



Multinational Force & Observers (MFO)

**Independent auditors' report
as of September 30, 2014 and 2013**

Independent auditors' 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, 2014 and 2013 and the related statements of revenue, expenses and changes in net assets, statements of functional expenses and statements of cash flows for the years then ended (financial statements), prepared on the basis of accounting policies specified in Note 2 to financial statements. These financial statements are the responsibility of the MFO's management.

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 misstatement, whether due to fraud or error.

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted 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 of 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 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 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.

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, 2014 and 2013 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 in conformity with the accounting policies as set forth in Note 2 to financial statements.

As discussed in Note 2, due to the unprecedented situation in the North Sinai, several planned MFO projects and key supplies were impossible to progress during FY 2013. As budgeted amounts for these logistical requirements could not be expended during the year



ended September 30, 2013, the Director General of the MFO, with the approval of, and in coordination with the Funds Contributing States and as an exception to the treatment of expenditure on the accrual basis, created a Deferred Logistics Requirements Fund (DLRF) accounted for by debiting the Statement of Functional Expenses and crediting the Net Assets. The DLRF amounted to \$1,441,982 and consisted of the mentioned budgeted logistical costs not incurred in FY 2013. These costs were incurred in FY 2014 when circumstances permitted these MFO logistics projects to be completed and consequently the DLRF has been completely reversed in the accompanying financial statements as agreed with the Funds Contributing States. The DLRF is intended to be a one-time action to address the unprecedented situation in the North Sinai.

Rome, Italy
November 7, 2014

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MULTINATIONAL FORCE & OBSERVERS
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
as at September 30, 2014 and 2013
(in thousands of U.S. dollars)

ASSETS	<u>2014</u>	<u>2013</u>
Non-current Assets		
Marketable Securities (Notes 2 & 4)	1,832	10,315
Fixed Assets (Notes 2 & 5)	3,103	3,270
Other Non – current Assets (Note 6)	<u>1,651</u>	<u>--</u>
Total Non-current Assets	6,586	13,585
Current Assets		
Cash and Cash Equivalents	16,632	12,200
Marketable Securities (Notes 2 & 4)	15,303	3,548
Pledges (Notes 2 & 8)	--	8,400
Prepaid Expenses and Other Receivables (Note 7)	<u>2,530</u>	<u>3,703</u>
Total Current Assets	34,465	27,851
 TOTAL ASSETS	 <u>41,051</u>	 <u>41,436</u>
LIABILITIES & NET ASSETS		
Current Liabilities		
Accounts Payable and Accrued Expenses (Note 11)	<u>18,024</u>	<u>19,050</u>
Total Current Liabilities	18,024	19,050
Net Assets		
Unrestricted:		
General	--	--
Unrealized Net Gain/(Loss) on		
Marketable Securities (Notes 2 and 4)	<u>14</u>	<u>43</u>
Total Unrestricted	14	43
Temporarily Restricted:		
Self-Insurance Fund (Note 14)	6,011	6,011
Capital Asset Replacement Fund (Note 15)	2,720	3,620
Budget Stabilization Reserve Fund (Note 3)	9,316	9,878
Deferred Logistics Requirements Fund (Note 2 & 16)	--	1,442
Unrealized Net Gain/(Loss) on		
Marketable Securities (Notes 2 and 4)	<u>6</u>	<u>(1)</u>
	18,053	20,950
Permanently Restricted:		
US Force Protection Fund (Note 10)	935	379
US Advance (Note 17)	3,001	--
US Budget Reserve Fund (Note 10)	1,020	1,011
Unrealized Net Gain/(Loss) on		
Marketable Securities (Notes 2 and 4)	<u>3</u>	<u>3</u>
	4,959	1,393
Total Restricted	<u>23,013</u>	<u>22,343</u>
Total Net Assets	23,026	22,386
TOTAL LIABILITIES & NET ASSETS	<u>41,051</u>	<u>41,436</u>

