



Multinational Force & Observers (MFO)

Independent auditor's report
As of September 30, 2021, and 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, 2021 and 2020, 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, the related notes to the financial statements, which represent the MFO 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, but not for the purposes of expressing an opinion on the effectiveness of the organization internal control. Accordingly, we express no such opinion. 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.

MILANO ROMA TORINO PADOVA GENOVA BRESCIA PISA BOLOGNA

Opinion

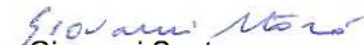
In our opinion, the financial statements mentioned above present fairly, in all material respects, the financial position of MFO as of September 30, 2021 and 2020, the related statements of revenues, expenses and changes in net assets, statements of functional expenses and statements of cash flows for the year then ended in conformity with the accounting policies as set forth in Note 2 to financial statements.

Emphasis of Matter

As disclosed in Note 5 to the financial statements, MFO purchased in September 2021 a series of Microsoft software licenses for \$2,531,992, and SAP licenses for \$154,276. They have a validity of 5 years for the Microsoft licenses and 3 years for the SAP licenses. Following the accounting policies adopted by MFO, which were applied also in the past for similar purchases, these amounts have been accounted as expenses and reported in the statement of revenues, expenses and changes in net assets. Our opinion is not modified with respect to this matter.

Milan, Italy
November 12, 2021


Crowe Bompani SpA


Giovanni Santoro
(Partner)

MULTINATIONAL FORCE & OBSERVERS
 STATEMENT OF FINANCIAL POSITION
 as at September 30, 2021 and 2020

ASSETS	Sept. 30, 2021	Sept. 30, 2020
	<i>USD 000s</i>	<i>USD 000s</i>
Current assets		
Cash & cash equivalents	68,849	67,866
Marketable securities < 1 year (notes 2 & 4)	5,515	12,112
Pledges (notes 2 & 7)	223	214
Prepaid expenses & other receivables (note 6)	3,937	3,981
Total current assets	78,524	84,173
Non-current assets		
Fixed assets (notes 2 & 5)	0	2,099
Total non-current assets	0	2,099
TOTAL ASSETS	78,524	86,272
LIABILITIES & NET ASSETS		
Current liabilities		
Accounts payable & accrued expenses (note 10)	19,127	20,321
Total current liabilities	19,127	20,321
Net assets without donor restrictions: (notes 2 & 4)		
SIF unrealized gain(loss) on marketable securities (notes 2 & 13)	5	(9)
CARF unrealized loss on marketable securities (notes 2 & 14)	0	(9)
BSRF unrealized gain(loss) on marketable securities (notes 2 & 3)	10	0
Total net assets without donor restrictions	15	(18)
Net assets with donor restrictions:		
SIF Self Insurance Fund (notes 2 & 13)	6,150	6,150
CARF Capital asset Replacement Fund (notes 2 & 14)	2,886	3,897
BSRF Budget Stabilization Reserve Fund carry forward (notes 2 & 3)	35,853	26,946
BSRF Budget Stabilization Reserve Fund current surplus	33	8,882
US Force Protection Fund (notes 2 & 9)	13,367	17,839
Japan Force Protection Fund (notes 2 & 9)	1,093	2,255
Total net assets with donor restrictions	59,382	65,969
Total net assets, restricted and unrestricted	59,397	65,951
TOTAL LIABILITIES & NET ASSETS	78,524	86,272

The accompanying notes are an integral part of these financial statements

1 

MULTINATIONAL FORCE & OBSERVERS
STATEMENT OF REVENUE, EXPENSE AND CHANGES IN NET ASSETS
as at September 30, 2021 and 2020

