Millennium Challenge Corporation

Annual Management Report

Fiscal Year 2023

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

Millennium Challenge Corporation
United States of America

Compact, Threshold Program and Eligible Countries

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Annual Management Report

Fiscal Year 2023

October 1, 2022 - September 30, 2023

Contents

Introduction

The Annual Management Report (AMR) for the Millennium Challenge Corporation (MCC) for fiscal year (FY) 2023 provides the results that enable the President, Congress, and the American people to assess MCC's performance for the reporting period beginning October 1, 2022, and ending September 30, 2023. In particular, the AMR provides an overview of MCC's programs, accomplishments, and challenges, and its management's accountability over the resources entrusted to MCC. This report was prepared in accordance with the requirements of the Government Corporations Act and supplemented by the requirements of the Office of Management and Budget (OMB) Circular No. A-136, Financial Reporting Requirements.

MCC will prepare an Annual Performance Report (APR) for FY 2023 that will be incorporated into MCC's FY 2025 Congressional Budget Justification (CBJ). The APR, along with the CBJ, is projected to be posted on MCC's website in February 2024. Together, the AMR and APR provide a comprehensive presentation and disclosure of important financial and programmatic information related to MCC's operations and results, including a fair assessment of MCC's leadership and stewardship of the resources entrusted to the agency. Not later than March 31, 2024, MCC will also provide further information related to its activities in an Annual Report to Congress.

All of these reports and related materials will also be made available to the public on MCC's website at www.mcc.gov.

Organization of This Report

The FY 2023 AMR includes a message from the Chief Executive Officer (CEO), followed by three sections and one appendix:

- **Section I: Management's Discussion and Analysis** integrates performance and financial information with key performance results, financial statements, systems and controls, compliance with laws and regulations, and actions taken or planned to address problems.
- **Section II: Financial Section** contains the financial statements and accompanying notes, and the independent auditor's report.
- **Section III: Other Information** includes MCC's Summary of Financial Statement Audit and Management Assurances, MCC's Payment Integrity Report, and MCC's climate related financial risk.
- **Appendix A** includes a list of acronyms used in this report.

For more information about MCC, visit its website at http://www.mcc.gov

Message from the Millennium Challenge Corporation's Chief Executive Officer

November 13, 2023

Fiscal Year (FY) 2023 was a pivotal and successful time for the Millennium Challenge Corporation (MCC). Over the course of the year, we advanced programs to reduce poverty by unlocking inclusive economic growth in 22 partner countries and moved strategic and operational priorities forward to rejuvenate the agency as it approaches its 20th anniversary in early 2024.

In total, the agency signed agreements granting over $1.7 billion in assistance in FY 2023. MCC signed compacts with Indonesia ($649 million) and Mozambique ($500 million), as well as the agency's first regional compacts with Benin and Niger ($504 million). Additionally, MCC signed threshold program agreements with Kiribati ($29 million) and Kenya ($60 million).

These new program signings are the result of countless hours of hard work and are a strong reflection of what MCC's teams are able to accomplish. It is this commitment to cause that has guided us over the past two decades and, as we prepare to celebrate our 20th anniversary, illustrates how we plan to set a new path forward that builds on the programs, impact, and learning of MCC's first twenty years. MCC is an effective economic development tool, executing nearly $17 billion in grants helping to lift 323 million people out of poverty.

The coming 20-year milestone serves as an opportunity for us to embrace the lessons we've learned, pushing ourselves to maximize the potential of the agency's model for years to come. For example, MCC is compressing our compact development process to deliver assistance faster and pursuing new legislative authority to deliver our powerful economic development model to a broader range of countries around the world. We are well positioned to play a meaningful role in the U.S. efforts to address global poverty and strengthen democratic governance.

I am pleased to share MCC's Annual Management Report (AMR) for FY 2023 and Management's Responsibility for Enterprise Risk Management and Internal Control—as per the requirements of the Federal Managers' Financial Integrity Act of 1982 and Office of Management and Budget Circular A-123. Both reports concluded that there are no material weaknesses in our operations and the financial and performance data presented reasonably and fairly represent the results of MCC's operation.

As Chief Executive Officer, I am proud of how MCC continues to deliver for the American public and for the people in the countries with whom we partner. As we seek to employ new ways to leverage the agency's unique model to even greater effect, I am thankful for the fantastic work done by our staff and our stakeholders, whose engagement remains essential to MCC's success.

Sincerely,

Alice P. Albright
Chief Executive Officer
Millennium Challenge Corporation

Management's Discussion and Analysis (Unaudited)

Mission, Values and Organizational Structure

Mission

The Millennium Challenge Act of 2003, 22 United States Code (U.S.C.) §§7701-7718, established MCC as a government corporation, as defined in 5 U.S.C. §103. MCC's mission is to reduce poverty by supporting sustainable and inclusive economic growth in select developing countries that demonstrate commitment to ruling justly, economic freedom, and investing in people. Ruling justly includes advancing democratic rights and the rule of law, respect for human and civil rights, protection of private property rights, transparency and accountability in governance, and a commitment to fighting corruption. Economic freedom covers policies that enable citizens and firms to participate in global capital markets, promote private sector growth, and limit direct government interference in the economy. Investing in people encompasses investments in education and health care for a country's people, with a particular emphasis on women and children.[1]

MCC pursues its mission by providing grant assistance for programs focusing on the binding constraints to economic growth in partner countries. These programs typically also include policy and institutional reforms that are essential to sustainable impact. MCC's approach employs development best practices on selection, country ownership, transparency, and accountability; stimulates policy reform with analysis and data-driven decision-making; and leverages partnerships with donors, the private sector, and other federal agencies engaged in foreign assistance.

Specifically, MCC provides assistance through three types of grants:

- ***Compact programs*** are bilateral programs with a country that meets MCC's eligibility criteria and is selected for assistance by MCC's Board of Directors. The compact establishes a five-year implementation plan of partnership between the country and MCC to achieve shared development objectives. The compact establishes an assistance program designed by the partner country and MCC to reduce poverty through sustainable economic growth and is built on the principles of country ownership, transparency, and accountability, with input from the private sector, other development partners, and civil society organizations. The compact defines each party's responsibilities and includes benchmarks, timetables, and performance goals and metrics.
- ***Threshold programs*** are programs for countries that have shown political will and commitment toward improving their policy performance but do not yet meet the criteria necessary to be selected for a compact by MCC's Board of Directors. Thresholds are typically a smaller dollar amount than compacts and focus on support for policy and institutional reforms through technical assistance, capacity building, and selected pilot projects. MCC uses a rigorous, structured diagnostic process to develop threshold programs prior to program design and implementation.
- ***Regional compacts*** are programs that facilitate regional economic integration, increased regional trade, or cross-border trade and investment. Congress provided MCC concurrent compact authority in 2018. MCC finalized the development of a road and trade program involving Benin and Niger and is working with the Government of Côte d'Ivoire to develop an energy sector program expected to involve the West African Power Pool.

MCC's grants are "high-quality" in that they are large, predictable, multi-year and do not add to a country's debt burden. MCC's governing statute requires MCC to provide assistance in a manner that promotes economic growth and the elimination of extreme poverty. MCC's programs thus focus on the binding constraints to economic growth in a country through a combination of projects and policy and institutional reform in the

1 MCC's statute, § 607(b)(3)(C).

following sectors: energy; transportation; water supply and sanitation; agriculture and irrigation; governance and land; financial services; and health, education, and community services.

Country ownership is a core MCC principle. MCC's engagement with a partner country often stands as a cornerstone of the U.S. economic relationship in that country—visible proof that U.S. economic assistance leads to tangible results—and helps to create a more attractive environment for private sector led growth. Partner countries generally also make a financial and/or in-kind contribution, a signal of their commitment and ownership of the programs. In an increasingly globalized economy, these investments are a down payment on poverty reduction, increased growth, and stability as well as market opportunities for American businesses.

MCC works closely with the Department of State, the United States Agency for International Development (USAID), United States International Development Finance Corporation (DFC) and other agencies to ensure that MCC programs complement related U.S. government (USG) efforts and therefore maximize the impact of the USG around the world. Strengthening the next generation of emerging markets that will trade and do business with U.S. companies leads to job creation in the United States. As emerging economies prosper in an inclusive manner, they become more stable and secure, a result that promotes U.S. national security interests.

Values

MCC's values define how we operate on a daily basis, both as individuals and as an institution, in pursuit of MCC's mission. Our values identify who we are and what is important to us. They guide how we make decisions, set priorities, address challenges, manage trade-offs, recruit and develop staff, and work together with our partner countries and stakeholders.

MCC's values are **CLEAR**:

Embrace Collaboration — We work together toward clear, common goals with a spirit of creativity and teamwork. We believe that bringing different perspectives to the table leads to the best solutions.

Always Learn — We question assumptions and seek to understand what works, what doesn't, and why. We recognize that failing to reach a goal can be an important learning opportunity, and we apply and share those lessons broadly.

Practice Excellence — We envision MCC as a leader in global development, and we have high standards for ourselves, our partner countries, and the investments we make. We bring out the best in ourselves and in one another to advance the fight against global poverty.

Be Accountable — We own our actions, are honest about our limits and missteps, and hold ourselves and each other responsible for good performance. We are transparent and explain our decisions.

Respect Individuals and Ideas — We are inclusive, act with humility, and value diverse ideas. We listen and foster strong working relationships with our colleagues at MCC, in our partner countries, and throughout the development community.

Organizational Structure

Board of Directors

MCC is overseen by a nine-member Board of Directors that is chaired by the Secretary of State. The Board of Directors also includes the Secretary of the Treasury, who acts as the Vice Chair, the U.S. Trade Representative, the USAID Administrator, MCC's CEO, and four private sector representatives appointed by the President of the United States with the advice and consent of the U.S. Senate. The Board of Directors generally meets four times each year. Among other responsibilities, the Board provides policy guidance to MCC, makes annual eligibility and selection determinations, and approves compact and threshold programs.

