



Multinational Force & Observers (MFO)

Independent auditors' report
As of September 30, 2019, and 2018

Report of Independent auditor

Director General
Multinational Force and Observers

Report on the Financial Statements

We have audited the accompanying statements of financial position of the Multinational Force and Observers (MFO) as of September 30, 2019 and 2018 and the related statements of revenues, expenses and changes in net assets, statements of functional expenses and statements of cash flows for the years then ended (financial statements), and the related notes to the financial statements.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United States of America together with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and we have fulfilled our other ethical responsibilities in accordance with these requirements, respectively.

Responsibilities of Management and Those Charged With Governance 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.

In preparing the financial statements, management is responsible for evaluating whether there are conditions and events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued, or are available to be issued, and disclosing, as applicable, matters related to this evaluation unless the liquidation basis of accounting is being used by the entity.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error. Reasonable assurance is a high level

of assurance but is not a guarantee that an audit will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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. We design audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error because fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. 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 purpose of expressing an opinion on the effectiveness of the MFO's 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, structure, and content of the financial statements, including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

As part of an audit, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether substantial doubt exists related to the Company's ability to continue as a going concern. If we conclude that substantial doubt exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies or material weaknesses in internal control that we identify during our audit.

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 the MFO as of September 30, 2019 and 2018 and the related statements of revenues, expenses and changes in net assets, statements of functional expenses and statements of cash flows for the years 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, 2019 based on the "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated November 6, 2019 expressed an unqualified opinion.



Rome, Italy
November 6, 2019

MULTINATIONAL FORCE & OBSERVERS
 STATEMENT OF FINANCIAL POSITION
 as at September 30, 2019 and 2018
 (in thousands of U.S. dollars)

ASSETS	<u>2019</u>	<u>2018</u>
Non-current Assets		
Marketable Securities (Notes 2 & 4)	--	8,899
Fixed Assets (Notes 2 & 5)	2,267	2,434
Total Non- Current Assets	2,267	11,333
Current Assets		
Cash and Cash Equivalents	43,934	36,245
Marketable Securities (Notes 2 & 4)	8,999	1,014
Pledges (Notes 2 & 7)	12,542	6,379
Prepaid Expenses and Other Receivables (Note 6)	4,946	3,382
Total Current Assets	70,421	47,020
TOTAL ASSETS	72,688	58,353

LIABILITIES & NET ASSETS


Current Liabilities		
Accounts Payable and Accrued Expenses (Note 10)	16,868	14,932
Total Current Liabilities	16,868	14,932
Net Assets		
Unrestricted:		
Unrealized Net Gain/(Loss) on Marketable Securities (Notes 2 and 4)	26	(9)
Total Unrestricted	26	(9)
Temporarily Restricted:		
Self-Insurance Fund (Note 13)	6,150	6,150
Capital Asset Replacement Fund (Note 14)	3,922	4,052
Budget Stabilization Reserve Fund (Note 3)	26,660	19,513
US Force Protection Fund (Note 9)	17,229	13,086
Japan Force Protection Fund (Note 9)	1,401	0
Special Projects Fund (Note 15)	433	629
Total Restricted	55,795	43,430
Total Net Assets	55,821	43,421
TOTAL LIABILITIES & NET ASSETS	72,688	58,353

The accompanying notes are an integral part of these financial statements



MULTINATIONAL FORCE & OBSERVERS
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
as at September 30, 2019 and 2018
(in thousands of U.S. dollars)

