

Atlas Economic Research Foundation

**Financial Statements for the Years Ended December 31, 2005 and 2004
and Independent Auditors' Report
Dated August 17, 2006**

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ATLAS ECONOMIC RESEARCH FOUNDATION

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Independent Auditors' Report

Members of the Board of Directors
Atlas Economic Research Foundation
2000 North 14th Street, Suite 550
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We have audited the accompanying statements of financial position of Atlas Economic Research Foundation ("Atlas") as of December 31, 2005 and 2004, and the related statements of activities, cash flows and functional expenses 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 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 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, 2005 and 2004, the changes in its net assets, its cash flows, and its functional expenses for the years then ended in conformity with accounting principles generally accepted in the United States.

Hendershot, Burkhardt & Reed CPA's

Hendershot, Burkhardt & Reed CPA's
August 17, 2006

ATLAS ECONOMIC RESEARCH FOUNDATION

Statements of Financial Position As of December 31, 2005 and 2004

ASSETS	<u>2005</u>	<u>2004</u>
Current Assets		
Cash and Cash Equivalents	\$ 1,778,655	\$ 1,540,319
Pledges Receivable	655,293	503,255
Accounts Receivable	811	900
Prepaid Expenses	<u>23,373</u>	<u>42,533</u>
Total Current Assets	2,458,132	2,087,007
Long Term Assets		
Pledges Receivable, non current	414,527	436,737
Available for Sale Investments	376,320	375,252
Furniture and Equipment, net	96,127	22,193
Deposits	<u>38,132</u>	<u>52,630</u>
Total Long Term Assets	<u>925,106</u>	<u>886,812</u>
TOTAL ASSETS	<u>\$ 3,383,238</u>	<u>\$ 2,973,819</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 30,092	\$ 7,041
Accrued Expenses	36,713	28,691
Capital Leases, current	<u>12,207</u>	<u>1,693</u>
Total Current Liabilities	79,012	37,425
Long Term Liabilities		
Capital Leases, non current	<u>50,705</u>	<u>4,876</u>
Total Long Term Liabilities	<u>50,705</u>	<u>4,876</u>
TOTAL LIABILITIES	129,717	42,301
Net Assets		
Unrestricted		
General	563,608	579,256
Designated	<u>284,448</u>	<u>166,513</u>
Total Unrestricted	848,056	745,769
Temporarily Restricted	2,405,465	2,185,749
Permanently Restricted	<u>-</u>	<u>-</u>
Total Net Assets	<u>3,253,521</u>	<u>2,931,518</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,383,238</u>	<u>\$ 2,973,819</u>

See the accompanying Independent Auditors' Report and notes to the financial statements

ATLAS ECONOMIC RESEARCH FOUNDATION

Statements of Activities

For the Years Ended December 31, 2005 and 2004

	2005				2004			
	<u>Unrestricted</u>	Temporarily	Permanently	<u>Totals</u>	<u>Unrestricted</u>	Temporarily	Permanently	<u>Totals</u>
		<u>Restricted</u>	<u>Restricted</u>			<u>Restricted</u>	<u>Restricted</u>	
REVENUE AND SUPPORT								
Contributions	\$ 1,742,296	\$ 2,366,450	\$ -	\$ 4,108,746	\$ 1,150,247	\$ 1,684,434	\$ -	\$ 2,834,681
Investment Income	28,401	-	-	28,401	21,077	-	-	21,077
Unrealized Gain/(Loss) on Investments	1,320	-	-	1,320	(2,211)	-	-	(2,211)
Workshop, Program Fees, and Rental Income	47,697	150	-	47,847	39,577	3,000	-	42,577
Net Assets Released from Restriction	<u>2,146,884</u>	<u>(2,146,884)</u>	-	-	<u>1,857,741</u>	<u>(1,857,741)</u>	-	-
TOTAL REVENUE AND SUPPORT	3,966,598	219,716	-	4,186,314	3,066,431	(170,307)	-	2,896,124
EXPENSES								
Program Services	3,417,190	-	-	3,417,190	2,882,764	-	-	2,882,764
Management and General	226,642	-	-	226,642	222,440	-	-	222,440
Fundraising	<u>220,479</u>	-	-	<u>220,479</u>	<u>128,293</u>	-	-	<u>128,293</u>
TOTAL EXPENSES	3,864,311	-	-	3,864,311	3,233,497	-	-	3,233,497
Change in Net Assets	102,287	219,716	-	322,003	(167,066)	(170,307)	-	(337,373)
Net Assets, Beginning of Year	<u>745,769</u>	<u>2,185,749</u>	-	<u>2,931,518</u>	<u>912,835</u>	<u>2,356,056</u>	-	<u>3,268,891</u>
Net Assets, End of Year	\$ 848,056	\$ 2,405,465	\$ -	\$ 3,253,521	\$ 745,769	\$ 2,185,749	\$ -	\$ 2,931,518