Executive Offices

MCC accomplishes its mission through the executive offices contained in the following organizational chart as of September 30, 2023:

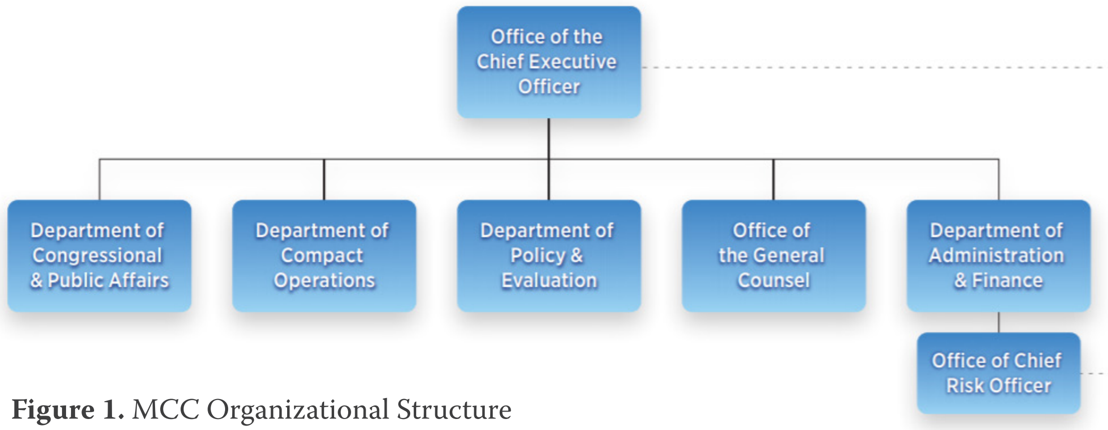

Figure 1. MCC Organizational Structure

Additional details regarding responsibilities of the executive offices may be found at https://www.mcc.gov/about/org-chart.

Performance Goals, Objectives, and Results

MCC's mission is to reduce poverty through economic growth, and the agency utilizes an innovative and tested approach to carry out this mission. MCC's operations are guided by its founding principles that remain as relevant today as at the time of the agency's inception 19 years ago. These principles are centered on a competitive selection process that reflects American values and the conditions for economic growth; a business-like approach with bedrock commitments to data, accountability and timelines, cost-benefit analysis and evidence-based decisions, and a laser-focus on creating the right circumstances for private investment. In short, MCC focuses on "what works."

MCC's competitive selection process, using a "scorecard" with externally available metrics, assesses candidate countries in the three categories of ruling justly, economic freedoms, and investing in people. MCC works in countries that are committed to democratic governance and rewards transparency and accountability. MCC's rigorous selection process creates an incentive for countries to improve their policy performance, while also targeting MCC's funding to those countries most likely to use it well.

To achieve maximum impact and value for money, MCC holds itself to a high standard of accountability for achieving results. MCC's focus on transparency and accountability for results has been consistently recognized. In November 2022, Results for America released the 2022 Invest in What Works Federal Standard of Excellence Report, an annual scorecard of how federal agencies use evidence and data to achieve better results. For the seventh consecutive year, MCC received the highest score of all federal agencies featured in the report for having built the infrastructure necessary to use data, evidence, and evaluation in budget, policy, and management decisions.

Strategic Direction

MCC established the following corporate priorities for FY 2023 to guide agency activities:

- ***Deliver a clear and impactful MCC@20 vision:*** *Deliver on the MCC@20 vision of 1) where MCC works, 2) how MCC works, and 3) what MCC brings to bear with a concrete action plan including innovative proposals, ideas, and actions responsive to the needs of our partner countries. The plan should consider and deliver high impact programs more quickly, an expanded role for the threshold program, and securing and implementing changes to how MCC's country candidate pool is defined.*
- ***Select, Design, Deliver, and Evaluate High-Quality Compacts, Threshold, and Regional Programs:*** *Identify, track, and achieve key milestones in a timely manner with country partners to develop, implement, and evaluate compact, threshold, and regional programs on budget and on schedule.*
- ***Integrate Policy Priorities to Achieve Quality Economic Growth that is Sustainable, Inclusive, and Private sector-led:*** *Consistent with MCC's Climate Strategy, further incorporate climate change risks and opportunities into the identification, design, assessment, implementation, and evaluation of MCC programs and projects. Identify, design, and implement opportunities to expand structurally excluded groups' ability to access, participate in, and/or derive benefits from MCC programs and projects as defined in MCC's Inclusion and Gender Strategy. Identify, design, and implement opportunities to crowd in private investment in and around MCC programs and projects to maximize scale and impact, including through USG agencies such as DFC, USAID, and Department of State.*
- ***Improve MCC's Operational Efficiencies and Effectiveness, including driving MCC's agility and responsiveness to both HQ and overseas staff needs:*** *Enhance, streamline, and modernize MCC's operations to increase impact and better manage risk. Promote innovation and learning around program implementation and timelines.*
- ***Refine MCC's Human Capital and Resource Capabilities and Foster a Diverse, Equitable, Inclusive, and Accessible (DEIA) Culture:*** *More effectively recruit, deploy, and retain resources to meet MCC's mission and achieve program objectives, including the ability to scale and resource the evolving scope and impact of MCC programs and projects. Develop and approve a Human Capital Strategic Implementation Plan, including a review and assessment of the Human Capital and Resourcing model. Institutionalize DEIA programs and related activities.*

The FY 2023 corporate priorities are reflected in the work and activities discussed in this AMR.

Snapshot of MCC Portfolio and Programming

As of September 30, 2023, MCC is engaged in partnerships across 28 programs with 22 countries (including compacts and threshold programs). Table 1 displays the number of programs in the development and implementation phases of compacts and threshold programs.

Table 1. MCC Portfolio as of September 30, 2023
8 Compacts in development, including 2 regional concurrent compacts
8 Compacts signed, not yet entered-into-force, including 2 regional concurrent compacts
6 Compacts in implementation or undergoing closeout
1 Threshold Program in development
5 Threshold Programs in implementation or signed, not yet entered-into-force

In FY 2023, MCC's compact with Benin entered the closure period, while the compacts with Ghana and Morocco, and the Kosovo threshold program all officially closed.

Table 2 displays grant totals, net of de-obligated amounts, for every MCC compact signed since the agency's inception in 2004 through September 30, 2023.

Table 2. Value of Compact Grants as of September 30, 2023 (in thousands)

Value of Compact Grant Since Agency Inception		
Closed Grants (Final Disbursements)	$	10,030,631
Implementing Grants or Undergoing Closeout (Signed values)	$	2,770,364
Signed Grants Not Yet Entered-into-Force (Signed values)	$	2,925,000
Total Value of Compact Grants	**$**	**15,725,995**

Value of Compact Grants in Implementation or Undergoing Closeout							
Total	$	2,770,364	100.0%				
Senegal II	$	550,000	19.9%	Niger	$	442,624	16.0%
Côte d'Ivoire	$	536,740	19.4%	Benin II	$	391,000	14.1%
Nepal	$	500,000	18.0%	Mongolia II	$	350,000	12.6%

Value of Compact Grants Signed but yet to Enter-into-Force							
Total	$	2,925,000	100.0%				
Indonesia	$	649,000	22.2%	Regional Transport (Niger)	$	302,000	10.3%
Mozambique	$	500,000	17.1%	Lesotho II	$	300,000	10.2%
Timor Leste	$	420,000	14.4%	Kosovo	$	202,000	6.9%
Malawi II	$	350,000	12.0%	Regional Transport (Benin)	$	202,000	6.9%

Table 3 displays grant totals, net of de-obligated amounts, for threshold programs closed by September 30, 2023, and grant values of implementing or signed threshold programs not yet entered-into-force, by threshold program. The total values combined represent every MCC threshold program signed since the agency's inception in 2004 through September 30, 2023.

Table 3. Value of Threshold Program Grants as of September 30, 2023 (in thousands)		
Value of Threshold Program Grants		
Closed Grants (Final Disbursements)	$	599,485
Implementing Grants or Undergoing Closeout (Signed values)	$	109,100
Signed Grants Not Yet Entered-into-Force (Signed values)	$	60,000
Total Value of Threshold Program Grants	**$**	**768,585**

Value of Compact Grants in Implementation or Undergoing Closeout					
Total	$	109,100			
Togo	$	35,000	The Gambia	$	25,000
Kiribati	$	29,100	Solomon Islands	$	20,000

Value of Threshold Program Grants Signed but yet to Enter-into-Force		
Total	$	60,000
Kenya	$	60,000

In total, 31 countries have received funding through 47 compacts and 29 countries have received funding through 32 threshold programs. A full listing of MCC's past and present programs may be found at https://www.mcc.gov/where-we-work.

New Program Signings

MCC and the Government of **Indonesia** signed the $649 million Indonesia Infrastructure and Finance Compact to improve financing for infrastructure in the country—particularly transport and logistics infrastructure, promoting safe and accessible public transit, and financing for women-owned and small and medium enterprises. U.S. Treasury Secretary Janet Yellen—who also serves as the Vice Chair of MCC's Board of Director's—signed the compact on behalf of MCC.

MCC and the Government of **Mozambique** signed the $500 million Mozambique Connectivity and Coastal Resilience Compact. The partnership will build roads and infrastructure in Zambezia Province, including a 1.1-mile bridge spanning the Licungo River, maintaining a critical economic lifeline between the north and the south of the country. The compact will also help protect Mozambique's coastline from the effects of climate change and over-fishing and pursue reforms in the agriculture sector.

In December 2022, MCC signed the $504 million **Benin – Niger** Regional Transport Compacts during the U.S. – Africa Business Forum. Benin's President Patrice Talon, Niger's President Mohamed Bazoum, and MCC's Chief Executive Officer Alice Albright were joined by U.S. Secretary of State Antony Blinken to sign the compacts and celebrate taking a significant step in advancing two-way trade between the United States and West Africa. Unfortunately, following the July 2023 military coup d'etat in Niger, in August MCC paused and in September MCC's Board suspended all MCC assistance to Niger. MCC has ceased all preparatory work on the regional compact with Niger. Additionally, due to this suspension, the implementing Niger compact signed in 2016 is undergoing an orderly wind-down of activities. The Nigerien military's actions against the democratically elected government is contrary to the principles of democratic governance and the rule of law that underpin MCC's statutorily mandated eligibility criteria. All MCC partner countries are expected to demonstrate an ongoing commitment to these principles to remain eligible for MCC investments.

MCC and the Government of **Kenya** signed a $60 million threshold program designed to improve urban connectivity and public safety, expand anti-sexual harassment policies and programming, and promote economic growth in Kenya. The signing took place in New York alongside the United Nations General Assembly. The program is focused on Nairobi, where it aims to strengthen institutions and support improvements in long-term planning for integrated, accessible, and safer transportation and land use. Among its features, the program will focus on the transportation needs of pedestrians and develop more viable transportation options for women.

