Atlas Economic Research Foundation

**Financial Statements for the Years Ended December 31, 2008 and 2007
and Independent Auditors' Report
Dated July 14, 2009**

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ATLAS ECONOMIC RESEARCH FOUNDATION

Table of Contents

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<u>Independent Auditors' Report</u>

Members of the Board of Directors
Atlas Economic Research Foundation
1201 L Street NW
Washington, DC 20005

We have audited the accompanying statements of financial position of Atlas Economic Research Foundation ("Atlas") as of December 31, 2008 and 2007, 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 audits 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, 2008 and 2007, 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, CPAs
Hendershot, Burkhardt & Reed CPAs
July 14, 2009

ATLAS ECONOMIC RESEARCH FOUNDATION
Statements of Position
As of December 31, 2008 and 2007

	2008	2007
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 1,811,534	$ 1,998,921
Pledges Receivable	1,542,997	2,802,623
Accounts Receivable	56,493	21,167
Prepaid Expenses	19,058	5,464
Total Current Assets	3,430,082	4,828,175
Long Term Assets		
Pledges Receivable, non current	741,076	5,271
Investments	2,136,146	354,800
Furniture and Equipment, net	136,909	59,874
Deposits	37,834	34,823
Total Long Term Assets	3,051,965	454,768
TOTAL ASSETS	$ 6,482,047	$ 5,282,943
LIABILITIES AND NET ASSETS		
Current Liabilities		
Grants Payable	$ 720,000	$ -
Accounts Payable	85,050	40,713
Accrued Expenses	45,245	37,504
Capital Leases, current	15,745	14,759
Total Current Liabilities	866,040	92,976
Long Term Liabilities		
Capital Leases, non current	6,411	22,410
Total Long Term Liabilities	6,411	22,410
TOTAL LIABILITIES	872,451	115,386
Net Assets		
Unrestricted		
General	963,569	3,016,099
Designated	1,118,068	472,144
Total Unrestricted	2,081,637	3,488,243
Temporarily Restricted	3,527,959	1,679,314
Total Net Assets	5,609,596	5,167,557
TOTAL LIABILITIES AND NET ASSETS	$ 6,482,047	$ 5,282,943

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, 2008 and 2007

	2008			2007		
	Unrestricted	Temporarily Restricted	Totals	Unrestricted	Temporarily Restricted	Totals
REVENUE AND SUPPORT						
Contributions	$ 3,638,334	$ 2,762,631	$ 6,400,965	$ 4,911,078	$ 1,889,498	$ 6,800,576
In-Kind Contributions	96,164	-	96,164			
Investment Income	92,680	-	92,680	93,058	-	93,058
Workshop, Program Fees, and Rental Income	91,167	-	91,167	64,258	-	64,258
Realized Gain/(Loss) on Investments	(4,493)		(4,493)	(4,737)		(4,737)
Unrealized Gain/(Loss) on Investments	4,638	-	4,638	(21,200)	-	(21,200)
Net Assets Released from Restriction	913,986	(913,986)	-	2,439,240	(2,439,240)	-
TOTAL REVENUE AND SUPPORT	4,832,476	1,848,645	6,681,121	7,481,697	(549,742)	6,931,955
EXPENSES						
Program Services	5,401,256	-	5,401,256	4,019,006	-	4,019,006
Management and General	379,132	-	379,132	304,356	-	304,356
Fundraising	458,694	-	458,694	408,917	-	408,917
TOTAL EXPENSES	6,239,082	-	6,239,082	4,732,279	-	4,732,279
Change in Net Assets	(1,406,606)	1,848,645	442,039	2,749,418	(549,742)	2,199,676
Net Assets, Beginning of Year	3,488,243	1,679,314	5,167,557	738,825	2,229,056	2,967,881
Net Assets, End of Year	$ 2,081,637	$ 3,527,959	$ 5,609,596	$ 3,488,243	$ 1,679,314	$ 5,167,557

