

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

Consolidating Financial Statements

December 31, 2010 and 2009

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidating statement of financial position of Children of Armenia Fund, Inc. (a not-for-profit corporation) and Subsidiary as of December 31, 2010 and the related consolidating statements of activities and cash flows for the year then ended. These consolidating financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these consolidating 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 thereon has been furnished to us and our opinion, insofar as it relates to the amounts included for COAF Armenia, is based solely on the reports of the other auditors. The financial statements of Children of Armenia Fund, Inc. and Subsidiary as of December 31, 2009 and for the year then ended were audited by other auditors whose report thereon dated July 30, 2010 expressed an unqualified opinion.

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 consolidating financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidating 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, 2010 and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Hermes Group LLP

Princeton, NJ
August 3, 2011

CHILDREN OF ARMENIA FUND, INC. AND SUBSIDIARY

December 31, 2010 and 2009

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CHILDREN OF ARMENIA FUND, INC. AND SUBSIDIARY

Consolidating Statements of Financial Position

December 31, 2010 and 2009

	2010			2009				
	COAF US	COAF Armenia	Eliminations	Consolidated Total	COAF US	COAF Armenia	Eliminations	Consolidated Total
Assets								
Cash and cash equivalents	\$ 1,435,428	\$ 55,682	\$ -	\$ 1,491,110	\$ 1,607,635	\$ 112,866	\$ -	\$ 1,720,501
Investment in certificate of deposit	470,231			470,231	-	-	-	-
Short-term investments	57,799	-	-	57,799	129,651	-	-	129,651
Unconditional promises to give								
Unrestricted	327,987	-	-	327,987	403,289	-	-	403,289
Temporarily restricted for future programs	250,000	-	-	250,000	100,000	-	-	100,000
Prepaid expenses and other current assets	2,977	223,498	-	226,475	725	228,725	-	229,450
Investment - gifts in kind	115,000	-	-	115,000	-	-	-	-
Long-term investments	327,616	-	-	327,616	157,837	-	-	157,837
Property and equipment - net	2,261	43,286	-	45,547	2,460	36,474	-	38,934
Intangible assets - net of accumulated amortization of \$708	12,042	476	-	12,518	-	-	-	-
Total assets	\$ 3,001,341	\$ 322,942	\$ -	\$ 3,324,283	\$ 2,401,597	\$ 378,065	\$ -	\$ 2,779,662
Liabilities and net assets								
Accounts payable and accrued expenses	\$ 70,899	\$ 41,773	\$ -	\$ 112,672	\$ 48,642	\$ 27,013	\$ -	\$ 75,655
Net assets								
Unrestricted	2,680,442	-	-	2,680,442	2,252,955	-	-	2,252,955
Temporarily restricted	250,000	281,169	-	531,169	100,000	351,052	-	451,052
Total net assets	2,930,442	281,169	-	3,211,611	2,352,955	351,052	-	2,704,007
Total liabilities and net assets	\$ 3,001,341	\$ 322,942	\$ -	\$ 3,324,283	\$ 2,401,597	\$ 378,065	\$ -	\$ 2,779,662

See notes to consolidating financial statements.

