

Return of Organization Exempt From Income Tax

2002

Department of the Treasury
Internal Revenue Service

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

Open to Public Inspection

The organization may have to use a copy of this return to satisfy state reporting requirements.

A For the 2002 calendar year, or tax year period beginning **SEP 1, 2002** and ending **AUG 31, 2003**

B Check if applicable: <input type="checkbox"/> Address change <input type="checkbox"/> Name change <input type="checkbox"/> Initial return <input type="checkbox"/> Final return <input type="checkbox"/> Amended return <input type="checkbox"/> Application pending	Please use IRS label or print or type See Specific Instructions	C Name of organization Mercatus Center, Inc.		D Employer identification number 54-1436224	
		Number and street (or P.O. box if mail is not delivered to street address)		Room/suite	E Telephone number
		3301 North Fairfax Drive		450	(703) 993-4930
		City or town, state or country, and ZIP + 4 Arlington, VA 22201		F Accounting method <input type="checkbox"/> Cash <input checked="" type="checkbox"/> Accrual <input type="checkbox"/> Other (specify)	

Section 501(c)(3) organizations and 4947(a)(1) nonexempt charitable trusts must attach a completed Schedule A (Form 990 or 990-EZ).

H and I are not applicable to section 527 organizations.

H(a) Is this a group return for affiliates? Yes No

H(b) If "Yes," enter number of affiliates

H(c) Are all affiliates included? **N/A** Yes No (if "No," attach a list.)

H(d) Is this a separate return filed by an organization covered by a group ruling? Yes No

I Enter 4-digit GEN

M Check if the organization is not required to attach Sch B (Form 990, 990-EZ, or 990-PF).

G Web site: **www.mercatus.org**

J Organization type (check only one) 501(c) (3) (insert no) 4947(a)(1) or 527

K Check here If the organization's gross receipts are normally not more than \$25,000 The organization need not file a return with the IRS; but if the organization received a Form 990 Package in the mail, it should file a return without financial data. Some states require a complete return.

L Gross receipts. Add lines 6b, 8b, 9b, and 10b to line 12 **10,583,694.**

Part I Revenue, Expenses, and Changes in Net Assets or Fund Balances

Revenue	1 Contributions, gifts, grants, and similar amounts received				
	a Direct public support	1a	4,052,000.		
	b Indirect public support	1b			
	c Government contributions (grants)	1c			
	d Total (add lines 1a through 1c) (cash \$ 3,892,294. noncash \$ 159,706.)	1d			4,052,000.
	2 Program service revenue including government fees and contracts (from Part VII, line 93)	2			178,029.
	3 Membership dues and assessments	3			
	4 Interest on savings and temporary cash investments	4			34,404.
	5 Dividends and interest from securities	5			23,329.
	6 a Gross rents	6a			
	b Less: rental expenses	6b			
	c Net rental income or (loss) (subtract line 6b from line 6a)	6c			
7 Other investment income (describe See Statement 1)	7			129,741.	
8 a Gross amount from sale of assets other than inventory	(A) Securities	8a			
	6,161,754.	8a			
	6,116,647.	8b			
	45,107.	8c			
d Net gain or (loss) (combine line 8c, columns (A) and (B)) Stmt 2 Stmt 3	8d			45,107.	
9 Special events and activities (attach schedule)	a Gross revenue (not including \$ _____ of contributions reported on line 1a)	9a			
	b Less: direct expenses other than fundraising expenses	9b			
	c Net income or (loss) from special events (subtract line 9b from line 9a)	9c			
10 a Gross sales of inventory, less returns and allowances		10a			
	b Less: cost of goods sold	10b			
	c Gross profit or (loss) from sales of inventory (attach schedule) (subtract line 10b from line 10a)	10c			
11 Other revenue (from Part VII, line 103)	11			4,437.	
12 Total revenue (add lines 1d, 2, 3, 4, 5, 6c, 7, 8d, 9c, 10c, and 11)	12			4,467,047.	
Expenses	13 Program services (from line 44, column (A))	13			5,324,402.
	14 Management and general (from line 44, column (D))	14			178,766.
	15 Fundraising (from line 44, column (D))	15			1,332,213.
	16 Payments to affiliates (attach schedule)	16			
	17 Total expenses (add lines 16 and 44, column (A))	17			6,835,381.
Net Assets	18 Excess or (deficit) for the year (subtract line 17 from line 12)	18			<2,368,334.>
	19 Net assets or fund balances at beginning of year (from line 73, column (A))	19			7,188,441.
	20 Other changes in net assets or fund balances (attach explanation) See Statement 4	20			<50,485.>
	21 Net assets or fund balances at end of year (combine lines 18, 19, and 20)	21			4,769,622.

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Part II Statement of Functional Expenses

All organizations must complete column (A) Columns (B), (C), and (D) are required for section 501(c)(3) and (4) organizations and section 4947(a)(1) nonexempt charitable trusts but optional for others

Do not include amounts reported on line 6b, 8b, 9b, 10b, or 16 of Part I.	(A) Total	(B) Program services	(C) Management and general	(D) Fundraising
22 Grants and allocations (attach schedule) cash \$1276778. noncash \$	22 1,276,778.	1,276,778.	Statement 8	
23 Specific assistance to individuals (attach schedule)	23			
24 Benefits paid to or for members (attach schedule)	24			
25 Compensation of officers, directors, etc	25 337,483.	228,132.	81,136.	28,215.
26 Other salaries and wages	26 1,557,375.	1,386,685.	43,448.	127,242.
27 Pension plan contributions	27			
28 Other employee benefits	28 97,656.	83,222.	6,426.	8,008.
29 Payroll taxes	29 134,922.	114,981.	8,878.	11,063.
30 Professional fundraising fees	30			
31 Accounting fees	31 20,750.	0.	20,750.	
32 Legal fees	32 21,786.	8,555.	2,776.	10,455.
33 Supplies	33 144,211.	138,110.	3,366.	2,735.
34 Telephone	34 25,428.	22,093.	1,612.	1,723.
35 Postage and shipping	35 442,632.	78,878.	709.	363,045.
36 Occupancy	36			
37 Equipment rental and maintenance	37			
38 Printing and publications	38 848,507.	146,656.	493.	701,358.
39 Travel	39 235,458.	231,962.	1,206.	2,290.
40 Conferences, conventions, and meetings	40 518,664.	512,132.	2,936.	3,596.
41 Interest	41			
42 Depreciation, depletion, etc. (attach schedule)	42 37,907.	32,028.	2,043.	3,836.
43 Other expenses not covered above (itemize)				
a	43a			
b	43b			
c	43c			
d	43d			
e See Statement 5	43e 1,135,824.	1,064,190.	2,987.	68,647.
44 Total functional expenses (add lines 22 through 43) Organizations completing columns (B)-(D), carry these totals to lines 13-15	44 6,835,381.	5,324,402.	178,766.	1,332,213.

