

Form **990**

Return of Organization Exempt From Income Tax

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

OMB No 1545-0047

2006

Open to Public Inspection

Department of the Treasury
Internal Revenue Service

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

A For the 2006 calendar year, or tax year beginning **SEP 1, 2006** and ending **AUG 31, 2007**

B Check if applicable: <input checked="" 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) 3301 NORTH FAIRFAX DRIVE		Room/suite 450	E Telephone number (703) 993-4930
		City or town, state or country, and ZIP + 4 ARLINGTON, VA 22201-4432		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 ▶ **N/A**

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 Group Exemption Number ▶ **N/A**

G Website: ▶ **WWW.MERCATUS.ORG**

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

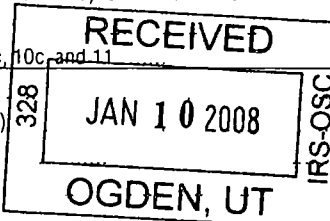
K Check here if the organization is not a 509(a)(3) supporting organization and its gross receipts are normally not more than \$25,000. A return is not required, but if the organization chooses to file a return, be sure to file a complete return

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

L Gross receipts Add lines 6b, 8b, 9b, and 10b to line 12 ▶ **9,990,542.**

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

Revenue	1	Contributions, gifts, grants, and similar amounts received				
	a	Contributions to donor advised funds		1a		
	b	Direct public support (not included on line 1a)		1b	9,630,804.	
	c	Indirect public support (not included on line 1a)		1c		
	d	Government contributions (grants) (not included on line 1a)		1d		
	e	Total (add lines 1a through 1d) (cash \$ 9,316,322. noncash \$ 314,482.)		1e		9,630,804.
	2	Program service revenue including government fees and contracts (from Part VII, line 93)		2		
	3	Membership dues and assessments		3		
	4	Interest on savings and temporary cash investments		4		20,673.
	5	Dividends and interest from securities		5		70,776.
	6a	Gross rents		6a		
	6b	Less rental expenses		6b		
6c	Net rental income or (loss) Subtract line 6b from line 6a		6c			
7	Other investment income (describe ▶)		7			
8a	Gross amount from sales of assets other than inventory		(A) Securities		(B) Other	
			257,525.	8a		
b	Less cost or other basis and sales expenses		252,283.	8b		
c	Gain or (loss) (attach schedule)		5,242.	8c		
d	Net gain or (loss) Combine line 8c, columns (A) and (B) STMT 1			8d	5,242.	
9	Special events and activities (attach schedule) If any amount is from gaming, check here <input type="checkbox"/>					
a	Gross revenue (not including \$ _____ of contributions reported on line 1b)		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			
10a	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		10,764.	
12	Total revenue Add lines 1e, 2, 3, 4, 5, 6c, 7, 8d, 9c, 10c, and 11		12		9,738,259.	
Expenses	13	Program services (from line 44, column (B))		13	8,886,373.	
	14	Management and general (from line 44, column (C))		14	226,432.	
	15	Fundraising (from line 44, column (D))		15	838,847.	
	16	Payments to affiliates (attach schedule)		16		
	17	Total expenses Add lines 16 and 44, column (A)		17		9,951,652.
Net Assets	18	Excess or (deficit) for the year Subtract line 17 from line 12		18	<213,393.>	
	19	Net assets or fund balances at beginning of year (from line 73, column (A))		19	2,220,628.	
	20	Other changes in net assets or fund balances (attach explanation) SEE STATEMENT 2		20	1,175.	
	21	Net assets or fund balances at end of year Combine lines 18, 19, and 20		21	2,008,410.	



623001 01-18-07

LHA For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions.