CHILDREN OF ARMENIA FUND, INC. AND SUBSIDIARY

Consolidating Statements of Activity

Years Ended December 31, 2010 and 2009

	2010				2009			
	COAF US	COAF Armenia	Eliminations	Consolidated Total	COAF US	COAF Armenia	Eliminations	Consolidated Total
Changes in unrestricted net assets								
Support and revenue								
Contributions	\$ 190,034	\$ -	\$ -	\$ 190,034	\$ 294,338	\$ -	\$ -	\$ 294,338
Fundraising benefits	1,613,967	-	-	1,613,967	1,039,739	-	-	1,039,739
Direct costs of fundraising	(165,297)	-	-	(165,297)	(50,997)	-	-	(50,997)
Interest income	27,932	-	-	27,932	50,238	-	-	50,238
Realized gain on investments	4,266	-	-	4,266	1,014	-	-	1,014
Unrealized gain on investments	165,120	-	-	165,120	40,516	-	-	40,516
	1,836,022	-	-	1,836,022	1,374,848	-	-	1,374,848
Net assets released from restrictions								
Satisfaction of program restrictions	100,000	2,530,073	-	2,630,073	224,589	900,867	-	1,125,456
	1,936,022	2,530,073	-	4,466,095	1,599,437	900,867	-	2,500,304
Total support and revenue								
	1,283,647	2,530,073	(1,134,948)	2,678,772	1,042,421	900,867	(889,126)	1,054,162
Expenses								
Program services	118,129	-	-	118,129	84,966	-	-	84,966
Management and general	102,017	-	-	102,017	65,134	-	-	65,134
Fundraising								
	220,146	-	-	220,146	150,100	-	-	150,100
Total supporting services								
	1,503,793	2,530,073	(1,134,948)	2,898,918	1,192,521	900,867	(889,126)	1,204,262
Total expenses								
	432,229	-	1,134,948	1,567,177	406,916	-	889,126	1,296,042
Increase in unrestricted net assets before effects of foreign currency exchange loss	(4,742)	-	-	(4,742)	(96,148)	-	-	(96,148)
Foreign currency exchange loss								
	427,487	-	1,134,948	1,562,435	310,768	-	889,126	1,199,894
Increase in unrestricted net assets								
	-	2,448,410	(1,134,948)	1,313,462	-	1,114,265	(889,126)	225,139
Changes in temporarily restricted net assets								
Contributions	250,000	-	-	250,000	100,000	-	-	100,000
Fundraising benefit	(100,000)	(2,530,073)	-	(2,630,073)	(224,589)	(900,867)	-	(1,125,456)
Net assets released from restrictions		11,780	-	11,780	-	(39,629)	-	(39,629)
Foreign currency exchange gain (loss)								
	150,000	(69,883)	(1,134,948)	(1,054,831)	(124,589)	173,769	(889,126)	(839,946)
Increase (decrease) in temporarily restricted net assets								
	577,487	(69,883)	-	507,604	186,179	173,769	-	359,948
Increase (decrease) in net assets	2,352,955	351,052	-	2,704,007	2,166,776	177,283	-	2,344,059
Net assets - beginning of year								
	\$ 2,930,442	\$ 281,169	\$ -	\$ 3,211,611	\$ 2,352,955	\$ 351,052	\$ -	\$ 2,704,007

See notes to consolidating financial statements.

Consolidating Statements of Cash Flows

Years Ended December 31, 2010 and 2009

See notes to consolidating financial statements.

Children of Armenia Fund, Inc. and Subsidiary

Notes to Consolidating Financial Statements

December 31, 2010 and 2009

Note 1 - Nature of activities and significant accounting policies

Nature of activities

Since its founding in 2000, Children of Armenia Fund, Inc. ("COAF") and Subsidiary (collectively, the "Fund") has worked to secure a future for children in Armenia's impoverished rural villages through improved education, health care, community life and economic conditions. At their core, the Fund's programs create and sustain opportunities for growth and progress. Partnerships with the United Nations Development Programs (UNDP), United States Agency for International Development (USAID) and the World Bank, along with other local and international organizations, have allowed the Fund to further leverage its resources and deliver on a highly efficient program in one of the most economically disadvantaged regions of the world.

Over the course of several years, the Fund's regional cluster has grown from one to ten villages as the model has evolved and become more effective. Programs are broad and include strategic activity in the areas of Education, Health, Child and Family Services, Community Engagement, Economic Development and Infrastructure Rehabilitation. The Fund's approach to development is holistic and comprehensive, rooted in the belief that long-term results can only be achieved through programs that address the unique issues facing each and every community. Each challenge is addressed from the ground up, working closely with local communities every step of the way.

While the Fund's programs are currently concentrated in rural Armenia, its innovative approach of addressing rural poverty can be applied 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 operates through a local entity, Children of Armenia Fund ("COAF Armenia") in order to carry out the implementation of its programs directly on the ground in Armenia.

Principles of consolidation

The accompanying consolidating financial statements include the accounts of COAF and COAF Armenia. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and cash equivalents

For purposes of the statements 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.