Finally, MCC and the Government of **Kiribati** signed a $29.1 million threshold program to address the low participation of Kiribati workers in the international labor economy. Despite more than half of the population being under 25 years old, over 50 percent of youth are neither employed nor participating in education or training in 2019. The demand for training and skills improvement opportunities for youth far exceeds the number of available opportunities. For Kiribati workers overseas, there persists a mismatch between their work readiness skills and the expectations of employers in countries such as Australia and New Zealand. As a result, many Kiribati are looking to build skills and experience that will help them find decent and inclusive work domestically and in the Pacific region. MCC will provide 'facilitated governance reform' support to the Government to enhance their ability to promote decent and inclusive employment for the people of Kiribati; address worker protection risks and related family resilience for I-Kiribati working overseas; and will provide experiential growth opportunities for Kiribati high school students to improve fundamental employment-related skills.

MCC's Approach to Defining and Measuring Results

Overview

MCC is committed to defining, achieving, and measuring results; holding itself accountable for those results; transparently reporting results, data, and evaluation lessons; and learning from the evidence to improve current and future programs. To fulfill this commitment, data-driven decision-making and monitoring and evaluation are integrated into the entire program lifecycle, from country selection to program conceptualization, to implementation and beyond. For additional information, visit https://www.mcc.gov/our-impact.

Monitoring Program Performance

MCC monitors progress by using performance indicators that measure progress at all levels. Lower-level process and output-level indicators are typically drawn from project and activity work plans, whereas higher-level targets are often linked directly to the economic rate of return analysis. MCC reviews monitoring data quarterly to assess progress toward project objectives and integrate this information into project management decisions. Data for performance monitoring and reporting usually comes from project implementers, and administrative data provided by implementing entities. Monitoring data undergoes regular quality checks to ensure integrity and accuracy.

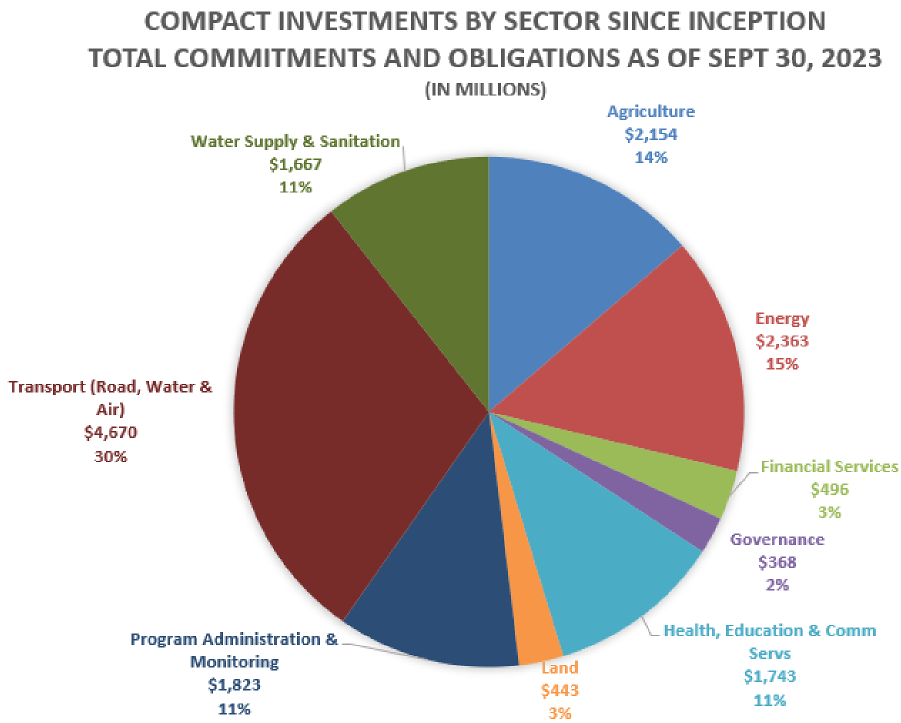

Figure 2. Compact Investments by Sector Since Inception

MCC aggregates results and program outputs in key sectors to measure progress in those areas across its entire investment portfolio. Currently, MCC calculates aggregate program results on a quarterly basis in six sectors:

- **Agriculture and Irrigation** involving agriculture infrastructure; producer organizational development; policy and regulatory reform and systems strengthening; market development; climate resilience resource management, and research; and agriculture finance and investment - https://www.mcc.gov/sectors/sector/results-agriculture
- **Education** which targets general education specific; technical and vocational education training/workforce development; and higher education; and fall into the following categories of investment: teacher/school administrator training; infrastructure and equipment; governance and management; and workforce training - https://www.mcc.gov/sectors/sector/results-education
- **Energy** comprising of off-grid power infrastructure; on-grid power infrastructure; other energy infrastructure; and technical assistance - https://www.mcc.gov/sectors/sector/results-energy
- **Land** involving legal, regulatory and policy reform; institutional strengthening; clarification and recognition of land rights; and land use planning and natural resource management - https://www.mcc.gov/sectors/sector/results-land
- **Transportation** covering transportation infrastructure; management, funding, operations and maintenance assistance; and transportation policy, regulatory, planning, financing and institutional development assistance. https://www.mcc.gov/sectors/sector/results-transportation
- **Water, Sanitation, and Hygiene** covering water infrastructure; sanitation and/or wastewater infrastructure; hygiene and other training; and drainage infrastructure; and are often complemented by investments in policy and institutional reform. https://www.mcc.gov/sectors/sector/results-wash

Evaluating Program Performance and Results

MCC's programs aim to reduce poverty, while spurring entrepreneurship and economic growth and helping build more stable, accountable, and inclusive societies. With a data-driven, evidence-based approach to decision-making, MCC invests heavily in tracking the outcomes of its programs. Every MCC project is evaluated by independent, third-party entities, to assess the quality of implementation, assess the achievement of the project objective and other intermediate results, and compare measured benefits with project costs. These evaluations continue beyond the program implementation period to assess long-term results. Roughly 36 percent of the evaluation portfolio consists of impact evaluations, whose methodology allows for measured results to be directly attributed to MCC's investment. The remainder are performance evaluations, which assess the contribution of MCC's investment to changes in targeted outcomes.

MCC supports comprehensive, high-quality data collection conducted by local resources to inform these evaluations. Program funds are frequently used for surveys fielded by both private firms and national statistical agencies and other government entities. All the data collected, whether from surveys or implementers, undergoes regular quality checks that are monitored by MCC to ensure integrity and accuracy.

Country Selection Process

The MCC Board of Directors selects countries to partner with MCC assistance. For a country to be selected as eligible for assistance, it must demonstrate commitment to ruling justly, economic freedom, and investing in its people. MCC's Board of Directors examines this commitment primarily by consulting MCC's annual country "scorecards" of policy performance comprising 20 independent, third-party, objective indicators, as well as relevant supplemental information. The Board reviews a country's policy performance on the MCC scorecards, then considers the overall opportunity to reduce poverty and generate economic growth in a country, as well as the funding available.

MCC's country selection process relies heavily on public, data-driven country scorecards, which allow Congress, taxpayers, beneficiaries, and other stakeholders to hold the agency accountable for its decisions. Additional information on MCC's selection process and criteria, including country scorecards and selection indicators may be found at https://www.mcc.gov/who-we-select.

MCC Effect

MCC's approach to country selection encourages all candidate countries—and not just MCC partner countries—to improve their economic and social policies before MCC grants a single dollar, in the hope of qualifying for an MCC program. This clear incentivizing effect is called the "MCC Effect." MCC sees this effect when government and civil society groups contact MCC or indicator institutions to learn more about how they can improve their scorecard performance.

A number of countries have set up teams within their governments dedicated to improving their scorecard performance in the hope of qualifying for an MCC program. An independent global survey of development stakeholders found that they repeatedly identified MCC's eligibility criteria as among the most influential external assessments of government performance. Many countries also regard their MCC scorecard performance as a stamp of approval that signals to their communities and the private sector that the country is well governed. More information about the MCC Effect can be found at https://www.mcc.gov/who-we-select/mcc-effect.

Compact Development, Implementation, and Closure

Countries seeking to sign a compact with MCC must be selected as eligible for compact assistance by MCC's Board of Directors through the process described above. Several principles are key to countries developing successful compact proposals. Eligible countries should demonstrate **country ownership and commitment** by providing leadership, mobilizing resources, and engaging broad groups of stakeholders and potential beneficiaries throughout the compact development process. Countries should directly address constraints to poverty-reducing **economic growth**, even when doing so may involve difficult public policy decisions. Compact programs should be based upon a strong program logic that clearly ties proposed projects to **measurable results** and **high economic returns** to be achieved by increasing incomes and wellbeing for beneficiaries. Well-developed compact programs also have **manageable technical, financial, environmental, and social risks** and allow for timely implementation within a fixed, five-year term, given each country's own oversight and management capacities.

Looking Forward

MCC's new investments are guided by the strategic direction laid out in FY 2022. As MCC approaches its 20th anniversary in 2024, it is using this celebratory moment to self-reflect, learn, and engage stakeholders through an initiative called MCC@20. Designed to take a new look at how to maximize the impact of MCC investments and adapt to new challenges facing emerging economies, the agency is building on its model, programs, impact, and learning demonstrated in its first two decades.

MCC@20 is challenging the agency to work faster, in more places, and in new ways that double down on MCC's comparative advantages to meet the moment and deliver for our partners around the world. To move faster, MCC has been testing a number of internal initiatives to reduce compact development timelines, including piloting a faster-track development approach for select compacts. To ensure that the agency is applying its transformational programs in the countries where it can have the greatest impact, Congress has introduced the bipartisan and bicameral MCC Candidate Country Reform Act. Once passed, this legislation will result in a larger country candidate pool for MCC, allowing MCC to consider a wider range of countries, thereby expanding the "MCC Effect" by incentivizing a broader set of countries to double down on good governance, democratic rights, and fighting corruption, while also ensuring that MCC continues to provide its unique assistance where it can have the greatest impact by ensuring the agency can consider all countries with ongoing development needs.

In addition to the agency's MCC@20 initiative, MCC remains focused on three strategic priorities—climate, gender and inclusion, and catalyzing private sector investment.

Climate

MCC and USAID announced a new collaborative effort to expand green financing in low and lower-middle income countries through "Climate Finance +" during the November 2022 United Nation Climate Change Conference (COP27) in Egypt. As part of the program, MCC explored opportunities for green finance with three countries in MCC's portfolio - Indonesia, Mozambique, and Zambia. The Indonesia and Mozambique compacts were both signed in FY 2023 and will support green finance and the Zambia compact is projected to complete development in 2024. MCC plans to continue exploring opportunities for green finance in collaboration with other country partners and as part of the compact development process. Although the agency has not yet finalized its total contribution, financial models indicate that by investing between $50-$80 million in the pilot program, MCC can yield up to $800 million in additional project financing. MCC's commitment on climate and climate strategy may be found on MCC's website: https://www.mcc.gov/about/priority/climate.