	2019			2018	
	<u>Unrestricted</u> <u>General</u>	<u>Unrealized</u> <u>Gain(Loss)</u>	<u>Temporarily</u> <u>Restricted</u>	<u>Total</u>	<u>Total</u>
Revenue:					
Support (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
Australia Force Protctn (Note 9)			0	0	667
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 Protctn (Note 9)			1,518	1,518	1,700
US Force Protctn (Note 9)			6,000	6,000	6,000
Special Projects Fund (Note 15)					--
Other Income (Note 2)	262		193	455	364
Release of Temp. Rest. Revenue (Note 8)	2,515		(2,515)	0	--
Total Support	79,755	0	7,711	87,466	87,648
Expenses (Note 10):					
Program Services:					
Peacekeeping Mission (Note 11)	67,138			67,138	63,819
US Force Protctn (Note 9)			2,040	2,040	886
Special Projects Fund (Note 15)			196	196	1,147
Capital Asset Repl (CARF) (Note 14)			129	129	136
Australia Force Protctn (Note 9)			0	0	667
Japan Force Protctn (Note 9)			127	127	2,175
Support Services: Mngmt & General (Note 12)	5,781			5,781	6,594
Total Expenses	72,920	0	2,492	75,412	75,425
Excess/(Deficit) of Revenues over Expense	6,835	0	5,219	12,054	12,224
Beginning Net Assets		(9)	43,430	43,421	31,213
BSRF (Note 3)	(7,146)		7,146	0	(7)
Force Prot. CARF & SIF					
Unrealized Gain (Losses) on Marketable Securities (Note 4)	311	34		345	(9)
Ending Net Assets	(0)	26	55,795	0	43,421


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MULTINATIONAL FORCE & OBSERVERS
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
as at September 30, 2019 and 2018
(in thousands of U.S. dollars)

	2018			Total	2017 Total
	Unrestricted General	Unrealized Gain(Loss)	Temporarily Restricted		
Revenue:					
Support (Notes 1 & 2)					
Egypt	25,000			25,000	26,000
Israel	25,000			25,000	26,000
United States	25,000			25,000	26,000
Australia Force Protctn (Note 9)			667	667	667
Finland (Note 8)	140			140	127
Germany (Note 8)	551		990	1,541	557
Japan (Note 8)			45	45	49
Republic of Korea (Note 8)	300			300	300
Netherlands (Note 8)	825			825	825
Norway (Note 8)			245	245	256
Switzerland (Note 8)	206		120	326	326
Sweden (Note 8)			147	147	114
United Kingdom (Note 8)			349	349	307
Japan Force Protctn (Note 9)			1,700	1,700	1,667
US Force Protctn (Note 9)			6,000	6,000	10,046
Special Projects Fund (Note 15)				--	2,854
Other Income (Note 2)	216		148	364	72
Release of Temp.					
Rest. Revenue (Note 8)	1,895	--	(1,895)	--	--
Total Support	79,133	--	8,515	87,648	96,167
Expenses (Note 10):					
Program Services:					
Peacekeeping Mission (Note 11)	63,819			63,819	64,776
US Force Protctn (Note 9)			886	886	6,410
Special Projects Fund (Note 15)			1,147	1,147	1,086
Capital Asset Repl (CARF) (Note 14)			136	136	1,687
Australia Force Protctn (Note 9)			667	667	667
Japan Force Protctn (Note 9)			2,175	2,175	1,200
Support Services:					
Mngmt & General (Note 12)	6,594	--		6,594	6,742
Total Expenses	70,414	--	5,011	75,425	82,569
Excess/(Deficit) of Revenues over Expense	8,719	0	3,504	12,223	13,598
DoD Prior Years' Credit					4,695
Beginning Net Assets	1		31,212	31,213	12,910
BSRF (Note 3)	(8,803)		8,796	(7)	3
Force Prot.					7
CARF & SIF					--
Unrealized Gain (Losses) on Marketable Securities (Note 4)		(9)		(9)	=
Ending Net Assets	(83)	(9)	43,512	43,421	31,212

MULTINATIONAL FORCE & OBSERVERS
STATEMENT OF FUNCTIONAL EXPENSES
as at September 30, 2019 and 2018
(in thousands of U.S. dollars)

2019

	<u>Total Expenses</u>	<u>Peacekeeping Services</u>	<u>Management & General</u>
Personnel (Notes 10 and 12)	24,104	20,077	4,028
Supplies net of miscellaneous sales proceeds (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 (Notes 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 92.1%	5,781 7.9%

