

CHILDREN OF ARMENIA FUND, INC.

**FINANCIAL STATEMENTS
AND
ADDITIONAL INFORMATION**

DECEMBER 31, 2006

CHILDREN OF ARMENIA FUND, INC.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of financial position of Children of Armenia Fund, Inc. (a not-for-profit corporation) as of December 31, 2006, and the related statements of activities and cash flows for the thirteen months 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 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 provides 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 Children of Armenia Fund, Inc. as of December 31, 2006, and the changes in its net assets and its cash flows for the thirteen months then ended in conformity with accounting principles generally accepted in the United States of America.

Lutz + Carr, LLP

New York, New York
June 25, 2007

CHILDREN OF ARMENIA FUND, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2006

Assets

Cash and cash equivalents (Notes 1b and 2)	\$1,111,986
Investments (Notes 1c and 3)	578,325
Unconditional promises to give (Notes 1d and 5)	
Unrestricted	197,825
Prepaid expenses and other current assets	22,594
Non-marketable investment (Notes 1c and 4)	<u>386,100</u>

Total Assets \$2,296,830

Liabilities and Net Assets

Liabilities	
Accounts payable	\$ 23,923
Commitment and Contingency (Notes 4 and 6)	
Net Assets	
Unrestricted	<u>2,272,907</u>

Total Liabilities and Net Assets \$2,296,830

CHILDREN OF ARMENIA FUND, INC.

STATEMENT OF ACTIVITIES

FOR THE THIRTEEN MONTHS ENDED DECEMBER 31, 2006

Changes in Unrestricted Net Assets

Support and Revenue	
Contributions	\$ 324,705
Fundraising benefit	2,370,688
Less: Direct costs	(94,605)
Interest income	26,633
Unrealized loss on investments	<u>(56,753)</u>
Total Support and Revenue	<u>2,570,668</u>
Expenses	
Program Services	<u>1,520,018</u>
Supporting Services	
Management and general	71,226
Fundraising	223,167
Total Supporting Services	<u>294,393</u>
Total Expenses	<u>1,814,411</u>
Increase in net assets	<u>756,257</u>
Net assets, beginning of period, as previously reported	4,205,629
Prior period adjustment (Note 8)	<u>(2,688,979)</u>
Net assets, beginning of period, as restated	<u>1,516,650</u>
Net Assets, End of Period	<u><u>\$2,272,907</u></u>

See notes to financial statements.

CHILDREN OF ARMENIA FUND, INC.

STATEMENT OF CASH FLOWS

FOR THE THIRTEEN MONTHS ENDED DECEMBER 31, 2006

Cash Flows From Operating Activities

Increase in net assets	\$ 756,257
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Unrealized loss on investments	56,753
(Increase) decrease in:	
Unconditional promises to give	63,151
Prepaid expenses and other current assets	(22,594)
Decrease in accounts payable	(9,102)
Net Cash Provided By Operating Activities	<u>844,465</u>

Cash Flows From Investing Activities

Purchase of investments	<u>(469,157)</u>
Net increase in cash and cash equivalents	375,308
Cash and cash equivalents, beginning of period	<u>736,678</u>

Cash and Cash Equivalents, End of Period\$1,111,986

CHILDREN OF ARMENIA FUND, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 1 - Organization and Summary of Significant Accounting Policies

a - Organization

Since its founding in 2000, Children of Armenia Fund, Inc. (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 our efforts. The Model Cluster project utilizes an expanded version of the template. It will involve 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 their methodology in order to eradicate poverty wherever it can, paving the way for peaceful resolutions to many of the regional conflicts that exist today.

During the period ended December 31, 2006, the Fund had contribution revenues from one individual of \$1,000,000. This accounted for 36% of the Fund's total support.

b - 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.

c - 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.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2006****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****d - 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.

e - 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.

f - 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.

g - Tax Status

The Fund 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.

h - Change in Fiscal Year

Effective December 1, 2005, the Fund elected to change its fiscal year from November 30 to December 31. Accordingly, the statement of activities for December 31, 2006 reflects a thirteen month period.

Note 2 - Concentration of Credit Risk

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

CHILDREN OF ARMENIA FUND, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 3 - Investments

Investments consist of:

	<u>Fair Market Value</u>	<u>Cost</u>
Certificates of deposit	\$193,825	\$194,000
Equities and mutual funds	<u>384,500</u>	<u>358,619</u>
	<u>\$578,325</u>	<u>\$552,619</u>

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. is a holder 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 (see Note 8).

Note 5 - Unconditional Promises to Give

Unconditional promises to give are due as follows:

Due in less than one year	\$ 62,800
Due in one to five years	<u>150,000</u>
	212,800
Less: Discount to present value	<u>(14,975)</u>
	<u>\$197,825</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%.

CHILDREN OF ARMENIA FUND, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 6 - Commitment

The Fund has a conditional grant commitment payable at December 31, 2006 of \$79,510. This grant was contingent on meeting the goals set forth in the project and certain contractual conditions which were not fulfilled as of December 31, 2006 and, therefore, the liability was not included in the statement of financial position as of December 31, 2006. The grant terms were fulfilled and all amounts paid in January 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 November 30, 2005 were reduced by \$2,688,979 representing an impairment loss on the Fund's non-marketable investment which existed at that date but had not been recorded. The carrying value was reduced from \$3,130,000 to \$441,021 (see Note 4). As of December 31, 2006, the fair market value of the non-marketable investment was reduced to \$386,100 and an unrealized loss of \$54,921 was recorded.

ADDITIONAL INFORMATION

LUTZ AND CARR

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INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

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

Our report on our audit of the basic financial statements of Children of Armenia Fund, Inc. for 2006 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 the thirteen months ended December 31, 2006 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 25, 2007

CHILDREN OF ARMENIA FUND, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE THIRTEEN MONTHS ENDED DECEMBER 31, 2006

	Program Services	Supporting Services			Total Expenses
		Management and General	Fundraising	Total	
Grants and community support	\$ 230,621	\$ -	\$ -	\$ -	\$ 230,621
Salaries	111,177	16,823	11,215	28,038	139,215
Payroll taxes and employee benefits	7,994	1,210	806	2,016	10,010
Professional fees	43,646	26,000	18,140	44,140	87,786
Consultants	46,991	16,666	23,459	40,125	87,116
Telephone	6,434	3,861	2,574	6,435	12,869
Postage and mailing	5,399	600	18,789	19,389	24,788
Maintenance and equipment	1,292	-	-	-	1,292
Printing	18,029	1,034	690	1,724	19,753
Travel	38,575	869	5,062	5,931	44,506
Subscriptions	826	-	72	72	898
Insurance	2,474	1,485	990	2,475	4,949
Bank fees	5,881	686	1,917	2,603	8,484
Office supplies	3,685	426	284	710	4,395
Computers and software	-	-	3,564	3,564	3,564
Miscellaneous	2,610	1,566	1,044	2,610	5,220
Event costs - indirect	-	-	134,561	134,561	134,561
Armenia program costs:					
Administrative	26,142	-	-	-	26,142
Infrastructure	741,266	-	-	-	741,266
Health	50,004	-	-	-	50,004
Economic development	78,691	-	-	-	78,691
Education	98,281	-	-	-	98,281
Total Expenses	<u>\$1,520,018</u>	<u>\$ 71,226</u>	<u>\$ 223,167</u>	<u>\$294,393</u>	<u>\$1,814,411</u>

See independent auditor's report on additional information.