Gender and Inclusion

In October 2022, MCC launched its new Inclusion and Gender Strategy to deepen the agency's commitment to foster inclusive economic growth in partner countries. The new strategy outlines how MCC will routinely and systematically integrate gender and inclusion into its grant programs to increase the ability of poor people, women, and other marginalized groups to access, participate in, and derive benefits from its investments. MCC's Inclusion and Gender Strategy may be found on MCC's website: https://www.mcc.gov/resources/doc/inclusion-gender-strategy#page-content.

Catalyzing Private Sector Investment

Recognizing shifts in the global development landscape and the opportunity to scale up impact, MCC aims to increase private investment in and around our programs through blended finance. The agency's new Blended Finance Strategy, set to be released in FY 2024, details MCC's approach to expanding and deepening the scope and scale of blended finance investments across our portfolio in a manner consistent with our model and our partner countries' goals and priorities. MCC aims to leverage our high-quality grant funding to catalyze increased private investment in our partner countries and spur sustainable and inclusive economic growth.

New Compacts and Threshold Programs

In December 2022, MCC's Board of Directors selected The Gambia and Togo as eligible to develop new compact programs, and Senegal as eligible to develop a concurrent compact to bolster regional connections. MCC also selected Mauritania as eligible to develop a threshold program. The Gambia is currently implementing a $25 million threshold program to help address the unreliable and inadequate electricity supply in the country. Meanwhile, Togo is currently implementing a $35 million threshold program to improve access to high quality and affordable information and communications technology and expand access to formalized land. Senegal is two years into the implementation phase of the $550 million Senegal Power Compact designed to address the high cost of, and low access to, electricity in peri-urban and rural areas in the country.

Analysis of MCC's Financial Statements

At the end of FY 2023, MCC prepared four basic financial statements with accompanying notes pursuant to the requirements of 31 U.S.C. § 3515(b) and presented them to the USAID Office of the Inspector General (USAID/OIG) for audit by an independent accounting firm. The principal statements include a Balance Sheet, a Statement of Net Cost, a Statement of Changes in Net Position, and a Statement of Budgetary Resources. The Financial Section of this report contains the financial statements and notes, and the auditor's report. In addition, reports used to monitor and control budgetary resources are prepared from the same records.

Preparing MCC's financial statements is a vital component of sound financial management, and provides accurate, accountable, and reliable information that is useful for assessing performance, allocating resources, and targeting areas for future programmatic emphasis. MCC's management is responsible for the integrity and objectivity of the financial information presented in the statements. MCC is committed to excellence in financial management and maintains a rigorous system of internal controls to safeguard its widely dispersed assets against loss from unauthorized acquisition, use, or disposition.

A summary of MCC's major financial activities in FY 2023 and FY 2022 appears in the Changes in Financial Position table (Table 4). This table represents the resources available, assets on hand to pay liabilities, and the corresponding net position. The net cost of operations is the cost of operating MCC. Budgetary resources are funds available to the Agency to incur obligations and fund operations. This summary section also includes an explanation of significant fluctuations on each of MCC's financial statements.

Table 4: Changes in Financial Position (in thousands)				
Net Financial Condition	**FY 2023**	**FY 2022**	**Variance (in $)**	**Change (in %)**
Fund Balance with Treasury	$ 5,767,667	$ 5,667,600	$ 100,067	1.8%
Advances	70,350	29,174	41,176	141.1%
Other Assets	0	26	(26)	-100.0%
Property, Plant, and Equipment (net)	2,703	5,641	(2,938)	- 52.1%
Total Assets	$ 5,840,720	$ 5,702,441	$ 138,279	2.4%
Accounts Payable	$ 12,983	$ 13,902	$ (919)	-6.6%
Accrued Grant Liabilities	121,826	106,452	15,374	14.4%
Other Liabilities	15,467	16,828	(1,361)	- 8.1%
Total Liabilities	150,276	137,182	13,094	9.5%
Unexpended Appropriations	5,694,453	5,567,836	126,617	2.3%
Cumulative Results of Operations	(4,009)	(2,577)	(1,432)	55.6%
Total Net Position	5,690,444	5,565,259	125,185	2.2%
Total Liabilities and Net Position	$ 5,840,720	$ 5,702,441	$ 138,279	2.4%
Net Cost of Operation	$ 709,118	$ 713,737	$ (4,619)	- 0.6%
Budgetary Resources	$ 4,334,894	$ 3,866,117	$ 468,777	12.1%

Balance Sheet

The balance sheet is a representation of MCC's financial condition at the end of the fiscal year. It shows the resources available to meet its statutory requirements (assets); the amounts it owes that will require payment from available resources (liabilities); and the difference between assets and liabilities (MCC's net position).

Assets

As of September 30, 2023, MCC held total assets of $5.8 billion compared to $5.7 billion reported in FY 2022. The majority of MCC's assets (98.7 percent) are held in its Fund Balance with Treasury (FBWT), which increased by $100.1 million primarily due to FY 2023 enacted appropriations received, net of prior year unobligated funds rescission of $100.0 million, exceeding current year Net Outlays by $100.1 million. Advances increased by $41.2 million due primarily to advances paid in relation to capital works projects of the Cote d'Ivoire and Senegal compacts which were offset by the liquidations for compacts in the countries of Benin, Morocco, and Niger. MCC has very few capital assets in relation to total assets because it does not own its facilities or other real property and does not capitalize its leases. There have been no additions to property, plant and equipment during the year and the decrease in the net balance represents the depreciation and amortization charge for the year.

Liabilities

As of September 30, 2023, MCC had $150.3 million in liabilities, which represents amounts owed to grantees, vendors, contractors, trading partners, and employees. Grant liabilities comprise approximately 81.1 percent of MCC's total liabilities. The net increase of $15.4 million in the Accrual – Grant Liabilities is primarily the result of increases in the grant accrual for the Cote d'Ivoire, Niger, and Senegal compacts as these compacts move out on capital projects and associated increases in retentions. These increases were offset by the Morocco compact closing, the closeout of the Benin compact and the resultant release of retentions for works completed.

Net Position

MCC's overall net position as of September 30, 2023, was $5.7 billion, an increase of $125.2 million, 2.2 percent, from FY 2022. The available appropriations reported in MCC's positive net position represent the resources necessary to fund future compacts.

Statement of Net Cost

During FY 2023, MCC incurred $709.1 million in net program costs, compared to $713.7 million in FY 2022 as reflected below:

Table 5: Condensed Statement of Net Costs (in thousands)

	FY 2023	FY 2022	Variance (in $)	Change (in %)
Compact, Threshold and Program Development Activities	$ 570,605	$ 586,041	$ (15,436)	- 2.6%
Administrative and Other Costs	138,513	127,696	10,817	8.5%
Net Cost of Operations	**$ 709,118**	**$ 713,737**	**$ (4,619)**	- 0.6%

The net decrease of $15.4 million in Compact, Threshold and Program Development activities costs is primarily the result of the closure of the Ghana and Morocco compacts in FY 2023, offset by costs incurred in connection with due diligence of developing programs.

Statement of Changes in Net Position

This statement shows the change in net position during the reporting period. MCC's net position on September 30, 2023, was $5.7 billion, an increase of $125.2 million from September 30, 2022. MCC's net position is affected by changes to its two components: Cumulative Results of Operations and Unexpended Appropriations. As of September 30, 2023, Cumulative Results of Operations amounted to a deficit of $4.0 million, a decrease of $1.4 million from September 30, 2022. This balance is the cumulative difference, for all previous FYs, between funds available to MCC from all financing sources and the net costs incurred. The second component of net position, Total Unexpended Appropriations, amounted to $5.7 billion, an increase of $126.6 million, or approximately 2.3 percent, from FY 2022.

Statement of Budgetary Resources

This statement and related disclosures provide information about how budgetary resources were made available as well as their status at the end of the period. It is the only financial statement derived predominantly from the entity's budgetary general ledger in accordance with Federal accounting rules. The Statement of Budgetary Resources (SBR) reflects the format prescribed by OMB Circular No. A-136, *Financial Reporting Requirements*.

Table 6: Changes in Budgetary Resources (in thousands)				
Budgetary Resources	**FY 2023**	**FY 2022**	**Variance (in $)**	**Change (in %)**
Unobligated Balance from Prior Year Budget Authority	$ 3,504,894	$ 3,468,736	$ 36,158	1.0%
Appropriations, net of recissions, and Other	830,000	397,381	432,619	108.9%
Total Budgetary Resources	$ 4,334,894	$ 3,866,117	$ 468,777	12.1%
New Obligations and Upward Adjustments				
Grants	$ 630,328	$ 236,237	$ 394,091	166.8%
Administrative and other costs	209,147	197,762	11,385	5.8%
New Obligations	839,475	433,999	405,476	93.4%
Unobligated Balance comprised of:				
Commitments signed under grant agreements pending entry-into-force	2,755,987	2,024,412	731,575	36.1%
Other	739,432	1,407,706	(668,274)	- 47.5%
Unobligated Balances at the end of the year	3,495,419	3,432,118	63,301	1.8%
Total Status of Budgetary Resources	$ 4,334,894	$ 3,866,117	$ 468,777	12.1%
Net Outlays	$ 729,933	$ 691,473	$ 38,460	5.6%

For FY 2023, MCC reported total budgetary resources of $4.3 billion compared to $3.9 billion in FY 2022.

Budgetary resources of $4,334.9 million at the end of the FY 2023 were provided through FY 2023 appropriations of $930.0 million net of the rescission of prior year unobligated funds of $100.0 million which supplemented the $3,504.9 million unobligated balance carried forward from appropriations in FY 2022 and prior years.

During FY 2023, MCC signed grant agreements totaling $1,742.1 million and obligated $134.4 million upon signing. In FY 2022 MCC signed grant agreements totaling $1,317.0 million and obligated $148.7 million upon signing. The remaining commitment balance, pending satisfaction of conditions precedent, of $2,756.0 million as of September 30, 2023, are attributable to the following countries – Benin Regional Compact, the Niger Regional Compact, Kenya, Kosovo, Lesotho, Indonesia, Malawi, Mozambique, and Timor-Leste.

Limitations of the Financial Statements

The principal financial statements are prepared to report the financial position and results of operations of the reporting entity, pursuant to the requirements of 31 U.S.C. § 3515(b). The statements are prepared from the books and records of federal entities in accordance with U.S. generally accepted accounting principles (GAAP) and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. Government.

