Accountability Plan.

MCC Response – MCC concurs with the recommendation. MCC will develop and document MCC's oversight procedures for verification of MCA's physical verification of all fixed assets acquired with MCC funds annually as required by the respective Fiscal Accountability Plans. This final action will be completed no later than June 30, 2023.

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OIG Recommendation 2 – Obtain the Accountable Entity's report summarizing the results of the annual physical count, inspection, and reconciliation, including explanations for any discrepancies noted and follow up on any delays.

MCC Response – MCC concurs with the recommendation and will obtain Accountable Entity reports summarizing the results for inventories occurring going forward from January 1, 2023. This final action will be included in the verification procedures to be developed and completed no later than June 30, 2023.

OIG Recommendation 3 – Require the Accountable Entity (AE) CFO review the annual report and approve any adjustments necessary to reconcile Fixed Assets Register with the accounting records.

MCC Response – MCC concurs with the recommendation and will require that Accountable Entity CFO's or equivalent positions review and approve annual reports as specified in the Fiscal Accountability Plan. This final action will be completed no later than June 30, 2023.

OIG Recommendation 4 – Develop and document MCC's oversight procedures to ensure the AE's physical count of all Program Fixed Assets is conducted within the required 90 days before the Compact closeout.

MCC Response – MCC concurs with the recommendation and will include a requirement in its oversight procedures to ensure physical counts are conducted within the number of days specified in the Compact closure plan as agreed between the parties. This final action will be completed no later than June 30, 2023.

OIG Recommendation 5 – Update the MCC's Accountable Entity Audit process to include additional internal controls and monitoring procedures to ensure that any Covered Providers are identified clearly in each Millennium Challenge Accounts Audit Plan and ensure the Millennium Challenge Accounts Audit Plan provides a detailed schedule for completing the required audits of the identified Covered Providers.

MCC Response – MCC concurs with the recommendation. MCC will update its Accountable Entity Audit Process to include additional internal controls and monitoring procedures to ensure that any Covered Providers are identified clearly in each Millennium Challenge Accounts Audit Plan and ensure the Millennium Challenge Accounts Audit Plan provides a detailed schedule for completing the required audits of the identified Covered Providers. This final action will be completed no later than June 30, 2023.

OIG Recommendation 6 – Update MCC's updated monitoring procedures to ensure that Covered Provider audits are completed prior to program closure, as well as formalizing the evaluation and documentation of approvals of any deviations or extensions arising with respect to Covered Provider audits.

MCC Response – MCC concurs with the recommendation. MCC will update its monitoring procedures to ensure Covered Provider Audits are completed prior to program closure, as well as formalizing the evaluation and documentation of approvals of any deviations or extensions related to the audits. This final action will be completed no later than June 30, 2023.

If you have any questions or require additional information, please contact Michael Wright at 202-521-3648 or by email at wrightm@mcc.gov. Additionally, you can also contact Jude Koval, Senior Director of Internal Controls and Audit Compliance (ICAC) at 202-521-7280 or by email at kovaljg@mcc.gov.

CC: Damian Wilson, Principal Director, OIG, USAID

Davida Wilhelm, Assistant Audit 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

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Exhibit 3 – Status of Prior Year Recommendations

Fiscal Year	#	Recommendation	Type	FY 2022 Status
FY20	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.	Significant Deficiency	Closed
FY20	5	MCC's Chief Financial Officer 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.	Significant Deficiency	Closed
FY20	7,8	Revise The Accountable Entities Guidelines for Contracted Financial Audits to: a. Address the timing of the audit review process to ensure that independent public accountant firms are able to meet the 90-day delivery deadline for issuing the audit report. b. Establish a requirement after the initial compact or threshold audit to determine if the 90-day audit report deadline is still appropriate for the next audit given the circumstances (i.e., prior audit delays). If not, then issue an Implementation Letter to establish the new audit report deadline.	Significant Deficiency	Closed
FY21	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.	Significant Deficiency	Closed

