United Poultry Concerns, Inc.
Financial Statements
December 31, 2006

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, 2006, 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, 2006, 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 24, 2007
Rockville, Maryland

Arkin & Company, Chartered
### United Poultry Concerns, Inc.  
**Statement of Financial Position**  
**December 31, 2006**

#### Assets

<table>
<thead>
<tr>
<th>Current Assets</th>
<th>Amount ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>14,712</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>34,138</td>
</tr>
<tr>
<td>Inventory, stated at lower of cost or market</td>
<td>8,400</td>
</tr>
<tr>
<td>Prepaid expense</td>
<td>350</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>57,600</strong></td>
</tr>
</tbody>
</table>

| Property and Equipment, net | 101,835 |
| Total Assets | **159,435** |

#### Liabilities and Net Assets

<table>
<thead>
<tr>
<th>Current Liabilities</th>
<th>Amount ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>5,671</td>
</tr>
<tr>
<td>Payroll tax liabilities</td>
<td>1,406</td>
</tr>
<tr>
<td>Current portion of mortgage payable</td>
<td>1,345</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>8,422</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Long-Term Liabilities</th>
<th>Amount ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage payable, net of current portion</td>
<td>22,114</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>30,536</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Assets, Unrestricted</th>
<th>Amount ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Assets, Unrestricted</strong></td>
<td><strong>128,899</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total Liabilities and Net Assets</th>
<th>Amount ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Liabilities and Net Assets</strong></td>
<td><strong>159,435</strong></td>
</tr>
</tbody>
</table>

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

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United Poultry Concerns, Inc.
Statement of Activities
For the Year Ended December 31, 2006

Changes in Unrestricted Net Assets:

Revenue
  Donations $ 102,827
  Grants 22,500
  Inventory sales 7,711
  Investment income 2,095

  Total unrestricted revenue $ 135,133

Expenses
  Program services 120,332
  Cost of inventory sales 2,005

  Supporting services:
    Management and general 8,965
    Fundraising 13,982

  Total supporting services 22,947

  Total expenses $ 145,284

Decrease in Unrestricted Net Assets (10,151)

Net Assets, Beginning Of Year 139,050

Net Assets, End Of Year $ 128,899

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, 2006

Cash Flows From Operating Activities:  
Decrease in net assets $ (10,151)  
Adjustments to reconcile changes in net assets  
to net cash used in operating activities:  
  Depreciation 4,083  
  Donated securities (3,928)  
  Net unrealized loss on investments 67  
  Change in assets and liabilities:  
    Increase in prepaid expense (350)  
    Increase in accounts payable 574  
    Increase in payroll tax liabilities 217  

Net Cash Used In Operating Activities (9,488)  

Cash Flows From Investing Activities:  
  Purchase of short-term investments (2,820)  
  Sale of short-term investments 18,221  

Net Cash Provided By Investing Activities 15,401  

Cash Flows From Financing Activities:  
  Principal payments on mortgage payable (1,266)  

Increase in Cash 4,647  

Cash at Beginning of Year 10,065  

Cash at End of Year $ 14,712  

Supplemental Disclosure of Cash Flows Information:  
  Interest paid during the year $ 1,711  
  Taxes paid during the year $ -  

The accompanying notes are an integral part of the 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, 2006, UPC incurred 84.21% for program services, 6.17% for administrative operations and 9.62% 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.
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.
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 affect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 4: Investments

As of December 31, 2006, the aggregate carrying amount of investments by major type is as follows:

<table>
<thead>
<tr>
<th>Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certificates of deposits</td>
<td>$ 20,849</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>$ 13,289</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 34,138</strong></td>
</tr>
</tbody>
</table>

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, 2006, net realized gains were $0. Net unrealized losses for the year ended December 31, 2006 were $67.

