



Multinational Force & Observers (MFO)

Independent auditor's report
As of September 30, 2020

INDEPENDENT AUDITOR'S REPORT

Director General
Multinational Force and Observers

We have audited the accompanying statements of financial position of the Multinational Force and Observers (MFO) as of September 30, 2020 and the related statements of revenues, expenses and changes in net assets, statements of functional expenses and statements of cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with accounting policies specified in Note 2 to financial statements; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MFO as of September 30, 2020 and the related statements of revenues, expenses and changes in net assets, statements of functional expenses and statements of cash flows for the year then ended in conformity with the accounting policies as set forth in Note 2 to financial statements.

We have also examined in accordance with Attestation Standards established by the American Institute of Certified Public Accountants, management's assertion, that Multinational Force and Observers maintained effective internal control over financial reporting as of September 30, 2020 based on criteria established in the Internal Control – Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated November 19, 2020 expressed an unqualified opinion.

Other Matter

The financial statements of MFO for the year ended September 30, 2019, were audited by another auditor who expressed an unmodified opinion on those statements on November 6, 2019.

Milan, Italy
November 19, 2020

Crowe Bompani SpA



Giovanni Santoro
(Partner)

MULTINATIONAL FORCE & OBSERVERS
STATEMENT OF FINANCIAL POSITION
as at September 30, 2020 and 2019

	Sept. 30, 2020	Sept. 30, 2019
	<i>USD 000s</i>	<i>USD 000s</i>
ASSETS		
Current assets		
Cash & cash equivalents	67,866	43,934
Marketable securities < 1 year (notes 2 & 4)	12,112	8,999
Pledges (notes 2 & 7)	214	12,542
Prepaid expenses & other receivables (note 6)	3,981	4,946
Total Current assets	84,173	70,421
Non-current assets		
Fixed assets (notes 2 and 5)	2,100	2,267
Total Non-current assets	2,100	2,267
TOTAL ASSETS	86,272	72,688
LIABILITIES & NET ASSETS		
Current liabilities		
Accounts payable & Accrued expenses (note 10)	20,321	16,868
Total Current liabilities	20,321	16,868
Net assets without donor restrictions:		
Unrealized gain(loss) on marketable securities (notes 2 & 4)	(18)	26
Total without donor restrictions	(18)	26
Net assets with donor restrictions:		
SIF Self Insurance Fund (note 2 & 13)	6,150	6,150
CARF Capital asset Replacement Fund (note 2 & 14)	3,897	3,922
BSRF Budget Stabilization Reserve Fund (note 2 & 3)	35,828	26,660
US Force Protection Fund (note 2 & 9)	17,838	17,229
Japan Force Protection Fund (note 2 & 9)	2,255	1,401
US SPF Special Projects Fund (note 2 & 15)	0	433
Total net assets with donor restrictions	65,969	55,795
Total net assets	65,951	55,821
TOTAL LIABILITIES & NET ASSETS	86,272	72,688

The accompanying notes are an integral part of these financial statements

Amal
1

MULTINATIONAL FORCE & OBSERVERS
STATEMENT OF REVENUE, EXPENSE AND CHANGES IN NET ASSETS
as at September 30, 2020 and 2019

	2020			2019	
	<i>Unrestricted General</i>	<i>Unrealized Gain (Loss)</i>	<i>with donor restrictions</i>	<i>Total</i>	<i>Total</i>
	<i>USD 000s</i>	<i>USD 000s</i>	<i>USD 000s</i>	<i>USD 000s</i>	<i>USD 000s</i>
Revenue:					
Support from Funds Contributing States (notes 1 & 2)					
Egypt	25,000			25,000	25,000
Israel	25,000			25,000	25,000
United States	25,000			25,000	25,000
Support from Donor States (note 2)					
Finland (note 8)	133			133	136
Germany (note 8)	532		942	1,474	1,202
Japan (note 8)			39	39	43
Republic of Korea (note 8)	205			205	285
Netherlands (note 8)	942			942	1,625
Norway (note 8)			220	220	220
Sweden (note 8)			142	142	131
Switzerland (note 8)	214		120	334	531
United Kingdom (note 8)			326	326	319
Japan Force Protection (note 9)			1,489	1,489	1,518
US Force Protection (note 9)			6,000	6,000	6,000
Other Income (note 2)					
Release of restricted revenue (note 8)	329		144	474	455
	1,788		(1,788)	0	0
Total Revenue	79,143	0	7,634	86,777	87,466
Expenses (note 10):					
Program Services:					
Peacekeeping Mission (note 11)	63,885			63,885	67,138
Capital Asset Replacement (CARF) (note 14)			25	25	129
Australia Force Protection (note 9)					
Japan Force Protection (note 9)			646	646	127
US Force Protection (note 9)			5,521	5,521	2,040
US Special Projects Fund (SPF) (note 15)			436	436	196
Support Services:					
Management & General (note 12)	6,377			6,377	5,781
Total Expenses	70,261	0	6,628	76,889	75,412
Excess/(Deficit) of Revenues over Expense	8,882	0	* 1,006	9,888	12,054
Beginning net assets	0	26	55,795	55,821	43,421
Transfer to BSRF Budget Stabilization Reserve Fund (note 3)	(9,168)		** 9,168	0	0
Unrealized Gain (Losses) on Marketable securities (note 4)		-44		(44)	35
Transfer to BSRF, financial income and unrealized	286			286	311
Ending net assets	0	-18	65,969	65,951	55,821