Analysis of MCC's Systems, Controls, and Legal Compliance

Systems

MCC's financial management systems strategy employs the use of a shared service provider (SSP) to achieve its financial and budget management goals. MCC has benefited from economies of scale provided by the SSP strategy since its inception in 2004 and plans to continue utilizing the SSP for the foreseeable future. Currently, the Interior Business Center (IBC), operated by the Department of the Interior, is MCC's SSP for financial and payroll management systems. IBC maintains and operates the following systems on MCC's behalf:

- **Oracle Federal Financials (OFF)** — the system of record for MCC's Financial Statements and Notes. The system processes financial and budgetary transactions. OFF is also the main system of record for USAspending.gov reporting compliant with the Digital Accountability and Transparency Act of 2014 (DATA Act) and OMB Memorandum M-15-12, *Increasing Transparency of Federal Spending by Making Federal Spending Data Accessible, Searchable, and Reliable.*

- **Federal Personnel Payroll System (FPPS)** — Provides support for the full lifecycle of personnel and payroll transactions. FPPS is integrated with OFF to account for payroll transactions.

MCC is responsible for overseeing IBC to ensure that the SSP complies with pertinent federal financial management system and internal control requirements applicable to those systems used for MCC's financial transaction processing and reporting and complying with federal requirements for its financial management operations, systems, controls, and reporting. The American Institute of Certified Public Accountants (AICPA) Statements on Standards for Attestation Engagements (SSAE) No. 18 prescribes requirements for assessing SSPs. MCC obtains the SSAE 18 Report for both IBC administered systems and reviews it for observations and risks which may require risk mitigation and compensating controls. Additionally, MCC verifies that complementary end user controls are in place and operating effectively as part of its internal control assessment related to OMB Circular No. A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996* (OMB A-123 Appendix D). Based on its OMB A-123 Appendix D Assessment, MCC believes that its financial management systems strategy successfully upholds its responsibilities to comply with the applicable guidance and requirements.

Controls

On an annual basis, MCC assesses the vulnerability of its programs and systems in alignment with the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and its implementing guidance, OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, as well as the associated guidelines issued by the CFO Council. OMB Circular No. A-123, Appendix A, *Management of Reporting and Data Integrity Risk* (OMB A-123 Appendix A), provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal control over reporting. OMB Circular A-123 Appendix A allows for modified implementation to fit the circumstances, conditions, and structure of each entity. MCC continued its efforts to reassess, improve, and enhance its financial, systems, program, and performance information during the current fiscal year.

Legal Compliance

MCC complies with all applicable Federal statutes and regulations. Key legal requirements include:

Anti-Deficiency Act

MCC maintains compliance with the Anti-Deficiency Act (codified as amended in 31 U.S.C. §§1341, 1342, 1351, 1517) through several tiers of process and system controls to maintain funds control. Apportionments are developed in consultation with OMB and designed to provide MCC with funds consistent with MCC's authorities in appropriations and authorization legislation. MCC's financial management system records apportionments and establishes automated funds controls. All obligations are centralized in the financial management system, and through those processes, MCC maintains control of its funding.

Debt Collection Improvement Act of 1996

The Debt Collection Improvement Act of 1996 requires all Federal agencies to refer for collection to the Department of the Treasury's Bureau of the Fiscal Service past due, legally enforceable, non-tax debts that are more than 180 days delinquent. During FY 2023, MCC referred no debt to the Department of the Treasury.

Digital Accountability and Transparency Act of 2014

The DATA Act builds on the Federal Funding Accountability and Transparency Act of 2006 (FFATA) as amended by the Government Funding Transparency Act of 2008. It requires agencies to disclose direct Federal agency expenditures and link Federal contract, loan, and grant spending information to agency programs. Additionally, it establishes government-wide data definition standards to make spending data consistent and reliable throughout the USG, and improve the data reported by Federal agencies under FFATA. The law aligns with OMB Memorandum M-10-06, issued on December 8, 2009, to increase transparency and create a more data-driven Federal Government. The USAID/OIG audited MCC's DATA Act initiative and reported no recommendations in its report titled, "MCC Took Initial Steps to Implement the Digital Accountability and Transparency Act of 2014." MCC is in compliance with all facets of the DATA Act and will continue to make improvements based on relevant recommendations and new requirements.

Federal Information Security Modernization Act of 2014

In FY 2023, MCC continued to focus efforts to improve its cybersecurity program consistent with applicable laws, executive orders, Cybersecurity and Infrastructure Security Agency (CISA) guidance, and other best practices. MCC implemented information technology modernization through upgrades of its infrastructure including updating operating systems and its intranet. MCC automates management of its hardware, software, and mobile device services, and is 100 percent compliant in obtaining a valid security authorization to operate for its information systems. The FY 2023 Federal Information Security Modernization Act of 2014 (FISMA) Inspector General's audit report concluded that MCC implemented an effective information security program. MCC will continue to improve its program in the future and address recommendations in a timely manner.

Prompt Payment Act

The Prompt Payment Final Rule (Code of Federal Regulations Title 5, Part 1315) requires Federal agencies to pay commercial obligations within certain periods and to pay interest penalties when payments are late. With certain exceptions, payments to vendors are due within 30 days of the latter of (1) receipt of properly prepared invoices or (2) the receipt of goods or services. For amounts owed and not paid within the specified payment period, agencies are required to pay interest on the amount owed at a rate established by the Department of the Treasury. MCC measures the percentage of all payments made within the specified timeframes for all payments subject to the Prompt Payment Final Rule. In FY 2023, MCC's prompt payment performance registered 99 percent. MCC is taking steps to reduce any likelihood of future unnecessary interest payments.

Management Assurances

FY 2023 Chief Executive Officer Statement of Assurance

November 13, 2023

Statement of Assurance

The Millennium Challenge Corporation's (MCC) management is responsible for establishing, maintaining, evaluating, and reporting on MCC's internal control and financial systems to meet the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

In accordance with Section 2 of FMFIA and the Office of Management and Budget (OMB) Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, MCC conducted an assessment of risk and internal control over reporting, and compliance with applicable laws and regulations. Based on the results of its assessment, MCC can provide unmodified reasonable assurance that internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2023. Accordingly, the assessment did not identify any material weaknesses in the design or operation of the controls.

The Federal Financial Management Improvement Act of 1996 (FFMIA) was designed to advance federal financial management by ensuring that federal financial management systems provide accurate, reliable, and timely financial management information to the government's managers. Compliance with the FFMIA provides the basis for the continuing use of reliable financial management information by program managers, as well as by the President, Congress, and public. The FFMIA requires agencies to have financial management systems that comply substantially with federal financial management system requirements, applicable federal accounting standards, and the application of the U.S. Government Standard General Ledger (USSGL) at the transaction level.

The vulnerability of MCC programs and systems was assessed in accordance with FMFIA and OMB guidance. Based on the results of the OMB Circular A-123 assessment, MCC has determined that its financial management systems comply with financial management system requirements and are in substantial conformance with the Section 4 requirements of FMFIA as of September 30, 2023.

Alice P. Albright

Alice P. Albright
Chief Executive Officer
Millennium Challenge Corporation

Statement of Assurance from Service Provider

October 6, 2023

United States Department of the Interior

INTERIOR BUSINESS CENTER
Washington, DC 20240

Dear Valued Customer:

The purpose of this letter is to provide assurance that the Oracle Federal Financial application controls remained unchanged for the period July l, 2023, through September 30, 2023.

You were previously notified that KPMG LLP examined the description of the Oracle financial application controls at the Department of the Interior (Department), Interior Business Center (IBC). The results of their review and analysis were provided in a System and Organization Control Report (SSAE18) covering the period July I, 2022, through June 30, 2023. A softcopy version of the report provided to you in August 2023.

The SSAE 18 review was conducted for the purpose of expressing an opinion as to whether (l) IBC's description of the Oracle Federal application controls presents fairly in all material respects the aspects of the IBC controls that may be relevant to a user organization's internal control; (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description if those controls were complied with satisfactorily; and (3) such controls had been placed in operation as of June 30, 2023. KPMG also performed testing procedures designed to determine the effectiveness of the specified controls in meeting control objectives specified by the IBC.

This letter provides representations and assurances related to Oracle Federal Financial application controls at the IBC for the period July 1, 2023, through September 30, 2023. This time period was not covered by the SSAE 18 examination report previously provided. To the best of my knowledge and belief, there have been no subsequent events that would have a significant effect on user organizations that have not been disclosed to you. The controls that have been placed in operation as of June 30, 2023, did not change for the period of July 1, 2023, through September 30, 2023. The description of controls in the FY 2022 SSAE 18 examination report presents fairly the aspects of IBC controls that were in place as of September 30, 2023.

The IBC also conducted an assessment of the effectiveness of internal control over financial reporting for customers where the IBC processes your financial transactions, which includes safeguarding of assets and compliance with applicable laws and regulations in accordance with the requirements of Appendix A of OMB Circular A-123 and the CFO Council's Implementation Guide dated June 6, 2018, as implemented by the Department. The assessment focused on the specific IBC financial business processes such as financial reporting, revenue management, funds management, and procurement in place as of June 30, 2023. As of that date, the IBC noted no material or significant deficiencies verified through A-123 Appendix A financial transaction testing.

Thus, the IBC asserted internal controls over financial reporting were suitably designed and operating effectively. The procedures and management controls for processing financial transactions have not changed since June 30, 2023. As a result, the IBC continues to assert substantial compliance with financial accounting and reporting controls in place from July 1, 2023, through September 30, 2023.

If you have any questions on this assurance statement, please contact Ted Aymami, Audit Liaison Officer, Theodore_A_Aymami@ibc.doi.gov, 720-763-1072.

Sincerely,

Wendell Bazemore
Associate Director
Financial Management Director

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 May 19, 2023). 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, 2022, 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, 2023 and September 30, 2022
(in thousands)

	FY 2023	FY 2022 Reclassified
Assets:		
Intragovernmental Assets:		
Fund Balance with Treasury *(Note 2)*	$ 5,767,667	$ 5,667,600
Advances and Prepayments	2,157	3,308
Total Intragovernmental Assets	5,769,824	5,670,908
Other than Intragovernmental Assets:		
Accounts Receivable, net *(Note 3)*	0	26
Property, Plant, and Equipment, net *(Note 4)*	2,703	5,641
Advances and Prepayments	68,193	25,866
Total Other than Intragovernmental Assets	70,896	31,533
Total Assets:	**$ 5,840,720**	**$ 5,702,441**
Liabilities *(Note 5)*:		
Intragovernmental Liabilities:		
Accounts Payable	$ 1,243	$ 900
Advances from Others and Deferred Revenue	2,345	3,530
Other Liabilities *(Note 6)*	969	905
Total Intragovernmental Liabilities	4,557	5,335
Other than Intragovernmental Liabilities		
Accounts Payable	11,740	13,002
Federal Employee Benefits Payable *(Note 7)*	5,774	5,218
Other Liabilities:		
Accrued Grant Liabilities *(Note 9)*	121,826	106,452
Other *(Note 6)*	6,379	7,175
Total Other than Intragovernmental Liabilities	145,719	131,847
Total Liabilities	**$ 150,276**	**$ 137,182**
Commitment and Contingencies *(Note 10)*		
Net Position		
Unexpended Appropriations-Funds from Other than Dedicated Collections	$ 5,694,453	$ 5,567,836
Total Unexpended Appropriations	5,694,453	5,567,836
Cumulative Results of Operations-Funds from Other than Dedicated Collections	(4,009)	(2,577)
Total Cumulative Results of Operations	(4,009)	(2,577)
Total Net Position	5,690,444	5,565,259
Total Liabilities and Net Position	**$ 5,840,720**	**$ 5,702,441**

The accompanying notes are an integral part of these statements.