	2021			2020	
	<u>Unrestricted General</u>	<u>Unrealized gain (loss)</u>	<u>with donor restrictions</u>	<u>Total</u>	<u>Total</u>
	USD 000s	USD 000s	USD 000s	USD 000s	USD 000s
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 (notes 2 & 8)					
Finland (note 8) – unrestricted	141			141	133
Germany (note 8)	561		705	1,266	1,474
Japan (note 8) – restricted			28	28	39
Republic of Korea (note 8) – unrestricted	252			252	205
Netherlands (note 8) – unrestricted	999			999	942
Norway (note 8) – restricted			215	215	220
Sweden (note 8) – restricted			150	150	142
Switzerland (note 8)	223		150	373	334
United Kingdom (note 8)			0	0	326
Japan Force Protection (note 9) – restricted			1,471	1,471	1,489
US Force Protection (note 9) – restricted			0	0	6,000
Other income: interests & realized gains, and gains related to previous years (note 2)	326		8	334	474
Release of restricted revenue (note 8)	1,248		(1,248)	0	0
Total revenue	78,750	0	1,479	80,229	86,777
Expenses (note 10):					
Program services: (note 12)					
Peacekeeping mission (note 11)	72,858			72,858	63,885
CARF Capital Asset Replacement (note 14)			1,011	1,011	25
JFP Japan Force Protection (note 9)			2,642	2,642	646
USFP US Force Protection (note 9)			4,471	4,471	5,521
SPF US Special Projects Fund			0	0	436
Support services:					
Management & general (note 12)	5,859			5,859	6,377
Total expenses	78,717	0	8,124	86,841	76,889
Excess / (deficit) of revenues over expenses	33	0	*(6,645)	(6,612)	9,888
Beginning net assets	0	(18)	65,969	65,951	55,820
Transfer to BSRF Budget Stabilization Reserve Fund (note 3)	(58)		58	0	0
Change in unrealized gains (losses) on marketable securities (note 4), all funds	0	33	0	33	(44)
Reclassification from BSRF	25	0	0	25	
Realized income from BSRF investments transferred directly to BSRF	0	0	0	0	286
Ending net assets	0	15	59,382	59,397	65,951

* \$6,645 thousand is the total net expense from the Force Protection Funds and from the CARF in FY 2021.

2
Amir

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

	2020			2019	
	<u>Unrestricted General</u>	<u>Unrealized gain (loss)</u>	<u>With donor restrictions</u>	<u>Total</u>	<u>Total</u>
	USD 000s	USD 000s	USD 000s	USD 000s	USD 000s
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) – unrestricted	133			133	136
Germany (note 8)	532		942	1,474	1,202
Japan (note 8) – restricted			39	39	43
Republic of Korea (note 8) – unrestricted	205			205	285
Netherlands (note 8) – unrestricted	942			942	1,625
Norway (note 8) – restricted			220	220	220
Sweden (note 8) – restricted			142	142	131
Switzerland (note 8)	214		120	334	531
United Kingdom (note 8) – restricted			326	326	319
Japan Force Protection (note 9) – restricted			1,489	1,489	1,518
US Force Protection (note 9) – restricted			6,000	6,000	6,000
Other income (note 2)	329		144	473	455
Release of restricted revenue (note 8)	1,788		(1,788)	0	0
Total revenue	79,143	0	7,634	86,777	87,466
Expenses (note 10):					
Program services: (note 12)					
Peacekeeping mission (note 11)	63,885			63,885	67,138
CARF Capital Asset Replacement (note 14)			25	25	129
JFP Japan Force Protection (note 9)			646	646	127
USFP US Force Protection (note 9)			5,521	5,521	2,040
SPF US Special Projects Fund			436	436	196
Support Services:					
Management & general (note 12)	6,376			6,376	5,781
Total expenses	70,261	0	6,628	76,889	75,412
Excess / (deficit) of revenues over expenses	8,882	0	* 1,006	9,888	12,054
Beginning net assets	0	25	55,795	55,820	43,421
Transfer to BSRF during the year, i.e. surplus + realized BSRF financial income (note 3)	(9,168)		**9,168	0	0
Change in unrealized gains (losses) on marketable securities invested for SIF CARF BSRF (note 4)		(44)		(44)	35
Realized income from BSRF investments, part of the transfers directly to the BSRF stated above	286			286	311
Ending net assets	0	(18)	65,969	65,951	55,821

