

One Acre Fund

“Empowering the Chronically Hungry to Pull Themselves Out of Poverty”



Spring 2009 Performance Report

One Acre Fund Semi-Annual Performance Report

November 2008 – April 2009

It is the hunger season in Kenya, and one of the worst in recent memory. Every week, I meet mothers that tell me that their families haven't eaten anything, in a day or more. Often times, their children sit around staring at me, lacking all energy. It puts the idea of "hard economic times" in an entirely new perspective.

Our newest farmers suffer this hunger, because last year their harvests were poor. But they are working as hard as anybody to make sure they succeed this year.

I do not know how it is possible – but I often see our newest farmers doing hard manual labor in their fields for a whole day on completely empty stomachs. It is an absolutely inspiring thing to see, and something that drives our staff every day to improve our service to our clients. Whenever we at One Acre Fund think we are working hard enough, we think of our families, and we re-double our efforts.



Our program continues to grow steadily with your generous support. This is our fifth 6-monthly report, which offers a frank look at hard metrics, which we use to guide every step of our operations. From November 2008 – April 2009, we:

- Doubled program size to 8,000 farm families, serving more than 32,000 children
- Had our fifth harvest, increasing take-home farm income by 100% per acre, with 98% of farmers repaying program fees
- Covered 35% of our field costs through farmer repayments, which will improve over time

The story of One Acre Fund is not one of hunger and loss and poverty – it is one of hope and opportunity. Every day we are increasing the size of our distribution network in Africa, and every day more and more families decide to grow their way out of poverty.

This report briefly concludes with our vision for the future, which we are truly excited about. We have a good start, but momentum is building at a terrific pace, and we are on track to create life-change for 25,000 families in the next 18 months. This momentum is largely due to you, our loudest supporters. On behalf of the children and families that we serve: **Thank You.**

Andrew Youn
Founder, One Acre Fund

Matt Forti
Board Chair, One Acre Fund

Governing Board Members: Joel Ackerman, Anne Marie Burgoyne, Jason Maga, John Wood

Fundraising Board Members: Chris Addy, Chris Ashley, John Brothers, Taira Hall, Amy Hsiao, Diana Lee, Briehan Lynch, Jason Maga, Jason Miller, Bhavan Suri, James Wesner, Meredith Wilson, Paul Wormley, John Yi

Board Fellows: David Blanchard, Michael Recht

One Acre Fund: Core Values and Program Model

The core values that drive us forward, and how our program works

Our mission: We empower persistently hungry farm families to grow their own way out of hunger.

Core values:

- **We don't give handouts** – we empower permanent life-change. Lasting change must rely on the poor themselves.
- **We provide a solution that is realistic for the extreme poor** – our solution includes tools, training, and market access – making it realistic for someone starting from nothing to grow for high-value markets.
- **We must dream big** – limitless human need demands an ambitious response. 80% of the extreme poor in the world are farmers, and we must aggressively scale to meet demanding milestones.
- **We must remain 100% accountable** to both our biggest donors and our littlest children, measured by hard operational metrics that are reported, good and bad, to stakeholders. If we are not improving the lives of children, we are failing, and must find a way to improve.

One Acre Fund's "Investment Bundle"

1) Creation of producer groups: One Acre Fund meets existing women's self-help groups, and organizes them into a producer group.



2) Farm inputs: One Acre Fund finances and delivers all of the planting materials that our farmers need to increase their yields.



3) Extension: One Acre Fund field officers deliver education to groups, so they know how to grow the crop.



4) Output market: One Acre Fund picks up our portion of increased harvest as repayment and sells it to cover our field costs. We also sell the farmer portion of increased harvest when so desired. When harvests are low due to weather or crop disease, farmers are covered through crop insurance.



None of the individual pieces of our model is particularly new – but the *combination* of them is extremely unique. We have packaged together a holistic service that we can take to the poorest of farms – households starting with absolutely nothing. Our goal is to innovate a new program model that will be a new tool in the world's fight against hunger and poverty among the rural poor.