* \$1,006 thousand is the net of the transfers to Force Protection Funds, and from CARF and SPF funds.

** \$9,168 thousand is the Transfer to the BSRF Budget Stabilization Reserve, including \$286 thousand nonrevenue from operations (note 3 and line 9 of the statement of cash flows)


2

MULTINATIONAL FORCE & OBSERVERS
STATEMENT OF REVENUE, EXPENSE AND CHANGES IN NET ASSETS
as at September 30, 2019 and 2018

	2019			2018	
	<i>Unrestricted</i>	<i>Unrealized</i>	<i>With</i>	<i>Total</i>	<i>Total</i>
	<i>General</i>	<i>Gain</i>	<i>donor</i>		
Revenue:	<i>USD 000s</i>	<i>Gain</i> <i>(Loss)</i>	<i>restrictions</i>	<i>USD 000s</i>	<i>USD 000s</i>
Support from Funds Contributing States (notes 1 & 2)					
Egypt	25,000			25,000	25,000
Israel	25,000			25,000	25,000
United States	25,000			25,000	25,000
Support from Donor States (note 2)					
Finland (note 8)	136			136	140
Germany (note 8)	520		682	1,202	1,541
Japan (note 8)			43	43	45
Republic of Korea (note 8)	285			285	300
Netherlands (note 8)	825		800	1,625	825
Norway (note 8)			220	220	245
Switzerland (note 8)	211		320	531	326
Sweden (note 8)			131	131	147
United Kingdom (note 8)			319	319	349
Japan Force Protection (note 9)			1,518	1,518	1,700
US Force Protection (note 9)			6,000	6,000	6,000
Australia Force Protection					667
US Special Projects Fund (note 15)				--	--
Other Income (note 2)	262		193	455	364
Release of restricted revenue (note 8)	2,515		(2,515)	--	--
Total Revenue	79,755	--	7,711	87,466	87,648
Expenses (note 10):					
Program Services:					
Peacekeeping Mission (note 11)	67,138			67,138	63,819
US Force Protection (note 9)			2,040	2,040	886
Special Projects Fund (note 15)			196	196	1,147
Capital Asset Replacement (CARF) (note 14)			129	129	136
Australia Force Protection (note 9)			0	0	667
Japan Force Protection (note 9)			127	127	2,175
Support Services:					
Management & General (note 12)	5,781	--		5,781	6,594
Total Expenses	72,920	--	2,492	75,415	75,425
Excess / (Deficit) of Revenues over Expenses	6,835	0	5,219	12,054	12,223
Beginning net assets	0	(9)	43,430	43,421	31,213
Transfer to BSRF Budget Stabilization Reserve Fund (note 3)	(7,146)		7,146	0	(7)
Transfer to Force Protection Fund					0
Transfer to CARF & SIF Fund					--
Unrealized Gain (Losses) on Marketable securities (note 4)		34		34	(9)
Transfer to BSRF, financial income and unrealized	311			311	
Ending net assets	0	26	55,795	55,821	43,421

Amir H
3

MULTINATIONAL FORCE & OBSERVERS
STATEMENT OF FUNCTIONAL EXPENSES
as at September 30, 2020 and 2019

	<i>FY 2020</i>		
	<u>Total</u> <u>Expenses</u>	<u>Peacekeeping</u> <u>Services</u>	<u>Management</u> <u>& General</u>
	<i>USD 000s</i>	<i>USD 000s</i>	<i>USD 000s</i>
Personnel (note 10 and 12)	25,189	20,736	4,453
Supplies net of miscellaneous sales (note 2)	17,346	16,756	591
Contractual Services	8,489	8,489	0
Troop Rotation	4,200	4,200	0
Equipment & Furnishings, net of sales (note 2 & 5)	3,612	3,469	143
Petroleum, Oil, Lubricants	3,659	3,646	13
Transportation	2,089	2,069	21
Communications	285	192	94
Rents	1,369	750	619
Buildings & Facilities (notes 2 & 11)	2,105	1,754	351
Travel	645	598	47
Utilities	1,272	1,227	45
Total Expenses	70,261	63,885	6,377
		91%	9%