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

** \$9,168 thousand is the Transfer to the BSRF Budget Stabilization Reserve, including \$286 thousand realized gains (note 3 and line 7 of the statement of cash flows)

MULTINATIONAL FORCE & OBSERVERS
STATEMENT OF FUNCTIONAL EXPENSES
as at September 30, 2021 and 2020

	<i>FY 2021</i>		
	<u><i>Total</i></u> <u><i>Expenses</i></u>	<u><i>Peacekeeping</i></u> <u><i>Services</i></u>	<u><i>Management</i></u> <u><i>& General</i></u>
	<i>USD 000s</i>	<i>USD 000s</i>	<i>USD 000s</i>
Personnel (notes 10 & 12)	26,532	23,434	3,098
Supplies net of miscellaneous sales & services (note 2)	23,264	22,522	742
Contractual labor services	9,546	9,546	0
Troop rotations	1,657	1,657	0
Equipment & furnishings, net of sales (notes 2 & 5)	4,202	4,032	170
Petroleum & lubricants	3,873	3,840	33
Transportation	1,568	1,553	15
Communication	327	245	82
Rents	1,460	679	781
Buildings & facilities (notes 2 & 11)	4,874	4,011	863
Travels	23	5	18
Utilities	1,391	1,335	56
Total expenses	78,717	72,859	5,858
		93%	7%

	<i>FY 2020</i>		
	<u><i>Total</i></u> <u><i>Expenses</i></u>	<u><i>Peacekeeping</i></u> <u><i>Services</i></u>	<u><i>Management</i></u> <u><i>& General</i></u>
	<i>USD 000s</i>	<i>USD 000s</i>	<i>USD 000s</i>
Personnel (notes 10 & 12)	25,189	20,736	4,453
Supplies net of miscellaneous sales & services (note 2)	17,346	16,755	591
Contractual labor services	8,489	8,489	0
Troop rotations	4,200	4,200	0
Equipment & furnishings, net of sales (notes 2 & 5)	3,612	3,469	143
Petroleum & lubricants	3,659	3,646	13
Transportation	2,089	2,069	20
Communication	286	192	94
Rents	1,369	750	619
Buildings & facilities (notes 2 & 11)	2,105	1,754	351
Travels	645	598	47
Utilities	1,272	1,227	45
Total expenses	70,261	63,885	6,376
		91%	9%

MULTINATIONAL FORCE & OBSERVERS
STATEMENT OF CASH FLOWS
as at September 30, 2021 and 2020

	<u>2021</u>	<u>2020</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 – unrestricted only	33	8,882
Change in unrealized gain/(loss) on marketable securities, SIF CARF BSRF	33	(44)
Expense of CARF funds (notes 2 & 14)	(1,011)	(25)
Expense of SIF funds (notes 2 & 13)	0	0
Expense (-) / surplus (+) in US Force Protection Fund (notes 2 & 9)	(4,471)	610
Expense (-) / surplus (+) in Japan Force Protection Fund, with interests	(1,163)	854
Realized financial income transferred directly to BSRF	0	286
Reclassification from BSRF	25	0
Expense of US SPF Special Project Fund (closed in FY20)	0	(433)
Change in liabilities:		
Increase (decrease) in payables & accrued expenses	(1,194)	3,454
Change in assets:		
Decrease in prepaid expenses & other receivables (note 6)	44	966
Decrease (increase) in pledges (notes 2 & 7)	(9)	12,328
Less: Purchase of fixed assets	0	0
Depreciation of fixed assets (full final depreciation in FY21)	2,100	167
Net cash provided by operating activities	(5,613)	27,045
Cash provided by investing activities:		
Current assets:		
Sale of securities < 1 year, at sale price, face value	12,000	10,000
Loss (gain) on sale of FY20 securities vs value on Sept 30, 2020	112	(1)
Loss on sale of FY21 securities vs purchase price FY21	0	3
(Purchase) of other Current Assets	(5,500)	(13,158)
Unrealized loss on securities hold on September 30, 2021	(15)	43
Maturities of available-for-sale securities < 1 year	0	0
Non-current Assets:		
Sale (purchase) of marketable securities > 1 year (note 4)	0	0
Cash & cash equivalents at beginning of year	67,866	43,933
Cash & cash equivalents at end of year	68,849	67,866
Supplemental Data:		
P&L unrestricted revenue: Interests & realized gain on investments, on SIF CARF USFP BSRF funds	108	259