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, 2014 and 2013
(in thousands of U.S. dollars)

	2014				Total	2013 Total
	<u>Unrestricted General</u>	<u>Unrealized Gains(Losses)</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>		
<u>Revenue:</u>						
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 (Note10)	--	--	--	500	500	500
Denmark (Note 9)	--	--	635	--	635	606
Finland (Note 9)	162	--	--	--	162	155
Germany (Note 9)	609	--	--	--	609	581
Japan (Note 9)	--	--	182	--	182	182
Netherlands (Note 9)	750	--	--	--	750	750
Norway (Note 9)	--	--	1,251	--	1,251	1,309
Switzerland (Note 9)	223	--	223	--	447	384
Sweden (Note 9)	--	--	195	--	195	190
United Kingdom	406	--	--	--	406	404
US Force Protctn (Note 10)	--	--	--	8,000	8,000	1,593
US Advance (Note 17)	--	--	--	3,000	3,000	--
US BRF (Note 10)	--	--	--	--	--	--
Other Income (Note 2)	123	--	--	--	123	215
Release of Temp. Rest. Revenue (Note 9)	2,487	--	(2,487)	--	--	--
Total Support	79,761	--	--	11,500	91,261	81,868
<u>Expenses (Note 11):</u>						
Program Services:						
Peacekeeping Mission (Note 12)	75,047	--	--	--	75,047	72,644
US Force Protctn (Note 10)	--	--	--	7,444	7,444	4,958
Capital Asset Repl (CARF) Projects (Note 15)	--	--	900	--	900	564
Australia Force Protection Support Services:	--	--	--	500	500	500
Mngmt & General (Note 13)	6,761	--	--	--	6,761	6,304
DLRF (Note 2& 16)	(1,442)	--	--	--	(1,442)	1,442
Total Expenses	80,366	--	900	7,944	89,210	86,412
Excess/(Deficit) of Revenues over Expense	(606)	--	(900)	3,556	2,050	(4,544)
Beginning Net Assets	--	43	20,950	1,393	22,386	25,578
BSRF (Note 3)	606	--	(562)	--	44	32
Force Prot., USBR & US Adv.	--	--	--	10	10	9
DLRF (Note 2& 16)	--	--	(1,442)	--	(1,442)	1,442
Unrealized Gain (Losses) on Marketable Securities (Note4)	--	(29)	7	--	(22)	(131)
Allocation of Prior Year (Surplus)/Deficit to Funds Contributing States	--	--	--	--	--	--
Ending Net Assets	--	14	18,053	4,959	23,026	22,386

MULTINATIONAL FORCE & OBSERVERS
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
as at September 30, 2014 and 2013
(in thousands of U.S. dollars)