ATLAS ECONOMIC RESEARCH FOUNDATION
Statements of Cash Flows
For the Years Ended December 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 442,039	$ 2,199,676
Adjustments to reconcile Change in Net Assets to Net Cash provided by (used in) Operating Activities:		
Depreciation and Amortization	22,951	24,342
In-kind Contribution of Furniture and Equipment	(96,164)	-
Net Unrealized and Realized (Gains)/Losses	(145)	21,200
(Increase) decrease in Pledges Receivable	522,565	(2,209,252)
(Increase) decrease in Accounts Receivable	(34,071)	95,419
(Increase) decrease in Prepaid Expenses	(13,594)	(910)
(Increase) decrease in Deposits	(3,010)	6,048
Increase (decrease) in Grants Payable	720,000	-
Increase (decrease) in Accounts Payable	44,337	2,664
Increase (decrease) in Accrued Expenses	7,741	5,547
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,612,649	144,734
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of Investments	5,680,512	-
Acquisition of Investments	(7,461,713)	-
Acquisition of Furniture and Equipment	(3,822)	(6,622)
NET CASH USED IN INVESTING ACTIVITIES	(1,785,023)	(6,622)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in Capital Lease	(15,013)	(16,708)
NET CASH USED IN FINANCING ACTIVITIES	(15,013)	(16,708)
Net Increase/(Decrease) in Cash and Cash Equivalents	(187,387)	121,404
Cash and Cash Equivalents at Beginning of Year	1,998,921	1,877,517
Cash and Cash Equivalents at End of Year	$ 1,811,534	$ 1,998,921

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

ATLAS ECONOMIC RESEARCH FOUNDATION
Statement of Functional Expenses
For the Year Ended December 31, 2008

	Unrestricted General	Designated	Temporarily Restricted	Total Program Services	Management and General	Fundraising	Totals
Fellowships and Grants	$ 1,049,068	$ 957,376	$ 1,472,794	$ 3,479,238	$ -	$ -	$ 3,479,238
Salaries, Payroll Taxes, and Benefits	358,168	-	99,957	458,125	278,963	228,615	965,703
Conferences, Meetings, and Travel	563,758	14,851	153,587	732,196	5,468	12,269	749,933
Contract Labor	158,792	-	236,179	394,971	4,557	21,415	420,943
Occupancy	149,884	3,970	52	153,906	10,644	17,556	182,106
Printing and Reproduction	36,165	1,553	5,012	42,730	1,822	62,031	106,583
Postage and Shipping	14,192	96	3,307	17,595	1,122	48,421	67,138
Direct Mail Expense	-	-	-	-	-	54,511	54,511
Professional Fees	4,066	6,060	-	10,126	34,667	346	45,139
Supplies	30,562	-	208	30,770	2,064	3,446	36,280
Dues and Subscriptions	18,184	41	6,001	24,226	1,014	3,335	28,575
Telephone	16,266	56	3,009	19.331	3,859	2,231	25,421
Depreciation	19,862	-	-	19,862	1,398	1,691	22,951
Miscellaneous	2,474	2,235	45	4,754	14,542	73	19,369
Insurance	-	15	60	75	14,946	-	15,021
Website	25	-	12,459	12,484	2	2	12,488
Taxes, Licenses, and Permits	782	-	85	867	4,064	2,752	7,683
Totals	$ 2,422,248	$ 986,253	$ 1,992,755	$ 5,401,256	$ 379,132	$ 458,694	$ 6,239,082

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, 2007

	Unrestricted General	Designated	Temporarily Restricted	Total Program Services	Management and General	Fundraising	Totals
Fellowships and Grants	$ 33,714	$ 520,667	$ 1,620,640	$ 2,175,021	$ -	$ -	$ 2,175,021
Salaries, Payroll Taxes, and Benefits	442,523	31,654	93,522	567,699	233,129	235,275	1,036,103
Conferences, Meetings, and Travel	225,571	17,562	198,513	441,646	2,227	11,396	455,269
Contract Labor	84,803	26,460	307,135	418,398	5,913	7,909	432,220
Occupancy	126,684	756	13,308	140,748	11,588	13,003	165,339
Direct Mail	-	-	-	-	-	96,414	96,414
Printing and Reproduction	73,745	-	7,133	80,878	1,361	6,419	88,658
Website	-	-	72,669	72,669	-	-	72,669
Supplies	30,269	-	1,951	32,220	5,496	3,075	40,791
Postage and Shipping	19,115	-	3,075	22,190	1,483	10,243	33,916
Dues and Subscriptions	9,600	-	2,991	12,591	6,245	14,000	32,836
Professional Fees	2,909	-	1,725	4,634	23,480	1,308	29,422
Depreciation	20,597	-	-	20,597	1,630	2,115	24,342
Telephone	16,665	-	947	17,612	1,608	1,980	21,200
Taxes, Licenses, and Permits	4,421	-	698	5,119	1,994	5,167	12,280
Miscellaneous	6,485	-	499	6,984	960	613	8,557
Insurance	-	-	-	-	7,242	-	7,242
Totals	$ 1,097,101	$ 597,099	$ 2,324,806	$ 4,019,006	$ 304,356	$ 408,917	$ 4,732,279