Children of Armenia Fund, Inc. and Subsidiary

Notes to Consolidating Financial Statements - Continued

December 31, 2010 and 2009

Note 1 - Nature of activities and significant accounting policies - continued

Investments

Investments in certificates of deposit, marketable securities with readily determinable fair values and all debt securities are reported at their fair values in the statements of financial position. Gains and losses on investments are reflected in the statements of activities. Short-term investments consist of certificates of deposit, marketable securities held for sale and debt securities with original maturities of twelve months or less. Long-term investments consist of marketable securities not held for sale and debt securities with original maturities greater than twelve months. Investments of gifts in kind consist of gifts of historical treasures and similar collectible items and are reported at their donor appraised values which the organization believes is representative of fair values.

Unconditional promises to give and contributions

Contributions are recognized when a donor makes an unconditional promise to give to the Fund. 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.

The Fund uses the allowance method to reserve for uncollectible promises to give. Based on prior years' experience and the organization's analysis of specific promises made, management has determined that a reserve is not needed at December 31, 2010 and 2009.

Property and equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives as follows

Buildings and improvements	20 years
Automobiles	10 years
Office equipment	3 - 5 years

Intangible assets

Intangible assets are recorded at cost and amortized using the straight-line method over the estimated useful life of the related asset of 15 years. The amortization expense for the next 5 years is expected to be about \$803 per year.

Contributed services

No amounts have been reflected in the financial statements for donated services or for the use of the Fund headquarters in New York City. Many individuals volunteer their time and perform a variety of tasks that assist the Fund. These services do not meet the criteria for recognition as contributed services. In addition, management has determined that the incidental use of space is deemed to be immaterial.

Children of Armenia Fund, Inc. and Subsidiary
Notes to Consolidating Financial Statements - Continued

December 31, 2010 and 2009

Note 1 - Nature of activities and significant accounting policies - continued

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted net assets depending on the existence or nature of any donor restrictions.

Tax status

COAF 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. In accordance with ASB Topic 740, "Income Taxes", the Fund has evaluated all uncertain tax positions and deems that more likely than not all positions would be sustained should an examination occur by a taxing authority. The years 2007 through 2010 remain open to examination by the Internal Revenue Service.

COAF Armenia is subject to the laws of Armenia and has various information reporting requirements.

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.

Note 2 - Restriction on net assets

Temporarily restricted net assets are restricted for future periods and programs. There were no permanently restricted net assets in 2010 and 2009.

Note 3 - Concentrations

The Fund maintains its cash balances and investments in financial institutions located in New York City, U.S.A. and Yerevan, Armenia. The cash and investment balances maintained in the United States, at times, may exceed federally insured limits.

The majority of fundraising is derived from the annual gala.

Note 4 - Unconditional promises to give

Unconditional promises to give are receivable in less than one year and include unrestricted and temporarily restricted promises to give for future programs. Uncollectible promises are expected to be insignificant.

At December 31, 2010 and 2009, the temporarily restricted promises to give of \$250,000 and \$100,000 respectively, represent amounts pledged by a donor for reconstruction of the Miasnikyan Village Secondary School in Armenia. The reconstruction work is expected to be completed in 2011.

Children of Armenia Fund, Inc. and Subsidiary

Notes to Consolidating Financial Statements - Continued

December 31, 2010 and 2009

Note 5 - Investments

At December 31, 2010, short-term investments include certificates of deposit maintained in a bank in Armenia, totaling \$470,231, bearing interest at various rates and maturing on April 15, 2011, and marketable equity securities with fair value of \$57,799. At December 31, 2009, short-term investments included an investment in Canadian treasury bills, totaling \$129,651, bearing interest at various rates and maturing in 2010.

At December 31, 2009, long-term investments consisted of shares of common stock of a privately owned company in which the founder of the Fund is a minority shareholder. The primary asset of the investment was shares of Antigenics, Inc., now known as Agenus, Inc., a publicly traded company. The investment was reported at fair market value as determined by management primarily based upon the traded price of Antigenics, Inc. stock, appropriately discounted to reflect several economic factors. During 2010, the investment was liquidated and the Fund received shares of Agenus, Inc., a freely tradable security valued at December 31, 2010 at \$303,938, and units in a closely-held limited liability company, reported at a management determined value of \$23,678, based upon the value of the underlying assets, consisting of cash held, the traded price of marketable securities and the appraised value of notes receivable.