	<i>FY 2019</i>		
	<u>Total</u> <u>Expenses</u>	<u>Peacekeeping</u> <u>Services</u>	<u>Management</u> <u>& General</u>
	<i>USD 000s</i>	<i>USD 000s</i>	<i>USD 000s</i>
Personnel (note 10 and 12)	24,104	20,077	4,028
Supplies net of miscellaneous sales (note 2)	18,009	17,593	416
Contractual Services	6,541	6,541	0
Troop Rotation	5,401	5,401	0
Equipment & Furnishings, net of vehicle sales proceeds of \$139,000 (note 2 & 5)	4,513	4,380	133
Petroleum, Oil, Lubricants	4,744	4,737	7
Transportation	2,055	2,010	45
Communications	325	222	104
Rents	1,256	681	575
Buildings & Facilities (notes 2 & 11)	3,839	3,579	260
Travel	1,127	973	154
Utilities	1,005	945	60
Total Expenses	72,920	67,138	5,781
		92%	8%

Amal

MULTINATIONAL FORCE & OBSERVERS
STATEMENT OF CASH FLOWS
as at September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
	<i>USD 000s</i>	<i>USD 000s</i>
Cash provided (used) by Operating Activities:		
Change in Net Assets		
Excess (Deficit) of Revenue Over Expenses	8,882	6,836
Less: Purchase of Fixed Assets	0	0
Depreciation of Fixed Assets	167	167
Unrealized Gain (Loss) on marketable securities	(44)	35
Use of CARF funds	(25)	(129)
Use of SIF funds	0	0
Change in US Force Protection Fund, with interests	610	4,142
Change in Japan Force Protection Fund, with interests	854	1,401
BSRF Balance Sheet Reserve from operating non-revenue cash	286	311
Change in US SPF Special Project Fund, with interests	(433)	(196)
Change in Assets & Liabilities:		
Decrease (Incr.) in prepaid expenses & other receivables	966	(1,565)
Decrease (Increase) In Pledges	12,328	(6,163)
Increase (Decrease) in Payables & Accrued Expenses	3,454	1,935
Net Cash provided by Operating Activities	27,045	6,774
Cash provided by Investing Activities:		
Current Assets:		
Sale of securities < 1year, at sale price, face value	10,000	0
(Gain) on sale of FY19 securities vs value on Sept 30, 2019	(1)	0
Loss on sale of FY20 securities vs purchase price FY20	3	0
(Purchase) of other Current Assets valued Sept 30, 2020	(13,158)	(7,984)
Unrealized loss on securities hold on September 30, 2020	43	0
Maturities of Available-for-Sale Securities <1 year	0	0
Non-Current Assets:		
Sale (purchase) of marketable securities > 1 year (note 4)	0	8,899
Cash & Cash Equivalents at beginning of year	43,934	36,245
Cash & cash equivalents at end of year	67,866	43,934
	67,866	43,934
Supplemental Data:		
Cash received – Interest	259	262

Amul
5

MULTINATIONAL FORCE & OBSERVERS
NOTES TO THE FINANCIAL STATEMENTS
as at September 30, 2020 and 2019

NOTE 1 - THE ORGANIZATION

The Multinational Force & Observers (MFO) is an international organization established by the Protocol signed by the Governments of Egypt and Israel (the Receiving States) and witnessed by the United States on August 3, 1981. The MFO's function is to supervise the implementation of key security provisions of the Treaty of Peace between Egypt and Israel dated March 26, 1979. The MFO received its initial funding on September 9, 1981. Each of the Receiving States and, subject to annual appropriations, the United States (together, the Funds Contributing States) agreed to contribute equally to the annual operating expenses of the MFO.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the MFO are prepared on the accrual basis. The accounting principles consistently applied by the organization are in accordance with Chapter III of the MFO's Administrative and Financial Regulations and the notes to these financial statements. For matters not regulated by the organization's Administrative and Financial Regulations and the notes to these financial statements, the organization adopts the generally accepted accounting principles and standards (hereafter GAAPs and standards) as defined by the Financial Accounting Standards Board (FASB), in particular the standards for topic 958 "Not-for-Profit Organizations" of the FASB's Accounting Standards Codification (ASC).

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Net assets

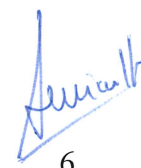
The MFO classifies net assets in accordance with the FASB's ASC 958-210. MFO's net assets result from support contributions by the Funds Contributing States (note 1) plus the additional annual contributions from "Donor States" (notes 8 & 9).

