



Multinational Force & Observers (MFO)

Independent auditor's report
As of September 30, 2023, and 2022

INDEPENDENT AUDITOR'S REPORT

Director General
Multinational Force and Observers

Opinion

We have audited the financial statements of Multinational Force and Observers (MFO), which comprise the statement of financial position as of September 30, 2023 and 2022, the related statement of revenues, expenses and changes in net assets, statements of functional expenses and statements of cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of MFO as of September 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with the accounting policies as set forth in Note 2 to the financial statements.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of MFO and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about MFO ability to continue as a going concern for 12 months beyond the date of the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about MFO's ability to continue as a going concern for a reasonable period of time.

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

Milan, Italy
November 7, 2023

Crowe Bompani SpA



Giovanni Santoro
(Partner)

MULTINATIONAL FORCE & OBSERVERS
STATEMENT OF FINANCIAL POSITION
as at September 30, 2023 and 2022

ASSETS	Note	Sept 30, 2023	Sept 30, 2022
Current assets		<i>USD 000s</i>	<i>USD 000s</i>
Cash & cash equivalents		26,110	66,430
Marketable securities < 1 year	4	6,651	0
Pledges	7	0	211
Prepaid expenses & other receivables	6	2,802	2,629
Total current assets		35,563	69,270
Non-current assets			
Fixed assets	5	0	0
Marketable securities > 1 year	4	29,264	
Total non-current assets		29,264	0
TOTAL ASSETS		64,827	69,270
LIABILITIES & NET ASSETS			
Current liabilities			
Accounts payable & accrued expenses	10	19,270	14,137
Total current liabilities		19,270	14,137
Net assets without donor restrictions:			
BSRF* unrealized gain(loss) on marketable securities	4	256	0
Total net assets without donor restrictions		256	0
Net assets with donor restrictions:			
SIF Self Insurance Fund	13	6,150	6,150
CARF Capital Asset Replacement Fund	14	4,188	4,188
BSRF Budget Stabilization Reserve Fund carry forward	3	30,716	33,333
BSRF Budget Stabilization Reserve Fund current surplus	3	24	2,515
USFP Force Protection Fund	9	3,576	8,335
JPPF Japan Projects Fund	9	646	612
Total net assets with donor restrictions		45,300	55,133
Total net assets, restricted and unrestricted		45,557	55,133
TOTAL LIABILITIES & NET ASSETS		64,827	69,270

* BSRF: Budget Stabilization Reserve Fund

MULTINATIONAL FORCE & OBSERVERS
STATEMENT OF REVENUE, EXPENSE AND CHANGES IN NET ASSETS
as at September 30, 2023 and 2022

	<i>Note</i>	<u>2023</u>			<u>2022</u>
		<u>Unrestricted General</u> <i>USD 000s</i>	<u>Unrealized gain (loss)</u> <i>USD 000s</i>	<u>with donor restrictions</u> <i>USD 000s</i>	<u>Total</u> <i>USD 000s</i>
Revenue:					
Support from Funds Contributing States					
Egypt	1 & 2	24,000			24,000
Israel		24,000			24,000
United States		24,000			24,000
Support from Donor States	2				
Finland – unrestricted	8	126		0	126
Germany	8	528		631	1,159
Japan – restricted	8	0		26	26
Republic of Korea – unrestricted	8	243		0	243
Netherlands – unrestricted	8	892		0	892
Norway – restricted	8	0		186	186
Sweden – restricted	8	0		96	96
Switzerland	8	226		120	346
Japan Projects – restricted	9	0		580	580
US Force Protection – restricted	9	0		1,000	1,000
Other income: interest & realized gain, and gain related to previous years	2	1,589		6	1,595
Release of restricted revenue	8	1,059		(1,059)	0
Total revenue		76,665		1,586	78,251
Expenses:	10				
Program services:	12				
Peacekeeping mission	11	70,385			70,385
CARF Capital Asset Replacement	14			5,131	5,131
JPPF Japan Projects	9			552	552
USFP US Force Protection	9			5,759	5,759
Support services:	12				
Management & general		6,256			6,256
Total expenses		76,641		11,442	88,083
Surplus / (deficit) of revenues over expenses		24		(9,856)	(9,833)
Opening net assets				55,133	55,133
Transfer to BSRF Budget Stabilization Reserve Fund	3	(24) *		24	0
Change in unrealized gains (losses) on marketable securities	4		256		256
Closing net assets		0	256	45,301	45,557