A summary of changes in fair value of the Fund's investments for the year ended December 31, 2010 follows

	Short-term <u>Investments</u>	Long-term <u>Investments</u>	<u>Total</u>
Balance - beginning of year	\$ 129,651	\$ 157,837	\$ 287,488
Purchase and donation of investments	869,003		869,003
Sale and transfer of investments	(470,231)		(470,231)
Realized and unrealized (loss) gain	<u>(393)</u>	<u>169,779</u>	<u>169,386</u>
Balance - end of year	<u>\$ 528,030</u>	<u>\$ 327,616</u>	<u>\$ 855,646</u>

A summary of changes in fair value of the Fund's investments for the year ended December 31, 2009 follows

	Short-term <u>Investments</u>	Long-term <u>Investments</u>	<u>Total</u>
Balance - beginning of year	\$ 17,006	\$ 121,467	\$ 138,473
Purchase and donation of investments	1,462,566		1,462,566
Sale and transfer of investments	(1,355,081)		(1,355,081)
Realized and unrealized gain	<u>5,160</u>	<u>36,370</u>	<u>41,530</u>
Balance - end of year	<u>\$ 129,651</u>	<u>\$ 157,837</u>	<u>\$ 287,488</u>

Children of Armenia Fund, Inc. and Subsidiary

Notes to Consolidating Financial Statements - Continued

December 31, 2010 and 2009

Note 6 - Property and equipment

At December 31, 2010 and 2009, property and equipment consist of the following

	<u>2010</u>	<u>2009</u>
Building and improvements	\$ 60,239	\$ 60,239
Automobiles	54,500	54,500
Office equipment	43,836	27,307
Accumulated foreign currency loss	<u>(10,025)</u>	<u>(11,811)</u>
	148,550	130,235
Accumulated depreciation	<u>(103,003)</u>	<u>(91,301)</u>
	<u>\$ 45,547</u>	<u>\$ 38,934</u>

Depreciation expense included in the statements of activities for the years ended December 31, 2010 and 2009 was \$11,702 and \$18,720, respectively.

Note 7 - Fair value measurements

Fair value is an estimate of the exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e., the exit price at the measurement date). Fair value measurements are not adjusted for transaction costs. The fair value hierarchy prioritizes inputs to valuation techniques used to measure fair value into three levels

Unadjusted quoted prices in active markets for identical assets or liabilities are referred to as Level 1 inputs. Inputs other than quoted market prices that are observable, either directly or indirectly, and reasonably available are referred to as Level 2 inputs. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the assumptions developed by the Organization based on available information about what market participants would use in valuing the asset or liability and are referred to as Level 3.

An asset or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Availability of observable inputs can vary and is affected by a variety of factors. Level 3 assets and liabilities involve greater judgment than Level 1 or Level 2 assets or liabilities. Investments in certificates of deposit and marketable equity securities at December 31, 2010 and a Canadian treasury bill at December 31, 2009 are classified within Level 1 of the fair value hierarchy. Fair value is determined using quoted market values which approximate cost.

Children of Armenia Fund, Inc. and Subsidiary

Notes to Consolidating Financial Statements - Continued

December 31, 2010 and 2009

Note 7 - Fair value measurements - continued

The Fund's receipt of gifts in kind is classified within Level 3 of the fair value hierarchy because the items trade infrequently (or not at all) and therefore have little or no readily available pricing. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available. For positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability and such adjustments are generally based on available market information. In the absence of such evidence, management's best estimate is used.

The value assigned to this investment and any unrealized gains or losses reported are based on available information and does not necessarily represent amounts that might be realized if a ready market existed and such differences could be material. The ultimate realization of such amounts depends on future events and circumstances and therefore, valuation estimates may differ from the value realized upon disposition of individual positions.