Revenue Recognition

Contributions are shown in the financial statements as revenue in accordance with the FASB's guidance in subtopic 958-605, including the Accounting Standards Update 2018-08 .

Contributions are recognized as revenue upon notification, restricted contributions are in the restricted class of the Statement of Revenue, and unrestricted contributions are in the unrestricted class. A transfer to the unrestricted class is made when the donor's conditions are substantially met.

All of the MFO's revenues in FY 2020 are derived from support contributions by the Funds Contributing States (note 1) plus the additional annual contributions from "Donor States"



NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

which in FY 2020 were Finland, Germany, Japan, the Republic of Korea, the Netherlands, Norway, Sweden, Switzerland and the United Kingdom (note 8) and for Force Protection Japan and the United States (note 9), apart from other income relating to interest, dividends, and realized gains/losses on marketable securities, which are recognized on an accrual basis, and unrealized gains/losses on marketable securities, which are recorded in net assets.

We recognize support from amounts pledged to the MFO. We maintain the principle of equal contributions by the three Funds Contributing States pursuant to the Protocol to the Treaty and related side letters.

Pledges (see also note 7)

Conditional and unconditional pledges of the Funds Contributing States and other Donor States have been shown in the financial statements as revenue in accordance with the FASB codified section 958-605.

Buildings, equipment & furnishings

The costs of buildings, equipment and furnishings are expensed as incurred, with the exception of the Rome Headquarters and Tel Aviv office spaces, owned by the MFO and recorded as fixed assets on the balance sheet at their historic cost, net of the accumulated depreciation in accordance with the FASB codified section 958-360. These two office spaces are being depreciated over thirty years using the straight-line method.

The costs of equipment and furnishings are expensed as incurred net of all sales proceeds. The MFO policy on Equipment and Furnishing states that MFO does not capitalize, with the exception of the two above-mentioned owned realty, any of its fixed assets. This policy differs from the FASB codified section 958-360.

Supplies & Stores Inventory

Costs of supplies and stores items are charged to expense as they are received.

Foreign Exchange

Exchange adjustments arising from the translation of foreign currencies are included in the results of current operations.

Marketable securities

After retaining sufficient liquidity to meet planned, near term expenditure, funds are invested in fixed income, U.S. dollar-denominated securities and certificates with a maximum maturity period of ten years (hereinafter "securities"). Securities which are available for sale relate to funds deposited in a fixed income portfolio management account and are stated at fair value.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net assets with donor restrictions

Net assets with donor restrictions are reported in accordance with the FASB's codified section 958-210 and Accounting Standards Update (ASU) 2016-14.

NOTE 3 - BUDGET STABILIZATION RESERVE FUND (NET ASSETS WITH DONOR RESTRICTIONS)

Following consultations with the three Funds Contributing States on June 10, 2010, the MFO was asked to establish a mechanism to set aside any annual operating budget surplus, in order to stabilize the annual Funds Contributing States' contributions and to make up any deficit that might occur during successive years. This led to the creation of the Budget Stabilization and Reserve Fund (BSRF) in FY 2010. Since FY 2011, we have been retaining in the BSRF all interests earned on BSRF investments.

The BSRF balance at the end of FY 2020 amounted to \$35,828,374. The increase of \$9,167,999 since the last fiscal year is the net effect of interests and gains earned in the amount of \$329,253, unrealized loss of \$43,200 and the FY 2020 surplus of \$8,881,946. The FY20 surplus was due to the consequences of COVID-19 and included delayed engineering projects in the Sinai and reduced operating expenses for supplies, services, equipment, fuel, duty travel and military rotation travel.

NOTE 4 - MARKETABLE SECURITIES (CURRENT ASSETS)

A breakdown of the fair value of securities, which are available for sale at maturity, is as follows:

	<u>Sept 30,</u> <u>2020</u> <i>USD 000s</i>	<u>Sept 30,</u> <u>2019</u> <i>USD 000s</i>
Securities maturing within 1 year	12,112	8,999
Securities maturing between 1-5 years	0	0
Total Marketable securities, year-end	12,112	8,999

The net realized gain on sales of marketable securities during the year ended September 30, 2020 was \$72,315. The realized loss on marketable securities in FY19 was \$17,500.

Unrealized gains and losses reflect movements in the market value of securities and are only realized if the securities are sold.