Note 5: Property and Equipment

Property and equipment at December 31, 2006 consist of the following:

<table>
<thead>
<tr>
<th>Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building and improvements</td>
<td>$ 83,906</td>
</tr>
<tr>
<td>Land</td>
<td>30,000</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>15,916</td>
</tr>
<tr>
<td>Less: Accumulated depreciation</td>
<td>-27,987</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 101,835</strong></td>
</tr>
</tbody>
</table>
United Poultry Concerns, Inc.
Notes to Financial Statements

Note 5: Property and Equipment (Continued)

Depreciation expense for the year ended December 31, 2006 amounted to $4,083.

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 $259.

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, 2007.

Interest is calculated monthly at 7.75% 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:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$1,345</td>
</tr>
<tr>
<td>2008</td>
<td>1,453</td>
</tr>
<tr>
<td>2009</td>
<td>1,569</td>
</tr>
<tr>
<td>2010</td>
<td>1,695</td>
</tr>
<tr>
<td>2011</td>
<td>1,831</td>
</tr>
<tr>
<td>Thereafter</td>
<td>15,566</td>
</tr>
<tr>
<td>Total</td>
<td>$23,459</td>
</tr>
</tbody>
</table>

Interest expense for the year ended December 31, 2006 totaled $1,711.
August 20, 2007

To the Board of Directors
United Poultry Concerns, Inc.

We have audited the financial statements of the United Poultry Concerns, Inc. as of and for the year ended December 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

In planning and performing our audit of the financial statements of the United Poultry Concerns, Inc. as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the United Poultry Concerns, Inc. internal control over financial reporting (internal control) as a basis for designing our auditing procedures but not for the purpose of expressing our opinion on the effectiveness of the Organization’s internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatement on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting:

This communication is intended solely for the information and use of management, the Board of Trustees, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Arkin & Company, Chartered
06-1 Segregation of Duties

**Condition:** Responsibility for approving, executing, and recording transactions and custody of the resulting asset arising from the transaction is not assigned to separate individuals.

**Criteria:** An internal control system that has appropriate segregation of duties. The Organization has implemented limited controls with the available staff.

**Cause:** The Organization has limited staff to segregate duties properly.

**Effect:** Because of the failure to segregate duties, internal control elements do not reduce to a relatively low level the risk that irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

**Recommendation:** Responsibilities of approval, execution, recording and custody should be distributed among the office staff to the best degree possible. However, we recognize that complete segregation of duties is not economically feasible for the Organization.

**Response of Management:** The Board will segregate duties as much as possible with the limited staff available.

06-2 Accounting Personnel's Knowledge of Generally Accepted Accounting Principles (GAAP)

**Condition:** The Organization does not have adequate staff to account for the financial transactions in accordance with U.S. generally accepted accounting principles.

**Criteria:** The Organization should have a certified public accountant available to ensure the financial transactions of the organization are being recorded in accordance with U.S. generally accepted accounting principles.

**Cause:** The Organization has limited resources to spend on these types of services.

**Effect:** Auditors' proposed adjusting journal entries reflect the necessary changes needed in order to present the financial transactions in accordance with U.S. generally accepted accounting principles.

**Recommendation:** Hire a certified public accountant to ensure the financial transactions are presented on the general ledger in accordance with U.S. generally accepted accounting principles.
United Poultry Concerns, Inc.
Schedule of Findings and Responses
For the Year Ended December 31, 2006

Response of Management: It is not cost effective to hire additional professional services in addition to the bookkeeper already on staff.

06-3 Drafting of Financial Statements

Condition: The Organization does not have adequate staff to prepare the financial statements in accordance with U.S. generally accepted accounting principles.

Criteria: The Organization should have a certified public accountant available to prepare the financial statements in accordance with U.S. generally accepted accounting principles.

Cause: The Organization has limited resources to spend on these types of services.

Effect: Unknown

Recommendation: Hire a certified public accountant to prepare or review the draft financial statements.

Response of Management: It is not cost effective to hire additional professional services in addition to the bookkeeper already on staff.