STATEMENTS OF NET COST

For the Years Ended September 30, 2023 and 2022
(in thousands)

	FY 2023	FY 2022
Gross Program Costs	$ 571,789	$ 586,511
Less: Earned Revenue	(1,184)	(470)
Net Program Costs	570,605	586,041
Costs Not Assigned to Programs	138,513	127,696
Net Cost of Operations	**$ 709,118**	**$ 713,737**

The accompanying notes are an integral part of these statements.

STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2023 and 2022
(in thousands)

	FY 2023	FY 2022
Unexpended Appropriations		
Beginning Balance	$ 5,567,836	$ 5,878,985
Appropriations Received	930,000	912,000
Other Adjustments *(Note 11)*	(100,000)	(515,000)
Appropriations Used	(703,383)	(708,149)
Change in Unexpended Appropriations	126,617	(311,149)
Total Unexpended Appropriations	**5,694,453**	**5,567,836**
Cumulative Results of Operations		
Beginning Balance	(2,577)	85
Appropriations Used	703,383	708,149
Transfers-in/out Without Reimbursement	-	381
Donations and Forfeitures of Property	44	-
Imputed Financing	4,259	2,545
Net Cost of Operations	**(709,118)**	**(713,737)**
Change in Cumulative Results of Operations	(1,432)	(2,662)
Total Cumulative Results of Operations	**(4,009)**	**(2,577)**
Net Position	**$ 5,690,444**	**$ 5,565,259**

The accompanying notes are an integral part of these statements.

STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2023 and 2022
(in thousands)

	FY 2023	FY 2022
Budgetary Resources		
Unobligated Balance from Prior Year Budget Authority, net *(Note 11)*	$ 3,504,894	$ 3,468,736
Appropriations	830,000	397,000
Spending Authority from Offsetting Collections	-	381
Total Budgetary Resources	**$ 4,334,894**	**$ 3,866,117**
Status of Budgetary Resources		
New Obligations and Upward Adjustments (total)	$ 839,475	$ 433,999
Unobligated Balance, end of year		
Apportioned, Unexpired Accounts	3,461,297	3,428,058
Unapportioned, Unexpired Accounts	34,122	4,060
Unexpired Unobligated Balance, end of year	3,495,419	3,432,118
Unobligated Balance, end of year (total)	3,495,419	3,432,118
Total Budgetary Resources	**$ 4,334,894**	**$ 3,866,117**
Outlays, Net		
Outlays, Net (total)	**$ 729,933**	**$ 691,473**

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 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. Non-intragovernmental transactions are transactions with the public 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 U.S. 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 Interagency 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 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. Liabilities not requiring budgetary resources represent amounts of unearned revenue.

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 Other than Intragovernmental 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, 2023 and 2022, 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, 2023, and 2022, 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.

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. Reclassification

The FY 2022 Balance Sheet was reclassified to conform to the FY 2023 financial statement presentation requirements in accordance with OMB Circular No. A-136, as amended. The reclassification included a change in the presentation of Intragovernmental Other Liabilities to employer taxes and payroll contributions payable, which was previously included in the accounts payable. The reclassifications had no effect on total assets, total liabilities, or net position.

Q. 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

As of September 30, 2023 and 2022, respectively, FBWT was comprised as follows:

Status of Fund Balance with Treasury

(in thousands)	FY 2023	FY 2022
Unobligated Balance		
Available	$ 3,461,297	$ 3,428,058
Unavailable	34,122	4,060
Obligated Balance not yet Dispersed	2,272,248	2,235,482
Non-Budgetary FBWT	-	-
Total	**$ 5,767,667**	**$ 5,667,600**

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.

Note 3 – Accounts Receivable, Net

Accounts receivable, net as of September 30, 2023 and 2022 were $0 thousand (net of allowance for doubtful accounts of $129 thousand) and $26 thousand (net of allowance for doubtful accounts of $0 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, 2023 and 2022, respectively General Property, Plant and Equipment, net is comprised as follows:

General Property, Plant, and Equipment, net as of September 30, 2023

(in thousands)	Estimated Useful Life	Cost	Accumulated Depreciation & Amortization	Book Value
General PP&E:				
Leasehold Improvements	10 Years	$ 8,392	$ (6,543)	$ 1,849
Furniture	10 Years	3,788	(2,961)	827
Internal Use Software	5 Years	15,094	(15,067)	27
Vehicles	5 Years	111	(111)	-
Total		**$ 27,385**	**$ (24,682)**	**$ 2,703**

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**

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

	FY 2023			FY 2022
(in thousands)	Cost	Accumulated Depreciation Amortization	Book Value	Book Value
General PP&E:				
Balance Beginning of Year	$ 27,506	$ (21,865)	$ 5,641	$ 9,919
Dispositions	(121)	121	-	-
Depreciation and Amortization	-	(2,938)	(2,938)	(4,278)
Balance at End of Year	**$ 27,385**	**$ (24,682)**	**$ 2,703**	**$ 5,641**

Note 5 – Liabilities Not Covered by Budgetary Resources

As of September 30, 2023 and 2022, liabilities not covered by budgetary resources, respectively, are comprised as follows:

(in thousands)	FY 2023	FY 2022
Intragovernmental		
Other Unfunded Unemployment Related Benefits	$ 1	$ 34
Total Intragovernmental	**1**	**34**
Other than Intragovernmental		
Annual Unfunded Leave Liability	5,630	4,933
Rent Abatement Liability	2,636	3,648
Total Liabilities Not Covered by Budgetary Resources	8,267	8,615
Total Liabilities Covered by Budgetary Resources	139,467	125,037
Total Liabilities Not Requiring Budgetary Resources	2,542	3,530
Total Liabilities	**$ 150,276**	**$ 137,182**

Note 6 – Other Liabilities

MCC's total other liabilities as of September 30, 2023 and 2022, respectively, are comprised as follows:

Other Liabilities as of September 30, 2023

(in thousands)	Non-Current Liabilities	Current Liabilities	Total
Intragovernmental			
Employer Contributions & Payroll Taxes Payable	$ -	$ 968	$ 968
Unemployment Related Benefits	-	1	1
Total Intragovernmental Other Liabilities	**-**	**969**	**969**
Other than Intragovernmental			
Accrued Funded Payroll Benefits	-	3,743	3,743
Rent Abatement Liability	1,493	1,143	2,636
Total Other Liabilities Other than Intragovernmental	**1,493**	**4,886**	**6,379**
Total Other Liabilities	**$ 1,493**	**$ 5,855**	**$ 7,348**

Other Liabilities as of September 30, 2022

(in thousands)	Non-Current Liabilities	Current Liabilities Reclassified	Total
Intragovernmental			
Employer Contributions & Payroll Taxes Payable	$ -	$ 871	$ 871
Unemployment Related Benefits	-	34	34
Total Intragovernmental Other Liabilities	**-**	**905**	**905**
Other than Intragovernmental			
Accrued Funded Payroll Benefits	-	3,527	3,527
Rent Abatement Liability	2,635	1,013	3,648
Total Other Liabilities Other than Intragovernmental	**2,635**	**4,540**	**7,175**
Total Other Liabilities	**$ 2,635**	**$ 5,445**	**$ 8,080**

Note 7 – Federal Employee Benefits Payable

As of September 30, 2023 and 2022, respectively, Federal Employee Benefits Payable, are comprised as follows:

(in thousands)	FY 2023	FY 2022
Annual Unfunded Leave Liability	$ 5,630	$ 4,933
Employer Contributions and Payroll Taxes Payable	144	285
Total Liabilities	**$ 5,774**	**$ 5,218**

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 $15,066 thousand with a termination liability as of September 30, 2023 in the amount of $10,292 thousand excluding rent.

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

Future Lease Payments Due

(in thousands)	Asset Category				
Fiscal Year	Vehicle	Building	Totals	Federal	Non-Federal
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	-	-	-	-	-
FY 2028	-	-	-	-	-
After FY 2028	-	-	-	-	-
Total Future Lease Payments	**$ 9**	**$ 15,066**	**$ 15,075**	**$ -**	**$ 15,075**

Note 9 – Accrued Grant Liabilities

As of September 30, 2023 and 2022, respectively, Accrued Grant Liabilities is comprised as follows:

(in thousands)	FY 2023	FY 2022
Grant Accrual	$ 102,785	$ 76,717
Retentions	19,041	29,735
Total	**$ 121,826**	**$ 106,452**

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, 2023, MCC had commitments for the Benin Regional Compact, the Niger Regional Compact, and the Indonesia II, Kosovo, Lesotho II, Malawi II, Mozambique II, and Timor-Leste compacts and the Kenya Threshold totaling on a combined basis $2,755,987 thousand. Similarly, 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.

Following the July 2023 military coup d'état in Niger, on September 15, 2023, MCC's Board of Directors suspended assistance to Niger. This includes the Millennium Challenge Compact with the Government of Niger that was signed in 2016 and assistance under the concurrent Millennium Challenge Compact with the Government of Niger that was signed in December 2022. Subsequently on October 10, 2023, the U.S. State Department concluded that a military coup d'état had taken place. Following the decision to suspend, MCC has initiated an orderly wind-down of activities on the compact signed in 2016 and ceased preparatory work on the concurrent compact. The status of these grants as of September 30, 2023 is as follows:

(in thousands)	
Obligated but not yet delivered	$ 100,523
Obligated and delivered but not yet paid	$ 38,567
Unobligated balance – Available funds committed pending Entry into Force	$ 288,049

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, 2023, six AEs had agreements subject to performance guarantees which in aggregate are not to exceed $136,983 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 2023 a permanent reduction of $100.0 million was made to MCC's budgetary resources under Public Law (P.L.) 117-328. In FY 2022 a permanent reduction of $515.0 million was made to MCC's budgetary resources under P.L. 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, 2023 and 2022, certain adjustments were made to the balance of unobligated budgetary resources available as of October 1, 2022 and 2021. These adjustments are comprised of downward adjustments to undelivered orders that were obligated in a prior fiscal year.