2018

	<u>Total Expenses</u>	<u>Peacekeeping Services</u>	<u>Management & General</u>
Personnel (Notes 10 and 12)	25,373	20,974	4,399
Supplies net of miscellaneous sales proceeds (Note 2)	17,512	16,789	723
Contractual Services	6,168	6,168	0
Troop Rotation	3,888	3,888	0
Equipment & Furnishings net of vehicle sales proceeds of \$ (Notes 2 & 5)	2,662	2,555	107
Petroleum, Oil, Lubricants	4,800	4,782	18
Transportation	2,615	2,593	23
Communications	336	229	107
Rents	1,272	615	657
Buildings & Facilities (Notes 2 & 11)	3,738	3,385	353
Travel	1,084	928	156
Utilities	963	912	51
Total Expenses	70,414	63,819 90.6%	6,594 9.4%

MULTINATIONAL FORCE & OBSERVERS
STATEMENT OF CASH FLOWS
as at September 30, 2019 and 2018
(in thousands of U.S. dollars)

	<u>2019</u>	<u>2018</u>
Cash Provided by Operating Activities	6,836	8,715
Excess / (Deficit) of Revenue Over Expenses		
Depreciation of Fixed Assets	167	167
Unrealized Gains on Marketable Securities	35	(9)
CARF Projects	(129)	(136)
SIF	0	0
Special Projects Fund	(196)	(1,140)
Japan Force Protection	1,401	(468)
BSRF	311	82
Change in US Force Protection Fund	4,142	5,167
Change in US Budget Reserve Fund		--
Change in Current Assets & Liabilities:		
Decrease (Increase) in Pledges	(6,163)	3,021
Decrease (Increase) in Prepaid Expenses and Other Receivables	(1,565)	751
(Decrease)/Increase in Accounts Payable, Accrued Expenses and Unearned Support Contributions	1,935	218
Net Cash Provided/(Used) by Operating Activities	6,774	16,368
Cash Provided/(Used) by Investing Activities		
Purchases of Available for Sale Securities		
Other Non - current assets	8,899	(8,899)
Other Current Assets	(7,984)	(1,014)
Maturities of Available for Sale Securities	--	--
Net Cash Provided/(Used) by Investing Activities	--	--
Cash & Cash Equivalents at Beginning of Year	36,245	29,790
Cash & Cash Equivalents at End of Year	43,934	36,245
Supplemental Data:		
Cash Received – Interests	262	216

MULTINATIONAL FORCE & OBSERVERS
NOTES TO FINANCIAL STATEMENTS
as at September 30, 2019 and 2018
in thousands of U.S. dollars

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 as defined by the American Institute of Certified Public Accountants, specifically the Financial Accounting Standards Board codified section 958 applicable to Not-for-Profit Organizations.

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 Financial Accounting Standards Board codified section 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".

Revenue Recognition

All of the MFO's revenues in FY 2019 are derived from support contributions by the Funds Contributing States (Note 1) plus the additional annual contributions from "Donor States" which in FY 2019 were Finland, Germany, Japan, the Republic of Korea, the Netherlands, Sweden, Switzerland, Norway and the United Kingdom (Note 8) and (for Force Protection) Japan and the United States (Note 9), apart from other income relating to interest,

MULTINATIONAL FORCE & OBSERVERS
NOTES TO FINANCIAL STATEMENTS
as at September 30, 2019 and 2018
in thousands of U.S. dollars

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

dividends and realized gains/losses on the disposal of marketable securities, which are recognized on an accrual basis, and unrealized gains/losses on marketable securities, which are recorded in unrestricted net assets. Support is recognized from amounts pledged to the MFO. The principle of equal contributions by the three Funds Contributing States pursuant to the Protocol to the Treaty and related side letters is maintained.

Pledges

Conditional and unconditional pledges of the Funds Contributing States and other donors have been shown in the financial statements as revenue in accordance with the Financial Accounting Standards Board codified section 958-605. Conditional pledges (restricted revenues) are recognized when the conditions on which they depend are substantially met, and unconditional pledges are recognized as revenue upon notification. Secured pledges are the budgeted contributions that have been formally confirmed and made available to the MFO, and unsecured pledges are those that have been made available to the MFO but are yet to be formally confirmed.

Buildings, Equipment & Furnishings

The costs of equipment and furnishings are expensed as incurred. The Rome HQ 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 Financial Accounting Standards Board codified section 958-360. They 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 above-mentioned owned realty, any of its fixed assets. This policy differs from the Financial Accounting Standards Board codified section 958-360.