* FY23 surplus was transferred to BSRF, then \$5,131k was transferred from BRSF to CARF for replenishment

MULTINATIONAL FORCE & OBSERVERS
STATEMENT OF FUNCTIONAL EXPENSES
as at September 30, 2023 and 2022

	<i>USD 000s</i>	<i>USD 000s</i>	<i>USD 000s</i>
		<i>FY 2023</i>	
	<i>Total</i>	<i>Peacekeeping</i>	<i>Management</i>
	<i>Expenses</i>	<i>Services</i>	<i>& General</i>
Civilian & military personnel	28,558	24,759	3,799
General supplies and materials and aviation	13,713	13,713	0
Finance and administration	6,372	5,662	710
Labor contracts	6,974	6,974	0
Civilian and military rotations	6,013	5,920	93
Equipment	4,673	4,459	214
Petroleum, Oil and lubricants	5,622	5,610	12
Transportation	1,910	1,895	15
IT and communications	3,232	3,164	67
Rents	1,379	606	773
Buildings & facilities	2,681	2,321	360
Travel	1,074	932	142
Utilities	840	768	72
Offsets	(6,398)	(6,398)	0
Total expenses	76,641	70,385	6,256
		92%	8%

FY 2023 allocation methodology reverted to former treatment.

	<i>FY 2022</i>		
Civilian & military personnel	28,697	24,683	4,014
General supplies materials and aviation	13,032	13,032	0
Finance and administration	6,353	5,012	1,341
Labor contract	8,460	8,460	0
Civilian and military rotations	2,474	2,402	72
Equipment	3,023	2,902	121
Petroleum, Oil and lubricants	5,264	5,251	13
Transportation	1,613	1,439	174
IT and communications	1,933	1,124	809
Rents	1,357	656	701
Buildings & facilities	4,101	3,853	248
Travel	898	806	92
Utilities	1,234	1,147	87
Offsets	(5,528)	(5,528)	0
Total expenses	72,911	65,239	7,672
		89%	11%

This table was published in the FY 2022 Financial Statements. Subsequently, in FY 2023, there were small reclassifications between Personnel, Supplies and Materials, Building and Facilities and Communications, all were less than \$136k, between categories. These arose from minor reclassifications and streamlining accounts prior to the migration to the upgraded ERP system, SAP S4Hana.

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MULTINATIONAL FORCE & OBSERVERS
STATEMENT OF CASH FLOW
as at September 30, 2023 and 2022

	2023	2022
	USD 000s	USD 000s
Cash provided (used) by operating activities:		
Change in net assets		
Excess of revenue over expenses – unrestricted only	24	2,515
Expenditure (-) from CARF fund	(5,131)	(1,252)
Expenditure (-) from US Force Protection Fund	(4,759)	(5,032)
Net of expense (-) and donation & interest (+) in Japan Fund	34	(480)
Change in liabilities:		
Increase (decrease) in payables & accrued expenses	5,133	(4,990)
Change in assets:		
Decrease (increase) in prepaid expenses & receivables	(173)	1,308
Decrease (increase) in pledges	211	12
Net cash provided by operating activities	(4,660)	(7,919)
Cash provided by investing activities:		
Sale of marketable securities, at sale price	37,178	5,566
Realized loss(gain) on sale of securities	(287)	(66)
Purchase (-) of marketable securities	(72,550)	0
Net cash provided by investment activities	(35,659)	5,500
Cash & cash equivalents at beginning of year	66,430	68,849
Cash & cash equivalents at end of year	26,110	66,430
Supplemental Data, detail of “Other income”:		
Realized gain/(loss), current year, on BSRF and SIF funds	0	66
Realized gain/(loss) - Portfolio coupons/dividends	897	
Realized gain/(loss) - Portfolio sales	287	
Interest earned on Portfolio and bank balances	406	163
Interest & realized gain on investments - unrestricted revenue	1,590	229
Other various profits and gains on previous years	0	2
Other income Unrestricted/Released	0	231
Other income restricted - Interest earned on Japan Fund	6	4
TOTAL Other income shown on Revenue Statement	1,596	235

The accompanying notes are an integral part of these financial statements.