Form 990 (2006)

G17 4

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
22a	Grants paid from donor advised funds (attach schedule) (cash \$ 0 noncash \$ 0) If this amount includes foreign grants, check here <input type="checkbox"/>				
22b	Other grants and allocations (attach schedule) (cash \$ 4,057,906 noncash \$ 0) If this amount includes foreign grants, check here <input checked="" type="checkbox"/>	4,057,906.	4,057,906.	STATEMENT 4	
23	Specific assistance to individuals (attach schedule)				
24	Benefits paid to or for members (attach schedule)				
25a	Compensation of current officers, directors, key employees, etc listed in Part V-A	283,058.	195,204.	66,755.	21,099.
25b	Compensation of former officers, directors, key employees, etc listed in Part V-B	970.	970.	0.	0.
25c	Compensation and other distributions, not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)				
26	Salaries and wages of employees not included on lines 25a, b, and c	2,539,114.	2,352,000.	38,199.	148,915.
27	Pension plan contributions not included on lines 25a, b, and c				
28	Employee benefits not included on lines 25a - 27	146,467.	135,700.	2,554.	8,213.
29	Payroll taxes	188,165.	170,054.	6,814.	11,297.
30	Professional fundraising fees	187,572.	0.	0.	187,572.
31	Accounting fees	23,277.	0.	23,277.	0.
32	Legal fees	13,082.	6,102.	685.	6,295.
33	Supplies	237,594.	209,175.	8,212.	20,207.
34	Telephone	35,806.	30,764.	2,457.	2,585.
35	Postage and shipping	237,107.	30,820.	802.	205,485.
36	Occupancy				
37	Equipment rental and maintenance	21,059.	18,540.	728.	1,791.
38	Printing and publications	346,511.	137,836.	1,065.	207,610.
39	Travel	203,117.	195,994.	324.	6,799.
40	Conferences, conventions, and meetings	575,865.	568,262.	2,746.	4,857.
41	Interest				
42	Depreciation, depletion, etc (attach schedule)	43,539.	38,749.	1,742.	3,048.
43	Other expenses not covered above (itemize)				
a					
b					
c					
d					
e					
f					
g	SEE STATEMENT 3	811,443.	738,297.	70,072.	3,074.
44	Total functional expenses. Add lines 22a through 43g (Organizations completing columns (B)-(D), carry these totals to lines 13-15)	9,951,652.	8,886,373.	226,432.	838,847.

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 \$ N/A, (ii) the amount allocated to Program services \$ N/A,

(iii) the amount allocated to Management and general \$ N/A, and (iv) the amount allocated to Fundraising \$ N/A

Part III Statement of Program Service Accomplishments (See the instructions)

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.

What is the organization's primary exempt purpose? ► SEE STATEMENT 5	
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 UNIVERSITY RESEARCH & TEACHING: ADVANCES EXCELLENCE AT GEORGE MASON UNIVERSITY IN ORDER TO BETTER UNDERSTAND AND COMMUNICATE THE IDEAS WHICH UNDERGIRD A FREE AND PROSPEROUS SOCIETY.	
(Grants and allocations \$ 3,724,754.) If this amount includes foreign grants, check here ► <input type="checkbox"/>	3,963,045.
b 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 \$ 328,972.) If this amount includes foreign grants, check here ► <input type="checkbox"/>	1,695,137.
c CAPITOL HILL CAMPUS: 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 \$ 2,500.) If this amount includes foreign grants, check here ► <input type="checkbox"/>	1,094,944.
d PUBLIC AFFAIRS: DEVELOPS RELATIONSHIPS WITH INFLUENTIAL INDIVIDUALS AND MEDIA, INFORMS THEM ABOUT THE EFFORTS OF THE MERCATUS CENTER, AND SEEKS TO BUILD SUPPORT AND LEVERAGED ATTENTION FOR MERCATUS PROGRAMS.	
(Grants and allocations \$ 0.) If this amount includes foreign grants, check here ► <input type="checkbox"/>	811,710.
e Other program services (attach schedule) SEE STATEMENT 6	
(Grants and allocations \$ 1,680.) If this amount includes foreign grants, check here ► <input type="checkbox"/>	1,321,537.
f Total of Program Service Expenses (should equal line 44, column (B), Program services) ►	8,886,373.

