

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

MULTINATIONAL FORCE AND OBSERVERS

Rome, Italy

REPORT OF INDEPENDENT ACCOUNTANTS
SEPTEMBER 30, 2001 AND 2000

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

REPORT OF INDEPENDENT ACCOUNTANTS

Director General
Multinational Force and Observers
Rome, Italy

We have audited the accompanying statement of financial position of the Multinational Force and Observers (MFO) as of September 30, 2001 and 2000 and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the MFO's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2001 and 2000 and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended in conformity with generally accepted accounting principles.

November 2, 2001

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

ASSETS	<u>2001</u>	<u>2000</u>
Non-current Assets		
Marketable Securities (Notes 2 & 3)	8,729	8,639
Fixed Assets (Note 2)	<u>2,025</u>	<u>2,103</u>
Total Non-current Assets	10,754	10,742
Current Assets		
Cash and Cash Equivalents	5,346	2,495
Marketable Securities (Notes 2 & 3)	2,226	2,959
Pledges (Notes 2 & 5)	8,761	10,023
Prepaid Expenses and Other Receivables (Note 4)	<u>2,665</u>	<u>3,311</u>
Total Current Assets	18,998	18,788
 TOTAL ASSETS	 <u>29,752</u>	 <u>29,530</u>
 LIABILITIES & NET ASSETS		
Current Liabilities		
Accounts Payable and Accrued Expenses (Note 7)	<u>15,997</u>	<u>14,852</u>
Total Current Liabilities	15,997	14,852
Net Assets		
Unrestricted:		
Reserve For Encumbrances (Note 2)	2,679	3,137
General	702	1,200
Unrealized Gain on Investments (Notes 2 and 3)	<u>649</u>	<u>3</u>
Total Unrestricted	4,030	4,340
Temporarily Restricted:		
Self Insurance Fund (Note 10)	6,151	6,151
Capital Asset Replacement Fund (Note 11)	<u>3,574</u>	<u>4,187</u>
Total Restricted	9,725	10,338
Total Net Assets	<u>13,755</u>	<u>14,678</u>
 TOTAL LIABILITIES & NET ASSETS	 <u>29,752</u>	 <u>29,530</u>

The accompanying notes are an integral part of these financial statements

MULTINATIONAL FORCE & OBSERVERS
STATEMENT OF FUNCTIONAL EXPENSES
for the years ended September 30
(in thousands of U.S. dollars)

	<u>2001</u>					
	<u>General</u>	<u>Unrestricted</u> <u>Encumbrance</u>	<u>Unrealized</u> <u>Gains (Losses)</u>	<u>Temporarily</u> <u>Restricted</u>	<u>Total</u>	<u>2000</u>
Revenue:						
Support : (Notes 1 & 2)						
Egypt	16,323	0	0	0	16,323	16,359
Israel	16,317	0	0	0	16,317	16,354
United States	16,348	0	0	0	16,348	16,373
Germany	255	0	0	0	255	297
Japan (Note 6)	0	0	0	1,000	1,000	914
Switzerland	138	0	0	0	138	157
Other Income (Note 3)	875	0	0	0	875	818
Release of Temporarily Restricted Reserve (Note 6)	<u>1,000</u>	<u>0</u>	<u>0</u>	<u>(1,000)</u>	<u>0</u>	<u>0</u>
	<u>51,256</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>51,256</u>	<u>51,272</u>
Total Support	<u>51,256</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>51,256</u>	<u>51,272</u>
Expenses						
Program Services:						
Peacekeeping Mission (Note 9)	<u>47,911</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>47,911</u>	<u>47,898</u>
Total Program Services	47,911	0	0	0	47,911	47,898
Support Services:						
Management & General (Note 9)	<u>3,101</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,101</u>	<u>3,022</u>
Total Support Services	<u>3,101</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,101</u>	<u>3,022</u>
Total Expenses	<u>51,012</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>51,012</u>	<u>50,920</u>
Excess of Revenue Over Expenses	244	0	0	0	244	352
Reclassifications	458	(458)	0	0	0	0
Net Assets at Beginning of Year	1,200	3,137	3	10,338	14,678	15,679
ERP Project	0	0	0	(613)	(613)	0
Unrealized Gains on Marketable Securities (Note 3)	0	0	646	0	646	59
Allocation of Prior Year Surplus to Funds Contributing States	<u>(1,200)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,200)</u>	<u>(1,412)</u>
Net Assets at End of Year	<u>702</u>	<u>2,679</u>	<u>649</u>	<u>9,725</u>	<u>13,755</u>	<u>14,678</u>