Joint Costs. Check if you are following SOP 98-2.

Are any joint costs from a combined educational campaign and fundraising solicitation reported in (B) Program services? Yes No

If "Yes," enter (i) the aggregate amount of these joint costs \$ _____; (ii) the amount allocated to Program services \$ _____; (iii) the amount allocated to Management and general \$ _____; and (iv) the amount allocated to Fundraising \$ _____

Part III Statement of Program Service Accomplishments

What is the organization's primary exempt purpose? **See Statement 6**

All organizations must describe their exempt purpose achievements in a clear and concise manner. State the number of clients served, publications issued, etc. Discuss achievements that are not measurable. (Section 501(c)(3) and (4) organizations and 4947(a)(1) nonexempt charitable trusts must also enter the amount of grants and allocations to others.)

Program Service Expenses
(Required for 501(c)(3) and (4) orgs. and 4947(a)(1) trusts, but optional for others)

a See Statement 7	(Grants and allocations \$ 0.)	729,852.
b Policy Education: Brings education in economic ideas to key decision-makers in the public policy process. A major component of the program is the Chief of Staff Retreat.	(Grants and allocations \$ 0.)	898,569.
c Research and Application: The Center's research efforts are directed toward generating knowledge and understanding about the institutions that affect the freedom to prosper.	(Grants and allocations \$ 1,117,266.)	2,358,446.
d Regulatory Studies Program: Generates academic and practical information about regulations in order to enhance the quality of discussion and debate regarding regulatory policy.	(Grants and allocations \$ 4,631.)	574,194.
e Other program services (attach schedule) Statement 9	(Grants and allocations \$ 154,881.)	763,341.
f Total of Program Service Expenses (should equal line 44, column (B), Program services)		5,324,402.

Part IV Balance Sheets

Note: Where required, attached schedules and amounts within the description column should be for end-of-year amounts only.

		(A) Beginning of year	(B) End of year
Assets	45 Cash - non-interest-bearing	261.	45 268.
	46 Savings and temporary cash investments	399,119.	46 1,866,679.
	47 a Accounts receivable	47a 183,372.	
	b Less: allowance for doubtful accounts	47b	47c 183,372.
	48 a Pledges receivable	48a	
	b Less: allowance for doubtful accounts	48b	48c
	49 Grants receivable	1,924,949.	49 1,487,626.
	50 Receivables from officers, directors, trustees, and key employees		50
	51 a Other notes and loans receivable	51a	
	b Less: allowance for doubtful accounts	51b	51c
	52 Inventories for sale or use		52
	53 Prepaid expenses and deferred charges	28,642.	53 29,920.
	54 Investments - securities Stmt 10 Stmt 11 <input type="checkbox"/> Cost <input checked="" type="checkbox"/> FMV	0.	54 2,521,480.
	55 a Investments - land, buildings, and equipment: basis	55a	
b Less: accumulated depreciation		55b	55c
56 Investments - other		6,000,000.	56
57 a Land, buildings, and equipment: basis		57a 292,183.	
b Less: accumulated depreciation		57b 224,543.	57c 67,640.
58 Other assets (describe <input type="checkbox"/>)			58
59 Total assets (add lines 45 through 58) (must equal line 74)		8,427,980.	59 6,156,985.
Liabilities		60 Accounts payable and accrued expenses	126,988.
	61 Grants payable	1,065,003.	61 1,039,884.
	62 Deferred revenue		62
	63 Loans from officers, directors, trustees, and key employees		63
	64 a Tax-exempt bond liabilities		64a
	b Mortgages and other notes payable		64b
	65 Other liabilities (describe <input type="checkbox"/> Gift annuity)	47,548.	65 141,617.
66 Total liabilities (add lines 60 through 65)	1,239,539.	66 1,387,363.	
Net Assets or Fund Balances	Organizations that follow SFAS 117, check here <input checked="" type="checkbox"/> and complete lines 67 through 69 and lines 73 and 74.		
	67 Unrestricted	7,188,441.	67 3,989,119.
	68 Temporarily restricted		68 780,503.
	69 Permanently restricted		69
	Organizations that do not follow SFAS 117, check here <input type="checkbox"/> and complete lines 70 through 74		
	70 Capital stock, trust principal, or current funds		70
	71 Paid-in or capital surplus, or land, building, and equipment fund		71
	72 Retained earnings, endowment, accumulated income, or other funds		72
73 Total net assets or fund balances (add lines 67 through 69 or lines 70 through 72, column (A) must equal line 19, column (B) must equal line 21)	7,188,441.	73 4,769,622.	
74 Total liabilities and net assets / fund balances (add lines 66 and 73)	8,427,980.	74 6,156,985.	