Form 990 (2006)

Part IV Balance Sheets (See the instructions)

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	19.	45 89.
	46 Savings and temporary cash investments	1,007,195.	46 247,427.
	47 a Accounts receivable	47a 21,379.	
	b Less: allowance for doubtful accounts	47b	47c 21,379.
	48 a Pledges receivable	48a 0.	
	b Less: allowance for doubtful accounts	48b 0.	48c
	49 Grants receivable	1,583,656.	49 4,790,028.
	50 a Receivables from current and former officers, directors, trustees, and key employees		50a
	b Receivables from other disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)		50b
	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	68,885.	53 52,024.
	54 a Investments - publicly-traded securities STMT 7 <input type="checkbox"/> Cost <input checked="" type="checkbox"/> FMV	464,253.	54a 453,125.
	b Investments - other securities <input type="checkbox"/> Cost <input type="checkbox"/> FMV		54b
55 a Investments - land, buildings, and equipment basis	55a		
b Less accumulated depreciation	55b	55c	
56 Investments - other		56	
57 a Land, buildings, and equipment basis	57a 536,622.		
b Less accumulated depreciation	57b 379,035.	57c 157,587.	
58 Other assets, including program-related investments (describe <input type="checkbox"/>)		58	
59 Total assets (must equal line 74) Add lines 45 through 58	3,218,352.	59 5,721,659.	
Liabilities	60 Accounts payable and accrued expenses	408,691.	60 285,168.
	61 Grants payable	473,112.	61 3,329,215.
	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)	115,921.	65 98,866.
66 Total liabilities. Add lines 60 through 65	997,724.	66 3,713,249.	
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	1,067,758.	67 1,580,051.
	68 Temporarily restricted	1,152,870.	68 428,359.
	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 and column (B) must equal line 21)	2,220,628.	73 2,008,410.
	74 Total liabilities and net assets/fund balances Add lines 66 and 73	3,218,352.	74 5,721,659.

Part IV-A Reconciliation of Revenue per Audited Financial Statements With Revenue per Return (See the instructions)

a Total revenue, gains, and other support per audited financial statements		a	10,034,359.
b Amounts included on line a but not on Part I, line 12:			
1	Net unrealized gains on investments	b1	1,175.
2	Donated services and use of facilities	b2	294,925.
3	Recoveries of prior year grants	b3	
4	Other (specify):	b4	
Add lines b1 through b4		b	296,100.
c Subtract line b from line a		c	9,738,259.
d Amounts included on Part I, line 12, but not on line a :			
1	Investment expenses not included on Part I, line 6b	d1	
2	Other (specify):	d2	
Add lines d1 and d2		d	0.
e Total revenue (Part I, line 12) Add lines c and d		e	9,738,259.

Part IV-B Reconciliation of Expenses per Audited Financial Statements With Expenses per Return

a Total expenses and losses per audited financial statements		a	10,246,577.
b Amounts included on line a but not on Part I, line 17:			
1	Donated services and use of facilities	b1	294,925.
2	Prior year adjustments reported on Part I, line 20	b2	
3	Losses reported on Part I, line 20	b3	
4	Other (specify):	b4	
Add lines b1 through b4		b	294,925.
c Subtract line b from line a		c	9,951,652.
d Amounts included on Part I, line 17, but not on line a :			
1	Investment expenses not included on Part I, line 6b	d1	
2	Other (specify):	d2	
Add lines d1 and d2		d	0.
e Total expenses (Part I, line 17). Add lines c and d		e	9,951,652.

Part V-A Current Officers, Directors, Trustees, and Key Employees (List each person who was an officer, director, trustee, or key employee at any time during the year even if they were not compensated) (See the instructions)

(A) Name and address	(B) Title and average hours per week devoted to position	(C) Compensation (If not paid, enter -0-)	(D) Contributions to employee benefit plans & deferred compensation plans	(E) Expense account and other allowances
SEE STATEMENT 8		271,550.	11,508.	0.