The accompanying notes are an integral part of these financial statements

MULTINATIONAL FORCE & OBSERVERS
STATEMENT OF FUNCTIONAL EXPENSES
for the years ended September 30
(in thousands of U.S. dollars)

	<u>2001</u>			
	<u>Total</u> <u>Expenses</u>	<u>Peacekeeping</u> <u>Services</u>	<u>Management</u> <u>& General</u>	<u>Total</u> <u>Support</u>
Personnel (Note 8)	16,522	14,838	1,684	1,684
Supplies (Note 2)	10,195	9,645	550	550
Contractual Services	6,224	6,224	0	0
Troop Rotation	5,385	5,385	0	0
Equipment & Furnishings (Note 2)	4,233	4,200	33	33
Petroleum, Oil, Lubricants	2,762	2,754	8	8
Transportation	506	506	0	0
Communications	326	151	175	175
Rents	682	440	242	242
Buildings & Facilities (Note 2)	2,604	2,417	187	187
Travel	612	443	169	169
Utilities	<u>961</u>	<u>908</u>	<u>53</u>	<u>53</u>
Total Expenses	<u>51,012</u>	<u>47,911</u>	<u>3,101</u>	<u>3,101</u>
		94%		6%

	<u>2000</u>			
	<u>Total</u> <u>Expenses</u>	<u>Peacekeeping</u> <u>Services</u>	<u>Management</u> <u>& General</u>	<u>Total</u> <u>Support</u>
Personnel (Note 8)	15,715	14,102	1,613	1,613
Supplies (Note 2)	12,118	11,603	515	515
Contractual Services	6,812	6,812	0	0
Troop Rotation	4,718	4,718	0	0
Equipment & Furnishings (Note 2)	2,985	2,952	33	33
Petroleum, Oil, Lubricants	2,898	2,893	5	5
Transportation	479	478	1	1
Communications	384	225	159	159
Rents	688	447	241	241
Buildings & Facilities (Note 2)	3,061	2,831	230	230
Travel	602	435	167	167
Utilities	<u>460</u>	<u>402</u>	<u>58</u>	<u>58</u>
Total Expenses	<u>50,920</u>	<u>47,898</u>	<u>3,022</u>	<u>3,022</u>
		94%		6%

The accompanying notes are an integral part of these financial statements

MULTINATIONAL FORCE & OBSERVERS
STATEMENT OF CASH FLOWS
for the years ended September 30
(in thousands of U.S. dollars)

	<u>2001</u>	<u>2000</u>
Cash Provided by Operating Activities		
Excess of Revenue Over Expenses	244	352
Depreciation of Fixed Assets	78	78
Unrealized Gains on Marketable Securities	646	59
Allocation of Prior Year Surplus to Funds		
Contributing States	(1,200)	(1,412)
ERP Project	(613)	--
Change in Current Assets & Liabilities:		
Decrease in Pledges	1,262	819
Decrease (Increase) in Prepaid Expenses and Other Receivables	646	(117)
Increase in Accounts Payable and Accrued Expenses	<u>1,145</u>	<u>70</u>
Net Cash Provided/(Used) by Operating Activities	2,208	(151)
Cash Provided/(Used) by Investing Activities		
Purchases of Available-for-Sale Securities	(2,703)	(4,854)
Sale of Available-for-Sale Securities	386	3,572
Maturities of Available-for-Sale Securities	<u>2,960</u>	<u>746</u>
Net Cash Provided/(Used) by Investing Activities	643	(536)
Cash & Cash Equivalents at Beginning of Year	<u>2,495</u>	<u>3,182</u>
Cash & Cash Equivalents at End of Year	<u>5,346</u>	<u>2,495</u>
Supplemental Data:		
Cash Received - Interest	<u>875</u>	<u>818</u>

The accompanying notes are an integral part of these financial statements

NOTE 1 - THE ORGANISATION

The Multinational Force & Observers (MFO) is an international organisation 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, 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 financial statements and the accounting principles on which they are based generally follow the recommendations of Statement of Position 78-10 "Accounting Principles and Reporting Practices for Certain Non-profit Organisations", issued by the American Institute of Certified Public Accountants, and which are relevant to the MFO as defined in Statement of Position 94-3 and Statements of Financial Accounting Standards (SFAS) No.'s 116 and 117.

