

Atlas Economic Research Foundation

**Financial Statements for the Years Ended December 31, 2003 and 2002
and Independent Accountant's Audit Report
Dated February 13, 2004**

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Independent Auditor's Report

Board of Directors
Atlas Economic Research Foundation
4084 University Drive, Suite 103
Fairfax, VA. 22030

We have audited the accompanying statements of financial position of the Atlas Economic Research Foundation ("Atlas") as of December 31, 2003 and 2002, 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' 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 Atlas at December 31, 2003 and 2002, 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, 2003 and 2002 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.

Hendershot, Burkhardt & Reed, CPAs

Hendershot, Burkhardt & Reed, CPA's
February 13, 2004

Atlas Economic Research Foundation
Statement of Financial Position
For the Years Ended December 31, 2003 and 2002

ASSETS	<u>2003</u>	<u>2002</u>
Current Assets		
Cash and cash equivalents	\$ 1,642,063	\$ 1,664,269
Pledges receivable	521,000	131,000
Accounts receivable	2,481	4,200
Prepaid expenses	9,567	3,950
Total Current Assets	<u>2,175,111</u>	<u>1,803,419</u>
Long Term Assets		
Pledges receivables, non current	864,234	-
Available for Sale Investments	352,742	358,813
Furniture and equipment, net	25,823	30,453
Deposits	5,703	7,759
Total Long Term Assets	<u>1,248,502</u>	<u>397,025</u>
TOTAL ASSETS	<u>\$ 3,423,613</u>	<u>\$ 2,200,444</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 125,306	\$ 43,648
Salaries Payable	-	21,243
Accrued Expenses	21,480	24,094
Capital Leases, current	1,367	-
Total Current Liabilities	<u>148,153</u>	<u>88,985</u>
Long Term Liabilities		
Capital Leases, non current	6,569	-
Security Deposits	-	100
Total Long Term Liabilities	<u>6,569</u>	<u>100</u>
TOTAL LIABILITIES	154,722	89,085
Net Assets		
Unrestricted		
General	\$ 626,398	\$ 663,686
Internally designated	286,437	969,752
Total Unrestricted	912,835	1,633,438
Temporarily Restricted	2,356,056	477,921
Permanently Restricted	-	-
Total Net Assets	<u>\$ 3,268,891</u>	<u>\$ 2,111,359</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,423,613</u>	<u>\$ 2,200,444</u>

See the accompanying notes to the financial statements

Atlas Economic Research Foundation
Statement of Activities
For the Years Ended December 31, 2003 and 2002

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2003 Totals</u>	<u>2002 Totals</u>
REVENUE AND SUPPORT					
Contributions	\$ 1,147,930	\$ 2,829,862	\$ -	\$ 3,977,792	\$ 2,097,432
Investment Income	14,496	-	-	14,496	8,019
Unrealized Gain (Loss) on Investments	2,408	-	-	2,408	8,813
Workshop, Program Fees, and Rental Income	10,593	-	-	10,593	19,289
Gain (Loss) on Sale of Assets	-	-	-	-	5,130
Donated Goods	500	-	-	500	11,762
Net Assets Released from Restriction	-	-	-	-	-
Satisfaction of Program Restrictions	<u>951,726</u>	<u>(951,726)</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE AND SUPPORT	\$ 2,127,653	\$ 1,878,136	\$ -	\$ 4,005,789	\$ 2,150,445
EXPENSES					
Program Services	\$ 2,483,479	\$ -	\$ -	\$ 2,483,479	\$ 2,090,352
Management and general	239,493	-	-	239,493	209,763
Fundraising	<u>148,885</u>	<u>-</u>	<u>-</u>	<u>148,885</u>	<u>98,761</u>
TOTAL EXPENSES	\$ 2,871,857	\$ -	\$ -	\$ 2,871,857	\$ 2,398,876
CHANGE IN NET ASSETS	\$ (744,204)	\$ 1,878,136	\$ -	\$ 1,133,932	\$ (248,431)
PRIOR PERIOD ADJUSTMENT	23,600	-	-	23,600	6,884
NET ASSETS, BEGINNING OF YEAR	<u>1,633,439</u>	<u>477,920</u>	<u>-</u>	<u>2,111,359</u>	<u>2,352,906</u>
NET ASSETS, END OF YEAR	<u>\$ 912,835</u>	<u>\$ 2,356,056</u>	<u>\$ -</u>	<u>\$ 3,268,891</u>	<u>\$ 2,111,359</u>