MULTINATIONAL FORCE & OBSERVERS
 NOTES TO THE FINANCIAL STATEMENTS
 as at September 30, 2020 and 2019

NOTE 4 - MARKETABLE SECURITIES (CONTINUED)

At September 30, 2020, marketable securities which were available for sale are summarized below:

	<i>Carrying <u>Amount</u> FY20</i>	<i>Unrealized <u>gains</u> FY20</i>	<i>Unrealized <u>losses</u> FY20</i>	<i>Fair <u>Value</u> Sept 30, 2020</i>
	<i>USD 000s</i>	<i>USD 000s</i>	<i>USD 000s</i>	<i>USD 000s</i>
U.S. Corporations maturing:				
within 1 year	12,155		(43)	12,112
between 1-5 years	0			0
Money market instruments maturing:				
within 1 year	0			0
between 1-5 years	0			0
Total FY20	12,155	0	(43)	12,112

At September 30, 2019, marketable securities which were available for sale are summarized below:

	<i>Carrying <u>amount</u> FY19</i>	<i>Unrealized <u>gains</u> FY19</i>	<i>Unrealized <u>losses</u> FY19</i>	<i>Fair <u>Value</u> Sept 30, 2019</i>
	<i>USD 000s</i>	<i>USD 000s</i>	<i>USD 000s</i>	<i>USD 000s</i>
U.S. Corporations maturing:				
within 1 year	8,925	74		8,999
between 1-5 years	0			0
Money market instruments maturing:				
within 1 year	0			0
between 1-5 years	0			0
Total FY19	8,925	74	0	8,999



MULTINATIONAL FORCE & OBSERVERS
 NOTES TO THE FINANCIAL STATEMENTS
 as at September 30, 2020 and 2019

NOTE 5 - FIXED ASSETS

On September 16, 1997, the MFO acquired part of a building in Rome, Italy, for use as the headquarters of the organization for \$2,337,000. On August 9, 2007, the MFO also acquired part of a building in Tel Aviv, Israel, for use as the office of the Director General's Representative for \$2,677,000.

The depreciation expense of both properties for the year ended September 30, 2020 was \$167,138 (and also \$167,138 in 2019).

The acquisition cost and accumulated depreciation of both properties are composed as follows as at September 30, 2020:

	<u>2020</u> <i>USD 000s</i>	<u>2019</u> <i>USD 000s</i>
Cost	5,014	5,014
Accumulated depreciation	(2,914)	(2,747)
Net book value	2,100	2,267

The expenditures for equipment and furnishings are included in the statement of functional expenses.

NOTE 6 - PREPAID EXPENSES AND OTHER RECEIVABLES (CURRENT ASSETS)

The schedule below provides an analysis of the prepaid expenses and other receivables balances as at September 30, 2020:

	<u>2020</u> <i>USD 000s</i>	<u>2019</u> <i>USD 000s</i>
Other prepayments	3,048	3,537
Foreign currency adjustments on prepayments	- 178	- 231
Taxes and VAT receivables	130	365
Other receivables and advances	822	686
MSP Morale Support Program, intercompany	159	589
Total	3,981	4,946

The balance of prepaid expenses decreased due to the following reasons:

- a decrease in prepaid amounts in Rome, Cairo and Tel Aviv due to the closing of old accounts ; and,
- a reduction of prepayment for armored vehicles (\$1.5 million on September 30, 2019 decreased to \$0.9 million on September 30, 2020).



MULTINATIONAL FORCE & OBSERVERS
NOTES TO THE FINANCIAL STATEMENTS
as at September 30, 2020 and 2019

**NOTE 6 - PREPAID EXPENSES AND OTHER RECEIVABLES (CURRENT ASSETS)
(CONTINUED)**

The balance of tax receivables decreased due to the following factors:

- a minimized Tel Aviv's VAT account; and,
- a decrease of the prepaid VAT on purchase due to lower activity in the last months of FY20 because of COVID.

The balance of other receivables and advances increased due to a deposit paid to Turkish Airlines, and several similar smaller deposits.

The Morale Support Program (MSP) intercompany account decreased due to the following reasons:

- The MSP account was netted (i.e. we merged a \$449 thousand debit balance and a fixed \$290 thousand payable balance. The distinction of a payable balance from the main MSP intercompany debit balance had lost its pertinence after 40 years of MSP activity).
- The MSP debit balance reflects the financing by the MFO of the MSP's working capital, i.e. part of the MSP inventory and MSP receivables and prepaids. With profitable FY20 and FY21 activities and fewer Morale Support expenses because of COVID, the need for MFO funding dramatically diminished.

The MFO operates the MSP on a not-for-profit basis. The MSP has fund-generating arms in the Sinai, the Force Exchange, and the clubs system, whose surpluses are exclusively used to fund the recreational activities of participating troops and civilian personnel. MSP operations (both foreign exchange operations and recreational activities' costs), have not been incorporated into the MFO financial statements as they are distinct and autonomous from those of the MFO, and such inclusion is deemed immaterial.