The adjustments for the years ended of September 30, 2023 and 2022, are presented below:

Net Adjustments to Unobligated Balance, Brought Forward, October 1

(in thousands)	FY 2023	FY 2022
Unobligated Balance brought Forward from Prior Year	$ 3,432,118	$ 3,460,205
Adjustments to Budgetary Resources Made During Current Year		
Downward Adjustments of Prior Year Orders	72,776	8,531
	72,776	8,531
Unobligated Budgetary Resources from Prior Year Budget Authorities	**$ 3,504,894**	**$ 3,468,736**

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, 2023 and 2022, respectively is comprised as follows:

Undelivered Orders at End of Period

(in thousands)	FY 2023	FY 2022
Intragovernmental		
Paid	$ 2,157	$ 3,308
Unpaid	5,668	8,000
Total Intragovernmental	7,825	11,308
Other than Intragovernmental		
Paid	68,193	25,866
Unpaid	2,126,899	2,102,428
Total Other than Intragovernmental	2,195,092	2,128,294
Total	**$ 2,202,917**	**$ 2,139,602**

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

The table below documents there are no differences between the FY 2022 Statement of Budgetary Resources and the actual amounts reported for FY 2022 in the Budget of the U.S. Government released in 2023. Since the FY 2023 financial statements will be reported prior to the release of the Budget of the U.S. Government, MCC is reporting for FY 2022 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 2023 actual data will be available on https://www.whitehouse.gov/omb/budget/.

(in millions)	Budgetary Resources	New Obligations & Upward Adjustments (Total)	New Outlays
Statement of Budgetary Resources	$ 3,866	$ 434	$ (691)
Other - Rounding	-	-	(1)
Budget of the U.S. Government	**$ 3,866**	**$ 434**	**$ (692)**

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, 2023

(in thousands)	Intragovernmental	Other than Intragovernmental	Total
Net Operating Cost	**$ 36,560**	**$ 672,558**	**$ 709,118**
Components of Net Operating Cost Not Part of the Budgetary Outlays			
Property, Plant, and Equipment Depreciation Expense	-	(2,938)	(2,938)
Increase/(Decrease) in Assets:			
Accounts Receivable, net	-	(26)	(26)
Other Assets	(1,151)	42,327	41,176
Increase/(Decrease) in Liabilities:			
Accounts Payable	(343)	1,262	919
Federal Employee and Veteran Benefits Payable	-	(556)	(556)
Other Liabilities	1,121	796	1,917
Grant Accrual Liability	-	(15,374)	(15,374)
Financing Sources:			
Imputed Cost	(4,259)	-	(4,259)
Total Components of the Net Operating Cost Not Part of the Budgetary Outlays	**(4,632)**	**25,491**	**20,859**
Components of the Budget Outlays that are Not Part of the Net Operating Cost			
Financing Sources:			
Donated Services	-	(44)	(44)
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	**-**	**(44)**	**(44)**
Total Net Outlays (Calculated Total)	**$ 31,928**	**$ 698,005**	**$ 729,933**
Budgetary Agency Outlays, Net			**$ 729,933**

Reconciliation of Net Cost to Net Outlays for the Year Ended September 30, 2022

(in thousands)	Intragovernmental	Other than Intragovernmental	Total
Net Operating Cost	**$ 42,365**	**$ 671,372**	**$ 713,737**
Components of Net Operating 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 Liability	-	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 out/(in) Without Reimbursement	(381)	-	(381)
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	**(381)**	**-**	**(381)**
Total Net Outlays (Calculated Total)	**$ 35,758**	**$ 655,715**	**$ 691,473**
Budgetary Agency Outlays, Net			**$ 691,473**

Note 15 - COVID-19 Activity

In FY 2023 and FY 2022, 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; P.L. 116-260 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. Budgetary resources were used from prior year appropriations in support of the extension of five compacts to mitigate implementation delays due to the COVID-19 pandemic and to complete infrastructure projects as originally contemplated. As of September 30, 2023 and 2022 $51.8 million and $28.1 million, respectively, had been obligated.

Net outlays associated with COVID-19 as of September 30, 2023 and 2022 were $36.1 and $10.6 million, respectively, and there are no liabilities directly attributable to these extensions and no impact on the Net Position of MCC.

Note 16 - Reclassification of Financial Statement Line Items for Financial Report Compilation Process

To prepare the *Financial Report of the U.S. Government (Financial Report)*, 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 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 Financial Report 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 Financial Report line items. A copy of the 2022 Financial Report can be found here: https://www.fiscal.treasury.gov/reports-statements/ and a copy of the 2023 Financial Report 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, 2023			
FY 2023 MCC Statement of Net Cost		Line Items Used to Prepare FY 2023 Government-wide Statement of Net Cost	
Financial Statement Line	Amounts	Amounts	Reclassified Financial Statement
(in thousands)			
Gross Costs	$ 710,302		
			Non-Federal Costs
		$ 672,558	Non-Federal Gross Cost
		672,558	**Total Non-Federal Costs**
			Intragovernmental Costs
		12,544	Benefit Program Costs
		4,259	Imputed Costs
		17,298	Buy/Sell Costs
		3,643	Other Expenses (w/o Reciprocal)
		37,744	**Total Intragovernmental Costs**
Total Gross Costs	710,302	710,302	
Earned Revenue	(1,184)		**Earned Revenue**
		(1,184)	Federal Earned Revenue
Total Earned Revenue	(1,184)	(1,184)	Federal Earned Revenue
Net Cost	**$ 709,118**	**$ 709,118**	**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, 2023			
FY 2023 MCC Statement of Changes in Net Position		Line Items Used to Prepare FY 2023 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	$ 5,567,836	$ 5,567,836	Unexpended Appropriations, Beginning Balance
Appropriations Received	930,000	930,000	Appropriations Received
Other Adjustments	(100,000)	(100,000)	Other Adjustments
Appropriations Used	(703,383)	(703,383)	Appropriations Used
Total Unexpended Appropriations	$ 5,694,453	$ 5,694,453	**Total Unexpended Appropriations**
Cumulative Results of Operations			
Cumulative Results, Beginning Balance	$ (2,577)	$ (2,577)	Cumulative Results, Beginning Balance as adjusted
Donations and Forfeiture of Property	44	44	Donations and Forfeiture of Property
Imputed Financing	4,259	4,259	Imputed Financing Sources
Total Donations, Transfers, & Imputed Financing	4,303	4,303	**Total Donations, Transfers, & Imputed Financing**
Net Cost of Operations	(709,118)	(709,118)	**Net Cost of Operations**
Ending Balance - Cumulative Results of Operations	(4,009)	(4,009)	**Cumulative Results of Operations**
Total Net Position	**$ 5,690,444**	**$ 5,690,444**	**Net Position**

OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

Audit of MCC's Financial Statements for Fiscal Years 2023 and 2022

Audit Report 0-MCC-24-002-C

November 14, 2023

Financial Audits Division

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

MEMORANDUM

DATE: November 14, 2023

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

FROM: Assistant Inspector General, Office of Audits, Inspections and, Evaluations**,** Toayoa D. Aldridge /s/

SUBJECT: Audit of MCC's Financial Statements for Fiscal Years 2023 and 2022 (0-MCC-24-002-C

Enclosed is the final audit report on the Millennium Challenge Corporation's (MCC's) financial statements for fiscal years 2023 and 2022.[1] 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. 24-01, 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, 2023 and 2022, 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 grant agreements. To answer the audit

[1] Pursuant to the James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, Pub. L. No. 117-263, § 5274, which amends the Inspector General Act of 1978, when USAID OIG contracts with an audit firm to perform the work, USAID OIG provides non-governmental organizations and/or business entities specifically identified in the accompanying report, if any, 30 days from the date of report publication to review the final report and submit a written response to USAID OIG that clarifies or provides additional context for each instance within the report in which the non-governmental organization and/or business entity is specifically identified. Any comments received to this effect are posted for public viewing on https://usaid.oig.gov with USAID OIG's final transmittal memorandum. Please direct related inquiries to oignotice_ndaa5274@usaid.gov.

USAID Office of Inspector General
Washington, DC
oig.usaid.gov

objectives, the audit firm assessed risk, considered internal controls, and designed audit procedures relevant to MCC's fair presentation of its 2023 and 2022 financial statements.

The audit firm concluded that MCC's financial statements for the fiscal years ending September 30, 2023 and 2022, are presented fairly, in all material respects, and in accordance with accounting principles generally accepted in the United States of America. Further, the audit firm found no reportable noncompliance for fiscal year 2023 with provisions of applicable laws, regulations, contracts, and grant agreements. The audit firm did not identify any material weaknesses in internal control over financial reporting but reported one significant deficiency related to a late annual compact audit.

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. Enhance management monitoring processes to ensure Accountable Entities award audit service contracts to meet the compact audit requirement, as updated and documented by MCC and the Accountable Entity.

In finalizing the report, the audit firm evaluated MCC's response to recommendation 1. After reviewing that evaluation, we consider recommendation 1 resolved but open pending completion of planned activities. For recommendation 1, 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.

USAID Office of Inspector General

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Arlington, VA 22201
Phone: (571) 429-6600
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Independent Auditor's Report

The Board of Directors
Millennium Challenge Corporation

The Inspector General
United States Agency for International Development

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, 2023 and 2022, and the related statements of net cost, statements of changes in net position, and statements of budgetary resources for the years then ended, and the related notes to the financial statements (collectively referred to hereinafter as 'financial statements').

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the MCC as of September 30, 2023 and 2022, and its net cost, changes in net position, and budgetary resources for the years then ended, in accordance with U.S. generally accepted accounting principles.

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. 24-01, *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.

Other Matter – Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the fiscal year 2023 Annual Management Report to provide additional information for the users of its financial statements. Such information is not a required part of the financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

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Arlington, VA 22201
Phone: (571) 429-6600
www.rmafed.com

Responsibilities of Management for the Financial Statements

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

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, *Government Auditing Standards*, and OMB Bulletin No. 24-01, will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements 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, *Government Auditing Standards*, and OMB Bulletin No. 24-01 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.

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Arlington, VA 22201
Phone: (571) 429-6600
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Required Supplementary Information

U.S. generally accepted accounting principles 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 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 *Table of Contents, Message from the Millennium Challenge Corporation's Chief Executive Officer, Other Information Section,* and *Appendix* but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the 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.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2023, 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 the MCC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the MCC's internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982.