Form 990 is available for public inspection and, for some people, serves as the primary or sole source of information about a particular organization. How the public perceives an organization in such cases may be determined by the information presented on its return. Therefore, please make sure the return is complete and accurate and fully describes, in Part III, the organization's programs and accomplishments

Part VI Other Information

		Yes	No
76	Did the organization engage in any activity not previously reported to the IRS? If "Yes," attach a detailed description of each activity	76	X
77	Were any changes made in the organizing or governing documents but not reported to the IRS? If "Yes," attach a conformed copy of the changes	77	X
78 a	Did the organization have unrelated business gross income of \$1,000 or more during the year covered by this return?	78a	X
b	If "Yes," has it filed a tax return on Form 990-T for this year? N/A	78b	
79	Was there a liquidation, dissolution, termination, or substantial contraction during the year? If "Yes," attach a statement	79	X
80 a	Is the organization related (other than by association with a statewide or nationwide organization) through common membership, governing bodies, trustees, officers, etc., to any other exempt or nonexempt organization?	80a	X
b	If "Yes," enter the name of the organization and check whether it is <input checked="" type="checkbox"/> exempt or <input type="checkbox"/> nonexempt.		
81 a	Enter direct or indirect political expenditures. See line 81 instructions	81a	0.
b	Did the organization file Form 1120-POL for this year?	81b	X
82 a	Did the organization receive donated services or the use of materials, equipment, or facilities at no charge or at substantially less than fair rental value?	82a	X
b	If "Yes," you may indicate the value of these items here. Do not include this amount as revenue in Part I or as an expense in Part II. (See instructions in Part III.)	82b	216,122.
83 a	Did the organization comply with the public inspection requirements for returns and exemption applications?	83a	X
b	Did the organization comply with the disclosure requirements relating to quid pro quo contributions?	83b	X
84 a	Did the organization solicit any contributions or gifts that were not tax deductible?	84a	N/A
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?	84b	N/A
85	501(c)(4), (5), or (6) organizations. a Were substantially all dues nondeductible by members?	85a	N/A
b	Did the organization make only in-house lobbying expenditures of \$2,000 or less? If "Yes" was answered to either 85a or 85b, do not complete 85c through 85h below unless the organization received a waiver for proxy tax owed for the prior year.	85b	N/A
c	Dues, assessments, and similar amounts from members	85c	N/A
d	Section 162(e) lobbying and political expenditures	85d	N/A
e	Aggregate nondeductible amount of section 6033(e)(1)(A) dues notices	85e	N/A
f	Taxable amount of lobbying and political expenditures (line 85d less 85e)	85f	N/A
g	Does the organization elect to pay the section 6033(e) tax on the amount on line 85f?	85g	N/A
h	If section 6033(e)(1)(A) dues notices were sent, does the organization agree to add the amount on line 85f to its reasonable estimate of dues allocable to nondeductible lobbying and political expenditures for the following tax year?	85h	N/A
86	501(c)(7) organizations. Enter: a Initiation fees and capital contributions included on line 12	86a	N/A
b	Gross receipts, included on line 12, for public use of club facilities	86b	N/A
87	501(c)(12) organizations. Enter: a Gross income from members or shareholders	87a	N/A
b	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them).	87b	N/A
88	At any time during the year, did the organization own a 50% or greater interest in a taxable corporation or partnership, or an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? If "Yes," complete Part IX	88	X
89 a	501(c)(3) organizations. Enter. Amount of tax imposed on the organization during the year under section 4911 <u>0.</u> , section 4912 <u>0.</u> ; section 4955 <u>0.</u>		
b	501(c)(3) and 501(c)(4) organizations. Did the organization engage in any section 4958 excess benefit transaction during the year or did it become aware of an excess benefit transaction from a prior year? If "Yes," attach a statement explaining each transaction	89b	X
c	Enter: Amount of tax imposed on the organization managers or disqualified persons during the year under sections 4912, 4955, and 4958		0.
d	Enter: Amount of tax on line 89c, above, reimbursed by the organization		0.
90 a	List the states with which a copy of this return is filed <u>In all states but NC, WV, WI, AL & PA</u>		
b	Number of employees employed in the pay period that includes March 12, 2002	90b	31
91	The books are in care of <u>Mercatus Center, Inc.</u> Telephone no <u>(703) 993-4930</u>		
	Located at <u>3301 North Fairfax Drive. #450 Arlington, VA</u> ZIP + 4 <u>22201</u>		
92	Section 4947(a)(1) nonexempt charitable trusts filing Form 990 in lieu of Form 1041- Check here <input type="checkbox"/> and enter the amount of tax-exempt interest received or accrued during the tax year	92	N/A

Part VII Analysis of Income-Producing Activities (See page 31 of the instructions)

Note: Enter gross amounts unless otherwise indicated.

	Unrelated business income		Excluded by section 512, 513, or 514		(E) Related or exempt function income
	(A) Business code	(B) Amount	(C) Exclu- sion code	(D) Amount	
93 Program service revenue:					
a Publications					793.
b Conference fees					142,236.
c Directed research					35,000.
d					
e					
f Medicare/Medicaid payments					
g Fees and contracts from government agencies					
94 Membership dues and assessments					
95 Interest on savings and temporary cash investments			14	34,404.	
96 Dividends and interest from securities			14	23,329.	
97 Net rental income or (loss) from real estate:					
a debt-financed property					
b not debt-financed property					
98 Net rental income or (loss) from personal property					
99 Other investment income			14	129,741.	
100 Gain or (loss) from sales of assets other than inventory			18	45,107.	
101 Net income or (loss) from special events					
102 Gross profit or (loss) from sales of inventory					
103 Other revenue:					
a Miscellaneous					4,437.
b					
c					
d					
e					
104 Subtotal (add columns (B), (D), and (E))			0.	232,581.	182,466.
105 Total (add line 104, columns (B), (D), and (E))					415,047.

Note: Line 105 plus line 1d, Part I, should equal the amount on line 12, Part I.

Part VIII Relationship of Activities to the Accomplishment of Exempt Purposes (See page 32 of the instructions.)

Line No.	Explain how each activity for which income is reported in column (E) of Part VII contributed importantly to the accomplishment of the organization's exempt purposes (other than by providing funds for such purposes)
▼	See Statement 15

Part IX Information Regarding Taxable Subsidiaries and Disregarded Entities (See page 32 of the instructions.)

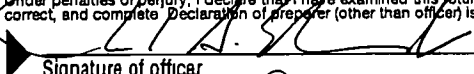
(A) Name, address, and EIN of corporation, partnership, or disregarded entity	(B) Percentage of ownership interest	(C) Nature of activities	(D) Total income	(E) End-of-year assets
N/A	%			
	%			
	%			
	%			


Part X Information Regarding Transfers Associated with Personal Benefit Contracts (See page 33 of the instructions.)