See the accompanying Independent Auditors' Report and notes to the financial statements

ATLAS ECONOMIC RESEARCH FOUNDATION**Statements of Cash Flows****For the Years Ended December 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 322,003	\$ (337,373)
Adjustments to reconcile Change in Net Assets to Net Cash provided by (used in) Operating Activities:		
Depreciation and Amortization	15,372	13,247
Loss on Disposal of Fixed Assets	8,918	-
Net Unrealized and Realized (Gains)/Losses	(1,320)	2,211
(Increase) decrease in Pledges Receivable	(129,828)	444,242
(Increase) decrease in Accounts Receivable	89	2,580
(Increase) decrease in Prepaid Expenses	19,160	(32,966)
(Increase) decrease in Deposits	14,498	(46,926)
Increase (decrease) in Accounts Payable	23,051	(116,180)
Increase (decrease) in Accrued Expenses	<u>8,022</u>	<u>5,125</u>
NET CASH USED IN OPERATING ACTIVITIES	279,965	(66,040)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Investment Sales	50,000	50,000
Acquisition of Investments	(50,000)	(75,000)
Acquisition of Furniture and Equipment	<u>(97,972)</u>	<u>(9,338)</u>
NET CASH USED IN INVESTING ACTIVITIES	(97,972)	(34,338)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in Capital Lease	<u>56,343</u>	<u>(1,367)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>56,343</u>	<u>(1,367)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	238,336	(101,745)
Cash and Cash Equivalents at Beginning of Year	<u>1,540,319</u>	<u>1,642,064</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,778,655</u>	<u>\$ 1,540,319</u>

See the accompanying Independent Auditors' Report and notes to the financial statements