MULTINATIONAL FORCE & OBSERVERS
NOTES TO THE FINANCIAL STATEMENTS
as at September 30, 2021 and 2020

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 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 – cf. note 10 accruals, in particular. 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 – Monetary contributions and Financial income

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

Restricted monetary contributions are in the restricted class of the Statement of Revenue, and unrestricted monetary contributions are in the unrestricted class. A transfer to the unrestricted class is made when the donor's conditions are substantially met.

MULTINATIONAL FORCE & OBSERVERS
NOTES TO THE FINANCIAL STATEMENTS
as at September 30, 2021 and 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All of the MFO's revenues in Fiscal Year (FY) 2021 are derived from monetary support contributions by the Funds Contributing States (note 1) plus additional monetary contributions from "Donor States" (notes 8 & 9) which in FY 2021 were Finland, Germany, Japan, the Republic of Korea, the Netherlands, Norway, Sweden, and Switzerland, and from other income relating to interest, dividends, realized gains/losses on marketable securities which are recognized as unrestricted, and gains related to previous financial years (extinguished debt, reversal of some accruals). Unrealized gains/losses on marketable securities are recorded directly in net assets (BSRF and SIF net assets, this year).

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.

Revenue Recognition - 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.

Fixed assets

- Buildings

The Rome Headquarters and Tel Aviv office spaces, owned by the MFO, are 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 were being depreciated over thirty years using the straight-line method until FY 2020. In 2021 it was decided to accelerate to full depreciation to align the treatment of these two office spaces with other fixed assets.

- Other fixed assets: equipment (tangible and intangible) and furnishings


The costs of equipment (tangible and intangible) and furnishings are expensed as incurred net of all sales proceeds. The MFO Policy and Administrative Manual, Volume III, section 300.3.3, states that MFO does not capitalize them. 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

Adjustments arising from the exchange of foreign currencies are included in the results of current operations.

7 

MULTINATIONAL FORCE & OBSERVERS
 NOTES TO THE FINANCIAL STATEMENTS
 as at September 30, 2021 and 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 surplus from the Funds Contributing States contribution to the operating budget, in order to stabilize their annual contributions and to make up any deficit that might occur during successive years. This led to the creation of the Budget Stabilization Reserve Fund (BSRF) in FY 2010. Since FY 2011, we have been retaining all interests earned on BSRF investments in the BSRF. Starting in FY 2021, interests earned on the BSRF investments are credited to the Operating funds.

The BSRF balance at the end of FY 2021 amounts to \$35,886,258 (versus \$35,828,374 last year). The increase of \$ 57,884 since the last fiscal year is the effect of the reclassification of unrealized investment loss of \$ 24,742, that was aggregated to it and which did not materialize, and the FY 2021 surplus of \$33,141.

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>2021</u> <i>USD 000s</i>	<u>Sept 30,</u> <u>2020</u> <i>USD 000s</i>
Securities maturing within 1 year	5,515	12,112
Securities maturing between 1-5 years	0	0
Total Marketable securities, year-end	5,515	12,112

The realized gains on sales of marketable securities, recognized as revenue on the FY 2021 statement of revenue (page 2, line "other income") was \$71,135.

Unrealized gains and losses reflect movements in the market value of securities and are only realized if the securities are sold (cf. note 2 and the two schedules below).