- (a) Did the organization, during the year, receive any funds, directly or indirectly, to pay premiums on a personal benefit contract? Yes No
- (b) Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract? Yes No

Note: If "Yes" to (b), file Form 8870 and Form 4720 (see instructions)

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Please Sign Here:  11/13/04 Paul S. Edwards, President
Signature of officer Date Type or print name and title

Paid Preparer's Use Only:  11/12/04
Preparer's signature Date Check if self-employed Preparer's SSN or PTIN

Firm's name (or yours if self-employed), address, and ZIP + 4: Raffa, P.C.
1899 L Street, NW, Suite 600
Washington, DC 20036
EIN: Phone no: (202) 822-5000

SCHEDULE A
(Form 990 or 990-EZ)

Organization Exempt Under Section 501(c)(3)

OMB No 1545-0047

(Except Private Foundation) and Section 501(e), 501(f), 501(k),
501(n), or Section 4947(a)(1) Nonexempt Charitable Trust

2002

Department of the Treasury
Internal Revenue Service

Supplementary Information-(See separate instructions.)

▶ **MUST be completed by the above organizations and attached to their Form 990 or 990-EZ**

Name of the organization

Mercatus Center, Inc.

Employer identification number

54 1436224

Part I Compensation of the Five Highest Paid Employees Other Than Officers, Directors, and Trustees

(See page 1 of the instructions. List each one. If there are none, enter "None.")

(a) Name and address of each employee paid more than \$50,000	(b) Title and average hours per week devoted to position	(c) Compensation	(d) Contributions to employee benefit plans & deferred compensation	(e) Expense account and other allowances
Maurice McTigue ----- 3301 N Fairfax Dr Arlington, VA 22201	Dir. Gov. Acc 40 hrs/week	130,000.	7,465.	
Susan Dudley ----- 3301 N Fairfax Dr Arlington, VA 22201	Assoc. Dir. 40 hrs/week	100,000.	5,563.	
Lawson Bader ----- 3301 N Fairfax Dr Arlington, VA 22201	Dir. Ec. Educ 40 hrs/week	82,416.	7,845.	
Jay Cochran ----- 3301 N Fairfax Dr Arlington, VA 22201	Research Fel. 40 hrs/week	71,500.	2,497.	
Timothy Roemer ----- 3301 N Fairfax Dr Arlington, VA 22201	Dist. Scholar 40 hrs/week	81,228.	4,331.	
Total number of other employees paid over \$50,000	▶ 4			

Part II Compensation of the Five Highest Paid Independent Contractors for Professional Services

(See page 2 of the instructions. List each one (whether individuals or firms) if there are none, enter "None.")

(a) Name and address of each independent contractor paid more than \$50,000	(b) Type of service	(c) Compensation
Stephen Clouse & Associates ----- 43538 Golden Meadow Circle, Ashburn, VA 20147	Video Production Services	69,054.
J.C. Watts Companies, LLC ----- 600 13th St. NW Suite 790, Washington, D.C. 20005	Consulting	75,000.
Kudlow And Company, LLC ----- One Dag Hammerskjold Plaza, 885 2nd Avenue at 42th St. 26th floor, New York, NY 10017 -----	Consulting	52,500.
Total number of others receiving over \$50,000 for professional services	▶ 0	

Part III Statements About Activities (See page 2 of the instructions)

	Yes	No
1 During the year, has the organization attempted to influence national, state, or local legislation, including any attempt to influence public opinion on a legislative matter or referendum? If "Yes," enter the total expenses paid or incurred in connection with the lobbying activities ▶ \$ _____ \$ _____ (Must equal amounts on line 38, Part VI-A, or line i of Part VI-B) Organizations that made an election under section 501(h) by filing Form 5768 must complete Part VI-A. Other organizations checking "Yes," must complete Part VI-B AND attach a statement giving a detailed description of the lobbying activities	1	X
2 During the year, has the organization, either directly or indirectly, engaged in any of the following acts with any substantial contributors, trustees, directors, officers, creators, key employees, or members of their families, or with any taxable organization with which any such person is affiliated as an officer, director, trustee, majority owner, or principal beneficiary? (If the answer to any question is "Yes," attach a detailed statement explaining the transactions.) See Statement 16		
a Sale, exchange, or leasing of property?	2a	X
b Lending of money or other extension of credit?	2b	X
c Furnishing of goods, services, or facilities?	2c	X
d Payment of compensation (or payment or reimbursement of expenses if more than \$1,000)? See Part V, Form 990	2d	X
e Transfer of any part of its income or assets?	2e	X
3 Does the organization make grants for scholarships, fellowships, student loans, etc ? (See Note below)	3	X
4 Do you have a section 403(b) annuity plan for your employees?	4	X
Note: Attach a statement to explain how the organization determines that individuals or organizations receiving grants or loans from it in furtherance of its charitable programs "qualify" to receive payments. See Statement 17		

Part IV Reason for Non-Private Foundation Status (See pages 3 through 5 of the instructions)

The organization is not a private foundation because it is: (Please check only ONE applicable box.)

- 5 A church, convention of churches, or association of churches Section 170(b)(1)(A)(i)
- 6 A school Section 170(b)(1)(A)(ii) (Also complete Part V.)
- 7 A hospital or a cooperative hospital service organization. Section 170(b)(1)(A)(iii).
- 8 A Federal, state, or local government or governmental unit Section 170(b)(1)(A)(v)
- 9 A medical research organization operated in conjunction with a hospital Section 170(b)(1)(A)(iii) Enter the hospital's name, city, and state **▶** _____
- 10 An organization operated for the benefit of a college or university owned or operated by a governmental unit Section 170(b)(1)(A)(iv). (Also complete the **Support Schedule** in Part IV-A)
- 11a An organization that normally receives a substantial part of its support from a governmental unit or from the general public Section 170(b)(1)(A)(vi) (Also complete the **Support Schedule** in Part IV-A)
- 11b A community trust. Section 170(b)(1)(A)(vi). (Also complete the **Support Schedule** in Part IV-A.)
- 12 An organization that normally receives: (1) more than 33 1/3% of its support from contributions, membership fees, and gross receipts from activities related to its charitable, etc., functions - subject to certain exceptions, and (2) no more than 33 1/3% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975. See section 509(a)(2) (Also complete the **Support Schedule** in Part IV-A.)
- 13 An organization that is not controlled by any disqualified persons (other than foundation managers) and supports organizations described in (1) lines 5 through 12 above; or (2) section 501(c)(4), (5), or (6), if they meet the test of section 509(a)(2). (See section 509(a)(3).)