ATLAS ECONOMIC RESEARCH FOUNDATION

**Statement of Functional Expenses
For the Year Ended December 31, 2005**

	Unrestricted		Temporarily	Total	Management		2005
	<u>General</u>	<u>Designated</u>	<u>Restricted</u>	<u>Program Services</u>	<u>and General</u>	<u>Fundraising</u>	<u>Totals</u>
Fellowships and Grants	\$ 4,000	\$ 387,852	\$ 1,709,204	\$ 2,101,056	\$ -	\$ -	\$ 2,101,056
Salaries, Payroll Taxes, and Benefit	309,139	58,518	100,481	468,138	143,597	127,285	739,020
Conferences, Meetings, and Travel	144,671	37,693	173,969	356,333	4,833	6,223	367,389
Printing and Reproduction	65,540	5,400	44,519	115,459	1,026	26,968	143,453
Occupancy	60,551	405	22,149	83,105	23,806	19,338	126,249
Professional Fees	1,408	-	68,166	69,574	14,770	352	84,696
Website	144	-	77,019	77,163	-	-	77,163
Postage and Shipping	23,584	1,107	10,860	35,551	2,822	20,350	58,723
Supplies	23,973	52	1,273	25,298	13,464	7,532	46,294
Contract Labor	539	14,168	7,795	22,502	535	1,322	24,359
Miscellaneous	9,469	1,742	7,203	18,414	4,402	420	23,236
Telephone	9,455	-	1,010	10,465	3,175	3,009	16,649
Depreciation	9,329	-	-	9,329	3,063	2,980	15,372
Dues and Subscriptions	12,317	-	929	13,246	748	1,100	15,094
Loss on Disposal of Fixed Assets	5,412	-	-	5,412	1,777	1,729	8,918
Insurance	874	-	-	874	6,431	279	7,584
Interest Expense	4,266	-	-	4,266	1,401	1,363	7,030
Taxes, Licenses, and Permits	717	-	288	1,005	792	229	2,026
Totals	<u>\$ 685,388</u>	<u>\$ 506,937</u>	<u>\$ 2,224,865</u>	<u>\$ 3,417,190</u>	<u>\$ 226,642</u>	<u>\$ 220,479</u>	<u>\$ 3,864,311</u>

See the accompanying Independent Auditors' Report and notes to the financial statements

ATLAS ECONOMIC RESEARCH FOUNDATION

**Statement of Functional Expenses
For the Year Ended December 31, 2004**

	Unrestricted		Temporarily	Total	Management		2004
	<u>General</u>	<u>Designated</u>	<u>Restricted</u>	<u>Program Services</u>	<u>and General</u>	<u>Fundraising</u>	<u>Totals</u>
Fellowships and Grants	\$ 11,119	\$ 369,143	\$ 1,427,588	\$ 1,807,850	\$ -	\$ -	\$ 1,807,850
Salaries, Payroll Taxes, and Benefits	288,812	39,003	42,449	370,264	129,314	100,828	600,406
Conferences, Meetings, and Travel	151,722	33,190	97,746	282,658	2,893	5,393	290,944
Occupancy	64,269	1,375	17,404	83,048	21,815	12,581	117,444
Printing and Reproduction	62,546	794	47,475	110,815	3,469	1,514	115,798
Website	32	543	84,936	85,511	-	-	85,511
Contract Labor	1,684	42,339	18,054	62,077	3,215	1,112	66,404
Postage and Shipping	26,299	2,447	6,752	35,498	2,181	925	38,604
Professional Fees	1,163	-	6,685	7,848	24,737	228	32,813
Miscellaneous	358	150	2,106	2,614	16,247	-	18,861
Telephone	9,304	294	528	10,126	3,269	1,822	15,217
Depreciation	8,445	-	-	8,445	2,870	1,655	12,970
Dues and Subscriptions	7,996	-	941	8,937	1,141	1,017	11,095
Supplies	5,154	9	155	5,318	2,355	908	8,581
Insurance	-	-	-	-	7,562	-	7,562
Interest Expense	1,580	-	-	1,580	537	310	2,427
Taxes, Licenses, and Permits	-	175	-	175	835	-	1,010
Totals	\$ 640,483	\$ 489,462	\$ 1,752,819	\$ 2,882,764	\$ 222,440	\$ 128,293	\$ 3,233,497

See the accompanying Independent Auditors' Report and notes to the financial statements

ATLAS ECONOMIC RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2005 and 2004

NOTE 1: ORGANIZATION

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, 2005 and 2004

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, 2005 or 2004.

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 \$500 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 \$15,370 and \$12,970 for the years ended December 31, 2005 and 2004, respectively.