MULTINATIONAL FORCE & OBSERVERS
 NOTES TO THE FINANCIAL STATEMENTS
 as at September 30, 2021 and 2020

NOTE 4 - MARKETABLE SECURITIES (CONTINUED)

At September 30, 2021, marketable securities which were available for sale are summarized below:

	<i>Carrying Amount FY21 USD 000s</i>	<i>Unrealized gains FY21 USD 000s</i>	<i>Unrealized losses FY21 USD 000s</i>	<i>Fair Value Sept 30, 2021 USD 000s</i>
U.S. Corporations maturing:				
within 1 year	0	0	0	0
between 1-5 years	0	0	0	0
Money market instruments maturing:				
within 1 year	5,500	15.29	0	5,515
between 1-5 years	0	0	0	0
Total FY21	5,500	15.29	0	5,515

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

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

MULTINATIONAL FORCE & OBSERVERS
 NOTES TO THE FINANCIAL STATEMENTS
 as at September 30, 2021 and 2020

NOTE 5 - FIXED ASSETS (cf. also note 2 on accounting policies, paragraph “Fixed assets”)

Tangible fixed assets: Office spaces

On September 16, 1997, the MFO acquired part of a building in Rome, Italy, for use as the headquarters of the organization for \$2,336,903. 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 \$2,677,231.

In FY 2021, MFO booked an exceptional depreciation, so that the depreciation of both properties ended on September 30, 2021. The related noncash cost was \$2,099,703 (compared to \$167,176 in 2020).

The acquisition cost and accumulated depreciation of both properties are composed as follows:

	<u>2021</u> <i>USD 000s</i>	<u>2020</u> <i>USD 000s</i>
Cost of the MFO’s two office spaces	5,014	5,014
Accumulated depreciation	(5,014)	(2,914)
Fixed assets net book value, September 30:	0	2,100

The expenditures for equipment and furnishings are included in the statement of functional expenses (cf. note 2, paragraph “Equipment (tangible and intangible) and furnishings”).

Intangible fixed assets: Software licenses

MFO purchased in September 2021 a series of Microsoft licenses for \$2.531 992, and SAP licenses for \$154,276. Following the MFO accounting policies (cf. note 2) as applied in the past for the previous purchases of licenses, these licenses have been expensed. They have a validity (and economic value for the MFO) of 5 years for the Microsoft licenses and 3 years for the SAP licenses.

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

The schedule below provides an analysis of prepaid expenses and receivables as at September 30:

	<u>2021</u> <i>USD 000s</i>	<u>2020</u> <i>USD 000s</i>	<u>Var.</u> <i>USD 000s</i>
Prepayments, deposits & receivables, Headquarters	1,817	3,290	- 1,474
Prepayments & deposits by the Cairo office	1,144	425	+ 719
Prepayments & receivables, Force	6	(225)	+ 231
Prepayments & deposits by the Israel office	141	202	- 61
Taxes & VAT receivable, Israel	829	130	+ 699
MSP Morale Support Program, intercompany	0	159	- 159
Total prepaid expenses & other receivables	3,937	3,981	- 44

The balance of prepaid expenses and receivables decreased, due to the following three reasons:

- decrease in the Rome prepaid amounts, due to the netting of the \$1.5M prepayment with the higher payables to DOD. In FY21, it was netted earlier than usual by the DOD.
- \$88K decrease in Israel office foreign exchange adjustments, with the clearing down to now 66 outstanding prepayments.

MULTINATIONAL FORCE & OBSERVERS
NOTES TO THE FINANCIAL STATEMENTS
as at September 30, 2021 and 2020

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

- the Morale Support Program (MSP) intercompany account decreased and became \$62K creditor (cf. note 10 payables for more detail). The past MSP debit balance reflected the financing by the MFO of the MSP's working capital, i.e., some MSP supplies were prepaid by the MFO. With profitable FY21 and FY20 activities the MFO-MSP relationship reversed.

On the other hand, it must be noted that:

- the balance of \$830K tax receivables increased compared to \$130K in FY20, due to increased procurement activity. The prepaid \$830K tax is related to procurements in Israel in August and September 2021.
- the prepayments & deposits account of the Cairo office increased by \$719K, due to advance payments on 11 purchase orders during Q4 FY21.
- the prepayment for armored vehicles (first line of the table above) is from 2019 for \$942K. This was to pay for 16 vehicles to which the MFO has title and are now being armored, with a delivery projected in FY 22. The delays in armoring were due to Covid related issues in the supply chain in the armored car manufacturing processes.