Provide the following information about the supported organizations (See page 5 of the instructions)

(a) Name(s) of supported organization(s)	(b) Line number from above

- 14 An organization organized and operated to test for public safety Section 509(a)(4) (See page 5 of the instructions)

Part IV-A Support Schedule (Complete only if you checked a box on line 10, 11, or 12.) Use cash method of accounting.
 Note: You may use the worksheet in the instructions for converting from the accrual to the cash method of accounting.

Calendar year (or fiscal year beginning in) ...	(a) 2001	(b) 2000	(c) 1999	(d) 1998	(e) Total
15 Gifts, grants, and contributions received. (Do not include unusual grants. See line 28)	2,656,093.	4,769,635.	4,861,724.	1,545,906.	13,833,358.
16 Membership fees received					
17 Gross receipts from admissions, merchandise sold or services performed, or furnishing of facilities in any activity that is related to the organization's charitable, etc., purpose	43,698.	128,188.	126,248.	616,035.	914,169.
18 Gross income from interest, dividends, amounts received from payments on securities loans (section 512(a)(5)), rents, royalties, and unrelated business taxable income (less section 511 taxes) from businesses acquired by the organization after June 30, 1975	24,542.	71,822.	114,398.	151,387.	362,149.
19 Net income from unrelated business activities not included in line 18					
20 Tax revenues levied for the organization's benefit and either paid to it or expended on its behalf					
21 The value of services or facilities furnished to the organization by a governmental unit without charge. Do not include the value of services or facilities generally furnished to the public without charge.					
22 Other income. Attach a schedule Do not include gain or (loss) from sale of capital assets	3,302.	4,163.	See Statement 18 5,465.	2,304.	15,234.
23 Total of lines 15 through 22	2,727,635.	4,973,808.	5,107,835.	2,315,632.	15,124,910.
24 Line 23 minus line 17	2,683,937.	4,845,620.	4,981,587.	1,699,597.	14,210,741.
25 Enter 1% of line 23	27,276.	49,738.	51,078.	23,156.	
26 Organizations described on lines 10 or 11: a Enter 2% of amount in column (e), line 24					28a 284,215.
b Prepare a list for your records to show the name of and amount contributed by each person (other than a governmental unit or publicly supported organization) whose total gifts for 1998 through 2001 exceeded the amount shown in line 26a. Do not file this list with your return. Enter the sum of all these excess amounts					28b 265,785.
c Total support for section 509(a)(1) test Enter line 24, column (e)					28c 14,210,741.
d Add. Amounts from column (e) for lines 18 362,149. 19 22 15,234. 26b 265,785.					28d 643,168.
e Public support (line 26c minus line 26d total)					28e 13,567,573.
f Public support percentage (line 26e (numerator) divided by line 26c (denominator))					28f 95.4741%
27 Organizations described on line 12: a For amounts included in lines 15, 16, and 17 that were received from a "disqualified person," prepare a list for your records to show the name of, and total amounts received in each year from, each "disqualified person." Do not file this list with your return. Enter the sum of such amounts for each year. N/A	(2001)	(2000)	(1999)	(1998)	
b For any amount included in line 17 that was received from each person (other than "disqualified persons"), prepare a list for your records to show the name of, and amount received for each year, that was more than the larger of (1) the amount on line 25 for the year or (2) \$5,000 (include in the list organizations described in lines 5 through 11, as well as individuals.) Do not file this list with your return. After computing the difference between the amount received and the larger amount described in (1) or (2), enter the sum of these differences (the excess amounts) for each year N/A	(2001)	(2000)	(1999)	(1998)	
c Add. Amounts from column (e) for lines. 15 16 17 20 21					27c N/A
d Add Line 27a total and line 27b total					27d N/A
e Public support (line 27c total minus line 27d total)					27e N/A
f Total support for section 509(a)(2) test Enter amount on line 23, column (e)			27f N/A		
g Public support percentage (line 27e (numerator) divided by line 27f (denominator))					27g N/A %
h Investment income percentage (line 18, column (e) (numerator) divided by line 27f (denominator))					27h N/A %
28 Unusual Grants: For an organization described in line 10, 11, or 12 that received any unusual grants during 1998 through 2001, prepare a list for your records to show, for each year, the name of the contributor, the date and amount of the grant, and a brief description of the nature of the grant. Do not file this list with your return. Do not include these grants in line 15.	None				

Part V Private School Questionnaire (See page 7 of the instructions)

N/A

(To be completed ONLY by schools that checked the box on line 6 in Part IV)

		Yes	No
29	Does the organization have a racially nondiscriminatory policy toward students by statement in its charter, bylaws, other governing instrument, or in a resolution of its governing body?		
30	Does the organization include a statement of its racially nondiscriminatory policy toward students in all its brochures, catalogues, and other written communications with the public dealing with student admissions, programs, and scholarships?		
31	Has the organization publicized its racially nondiscriminatory policy through newspaper or broadcast media during the period of solicitation for students, or during the registration period if it has no solicitation program, in a way that makes the policy known to all parts of the general community it serves? If "Yes," please describe, if "No," please explain. (If you need more space, attach a separate statement)		

32	Does the organization maintain the following:		
a	Records indicating the racial composition of the student body, faculty, and administrative staff?		
b	Records documenting that scholarships and other financial assistance are awarded on a racially nondiscriminatory basis?		
c	Copies of all catalogues, brochures, announcements, and other written communications to the public dealing with student admissions, programs, and scholarships?		
d	Copies of all material used by the organization or on its behalf to solicit contributions? If you answered "No" to any of the above, please explain. (If you need more space, attach a separate statement)		

33	Does the organization discriminate by race in any way with respect to:		
a	Students' rights or privileges?		
b	Admissions policies?		
c	Employment of faculty or administrative staff?		
d	Scholarships or other financial assistance?		
e	Educational policies?		
f	Use of facilities?		
g	Athletic programs?		
h	Other extracurricular activities? If you answered "Yes" to any of the above, please explain (If you need more space, attach a separate statement.)		