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Fiscal Year	#	Recommendation	Type	FY 2022 Status
FY21	2	Institute controls such as automated system reminders (i.e., Outlook Calendar Reminders) with the appropriate personnel within the MCAs to help mitigate the risk of MCAs not meeting the MCDR reporting time requirement.	Significant Deficiency	Closed
FY21	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.	Significant Deficiency	Closed
FY21	4	Revise MCC's Grant Accrual Guidance to incorporate current data call requirements for the MCAs to identify open contracts	Significant Deficiency	Closed
FY21	5	Provide additional training to the MCAs to ensure the MCAs have a clear understanding of the grant accrual validation requirements.	Significant Deficiency	Closed
FY21	6	Include the instructions provided to the accountable entities regarding the validation process within the Grant Accrual Guidance.	Significant Deficiency	Closed

Financial Section

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 U.S. GAAP and accounting standards issued by the Federal Accounting Standards Advisory Board (FASAB) and formats prescribed in OMB Circular No. A-136, *Financial Reporting Requirements* (revised on June 3, 2022). 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, 2021 has been included. MCC is presenting the following financial statements and notes to the financial statements:

- Balance Sheets
- Statements of Net Cost
- Statements of Changes in Net Position
- Statements of Budgetary Resources
- Notes to the Financial Statements

BALANCE SHEETS
As of September 30, 2022 and 2021
(in thousands)

	2022	2021
Assets:		
Intragovernmental:		
Fund Balance with Treasury *(Note 2)*	$ 5,667,600	$ 5,962,129
Advances and Prepayments	3,308	6,538
Total Intragovernmental	5,670,908	5,968,667
With the Public:		
Accounts Receivable, net *(Note 3)*	26	3
General Property, Plant, and Equipment, net *(Note 4)*	5,641	9,919
Advances and Prepayments	25,866	47,251
Total with the Public	31,533	57,173
Total Assets:	**$ 5,702,441**	**$ 6,025,840**
Liabilities *(Note 5)*:		
Intragovernmental:		
Accounts Payable	$ 1,606	$ 698
Advances from Others and Deferred Revenue	3,530	4,000
Other Liabilities *(Note 6)*	199	242
Total Intragovernmental	5,335	4,940
With the Public:		
Accounts Payable	13,002	13,500
Federal Employee [and Veteran] Benefits Payable *(Note 7)*	5,218	5,402
Other Liabilities:		
Accrued Grant Liabilities *(Note 9)*	106,452	115,209
Other *(Note 6)*	7,175	7,719
Total with the Public	131,847	141,830
Total Liabilities	$ 137,182	$ 146,770
Commitment and Contingencies *(Note 10)*		
Net Position		
Unexpected Appropriations-Funds from Other than Dedicated Collections	$ 5,567,836	$ 5,878,985
Total Unexpended Appropriations	5,567,836	5,878,985
Cumulative Results of Operations-Funds from Other than Dedicated Collections	(2,577)	85
Total Cumulative Results of Operations	(2,577)	85
Total Net Position	5,565,259	5,879,070
Total Liabilities and Net Position	**$ 5,702,441**	**$ 6,025,840**

The accompanying notes are an integral part of these statements.

STATEMENTS OF NET COST

For the Years Ended September 30, 2022 and 2021
(in thousands)

	2022	2021
		Reclassified
Gross Program Costs	$ 586,511	$ 637,923
Less: Earned Revenue	(470)	-
Net Program Costs	586,041	637,923
Costs Not Assigned to Programs	127,696	124,082
Net cost of operations	**$ 713,737**	**$ 762,005**

The accompanying notes are an integral part of these statements.

STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2022 and 2021
(in thousands)

	2022	2021
Unexpended Appropriations		
Beginning Balance	$ 5,878,985	$ 5,721,158
Appropriations Received	912,000	912,000
Other Adjustments *(Note 11)*	(515,000)	11
Appropriations Used	(708,149)	(754,184)
Change in Unexpended Appropriations	(311,149)	157,827
Total Unexpended Appropriations	**5,567,836**	**5,878,985**
Cumulative Results of Operations		
Beginning Balance	85	5,406
Appropriations Used	708,149	754,184
Transfers-in/out without reimbursement	381	-
Donations and forfeitures of property	-	22
Imputed Financing	2,545	2,478
Net Cost of Operations	**(713,737)**	**(762,005)**
Change in Cumulative Results of Operations	(2,662)	(5,321)
Total Cumulative Results of Operations	**(2,577)**	**85**
Net Position	**$ 5,565,259**	**$ 5,879,070**

The accompanying notes are an integral part of these statements.

