



Financial Statements

For the Years Ended September 30, 2007 and 2006

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FIRELIGHT FOUNDATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Firelight Foundation

CONSULTING
ACCOUNTING
TECHNOLOGY

*Certified Public
Accountants*

We have audited the accompanying statements of financial position of Firelight Foundation (Firelight) as of September 30, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Firelight's management. 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 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 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 Firelight as of September 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of functional expenses for the years ended September 30, 2007 and 2006 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.


RAFFA, P.C.

Washington, DC
March 18, 2008

FIRELIGHT FOUNDATION
STATEMENTS OF FINANCIAL POSITION
September 30, 2007 and 2006

	2007	2006
ASSETS		
Cash and cash equivalents	\$ 2,316,630	\$ 2,356,686
Investments	10,716,503	10,202,198
Grants and pledges receivable	710,643	738,809
Prepaid expenses and other assets	14,008	26,017
Deposits	6,000	6,000
Property and equipment, net of accumulated depreciation and amortization of \$124,408 and \$86,995 respectively	134,809	151,510
TOTAL ASSETS	\$ 13,898,593	\$ 13,481,220
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 143,899	\$ 82,259
Grants payable	1,228,094	1,172,100
Federal deferred excise tax	17,368	13,454
TOTAL LIABILITIES	1,389,361	1,267,813
Net Assets		
Unrestricted	11,978,596	11,465,634
Temporarily restricted	530,636	747,773
TOTAL NET ASSETS	12,509,232	12,213,407
TOTAL LIABILITIES AND NET ASSETS	\$ 13,898,593	\$ 13,481,220

The accompanying notes are an integral part of these financial statements.

FIRELIGHT FOUNDATION
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2007

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Investment income			
Interest, dividends and capital gain distributions	\$ 474,247	\$ -	\$ 474,247
Realized gains	677,766	-	677,766
Unrealized gain on investments	442,004	-	442,004
Total investment income	1,594,017	-	1,594,017
Contributions	928,694	1,675,738	2,604,432
Net assets released from restriction:			
Satisfaction of program and time restrictions	1,892,875	(1,892,875)	-
TOTAL REVENUE AND SUPPORT	4,415,586	(217,137)	4,198,449
EXPENSES			
Program services			
Grants awarded	2,180,500	-	2,180,500
Program and grantmaking expenses	1,305,986	-	1,305,986
Total Program Services	3,486,486	-	3,486,486
Supporting Services			
Management and general	266,197	-	266,197
Fundraising	146,027	-	146,027
Total Supporting Services	412,224	-	412,224
TOTAL EXPENSES	3,898,710	-	3,898,710
Change in net assets before provision for deferred federal excise tax benefit	516,876	(217,137)	299,739
Provision for deferred federal excise tax provision	3,914	-	3,914
CHANGE IN NET ASSETS	512,962	(217,137)	295,825
NET ASSETS, BEGINNING OF YEAR	11,465,634	747,773	12,213,407
NET ASSETS, END OF YEAR	\$ 11,978,596	\$ 530,636	\$ 12,509,232

The accompanying notes are an integral part of these financial statements.

FIRELIGHT FOUNDATION
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2006

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Investment income			
Interest, dividends and capital gain distributions	\$ 403,679	\$ -	\$ 403,679
Realized gains	736,906	-	736,906
Unrealized loss on investments	(114,338)	-	(114,338)
Total investment income	1,026,247	-	1,026,247
Contributions	697,141	2,463,203	3,160,344
Net assets released from restriction:			
Satisfaction of program and time restrictions	1,755,430	(1,755,430)	-
TOTAL REVENUE AND SUPPORT	3,478,818	707,773	4,186,591
EXPENSES			
Program services			
Grants awarded	1,800,250	-	1,800,250
Program and grantmaking expenses	942,781	-	942,781
Total Program Services	2,743,031	-	2,743,031
Supporting Services			
Management and general	371,087	-	371,087
Fundraising	122,982	-	122,982
Total Supporting Services	494,069	-	494,069
TOTAL EXPENSES	3,237,100	-	3,237,100
Change in net assets before provision for deferred federal excise tax benefit	241,718	707,773	949,491
Provision for deferred federal excise tax benefit	(14,714)	-	(14,714)
CHANGE IN NET ASSETS	256,432	707,773	964,205
NET ASSETS, BEGINNING OF YEAR	11,209,202	40,000	11,249,202
NET ASSETS, END OF YEAR	\$ 11,465,634	\$ 747,773	\$ 12,213,407

The accompanying notes are an integral part of these financial statements.