	2013					2012
	<u>Unrestricted</u>		<u>Temporarily</u>	<u>Permanently</u>		<u>Total</u>
	<u>General</u>	<u>Unrealized Gains (Losses)</u>	<u>Total</u>	<u>Restricted</u>	<u>Total</u>	
<u>Revenue:</u>						
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 Protcn (Note 10)	--			500	500	-
Denmark (Note 9)	--	--	606	--	606	540
Finland (Note 9)	155	--	--	--	155	161
Germany (Note 9)	581	--	--	--	581	509
Japan (Note 9)	--	--	182	--	182	188
Netherlands (Note 9)	750	--	--	--	750	675
Norway (Note 9)	--	--	1,309	--	1,309	1,200
Switzerland (Note 9)	192	--	192	--	384	397
Sweden (Note 9)	--	--	190	--	190	146
United Kingdom	404			--	404	-
US Force Protctn (Note 10)	--			1,592	1,593	2,000
US BRF (Note 10)	--	--	--	--	--	1,000
Other Income (Note 2)	215	--	--	--	215	271
Release of Temp.						
Rest. Revenue (Note 9)	<u>2,479</u>	<u>--</u>	<u>(2,479)</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total Support	<u>79,775</u>	<u>--</u>	<u>--</u>	<u>2,093</u>	<u>81,868</u>	<u>82,087</u>
<u>Expenses (Note 11):</u>						
Program Services:						
Peacekeeping Mission (Note 13)	72,644	--	--	--	72,644	70,439
US Force Protctn (Note 10)	--	--	--	4,958	4,958	3,585
Capital Asset Replacement (CARF) Projects (Note 15)	--	--	564	--	564	--
Self Insurance Fund (SIF)	--	--	--	--	--	--
Australia Force Protection DLRF (Note 2 & 16)	1,442			500	500	--
Support Services:						
Management & General (Note 13)	<u>6,304</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>6,304</u>	<u>6,567</u>
Total Expenses	<u>80,390</u>	<u>--</u>	<u>564</u>	<u>5,458</u>	<u>86,412</u>	<u>80,591</u>
Excess/(Deficit) of						
Revenues over Expense	(615)	--	(564)	(3,365)	(4,544)	1,496
Beginning Net Assets	--	164	20,676	4,738	25,578	23,981
Budget Stabilization ReserveFund (Note 3)	615	--	(583)	--	32	23
Force Protctn & US BRF	--	--	--	9	9	17
DLRF (Note 2 & 16)	--	--	1,442	--	1,442	--
Unrealized Gain (Losses) on Marketable Securities (Note 4)	--	(121)	(21)	11	(131)	61
Allocation of Prior Year (Surplus)/Deficit to Funds Contributing States	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Ending Net Assets	<u>--</u>	<u>43</u>	<u>20,950</u>	<u>1,393</u>	<u>22,386</u>	<u>25,578</u>

MULTINATIONAL FORCE & OBSERVERS
STATEMENT OF FUNCTIONAL EXPENSES
as at September 30, 2014 and 2013
(in thousands of U.S. dollars)

	<u>2014</u>		
	<u>Total</u> <u>Expenses</u>	<u>Peacekeeping</u> <u>Services</u>	<u>Management</u> <u>& General</u>
Personnel (Notes 11 and 13)	28,799	24,134	4,665
Supplies net of miscellaneous sales proceeds (Note 2)	17,259	16,331	927
Contractual Services	11,524	11,524	--
Troop Rotation	5,732	5,732	--
Equipment & Furnishings net of vehicle sales proceeds of \$339,357 (Notes 2 & 5)	2,041	1,991	50
Petroleum, Oil, Lubricants	5,424	5,414	10
Transportation	2,538	2,511	27
Communications	373	269	104
Rents	1,363	557	806
Buildings & Facilities (Notes 2 & 12)	4,617	4,270	347
Travel	910	724	186
Utilities	<u>1,230</u>	<u>1,591</u>	<u>(361)</u>
Total Expenses	<u>81,808</u>	<u>75,047</u>	<u>6,761</u>
		91,7%	8,3%
Less DLRF Credit (Note 2 & 16):	(1,442)	(1,442)	
Total Expenses	<u>80,366</u>	<u>73,605</u>	6,761

	<u>2013</u>		
	<u>Total</u> <u>Expenses</u>	<u>Peacekeeping</u> <u>Services</u>	<u>Management</u> <u>& General</u>
Personnel (Notes 11 and 13)	27,645	23,720	3,925
Supplies net of miscellaneous sales proceeds (Note 2)	15,834	15,247	587
Contractual Services	10,615	10,615	--
Troop Rotation	6,495	6,495	--
Equipment & Furnishings net of vehicle sales proceeds of \$303,300 (Notes 2 & 5)	2,319	2,281	38
Petroleum, Oil, Lubricants	4,595	4,582	13
Transportation	2,711	2,696	15
Communications	351	293	58
Rents	1,246	494	752
Buildings & Facilities (Notes 2 & 12)	4,151	3,775	376
Travel	1,133	943	190
Utilities	<u>1,853</u>	<u>1,503</u>	<u>350</u>
Total Expenses	<u>78,948</u>	<u>72,644</u>	<u>6,304</u>
		92.0%	8.0%
DLRF (Note 2 & 16)	<u>1,442</u>	<u>1,442</u>	
Total Expenses	<u>80,390</u>	<u>74,086</u>	