STATEMENTS OF BUDGETARY RESOURCES

For the Years Ended September 30, 2022 and 2021
(in thousands)

	2022	2021
Budgetary Resources		
Unobligated Balance from Prior Year Budget Authority, Net *(Note 11)*	$ 3,468,736	$ 3,641,522
Appropriations	397,000	912,000
Spending Authority from Offsetting Collections	381	4,000
Total Budgetary Resources	**$ 3,866,117**	**$ 4,557,522**
Status of Budgetary Resources		
New Obligations and Upward Adjustments (total)	$ 433,999	$ 1,097,317
Unobligated Balance, end of year		
Apportioned, Unexpired Accounts	3,428,058	3,421,316
Unapportioned, Unexpired Accounts	4,060	38,889
Unexpired Unobligated Balance, end of year	3,432,118	3,460,205
Unobligated Balance, end of year (total)	3,432,118	3,460,205
Total Budgetary Resources	**$ 3,866,117**	**$ 4,557,522**
Outlays, Net		
Outlays, Net (total)	**$ 691,473**	**$ 724,361**

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

The Statement of Net Cost presents the gross costs of programs, less earned revenue, if any, to arrive at the net cost of operations, for both grant programs and MCC, as a whole for the reporting periods. MCC grant programs may be compacts, compact development funding, or threshold programs awarded to countries that come close to meeting the eligibility criteria for compacts.

Grant program costs consist of those activities directly related to activities attributable to:

- Development of compact and threshold grants between MCC and partner country's meeting MCC's eligibility criteria including the cost of evaluating and appraising projects.
- Implementation of grants including performance oversight and assessment of results during the implementation.
- Assessment of results after implementation.

C. Basis of Accounting and Presentation

The accompanying financial statements have been prepared in accordance with U.S. GAAP and accounting standards issued by the FASAB and 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).

MCC's financial statements 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. Amounts received from other federal agencies under reimbursable agreements are recognized as revenue as related expenditures are incurred. Budgetary accounting recognizes the legal commitment or obligation of funds in advance of the proprietary accruals and facilitates compliance with legal constraints and controls over the use of Federal funds. The accompanying Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position are prepared using the accrual method of accounting. Note 14 - Reconciliation of Net Costs to Net Outlays presents information that is similar to a statement of cash flows. The Statement of Budgetary Resources (SBR) is prepared in accordance with budgetary accounting rules.

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.

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.

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 accountable entities (AE's). The majority of these 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. Accounting for Grants

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

For certain AEs large infrastructure project contracts are structured to include advances for the mobilization of equipment and other upfront costs as well retentions on invoices. Funding advanced by AEs to contractors or vendors (mobilization advances) is amortized via contractually agreed upon schedules. The contract retentions represent a percentage of invoice amounts retained by the AEs 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. AEs do not release the retentions or request MCC payment for the retentions until the AEs 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.

F. 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.

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).

G. Advances and Prepayments

MCC makes funding available to Federal agencies, AEs, and local vendors. Federal agencies are funded through Inter Agency Agreements. AEs 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 AEs, or to meet contractual requirements of AEs 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 AEs through the local permitted account is tracked and liquidated on a monthly basis via the *Monthly Commitments and Disbursements Reports* provided by the AEs to MCC.

H. 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.

I. 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.

J. 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.

K. Accounts Payable

Accounts payable represent amounts due to Federal and With the Public 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 the Public entities.

L. 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, 2022 and 2021, 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.