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 (FCS)) 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 using accrual accounting. 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 (GAAP) as defined by the Financial Accounting Standards Board (FASB), in particular the Accounting Standards Codification (ASC) 958 "Not-for-Profit Organizations".

Use of Estimates

The preparation of financial statements in accordance with GAAP 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. Assumptions are reviewed periodically and the effect of each change is recorded in the Financial Statements.

Net assets

The MFO classifies Net Assets in accordance with the FASB ASC 958-210. The Net Assets of the MFO result from support contributions by the Funds Contributing States plus the additional annual contributions from "Donor States".

Revenue Recognition

Monetary contributions are shown in the financial statements as revenue upon notification in accordance with the FASB ASC 958-605, including the Accounting Standard Update 2018-08.

The statement of Revenue shows restricted monetary contributions separately from unrestricted monetary contributions. A transfer from the restricted to unrestricted class is made when donor's spending conditions are met.

All of the MFO's revenues in Fiscal Year (FY) 2023 are derived from monetary support contributions by the Funds Contributing States plus additional monetary contributions from "Donor States" which in FY 2023 were Finland, Germany, Japan, the Netherlands, Norway, the Republic of Korea, Sweden, and Switzerland, and from other income relating to interest, dividends and realized gains/losses on the investment portfolio, these are recognized as unrestricted. Unrealized gains/losses on the investment portfolio are recorded directly in net assets (BSRF).



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The principle of equal contributions by the three Funds Contributing States pursuant to the Protocol to the Treaty and related side letters, has been maintained.

Revenue Recognition - Pledges

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

Fixed Assets - Buildings, Equipment & Furnishings

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 ASC 958-360. These two office spaces were being depreciated over thirty years using the straight-line method until FY 2020. In FY 2021, depreciation was accelerated and fully expensed. Therefore, both assets are now fully depreciated.

Other fixed assets (tangible and intangible), including equipment and furnishings, are expensed as incurred, net of any sales proceeds. The MFO Policy and Administrative Manual, Volume III, section 300.3.3, states that MFO does not capitalize assets, with the exception of the aforementioned properties. This policy differs from the FASB ASC 958-360.

Supplies & Stores Inventory

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

Foreign Exchange

The effects of changes in foreign exchange rates are included in the results of current operations.

Marketable Securities - Investment Portfolio

After retaining sufficient liquidity to meet planned, near-term expenditure, funds are invested in an Investment Portfolio with a private bank. The portfolio is a conservative balance of cash, money market, government bonds, corporate bonds, and equities. The maximum maturity of any financial instrument cannot exceed more than five years. Securities are stated at a fair value.

Net assets with donor restrictions

Net assets with donor restrictions are reported in accordance with the FASB ASC 958-210 and Accounting Standards Update 2016-14.

Financial Statements presentation

Numbers are displayed rounded to one decimal place.

NOTE 3 - BUDGET STABILIZATION RESERVE FUND

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 future deficit that might occur. The Budget Stabilization Reserve Fund (BSRF) was created in FY 2010. Initially, interest earned on the BSRF was retained in the BSRF. Since FY 2021, interest earned on the BSRF investments is credited to the operating funds.

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The BSRF balance at the end of FY 2023 amounts to \$30,739,999 (\$35,847,495 in FY 2022). The decrease of \$5,107,496 is the result of a \$5,131,331, transfer to the CARF, and the FY 2023 surplus of \$23,835.

