

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
One Acre Fund, Inc.

We have audited the accompanying statements of financial position of One Acre Fund, Inc. (an Illinois not-for-profit corporation) as of December 31, 2008 and 2007 and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of One Acre Fund, Inc.'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 audits 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.

We did not observe the physical inventory taken as of December 31, 2008 to verify the quantity of inventory items.

In our opinion, except for the effects on the 2008 financial statements of any adjustments that might have resulted had we been able to observe the physical inventory at December 31, 2008, or to otherwise satisfy ourselves as to quantities at that date, as discussed in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of One Acre Fund as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Knutte & Associates, P.C.*

**ONE ACRE FUND, INC.  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2008 AND 2007**

**ASSETS**

	<b>2008</b>	<b>2007</b>
<b>CURRENT ASSETS</b>		
Cash	\$ 756,720	\$ 479,040
Cash Reserved for Crop Insurance Fund	500,000	0
Grants Receivable (Net of Allowance for Doubtful Accounts of \$0, Respectively)	500,000	0
Inventory	302,590	0
Prepaid Expenses	24,840	0
	<u>2,084,150</u>	<u>479,040</u>
<b>TOTAL CURRENT ASSETS</b>		
<b>FIXED ASSETS</b>		
Vehicles	146,773	34,699
Equipment	13,323	2,102
Land	4,952	4,952
	<u>165,048</u>	<u>41,753</u>
Less -- Accumulated Depreciation	19,902	2,775
	<u>145,146</u>	<u>38,978</u>
<b>TOTAL FIXED ASSETS</b>		
	<u>\$ 2,229,296</u>	<u>\$ 518,018</u>
<b>TOTAL ASSETS</b>		

**LIABILITIES AND NET ASSETS**

	<b>2008</b>	<b>2007</b>
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 7,265	\$ 24,803
<b>TOTAL CURRENT LIABILITIES</b>	<u>7,265</u>	<u>24,803</u>
<b>LONG TERM LIABILITIES</b>		
Refundable Crop Insurance Funds	500,000	0
Note Payable	100,000	0
<b>TOTAL LONG TERM LIABILITIES</b>	<u>600,000</u>	<u>0</u>
<b>TOTAL LIABILITIES</b>	<u>607,265</u>	<u>24,803</u>
<b>NET ASSETS</b>		
Unrestricted	1,093,031	491,215
Temporarily Restricted	529,000	2,000
<b>TOTAL NET ASSETS</b>	<u>1,622,031</u>	<u>493,215</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <u><u>\$ 2,229,296</u></u>	 <u><u>\$ 518,018</u></u>

See Accompanying Notes To The Financial Statements.

**ONE ACRE FUND, INC.  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>PUBLIC SUPPORT AND REVENUES</b>				
Special Event Revenue	\$ 51,811	\$ 0	\$ 0	\$ 51,811
Less: Costs of Direct Benefit to Donors	19,886	0	0	19,886
Net Special Event Revenue	<u>31,925</u>	<u>0</u>	<u>0</u>	<u>31,925</u>
Grants and Donations	1,503,786	535,000	0	2,038,786
Program Fees	158,149	0	0	158,149
Donated Services	60,500	0	0	60,500
Interest	7,852	0	0	7,852
Miscellaneous	3,599	0	0	3,599
Net Assets Released from Restrictions	<u>8,000</u>	<u>(8,000)</u>	<u>0</u>	<u>0</u>
<b>TOTAL PUBLIC SUPPORT AND REVENUES</b>	<u>1,773,811</u>	<u>527,000</u>	<u>0</u>	<u>2,300,811</u>
<b>FUNCTIONAL EXPENSES</b>				
Functional Expenses				
Program Services	1,019,079	0	0	1,019,079
Management and General	100,087	0	0	100,087
Fundraising	34,367	0	0	34,367
Total Functional Expenses	<u>1,153,533</u>	<u>0</u>	<u>0</u>	<u>1,153,533</u>
Remeasurement Loss	<u>18,462</u>	<u>0</u>	<u>0</u>	<u>18,462</u>
<b>TOTAL FUNCTIONAL EXPENSES AND LOSSES</b>	<u>1,171,995</u>	<u>0</u>	<u>0</u>	<u>1,171,995</u>
<b>CHANGE IN NET ASSETS</b>	601,816	527,000	0	1,128,816
<b>NET ASSETS,</b>				
<b>BEGINNING OF YEAR</b>	<u>491,215</u>	<u>2,000</u>	<u>0</u>	<u>493,215</u>
<b>END OF YEAR</b>	<u>\$ 1,093,031</u>	<u>\$ 529,000</u>	<u>\$ 0</u>	<u>\$ 1,622,031</u>

See Accompanying Notes To The Financial Statements.