See the accompanying notes to the financial statements

Atlas Economic Research Foundation
Statement of Cash Flows
For the Years Ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,133,932	\$ (248,431)
Prior Period Adjustment	23,600	-
Depreciation	15,363	14,565
Donated Software	-	(11,762)
Contributed Stock	-	72,507
Net Unrealized and Realized (Gains)/Losses	6,072	-
(Increase) decrease in pledges receivable	(1,254,233)	251,548
(Increase) decrease in accounts receivable	1,717	2,689
(Increase) decrease in prepaid expenses	(5,617)	(507)
(Increase) decrease in deposits	2,056	(54)
Unrealized Interest Income	-	1,984
Security deposit	(100)	100
Increase (decrease) in accrued expenses	(2,614)	2,348
Increase (decrease) in salary payable	(21,243)	21,243
Increase (decrease) in accounts payable	<u>81,658</u>	<u>34,776</u>
 NET CASH USED IN OPERATING ACTIVITIES	 (19,410)	 141,006
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceed from investment sales	-	50,000
Investment acquisition	-	(200,000)
Acquisition of furniture and equipment	<u>(10,732)</u>	<u>(2,346)</u>
 NET CASH USED IN INVESTING ACTIVITIES	 (10,732)	 (152,346)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in capital lease	<u>7,936</u>	<u>-</u>
 NET CASH USED IN FINANCING ACTIVITIES	 <u>7,936</u>	 <u>-</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 (22,205)	 (11,340)
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 <u>1,664,269</u>	 <u>1,675,609</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u>\$ 1,642,064</u>	 <u>\$ 1,664,269</u>

See the accompanying notes to the financial statements

ATLAS ECONOMIC RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2003 and 2002

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.

ATLAS ECONOMIC RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2003 and 2002

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont.)

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, 2003 and 2002.

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.

Cash and Cash Equivalents - 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.

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 \$15,363 and \$14,613 for the years ended December 31, 2003 and 2002 respectively. Leasehold Improvements are recorded at cost and is amortized, on a straight-line basis, over the life of the lease. Leasehold Improvements had been fully amortized as of December 31, 1999.

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 to be reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the statement of activities. 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.

ATLAS ECONOMIC RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2003 and 2002

NOTE 3: INVESTMENTS

Long-term investments are stated at fair value and consist of U.S. Treasury notes and municipal bonds. Fair values and unrealized appreciation (depreciation) of the U.S. Treasury notes at December 31, 2003 and 2002 are summarized as follows:

	<u>2003</u>	<u>2002</u>
Cost	\$100,334	\$150,000
Fair Value	<u>103,782</u>	<u>158,813</u>
Unrealized Gains	<u>\$ 3,448</u>	<u>\$ 8,813</u>

Fair values and unrealized gains (losses) of municipal bonds at December 31, 2003 and 2002 are summarized as follows:

	<u>2003</u>	<u>2002</u>
Municipal bonds, Cost	\$250,000	\$200,000
Fair Market Value	<u>248,960</u>	<u>200,000</u>
Unrealized Gains/(Losses)	<u>\$ (1,040)</u>	<u> -</u>

Municipal bonds with a fair value of \$200,000 were sold in 2003 with no realized gains or losses.

NOTE 4: FIXED ASSETS

A summary of Fixed Assets at December 31, 2003 and 2002 follows:

	<u>2003</u>	<u>2002</u>
Furniture and Equipment	\$ 101,095	\$ 90,947
Software	25,225	24,640
Leasehold Improvements	<u>37,519</u>	<u>37,519</u>
	163,839	153,106
Accumulated depreciation and amortization	<u>(138,016)</u>	<u>(122,653)</u>
	<u>\$ 25,823</u>	<u>\$ 30,453</u>