NOTE 4 – MARKETABLE SECURITIES

Société Générale Hambros manages the MFO's investment portfolio, which commenced in October 2022. Prior to this, available funds were invested in fixed income, U.S. dollar-denominated securities and certificates with a maximum maturity period of ten years; all such securities were sold in August 2022.

At September 30, 2023, marketable securities are:

	<i><u>Carrying Amount</u></i> <i><u>FY2023</u></i>	<i><u>Unrealized gains</u></i> <i><u>FY2023</u></i>	<i><u>Unrealized losses</u></i> <i><u>FY2023</u></i>	<i><u>Fair Value</u></i> <i><u>Sept 30, 2023</u></i>
	<i>USD 000s</i>	<i>USD 000s</i>	<i>USD 000s</i>	<i>USD 000s</i>
Money market instruments maturing:				
within 1 year	229	4	0	233
between 1-5 years	0	0	0	0
Government Bonds maturing:				
within 1 year	4,868	45	0	4,913
between 1-5 years	0	0	0	0
Corporate Bonds maturing:				
within 1 year	1,513	0	(9)	1,505
between 1-5 years	26,201	222	(108)	26,315
Equity maturing:				
within 1 year	0	0	0	0
between 1-5 years	2,848	126	(25)	2,949
Total Marketable Securities FY 2023	35,659	398	(142)	35,915

The realized gain on sales of marketable securities was \$ 287k. The realized gain on portfolio coupons and dividends was \$897k. The interest earned on the portfolio was \$22k. All are recognized as revenue in the FY 23 statement of revenue.

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

At September 30, 2022, marketable securities were zero.

NOTE 5 - 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.

Depreciation was accelerated in FY 2021 and both assets are now fully depreciated.

The acquisition cost and accumulated depreciation of both properties are:

	<u>2023</u>	<u>2022</u>
	USD 000s	USD 000s
Cost of the MFO's two office spaces	5,014	5,014
Accumulated depreciation	(5,014)	(5,014)
Fixed assets net book value, September 30:	0	0

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

Intangible fixed assets: Software licenses

In September 2021, the MFO purchased a series of Microsoft licenses for \$2,531,992, and SAP licenses for \$154,276. Following MFO accounting policies and past practice, these licenses were expensed. They have a validity and economic value of 5 years for the Microsoft licenses and 3 years for the SAP licenses.

NOTE 6 - PREPAID EXPENSES AND OTHER RECEIVABLES

Prepaid expenses and receivables are comparable to the prior year, as detailed below:

	FY 2023	FY 2022
	\$000s	\$000s
Prepayments	1,703	1,752
Receivables and VAT receivables	656	722
Accrued Interest	263	0
FRP	179	155
Total Prepaid Expenses and Other Receivables	2,802	2,629

As at September 30, 2023 the balance of prepaid expenses and other receivables increased due to accrued interest on the investment bonds, from the portfolio managed by Hambros.

The Force Retail Program (FRP) intercompany account:

The MFO operates the FRP a Force Exchange and Club System, in the Sinai, for the benefit of participating troops and civilian personnel, on a not-for-profit basis. The FRP surpluses are used to fund recreational activities for military and civilian personnel. FRP operations have not been

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incorporated into the MFO financial statements as they are distinct and autonomous from those of the MFO and such inclusion is deemed immaterial.

The FRP operates using separate bank accounts and financial accounting records. FRP accounts and records are subject to independent audit every financial year. Should FRP operations significantly increase, they may be consolidated into the MFO financial statements, although such increase in operational is not envisioned in the foreseeable future.

NOTE 7 - PLEDGES

The contributions from Donor States that have not been drawn upon or made available are shown in the financial statements as pledges, under receivables. All pledges are secured as of September 30, 2023.