34 a	Does the organization receive any financial aid or assistance from a governmental agency?		
b	Has the organization's right to such aid ever been revoked or suspended? If you answered "Yes" to either 34a or b, please explain using an attached statement		
35	Does the organization certify that it has complied with the applicable requirements of sections 4 01 through 4.05 of Rev Proc. 75-50, 1975-2 C.B. 587, covering racial nondiscrimination? If "No," attach an explanation		

Part VI-A Lobbying Expenditures by Electing Public Charities (See page 9 of the instructions)

N/A

(To be completed ONLY by an eligible organization that filed Form 5768)

Check a if the organization belongs to an affiliated group Check b if you checked "a" and "limited control" provisions apply

Limits on Lobbying Expenditures (The term "expenditures" means amounts paid or incurred)		(a) Affiliated group totals	(b) To be completed for ALL electing organizations												
		N/A													
36	Total lobbying expenditures to influence public opinion (grassroots lobbying)	36													
37	Total lobbying expenditures to influence a legislative body (direct lobbying)	37													
38	Total lobbying expenditures (add lines 36 and 37)	38													
39	Other exempt purpose expenditures	39													
40	Total exempt purpose expenditures (add lines 38 and 39)	40													
41	Lobbying nontaxable amount. Enter the amount from the following table -														
	<table border="0"> <tr> <td>If the amount on line 40 is -</td> <td>The lobbying nontaxable amount is -</td> </tr> <tr> <td>Not over \$500,000</td> <td>20% of the amount on line 40</td> </tr> <tr> <td>Over \$500,000 but not over \$1,000,000</td> <td>\$100,000 plus 15% of the excess over \$500,000</td> </tr> <tr> <td>Over \$1,000,000 but not over \$1,500,000</td> <td>\$175,000 plus 10% of the excess over \$1,000,000</td> </tr> <tr> <td>Over \$1,500,000 but not over \$17,000,000</td> <td>\$225,000 plus 5% of the excess over \$1,500,000</td> </tr> <tr> <td>Over \$17,000,000</td> <td>\$1,000,000</td> </tr> </table>	If the amount on line 40 is -	The lobbying nontaxable amount is -	Not over \$500,000	20% of the amount on line 40	Over \$500,000 but not over \$1,000,000	\$100,000 plus 15% of the excess over \$500,000	Over \$1,000,000 but not over \$1,500,000	\$175,000 plus 10% of the excess over \$1,000,000	Over \$1,500,000 but not over \$17,000,000	\$225,000 plus 5% of the excess over \$1,500,000	Over \$17,000,000	\$1,000,000	41	
If the amount on line 40 is -	The lobbying nontaxable amount is -														
Not over \$500,000	20% of the amount on line 40														
Over \$500,000 but not over \$1,000,000	\$100,000 plus 15% of the excess over \$500,000														
Over \$1,000,000 but not over \$1,500,000	\$175,000 plus 10% of the excess over \$1,000,000														
Over \$1,500,000 but not over \$17,000,000	\$225,000 plus 5% of the excess over \$1,500,000														
Over \$17,000,000	\$1,000,000														
42	Grassroots nontaxable amount (enter 25% of line 41)	42													
43	Subtract line 42 from line 36 Enter -0- if line 42 is more than line 36	43													
44	Subtract line 41 from line 38 Enter -0- if line 41 is more than line 38	44													

Caution: If there is an amount on either line 43 or line 44, you must file Form 4720.

4-Year Averaging Period Under Section 501(h)

(Some organizations that made a section 501(h) election do not have to complete all of the five columns below. See the instructions for lines 45 through 50 on page 11 of the instructions.)

Calendar year (or fiscal year beginning in)	Lobbying Expenditures During 4-Year Averaging Period				N/A
	(a) 2002	(b) 2001	(c) 2000	(d) 1999	(e) Total
45	Lobbying nontaxable amount				0.
46	Lobbying ceiling amount (150% of line 45(e))				0.
47	Total lobbying expenditures				0.
48	Grassroots nontaxable amount				0.
49	Grassroots ceiling amount (150% of line 48(e))				0.
50	Grassroots lobbying expenditures				0.

Part VI-B Lobbying Activity by Nonelecting Public Charities

(For reporting only by organizations that did not complete Part VI-A) (See page 11 of the instructions.)

During the year, did the organization attempt to influence national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of	Yes	No	Amount
a Volunteers		X	
b Paid staff or management (Include compensation in expenses reported on lines c through h.)		X	
c Media advertisements		X	
d Mailings to members, legislators, or the public		X	
e Publications, or published or broadcast statements		X	
f Grants to other organizations for lobbying purposes		X	
g Direct contact with legislators, their staffs, government officials, or a legislative body		X	
h Rallies, demonstrations, seminars, conventions, speeches, lectures, or any other means		X	
i Total lobbying expenditures (Add lines c through h.)			0.

If "Yes" to any of the above, also attach a statement giving a detailed description of the lobbying activities

Part VII Information Regarding Transfers To and Transactions and Relationships With Noncharitable Exempt Organizations (See page 12 of the instructions.)

51 Did the reporting organization directly or indirectly engage in any of the following with any other organization described in section 501(c) of the Code (other than section 501(c)(3) organizations) or in section 527, relating to political organizations?

Table with 3 columns: Question, Yes, No. Rows include 51a(I) Cash, a(II) Other assets, b Other transactions (I-VI), c Sharing of facilities, and d (if Yes).