The fair value measurements and levels within the fair value hierarchy of those measurements for the assets reported at fair value on a recurring basis at December 31, 2010 are as follows

Description	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Quoted Prices in Inactive Markets (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments				
Certificates of deposit	\$ 470,231	\$ 470,231	\$ -	\$ -
Marketable securities	<u>57,799</u>	<u>57,799</u>	<u>-</u>	<u>-</u>
Total short-term investments	<u>\$ 528,030</u>	<u>\$ 528,030</u>	<u>\$ -</u>	<u>\$ -</u>
Long-term investments				
Marketable securities	\$ 303,938	\$ 303,938	\$ -	\$ -
Privately-held company	<u>23,678</u>	<u>-</u>	<u>23,678</u>	<u>-</u>
Total long-term investments	<u>\$ 327,616</u>	<u>\$ 303,938</u>	<u>\$ 23,678</u>	<u>\$ -</u>
Gifts in kind				
Historical treasures and similar collectible items	<u>\$ 115,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 115,000</u>

Children of Armenia Fund, Inc. and Subsidiary

Notes to Consolidating Financial Statements - Continued

December 31, 2010 and 2009

Note 7 - Fair value measurements - continued

The fair value measurements and levels within the fair value hierarchy of those measurements for the assets reported at fair value on a recurring basis at December 31, 2009 are as follows

Description	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Quoted Prices in Inactive Markets (Level 2)
Short-term investments			
Canadian treasury bill	<u>\$ 129,651</u>	<u>\$ 129,651</u>	<u>\$ -</u>
Long-term investments			
Equity in privately owned company	<u>\$ 157,837</u>	<u>\$ -</u>	<u>\$ 157,837</u>

The organization recognizes transfers of assets into and out of levels as of the date an event or change in circumstances causes the transfer. There were no transfers between levels in the years ended December 31, 2010 and 2009.

Short-term investments and long-term investments are reported at fair value on a recurring basis determined by reference to quoted market prices and other relevant information generated by market transactions.

Note 8 - 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 9 - Commitments

In March 2011, the Fund signed an agreement with a contractor in Armenia to perform the second phase of reconstruction of the Miasnikyan Village Secondary School for a total of \$639,997. The first phase of the reconstruction was completed in 2010 at a cost of \$625,441 and is included in program services.

Note 10 - Subsequent events

The Fund has evaluated subsequent events through August 3, 2011, the date that the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

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

Our report on our audit of the consolidating financial statements of Children of Armenia Fund, Inc. and Subsidiary for 2010 is included with such statements. 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 consolidating financial statements taken as a whole. The Schedule of Functional Expenses - Children of Armenia Fund, Inc. for the year ended December 31, 2010 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.

The Schedule of Functional Expenses - Children of Armenia Fund, Inc. for the year ended December 31, 2009 was audited by other auditors, whose report thereon dated July 30, 2010, stated that such information has been subjected to the auditing procedures applied in their audit of the basic financial statements and, in their opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Hermes Group LLP

Princeton, NJ
August 3, 2011

CHILDREN OF ARMENIA FUND, INC. AND SUBSIDIARY

Schedule of Functional Expenses - Children of Armenia Fund, Inc.

Years Ended December 31, 2010 and 2009

	2010			2009		
	Program Services	Management and General	Supporting Services	Program Services	Management and General	Supporting Services
			Fundraising		Fundraising	
			Total		Total	Total
			Expenses			Expenses
Grants	\$ 509,507	\$ -	\$ -	\$ 899,126	\$ -	\$ 899,126
Direct programs	638,477	-	-	-	-	-
Professional fees	-	24,686	24,686	-	23,633	23,633
Consultants	71,999	60,480	82,654	57,473	35,572	54,313
Travel	37,858	120	813	36,500	2,877	111,786
Office supplies	-	1,638	1,658	-	3,901	42,155
Telephone	850	285	1,135	115	629	3,901
Printing	7,269	1,369	10,000	5,903	950	744
Postage	-	5,367	6,757	-	3,070	13,363
State annual fees	-	2,652	5,304	-	104	3,174
Insurance	-	1,936	1,936	-	-	-
Bank and credit card fees	-	11,245	11,245	-	1,936	1,936
Other US administrative expenses	44	1,303	1,347	4,114	6,764	6,764
Event costs	-	97	57,200	253	2,056	2,742
Dues and subscriptions	-	2,076	4,622	-	-	6,856
Bad debt	-	-	1,000	-	2,960	35,987
Media and other program expenses	17,643	2,734	7,173	38,937	-	3,288
Depreciation and amortization	-	2,141	2,141	-	618	-
						38,937
						618
Total expenses	\$ 1,283,647	\$ 118,129	\$ 220,146	\$ 1,042,421	\$ 84,966	\$ 150,100
						\$ 1,192,521

See independent auditors' report on supplementary information