M. Liabilities Not Covered by Budgetary Resources

As of September 30, 2022 and 2021, 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, MCC recorded a liability which is being amortized on a monthly basis utilizing a straight-line approach over the 10-year lease period.

N. 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 Agency of its ability to obligate budget authority and outlay funds to another Agency. 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.

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. As the parent entity, MCC allocated funds to USAID and the relationship under this allocation ended on June 30, 2021. As a result, there are amounts reported for FY 2021 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.

O. Foreign currency transactions

The functional currency of the agency is United States Dollars (USD) and these financial statements are presented in that currency. Each AEs budget amount is fixed and denominated in USD. The financial execution of our grants 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.

P. 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.

Q. Prior Year Reclassifications

The format of the Statement of Net Costs has been changed to report those costs directly attributable to carrying out and evaluating MCC's grant programs. As a result, the appropriation fund categories previously reported in the FY 2021 Statement of Net Costs for Compact Assistance, Compact Development, Threshold and Due Diligence have been combined in the FY 2022 Statement of Net Costs to reflect these program costs. The fund categories of Audit and Administration have been aggregated to reflect Costs not Assigned to Programs for FY 2022.

Note 2 – Fund Balance with Treasury

As of September 30, 2022 and 2021, respectively, FBWT was comprised as follows:

(in thousands)	2022	2021
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ 3,428,058	$ 3,421,316
Unavailable	4,060	38,889
Obligated Balance not yet Dispersed	2,235,482	2,501,867
Non-Budgetary FBWT	-	57
Total	**$ 5,667,600**	**$ 5,962,129**

MCC's FBWT is classified as unobligated balance available and unavailable, obligated balance not yet disbursed, and non-budgetary FBWT. 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 FBWT includes unavailable receipt accounts and clearing accounts that do not have budget authority.

Note 3 – Accounts Receivable, Net

Accounts receivable, net as of September 30, 2022 and 2021 were $26 thousand (net of allowance for doubtful accounts of $0 thousand) and $3 thousand (net of allowance for doubtful accounts of $1 thousand), respectively. 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 4 – General Property, Plant, and Equipment, Net

As of September 30, 2022 and 2021, respectively General Property, Plant and Equipment, net is comprised as follows:

General Property, Plant, and Equipment, Net as of September 30, 2022

(in thousands)	Estimated Useful Life	Cost	Accumulated Depreciation Amortization	Book Value
General PP&E:				
Leasehold Improvements	10 Years	$ 8,392	$ (5,689)	$ 2,703
Furniture	10 Years	3,788	(2,580)	1,208
Internal Use Software	5 Years	15,094	(13,364)	1,730
Vehicles	5 Years	232	(232)	-
Total		**$ 27,506**	**$ (21,865)**	**$ 5,641**

General Property, Plant, and Equipment, Net as of September 30, 2021

(in thousands)	Estimated Useful Life	Cost	Accumulated Depreciation Amortization	Book Value
General PP&E:				
Leasehold Improvements	10 Years	$ 8,392	$ (4,835)	$ 3,557
Furniture	10 Years	3,788	(2,199)	1,589
Internal Use Software	5 Years	15,094	(10,326)	4,768
Vehicles	5 Years	232	(277)	5
Total		**$ 27,506**	**$ (17,587)**	**$ 9,919**

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

	2022			2021
(in thousands)	Cost	Accumulated Depreciation Amortization	Book Value	Book Value
General PP&E:				
Balance Beginning of Year	$ 27,506	$ (17,587)	$ 9,919	$ 14,237
Depreciation and Amortization	-	(4,278)	(4,278)	(4,318)
Balance at End of Year	**$ 27,506**	**$ (21,865)**	**$ 5,641**	**$ 9,919**

Note 5 – Liabilities Not Covered by Budgetary Resources

As of September 30, 2022 and 2021, liabilities not covered by budgetary resources, respectively, are comprised as follows:

