

**CHILDREN OF ARMENIA FUND, INC. AND SUBSIDIARY**

**CONSOLIDATING FINANCIAL STATEMENTS  
AND  
ADDITIONAL INFORMATION**

**DECEMBER 31, 2007**

**CHILDREN OF ARMENIA FUND, INC. AND SUBSIDIARY**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Children of Armenia Fund, Inc. and Subsidiary

We have audited the accompanying consolidating statement of financial position of Children of Armenia Fund, Inc. and Subsidiary (a not-for-profit corporation) as of December 31, 2007, and the related consolidating statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Subsidiary, COAF Armenia. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for COAF Armenia, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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 audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the consolidating financial statements referred to above present fairly, in all material respects, the consolidating financial position of Children of Armenia Fund, Inc. and Subsidiary as of December 31, 2007, and the changes in their consolidating net assets and their consolidating cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Lutz + Carr, LLP*

New York, New York  
June 30, 2008

**CHILDREN OF ARMENIA FUND, INC. AND SUBSIDIARY**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2007**

	<u>COAF USA</u>	<u>COAF Armenia</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
<b>Assets</b>				
Cash and cash equivalents (Notes 1c and 3)	\$1,773,766	\$ 114,233	\$ -	\$ 1,887,999
Unconditional promises to give (Notes 1e and 5)				
Unrestricted	749,668	-	-	749,668
Prepaid expenses and other current assets	8,252	187,627	-	195,879
Non-marketable investment (Notes 1d and 4)	410,015	-	-	410,015
Property and equipment (Notes 1f and 6)	-	69,575	-	69,575
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total Assets</b>	<u>\$2,941,701</u>	<u>\$ 371,435</u>	<u>\$ -</u>	<u>\$ 3,313,136</u>
<b>Liabilities and Net Assets</b>				
Liabilities				
Accounts payable	<u>\$ 44,557</u>	<u>\$ 196,204</u>	<u>\$ -</u>	<u>\$ 240,761</u>
Commitment and Contingency				
Net Assets				
Unrestricted	2,847,144	6,216	-	2,853,360
Temporarily restricted (Note 2)	50,000	169,015	-	219,015
Total Net Assets	<u>2,897,144</u>	<u>175,231</u>	<u>-</u>	<u>3,072,375</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total Liabilities and Net Assets</b>	<u>\$2,941,701</u>	<u>\$ 371,435</u>	<u>\$ -</u>	<u>\$ 3,313,136</u>

## CHILDREN OF ARMENIA FUND, INC. AND SUBSIDIARY

## CONSOLIDATING STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2007

	<u>COAF USA</u>	<u>COAF Armenia</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
<b>Changes in Unrestricted Net Assets</b>				
Support and Revenue				
Contributions	\$ 393,606	\$ -	\$ -	\$ 393,606
Fundraising benefit	3,379,706	-	-	3,379,706
Less: Direct costs	(95,550)	-	-	(95,550)
Interest income	30,330	-	-	30,330
Unrealized loss on investments	(1,791)	-	-	(1,791)
Realized loss on investment	(6,448)	-	-	(6,448)
	<u>3,699,853</u>	<u>-</u>	<u>-</u>	<u>3,699,853</u>
Net assets released from restrictions				
Satisfaction of program restrictions	-	2,642,014	-	2,642,014
	<u>-</u>	<u>2,642,014</u>	<u>-</u>	<u>2,642,014</u>
Total Support and Revenue	<u>3,699,853</u>	<u>2,642,014</u>	<u>-</u>	<u>6,341,867</u>
Expenses				
Program Services	2,729,210	2,662,948	(2,348,355)	3,043,803
Supporting Services				
Management and general	51,478	-	-	51,478
Fundraising	265,120	-	-	265,120
Total Supporting Services	<u>316,598</u>	<u>-</u>	<u>-</u>	<u>316,598</u>
Total Expenses	<u>3,045,808</u>	<u>2,662,948</u>	<u>(2,348,355)</u>	<u>3,360,401</u>
Increase (Decrease) in Unrestricted Net Assets	<u>654,045</u>	<u>(20,934)</u>	<u>2,348,355</u>	<u>2,981,466</u>
<b>Changes in Temporarily Restricted Net Assets</b>				
Contributions	50,000	2,413,975	(2,348,355)	115,620
Net assets released from restrictions	-	(2,642,014)	-	(2,642,014)
Other decreases to temporarily restricted net assets (exchange rate loss)	<u>-</u>	<u>(10,478)</u>	<u>-</u>	<u>(10,478)</u>
Increase (Decrease) in Temporarily Restricted Net Assets	<u>50,000</u>	<u>(238,517)</u>	<u>(2,348,355)</u>	<u>(2,536,872)</u>
Increase (decrease) in net assets	<u>704,045</u>	<u>(259,451)</u>	<u>-</u>	<u>444,594</u>
Net assets, beginning of year, as previously reported	2,272,907	434,682	-	2,707,589
Prior period adjustment (Note 8)	<u>(79,808)</u>	<u>-</u>	<u>-</u>	<u>(79,808)</u>
Net assets, beginning of year, as restated	<u>2,193,099</u>	<u>434,682</u>	<u>-</u>	<u>2,627,781</u>
<b>Net Assets, End of Year</b>	<u><u>\$2,897,144</u></u>	<u><u>\$ 175,231</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,072,375</u></u>