MULTINATIONAL FORCE & OBSERVERS
STATEMENT OF CASH FLOWS
as at September 30, 2014 and 2013
(in thousands of U.S. dollars)

	<u>2014</u>	<u>2013</u>
Cash Provided by Operating Activities		
Excess / (Deficit) of Revenue Over Expenses	(606)	(615)
Purchase of Fixed Assets	--	--
Depreciation of Fixed Assets	167	167
Unrealized Gains on Marketable Securities	(21)	(142)
Allocation of Prior Year Deficit to Funds		
Contributing States	--	--
CARF Projects	(900)	(564)
SIF	--	--
US ADV	3,001	--
BSRF	44	32
DLCF	(1,442)	1,442
Change in US Force Protection Fund	556	(3,360)
Change in US Budget Reserve Fund	9	15
Change in Current Assets & Liabilities:		
Decrease (Increase) in Pledges	8,400	1,788
Decrease (Increase) in Prepaid Expenses and Other Receivables	1,173	(404)
(Decrease)/Increase in Accounts Payable, Accrued Expenses and Unearned Support Contributions	<u>(1,025)</u>	<u>1,256</u>
Net Cash Provided/(Used) by Operating Activities	9,356	(385)
Cash Provided/(Used) by Investing Activities		
Purchases of Available for Sale Securities	(8,000)	(5,762)
Other Non - current assets	(1,651)	--
Maturities of Available for Sale Securities	<u>4,727</u>	<u>2,065</u>
Net Cash Provided/(Used) by Investing Activities	(4,924)	(3,697)
Cash & Cash Equivalents at Beginning of Year	<u>12,200</u>	<u>16,282</u>
Cash & Cash Equivalents at End of Year	<u>16,632</u>	<u>12,200</u>
Supplemental Data:		
Cash Received – Interests	<u>123</u>	<u>215</u>

MULTINATIONAL FORCE & OBSERVERS
NOTES TO FINANCIAL STATEMENTS
for the years ended September 30, 2014 and 2013

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.

Deferred Logistics Requirements Fund

Due to the unprecedented situation in the North Sinai, several planned MFO projects and key supplies were impossible to progress during FY 2013. As budgeted amounts for these logistical requirements could not be expended during the year ended September 30, 2013, the Director General of the MFO, with the approval of, and in coordination with, the Funds-Contributing States and as an exception to the treatment of expenditure on the accrual basis, created a Deferred Logistics Requirements Fund (DLRF) accounted for by debiting the Statement of Functional Expenses and crediting the Net Assets. The DLRF amounted to \$1,441,982 and consisted of the mentioned budgeted logistical costs not incurred in FY 2013. These costs were incurred in FY 2014 when circumstances permitted these MFO logistics projects to be completed and consequently the DLRF has been completely reversed as agreed with the Funds Contributing States. The DLRF reversal is accounted for by debiting the Net Assets and crediting the Statement of Functional Expenses and represents the consequence of the above mentioned exception to the treatment of expenditure on the accrual basis occurred in the FY 13. The DLRF is intended to be a one-time action to address the unprecedented situation in the North Sinai. The DLRF reversal decreases the Statement of Functional Expenses by \$1,441,982, thus in the Statement of Revenue, Expenses and Changes in Net Assets, total expenses equal \$80,366,232 instead of \$81,808,214 and the Revenues over Expense total is a deficit of \$605,642 instead of \$2,047,624. The effect on Net assets is nil.

MULTINATIONAL FORCE & OBSERVERS
NOTES TO FINANCIAL STATEMENTS
for the years ended September 30, 2014 and 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Revenue Recognition

All of the MFO's revenues in FY 2013 are derived from support contributions by the Funds Contributing States (Note 1) plus the Governments of Denmark, Germany, Finland, Japan, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom (Note 9) and (for Force Protection) the United States and Australia (Note 10), apart from other income relating to interest, 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.