The Morale Support Program (MSP) intercompany account:

The MFO operates the MSP on a not-for-profit basis. The MSP has two fund-generating arms in the Sinai, the Force Exchange, and the Club System, whose surpluses are exclusively used to fund the recreational activities of military and civilian personnel. MSP operations (both fund-generating operations and recreational expenses) 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 treasury 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 (RECEIVABLES, CURRENT ASSETS)

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

All pledges are secured as of September 30, 2021. As of that date, only a portion of the Government of Switzerland's FY21 pledge had yet to materialize amounting to CHF 207,000 (\$223,089). The situation was identical on September 30, 2020; the receivable amount was CHF 207,000 (\$213,936).

MULTINATIONAL FORCE & OBSERVERS
NOTES TO THE FINANCIAL STATEMENTS
as at September 30, 2021 and 2020

NOTE 8 - CONTRIBUTIONS TO OPERATING REVENUE BY THE DONOR STATES

Donor State contributions to FY 2021 operating revenue were recorded as follows (for Force Protection-earmarked funding see note 9):

- from the Government of Finland, a contribution of € 120,000 (\$140,606) without donor restrictions – unchanged in euros compared to FY20;
- from the Government of Germany, € 1,070,000 (\$1,266,183) of which € 600,000 (\$705,102) was restricted and applied towards the local employment program for the Sinai population;
- from the Government of Japan a restricted contribution of \$28,442. As specified by the Government of Japan, this contribution has been applied exclusively to pay for food and civilian personnel salaries; (see also, \$1,470,700 supplemental donation as Force Protection revenue, detailed in note 9);
- from the Republic of Korea, an unrestricted contribution of \$252,066;
- from the Government of the Netherlands, an unrestricted contribution of € 850,000 (\$998,895) – unchanged in euros compared to FY20;
- from the Government of Norway, a contribution of NOK 2,000,000 (\$214,750) restricted toward support for the Civilian Observer Unit – unchanged in NOK compared to FY20;
- from the Government of Sweden, a contribution of SEK 1,250,000 (\$149,905) restricted toward support for the Civilian Observer Unit– unchanged in SEK compared to FY20;
- from the Government of Switzerland, CHF 207,000 and \$150,000. The CHF 207,000 (\$223,089) is unrestricted and unchanged in CHF compared to FY20; the \$150,000 (\$120,000 in FY20) was restricted toward support for the Civilian Observer Unit;
- the Government of the United Kingdom did not provide a financial contribution to the MFO’s operating budget, but continued contributing troops. In FY20, the United Kingdom contributed GBP 250,000 (\$325,705), restricted towards local employment of the Sinai population.

Contributions noted 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 2021 thereby satisfying donor restrictions.



MULTINATIONAL FORCE & OBSERVERS
 NOTES TO THE FINANCIAL STATEMENTS
 as at September 30, 2021 and 2020

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

The Donor State contributions have been included in the financial statements as follows:

	<u>2021</u>	<u>2020</u>
	USD 000s	USD 000s
Finland	141	133
Germany	1,266	1,474
Japan	28	39
Republic of Korea	252	205
Netherlands	999	942
Norway	215	220
Sweden	150	142
Switzerland	373	334
United Kingdom	0	326
Total	3,424	3,814

NOTE 9 – SUPPLEMENTAL DONATIONS – FORCE PROTECTION

Beginning in FY 2005, the U.S. Government has provided funding for Force Protection requirements that are separate from and additional to the U.S. contribution to the MFO's annual operating expenses. Japan began providing Force Protection financing in FY15. In FY 2021, Japan contributed \$1,470,700 (separate from and additional to Japan's \$28,442 contribution to operating expenses, cf. note 8 above) towards Force Protection. The MFO did not request additional Force Protection funding from the U.S. Government in FY 2021.