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

Apart from interest, dividends and realized gains/losses on the disposal of marketable securities which are recognised on an accrual basis and unrealized gains/losses on marketable securities which are recorded in unrestricted net assets, all of the MFO's revenues are derived from support contributions by the Receiving States and the United States plus the Governments of Japan, Germany and Switzerland. Support is recognised from amounts pledged to the MFO. The principle of equal contributions by the three Funds Contributing States (Note 1) pursuant to the Protocol to the Treaty and related side letters was maintained in fiscal years 2001 and 2000 through MFO's policy of distribution of unrestricted net assets.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

The contribution from the Government of Japan of \$1,000,000 for 2001 (2000 - \$914,000) is applied conditionally and exclusively to pay for food costs and civilian personnel salaries, as specified by the Government of Japan, and therefore appears as "Temporarily Restricted Revenue" in the Statement of Revenue, Expenses and Changes in Net Assets.

The MFO has also received unrestricted contributions from the Government of Germany since 1994 and from the Government of Switzerland since 1995. The contributions received which have been included in the accompanying financial statements are summarised as follows (in U.S. dollars):

	<u>2001</u>	<u>2000</u>
Germany	<u>255,000</u>	<u>297,000</u>
Switzerland	<u>138,000</u>	<u>157,000</u>

Encumbrances

Encumbrances consist of commitments in the form of orders and contracts for supplies, materials, equipment and services, except for personnel compensation and allowances that will be delivered or rendered during the following year.

Buildings, Equipment & Furnishings

The MFO acquired part of a building in Rome, Italy, for use as the headquarters of the organisation for \$2,337,000 on September 16, 1997. This building is recorded as a fixed asset on the balance sheet at its historic cost, net of the accumulated depreciation. It is being depreciated over thirty years using the straight line method. The depreciation expense for the year ended September 30, 2001 is \$78,000 (2000 - \$78,000).

The cost of equipment and furnishings is charged to expense as incurred because it is improbable that equipment and furnishings can be economically removed from the Sinai once delivered. The MFO does not capitalize, with the exception of the Rome HQ building, any of its fixed assets because total fixed assets with any net recoverable value are immaterial to the balance sheet, because the recognition of depreciation expense against write-off would not have a material effect on the income statement or net assets and because the recognition of depreciation expense would create a funding problem for the MFO, as Funds Contributing States provide funding based on the level of annual expenditure and not based on the level of "use" of the longer term assets.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Supplies & Stores Inventory

Costs of supplies and stores items are charged to expense as they are received. Proceeds from vehicle and miscellaneous sales are credited here and totalled \$416,000 and \$910,000 for 2001 and 2000 respectively.

Foreign Exchange

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

Marketable Securities

Marketable securities relate to funds deposited in a fixed income portfolio management account and are stated at market value.

NOTE 3 - MARKETABLE SECURITIES

A breakdown of the cost of marketable securities by maturity is as follows (in thousands of U.S. dollars):

	<u>2001</u>	<u>2000</u>
Maturing within 1 year	<u>2,226</u>	<u>2,959</u>
Maturing between 1-5 years	7,274	7,146
Maturing beyond 5 years	<u>1,455</u>	<u>1,493</u>
Non current portion	<u>8,729</u>	<u>8,639</u>
Total	<u>10,955</u>	<u>11,598</u>

Realized gains and losses on sales of marketable securities during the year ended September 30, 2001 were \$14,099 and \$24,523 respectively. Realized gains and losses on sales of marketable securities during the year ended September 30, 2000 were \$7,680 and \$41,485 respectively. Realized gains and losses are included in other income.