Supplies & Stores Inventory

Costs of supplies and stores items are charged to expense as they are received, net of proceeds from miscellaneous sales.

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



MULTINATIONAL FORCE & OBSERVERS
NOTES TO FINANCIAL STATEMENTS
as at September 30, 2019 and 2018
in thousands of U.S. dollars

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

funds deposited in a fixed income portfolio management account and are stated at fair value.

Temporarily Restricted/Permanently Restricted

Temporarily and permanently restricted assets are reported in accordance with the Financial Accounting Standards Board codified section 958-205-10-50.

NOTE 3 - BUDGET STABILIZATION RESERVE FUND

Following consultations between the three Funds Contributing States and the MFO on June 10, 2010, the MFO was requested to establish a mechanism to capture and set aside any annual operating budget surplus beginning from FY 2010. The aim of this budget stabilization and reserve fund (BSRF) is to stabilize, insofar as possible, the annual Funds Contributing States' contributions and to make up any deficit that might occur.

Commencing FY 2011, interest earned on the BSRF investments is retained in the BSRF. In accordance with the Financial Accounting Standards Board codified section 958-210, the BSRF is considered "Temporarily Restricted".

The BSRF balance at the end of FY 2019 amounts to \$26,660,373. The increase of \$7,147,049 since the last fiscal year is the net effect of interest earned in the amount of \$262,761, unrealized gains of \$48,808 and the FY 2019 surplus of \$6,835,480, which mainly results from reduced operating expenses such as staff compensation, payments for military participation, foreign currency exchange gains, military rotation travel and duty travel.

NOTE 4 - MARKETABLE SECURITIES

A breakdown of the fair value of securities, which are available for sale at maturity, is as follows (in thousands of U.S. dollars):

	<u>2019</u>	<u>2018</u>
Maturing within 1 year	8,999	1,014
Maturing between 1-5 years		8,899
Total	8,999	9,913

A realized loss on sales of marketable securities during the year ended September 30, 2019 of \$17,500 was more than offset by earned interest. Realized gains and losses on sales of marketable securities during the year ended September 30, 2018 were \$ nil.

MULTINATIONAL FORCE & OBSERVERS
 NOTES TO FINANCIAL STATEMENTS
 as at September 30, 2019 and 2018
 in thousands of U.S. dollars

NOTE 4 - MARKETABLE SECURITIES (CONTINUED)

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

At September 30, 2019, marketable securities which were available for sale are summarized below (in thousands of U.S. dollars):

	<u>Carrying Amount</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
U.S. Corporations maturing:				
within 1 year	8,925	74		8,999
between 1-5 years				
Money market instruments maturing:				
within 1 year				
between 1-5 years				
Total	8,925	74		8,999

At September 30, 2018, marketable securities which were available for sale are summarized below (in thousands of U.S. dollars):

	<u>Carrying Amount</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
U.S. Corporations maturing:				
within 1 year	1,018		(4)	1,014
between 1-5 years	8,925		(26)	8,899
Money market instruments maturing:				
within 1 year				
between 1-5 years				
Total	9,943		(30)	9,913

MULTINATIONAL FORCE & OBSERVERS
 NOTES TO FINANCIAL STATEMENTS
 as at September 30, 2019 and 2018
 in thousands of U.S. dollars

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, 2019 is \$167,138 (2018 - \$167,138).

The acquisition cost and accumulated depreciation of both properties are composed as follows as of September 30, 2019 (in thousands of U.S. dollars):

	<u>2019</u>	<u>2018</u>
Cost	5,014	5,014
Accumulated depreciation	(2,747)	(2,580)
Net book value	2,267	2,434

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

NOTE 6 - PREPAID EXPENSES AND OTHER RECEIVABLES

The schedule below provides an analysis of the prepaid expenses and other receivables balance as of September 30, 2019 (in thousands of U.S. dollars):

	<u>2019</u>	<u>2018</u>
Force Exchange	433	292
Prepaid Insurance	0	0
Other Prepaids	3,671	2,531
Prepaid Morale Support	156	289
Other Receivables and Advances	686	270
Total	4,946	3,382

As of September 30, 2019 the balance of prepaid expenses and other receivables increased due to the following factors:

- An increase in Other Prepaids is due to advance payments for armored vehicles.
- An increase in Other Receivables and Advances is mainly due to refundable VAT payments made in Israel.