Review of Program Metrics: November 2008 – April 2009

++ = Met/Exceeded Goal + = Additional Opportunity - = Did not meet goal

HOW MANY PEOPLE DID WE REACH? Program triples to 2,000 farmers (8,000 children)

| Scalability | Previous May - Oct 08 | New goal Nov 08- Apr 09 | Actual Nov 08- Apr 09 | Rating | Rationale |
|-----------------------------|-----------------------|-------------------------|-----------------------|--------|---|
| - # Families Reached | 4100 | 8000 | 8000 | ++ | - Doubled program size to 8,000 farm families |
| - # Children Enrolled | 16k | 32k | 32k | ++ | - Doubled program coverage to 32,000 children |
| - # Acres under Cultivation | 2500 | 4000 | 3000 | + | - Temporarily lowered average client acreage, to limit credit risk exposure |

FUTURE ACTIONS:

- Continue a sustained scale-up phase over the next two years
- *We are on track to meet or exceed our target of 30,000 families in the next 24 months*

WHAT WAS OUR QUALITY OF IMPACT? Farm income doubles

| Impact | Previous | New goal | Actual | Rating | Rationale |
|--|----------|----------|--------|--------|---|
| - Increased Size of Harvest (year-on-year) | 3x | 3x | 3x | ++ | - Raw harvest increased by 3x (estimate) |
| - Increase in Farm Income (year-on-year) | 2x | 2x | 2x | ++ | - Farm income increased by 2x, after program repayment (estimate) |
| - Reduction in child death rate | 80% | 50% | 50% | ++ | - We estimate a ½ reduction in child deaths, based on a sample survey |

FUTURE ACTIONS:

- *Farm income targets are roughly on track. We are now investing in monitoring and evaluation to provide greater precision in our measurement capability going forward*

HOW MUCH DID IT COST? Program improves to 35% sustainability

| Financial Return | Previous | New goal | Actual | Rating | Rationale |
|--------------------------------------|----------|----------|--------|--------|---|
| - Repayment Rate | 85% | 85% | 98% | ++ | - 98% of farmers repaid, well above target of 85%. See "management discussion" section for details. |
| - Field cost per Family | \$170 | \$150 | \$160 | + | - We were slightly high on field staff transport, and will improve. |
| - Infrastructure investments | \$370k | \$500k | \$550k | + | - Strong donations allowed us to invest more in long-term infrastructure. |
| - % of Donations to Program Services | 100% | 100% | 100% | ++ | - 100% of individual donations went directly to program; overhead covered by foundation grants |
| - Program Sustainability | 30% | 35% | 35% | ++ | - Farmer repayments covered 35% of field costs |

FUTURE ACTIONS:

- *We will continue to focus on improving program financial sustainability. Our target is to cover 50% of our field expenses through farmer repayments, by the end of this calendar year.*

Brief Management Discussion

1. Repayment Improves from 85% to 98%

One Acre Fund recovered only 85% of repayment owed to us in the prior six-month period. However, this improved dramatically to 98%, in this latest six-month period.

As outlined in our last report, this improvement is due to several conscious program changes:

- 1) Improved recruiting. We now screen 3 times as many candidates per “field officer” hire. These field officers are our point of contact with farmers.
- 2) Pre payments program. Due to our clients’ requests, we are now offering a way for clients to pre-pay their loan to us – earlier in the season. Our clients like to pay their loans early, and we offer small incentives for them to do this.
- 3) Improved communication. We now give a running balance summary to all clients, so that they can be aware of their group’s loan balances, every week.
- 4) Improved client selection. We are now taking steps to select clients more carefully – for example, we only enroll groups if they live reasonably close to each other. This makes it easier for our field staff to visit their fields and teach them new techniques.

You stuck with us – thank you for your patience! As a young organization, our operating results will climb and fall. The only thing we can do is to try to constantly improve, and transparently report what is happening to you, our supporters.



2. What Causes the Hunger Season and How is One Acre Fund Helping?

We often get the question: What causes the hunger season, and how is One Acre Fund helping?

The hunger season is caused by shortages of food during certain times of year. In Kenya for example, the long rains begin falling in March, so farmers plant their food then. Nearly every Kenyan farmer then harvests their food around September.

Farmers start eating their harvests starting from September, but then it simply runs out mid-way in the next year. This creates severe food shortages as the entire country relies on expensive imported food, until the next harvest comes. This is the hunger season.

One Acre Fund does two things to fight the hunger season. First, we increase total levels of harvest – our farmers produce enough food to feed their families for the whole year. Second, farmers can sell surplus into their communities – and One Acre Fund helps them sell it during the hunger season, when prices are high. Our farmers not only feed themselves, but they help to reduce the hunger season for their communities.

Picture Gallery: Meet our Families

Thousands of Bags of Seeds and Fertilizer >

Input delivery is a one-week period when all of our farmers across Kenya and Rwanda are provided with seeds and fertilizer.

It takes a lot of work to distribute inputs to 8,000 farmers, so everybody at One Acre Fund pitches in! It is an exciting time because soon all these inputs will be planted in the ground where they will produce food for thousands of chronically hungry people.



< Ordinary Household Items

Each woman in this farmer group wanted to help carry their new planting string to the field.

A planting string is made up of ordinary household items: a 40-foot length of twine that is marked every 10 inches. Each mark tells farmers where to place each seed.

