

ATLAS ECONOMIC RESEARCH FOUNDATION

**Financial Statements for the Years Ended December 31, 2002 and 2001
and Independent Accountant's Audit Report Dated February 25, 2003**

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Independent Auditor's Report

Board of Directors
Atlas Economic Research Foundation
4084 University Drive, Suite 103
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We have audited the accompanying statements of financial position of the Atlas Economic Research Foundation (Atlas) as of December 31, 2002 and 2001, and the related statements of activities, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Atlas'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. 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 and 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 the Atlas Economic Research Foundation at December 31, 2002 and 2001, and the results of its operations, changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses for the years ended December 31, 2002 and 2001 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied to the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Reed & Hendershot, CPAs

Reed and Hendershot, CPAs
February 25, 2003

ATLAS ECONOMIC RESEARCH FOUNDATION
STATEMENT OF FINANCIAL POSITION
As of December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,664,269	\$ 1,675,609
Trading investments	-	72,507
Pledge receivable	131,000	382,548
Accounts receivable	4,200	6,889
Prepaid expenses	<u>3,950</u>	<u>3,443</u>
Total Current Assets	<u>1,803,419</u>	<u>2,140,996</u>
Available for Sale Investments	358,813	210,798
Furniture and equipment, net	30,453	24,026
Deposit	<u>7,759</u>	<u>7,704</u>
TOTAL ASSETS	<u>\$ 2,200,444</u>	<u>\$ 2,383,524</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 43,648	8,872
Salaries Payable	21,243	-
Accrued Expenses	<u>24,094</u>	<u>21,746</u>
Total Current Liabilities	88,985	30,618
Security Deposits	<u>100</u>	<u>-</u>
TOTAL LIABILITIES	<u>\$ 89,085</u>	<u>\$ 30,618</u>
Net Assets		
Unrestricted		
General	\$ 663,686	\$ 930,000
Internally designated	<u>969,752</u>	<u>237,295</u>
Total Unrestricted	<u>1,633,438</u>	<u>1,167,295</u>
Temporarily Restricted	<u>477,921</u>	<u>1,185,611</u>
Permanently Restricted	<u>-</u>	<u>-</u>
Total Net Assets	<u>\$ 2,111,359</u>	<u>\$ 2,352,906</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,200,444</u>	<u>\$ 2,383,524</u>

See Accompanying Notes to the Financial Statements

ATLAS ECONOMIC RESEARCH FOUNDATION
STATEMENT OF ACTIVITIES
For the Years Ended December 31, 2002 and 2001

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	2002 <u>Totals</u>	2001 <u>Totals</u>
REVENUE AND SUPPORT					
Contributions	\$ 1,489,832	\$ 607,600	\$ -	\$ 2,097,432	2,792,874
Investment Income	16,832			16,832	62,044
Workshop and Program Fees	19,289			19,289	44,864
Gain (Loss) on Sale of Assets	5,130			5,130	114
Donated Software	11,762			11,762	-
Net Assets Released from Restriction				-	-
Satisfaction of program Restrictions	<u>1,315,291</u>	<u>(1,315,291)</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE AND SUPPORT	<u>2,858,136</u>	<u>(707,691)</u>	<u>-</u>	<u>2,150,445</u>	<u>2,899,896</u>
EXPENSES					
Program Services	2,090,352			2,090,352	2,946,867
Management and general	209,763			209,763	196,051
Fundraising	<u>98,761</u>	<u>-</u>	<u>-</u>	<u>98,761</u>	<u>106,562</u>
TOTAL EXPENSES	<u>2,398,876</u>	<u>-</u>	<u>-</u>	<u>2,398,876</u>	<u>3,249,480</u>
CHANGE IN NET ASSETS	459,260	(707,691)	-	(248,431)	(349,584)
PRIOR PERIOD ADJUSTMENT	6,884			6,884	
NET ASSETS, BEGINNING OF YEAR	<u>1,167,295</u>	<u>1,185,611</u>	<u>-</u>	<u>2,352,906</u>	<u>2,702,490</u>
NET ASSETS, END OF YEAR	<u>\$ 1,633,439</u>	<u>\$ 477,920</u>	<u>\$ -</u>	<u>\$ 2,111,359</u>	<u>2,352,906</u>

See the Accompanying Notes to the Financial Statements

ATLAS ECONOMIC RESEARCH FOUNDATION
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2002 and 2001