See notes to consolidating financial statements.

## CHILDREN OF ARMENIA FUND, INC. AND SUBSIDIARY

## CONSOLIDATING STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2007

	<u>COAF USA</u>	<u>COAF Armenia</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
<b>Cash Flows From Operating Activities</b>				
Increase (decrease) in net assets	\$ 704,045	\$(259,451)	\$ -	\$ 444,594
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:				
Depreciation	-	24,083	-	24,083
Realized and unrealized losses on investments	8,239	-	-	8,239
(Increase) decrease in:				
Unconditional promises to give	(551,843)	-	-	(551,843)
Prepaid expenses and other current assets	14,342	111,994	-	126,336
Increase in accounts payable	20,634	166,292	-	186,926
Net Cash Provided By Operating Activities	<u>195,417</u>	<u>42,918</u>	<u>-</u>	<u>238,335</u>
<b>Cash Flows From Investing Activities</b>				
Sale of investments	546,171	-	-	546,171
Purchase of property and equipment	-	(16,513)	-	(16,513)
Net Cash Provided (Used) By Investing Activities	<u>546,171</u>	<u>(16,513)</u>	<u>-</u>	<u>529,658</u>
Net increase in cash and cash equivalents	741,588	26,405	-	767,993
Cash and cash equivalents, beginning of year	<u>1,032,178</u>	<u>87,828</u>	<u>-</u>	<u>1,120,006</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$1,773,766</u>	<u>\$ 114,233</u>	<u>\$ -</u>	<u>\$ 1,887,999</u>

See notes to consolidating financial statements.

**CHILDREN OF ARMENIA FUND, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007**

**Note 1 - Organization and Summary of Significant Accounting Policies**

a - Organization

Since its founding in 2000, Children of Armenia Fund, Inc. and Subsidiary (the "Fund") has focused on revitalizing rural areas to address the critical needs of children in a sustainable way, as well as to catalyze economic development. In its short life, the Fund's Model Village pilot project has delivered resounding results. The Fund's partnerships with the United Nations Development Programme (UNDP), United States Agency for International Development (USAID) and the World Bank, along with other local and international organizations, have allowed it to further leverage its resources and deliver on a highly efficient program in one of the most economically disadvantaged regions of the world.

The categorical success of the Fund's Model Village project has been recognized by international aid agencies as a template of sustainable development. This has encouraged the Fund to expand the scope of its activities. The Model Cluster project utilizes an expanded version of the template. It involves five villages clustered around the pilot village. The integrated development program is designed to address the critical needs of a decaying cluster of villages with a particular emphasis on children's needs: health care, economic development, infrastructure renovation, and educational and social reform.

While the Fund's programs are currently concentrated in rural Armenia, the innovative Model Village/Model Cluster approach of addressing rural poverty can be implemented in any impoverished region of the world. The Fund aspires to form alliances with organizations operating in other regions and to share its methodology in order to eradicate poverty, paving the way for peaceful resolutions to many of the regional conflicts that exist today.

In addition to managing its operations from its headquarters in New York City, the Fund formed a subsidiary entity Children of Armenia Fund ("COAF Armenia") in order to carry out the implementation of its programs on the ground in Armenia.

b - Principles of Consolidation

The accompanying consolidating financial statements include the accounts of Children of Armenia Fund, Inc. ("COAF USA") and its subsidiary (Note 1a). All significant intercompany balances and transactions have been eliminated in consolidation.

c - Cash and Cash Equivalents

For purposes of the statement of cash flows, the Fund considers money market funds and all highly liquid debt instruments, purchased with a maturity of three months or less, to be cash equivalents.

d - Investments

The Fund reflects investments at fair value in the statement of financial position. Unrealized gains and losses on investments are reflected in the statement of financial activities.