Part V-A Current Officers, Directors, Trustees, and Key Employees <i>(continued)</i>	Yes	No
75 a Enter the total number of officers, directors, and trustees permitted to vote on organization business at board meetings 8		
b Are any officers, directors, trustees, or key employees listed in Form 990, Part V-A, or highest compensated employees listed in Schedule A, Part I, or highest compensated professional and other independent contractors listed in Schedule A, Part II-A or II-B, related to each other through family or business relationships? If "Yes," attach a statement that identifies the individuals and explains the relationship(s) SEE STATEMENT 9	X	
c Do any officers, directors, trustees, or key employees listed in Form 990, Part V-A, or highest compensated employees listed in Schedule A, Part I, or highest compensated professional and other independent contractors listed in Schedule A, Part II-A or II-B, receive compensation from any other organizations, whether tax exempt or taxable, that are related to the organization? See the instructions for the definition of "related organization" If "Yes," attach a statement that includes the information described in the instructions.		X
d Does the organization have a written conflict of interest policy?	X	

Part V-B Former Officers, Directors, Trustees, and Key Employees That Received Compensation or Other Benefits (If any former officer, director, trustee, or key employee received compensation or other benefits (described below) during the year, list that person below and enter the amount of compensation or other benefits in the appropriate column. See the instructions.)

(A) Name and address	(B) Loans and Advances	(C) Compensation (if not paid, enter -0-)	(D) Contributions to employee benefit plans & deferred compensation plans	(E) Expense account and other allowances
PAUL S. EDWARDS ONE UNIVERSITY HILL DRIVE BUENA VISTA, VA 24416	0.	970.	0.	0.

Part VI Other Information <i>(See the instructions)</i>	Yes	No
76 Did the organization make a change in its activities or methods of conducting activities? If "Yes," attach a detailed statement of each change		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		X
78 a Did the organization have unrelated business gross income of \$1,000 or more during the year covered by this return?		X
b If "Yes," has it filed a tax return on Form 990-T for this year?		N/A
79 Was there a liquidation, dissolution, termination, or substantial contraction during the year? If "Yes," attach a statement		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?		X
b If "Yes," enter the name of the organization N/A _____ and check whether it is <input type="checkbox"/> exempt or <input type="checkbox"/> nonexempt		
81 a Enter direct or indirect political expenditures (See line 81 instructions)		0.
b Did the organization file Form 1120-POL for this year?		X

Part VI Other Information (continued)

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 294,925.
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? N/A 84a
b If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible? N/A 84b
85 501(c)(4), (5), or (6) organizations a Were substantially all dues nondeductible by members? N/A 85a
b Did the organization make only in-house lobbying expenditures of \$2,000 or less? N/A 85b
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
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? N/A 85g
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? N/A 85h
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 a 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 88a X
b At any time during the year, did the organization, directly or indirectly, own a controlled entity within the meaning of section 512(b)(13)? If "Yes," complete Part XI 88b X
89 a 501(c)(3) organizations Enter. Amount of tax imposed on the organization during the year under section 4911 0., section 4912 0., section 4955 0.
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.
e All organizations At any time during the tax year, was the organization a party to a prohibited tax shelter transaction? 89e X
f All organizations Did the organization acquire a direct or indirect interest in any applicable insurance contract? 89f X
g For supporting organizations and sponsoring organizations maintaining donor advised funds Did the supporting organization, or a fund maintained by a sponsoring organization, have excess business holdings at any time during the year? N/A 89g
90 a List the states with which a copy of this return is filed SEE STATEMENT 10
b Number of employees employed in the pay period that includes March 12, 2006 90b 35
91 a The books are in care of MERCATUS CENTER, INC. Telephone no (703) 993-4930
Located at 3301 NORTH FAIRFAX DRIVE. #450 ARLINGTON, VA ZIP + 4 22201-4432
b At any time during the calendar year, did the organization have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? If "Yes," enter the name of the foreign country N/A 91b X
See the instructions for exceptions and filing requirements for Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts

Part VI Other Information (continued) Yes No

c At any time during the calendar year, did the organization maintain an office outside of the United States? 91c Yes No
 If "Yes," enter the name of the foreign country N/A

92 Section 4947(a)(1) nonexempt charitable trusts filing Form 990 in lieu of Form 1041 - Check here
 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 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 _____					
b _____					
c _____					
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	20,673.	
96 Dividends and interest from securities			14	70,776.	
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					
100 Gain or (loss) from sales of assets other than inventory			18	5,242.	
101 Net income or (loss) from special events					
102 Gross profit or (loss) from sales of inventory					
103 Other revenue:					
a MISCELLANEOUS					10,764.
b _____					
c _____					
d _____					
e _____					
104 Subtotal (add columns (B), (D), and (E))		0.		96,691.	10,764.
105 Total (add line 104, columns (B), (D), and (E))					107,455.