MULTINATIONAL FORCE & OBSERVERS
NOTES TO FINANCIAL STATEMENTS
as at September 30, 2019 and 2018
in thousands of U.S. dollars

NOTE 7 - PLEDGES

The amounts of budgeted contributions that have not been drawn upon or made available are shown in the financial statements as pledges, which are secured as of September 30, 2019 and are as follows (in thousands of U.S. dollars):

	<u>2019</u>	<u>2018</u>
Secured Pledges	10,542	6,000
Unsecured pledges	2,000	379
Total	12,542	6,379

NOTE 8 - CONTRIBUTIONS TO OPERATING REVENUE MADE BY THE GOVERNMENTS OF FINLAND, GERMANY, JAPAN, THE REPUBLIC OF KOREA, THE NETHERLANDS, NORWAY, SWEDEN, SWITZERLAND AND THE UNITED KINGDOM

Donor State contributions to FY 2019 operating revenue were recorded as follows (for Force Protection-earmarked funding see Note 9):

In FY 2019 Finland made an unrestricted contribution of Euro 120,000 to the MFO.

The MFO received a contribution from the Government of Germany in the amount of Euro 1,075,497 during FY 2019 of which Euro 605,497 is restricted and applied towards the local employment program for the Sinai population.

In FY 2019, a contribution from the Government of Japan to operating revenue amounted to \$43,830. As specified by the Government of Japan, this contribution has been applied exclusively, and conditionally, to pay for food costs and civilian personnel salaries.

During FY 2019, the MFO received an unrestricted contribution of \$285,000 from the Republic of Korea.

During FY 2019, the Government of the Netherlands provided support amounting to \$1,625,000 of which \$800,00 was restricted toward support for the Civilian Observer Unit.

The MFO received a contribution of NOK 2,000,000 from the Government of Norway during FY 2019 was restricted toward support for the Civilian Observer Unit.

In FY 2019, the Government of Sweden contributed SEK 1,250,000 to the MFO was restricted toward support for the Civilian Observer Unit.

MULTINATIONAL FORCE & OBSERVERS
NOTES TO FINANCIAL STATEMENTS
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in thousands of U.S. dollars

NOTE 8 - CONTRIBUTIONS TO OPERATING REVENUE MADE BY THE GOVERNMENTS OF FINLAND, GERMANY, JAPAN, THE REPUBLIC OF KOREA, THE NETHERLANDS, NORWAY, SWEDEN, SWITZERLAND AND THE UNITED KINGDOM (CONTINUED)

In FY 2019, the Government of Switzerland contributed CHF 207,000 and \$320,000. The CHF 207,000 is unrestricted, and the \$320,000 was restricted toward support for the Civilian Observer Unit.

During FY 2019, the United Kingdom made a contribution of GBP 250,000 to the MFO cost of employing the local Sinai population.

Conditional contributions that appear as "Temporarily Restricted" revenue in the statement of Revenues Expenses and Changes in Net Assets were released in their entirety by incurring qualified expenses during FY 2019 thereby satisfying donor restrictions.

The contributions which have been included in the accompanying financial statements are summarized as follows (in thousands of U.S. dollars):

	<u>2019</u>	<u>2018</u>
Finland	136	140
Germany	1,202	1,541
Japan	43	45
Republic of Korea	285	300
Netherlands	1,625	825
Norway	220	245
Sweden	131	147
Switzerland	531	326
United Kingdom	319	348
Total	4,492	3,917

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 2019, Japan contributed \$1,517,857 (separate from and additional to Japan's contribution to operating expenses), and the U.S. Government 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. The above-mentioned amounts were released in part or in full by incurring qualified expenses or were committed during FY 2019, thereby satisfying donor restrictions.