The string helps farmers to space their seeds, so that they can achieve the optimum plant population. Too many seeds creates crowding, and too few seeds results in low harvests. We teach them to have just the right amount!



^ Surviving

When new farmers join One Acre Fund, most of them are simply surviving...They are just trying to feed their families and get through the day.

These farmers rarely have the luxury of planning for the future when the present day is full of challenges.



^ Thriving

One Acre Fund farmers are thriving! Our farmers' increased incomes allow them to make investments in the future of their families. Many of our farmers purchase cows to help work in the fields and to provide milk that can be sold for profit. Although poor, these farmers now have opportunity in their lives.

Picture Gallery: Meet our Families



< Praying for Rain >

Before One Acre Fund's Kenyan farmers can plant, the "long rains" must begin. As the season approaches, these farmers pray for the rains to fall. One Acre Fund supplements informal methods with formal weather data, helping farmers decide when to plant.



< Simple lessons

One Acre Fund strives to ensure that all of our farmers can succeed, regardless of their education level or reading ability.

Each One Acre Fund farmer is required to attend 6-8 educational sessions that teach them about proper techniques for planting, weeding and harvesting their crops. At each session, the farmers are given easy-to-follow instructions sheets with drawings and pictures so that anyone can understand them.



^ A Community Effort ^

Planting is not an individual activity. In Kenya and Rwanda, entire communities come together to help each other plant their crops. Planting in groups saves each farmer the cost of hiring laborers to help. Even more importantly, by working together, the farmers encourage each other to use the One Acre Fund's correct planting methods.

Vision for the Future

Can a promising experiment be scaled into a major force against world hunger?

We have a promising experiment, and we need to reach as many needy people as possible!

We have set an ambitious goal ...

We have set an extremely ambitious goal for the next 18 months: to prove a program model that creates total life-change, for a lot of people, with financial sustainability on field programs:

- ❶ Create a 100% gain in farm income and a 50% reduction in child deaths
- ❷ For 25,000 families
- ❸ At 70% financial sustainability (farmer repayments cover field expenses)

We believe that if we can create a program model that achieves all of these goals, we will be in a position to grow to serve millions of lives in the coming decades. Millions of hungry farm families, feeding themselves – the hungry feeding the hungry.

We have a realistic plan ...

These are not idealistic words – they are carefully-constructed milestones, supported by our current field experience, and the advice of dozens of prominent advisors.

Annual milestones

| | 2007 | 2008 | 2009 | 2010 |
|--------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Scale | 600 families | 3,500 families | 12,000 families | 25,000 families |
| Impact | 100% average gain in farm income | 100% average gain in farm income | 100% average gain in farm income | 100% average gain in farm income |
| Financial sustainability | 15% cost recovery on field programs | 30% cost recovery on field programs | 50% cost recovery on field programs | 70% cost recovery on field programs |

... And your support makes it happen

Your support makes this possible! We need to raise a total of \$3.0 million dollars over the next eighteen months to execute this plan, and every dollar matters. Maybe you are donating \$240 a year, to support one family on the program. That family matters. Maybe you are donating \$10,000 a year, to help support an entire village of farm families. That group matters. Maybe you are donating \$50,000 a year, to help us make key infrastructure investments. These investments matter.

Your donation matters for real people. Every dollar empowers a hungry person to feed her own family, and every dollar helps us invest for the future. We hope to continue to strive to report exactly how much social impact your investments are making for our families, and please: never hesitate to write to us with questions and comments.

On behalf of our children and families: THANK YOU.

2008 Financial Results and Management Discussion

To our Donors, Stakeholders, and Colleagues:

2008 was a special year for One Acre Fund, a time of transition for the organization. We attained some remarkable milestones during the calendar year, growing from 600 to 4,000 farm families.

But 2008 was primarily a year where we prepared for growth. In calendar years 2009 and 2010, we will grow our program six-fold, from 4,000 to 25,000 farm families. 2008 was a building year, and you helped us to build with your outpouring of support.

Revenue: It was vitally important this year to build a firm asset base to enable our growth campaign. Our donors made that possible, more than doubling your giving from \$860,000 in 2007 to \$2 million in 2008 – led by a tremendous gift from the Pershing Square Foundation. Our farmer revenues increased dramatically as well from \$8,000 in 2007 to over \$150,000 in 2008 – a number we expect to grow very quickly.

Expenses: This growth in revenue outpaced our growth in program expenses from \$500,000 in 2007 to \$1 million in 2008. As with last year, the bulk of our expenditures were for purchase and delivery of life-changing farm inputs (36%) and for staff (39%).