NOTE 8 - CONTRIBUTIONS TO OPERATING REVENUE BY THE DONOR STATES

Donor State contributions to FY 2023 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 – unchanged in euros compared to FY 2022;
- from the Government of Germany, € 1,070,000 of which € 600,000 was restricted and applied towards local Sinai employment – unchanged in euros from FY 2022;
- from the Government of Japan a restricted contribution of \$26,480. As specified by the Government of Japan, this contribution has been applied exclusively to pay for food and civilian personnel salaries; (see also, \$580,000 supplemental donation for a Japanese project, detailed in Note 9);
- from the Republic of Korea, an unrestricted contribution of KRW 310,000,000 - unchanged in KRW compared to FY 2022;
- from the Government of the Netherlands, an unrestricted contribution of € 850,000 – unchanged in euros compared to FY 2022;
- from the Government of Norway, a contribution of NOK 2,000,000 restricted toward support for the Civilian Observer Unit – unchanged in NOK compared to FY 2022;
- from the Government of Sweden, a contribution of SEK 1,000,000 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; the \$120,000 was restricted towards support for the Civilian Observer Unit. Both amounts were unchanged, compared to FY 2022

Conditional contributions are listed as “with donor restrictions” in the statement of Revenue and were released in their entirety by incurring qualified expenses during FY 2023 thereby satisfying donor restrictions.

The Donor State contributions are included in the financial statements, in US dollars, as follows:



MULTINATIONAL FORCE & OBSERVERS
NOTES TO THE FINANCIAL STATEMENTS
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	<u>Source</u>	<u>2023</u>	<u>2022</u>	<u>Restrictions</u>	<u>2023</u>	<u>2022</u>
	<u>Currency</u>	Currency 000s	Currency 000s		USD 000s	USD 000s
Finland	Euro	120	120	Unrestricted	126	139
Germany	Euro	1,070	1,070	Restricted/Unrestricted	1,159	1,091
Japan	USD	26	27	Restricted	26	27
Republic of Korea	KRW	310,000	310,000	Unrestricted	243	300
Netherlands	Euro	850	850	Unrestricted	892	981
Norway	NOK	2,000	2,000	Restricted	186	203
Sweden	SEK	1,000	1,250	Restricted	96	122
Switzerland	CHK	207	207	Unrestricted	226	211
Switzerland	USD	120	120	Restricted	120	120
Total					3,075	3,194

NOTE 9 – SUPPLEMENTAL DONATIONS – FORCE PROTECTION and JAPANESE PROJECTS

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 supplemental, project specific financing in FY 2015.

In FY 2023, Japan contributed \$580,000, separate from and additional to Japan's contribution to operating expenses, for the acquisition of a new "Armored Bus".

In FY 2023 the MFO received \$1,000,000 from the U.S. Government for Force Protection. The MFO did not request additional Force Protection funding from the U.S. Government in FY 2022 or FY 2021.

These funds are separately managed and accounted for and exclusively applied for the intended purpose of Force Protection and related expenditure. The expenditure was released by incurring qualified expenses or commitments during FY 2023, thereby satisfying donor restrictions.

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NOTES TO THE FINANCIAL STATEMENTS
as at September 30, 2023 and 2022

The schedule below provides an analysis of supplementary funding from inception to September 30, 2023:

<u>Force Protection (FP) and Japanese projects</u>	<u>Contributions</u> USD 000s	<u>Interest</u> USD 000s	<u>Expenditures</u> USD 000s	<u>Balance of funds</u> USD 000s
USA FP–FY05 to FY22:	66,937	685	(59,287)	8,335
USA FP - FY 2023:	1,000		(5,759)	(4,759)
				3,576
Japan – FY15 to FY22:	11,078	43	(10,509)	612
Japan - FY 2023:	580	6	(552)	34
				646
Australia FP –FY13 to FY18	3,530		(3,530)	0
Germany FP – FP FY15:	322		(322)	0
Total on Sept 30, 2023:	83,447	734	(79,959)	4,222

In accordance with the FASB ASCs 958-210 and 958-225, these funds are considered “with donor restrictions”.