**ONE ACRE FUND, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>PROGRAM SERVICES</b>	<b>MANAGEMENT AND GENERAL</b>	<b>FUNDRAISING</b>	<b>TOTAL</b>
Accounting	\$ 0	\$ 2,000	\$ 0	\$ 2,000
Bank and Credit Card Fees	0	14,482	0	14,482
Business Development	38,737	0	0	38,737
Consulting	14,400	0	0	14,400
Depreciation	17,127	0	0	17,127
Employee Benefits	21,380	2,375	0	23,755
Farming Supplies	295,541	0	0	295,541
Farming Transportation	121,462	0	0	121,462
Farming Warehouse Costs	2,345	0	0	2,345
Insurance	4,307	0	0	4,307
Interest	0	1,777	0	1,777
Legal Fees	0	17,632	0	17,632
Marketing and Promotions	0	0	5,219	5,219
Miscellaneous	1,532	12,260	1,532	15,324
Occupancy	8,980	0	0	8,980
Payroll Taxes	34,394	3,822	0	38,216
Postage and Shipping	0	2,040	0	2,040
Printing and Publications	10,557	0	0	10,557
Recruiting and Training	10,618	0	0	10,618
Salaries and Wages	353,814	39,313	0	393,127
Supplies	10,904	2,726	0	13,630
Technology and Internet	11,845	623	0	12,468
Telephone	19,711	1,037	0	20,748
Travel	41,425	0	27,616	69,041
	<u>\$ 1,019,079</u>	<u>\$ 100,087</u>	<u>\$ 34,367</u>	<u>\$ 1,153,533</u>

**See Accompanying Notes To The Financial Statements.**

**ONE ACRE FUND, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from Donors and Grantors	\$2,252,345	\$ 878,664
Interest Received	7,852	9,117
Paid to Suppliers and Employees	(1,438,983)	(533,759)
Interest Paid	(1,777)	0
Income Taxes Paid	0	0
	<u>819,437</u>	<u>354,022</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for Purchase of Property	(123,295)	(40,883)
Proceeds from the Sale of Investments	0	6,201
	<u>(123,295)</u>	<u>(34,682)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Issuance of Long-Term Debt	100,000	0
	<u>100,000</u>	<u>0</u>
Effect of Exchange Rate Changes on Cash	(18,462)	0
	<u>777,680</u>	<u>319,340</u>
<b>CASH AND CASH EQUIVALENTS,</b>		
<b>BEGINNING OF YEAR</b>	<u>479,040</u>	<u>159,700</u>
<b>END OF YEAR</b>	<u>\$1,256,720</u>	<u>\$ 479,040</u>

See Accompanying Notes To The Financial Statements.

**ONE ACRE FUND, INC.  
STATEMENTS OF CASH FLOWS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

	<b>2008</b>	<b>2007</b>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Change in Net Assets	<u>\$ 1,128,816</u>	<u>\$ 334,028</u>
Adjustments to Reconcile Net Cash Provided by Operating Activities:		
Depreciation	17,127	2,688
Donated Investments	0	(6,368)
Realized Loss on Investments	0	167
Remeasurement Loss	18,462	0
Changes in Certain Assets and Liabilities:		
Grants Receivable	(500,000)	0
Inventory	(302,590)	0
Prepaid Expenses	(24,840)	1,725
Accounts Payable	(17,538)	21,782
Refundable Crop Insurance Funds	500,000	0
Total Adjustments	<u>(309,379)</u>	<u>19,994</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><u>\$ 819,437</u></u>	<u><u>\$ 354,022</u></u>

**See Accompanying Notes To The Financial Statements.**

**ONE ACRE FUND, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

**NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A) Organization and Nature of Activities

One Acre Fund, Inc. (the Organization) is an Illinois not-for-profit organization that was incorporated in December 2005 and operates primarily in Kenya and Rwanda. The mission of One Acre Fund is to empower chronically hungry farm families in East Africa to lift themselves out of hunger and poverty. The Organization's method is to work through self-help groups in rural villages to deliberately reach the most severely hunger affected.

B) Method of Accounting

The Organization's accounts are maintained on the accrual basis of accounting. Grants and other contributions are reported as temporarily restricted support if they are received with stipulations that limit the use of the funding. When the restriction expires, that is, 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. Expenses are recorded when incurred.

The Organization has adopted Statement of Financial Accounting Standards Nos. 116 and 117, "Accounting for Contributions Received and Contributions Made" (SFAS 116) and "Financial Statements of Not-for-Profit Organizations" (SFAS 117). Under SFAS 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Under SFAS 117, the Organization 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. As permitted by the statement, the Organization does not use fund accounting.

C) Accounting Policies

Cash and Cash Equivalents - For purposes of reporting cash flows, cash is defined as cash on hand, amounts held at financial institutions, and short-term highly liquid investments that are readily convertible to known amounts of cash. Investments with an original maturity of three months or less are considered short-term for these purposes.



**ONE ACRE FUND, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

**NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

C) Accounting Policies (Continued)

Grants Receivable - Grants receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual receivables from grants, contracts, etc. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the applicable accounts receivable. The allowance for doubtful accounts at June 30, 2008 and 2007 is \$0, respectively.

Inventory - Inventory is valued at the lower of cost or market with cost determined on a first-in, first-out (FIFO) basis. Inventories consist of seed and fertilizer for use in the Organization's programs and maize kept for sale.