(in thousands)	2022	2021
Intragovernmental		
Other Unfunded Unemployment Related Benefits	$ 34	$ 46
Total Intragovernmental	**34**	**46**
With the Public		
Annual Unfunded Leave Liability	4,933	5,258
Rent Abatement Liability	3,648	4,534
Total Liabilities Not Covered by Budgetary Resources	8,615	9,838
Total Liabilities Covered by Budgetary Resources	125,037	132,932
Total Liabilities Not Requiring Budgetary Resources	3,530	4,000
Total Liabilities	**$ 137,182**	**$ 146,770**

Note 6 – Other Liabilities

MCC's total other liabilities as of September 30, 2022 and 2021, respectively, are comprised as follows:

Other Liabilities as of September 30, 2022

(in thousands)	Non-Current Liabilities	Current Liabilities	Total
Intragovernmental			
Employer Contributions & Payroll Taxes Payable	$ -	$ 199	$ 199
Total Intragovernmental Other Liabilities	**-**	**199**	**199**
With the Public			
Employer Contributions & Payroll Taxes Payable	-	3,527	3,527
Rent Abatement Liability	2,635	1,013	3,648
Total Other Liabilities With the Public	**2,635**	**4,540**	**7,175**
Total Other Liabilities	**$ 2,635**	**$ 4,739**	**$ 7,374**

Other Liabilities as of September 30, 2021

(in thousands)	Non-Current Liabilities	Current Liabilities	Total
Intragovernmental			
Employer Contributions & Payroll Taxes Payable	$ -	$ 186	$ 186
Liabilities for Non-Entity Assets	-	56	56
Total Intragovernmental Other Liabilities	**-**	**242**	**242**
With the Public			
Employer Contributions & Payroll Taxes Payable	-	3,185	3,185
Rent Abatement Liability	3,724	810	4,534
Total Other Liabilities With the Public	**3,724**	**3,995**	**7,719**
Total Other Liabilities	**$ 3,724**	**$ 4,237**	**$ 7,961**

Note 7 – Federal Employee [and Veteran] Benefits Payable

As of September 30, 2022 and 2021, respectively, Federal Employee [and Veteran] Benefits Payable, are comprised as follows:

(in thousands)	2022	2021
Annual Unfunded Leave Liability	$ 4,933	$ 5,258
Employer Contributions and Payroll Taxes Payable	285	144
Total Liabilities	**$ 5,218**	**$ 5,402**

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 $21,815 thousand with a termination liability as of September 30, 2022 in the amount of $12,217 thousand excluding rent. MCC also has short-term leases for 19 copier machines (through May 31, 2023).

The future lease payments due for the building, vehicle, and copier machines are depicted below.

Future Lease Payments Due

(in thousands)	Asset Category					
Fiscal Year	Vehicle	Copier	Building	Totals	Federal	Non-Federal
FY 2023	$ 11	$ 37	$ 6,749	$ 6,797	$ 37	$ 6,760
FY 2024	9	-	6,880	6,889	-	6,889
FY 2025	-	-	7,013	7,013	-	7,013
FY 2026	-	-	1,173	1,173	-	1,173
FY 2027	-	-	-	-	-	-
After FY 2027	-	-	-	-	-	-
Total Future Lease Payment	**$ 20**	**$ 37**	**$ 21,815**	**$ 21,872**	**$ 37**	**$ 21,835**

Note 9 – Accrual - Grant Liabilities

As of September 30, 2022 and 2021, respectively, Accrued Grant Liabilities is comprised as follows:

Accrued Grant Liabilities

(in thousands)	2022	2021
Grant Accrual	$ 76,717	$ 90,151
Retentions	29,735	25,058
Total	**$ 106,452**	**$ 115,209**

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 obligation. As of September 30, 2022, MCC had commitments for the Burkina Faso II, Kosovo, Lesotho II, Malawi II, Nepal and Timor-Leste compacts totaling $2,024,412 thousand. Similarly, as of September 30, 2021, MCC had commitments for the Burkina Faso II and Nepal compacts totaling $876,079 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, 2022, six AEs had agreements subject to performance guarantees which in aggregate are not to exceed $45,545 thousand.