The Future: We will use the strong financial footing built in 2008 to dramatically expand our programs in 2009 and 2010 – over those two years we plan to grow six-fold from 4,000 to 25,000+ farm families. This rapid growth in program size will continue to rely on a) increases in donor giving, b) rapid growth in earned revenue from our clients, and c) continued improvements in operating efficiency.

In a time of financial duress and economic crisis, our donors rallied together to build a solid financial foundation for enormous growth in the next two years.

Thank You. There are millions of farm families that need our help, and we have only begun.

Sincerely,



Jason Maga
Treasurer, One Acre Fund

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

| | 2008 | 2007 |
|--|-------------------------|-----------------------|
| CURRENT ASSETS | | |
| 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 |
| TOTAL CURRENT ASSETS | 2,084,150 | 479,040 |
| FIXED ASSETS | | |
| Vehicles | 146,773 | 34,699 |
| Equipment | 13,323 | 2,102 |
| Land | 4,952 | 4,952 |
| | 165,048 | 41,753 |
| Less -- Accumulated Depreciation | 19,902 | 2,775 |
| TOTAL FIXED ASSETS | 145,146 | 38,978 |
| TOTAL ASSETS | \$ 2,229,296 | \$ 518,018 |

LIABILITIES AND NET ASSETS

| | 2008 | 2007 |
|---|--------------------------------|------------------------------|
| CURRENT LIABILITIES | | |
| Accounts Payable | \$ 7,265 | \$ 24,803 |
| TOTAL CURRENT LIABILITIES | <u>7,265</u> | <u>24,803</u> |
| LONG TERM LIABILITIES | | |
| Refundable Crop Insurance Funds | 500,000 | 0 |
| Note Payable | 100,000 | 0 |
| TOTAL LONG TERM LIABILITIES | <u>600,000</u> | <u>0</u> |
| TOTAL LIABILITIES | <u>607,265</u> | <u>24,803</u> |
| NET ASSETS | | |
| Unrestricted | 1,093,031 | 491,215 |
| Temporarily Restricted | 529,000 | 2,000 |
| TOTAL NET ASSETS | <u>1,622,031</u> | <u>493,215</u> |
| TOTAL LIABILITIES AND NET ASSETS | <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 |
|---|---------------------|---------------------------|---------------------------|---------------------|
| PUBLIC SUPPORT AND REVENUES | | | | |
| 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> |
| TOTAL PUBLIC SUPPORT AND REVENUES | <u>1,773,811</u> | <u>527,000</u> | <u>0</u> | <u>2,300,811</u> |
| FUNCTIONAL EXPENSES | | | | |
| 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> |
| TOTAL FUNCTIONAL EXPENSES AND LOSSES | <u>1,171,995</u> | <u>0</u> | <u>0</u> | <u>1,171,995</u> |
| CHANGE IN NET ASSETS | 601,816 | 527,000 | 0 | 1,128,816 |
| NET ASSETS, | | | | |
| BEGINNING OF YEAR | <u>491,215</u> | <u>2,000</u> | <u>0</u> | <u>493,215</u> |
| END OF YEAR | <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**

| | PROGRAM SERVICES | MANAGEMENT AND GENERAL | FUNDRAISING | TOTAL |
|---------------------------|-----------------------------|---------------------------------------|--------------------|---------------------|
| 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**

| | 2008 | 2007 |
|--|--------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| 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 |
| | <hr/> | <hr/> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 819,437 | 354,022 |
| | <hr/> | <hr/> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Payments for Purchase of Property | (123,295) | (40,883) |
| Proceeds from the Sale of Investments | 0 | 6,201 |
| | <hr/> | <hr/> |
| NET CASH USED IN INVESTING ACTIVITIES | (123,295) | (34,682) |
| | <hr/> | <hr/> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from Issuance of Long-Term Debt | 100,000 | 0 |
| | <hr/> | <hr/> |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 100,000 | 0 |
| | <hr/> | <hr/> |
| Effect of Exchange Rate Changes on Cash | (18,462) | 0 |
| | <hr/> | <hr/> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 777,680 | 319,340 |
| CASH AND CASH EQUIVALENTS, | | |
| BEGINNING OF YEAR | 479,040 | 159,700 |
| | <hr/> | <hr/> |
| END OF YEAR | <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**

| | 2008 | 2007 |
|--|--------------------------|--------------------------|
| RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| 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> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <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:

| | 2008 | 2007 |
|--|-------------|-------------|
| 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:

| | 2008 | 2007 |
|-----------------------------|-------------------|-----------------|
| 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:

| | 2008 | 2007 |
|-----------------------------------|-----------------|-----------------|
| 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> |