The MSP operates using its own bank accounts and financial accounting records. Should MSP operations significantly increase, they may be consolidated into the MFO financial statements. Such an increase in operations is not envisioned in the foreseeable future.

NOTE 7 - PLEDGES (CURRENT ASSETS)

The amount of contributions that have not been drawn upon or made available are shown in the financial statements as pledges.

All pledges are secured as at September 30, 2020 and only one Donor State did not materialize its \$214 thousand pledge to the MFO on September 30, 2020, as opposed to two Donor States and the Three Funds Contributions States on September 30, 2019 for a total of \$12,542 thousand



NOTE 8 - CONTRIBUTIONS TO OPERATING REVENUE BY THE DONOR STATES

Donor State contributions to FY 2020 operating revenue were recorded as follows (for Force Protection-earmarked funding see note 9):

- from the Government of Finland, a contribution of € 120,000 without donor restrictions;
- from the Government of Germany, € 1,319,270 of which € 849,270 was restricted and applied towards the local employment program for the Sinai population;
- from the Government of Japan a restricted contribution of \$39,447. As specified by the Government of Japan, this contribution has been applied exclusively, and conditionally, to pay for food costs and civilian personnel salaries;
- from the Republic of Korea, an unrestricted contribution of \$204,602;
- from the Government of the Netherlands, an unrestricted contribution of € 850,000;
- from the Government of Norway, a contribution of NOK 2,000,000 restricted toward support for the Civilian Observer Unit;
- from the Government of Sweden, a contribution of SEK 1,250,000 restricted toward support for the Civilian Observer Unit;
- from the Government of Switzerland, CHF 207,000 and \$120,000. The CHF 207,000 is unrestricted, and the \$120,000 was restricted toward support for the Civilian Observer Unit;
- from the Government of the United Kingdom a contribution of GBP 250,000 restricted to the cost of employing the local Sinai population.

The above contributions mentioned as conditional appear as “with donor restrictions” in the statement of Revenue Expense and Changes in Net Assets, and were released in their entirety by incurring qualified expenses during FY 2020 thereby satisfying donor restrictions.



MULTINATIONAL FORCE & OBSERVERS
 NOTES TO THE FINANCIAL STATEMENTS
 as at September 30, 2020 and 2019

**NOTE 8 - CONTRIBUTIONS TO OPERATING REVENUE BY THE DONOR STATES
 (CONTINUED)**

The contributions mentioned in this note have been included in the accompanying financial statements and are summarized as follows:

	<u>2020</u> USD 000s	<u>2019</u> USD 000s
Finland	133	136
Germany	1,474	1,202
Japan	39	43
Republic of Korea	205	285
Netherlands	942	1,625
Norway	220	220
Sweden	142	131
Switzerland	334	531
United Kingdom	326	319
Total	3,814	4,492

NOTE 9 – SUPPLEMENTAL DONATIONS – FORCE PROTECTION

Beginning in FY 2006, contributions from the U.S. Government have provided funding for Force Protection requirements that are separate from and additional to the U.S. contribution to the MFO's annual operating expenses. In FY 2020, Japan contributed \$1,489,363 (separate from and additional to Japan's contribution to operating expenses), and the U.S.A. contributed \$6,000,000 towards Force Protection. These funds are separately managed and accounted for and exclusively applied for the intended purpose of Force Protection and related expenditure. This Force Protection expenditure was released by incurring qualified expenses or commitments during FY 2020, thereby satisfying donor restrictions.

The schedule below provides an analysis of supplementary funding (including interest) from inception to September 30, 2020:

<u>Force Protection</u>	<u>Contributions</u> USD 000s	<u>Expenditures</u> USD 000s	<u>Balance of Funds</u> USD 000s
Period Ended 2019 USA	61,491	44,262	17,229
Period Ended 2019 Japan	7,600	6,199	1,401
Period Ended 2019 Australia	3,530	3,530	0
Period Ended 2019 Germany	322	322	0
FY 2020, USA and Japan:	7,631	6,167	1,464
Period Ended 2020	80,574	60,480	20,093

The amounts in this table include contributions from the U.S.A. since 2006 and Japan since 2015, as well as Australia from 2013 to 2018 and Germany in 2015.

In accordance with the FASB codified sections 958-210 and 958-225, these funds are considered "with donor restrictions".

