

United Poultry Concerns, Inc.
Financial Statements
December 31, 2005

With Independent Auditors' Report Thereon

United Poultry Concerns, Inc.
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Independent Auditors' Report

To the Board of Directors
United Poultry Concerns, Inc.
Machipongo, Virginia

We have audited the accompanying statement of financial position of United Poultry Concerns, Inc. as of December 31, 2005, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the management of United Poultry Concerns, Inc. 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 United Poultry Concerns, Inc. as of December 31, 2005, and the change in net assets, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

July 5, 2006
Rockville, Maryland

Arkin & Company, Chartered

United Poultry Concerns, Inc.
Statement of Financial Position
December 31, 2005

Assets

Current Assets			
Cash	\$	10,065	
Short-term investments		45,678	
Inventory, stated at lower of cost or market		8,400	
Total current assets		64,143	
Property and Equipment, net		105,918	
Total Assets	\$	170,061	

Liabilities and Net Assets

Current Liabilities			
Accounts payable	\$	5,097	
Payroll tax liabilities		1,189	
Current portion of mortgage payable		1,313	
Total current liabilities		7,599	
Long-Term Liabilities			
Mortgage payable, net of current portion		23,412	
Total Liabilities		31,011	
Net Assets, Unrestricted		139,050	
Total Liabilities and Net Assets	\$	170,061	

The accompanying notes are an integral part of the financial statements

United Poultry Concerns, Inc.
Statement of Activities
For the Year Ended December 31, 2005

Changes in Unrestricted Net Assets:	
Revenue	
Donations	\$ 109,955
Grants	16,500
Inventory sales	1,767
Investment and other income	1,568
Miscellaneous income	<u>759</u>
Total unrestricted revenue	<u>130,549</u>
Expenses	
Program services	117,043
Cost of inventory sales	<u>465</u>
	<u>117,508</u>
Supporting services:	
Management and general	10,165
Fundraising	<u>10,618</u>
Total supporting services	<u>20,783</u>
Total expenses	<u>138,291</u>
Decrease in Unrestricted Net Assets	<u>(7,742)</u>
Net Assets, Beginning Of Year as Previously Reported	186,677
Prior Period Adjustment, error in revenue recognition	<u>(39,885)</u>
Net Assets Beginning of Year as Restated	<u>146,792</u>
Net Assets, End Of Year	<u><u>\$ 139,050</u></u>

The accompanying notes are an integral part of the financial statements

United Poultry Concerns, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2005

Cash Flows From Operating Activities:	
Decrease in net assets	\$ (7,742)
Adjustments to reconcile changes in net assets to net cash used in operating activities:	
Depreciation	4,397
Donation of securities	(1,500)
Gain on sale of investments	(47)
Net unrealized loss on investments	32
Change in assets and liabilities:	
Increase in accounts payable	126
Decrease in payroll tax liabilities	<u>(1,355)</u>
Net Cash Used In Operating Activities	<u>(6,089)</u>
Cash Flows From Investing Activities:	
Purchase of property and equipment	(15,634)
Proceeds from sale of investments	19,806
Purchase of short-term investments	<u>(31,591)</u>
Net Cash Used In Investing Activities	<u>(27,419)</u>
Cash Flows From Financing Activities:	
Principal payments on mortgage payable	<u>(1,231)</u>
Decrease in Cash	(34,739)
Cash at Beginning of Year	<u>44,804</u>
Cash at End of Year	<u><u>\$ 10,065</u></u>
Supplemental Disclosure of Cash Flows Information:	
Interest paid during the year	<u><u>\$ 1,651</u></u>
Taxes paid during the year	<u><u>\$ -</u></u>

The accompanying notes are an integral part of the financial statements

United Poultry Concerns, Inc.
Notes To Financial Statements

Note 1: Organization

United Poultry Concerns, Inc. (UPC) was incorporated in Maryland in 1990 as a non-profit corporation that addresses the treatment of domestic fowl in food production, science, education, entertainment, and human companionship situations.