NOTE 10 - ACCOUNTS PAYABLE & ACCRUED EXPENSES

The schedule below provides an analysis of accounts payable and accrued expenses:

	<u>2,023</u> USD 000s	<u>2,022</u> USD 000s
Personnel/labor costs (staff country payables, accrued leave etc.)	6,613	6,242
Troop Rotations	3,438	670
Force Protection DoD	3,394	2,348
Other payables and accruals	5,825	4,877
Total Accounts Payable and Accrued Expenses	19,270	14,137

As at September 30, 2023, the accounts payable and accrued expenses increased by \$5.1m due to the following two key factors:

- The Troop Rotations accounts payable is mainly attributed to outstanding invoices.
- The increase in other payables is due to the accrual of a liability for a specific, custom-designed, operating system.

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 in Sinai. 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.

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. Australia also provided a Royal Australian Air Force aircraft to transfer Fijian military personnel to the Sinai and back to Fiji, saving the MFO considerable commercial aircraft transportation costs.

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

The Czech Republic, Italy, and the United States provided aviation and maritime assets to the MFO with agreed maintenance and support arrangements that effectively share operating costs between the MFO and the contributing country.

Contributed Facilities in the Sinai

The MFO does not have title to the buildings and facilities 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 ASC 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.

Offsets from Japan, United Kingdom, and the USA

The MFO receives credits from some 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 21 December 2022 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 to the MFO for U.S. Army incremental costs, including certain soldier

allowances and benefits, flying hours and labor contract charges. In FY 2023, the total value of offset credits from the United States Department of Defense was \$6,276,309.

NOTE 12 - ALLOCATION OF EXPENSES IN THE STATEMENT OF REVENUE & EXPENSE

MFO Management has determined, in compliance with FASB ASC 958-720, that all costs relating to the Rome Headquarters including the staff compensation costs will be regarded as support costs.

All other costs relating to the MFO field offices in Tel Aviv, Cairo, and the Force in the Sinai have been reported as program costs as defined by FASB ASC 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

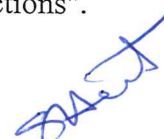
At the Trilateral Conference held on November 27, 1989, it was agreed that a self-insurance fund (SIF) would be created. The authorized amount of the SIF is set at \$6,150,239. There were no transactions during the financial year and the closing Fund balance was \$6,150,239. In accordance with the FASB ASC 958-210, the SIF is considered "with donor restrictions".

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 was set at \$4,187,500 on September 30, 2017. The CARF is replenished, as needed, from the Budget Stabilization Reserve Fund.

The opening balance of the CARF was \$4,187,500. During FY 2023, expenditure totaled \$5,131,331, relating to replacement barracks for military personnel, the renovation of South Camp's electrical distribution system, and the replacement of generators. Following the \$5,131,331 replenishment, the CARF closing balance was \$4,187,500.

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





Multinational Force & Observers (MFO)

Independent auditor's report on Internal Control over Financial
Reporting as of September 30, 2023

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, 2023, 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, 2023, 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, 2023 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 7, 2023 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 7, 2023

Crowe Bompani SpA



Giovanni Santoro
(Partner)



Multinational Force and Observers

Rome, Italy

November 7, 2023

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, and actions are taken to correct deficiencies as they are identified.

The MFO's internal control over financial reporting is a process effected by those charged with MFO governance and management, and this process is 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, 2023 and 2022 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 (financial statements).

The MFO's internal control over financial reporting includes implementing 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 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 required that the Director General prepare financial and administrative regulations. 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, 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.

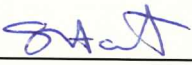
Attached to this report is the MFO Organization Chart showing staffing structure at the MFO headquarters and the structure of the Force.

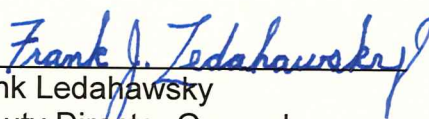
Even an effective internal control system, no matter how well designed, has inherent limitations – including the possibility of the circumvention or overriding of controls – and therefore can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes 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, 2023, 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, 2023, MFO's internal control over financial reporting is effective based on the criteria established in Internal Control – Integrated Framework.

Multinational Force and Observers

by 
Sharon Hart
Chief Financial Officer

by 
Frank Ledahawsky
Deputy Director General