MULTINATIONAL FORCE & OBSERVERS
 NOTES TO FINANCIAL STATEMENTS
 as at September 30, 2019 and 2018
 in thousands of U.S. dollars

NOTE 9 – SUPPLEMENTAL DONATIONS – FORCE PROTECTION (CONTINUED)

The schedule below provides an analysis of supplementary funding (including interest) for Force Protection requirements at September 30, 2019 (in thousands of U.S. dollars):

<u>Year</u>	<u>Contributions</u>	<u>Expenditures</u>	<u>Balance of Funds</u>
Period Ended 2018	64,911	51,824	13,086
FY 2019	7,711	2,168	5,543
Period Ended 2019	72,621	53,992	18,629

In accordance with the Financial Accounting Standards Board codified sections 958-210 and 958-225, these funds are considered "Temporarily Restricted".

NOTE 10 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The schedule below provides an analysis by cost allocation of accounts payable and accrued expenses as of September 30, 2019 (in thousands of U.S. dollars):

	<u>2019</u>	<u>2018</u>
Personnel	6,455	8,207
Supplies	6,023	4,751
Troop Rotation	4,100	1,684
Force Exchange	290	290
Other		--
Total	16,868	14,932

As of September 30, 2019 the balance of account payable and accrued expenses increased due to the following factors:

- A decrease in the Personnel accounts payable balance is mainly attributed to FY 2019 payments to the U.S. Department of Defense;
- An increase in the Supplies accounts payable balance is due to greater maintenance costs for fixed and rotary wing aircraft and Coastal Patrol Unit vessels.
- An increase in the Troop Rotations balance is mainly attributed to an additional main rotation of U.S. soldiers.

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.

MULTINATIONAL FORCE & OBSERVERS
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NOTE 10 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES (CONTINUED)

The MFO operates, on a not-for-profit basis, a Force Exchange in the Sinai for the benefit of participating troops and civilian personnel. Force Exchange surpluses are used to fund morale support expenditure. Force Exchange operations, for which working capital is provided by the MFO, 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 Force Exchange operates using its own bank accounts and financial accounting records. Should Force Exchange 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 11 - CONTRIBUTED SERVICES & FACILITIES

Contributed Services

For troop contributing nations, the MFO reimburses all or part of the agreed cost of special pay and allowances for troops serving abroad. The MFO does not pay fixed base pay and salaries and receives a credit from certain Troop-Contributing Nations for certain costs that troop contributors would have incurred had their troops remained at home.

These credits are not separately identified within the financial statements, and the stated expense for these personnel is net of these credits. In accordance with the Financial Accounting Standards Board codified section 958-605-25, the value of the contributed services of soldiers is not included in the financial statements, as such services are not obtainable from the general market place. The MFO recognizes with gratitude the indirect and often substantial support that several Troop-Contributing Nations are providing as a result of these arrangements:

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 second 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.



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NOTE 11 - CONTRIBUTED SERVICES & FACILITIES (CONTINUED)

Throughout the FY, 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. Stated expenses for equipment and supplies are 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 Financial Accounting Standards Board 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.

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 on August 30, 2018.

In FY 2019, the total value of credits from the United States Department of Defense was \$5,401,195. 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.



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NOTE 12 - ALLOCATION OF EXPENSES

MFO Management has determined, in compliance with the Financial Accounting Standards Board codified section 958-720, that all costs relating to the Rome Headquarters (HQ) 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 Financial Accounting Standards Board codified section 958-720. It should be noted that some HQ 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

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 FY and the ending Fund balance was \$6,150,239. The interest earned on SIF investments is returned to the Funds Contributing States. In accordance with the Financial Accounting Standards Board codified section 958-210, the SIF is considered "Temporarily Restricted".

NOTE 14 - CAPITAL ASSET REPLACEMENT FUND

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 is set at \$4,187,500.

The opening balance of the Fund was \$4,051,551. During the FY, expenditure totaled \$129,125 and the ending Fund balance was \$3,922,426.

The interest earned on the CARF investments is returned to the Funds Contributing States. In accordance with the Financial Accounting Standards Board codified section 958-210, the CARF is considered "Temporarily Restricted".

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NOTE 15 - SPECIAL PROJECTS FUND

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 2019 was \$628,764. During the FY, expenditure totaled \$202,406, interest of \$6,458 was received and the ending Fund balance was \$432,816. The Fund is being used to support additional facilities projects required at the MFO's South Camp.