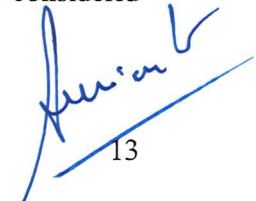
These funds are separately managed and accounted for and exclusively applied for the intended purpose of Force Protection and related expenditure. The Force Protection expenditures were released by incurring qualified expenses or commitments during FY 2021, thereby satisfying donors' restrictions.

The schedule below provides an analysis of supplementary funding from inception to September 30, 2021:

<u>Force Protection</u>		<u>Contributions</u>	<u>Expenditures</u>	<u>Balance of funds</u>
		USD 000s	USD 000s	USD 000s
USA – FY05 to FY20:	*+	67,622	- 49,784	17,838
USA - FY 2021:	+	0	- 4,471	-4,471
Japan – FY15 to FY20:	*+	9,100	-6,845	2,255
Japan - FY 2021:	*+	1,479	-2,641	-1,163
Australia – FY13 to FY18:	*+	3,530	- 3,530	0
Germany – FY15:	+	322	- 322	0
Total on Sept. 30, 2021:	+	82,053	-67,593	14,459

* includes interests earned on Force Protection funds

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, 2021 and 2020

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

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

	<u>2021</u>	<u>2020</u>
	USD 000s	USD 000s
(1) Personnel costs (staff country payables, accrued leaves etc.)	6,814	7,240
(2) Payables on supplies received in Q4 FY21	1,174	765
(3) Other payables and accruals, Headquarters	4,979	2,197
(4) Other payables, Cairo	357	169
(5) Other payables, Force	906	697
(6) Other payables, Israel	1,019	1,090
(7) Other payables Cairo & Israel, paid on October 1, 2021	1,294	976
(8) Troop Rotations accrued (\$443K is DoD FY20)	443	4,512
(9) Accrual of shared Force Protection to DOD	2,079	2,675
(10) MSP Morale Support Program, intercompany account	62	0
Total ACCOUNTS PAYABLE & ACCR. EXPENSES	19,127	20,321

In FY 2021, the balance of account payable and accrued expenses decreased due to the following factors:

- (1) A decrease in the personnel accounts payable balance, mainly attributed to a decrease in untaken annual leave by International and Israeli staff; less taxes; and no liability for payment in lieu.
- (8) A decrease in the Troop Rotations balance is mainly attributed to the accrual of one year's rotation costs (FY20) on September 30, 2021, as opposed to three years (FY18 to FY20) last year. The cost estimate of the rotation was also reduced after confirmation from DoD.
- (9) MFO has a smaller liability to DOD for Force Protection expenses¹ as several invoices were issued by DOD for FY19 and FY20, and were paid. The amounts accrued correspond to the "reimbursement limits for FY20 and FY21" confirmed by DOD.

On the other hand, all other payable lines (2, 3, 4, 5, 7 and 10) increased. Regarding payables for supplies and services, this is mainly due to increased procurement activity following the relaxation of strict COVID mitigation measures at MFO facilities.

Line 10: the Morale Support Program (MSP) intercompany account became \$62K creditor (it was a receivable last year, cf. note 6 receivables for more detail on the past).

With profitable FY21 and FY20 activities and fewer Morale Support expenses because of COVID, the MFO-MSP relationship reversed, and MFO now owes \$62.3K to the MSP.

¹ Sharing of Force Protection expenses, cf. 3rd amendment of the MFO_DOD Memorandum of Agreement dated October 21, 2016

MULTINATIONAL FORCE & OBSERVERS
NOTES TO THE FINANCIAL STATEMENTS
as at September 30, 2021 and 2020

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. The MFO recognizes with gratitude the indirect and substantial support that Troop Contributing States are providing.

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. Australia very kindly provided a Royal Australian Air Force aircraft to transfer Fijian personnel to the Sinai and back to Fiji.

Australia and New Zealand each provided two six-person medical teams, equipment, and consumables, including PCR kits, to assist with MFO efforts to contain cases of COVID at its North and South Camps. The United States provided COVID testing equipment and consumable supplies to the Force. Egypt generously provided testing to local staff as well as vaccines they administered to military personnel, local, and international staff.