**CHILDREN OF ARMENIA FUND, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007**

**Note 1 - Organization and Summary of Significant Accounting Policies (continued)**

e - Unconditional Promises to Give and Contributions

Contributions are recognized when the donor makes a promise to give to the Fund that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the fiscal year in which the contributions are recognized. All other donor restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

f - Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over the useful life of the related asset.

g - Financial Statement Presentation

The Fund is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

h - Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

i - Tax Status

COAF USA is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation. COAF Armenia is subject to the laws of Armenia and has various information reporting requirements.

**Note 2 - Restriction on Net Assets**

Temporarily restricted net assets are restricted for future periods and programs.

**Note 3 - Concentration of Credit Risk**

The Fund maintains its cash balances and investments in financial institutions located in New York, New York and Yerevan, Armenia. The cash and investment balances, at times, may exceed federally insured limits.



**CHILDREN OF ARMENIA FUND, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007**

**Note 4 - Non-Marketable Investment**

In 2000, the Fund received 5,200 shares of Class B nonvoting common stock of Founder Holdings, Inc., a privately owned company in which the founder of the Fund is a minority shareholder. Founders Holdings, Inc. and its affiliate are holders of shares of Antigenics, Inc., a publicly traded company. The investment is reported at fair market value as determined by management, and does not necessarily represent the amounts which might ultimately be realized.

**Note 5 - Unconditional Promises to Give**

Unconditional promises to give are due as follows:

Due in less than one year	\$661,203
Due in one to five years	<u>95,800</u>
	757,003
Less: Discount to present value	<u>(7,335)</u>
	<u>\$749,668</u>

Uncollectible promises are expected to be insignificant. Unconditional promises to give for periods due after one year are discounted to net present value using a discount rate of 5%.

**Note 6 - Property and Equipment**

Property and equipment consist of the following:

	<u>Cost</u>
Building and construction costs	\$43,179
Automobiles	54,500
Office equipment	<u>25,692</u>
	123,371
Less: Accumulated depreciation	<u>(53,796)</u>
	<u>\$69,575</u>

**CHILDREN OF ARMENIA FUND, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007**

**Note 7 - Functional Allocation of Expenses**

The cost of providing the various program and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and its supporting services.

**Note 8 - Prior Period Adjustment**

Net assets at December 31, 2006 were reduced by \$79,808 representing cash belonging to COAF Armenia reported on the books and records of COAF USA.

## **ADDITIONAL INFORMATION**



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**INDEPENDENT AUDITOR'S REPORT ON  
ADDITIONAL INFORMATION**

To the Board of Directors of  
Children of Armenia Fund, Inc. and Subsidiary

Our report on our audit of the basic financial statements of Children of Armenia Fund, Inc. and Subsidiary for 2007 appears on page 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Functional Expenses for Children of Armenia Fund, Inc. for the year ended December 31, 2007 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Lutz + Carr, LLP*

New York, New York  
June 30, 2008

**CHILDREN OF ARMENIA FUND, INC.**  
**SCHEDULE OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2007**

	<u>Program Services</u>	<u>Supporting Services</u>			<u>Total Expenses</u>
		<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	
Grants	\$2,452,865	\$ -	\$ -	\$ -	\$2,452,865
Salaries	100,000	-	-	-	100,000
Fringe benefits	8,606	-	-	-	8,606
Professional fees	19,425	7,561	11,341	18,902	38,327
Consultants	75,041	29,888	46,340	76,228	151,269
Travel	20,849	689	17,665	18,354	39,203
Office supplies	174	63	553	616	790
Telephone	3,206	1,282	1,923	3,205	6,411
Printing	22,355	6,145	23,758	29,903	52,258
Postage	12,178	4,466	6,007	10,473	22,651
Insurance	949	380	569	949	1,898
Bank and credit card fees	1,768	383	808	1,191	2,959
Other US administrative expenses	1,365	546	5,206	5,752	7,117
Event costs	-	-	150,838	150,838	150,838
Dues and subscriptions	622	75	112	187	809
Administrative expenses in Armenia	9,807	-	-	-	9,807
<b>Total Expenses</b>	<b><u>\$2,729,210</u></b>	<b><u>\$ 51,478</u></b>	<b><u>\$ 265,120</u></b>	<b><u>\$316,598</u></b>	<b><u>\$3,045,808</u></b>