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

Part VIII Relationship of Activities to the Accomplishment of Exempt Purposes (See 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 11

Part IX Information Regarding Taxable Subsidiaries and Disregarded Entities (See 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 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)

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 4947(a)(1) Nonexempt Charitable Trust

2006

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 2 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
DRAGOS ALIGICA: 3301 N. FAIRFAX DR. #450, ARLINGTON, VA 22201-4432	SR. RESEARCH FELLOW 40.00	106,000.	4,599.	0.
DR. JEROME ELLIG: 3301 N. FAIRFAX DR. #450, ARLINGTON, VA 22201-4432	SR. RESEARCH FELLOW 40.00	170,500.	4,031.	0.
HON. TIMOTHY ROEMER: 3301 N FAIRFAX DR #450, ARLINGTON, VA 22201-4432	DISTING. SCHOLAR 40.00	138,924.	4,503.	0.
LAWSON BADER: 3301 N. FAIRFAX DR. #450, ARLINGTON, VA 22201-4432	VICE PRESIDENT 40.00	129,583.	4,503.	0.
HON MAURICE MCTIGUE: 3301 N FAIRFAX DR #450, ARLINGTON, VA 22201-4432	VP/DIR.OF GOV. ACC. 40.00	149,583.	3,833.	0.
Total number of other employees paid over \$50,000	▶ 12			

Part II-A 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	FUNDRAISING / COUNSEL	188,317.
KUDLOW AND COMPANY, LLC 1375 KINGS HWY EAST #260, FAIRFIELD, CT 06824	CONSULTING	70,000.
SKB ARCHITECTURE & DESIGN 1818 N STREET, NW, #510, WASHINGTON, DC 20036	SPACE CONSULTING	58,237.

Total number of others receiving over \$50,000 for professional services	▶ 0	

Part II-B Compensation of the Five Highest Paid Independent Contractors for Other Services

(List each contractor who performed services other than professional services, whether individuals or firms If there are none, enter "None" See page 2 of the instructions)

(a) Name and address of each independent contractor paid more than \$50,000	(b) Type of service	(c) Compensation
THE HINKEY COMPANY, LLC 9058 EUCLID AVENUE, MANASSAS, VA 20110	MAILING SERVICES	174,051.
MORGAN MEREDITH & ASSOCIATES 2875 TOWERVIEW ROAD #1000, HERNDON, VA 20171	MAILING SERVICES	138,759.
LION RECORDING SERVICES, INC. 7532 FULLERTON CT., SPRINGFIELD, VA 22153	CD DUPLICATION	57,005.

Total number of other contractors receiving over \$50,000 for other 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		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)		
a	Sale, exchange, or leasing of property?		X
b	Lending of money or other extension of credit?		X
c	Furnishing of goods, services, or facilities?		X
d	Payment of compensation (or payment or reimbursement of expenses if more than \$1,000)? SEE PART V-A, FORM 990	X	
e	Transfer of any part of its income or assets?		X
3	a Did the organization make grants for scholarships, fellowships, student loans, etc? (If "Yes," attach an explanation of how the organization determines that recipients qualify to receive payments) SEE STATEMENT 12	X	
	b Did the organization have a section 403(b) annuity plan for its employees?	X	
	c Did the organization receive or hold an easement for conservation purposes, including easements to preserve open space, the environment, historic land areas or historic structures? If "Yes," attach a detailed statement		X
	d Did the organization provide credit counseling, debt management, credit repair, or debt negotiation services?		X
4	a Did the organization maintain any donor advised funds? If "Yes," complete lines 4b through 4g If "No," complete lines 4f and 4g		X
	b Did the organization make any taxable distributions under section 4966?	N/A	
	c Did the organization make a distribution to a donor, donor advisor, or related person?	N/A	
	d Enter the total number of donor advised funds owned at the end of the tax year		0
	e Enter the aggregate value of assets held in all donor advised funds owned at the end of the tax year		0.
	f Enter the total number of separate funds or accounts owned at the end of the year (excluding donor advised funds included on line 4d) where donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts		0.
	g Enter the aggregate value of assets in all funds or accounts included on line 4f at the end of the tax year		0.