Throughout the financial year, the United States Army generously contributed Force Protection equipment for use at North Camp, South Camp, and remote sites.

Contributed Equipment

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.

Contributed Facilities in the Sinai

The MFO does not have title to the buildings and facilities that are located in the Sinai. The MFO is permitted to use North Camp and South Camp in the Sinai rent-free. These sites and related facilities are owned and 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.

Accounting treatment for in-kind contributions

In accordance with the FASB codified section 958-605-25, the value of the above contributed Services, Equipment, and Facilities is not included in the financial statements, as they are not obtainable from the general marketplace. A precise valuation of these capital contributions, 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.

MULTINATIONAL FORCE & OBSERVERS
NOTES TO THE FINANCIAL STATEMENTS
as at September 30, 2021 and 2020

NOTE 11 - CONTRIBUTED SERVICES & FACILITIES (CONTINUED)

Offsets from Japan, United Kingdom, and the USA

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.

Regarding the United States Army, the arrangement of October 21, 2016 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, flying hours and labor contract charges. In FY 2021, the total value of offset credits from the United States Department of Defense was \$5,226,857.

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.

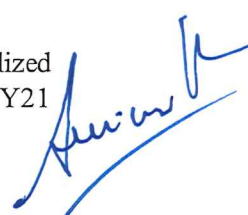
It should be noted that some Headquarters costs are truly program specific, whilst some Tel Aviv and Cairo office costs could be regarded as support costs. The cost of tracking and reallocating these costs separately would not provide the user of the accounts with a greater understanding of them. Management 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.

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

NB: In addition to the \$6,150,239 SIF net asset line shown on the balance sheet, the "SIF unrealized gain" line shows \$5,559 as additional net asset without restrictions, resulting from the FY21 unrealized gain on short term investment.



MULTINATIONAL FORCE & OBSERVERS
 NOTES TO THE FINANCIAL STATEMENTS
 as at September 30, 2021 and 2020

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 September 30, 2017 and it will be replenished as needed.

The opening balance of the Fund was \$3,897,070. During the financial year, expenditure totaled \$1,010,950 and the ending Fund balance was \$2,886,120.

The \$1,010,950 FY21 expenditure concerns the renovation of South Camp's electrical distribution system and the purchase of replacement barracks:

- Expenses for the South Camp electric network were agreed for a maximum of \$850,000 based on DG's letter to the Funds Contributing States dated November 14, 2018.
- Expenses for the replacement of 48 barracks for military personnel were agreed for a maximum of \$7,903,920 over 6 years based on DG's letter to the Funds Contributing States dated August 4, 2021.

<u>CARF projects</u>	<u>Carry Forward</u> <u>Oct 1, 2020</u>	<u>Expenses</u> <u>FY21</u>	<u>Reserve funds on</u> <u>Sept 30, 2021</u>
	<i>USD</i>	<i>USD</i>	<i>USD</i>
South Camp electric network:	801,119	353,257	447,862
Replacement of 48 barracks:	3,095,951*	657,693	2,438,258
Totals	3,897,070	1,010,950	2,886,120

* These \$3,095,951 are past CARF reserves that remained un-earmarked to any project on October 1, 2020, after the past completion of several CARF projects and after past replenishments. On August 4, 2021, with the approval of the barracks project, it became the starting amount available to the barracks project.

<u>CARF projects</u>	<u>Authorized Expenses</u>	<u>Expenses</u> <u>FY19- FY20</u>	<u>Expenses</u> <u>FY21</u>	<u>Authorized remaining amounts</u>
	<i>USD</i>	<i>USD</i>	<i>USD</i>	<i>USD</i>
South Camp electric network:	850,000	48,881	353,257	447,862
Replacement of 48 barracks:	7,903,920	0	657,693	7,246,227
Totals	8,753,920	48,881	1,010,950	7,694,089

The balance in the CARF as of September 30, 2021 is \$2,886,120, and the fund will be used to finance the above projects. For this aim, the CARF fund will be replenished as needed from the Budget Stabilization Reserve Fund.

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