FIRELIGHT FOUNDATION
STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2007 and 2006
Increase (Decrease) in Cash and Cash Equivalents

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 295,825	\$ 964,205
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Donated investments	(108,220)	(257,781)
Realized gains on investments	(677,766)	(736,906)
Unrealized loss (gain) on investments	(442,004)	114,338
Depreciation and amortization	37,412	29,508
Loss on disposal of equipment	-	7,406
Provision for deferred federal excise tax (benefit) expense	3,914	(14,714)
Changes in assets and liabilities:		
Grants and pledges receivable	28,166	(536,309)
Prepaid expenses and other assets	12,009	(12,390)
Accounts payable and accrued expenses	61,640	23,158
Grants payable	55,994	729,850
	(733,030)	310,365
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(2,492,138)	(2,501,382)
Proceeds from the sales of investments	3,205,824	3,678,634
Purchases of property and equipment	(20,712)	(164,657)
	692,974	1,012,595
NET CASH PROVIDED BY INVESTING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(40,056)	1,322,960
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,356,686	1,033,726
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,316,630	\$ 2,356,686

The accompanying notes are an integral part of these financial statements.

FIRELIGHT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

For the Years Ended September 30, 2007 and 2006

1. Organization and Summary of Significant Accounting Policies

Organization

The Firelight Foundation (Firelight) is a private foundation and was incorporated under the laws of California in 1999. Firelight's mission is to support children in need, particularly those who have been orphaned or affected by HIV/AIDS. Firelight's geographic focus is Sub-Saharan Africa where the HIV/AIDS pandemic has robbed children of their parents, their homes, their education and their future.

Firelight works to address these needs through four interrelated activities: grantmaking, monitoring and evaluation and technical assistance, strategic alliances, and public awareness and donor outreach.

Firelight supports grassroots organizations that are strengthening the traditional safety nets of the extended family and community through a range of programs. Firelight supports these organizations by providing initial grants of \$1,000 to \$10,000. Firelight makes re-grants to partner organizations based on the effectiveness of their programs and their potential for strengthening capacities and fostering exchange.

These activities are primarily supported by income from Firelight's investment portfolio and from individual, corporate, and foundation contributions.

Cash Equivalents

Firelight considers all money market funds to be cash equivalents.

Investments

Investments consist of stocks, fixed income and equity mutual funds and a hedge fund. These investments are recorded in the accompanying financial statements at their fair market value, as based upon quoted market prices, as of September 30th. The estimated fair value of the hedge fund was provided by Firelight's external investment manager and may be based upon historical cost, appraisals, obtainable prices for similar assets or other estimates. Because of the inherent uncertainty of the valuation of Firelight's hedge fund investment account, the value used for this investment may differ significantly from the value that would have been used had a ready market for the investment existed.

FIRELIGHT FOUNDATION

NOTES TO FINANCIAL STATEMENTS **For the Years Ended September 30, 2007 and 2006**

1. Organization and Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line basis over the estimated useful lives of the respective assets, which range from three to seven years, with no salvage value. Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs and maintenance costs are expensed when incurred. Upon the retirement or disposal of assets, the cost and accumulated depreciation are eliminated from the accounts and the resulting gain or loss is included in revenue or expenses.

Classification of Net Assets

The net assets of Firelight are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of Firelight's operations.
- Temporarily restricted net assets are specifically restricted by donors for various programs or for use in future periods.

Revenue Recognition

Contributions are reported as revenue in the year in which payments are received and/or unconditional promises are made. Firelight reports gifts of cash and other assets that are received with donor stipulations limiting the use of the donated assets as unrestricted support if all such donor restrictions are met in the year the award is received. Gifts of cash and other assets that are received with donor stipulations limiting the use of the donated assets are reported as temporarily restricted if such donor stipulations are not fully met in the year the award is received. When a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Allocation of Expenses

The costs of providing the programs and other activities have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on various methods deemed to justify the benefits received by those programs and supporting services.

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.