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2002</u>	<u>2001</u>
Change in net assets	\$ (248,431)	\$ (349,584)
Depreciation	14,565	18,483
Donated software	(11,762)	-
Contributed Stock	72,507	-
Net realized (gains)/losses	(0)	(22,973)
(Increase) decrease in pledge receivable	251,548	277,619
(Increase) decrease in accounts receivable	2,689	(5,132)
(Increase) decrease in prepaid expenses	(507)	277
(Increase) decrease in deposits	(54)	(3,372)
Unrealized interest income	1,984	(11,063)
Security deposit	100	-
Increase (decrease) in accrued expenses	2,348	21,746
Increase (decrease) in salary payable	21,243	-
Increase (decrease) in accounts payable	<u>34,776</u>	<u>(5,671)</u>
 NET CASH USED IN OPERATING ACTIVITIES	 141,006	 (79,671)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investment sales	50,000	34,036
Investment acquisition	(200,000)	(77,196)
Acquisition of furniture and equipment	<u>(2,346)</u>	<u>(14,424)</u>
 NET CASH USED IN INVESTING ACTIVITIES	 (152,346)	 (57,584)
 CASH FLOWS FROM FINANCING ACTIVITIES		
 NET CASH USED IN FINANCING ACTIVITIES	 <u>-</u>	 <u>-</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 (11,340)	 (137,255)
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 <u>1,675,609</u>	 <u>1,812,864</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u>\$ 1,664,269</u>	 <u>\$ 1,675,609</u>

See Accompanying Notes to the Financial Statements

ATLAS ECONOMIC RESEARCH FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2002 and 2001

NOTE 1: ORGANIZATION

The Atlas Economic Research Foundation (Atlas) is a publicly supported, non-profit, educational organization established and incorporated in the State of Delaware in 1981. Its vision is to achieve a society of free and responsible individuals based upon private property rights, limited government under the rule of law and the market order. The mission of Atlas is to discover, develop and support intellectual entrepreneurs worldwide who have the potential to create independent public policy institutes and related programs that advance its vision; and to provide ongoing support as such institutes and programs mature.

Atlas pursues its mission through several different methods, including:

- discovering intellectual entrepreneurs who share its vision
- developing and supporting intellectual entrepreneurs in the establishment and growth of organizations with the potential to advance the Atlas vision
- encouraging such people and such institutes to address policy issues which advance its vision
- supporting the dissemination of institutes' work to current and potential opinion leaders
- encouraging and providing support for institute leaders and staffs to develop their management, leadership and fund-raising skills
- alerting institutes about potential funding opportunities
- informing institutes about the work of their colleagues through networking, publications and conferences
- encouraging institutes to create a working environment that will attract intellectual entrepreneurs and retain talented staff

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Contributions - Atlas reports gifts of cash and other assets as restricted support if they are received with donor or time stipulations that limit the use of the donated assets. When the donor or time 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.

Atlas reports gifts of furniture and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Atlas reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Promises to Give – Contributions are recognized when the donor makes a promise to give to Atlas that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Atlas uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. There were no allowances as of December 31, 2002 and 2001.

Use of estimates - Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, and the reported revenues and expenses.

Statement of Cash Flows

All highly liquid debt instruments purchased with maturity of three months or less are considered to be cash equivalents for purposes of the statement of cash flows. Cash and cash equivalents include the following:

Furniture, Equipment and Leasehold Improvements - Current purchases of furniture and equipment in excess of \$250 are recorded at cost. Items of furniture and equipment that are donated are recorded at their fair market value. Depreciation is taken on a straight-line basis. Equipment is depreciated over five years and furniture over ten years. Depreciation expense amounted to \$14,613 and \$18,483 for the years ended December 31, 2002 and 2001 respectively.

Leasehold Improvements are recorded at cost and is amortized, on a straight-line basis, over the life of the lease. Leasehold Improvements have been fully amortized as of December 31, 2002 and 2001. No amortization expense was taken in either year.

Investments – Atlas has adopted SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations. SFAS No. 124 requires investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

NOTE 3: INVESTMENTS

Trading investments are carried at fair value. Trading securities represents stock contributions that are waiting for sale. The balance of these securities were \$-0- and \$72,507 at December 31, 2002 and 2001, respectively

Available for Sale investments are stated at fair value and consist of U.S. Treasury notes and municipal bonds. Unrealized gains and losses are accounted for as other comprehensive income.

Treasury Bills fair values and unrealized gains at December 31, 2002 and 2001 are summarized as follows.