Note 11 – Notes Related to the Statement of Budgetary Resources

Permanent, Indefinite Appropriations

MCC is funded through permanent, indefinite appropriations to finance its operations. Permanent, indefinite appropriations are appropriations that are available until expended.

Permanent Reductions to Budgetary Resources

In FY 2022 a permanent reduction of $515.0 million was made to MCC's budgetary resources under Public Law 117-108. The permanent reduction is included in the Statement of Budgetary Resources Budgetary Resources section and is also included in the Statement of Change in Net Position.

Unobligated Balance from Prior-year's Budget Authority, Net

During the years ended September 30, 2022 and 2021, certain adjustments were made to the balance of unobligated budgetary resources available as of October 1, 2021 and 2020. These adjustments include, among other things downward adjustments to undelivered orders that were obligated in a prior fiscal year.

The adjustments for the years ended September 30, 2022 and 2021, are presented below:

Net Adjustments to Unobligated Balance, Brought Forward, October 1

(in thousands)	2022	2021
Unobligated balance bought forward from prior year	$ 3,460,205	$ 3,592,770
Adjustments to budgetary resources made during current year		
Downward adjustments of prior year orders	8,531	48,752
Unobligated budgetary resources from prior year budget authorities	**$ 3,468,736**	**$ 3,641,522**

Note 12 – 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, 2022 and 2021, respectively is comprised as follows:

Undelivered Orders at End of Period

(in thousands)	2022	2021
Intragovernmental		
Paid	$ 3,308	$ 6,538
Unpaid	8,000	12,043
Total Intragovernmental	11,308	18,581
With the Public		
Paid	25,866	47,251
Unpaid	2,102,428	2,356,931
Total With the Public	2,128,294	2,404,182
Total	**$ 2,139,602**	**$ 2,422,763**

Note 13 – Explanation of Differences between the Combined Statement of Budgetary Resources and the Budget of the U.S. Government

The table below documents there are no differences between the FY 2021 Statement of Budgetary Resources and the actual amounts reported for FY 2021 in the Budget of the U.S. Government released in 2022. Since the FY 2022 financial statements will be reported prior to the release of the Budget of the U.S. Government, MCC is reporting for FY 2021 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 2022 actual data will be available on https://www.whitehouse.gov/omb/budget/.

Explanation of Differences between the Combined Statement of Budgetary Resources and the Budget of the U.S. Government

(in millions)	Budgetary Resource	New Obligations & Upward Adjustments (Total)	New Outlays
Statement of Budgetary Resources	$ 4,558	$ 1,097	$ (724)
Budget of the U.S. Government	**$ 4,558**	**$ 1,097**	**$ (724)**

Note 14 – 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 for the Year Ended September 30, 2022

(in thousands)	Intragovernmental	With the Public	Total
Net Cost	**$ 42,365**	**$ 671,372**	**$ 713,737**
Components of Net Cost Not Part of the Budgetary Outlays			
Property, Plant, and Equipment Depreciation Expense	-	(4,278)	(4,278)
Increase/(Decrease) in Assets:			
Accounts receivable, net	-	23	23
Other assets	(3,230)	(21,385)	(24,615)
Increase/(Decrease) in Liabilities:			
Accounts Payable	(908)	498	(410)
Federal Employee and Veteran Benefits Payable	-	184	184
Other Liabilities	457	544	1,001
Grant Accrual Liabilities	-	8,757	8,757
Financing Sources:			
Imputed Cost	(2,545)	-	(2,545)
Total Components of the Net Operating Cost Not Part of the Budgetary Outlays	**(6,226)**	**(15,657)**	**(21,883)**
Components of the Budget Outlays that are Not Part of the Net Operating Cost			
Financing Sources:			
Transfers in (out) without reimbursement	(381)	-	(381)
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	**(381)**	**-**	**(381)**
Total Net Outlays	**$ 35,758**	**$ 655,715**	**$ 691,473**
Budgetary Agency Outlays, Net			**$ 691,473**

Reconciliation of Net Cost to Net Outlays for the Year Ended September 30, 2021

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

Note 15 - COVID-19 Activity

In FY 2022 and FY2021, 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.