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 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 and miscellaneous sales.

MULTINATIONAL FORCE & OBSERVERS
NOTES TO FINANCIAL STATEMENTS
for the years ended September 30, 2014 and 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign Exchange

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

Marketable Securities

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

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 into the future, the annual Funds Contributing States' contributions at an unchanged annual level from FY 2010 and to make up any deficit in any FY that might result due to actual costs exceeding anticipated, budgeted expenses.

Commencing FY 2011, interest earned on the BSRF investments is retained in the Fund. In accordance with the Financial Accounting Standards Board codified section 958-210, the BSRF is considered "Temporarily Restricted" because the Funds Contributing States have approved its use for specific objectives and the Fund can only be utilized for such objectives.

The BSRF balance at the end of FY 2014 amounts to USD 9,316,920. The decrease of USD 561,809 compared to last fiscal year is the net effect of interest earned in the amount of USD 43,833 and the FY 2014 deficit of USD 605,642.

NOTE 4 - MARKETABLE SECURITIES

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

	<u>2014</u>	<u>2013</u>
Maturing within 1 year	15,303	3,548
Maturing between 1-5 years	<u>1,832</u>	<u>10,315</u>
Total	<u>17,135</u>	<u>13,863</u>

MULTINATIONAL FORCE & OBSERVERS
 NOTES TO FINANCIAL STATEMENTS
 for the years ended September 30, 2014 and 2013

NOTE 4 - MARKETABLE SECURITIES (CONTINUED)

Realized gains and losses on sales of marketable securities during the year ended September 30, 2014 were \$4,938 and nil respectively. Realized gains and losses on sales of marketable securities during the year ended September 30, 2013 were \$28,154 and nil respectively. Realized gains and losses are included in other income.

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

At September 30, 2014 marketable securities which are available for sale are summarized below (in thousands of U.S. dollars):

	<i><u>Amortized Cost</u></i>	<i><u>Unrealized Gains</u></i>	<i><u>Unrealized Losses</u></i>	<i><u>Fair Value</u></i>
Floating rate notes maturing:				
within 1 year	--	--	--	--
U.S. Government bonds maturing:				
within 1 year	--	--	--	--
between 1-5 years	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Sub-total	--	--	--	--
U.S. Corporations maturing:				
within 1 year	3,420	15	--	3,435
between 1-5 years	<u>1,110</u>	<u>1</u>	<u>(3)</u>	<u>1,108</u>
	4,530	16	(3)	4,543
Money market instruments maturing:				
within 1 year	11,860	7	--	11,867
between 1-5 years	<u>720</u>	<u>5</u>	<u>--</u>	<u>725</u>
	12,580	12	--	12,592
Total	<u>17,110</u>	<u>28</u>	<u>(3)</u>	<u>17,135</u>

MULTINATIONAL FORCE & OBSERVERS
 NOTES TO FINANCIAL STATEMENTS
 for the years ended September 30, 2014 and 2013

NOTE 4 - MARKETABLE SECURITIES (CONTINUED)

At September 30, 2013 marketable securities which were available for sale are summarized below (in thousands of U.S. dollars):

	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Floating rate notes maturing:				
within 1 year	--	--	--	--
U.S. Government bonds maturing:				
within 1 year	--	--	--	--
between 1-5 years	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Sub-total	--	--	--	--
U.S. Corporations maturing:				
within 1 year	844	17	--	861
between 1-5 years	<u>5,705</u>	<u>48</u>	<u>(15)</u>	<u>5,738</u>
Sub-total	6,549	65	(15)	6,599
Money market instruments maturing:				
within 1 year	2,690	--	(3)	2,687
between 1-5 years	<u>4,580</u>	<u>6</u>	<u>(9)</u>	<u>4,577</u>
	7,720	6	(12)	7,264
Total	<u>13,819</u>	<u>71</u>	<u>(27)</u>	<u>13,863</u>

NOTE 5 - FIXED ASSETS

The MFO acquired part of a building in Rome, Italy, for use as the headquarters of the organization for \$2,337,000 on September 16, 1997. 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 on August 9, 2007.