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FIRELIGHT FOUNDATION

NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2007 and 2006

2. Investments

Firelight's investments are summarized as follows:

	<u>September 30, 2007</u>		<u>September 30, 2006</u>	
	<u>Fair Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Value</u>
Common stock	\$ 5,923,884	\$ 7,552,109	\$ 6,556,731	\$ 7,797,832
Corporate fixed income funds	2,605,851	2,628,081	2,100,211	2,108,630
Hedge fund	250,000	333,516	250,000	295,736
Real Estate	100,000	96,779	-	-
Commodities	<u>100,000</u>	<u>106,018</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 8,979,735</u>	<u>\$ 10,716,503</u>	<u>\$ 8,906,942</u>	<u>\$ 10,202,198</u>

Investment returns are summarized as follows:

	<u>2007</u>	<u>2006</u>
Realized gains	\$ 677,766	\$ 736,906
Capital gain distributions	160,999	133,528
Unrealized (losses) gains	442,004	(114,338)
Interest and dividends	<u>313,248</u>	<u>270,151</u>
Total	<u>\$ 1,594,017</u>	<u>\$ 1,026,247</u>

Also included in interest and dividend income in the accompanying statements of activities is the interest of \$123,226 and \$137,961 for the years ended September 30, 2007 and 2006, respectively, earned on cash and cash equivalents.

3. Grants and Pledges Receivable

Grants and pledges receivable of \$710,643 and \$738,809 as of September 30, 2007 and 2006, respectively, represent contributions from nonprofit organizations, corporations and individuals and are for support of the general operations of Firelight. All contributions are due to be received within one year and are considered fully collectible.

Continued

FIRELIGHT FOUNDATION

NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2007 and 2006

4. Grants Payable

Firelight distributes grants to various organizations. As of September 30, 2007 and 2006, Firelight has unconditionally promised to give \$1,228,094 and \$1,172,100, respectively, in grant awards. All grants payable are due to be paid within one year.

Grants payable are due for the following purposes:

	<u>2007</u>	<u>2006</u>
Youth Development	\$ 228,200	\$ 344,000
Education Plus	366,895	336,700
Training/Workshops	190,500	194,000
Organizational Support	47,000	100,000
Re-granting and Technical Assistance	105,000	55,000
Home Based Care	66,500	41,500
Foster Care/Childcare	60,000	40,900
Street Children	42,000	30,000
Child Protection	<u>121,999</u>	<u>30,000</u>
Total Grants Payable	<u>\$ 1,228,094</u>	<u>\$ 1,172,100</u>

5. Temporarily Restricted Net Assets

As of September 30, 2007 and 2006, Firelight's temporarily restricted net assets are available for the following purposes and time periods:

	<u>2007</u>	<u>2006</u>
Grants to organizations in various specified countries	\$ 490,820	\$ 747,773
General operations, fiscal year 2008	<u>39,816</u>	<u>-</u>
Total	<u>\$ 530,636</u>	<u>\$ 747,773</u>

Continued

FIRELIGHT FOUNDATION

NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2007 and 2006

6. Commitment

In October 2005 Firelight entered into an operating lease for its current office space in Santa Cruz, California. The lease commenced December 1, 2005 and expires November 30, 2008. The lease provides for monthly rental payments as well as an annual share of the landlord's operating expenses. Annual lease payments started at approximately \$63,000 per year with increases each year to be based upon the Consumer Price Index for the San Francisco-Oakland-San Jose area. Rent expense for the year ended September 30, 2007 and 2006 under this lease was \$83,634 and \$64,677, respectively, and is included in occupancy in the accompanying supplemental schedule of functional expenses.

7. Pension Plan

Firelight maintains a tax deferred SIMPLE IRA plan, which is available to all eligible employees. Firelight will match employee contributions to the plan on a dollar for dollar basis up to three percent of the employee's base annual earnings. Pension expense was \$17,610 and \$14,837 for the years ended September 30, 2007 and 2006, respectively, and is included in salaries and benefits in the accompanying supplemental schedules of functional expenses.

8. Income Taxes

Firelight is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and has been classified as a private foundation under Section 509(a) of the IRC. As a private foundation, Firelight is subject to an excise tax of 1% or 2% on its net investment income which excludes unrealized gains and losses. The applicable excise tax rate is dependent upon the amount of qualifying distributions made by Firelight and additional excise tax penalties may be assessed if certain minimum distributions are not made.