Multinational Force & Observers (MFO)

Independent auditors' report on Internal Control over
Financial Reporting as of September 30, 2019

Report of Independent auditor

Director General
Multinational Force and Observers

We have audited Multinational Force and Observers (MFO) internal control over financial reporting as of September 30, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission 2013 framework (the COSO criteria).

Management's Responsibility 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 Responsibility

Our responsibility is to express an opinion on the MFO's internal control over financial reporting based on our audit. We conducted our audit in accordance with 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 effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

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

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 evaluation 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.

Opinion

In our opinion, MFO maintained, in all material respects, effective internal control over financial reporting as of September 30, 2019, based on the COSO criteria.

We have also audited, in accordance with auditing standards generally accepted in the United States of America, the statements of financial position of the Multinational Force and Observers (MFO) as of September 30, 2019 and 2018 and the related statements of revenue, expenses and changes in net assets, statements of functional expenses and of cash flows for the years then ended and our report dated November 6, 2019 expressed an unqualified opinion.

EY SpA.

Rome, Italy
November 6, 2019



Multinational Force and Observers
Rome, Italy

November 6, 2019

The Arab Republic of Egypt
The State of Israel
The United States of America

**Report of Management on the Multinational Force and Observers Internal
Control over Financial Reporting**

The Multinational Force and Observers (MFO) maintains a system of internal control over its organization structure and specifically over financial reporting which is designed to provide reasonable assurance to MFO's management regarding published financial statements. The internal control system, based on a SAP Enterprise Resource Planning (ERP) System, contains self-monitoring mechanisms which enable MFO members to correct deficiencies as they are identified.

The MFO'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 as set forth in Note 2 to the MFO's statements of financial position as of September 30, 2019 and 2018. The MFO'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 MFO; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting policies as set forth in Note 2 to the MFO's financial statements, and that receipts and expenditures of the MFO 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 MFO's assets that could have a material effect on the financial statements.

The Annex to the Protocol between Israel and Egypt which created the MFO specified that financial and administrative regulations be prepared. These regulations provide the framework for the MFO's internal financial controls.

This framework was subsequently expanded upon in detailed volumes of the MFO's Policy and Administrative manual, listed below:

Volume 1	Basic Provisions
Volume 2	Responsibilities and Organization
Volume 3	Budget and Accounting Policies and Practices
Volume 4	Personnel
Volume 5	Leasing and Housing
Volume 6	Correspondence and Documentation
Volume 7	Security
Volume 8	Settlement of Disputes and Claims

The MFO has also issued numerous directives that supplement the regulatory regime as defined in Volumes 1-8.

A summary of three volumes which directly impact upon internal control regime for financial reporting is given below:

Volume 3 specifies the organization of the Finance Office and the books of record it should maintain. It defines the budgetary processes of the MFO and the nature of the SAP ERP System procedures that are required to produce quarterly and year end reporting.

Volume 4 specifies the term and conditions of employment of MFO members. Key elements regulated are recruitment and selection, employment renewal, contract extension and salaries, premiums and allowances; and

Volume 5 specifies the housing benefits to which international staff members of the MFO are entitled. It sets policy, defines an international staff member, and establishes procedures for housing assignments, housing requirements, and changes thereof.

The MFO finance function also carries out internal compliance and operational audits in the Sinai to enhance the internal control environment, in addition to implementing the accepted external auditors' recommendations on improvements to internal controls.

Attached to this report is the MFO Organization Chart showing staffing structure at the MFO headquarters and the structure of the Force.

Even an effective internal control system, no matter how well designed, has inherent limitations – including the possibility of the circumvention or overriding of controls – and therefore can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, internal control effectiveness may vary over time.

MFO management is responsible for establishing and maintaining effective internal control over financial reporting. MFO management assessed the effectiveness of MFO's internal control over financial reporting as of September 30, 2019, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework. Based on that assessment, management concluded that, as of September 30, 2019, MFO's internal control over

financial reporting is effective based on the criteria established in Internal Control – Integrated Framework.

Multinational Force and Observers

by 
Deputy Director General

by 
Chief Financial Officer