Part IV. Reason for Non-Private Foundation Status (See pages 4 through 7 of the instructions)

I certify that 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 otherwise meets the requirements of section 509(a)(3) Check the box that describes the type of supporting organization
 Type I Type II Type III-Functionally Integrated Type III-Other

Provide the following information about the supported organizations. (See page 7 of the instructions)

(a) Name(s) of supported organization(s)	(b) Employer identification number (EIN)	(c) Type of organization (described in lines 5 through 12 above or IRC section)	(d) Is the supported organization listed in the supporting organization's governing documents?		(e) Amount of support
			Yes	No	
Total					►

- 14 An organization organized and operated to test for public safety Section 509(a)(4) (See page 7 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) 2005	(b) 2004	(c) 2003	(d) 2002	(e) Total
15 Gifts, grants, and contributions received (Do not include unusual grants. See line 28)	6,969,978.	3,730,461.	3,678,594.	4,489,323.	18,868,356.
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	64,640.	110.	89,491.	178,029.	332,270.
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	73,801.	53,968.	178,191.	148,234.	454,194.
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	18,519.	8,421.	SEE STATEMENT 13 4,249.	4,437.	35,626.
23 Total of lines 15 through 22	7,126,938.	3,792,960.	3,950,525.	4,820,023.	19,690,446.
24 Line 23 minus line 17	7,062,298.	3,792,850.	3,861,034.	4,641,994.	19,358,176.
25 Enter 1% of line 23	71,269.	37,930.	39,505.	48,200.	
26 Organizations described on lines 10 or 11	a Enter 2% of amount in column (e), line 24				26a 387,164.
	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 2002 through 2005 exceeded the amount shown in line 26a. Do not file this list with your return. Enter the total of all these excess amounts				26b 3,381,093.
	c Total support for section 509(a)(1) test. Enter line 24, column (e)				26c 19,358,176.
	d Add Amounts from column (e) for lines 18	454,194.	19		
	22	35,626.	26b	3,381,093.	26d 3,870,913.
	e Public support (line 26c minus line 26d total)				26e 15,487,263.
	f Public support percentage (line 26e (numerator) divided by line 26c (denominator))				26f 80.0037%
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
	(2005)	(2004)	(2003)	(2002)	
	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 11b, 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
	(2005)	(2004)	(2003)	(2002)	
	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 2002 through 2005, 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

Part V Private School Questionnaire (See page 9 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)		
<hr/>			
<hr/>			
32	Does the organization maintain the following		
a	Records indicating the racial composition of the student body, faculty, and administrative staff?	32a	
b	Records documenting that scholarships and other financial assistance are awarded on a racially nondiscriminatory basis?	32b	
c	Copies of all catalogues, brochures, announcements, and other written communications to the public dealing with student admissions, programs, and scholarships?	32c	
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)	32d	
<hr/>			
33	Does the organization discriminate by race in any way with respect to		
a	Students' rights or privileges?	33a	
b	Admissions policies?	33b	
c	Employment of faculty or administrative staff?	33c	
d	Scholarships or other financial assistance?	33d	
e	Educational policies?	33e	
f	Use of facilities?	33f	
g	Athletic programs?	33g	
h	Other extracurricular activities? If you answered "Yes" to any of the above, please explain (If you need more space, attach a separate statement)	33h	
<hr/>			
<hr/>			
34 a	Does the organization receive any financial aid or assistance from a governmental agency?	34a	
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	34b	
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	35	

Part VI-A Lobbying Expenditures by Electing Public Charities (See page 10 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 -		
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 13 of the instructions)

Calendar year (or fiscal year beginning in)	Lobbying Expenditures During 4-Year Averaging Period				N/A
	(a) 2006	(b) 2005	(c) 2004	(d) 2003	(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 13 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