Fixed Assets - Property and equipment are recorded at cost. Expenditures for repairs and maintenance are charged to expense as incurred, whereas renewals and betterments that extend the lives of property are capitalized. Depreciation is computed on the straight-line method over various useful lives. Depreciation expense for the years ended December 31, 2008 and 2007 amounts to \$17,127 and \$2,688, respectively.

Use of 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes - The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Service as other than a private foundation.

**ONE ACRE FUND, INC.  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

**NOTE 2 - CONCENTRATION OF CREDIT RISK**

The Organization has deposits in foreign financial institutions not covered by federal insurance of approximately \$229,000 and \$2,000 at December 31, 2008 and 2007, respectively. The Organization also has deposits in domestic financial institutions in excess of FDIC insurance limits of approximately \$656,000 and \$187,000 at December 31, 2008 and 2007, respectively. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

**NOTE 3 - CASH RECEIVED FOR CROP INSURANCE FUND**

In December, 2008 the Organization received \$500,000 of refundable advances for the establishment of an endowment fund for the Organization's harvest insurance programs. The entity providing these funds has placed certain restrictions and has reserved the right to withdraw these funds from One Acre Fund and redirect them to another charitable organization after the earlier of five years or the occurrence of certain events.

The term endowment agreement provides that the principal, along with all premiums received under the Organization's harvest insurance programs be invested in a restricted designated fund account, from which payments to farmers can be made under specified insurance events. No such events requiring payments had occurred for the year ended December 31, 2008. As of December 31, 2008 the fund's balance is \$500,000 and is fully invested in a money market account.

**NOTE 4 - NOTE PAYABLE**

Notes payable consist of the following at December 31:

	<b>2008</b>	<b>2007</b>
Note payable of \$100,000 to FJC, secured by the balance in the crop interest fund account, with floating interest of prime plus three percent, payable semi-annually, starting July 31, 2008. The principal is due February 28, 2010.	100,000	0
Total Debt	100,000	0
Less - Current Portion	0	0
Total Long-Term Portion	\$ 100,000	\$ 0

Future maturities of long-term debt are as follows:

Year Ending December 31, 2010 \$ 100,000

**ONE ACRE FUND, INC.  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

**NOTE 5 - FUNCTIONAL CURRENCY, EXCHANGE RATES AND CURRENCY EXPOSURE**

Given the dominant role of the US currency in the funding of the Organization's programs, the US dollar is considered the Organization's functional currency.

The Organization regularly transfers cash from its domestic accounts to its foreign accounts to cover expenses, translating its foreign transactions into U.S. dollars using a weighted average exchange rate. In any particular year, currency fluctuations may have a significant impact on the Organization's financial results.

The Organization has deposits in foreign financial institutions denominated in the local currencies of Kenya, Rwanda and Uganda. This results in an accounting exposure to exchange gains and losses as the financial assets and liabilities are remeasured into US Dollars. These exchange gains and losses are recorded in the Organization's Statements of Activities.

**NOTE 6 - NET ASSET RESTRICTIONS**

Net assets are temporarily restricted for the following purposes at December 31:

	<b>2008</b>	<b>2007</b>
Farm Input Loans	500,000	0
Children Health Program	6,000	2,000
Webuye District	23,000	0
Total Restricted Net Assets	<u>\$ 529,000</u>	<u>\$ 2,000</u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restrictions specified by donors during the years ended December 31:

	<b>2008</b>	<b>2007</b>
Purpose Restriction Accomplished:		
Children Health Program	\$ 6,000	\$ 2,000
Webuye District	2,000	0
Total Restrictions Released	<u>\$ 8,000</u>	<u>\$ 2,000</u>

**ONE ACRE FUND, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

**NOTE 7 - IN-KIND DONATIONS**

The Organization received a donation of 108 shares of Harding Loevner Funds Inc. mutual funds with a value of \$6,368 on November 29, 2007. The Organization sold the shares on December 28, 2007 for \$6,201 and recognized a loss of \$167.

**NOTE 8 - DONATED SERVICES**

Donated services are recognized as in-kind revenues at their estimated fair value when they create or enhance nonfinancial assets or they require specialized skills which would need to be purchased if they were not donated. For the years ended December 31, 2008 and 2007, donated services amount to \$60,500 and \$4,000, respectively, and are reflected in the statements of activities as donated services revenue and in the statements of functional expenses as salaries and wages and legal expenses. The Organization received other donated services which have not been recorded because the criteria for recognition of such volunteer effort under SFAS No. 116 has not been satisfied.

**NOTE 9 - LEASE COMMITMENTS**

The Organization leases office space as well as housing for its workforce in Africa under multiple operating leases expiring on various dates through May, 2011. In addition, the Organization leases storage spaces for crops under multiple operating leases expiring on various dates through December, 2011. The Organization also leases trial plots of land used for testing of new crops, fertilizer, seeds and betterment of farming practices under multiple operating leases expiring on various dates through February 2009. Total rent expense under all leases is \$17,515 and \$2,764, for the years ended December 31, 2008 and 2007, respectively.

Minimum future rental payments are as follows:

For the year ended December 31, 2009	\$	3,902
2010		1,854
2011		680
		<hr/>
	\$	<u>6,436</u>