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, 2008 and 2007

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, 2008 and 2007

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, 2008 or 2007.

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 $22,951 and $24,342 for the years ended December 31, 2008 and 2007, 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, 2008 and 2007

NOTE 3: FIXED ASSETS

A summary of Fixed Assets at December 31, 2008 and 2007 follows:

	2008	2007
Furniture and Equipment	$192,809	$ 96,113
Software	44,087	44,087
	236,896	140,200
Accumulated Depreciation	(99,987)	(80,326)
Total	$136,909	$ 59,874

NOTE 4: 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 31st

2009	18,191
2010	6,777
Total minimum lease payments	24,968
Less amount representing interest	2,812
Present value of minimum lease payments	$ 22,156

NOTE 5: MANAGEMENT DESIGNATED NET ASSETS

Atlas reports income as "designated" if it is allocated by management for specific programs or purposes, despite the absence of a legal restriction. Designated net assets are valued at $1,118,068 and 472,144 at December 31, 2008 and 2007, respectively.

NOTE 6: TEMPORARILY RESTRICTED NET ASSETS

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

Program Activities:	2008	2007
Time Restricted	$ 1,776,155	$ 21,167
Specific Program Support	1,751,804	1,658,147
Total Temporarily Restricted Net Assets	$ 3,527,959	$ 1,679,314

ATLAS ECONOMIC RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2008 and 2007

NOTE 7: NET ASSETS RELEASED FROM RESTRICTIONS

	2008	2007
Net Assets released by disbursing funds in accordance with the donor restrictions	$ 892,819	$ 2,234,006
Net Assets released from time restrictions and in accordance with donor restrictions	21,167	115,234
Total funds released from restrictions	$ 913,986	$ 2,439,240

NOTE 8: 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 9: 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 10: 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 $10,000 and $10,000 in 2008 and 2007, respectively.

NOTE 11: ASSET TRANSFER AGREEMENT

In December 2008, Atlas signed an Asset Transfer Agreement with the Cato Institute, which transferred certain Cato programs to Atlas where they now operate as the Atlas Global Initiative for Free Trade, Peace, and Prosperity. Because the programs were deficit-producing at the time of the transaction, the agreement included financial support from the Cato Institute over a three-year period and in-kind donations of office space, furniture, and equipment. In 2008, Atlas recorded a cash payment of $1,000,000, a donation of furniture and equipment valued at $96,164, and a pledge receivable for payments of $750,000 and $375,000 to be received in December 2009 and December 2010, respectively. The value of the office space being contributed by Cato will be recorded as in-kind income as it is received during 2009.

ATLAS ECONOMIC RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2008 and 2007

NOTE 12: PRIOR PERIOD ADJUSTMENTS

The 2007 financial statements have been restated to correct two errors. The first correction concerns the recognition of an in-kind expense of $38,000 for which the related income had been booked as receivable in 2006. The second correction concerns employee benefit payments of $10,850 being recorded as expenses in 2007 rather than as reductions of liability.

The corrections had the following effects on the financial statements:

On the 2007 statement of financial position:
- the line item Pledges Receivable is $38,000 less than previously reported.
- the line item Accrued Expenses is $10,850 less than previously reported.

On the 2007 statement of functional expenses:
- the line item Conferences, Meetings, and Travel and the classification Unrestricted General Programs are $38,000 more than previously reported.
- the line item Salary, Payroll Taxes, and Benefits and the classification Management and General are $10,850 less than previously reported.

On the 2007 statement of activities:
- the changes in net assets and the net assets, end of year are $27,150 less than previously reported.