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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.

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 I that we consider to be a significant deficiency. The status of prior year findings can be found in Exhibit III.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the MCC's financial statements as of and for the year ended September 30, 2023 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. 24-01.

MCC's Response to Audit Findings and Recommendations

MCC's response to our audit findings and recommendations can be found in Exhibit II. MCC's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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Arlington, VA 22201
Phone: (571) 429-6600
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Purpose of the Other Reporting Required by *Government Auditing Standards*

The purpose of the communication described in the Report on Internal Control over Financial Reporting and Report on Compliance and Other Matters sections 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. Accordingly, this communication is not suitable for any other purpose.

RMA Associates

Arlington, VA

November 13, 2023

1005 N. Glebe Road, Suite 610
Arlington, VA 22201
Phone: (571) 429-6600
www.rmafed.com

Exhibit I – Significant Deficiency in Internal Control

Late Annual Compact Audit

During a Millennium Challenge Account (MCA) site visit, MCA management could not provide a recent audit report for the prior fiscal year. The MCA audit report for the period April 1, 2021, to March 31, 2022 was due July 29, 2022. As of June 28, 2023 the audit report was eleven months overdue.

The Compact agreement requires the following:

- Except as the Parties may agree otherwise in writing, the Government shall, on at least an annual basis, conduct, or cause to be conducted, financial audits of all disbursements of MCC Funding and the Government Contribution covering the period from signing of this Compact until the earlier of the following March 31 or September 30 and covering each annual period thereafter ending March 31 or September 30, through the end of the Compact Term, as well as the 120-day period following expiration of the Compact Term.
- Each audit must be completed, and the audit report delivered to MCC no later than 90 days after the applicable audit period or the commencement of audit services, whichever is later, or such other period as the Parties may otherwise agree in writing.

The initial contract for audit services was not made until over two years and eight months after the compact signing. Further delays occurred as the option years could not begin until after the final audit report was submitted, reviewed for quality, and approved. MCC did not fully utilize the provisions of the compact, supplemental agreements, or existing procedures to ensure MCA's audits were performed in a timely manner.

Recommendation: We recommend MCC management enhance its monitoring processes to ensure Accountable Entities (AE) award audit service contracts to meet the compact audit requirement, as updated and documented by MCC and the Accountable Entity.

1005 N. Glebe Road, Suite 610
Arlington, VA 22201
Phone: (571) 429-6600
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Exhibit II – MCC's Response to the Audit Findings

MILLENNIUM CHALLENGE CORPORATION
UNITED STATES OF AMERICA

DATE: November 8, 2023

TO: Toayoa D. Aldridge
Assistant Inspector General, Office of Audits, Inspections, and Evaluations
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 2023 and 2022," dated November 03, 2023

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 2023 and 2022," dated November 03, 2023. MCC concurs with the conclusions of the report and provides a management response, which includes the management decision, to the recommendation below.

OIG Recommendation 1 – Enhance management monitoring processes to ensure Accountable Entities award audit service contracts to meet the compact audit requirement, as updated and documented by MCC and the Accountable Entity.

MCC Response – MCC concurs with the recommendation. MCC will enhance our monitoring processes to ensure that accountable entities follow the audit requirements specified in the grant agreements. This will encompass corrective action to monitor audit timing and provide additional oversight of the audit requirements, including incorporating formal updates to the monitoring process as determined by MCC and the accountable entity. MCC anticipates that final action will be completed no later than June 27, 2024.

1005 N. Glebe Road, Suite 610
Arlington, VA 22201
Phone: (571) 429-6600
www.rmafed.com

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
Lisa Patchell, Supervisory Accountant, FMD, A&F, MCC

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Exhibit III – Status of Prior Year Recommendations

Fiscal Year	No.	Recommendation	Type	FY 2023 Status
FY22	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	Significant Deficiency	Closed
FY22	2	Obtain the AE'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.	Significant Deficiency	Closed
FY22	3	Require the AE CFO review the annual report and approve any adjustments necessary to reconcile Fixed Assets Register with the accounting records.	Significant Deficiency	Closed
FY22	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.	Significant Deficiency	Closed
FY22	5	Update the MCC's AE 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.	Significant Deficiency	Closed
FY22	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.	Significant Deficiency	Closed

Other Information (Unaudited)

Summaries of Financial Statements Audit and Management Assurances

Table 7: Summary of Financial Statement Audit					
Audit Opinion	Unmodified Opinion				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
	0				0
Total Material Weaknesses	0				0

Table 8: Summary of Management Assurances						
Effectiveness of Internal Control over Financial Reporting (FMFIA §2)						
Statement of Assurances	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
	0					0
Total Material Weaknesses	0					0
Effectiveness of Internal Control over Operations (FMFIA §2)						
Statement of Assurances	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
	0					0
Total Material Weaknesses	0					0
Conformance with Federal Financial Management System Requirements (FMFIA §2)						
Statement of Assurances	System conforms					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
	0					0
Total Non-Conformances	0					0

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FMFIA)		
	Agency Auditor	Auditor
1. System Requirements	*No lack of compliance noted*	*No lack of compliance noted*
2. Accounting Standards	*No lack of compliance noted*	*No lack of compliance noted*
3. USSGL at Transaction Level	*No lack of compliance noted*	*No lack of compliance noted*

Payment Integrity

The Payment Integrity Information Act of 2019 (PIIA) updated government-wide improper payment reporting requirements. In addition, OMB issued an update to Appendix C of OMB Circular A-123 (Appendix C) in Memorandum M-21-19 Requirements for Payment Integrity Improvement. Appendix C identifies the requirements for agencies to maintain compliance with the PIIA. The guidance requires agencies to review all programs and activities they administer to identify those that may be susceptible to significant improper payments through performing a risk assessment at least once every three years. For all programs and activities in which the risk of improper payments is deemed significant, agencies are to estimate the annual amount of improper payments made in those programs.

In accordance with PIIA and Appendix C guidance, MCC conducted a risk assessment on programs with payments greater than $10 million to determine whether agency programs are susceptible to significant improper payments. Based on the risk assessment, MCC determined that all of its programs are low risk and not susceptible to significant improper payments.

Additionally, Appendix C provides guidance related to completing recovery audits if it is cost effective to the agency. Based on MCC's Accountable Entity Audit Program and overall low historical improper payment total and rate, MCC determined that recovery audits are not cost-effective. The benefits or recaptured amounts associated with implementing and overseeing the program do not exceed the costs, including staff time and payments to contractors, of a recovery audit program.

OMB Circular A-136, Financial Reporting Requirements, requires agencies to report specific details about MCC's payment integrity activities at https://paymentaccuracy.gov/. The website further explains improper payments, MCC's FY 2023 risk assessment process, and the information reported in previous Agency Financial Reports and AMR. MCC recognizes the importance of maintaining adequate internal controls to ensure the accuracy and integrity of payments made by the agency and maintains a strong commitment to continuous improvement in the overall disbursement management process.

Grant Programs

Below is a summary (Table 9) of the total number of awards and balances for which closeout has not yet occurred, but for which the period of performance has elapsed by two years or more prior to September 30, 2023 (i.e., on or before September 30, 2021).

Table 9: Summary of Expired, but not Closed, Federal grants and cooperative agreements (awards) as of September 30, 2023

Category	2-3 Years	> 3-5 Years	> 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	2	-	-
Number of Grants/Cooperative Agreements with Undispersed Balances	3	-	-
Total Amount of Undispersed Balances (in thousands)	$ 234	$ -	$ -

Climate Related Risk

To assess the climate related financial risk exposure to MCC's headquarters, MCC is following the framework outlined in the U.S. Climate Resilience Toolkit to assess risks due to heat, flooding, and vector-borne diseases brought about by climate change and to define solutions to reduce the potential impact to its domestic operations. As MCC enters FY 2024, it will begin transitioning resources and expects to advance the goals of integrating adaptation and resilience considerations into the agency's facilities management and internal operations. Additional information may be found by visiting https://www.sustainability.gov/contributing-agencies.html#mcc.

MCC has made a commitment to expand and deepen our efforts to address climate change challenges across our investment portfolio and business operations, integrating climate considerations into all stages of program development and implementation. For additional information visit https://www.mcc.gov/resources/doc/climate-action-plan.

Appendix A: Acronyms

Acronym	Definition
A	
AE	Accountable Entity
AICPA	American Institute of Certified Public Accountants
AMR	Annual Management Report
APR	Annual Performance Report
C	
CBJ	Congressional Budget Justification
CEO	Chief Executive Officer
CFO	Chief Financial Officer
COP 27	27th session of the Conference of the Parties of the United Nations Framework Convention on Climate Change
CSRS	Civil Service Retirement System
D	
DATA Act	Digital Accountability and Transparency Act of 2014
DEIA	Diversity, Equity, Inclusion and Accessibility
DFC	United States International Development Finance Corporation
DOL	Department of Labor
E	
EIF	Entry into Force
F	
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
FECA	Federal Employees Compensation Act
FERS	Federal Employees Retirement System
FFATA	Federal Funding Accountability and Transparency Act of 2006
FFMIA	Federal Financial Management Improvement Act of 1982
FISMA	Federal Information Security Modernization Act of 2014
FMFIA	Federal Managers Financial Integrity Act of 1996
FPPS	Federal Personnel Payroll System
FY	Fiscal Year
G	
GAAP	Generally Accepted Accounting Principles

Acronym	Definition
I	
IBC	Interior Business Center
M	
MCC	Millennium Challenge Corporation
O	
OFF	Oracle Federal Financial System
OMB	Office of Management and Budget
OPM	Office of Personnel Management
P	
PL	Public Law
PIIA	Payment Integrity Information Act of 2019
PP&E	Property, Plant, and Equipment
S	
SBR	Statement of Budgetary Resources
SFFAS	Statement of Federal Financial Accounting Standards
SSAE	Statement on Standards for Attestation Engagements
SSP	Shared Service Provider
T	
TSP	Thrift Savings Plan
U	
USAID	United States Agency for International Development
USAID/OIG	United States Agency for International Development Office of the Inspector General
U.S.	United States
U.S.C.	United States Code
USD	United States Dollars
USG	United States Government
USSGL	U.S. Standard General Ledger

MCC Welcomes Your Comments

MCC welcomes comments and suggestions regarding this report.

Please contact MCC at:

https://www.mcc.gov/contact-us

or write to:

1099 14th Street, NW Suite 700
Washington, DC 20005-3550
(202) 521-3600

The Millennium Challenge Corporation is an innovative and independent foreign aid agency that is helping lead the fight against global poverty.

2023-001-2880-01