MULTINATIONAL FORCE & OBSERVERS
 NOTES TO FINANCIAL STATEMENTS
 for the years ended September 30, 2001 and 2000

NOTE 3 - MARKETABLE SECURITIES (CONTINUED)

At September 30, 2001 marketable securities classified as available-for-sale are summarized below (in thousands of U.S. dollars):

	<i>Amortized Cost</i>	<i>Unrealized Gains</i>	<i>Unrealized Losses</i>	<i>Fair Value</i>
Floating rate notes maturing within 1 year	-	-	-	-
U.S. Government securities maturing:				
within 1 year	1,338	35	-	1,373
between 1-5 years	<u>1,405</u>	<u>85</u>	<u>-</u>	<u>1,490</u>
Sub-total	2,743	120	-	2,863
U.S. Agency securities maturing:				
within 1 year	567	31	-	598
between 1-5 years	<u>3,460</u>	<u>216</u>	<u>-</u>	<u>3,676</u>
Sub-total	4,027	247	-	4,274
U.S. Corporations maturing:				
within 1 year	257	-	(2)	255
beyond 5 years	<u>1,198</u>	<u>143</u>	<u>-</u>	<u>1,341</u>
Sub-total	1,455	143	(2)	1,596
Eurodollar bonds Maturing between 1-5 years	1,938	141	-	2,079
Asset backed securities maturing:				
between 1-5 years	29	-	-	29
beyond 5 years	<u>114</u>	<u>-</u>	<u>-</u>	<u>114</u>
Sub-total	<u>143</u>	<u>-</u>	<u>-</u>	<u>143</u>
Total	<u>10,306</u>	<u>651</u>	<u>(2)</u>	<u>10,955</u>

MULTINATIONAL FORCE & OBSERVERS
 NOTES TO FINANCIAL STATEMENTS
 for the years ended September 30, 2001 and 2000

NOTE 3 - MARKETABLE SECURITIES (CONTINUED)

At September 30, 2000 marketable securities classified as available-for-sale are summarized below (in thousands of U.S. dollars):

	<i>Amortized Cost</i>	<i>Unrealized Gains</i>	<i>Unrealized Losses</i>	<i>Fair Value</i>
Floating rate notes maturing within 1 year	-	-	-	-
U.S. Government securities maturing:				
within 1 year	1,775	-	(16)	1,759
between 1-5 years	<u>2,743</u>	<u>4</u>	<u>-</u>	<u>2,747</u>
Sub-total	4,518	4	(16)	4,506
U.S. Agency securities maturing:				
within 1 year	1,196	4	-	1,200
between 1-5 years	<u>1,960</u>	<u>31</u>	<u>-</u>	<u>1,991</u>
Sub-total	3,156	35	-	3,191
U.S. Corporations maturing:				
within 1 year	257	-	(7)	250
beyond 5 years	<u>1,198</u>	<u>1</u>	<u>-</u>	<u>1,199</u>
Sub-total	1,455	1	(7)	1,449
Eurodollar bonds Maturing between 1-5 years	1,938	-	(8)	1,930
Asset backed securities maturing:				
between 1-5 years	228	-	-	228
beyond 5 years	<u>300</u>	<u>-</u>	<u>(6)</u>	<u>294</u>
Sub-total	<u>528</u>	<u>-</u>	<u>(6)</u>	<u>522</u>
Total	<u>11,595</u>	<u>40</u>	<u>(37)</u>	<u>11,598</u>

MULTINATIONAL FORCE & OBSERVERS
 NOTES TO FINANCIAL STATEMENTS
 for the years ended September 30, 2001 and 2000

NOTE 4 - 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>2001</u>	<u>2000</u>
Force Exchange	394	716
Prepaid insurance	1,198	1,363
Other prepaids	452	488
Prepaid morale support	111	132
Other receivables and advances	<u>510</u>	<u>612</u>
Total	<u>2,665</u>	<u>3,311</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 it may be consolidated into the MFO financial statements. Such an increase in operations is not envisioned in the foreseeable future.

NOTE 5 - PLEDGES

The conditional pledge of the Government of Japan and the unconditional pledges of the Funds Contributing States and of the Governments of Germany and Switzerland have been shown in the financial statements as revenue in accordance with SFAS 116. Conditional pledges have been recognised as revenue upon receipt and unconditional pledges have been recognised as revenue upon notification. The amount of budgeted contributions that have not been drawn upon or made available are shown in the financial statements as pledges.