The depreciation expense of both properties for the year ended September 30, 2014 is \$167,000 (2013 - \$167,000).

MULTINATIONAL FORCE & OBSERVERS
 NOTES TO FINANCIAL STATEMENTS
 for the years ended September 30, 2014 and 2013

NOTE 5 - FIXED ASSETS (CONTINUED)

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

	<u>2014</u>	<u>2013</u>
Cost	5,014	5,014
Accumulated depreciation	<u>(1,912)</u>	<u>(1,744)</u>
Net book value	<u>3,102</u>	<u>3,270</u>

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

NOTE 6 – OTHER NON – CURRENT ASSETS

This amount relates to a deposit on June 4, 2014 for acquisition of real property in Rome, Italy, which will replace property currently rented.

NOTE 7 - PREPAID EXPENSES AND OTHER RECEIVABLES

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

	<u>2014</u>	<u>2013</u>
Force Exchange	366	290
Prepaid Insurance	-	606
Other Prepaids	372	955
Prepaid Morale Support	139	232
Other Receivables and Advances	<u>1,653</u>	<u>1,621</u>
Total	<u>2,547</u>	<u>3,703</u>

NOTE 8 - 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 partly secured and are partly unsecured, as at September 30, are as follows (in thousands of U.S. dollars):

	<u>2014</u>	<u>2013</u>
Secured Pledges	-	5,602
Unsecured pledges	<u>-</u>	<u>2,798</u>
Total	<u>-</u>	<u>8,400</u>

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for the years ended September 30, 2014 and 2013

**NOTE 9 - CONTRIBUTIONS MADE BY THE GOVERNMENTS OF DENMARK,
FINLAND, GERMANY, JAPAN, THE NETHERLANDS, NORWAY,
SWEDEN, SWITZERLAND AND THE UNITED KINGDOM**

In FY 2014, the Government of Denmark contributed DKK 3,500,000 to the MFO towards Bedouin employment costs in the Sinai.

In FY 2014 Finland made an unrestricted contribution of Euro 120,000 to the MFO.

The MFO received an unrestricted contribution from the Government of Germany in the amount of Euro 450,000 during FY 2014.

In FY 2014 contributions from the Government of Japan amounted to \$182,400. As specified by the Government of Japan, these contributions have been applied exclusively, and conditionally, to pay for food costs and civilian personnel salaries.

During FY 2014, unrestricted support amounting to \$750,000 was received from the Government of the Netherlands.

During FY 2014, the Government of Norway contributed NOK 7,500,000 to the MFO towards support for the Civilian Observer Unit in the Sinai.

In FY 2014, the Government of Sweden contributed SEK 1,250,000 to the MFO towards support for the Civilian Observer Unit in the Sinai.

One half of the Government of Switzerland's FY 2014 contribution of CHF 414,000 is unrestricted. The other half is applied towards support for the Civilian Observer Unit.

During FY 2014, new donor United Kingdom made an unrestricted contribution of GBP 250,000 to the MFO.

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 2014 thereby satisfying donor restrictions.