**ATLAS ECONOMIC RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2003 and 2002**

NOTE 5: PLEDGES RECEIVABLE

A significant portion of the pledge receivables consists of a \$2,000,000 restricted grant to be paid over four years. The receivable portion of the grant was recorded at present value using a 5% discount rate. The purpose of the grant is to create an awards program designed to aid individuals and institutes that are making educational and public policy efforts to advance freedom. The details of the receivable are as follows:

Current pledge receivable	\$ 425,000
Long term pledge receivable	1,025,000
Discount on long term pledge receivable	<u>(160,766)</u>
Total pledge receivable as of December 31, 2003:	<u>\$1,289,234</u>

NOTE 6: CAPITAL LEASES

Atlas leases office equipment under non-cancelable capital leases, expiring in 2007 and 2008.

Future minimum lease payments under capital leases are as follows:

Year Ending December 31 st	
2004	\$ 3,516
2005	3,516
2006	3,516
2007	2,796
2008	<u>892</u>
Total minimum lease payments	14,236
Less amount representing interest	<u>6,300</u>
Present value of minimum lease payments	<u>\$ 7,936</u>

NOTE 7: TEMPORARILY RESTRICTED NET ASSETS

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

Program Activities:	<u>2003</u>	<u>2002</u>
Time Restricted Support	\$ 864,234	\$131,000
Specific Program Support	<u>1,491,822</u>	<u>346,921</u>
Total temporarily restricted assets	<u>\$2,356,056</u>	<u>\$477,921</u>

ATLAS ECONOMIC RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2003 and 2002

NOTE 8: ASSETS RELEASED FROM RESTRICTIONS

	<u>2003</u>	<u>2002</u>
Assets released by disbursing funds in accordance with the donor restrictions	\$ 951,726	\$1,063,742
Assets released from time restrictions	<u>-</u>	<u>251,548</u>
Total funds released from restrictions	<u>\$ 951,726</u>	<u>1,315,290</u>

NOTE 9: PENSION PLAN

Atlas 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 years ended December 31, 2003 and 2002 were approximately \$12,325 and \$13,600 respectively.

NOTE 10: 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.

Atlas Economic Research Foundation
Statement of Functional Expenses
For the Years Ended December 31, 2003 and 2002

	Unrestricted	Designated	Temporarily Restricted	Total Program Services	Management and General	Fundraising	2003 Totals	2002 Totals
Fellowships and Grants	\$ 3,250	\$ 785,854	\$ 861,429	\$ 1,650,533	\$ -	\$ -	\$ 1,650,533	\$ 1,234,464
Salaries, Payroll Taxes and Benefits	224,834	9,721	13,612	248,167	184,912	126,437	559,516	591,033
Conferences, Meetings and Travel	40,607	83,850	58,998	183,455	4,234	7,769	195,458	193,509
Contract Labor	4,321	94,278	19,645	118,244	2,382	231	120,857	28,074
Occupancy	77,093	21,361	225	98,679	7,679	4,691	111,049	105,312
Printing and Reproduction	37,449	6,205	2,696	46,350	1,646	668	48,664	28,600
Website & Internet Connection	-	250	44,195	44,445	-	-	44,445	71,141
Postage and Shipping	25,501	2,921	707	29,129	1,711	4,858	35,698	31,152
Professional Fees	1,195	5,000	1,700	7,895	24,656	73	32,624	24,630
Telephone	14,371	719	335	15,425	2,104	874	18,403	19,891
Depreciation	13,238	-	-	13,238	1,319	806	15,363	14,613
Dues & Subscriptions	9,697	259	17	9,973	1,023	1,208	12,204	29,607
Supplies	8,712	1,297	-	10,009	824	665	11,498	14,873
Miscellaneous	3,350	1,861	23	5,234	817	459	6,510	3,736
Insurance	-	-	-	-	5,447	-	5,447	6,044
Taxes, Licenses, & Permits	1,365	100	200	1,665	636	83	2,384	2,197
Interest Expense	1,038	-	-	1,038	103	63	1,204	-
Totals	\$ 466,021	\$ 1,013,676	\$ 1,003,782	\$ 2,483,479	\$ 239,493	\$ 148,885	\$ 2,871,857	\$ 2,398,876

See the accompanying notes to the financial statements