These pledges, which are partly supported by letters of credit and are partly unsecured, as at September 30 are as follows (in thousand of U.S. dollars):

	<u>2001</u>	<u>2000</u>
Pledges supported by letters of credit	5,150	6,685
Unsecured pledges	<u>3,611</u>	<u>3,338</u>
Total	<u>8,761</u>	<u>10,023</u>

NOTE 6 - CONTRIBUTIONS MADE BY THE GOVERNMENT OF JAPAN

Since 1988 the Government of Japan has made annual contributions to the MFO and in 2001 contributions amounted to \$1,000,000 (2000 - \$914,000). As specified by the Government of Japan these contributions have been applied exclusively, and conditionally, to pay for food costs and civilian personnel salaries. Net assets were released from donor restrictions by incurring expenses thus satisfying those restrictions and have been entirely absorbed by the food and civilian personnel salary accounts.

NOTE 7 - 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>2001</u>	<u>2000</u>
Personnel	8,650	7,049
Supplies	2,265	3,047
Contractual services	521	531
Troop rotation	3,627	3,061
Equipment & furnishings	42	148
Petroleum, oil & lubricants	162	377
Transportation	128	152
Communications	102	91
Buildings & facilities	94	157
Travel	-	138
Utilities	<u>406</u>	<u>101</u>
Total	<u>15,997</u>	<u>14,852</u>

NOTE 8 - CONTRIBUTED SERVICES & FACILITIES

Contributed Services

For troop contingents provided by developed nations, the MFO reimburses the 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

NOTE 8 - CONTRIBUTED SERVICES & FACILITIES (CONTINUED)

stated expense for these personnel is net of these credits. 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.

In the case of the United States, France and Italy, the MFO is furnished at no cost with capital equipment for the mission, 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 and 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 SFAS 116, the MFO has not recognised as a contribution such equipment as the MFO, as stated above, has no reasonable basis for the determination of value.

For fiscal years 2001 and 2000, the total value of credits from the United States Department of Army totalled \$5,298,000 and \$5,385,000 respectively. These amounts are offset against amounts otherwise due to the Department of Army from the MFO for special pay and various allowances, helicopter parts, and goods and services ordered by the MFO. Credits are based on the 1982 MFO-United States Participation Agreement and are calculated on the understandings reached in the signed Memorandum of Understanding (MOU) between the MFO and the United States Government, dated November 10, 1994.

The MFO wishes to note its appreciation for donations of excess equipment and material from Participating States, notably in recent years from the United States; the value of such donations net of any handling and transportation costs incurred by the MFO are properly not herein reflected, but such donations are duly notified to the three Funds Contributing States.

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 States.

NOTE 9 - ALLOCATION OF EXPENSES

MFO Management have determined, in compliance with FSAB 116, that all costs relating to the Rome Headquarters will be regarded as support costs. All 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 in the FSAB. 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 account with greater understanding of them. Management thus determined the most cost-effective way of complying with the standard is as per the method of cost allocation adopted. 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 10 - SELF INSURANCE FUND

At the Trilateral Conference held on November 27, 1989, it was agreed that a self-insurance fund would be created. For the years ended September 30, 2001 and 2000, the MFO did not allocate any further funds to the Self Insurance Fund. The interest earned on the Self Insurance Fund investments is part of the following years surplus allocation to the Funds Contributing States. In accordance with FSAB 117, 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 utilised to satisfy these restrictions.

NOTE 11 - CAPITAL ASSET REPLACEMENT FUND

At the Trilateral Conference held on November 26, 1990, it was agreed that a Capital Asset Replacement Fund would be created to finance projects of a non-routine, non-recurring nature (within 5 years). The cost of any allowable project must exceed \$250,000. For the years ended September 30, 2001 and 2000 the MFO did not allocate any further funds to the Capital Asset Replacement Fund. During 2001 the Capital Asset Replacement Fund was utilized to partially finance the new SAP ERP installation for \$613,000, whereas in the year 2000 there were no expenditures which met the restrictions of the Funds Member States. In accordance with FSAB 117, the Capital Asset Replacement Fund is considered "Temporarily Restricted" because the Funds Contributing States have approved its use for specific objectives and the Fund can only be utilised to satisfy these restrictions.