It is Firelight's policy to make annual qualifying distributions in excess of the minimum required. For the years ended September 30, 2007 and 2006, Firelight was subject to an excise tax rate of 1%.

Under the asset and liability method of SFAS No. 109 *Accounting for Income Taxes*, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized as income or expense in the period that includes the enactment date.

FIRELIGHT FOUNDATION

NOTES TO FINANCIAL STATEMENTS **For the Years Ended September 30, 2007 and 2006**

8. Income Taxes (continued)

Temporary differences that give rise to the deferred tax liability of Firelight as of September 30, 2007 and 2006 are comprised of the net appreciation on investments and differences between the financial statement and tax cost basis of donated investments used in the determination of realized gains/losses upon the sale of the securities. The deferred excise tax liability of \$17,368 and \$13,454 as of September 30, 2007 and 2006, respectively, represents the federal excise tax on the net unrealized appreciation on investments.

The federal excise tax expense of \$14,808 and \$3,856 for the years ended September 30, 2007 and 2006, respectively, represents current income taxes and is included in miscellaneous administrative costs in the accompanying supplemental schedules of functional expenses. As of September 30, 2007 and 2006, Firelight had a federal excise tax payable of \$7,591 and \$13,210, respectively, which is included in accounts payable and accrued expenses in the accompanying statements of financial position.

9. Reclassifications

Certain 2006 amounts have been reclassified to conform to the 2007 presentation.

10 Credit Risk

Firelight's cash is held in accounts at various financial institutions. Although the amount at a given bank at times exceeds the amount guaranteed by the Federal Deposit Insurance Corporation (FDIC) and, therefore, bears some risk, Firelight has neither experienced nor anticipates any losses on its funds. At September 30, 2007, the amount in excess of the FDIC insured limit of \$100,000 was \$58,572.

SUPPLEMENTAL INFORMATION

FIRELIGHT FOUNDATION
SCHEDULE OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2007

	<u>Program Services</u>		<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
	<u>Grants Awarded</u>	<u>Program Support</u>			
Grants	\$ 2,180,500	\$ -	\$ -	\$ -	\$ 2,180,500
Salaries and benefits	-	663,915	159,132	87,463	910,510
Office expenses	-	98,904	23,982	13,827	136,713
Professional fees	-	66,395	3,639	22,285	92,319
Direct grantmaking expenses	-	142,993	-	-	142,993
Occupancy	-	71,650	16,685	9,815	98,150
Travel, conferences and meetings	-	121,801	4,881	1,015	127,697
Miscellaneous administrative costs	-	47,642	11,095	6,526	65,263
Board meetings	-	47,098	314	-	47,412
Other expenses	-	18,277	40,109	1,355	59,741
Depreciation and amortization	-	27,311	6,360	3,741	37,412
TOTAL	<u>\$ 2,180,500</u>	<u>\$ 1,305,986</u>	<u>\$ 266,197</u>	<u>\$ 146,027</u>	<u>\$ 3,898,710</u>

FIRELIGHT FOUNDATION
SCHEDULE OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2006

	<u>Program Services</u>		Management and General	Fundraising	Total
	<u>Grants Awarded</u>	<u>Program Support</u>			
Grants	\$ 1,800,250	\$ -	\$ -	\$ -	\$ 1,800,250
Salaries and benefits	-	458,407	174,401	82,975	715,783
Office expenses	-	120,759	32,202	8,051	161,012
Professional fees	-	33,735	77,190	11,226	122,151
Direct grantmaking expenses	-	96,976	-	-	96,976
Occupancy	-	58,234	15,529	3,882	77,645
Travel, conferences and meetings	-	56,066	6,501	3,251	65,818
Miscellaneous administrative costs	-	33,272	26,438	3,134	62,844
Board meetings	-	46,692	2,747	5,493	54,932
Other expenses	-	19,755	28,997	1,429	50,181
Depreciation and amortization	-	18,885	7,082	3,541	29,508
TOTAL	<u>\$ 1,800,250</u>	<u>\$ 942,781</u>	<u>\$ 371,087</u>	<u>\$ 122,982</u>	<u>\$ 3,237,100</u>