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

MULTINATIONAL FORCE & OBSERVERS
 NOTES TO FINANCIAL STATEMENTS
 for the years ended September 30, 2014 and 2013

NOTE 9 - CONTRIBUTIONS MADE BY THE GOVERNMENTS OF DENMARK, FINLAND, GERMANY, JAPAN, THE NETHERLANDS, NORWAY, SWEDEN, SWITZERLAND AND THE UNITED KINGDOM (CONTINUED)

	<u>2014</u>	<u>2013</u>
Denmark	635	606
Finland	162	155
Germany	609	581
Japan	182	182
Netherlands	750	750
Norway	1,251	1,309
Sweden	195	190
Switzerland	447	384
United Kingdom	406	404
	<u>4,636</u>	<u>4,561</u>

NOTE 10 – SUPPLEMENTAL DONATIONS

Beginning in FY 2006, the U.S. Government has provided funding for Force protection requirements which are separate from and additional to the U.S. contribution to the MFO's annual operating expenses. In FY 2014 the Australian Government has contributed the second of three annual payments of \$500,000 towards Force Protection and the U.S. Government contributed \$8,000,000. 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 their entirety by incurring qualified expenses during FY 2014, thereby satisfying donor restrictions.

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

MULTINATIONAL FORCE & OBSERVERS
NOTES TO FINANCIAL STATEMENTS
for the years ended September 30, 2014 and 2013

NOTE 10 – SUPPLEMENTAL DONATIONS (CONTINUED)

<i>Year</i>	<i>Contributions</i>	<i>Expenditures</i>	<i>Balance of Funds</i>
Period Ended 2006	3,500	2,186	1,314
FY 2007	<u>--</u>	<u>600</u>	<u>(600)</u>
Period Ended 2007	3,500	2,186	1,314
FY 2008	<u>3,798</u>	<u>394</u>	<u>3,404</u>
Period Ended 2008	7,298	3,180	4,118
FY 2009	<u>--</u>	<u>245</u>	<u>(245)</u>
Period Ended 2009	7,298	3,425	3,872
FY 2010	<u>3,000</u>	<u>805</u>	<u>2,195</u>
Period Ended 2010	10,298	4,230	6,068
FY 2011	<u>1,000</u>	<u>1,759</u>	<u>(759)</u>
Period Ended 2011	11,298	5,989	5,309
FY 2012	<u>2,000</u>	<u>3,570</u>	<u>(1,570)</u>
Period Ended 2012	13,298	9,559	3,739
FY 2013	<u>2,098</u>	<u>5,458</u>	<u>(3,360)</u>
Period Ended 2013	15,396	15,017	379
FY 2014	<u>8,500</u>	<u>7,944</u>	<u>556</u>
Period Ended 2014	23,896	22,961	935

In accordance with the Financial Accounting Standards Board codified sections 958-210 and 958-225, these funds are considered "Permanently Restricted" because the Governments of Australia and the U.S. approved their use for specific purposes and they cannot be utilized for any other purposes.

Concerning the US Budget Reserve Fund, in FY 2012 the U.S. Government provided an additional \$1 million in funding applied to an anticipated future request by the MFO to the Funds Contributing States for additional contributions above \$25 million towards the MFO's operating budget. No additional donation occurred in FY 2014 from the U.S. Government. The increase of the Fund over FY 2014 results from the credit of interest earned of USD 8,409. These funds are considered as "Permanently Restricted" in accordance with the Financial Accounting Standards Board codified section 958-605, and will remain unspent until such time as they are applied to a specific future fiscal year's operating budget, at which time they will be considered as "Unrestricted". MFO will account for and apply funds in a manner such that the principle of equality of contributions to the basic operating budget between the United States, Egypt, and Israel shall be maintained.

MULTINATIONAL FORCE & OBSERVERS
NOTES TO FINANCIAL STATEMENTS
for the years ended September 30, 2014 and 2013

NOTE 11 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	<u>2014</u>	<u>2013</u>
Personnel	12,409	12,886
Supplies	2,071	2,711
Troop Rotation	3,253	3,169
Force Exchange	290	277
Other	--	7
	<u>18,023</u>	<u>19,050</u>

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.

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.