MULTINATIONAL FORCE & OBSERVERS
 NOTES TO THE FINANCIAL STATEMENTS
 as at September 30, 2020 and 2019

NOTE 10 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES (CURRENT LIABILITIES)

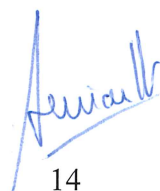
The schedule below provides an analysis by cost allocation of accounts payable and accrued expenses as at September 30, 2020:

	<u>2020</u>	<u>2019</u>
	USD 000s	USD 000s
Personnel costs, staff country payables, accrued leaves	7,240	6,455
Supplies & services payables and accruals, travels costs	5,894	6,023
Troop Rotations – accruals	4,512	4,100
Accrual of Force Protection shared commitment to DOD	2,675	0
MSP Morale Support Program	-	290
Total ACCOUNTS PAYABLE & ACCR. EXPENSES	20,321	16,868

In FY20, the balance of account payable and accrued expenses increased due to the following factors:

- An increase in the personnel accounts payable balance is mainly attributed to the increase of untaken annual leave in Tel Aviv because of COVID; to deferred payments of taxes duly recognized in FY20 expenses; and the deferred payment of one staff country payment invoice;
- The reduction of supplies and services accrued is mainly due to the reduction of procurement activity caused by COVID.
- An increase in the Troop Rotations balance is mainly attributed to the accrual of three years' rotation costs (FY18 to FY20) on September 30, 2020 as opposed to two years (FY18 and FY20) on September 30, 2019.
- A commitment to partly reimburse to the Department of Defense (DOD) the MFO's Force Protection requirements according to the 3rd amendment of the October 21, 2016 agreement with the DOD. The amounts accrued correspond to the "reimbursement limits for FY19 and FY20" agreed in an exchange of letter with the DOD.

Effective 1 August 2011, the MFO requires claims for reimbursement by Participating States to be submitted no more than twelve months after an expense is incurred.


14

NOTE 11 - CONTRIBUTED SERVICES & FACILITIES

Contributed Services

For Troop Contributing States, the MFO may reimburse all or part of the agreed cost of special pay and allowances for troops serving abroad. The MFO does not reimburse fixed base pay and salaries.

Australia, Canada, Japan, New Zealand, Norway and the United Kingdom provide military participation on a generous basis that does not seek MFO reimbursement of costs for soldiers' allowances, benefits, overheads or rotation costs.

New Zealand contributed two electricians to assist with electrical works at South Camp.

For the third year, Australia sent an operations analyst to assist with planning, assessment and optimization.

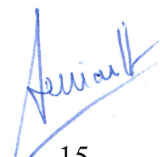
Australia also provided an aircraft to facilitate the rotation of Fijian personnel.

In accordance with the FASB codified section 958-605-25, the value of the above contributed services of soldiers and aircraft is not included in the financial statements, as such services are not obtainable from the general marketplace. The MFO recognizes with gratitude the indirect and often substantial support that several Troop-Contributing States are providing as a result of these arrangements.

In addition, the MFO receives a credit from certain Troop-Contributing States for certain costs that troop contributors would have incurred had their troops remained at home. These credits are not identified as revenue within the financial statements, but the MFO's operating expense is net of these credits.

Throughout the financial year, the United States Army generously contributed a surgical team, an annual security assessment and Force protection equipment for use at Forward Operating Base-North and South Camp.

In the case of the United States, Italy and the Czech Republic, the MFO is furnished at no cost with capital equipment for the mission and with agreed maintenance and support arrangements that effectively allocate such costs between the MFO and the contributing country. The MFO's Statement of Expenses is net of agreed credits relating to maintenance and support arrangements. A precise valuation of these capital contributions themselves, either in terms of cost to contributors not reimbursed by the MFO and/or in avoided costs of potentially more costly alternate sourcing of such assets, while obviously substantial and appreciated by the MFO, would be very speculative based on the limited information available to the MFO. In accordance with the FASB codified section 958-605-25, the MFO has not recognized as a contribution such equipment as the MFO, as stated above, has no reasonable basis for the determination of value.



MULTINATIONAL FORCE & OBSERVERS
NOTES TO THE FINANCIAL STATEMENTS
as at September 30, 2020 and 2019

NOTE 11 - CONTRIBUTED SERVICES & FACILITIES (CONTINUED)

A revised financial agreement between the MFO and the U.S. Army was signed on October 21, 2016, applicable from October 1, 2016. The agreement includes charges for U.S. Army helicopters and fixed wing aircraft stationed in the Sinai.

The arrangement also provides both for credits to the MFO for support costs that the U.S. Army avoids by having its soldiers stationed in the Sinai, and charges the MFO pays for U.S. Army incremental costs including certain soldier allowances and benefits. The agreement was updated for the third time on May 30, 2019.