United Poultry Concerns seeks to make the public aware of the ways poultry are treated by our society and elsewhere in the world. They assist the public to see how treatment of these birds affects health, ethics, education, occupational safety, and the environment. They inform people about and actively promote alternatives. UPC does this through extensive investigations, their chicken sanctuary, public talks, writings, mailings, conferences, information displays, and film presentations using such sources as public interest groups, animal advocacy organizations, poultry trade publications, government agencies, and scientific journals and proceedings.

Note 2: Expenditures

Of the total costs incurred for the year ended December 31, 2005, UPC incurred 84.97% for program services, 7.35% for administrative operations and 7.68% for fundraising.

Note 3: Summary Of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting.

Donated Materials and Services

Donated materials and equipment are reflected as contributions in the accompanying financial statements at their estimated value at the date of receipt. The organization recognizes contributed services to the extent the services received create or enhance non-financial assets or require specialized skills that would be purchased if not provided by donation.

United Poultry Concerns, Inc.
Notes to Financial Statements

Note 3: Summary Of Significant Accounting Policies (Continued)

Revenues

Revenues from unrestricted contributions are recognized when received. UPC reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Revenue from contracts is recognized as the related qualifying expenses are incurred. Revenue is deferred when funds are received but not yet expended for the contractual purpose.

Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid instruments with original maturities of three months or less. Cash and cash equivalents do not include temporary cash held in custodial accounts or restricted investments.

Inventory

Inventories are stated at the lower of cost, determined by the first-in, first-out basis, or market.

Property and Equipment

Property and equipment are stated at historical cost. The cost of maintenance and repairs is recorded as expense when incurred. Depreciation is computed using the straight-line method over the estimated useful life of the assets, which range from five to 39 years. It is the policy of United Poultry Concerns, Inc. to capitalize all property and equipment acquisitions in excess of \$500.

Income Taxes

United Poultry Concerns, Inc. is exempt from federal income tax on related income under Section 501(c)(3) of the Internal Revenue Code. The organization is classified as other than a private foundation.

United Poultry Concerns, Inc.
Notes to Financial Statements

Note 3: Summary Of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing the programs and other activities have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been either directly charged to the programs and supporting services as incurred or allocated based on usage for items such as depreciation and salaries.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 4: Investments

As of December 31, 2005, the aggregate carrying amount of investments by major type is as follows:

Certificates of deposits	\$ 30,733
Mutual funds	<u>14,945</u>
Total	<u>\$ 45,678</u>

Realized and unrealized gains and losses are included in the statement of activities as part of investment and other income. For the year ended December 31, 2005, net realized gains were \$47. Net unrealized losses for the year ended December 31, 2005 were \$32.

Note 5: Property and Equipment

Property and equipment at December 31, 2005 consist of the following:

Building and improvements	\$ 83,906
Land	30,000
Machinery and equipment	15,916
Less: Accumulated depreciation	<u>-23,904</u>
Total	<u>\$ 105,918</u>

United Poultry Concerns, Inc.
Notes to Financial Statements

Note 5: Property and Equipment (Continued)

Depreciation expense for the year ended December 31, 2005 amounted to \$4,396.

Note 6: Mortgage Payable

UPC maintains a mortgage secured by the corporation's building and surrounding land. The mortgage, dated July 23, 2003, is being repaid over 15 years in monthly installments of principal and interest of \$240.

If the mortgage is prepaid in whole or part within three years of the date of the mortgage UPC will pay a 1% prepayment penalty. UPC does not anticipate prepaying this mortgage in whole or part prior to July 23, 2006.

Interest is calculated monthly at 6.50% for three years after which the rate may change once every three years depending on the change of the banks three year commercial variable rate mortgage. The interest rate may not fall below 5%.

Following are maturities of the mortgage payable for each of the next five years:

	<u>Amount</u>
2006	\$ 1,313
2007	1,401
2008	1,495
2009	1,595
2010	1,702
Thereafter	<u>17,219</u>
Total	<u>\$ 24,725</u>

Interest expense for the year ended December 31, 2005 totaled \$1,651.

Note 7: Prior Period Adjustment

Net assets at the beginning of 2005 has been adjusted to correct an error of revenue recognition made in 2004. Had the error not been made, the increase in unrestricted net assets would have been decreased by \$39,885.