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, 2005 and 2004

NOTE 3: INVESTMENTS

Long-term investments are stated at fair value and consist of U.S. Treasury notes and mutual funds. Fair values and unrealized gains/(losses) of the U.S. Treasury notes at December 31, 2005 and 2004 are summarized as follows:

	<u>2005</u>	<u>2004</u>
Maturity Value	\$ 0	\$ 50,000
Fair Value	\$ 0	\$ 50,332
Current Year Unrealized Gains/(Losses)	\$ 0	\$ (3,171)

Fair values and unrealized gains/(losses) of mutual funds at December 31, 2005 and 2004 are summarized as follows:

	<u>2005</u>	<u>2004</u>
Mutual Funds, Cost	\$375,000	\$325,000
Fair Market Value	<u>376,320</u>	<u>324,040</u>
Current Year Unrealized Gains/(Losses)	<u>\$ 1,320</u>	<u>\$ 960</u>

NOTE 4: FIXED ASSETS

A summary of Fixed Assets at December 31, 2005 and 2004 follows:

	<u>2005</u>	<u>2004</u>
Furniture and Equipment	\$ 85,060	\$ 110,434
Software	44,087	25,225
Leasehold Improvements	<u>0</u>	<u>37,519</u>
	129,147	173,178
Accumulated depreciation	<u>(33,020)</u>	<u>(150,985)</u>
	<u>\$ 96,127</u>	<u>\$ 22,193</u>

ATLAS ECONOMIC RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2005 and 2004

NOTE 5: PLEDGES RECEIVABLE

A significant portion of the pledges receivable consists of the remainder of a \$2,000,000 restricted grant, pledged in 2003, 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	\$ 445,000
Long term pledge receivable	30,000
Discount on long term pledge receivable	<u>(2,122)</u>
Total pledge receivable as of December 31, 2005:	<u>\$ 472,878</u>

A significant portion of the pledges receivable consists of a \$615,000 restricted grant, pledged in 2005, to be paid over three years. The receivable portion of the grant was recorded at present value using a 4% discount rate. The purpose of the grant is to aid in funding Atlas's North American Activities as well as to fund travel grants for leadership training and other grants to organizations approved by Atlas. The details of the receivable are as follows:

Current pledge receivable	\$ 205,000
Long term pledge receivable	410,000
Discount on long term pledge receivable	<u>(23,351)</u>
Total pledge receivable as of December 31, 2005:	<u>\$ 591,649</u>

NOTE 6: CAPITAL LEASES

Atlas leases office equipment and software under non-cancelable capital leases, expiring between 2007 and 2010. Future minimum lease payments under capital leases are as follows:

Year Ending December 31 st	
2006	22,341
2007	21,621
2008	19,717
2009	18,825
2010	<u>18,825</u>
Total minimum lease payments	101,329
Less amount representing interest	<u>27,519</u>
Present value of minimum lease payments	<u>\$ 73,810</u>

**ATLAS ECONOMIC RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2005 and 2004**

NOTE 7: TEMPORARILY RESTRICTED NET ASSETS

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

Program Activities:	<u>2005</u>	<u>2004</u>
Time Restricted and Specific Program Support	\$ 1,064,527	\$ 436,737
Specific Program Support	<u>1,340,938</u>	<u>1,749,012</u>
Total Temporarily Restricted Net Assets	<u>\$2,405,465</u>	<u>\$2,185,749</u>

NOTE 8: NET ASSETS RELEASED FROM RESTRICTIONS

	<u>2005</u>	<u>2004</u>
Net Assets released by disbursing funds in accordance with the donor restrictions	\$1,710,147	\$ 993,507
Net Assets released from time restrictions and in accordance with donor restrictions	<u>436,737</u>	<u>864,234</u>
Total funds released from restrictions	<u>\$2,146,884</u>	<u>\$1,857,741</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.

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.

NOTE 11: RELATED PARTY TRANSACTIONS

Atlas's President is also the Chairman of the Board of Directors for a 501(c)3 organization that received grants from Atlas in the amount of \$20,500 and \$19,500 in 2005 and 2004, respectively.

Atlas made rental payments in the amount of \$12,960 and \$5,760 in 2005 and 2004, respectively, for housing its guests in a town home leased by an Atlas employee.