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 used budgetary resources from prior year appropriations for COVID-19 related activities obligating in FY 2022 $12.0 million, $10.5 million and $5.6 million in support of the extension of the Cote d' Ivoire, Morocco II and Niger compacts, respectively, to mitigate implementation delays due to the COVID-19 pandemic and to complete infrastructure projects as originally contemplated. In FY 2021 $23.7 million was obligated in support of the extension of the Ghana II and Benin II compacts. As of September 30, 2022 costs associated with COVID-19 under these extensions has amounted to $10.6 million, and there are no liabilities directly attributable to these extensions and no impact on the Net Position of MCC.

Note 16 - Subsequent Event

On November 2, 2022 MCC notified the Government of Burkina Faso of its decision to terminate MCC's assistance to Burkina Faso under the Compact Agreement signed on August 13, 2020. The decision was made in response to the January 2022 coup d'état, which is inconsistent with MCC's statutorily mandated eligibility criteria, and the July 2022 announcement by the transition authorities of a prolonged period before elections. As a result of this termination $30.8 million previously granted and obligated will be de-obligated in FY 2023. Subsequent events have been evaluated through the auditors' report date, which is the date the financial statements were available to be issued, and management determined that there are no other items to disclose or that the appropriate disclosures were made.

Note 17 - Reclassification of Financial Statement Line Items for Financial Report Compilation Process

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 USSGL account that appear in the financial statements. Treasury uses the trial balance information reported in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position for each agency, which are accessed using GTAS. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements. This note shows the MCC's financial statements (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 2021 FR can be found here: https://www.fiscal.treasury.gov/reports-statements/ and a copy of the 2022 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.

Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost for the Year Ending September 30, 2022			
FY 2022 MCC Statement of Net Cost		Line Items Used to Prepare FY 2022 Government-wide Statement of Net Cost	
Financial Statement Line	Amounts	Amounts	Reclassified Financial Statement
(in thousands)			
Gross Costs	$ 714,207		
			Non-Federal Costs
		$ 671,372	Non-Federal Gross Cost
		671,372	**Total Non-Federal Costs**
			Intragovernmental Costs
		11,550	Benefit Program Costs
		2,545	Imputed Costs
		25,455	Buy/Sell Costs
		3,285	Other Expenses (w/o Reciprocal)
		42,835	**Total Intragovernmental Costs**
Total Gross Costs	714,207	714,207	
Earned Revenue	(470)		**Earned Revenue**
Total Earned Revenue	(470)	(470)	Federal Earned Revenue
Net Cost	**$ 713,737**	**$ 713,737**	**Net Cost**

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, 2022			
FY 2022 MCC Statement of Changes in Net Position		Line Items Used to Prepare FY 2022 Government-wide Statement of Changes in Net Position	
Financial Statement Line	Amounts	Amounts	Reclassified Financial Statement Line
(in thousands)			
Unexpended Appropriations			
Unexpended Appropriations, Beginning Balance	$ 5,878,985	$ 5,878,985	Unexpended Appropriations, Beginning Balance
Appropriations Received	912,000	397,000	Appropriations Received
Other Adjustments	(515,000)	-	Other Adjustments
Appropriations Used	708,149	708,149	Appropriations Used
Total Unexpended Appropriations	$ 5,567,836	$ 5,567,836	**Total Unexpended Appropriations**
Cumulative Results of Operations			
Cumulative Results, Beginning Balance	$ 85	$ 85	Cumulative Results, Beginning Balance as adjusted
	-	73	Other Adjustments
	381	308	Expenditure transfers-in of financing sources
Imputed Financing	2,545	2,545	Imputed Financing Sources
Total Donations, Transfers, & Imputed Financing	2,926	2,926	**Total Donations, Transfers, & Imputed Financing**
Net Cost of Operations	713,737	713,737	**Net Cost of Operations**
Ending Balance - Cumulative Results of Operations	(2,577)	(2,577)	**Cumulative Results of Operations**
Total Net Position	**$ 5,565,259**	**$ 5,565,259**	**Net Position**