- a Transfers from the reporting organization to a noncharitable exempt organization of (I) Cash (II) Other assets
b Other transactions (I) Sales or exchanges of assets with a noncharitable exempt organization (II) Purchases of assets from a noncharitable exempt organization (III) Rental of facilities, equipment, or other assets (IV) Reimbursement arrangements (V) Loans or loan guarantees (VI) Performance of services or membership or fundraising solicitations
c Sharing of facilities, equipment, mailing lists, other assets, or paid employees

d If the answer to any of the above is "Yes," complete the following schedule. Column (b) should always show the fair market value of the goods, other assets, or services given by the reporting organization. If the organization received less than fair market value in any transaction or sharing arrangement, show in column (d) the value of the goods, other assets, or services received. N/A

Table with 4 columns: (a) Line no, (b) Amount involved, (c) Name of noncharitable exempt organization, (d) Description of transfers, transactions, and sharing arrangements.

52 a Is the organization directly or indirectly affiliated with, or related to, one or more tax-exempt organizations described in section 501(c) of the Code (other than section 501(c)(3)) or in section 527? [] Yes [X] No

b If "Yes," complete the following schedule. N/A

Table with 3 columns: (a) Name of organization, (b) Type of organization, (c) Description of relationship.

Form 990	Other Investment Income	Statement	1
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Description	Amount
Interest from sale of partnership interests	129,741.
Total to Form 990, Part I, line 7	129,741.

Form 990	Gain (Loss) From Publicly Traded Securities	Statement	2
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Description	Gross Sales Price	Cost or Other Basis	Expense of Sale	Net Gain or (Loss)
Donated securities	96,623.	95,233.	0.	1,390.
To Form 990, Part I, line 8	96,623.	95,233.	0.	1,390.

Form 990 Gain (Loss) From Non-publicly Traded Securities Statement 3

Description	Date Acquired	Date Sold	Method Acquired	
Sale of interest in limited partnership	12/30/97	11/13/02	DONATED	
Name of Buyer	Gross Sales Price	Cost or Other Basis	Expense of Sale	Net Gain or (Loss)
See Statement 16	3,032,566.	3,000,000.	10,707.	21,859.
Description	Date Acquired	Date Sold	Method Acquired	
Sale of interest in limited partnership	12/30/97	11/13/02	DONATED	
Name of Buyer	Gross Sales Price	Cost or Other Basis	Expense of Sale	Net Gain or (Loss)
See Statement 16	3,032,565.	3,000,000.	10,707.	21,858.
Total to Fm 990, Part I, ln 8	6,065,131.	6,000,000.	21,414.	43,717.

Form 990 Other Changes in Net Assets or Fund Balances Statement 4

Description	Amount
Unrealized loss on investments	<50,485.>
Total to Form 990, Part I, line 20	<50,485.>

Form 990 Other Expenses Statement 5

Description	(A)	(B)	(C)	(D)
	Total	Program Services	Management and General	Fundraising
Temporary help	387.	257.	130.	
Insurance	8,807.	7,441.	475.	891.
Property tax	3,045.	2,593.	157.	295.
Audio visual	8,496.	8,496.		
Miscellaneous	32,507.	27,610.	1,222.	3,675.

Space advertising	7,060.	7,060.		
Books and subscriptions	12,780.	12,696.	15.	69.
Professional fees	578,046.	514,322.	7.	63,717.
Honoraria	484,696.	483,715.	981.	
Total to Fm 990, ln 43	1,135,824.	1,064,190.	2,987.	68,647.

Form 990 Statement of Organization's Primary Exempt Purpose Statement 6
Part III

Explanation

The Center's primary exempt purpose is to educate students and produce professionals who are equipped to understand the problems and polices of our modern age. The Center pursues its goals through education and research.

Form 990 Statement of Program Service Accomplishments Statement 7

Description of Program Service One

Public Relations: The Mercatus Center's public relations program seeks to inform alumni, faculty, and supporters of the Mercatus Center about the programs, research, and successes of the Center in order to maximize the effectiveness of programs and make our work available to influential decision-makers.

	Grants	Expenses
To Form 990, Part III, line a	0.	729,852.

Form 990 Cash Grants and Allocations Statement 8

Classification	Donee's Name	Donee's Address	Donee's Relationship	Amount
Law & Economics Center	George Mason University	4400 University Dr. Fairfax, VA 22030	None	25,000.
Graduate Student Tuition	Ben Powell	4400 University Dr. Fairfax, VA 22030	None	1,500.

Law & Economics Lecture Series	Center for Study of Pub. Choice Fdn	4400 University Dr. Fairfax, VA 22030	None	14,737.
Graduate Student Tuition	Ed Ziehmer	4400 University Dr. Fairfax, VA 22030	None	5,363.
Student Awards	George Mason University	4400 University Dr. Fairfax, VA 22030	None	161,805.
Economics Research	Gruter Institute	158 Goya Road Portola Valley, CA 94028	None	500.
Fellowship	Josef Sima	4400 University Dr. Fairfax, VA 22030	None	12,500.
Fellowship	Peter Leeson	4400 University Dr. Fairfax, VA 22030	None	7,200.
Faculty Awards	George Mason University	4400 University Dr. Fairfax, VA 22030	None	1048173.
Total Included on Form 990, Part II, line 22				<u>1276778.</u>

Form 990	Other Program Services	Statement	9
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Description	Grants and Allocations	Expenses
University & Student Programs	154,881.	161,974.
Government Accountability		387,776.
Other		213,591.
Total to Form 990, Part III, line e	<u>154,881.</u>	<u>763,341.</u>

Form 990 Non-Government Securities Statement 10

Security Description	Corporate Stocks	Corporate Bonds	Other Publicly Traded Securities	Other Securities	Total Non-Gov't Securities
Corporate bonds		1,915,739.			1,915,739.
To 990, ln 54 Col B		1,915,739.			1,915,739.

Form 990 Government Securities Statement 11

Description	U.S. Government	State and Local Gov't	Total Gov't Securities
Government Securities	605,741.		605,741.
Total to Form 990, line 54, Col B	605,741.		605,741.

Form 990 Other Revenue Not Included on Form 990 Statement 12

Description	Amount
Expenses related to sale of partnership interests	21,414.
Total to Form 990, Part IV-A	21,414.