	<u>2002</u>	<u>2001</u>
Cost	\$150,000	\$199,734
Fair Value	<u>158,813</u>	<u>210,798</u>
Unrealized Gains	<u>\$ 8,813</u>	<u>\$ 10,864</u>

Municipal bonds fair values and unrealized gains at December 31, 2002 and 2001 are summarized as follows:

	<u>2002</u>	<u>2001</u>
Cost	\$200,000	\$ 0
Fair Market Value	<u>200,000</u>	<u>0</u>
Unrealized Gains/(Losses)	<u>\$ 0</u>	<u>\$ 0</u>

NOTE 4: FURNITURE, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

A summary of premises and equipment at December 31, 2002 and 2001 follows:

	<u>2002</u>	<u>2001</u>
Furniture and Equipment	\$ 90,947	\$ 88,600
Software	24,640	12,878
Leasehold Improvements	<u>37,519</u>	<u>37,519</u>
	153,106	138,997
Accumulated depreciation and amortization	<u>(122,653)</u>	<u>(114,971)</u>
	<u>\$ 30,453</u>	<u>\$ 24,026</u>

ATLAS ECONOMIC RESEARCH FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES - Client Statement
For the Years Ended December 31, 2002 and 2001

	Unrestricted	Designated	Temporarily Restricted	Total Program Services	Management and General	Fundraising	2002 Totals	2001 Totals
Fellowships and Grants	\$ 11,761	\$ 128,064	\$ 1,094,639	\$ 1,234,464	\$ -	\$ -	\$ 1,234,464	\$ 1,924,258
Salaries, payroll taxes and benefits	263,850	40,811	32,398	337,059	173,363	80,611	591,033	535,268
Conferences, Meetings and Travel	68,164	12,120	100,718	181,002	797	11,710	193,509	252,812
Professional fees	556	-	2,796	3,352	21,278	-	24,630	29,690
Occupancy	56,946	-	44,366	101,312	4,000	-	105,312	88,251
Website & Internet Connection	-	-	71,141	71,141	-	-	71,141	127,560
Dues & Subscriptions	9,276	-	19,638	28,914	379	314	29,607	14,527
Telephone	17,625	(0)	1,222	18,847	1,044	-	19,891	24,518
Postage and shipping	17,516	1,611	6,420	25,547	1,470	4,135	31,152	39,531
Depreciation	14,613	-	-	14,613	-	-	14,613	18,483
Miscellaneous	1,904	28	1,694	3,626	75	35	3,736	9,077
Supplies	12,708	505	1,564	14,777	83	13	14,873	17,381
Insurance	(483)	-	33	(450)	6,494	-	6,044	6,926
Contract Labor	7,485	6,800	13,434	27,719	355	-	28,074	52,295
Taxes, Licenses, & Permits	611	150	397	1,158	40	999	2,197	1,258
Printing and reproduction	26,004	10	1,257	27,271	385	944	28,600	107,645
Totals	\$ 508,536	\$ 190,099	\$ 1,391,717	\$ 2,090,352	\$ 209,763	\$ 98,761	\$ 2,398,876	\$ 3,249,481

See the Accompanying Notes to the Financial Statements

NOTE 5: TEMPORARILY RESTRICTED NET ASSETS

The following temporarily restricted assets are available for the following purposes or periods:

<u>Program Activities:</u>	<u>2002</u>	<u>2001</u>
Time Restricted Support	\$ 131,000	\$ 382,548
Specific Program Support	<u>346,921</u>	<u>803,063</u>
Total temporarily restricted assets	<u>\$ 477,921</u>	<u>\$1,185,611</u>

NOTE 6: ASSETS RELEASED FROM RESTRICTIONS

	<u>2002</u>	<u>2001</u>
Assets released by disbursing funds in accordance with the donor restrictions	\$1,063,742	\$1,526,038
Assets released from time restrictions	<u>251,548</u>	<u>277,618</u>
Total funds released from restrictions	<u>\$1,315,290</u>	<u>\$1,803,656</u>

NOTE 7: PENSION PLAN

The Company maintains a 401(k) retirement plan covering substantially all full-time employees. Employees make pre-tax contributions for the purchase of retirement annuities. Total employee contributions for the year ended December 31, 2002 and 2001 were approximately \$23,500 and \$10,500 respectively.

NOTE 8: TAX STATUS AND CONTRIBUTIONS

Income Tax Status - Atlas is exempt from federal income tax for related purpose net income as described in Section 501 (c)(3) of the Internal Revenue Code. Accordingly, contributions to Atlas are deductible for federal income, estate, and gift tax purposes. In addition, Atlas has been classified by the Internal Revenue Service as a public charity and is not a private foundation.