NOTE 12 - CONTRIBUTED SERVICES & FACILITIES

Contributed Services

For troop contingents provided by developed nations, the MFO reimburses all or part of the agreed cost of special pay and allowances required by applicable national legislation for troops serving abroad. The MFO does not pay fixed base pay and salaries, and receives a credit 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

MULTINATIONAL FORCE & OBSERVERS
NOTES TO FINANCIAL STATEMENTS
for the years ended September 30, 2014 and 2013

NOTE 12 - CONTRIBUTED SERVICES & FACILITIES (CONTINUED)

often substantial support that several Participating States are providing it as a result of these arrangements.

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, 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 January 7, 2011, applicable retrospectively effective from FY 2010. The agreement included charges for U.S. Army helicopters and fixed wing aircraft stationed in the Sinai. The arrangement also provided both for credits to the MFO for support costs that the U.S. Army avoids by having its soldiers stationed in the Sinai, and agreed charges the MFO pays for U.S. Army incremental costs including certain soldier allowances and benefits.

The agreement included settlement of an Army claim for charges relating to previous financial years. In accordance with the agreement, the return by MFO of UH-1H helicopter parts no longer needed in FY 2007 resulted in the agreed value of these parts (\$1.9M) being applied as a partial payment of this claim. In FY 2014, the MFO paid a net amount of \$512,492 and there will be one more equal payment in FY 2015. This amount relates to the claims settlement for prior years' charges, net of the credit for helicopter parts, and is chargeable as expenditure in this FY and each subsequent year of payment.

For fiscal year 2014, the total value of credits from the United States Department of Defense totaled \$6,430,460. 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. The net payment for FY 2013, made during FY 2014, was \$1,832,576.

MULTINATIONAL FORCE & OBSERVERS
NOTES TO FINANCIAL STATEMENTS
for the years ended September 30, 2014 and 2013

NOTE 12 - CONTRIBUTED SERVICES & FACILITIES (CONTINUED)

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 the North and South Camps in the Sinai rent-free. These sites and related facilities are provided by the Government of Egypt; all improvements to the facilities have been made possible through the contributions of the Funds-Contributing and Donor States.

NOTE 13 - 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, and beginning in FY 2011, 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 14 - SELF INSURANCE FUND

At the Trilateral Conference held on November 27, 1989, it was agreed that a self-insurance fund would be created. The authorized amount of the fund is set at \$6,150,239. FY 2009 expenditure was \$35,500. FY 2010 income was \$35,500 and expenditure was \$27,836. FY 2011 expenditure was \$111,726. FY 2012, FY 2013 and FY 2014 expenditure was nil. The balance at the end of FY 2014 was \$6,010,677. The interest earned on the Self Insurance Fund investments is returned to the Funds Contributing States. In accordance with the Financial Accounting Standards Board codified section 958-210, the Self Insurance Fund is considered "Temporarily Restricted" because the Funds Contributing States have approved its use for specific objectives and the Fund can only be utilized for such objectives.

NOTE 15 - 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.

MULTINATIONAL FORCE & OBSERVERS
NOTES TO FINANCIAL STATEMENTS
for the years ended September 30, 2014 and 2013

NOTE 15 - CAPITAL ASSET REPLACEMENT FUND (CONTINUED)

The CARF FY 2014 expenditures were \$900,284 and the ending fund balance totaled \$2,720,028.

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" because the Funds Contributing States have approved its use for specific objectives and the Fund can only be utilized for such objectives.

NOTE 16 - DEFERRED LOGISTICS REQUIREMENTS FUND

The DLRF was created in FY 2013 and completely reversed in FY 2014 as more fully described in Note 2.

This Fund is considered "Temporarily Restricted" because the Funds-Contributing States have approved its use for specific objectives and the Fund can only be utilized for such objectives.

NOTE 17 - US ADVANCE

The MFO received in FY 2014 funding from the US Government in the amount of USD 3,000,000 to be applied to FY 2015 operating expenses.

These funds are considered "Permanently Restricted" in accordance with the Financial Accounting Standards Board codified section 958-605 and will remain unspent until they are applied to FY 2015 in accordance with stated congressional intent. At that time they will be considered as "Unrestricted".