In FY 2020, the total value of credits from the United States Department of Defense was \$5,831,444. This amount is more than offset by amounts otherwise due to the Department of Defense from the MFO for special pay and various allowances, helicopter flying hour and labor contract charges, flying hour charges for fixed wing aircraft, and goods and services ordered by the MFO.

Contributed Facilities

The MFO does not have title to the buildings and facilities that are located in the Sinai. The MFO receives the use of FOB-N, formerly North Camp, and South Camp in the Sinai rent-free. These sites and related facilities are provided by the Government of Egypt; all improvements to the facilities have been made possible through the contributions of the Funds-Contributing and Donor States.

NOTE 12 - ALLOCATION OF EXPENSES

MFO Management has determined, in compliance with the FASB codified section 958-720, that all costs relating to the Rome Headquarters and the staff compensation costs of the office of the Director General's Representatives in Cairo and Tel Aviv will be regarded as **support costs**.

All other costs relating to the MFO field offices in Tel Aviv and Cairo and the Force deployed in the Sinai have been reported as **program costs** as defined by the FASB codified section 958-720.

It should be noted that some Headquarters costs are truly program specific, whilst some Tel Aviv and Cairo office costs could be regarded as support costs. The cost of tracking and reallocating these costs separately would not provide the user of the accounts with a greater understanding of them. Management thus determined the most cost-effective way of complying with the standard is the adopted method of cost allocation. However, it should be noted that all costs are related to the purposes for which the MFO has received contributions, i.e., the conduct and support of its peacekeeping mission.



NOTE 13 - SELF-INSURANCE FUND (NET ASSETS WITH DONOR RESTRICTIONS)

At the Trilateral Conference held on November 27, 1989, it was agreed that a self-insurance fund (SIF) would be created. The authorized amount of the SIF is set at \$6,150,239.

The opening balance of the Fund was \$6,150,239. There were no transactions during the financial year and the ending Fund balance was \$6,150,239. In accordance with the FASB codified section 958-210, the SIF is considered "with donor restrictions".

NOTE 14 - CAPITAL ASSET REPLACEMENT FUND (NET ASSETS WITH DONOR RESTRICTIONS)

At the Trilateral Conference held on November 26, 1990, it was agreed that a Capital Asset Replacement Fund (CARF) would be created to finance projects of a non-routine, non-recurring nature (within 5 years) with a projected cost in excess of \$250,000. The authorized amount of the fund was set at \$4,187,500 on 30 September 2017.

The opening balance of the Fund was \$3,922,426. During the financial year, expenditure totaled \$25,356 and the ending Fund balance was \$3,897,070.

In accordance with the FASB codified section 958-210, the CARF is considered "with donor restrictions".

NOTE 15 - SPECIAL PROJECTS FUND (NET ASSETS WITH DONOR RESTRICTIONS)

In FY 2017, the U.S. Government contributed \$2,854,263 to a Special Projects Fund. The opening balance of this fund at the start of fiscal year 2020 was \$432,816.

During the financial year, expenditure totaled \$435,689, interest of \$2,873 was received and the ending Fund balance is now \$ nil. The Fund was used to support facilities projects required at the MFO's South Camp.





Multinational Force & Observers (MFO)

Independent auditor's report on Internal Control over Financial Reporting as of September 30, 2020

INDEPENDENT AUDITOR'S REPORT

Director General
Multinational Force and Observers

Opinion on Internal Control Over Financial Reporting

We have audited Multinational Force and Observers (MFO) internal control over financial reporting as of September 30, 2020, based on criteria established in the Internal Control—Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, MFO maintained, in all material respects, effective internal control over financial reporting as of September 30, 2020, based on the COSO criteria.

We have also audited, in accordance with auditing standards generally accepted in the United State of America (GAAS), the statements of financial positions of MFO as of September 30, 2020 and the related statements of revenue, expenses and changes in net assets, statements of functional expenses and statements of cash flows for the year then ended and our report dated November 19, 2020 expressed an unqualified opinion.

Basis for Opinion

We conducted our audit in accordance with GAAS. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting section of our report. We are required to be independent of MFO and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for Internal Control Over Financial Reporting

Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying "Report of Management on Multinational Force and Observers Internal Control Over Financial Reporting".

Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting

Our objectives are to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects and to issue an auditor's report that includes our opinion on internal control over financial reporting. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material weakness when it exists.

In performing an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional scepticism throughout the audit.
- Obtain an understanding of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

Definition and inherent Limitations of Internal Control Over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting policies specified in Note 2 to MFO financial statements. An organization's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in conformity with accounting policies specified in Note 2 to MFO financial statements, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate

Milan, Italy

November 19, 2020

Crowe Bompani SpA



Giovanni Santoro
(Partner)