Form 990 Other Expenses Not Included on Form 990 Statement 13

Description	Amount
Expenses related to sale of partnership interests	21,414.
Total to Form 990, Part IV-B	21,414.

Form 990

Part V - List of Officers, Directors,
Trustees and Key Employees

Statement 14

Name and Address	Title and Avrg Hrs/Wk	Compen- sation	Employee Ben Plan Expense Contrib Account	
Tyler Cowen 3301 N. Fairfax Dr. Ste. 450 Arlington, VA 22201	Chairman <1 hr/wk	0.	0.	0.
Paul S. Edwards 3301 N. Fairfax Dr. Ste. 450 Arlington, VA 22201	President 40 hrs/wk	120,000.	7,847.	0.
Karol Boudreaux 3301 N. Fairfax Dr. Ste. 450 Arlington, VA 22201	Vice Pres. (5/1/03-present) 40 hrs/wk	23,750.	50.	0.
Kevin Gentry 3301 N. Fairfax Dr. Ste. 450 Arlington, VA 22201	Vice Pres. (9/1/02-7/31/03) 24 hrs/wk	88,375.	5,108.	0.
Colleen Morretta 3301 N. Fairfax Dr. Ste. 450 Arlington, VA 22201	Secretary 40 hrs/wk	55,833.	149.	0.
Frank Atkinson 3301 N. Fairfax Dr. Ste. 450 Arlington, VA 22201	Director <1 hr/wk	0.	0.	0.
Gary Leff 3301 N. Fairfax Dr. Ste. 450 Arlington, VA 22201	Treasurer 24 hrs/wk	49,525.	2,128.	0.
Vernon Smith 3301 N. Fairfax Dr. Ste. 450 Arlington, VA 22201	Director <1 hr/wk	0.	0.	0.
Dwight Schar 3301 N. Fairfax Dr. Ste. 450 Arlington, VA 22201	Director <1 hr/wk	0.	0.	0.
Charles G. Koch 3301 N. Fairfax Dr. Ste. 450 Arlington, VA 22201	Director <1 hr/wk	0.	0.	0.
Richard H. Fink 3301 N. Fairfax Dr. Ste. 450 Arlington, VA 22201	Director <1 hr/wk	0.	0.	0.

Roger D. Silk 3301 N. Fairfax Dr. Ste. 450 Arlington, VA 22201	Director <1 hr/wk	0.	0.	0.
Manuel H. Johnson 3301 N. Fairfax Dr. Ste. 450 Arlington, VA 22201	Director <1 hr/wk	0.	0.	0.

Totals Included on Form 990, Part V	337,483.	15,282.	0.
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Form 990	Part VIII - Relationship of Activities to Accomplishment of Exempt Purposes	Statement 15
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- | Line | Explanation of Relationship of Activities |
|------|--|
| 93a | Revenue from sales of the Center's publications relating to research conducted by its faculty and staff. The Center charges a nominal amount for publications, primarily to cover costs of production, materials, and postage. The publications are often used in the classroom and are distributed to educational and non-profit organizations. |
| 93b | Revenue is used to educate government leaders on the major components of successfully managing organizational change and the implementation of result based management in the public sector. |
| 93c | Funds provided for research in market design efforts. The funds cover costs for laboratory experiments, tuition and stipends related to the research activity. |
| 103a | Miscellaneous revenue generated in relation to the dissemination of information on research of market-based solutions to social and economic problems. |

Schedule A	Statement Regarding Activities with Substantial Contributors, Trustees, Directors, Creators, Key Employees, Etc., Part III, Line 2	Statement 16
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In 1997, a member of the Board of Directors of the Center donated interests in two limited partnerships with an estimated fair value of \$6,000,000. During the year-ended August 31, 2003 the Center sold the two limited partnership interests to family members of the original donor for \$6,065,131. The sales price was determined by an independent appraiser.

Schedule A Explanation of Qualifications to Receive Payments Statement 17
Part III, Line 3

The purpose of the grant award program is to recruit and develop young scholars to push out the frontier of knowledge in market process theory, law and economics, and constitutional political economy; and to help those young scholars become skilled expositors of market economics and public policy in the classroom, in the policy arena, and to the media. Faculty awards are given to those Center faculty members who are in good standing at George Mason University and who actively engage in original research. Awards are usually restricted to those projects and faculty for which research support can be obtained. Research projects are expected to result in scholarly journal articles, book manuscripts, monographs, or other quality products.

Schedule A Other Income Statement 18

Description	2001 Amount	2000 Amount	1999 Amount	1998 Amount
Miscellaneous revenue	3,302.	4,163.	5,465.	2,304.
Total to Schedule A, line 22	3,302.	4,163.	5,465.	2,304.

Mercatus Center, Inc.
 Form 990, Part II, Line 42 - Depreciation
 Form 990, Part IV, Line 57 - Land, Buildings, and Equipment
 Year Ended August 31, 2003

54-1436224

ASSETS

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Disposals</u>	<u>End of Year</u>
Furniture, fixtures, and equipment	\$ 250,724	\$ 38,556	\$ -	\$ 289,280
Leasehold Improvements	\$ 2,903	-	-	2,903
Total	<u>\$ 252,038</u>	<u>\$ 38,556</u>	<u>\$ -</u>	<u>\$ 292,183</u>

ACCUMULATED
DEPRECIATION

	<u>Beginning of Year</u>	<u>Current Year Depreciation</u>	<u>Disposals</u>	<u>End of Year</u>
Furniture, fixtures, and equipment	\$ 185,165	\$ 37,325	\$ -	\$ 222,490
Leasehold Improvements	\$ 1,471	582	-	2,053
Total	<u>\$ 186,636</u>	<u>\$ 37,907</u>	<u>\$ -</u>	<u>\$ 224,543</u>

Note: Property and equipment are stated at cost and are depreciated over estimated useful lives of five to seven years using the straight-line method, with no salvage value. Leasehold improvements are stated at cost and are amortized over the remaining term of the lease or their useful life, whichever is shorter.