CONSOLIDATED FINANCIAL STATEMENTS

Fiscal Years Ended September 30, 2023 and 2022

RAND

Report of Independent Auditors

To the Board of Trustees of The RAND Corporation

Opinion

We have audited the accompanying consolidated financial statements of The RAND Corporation and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as of September 30, 2023 and 2022, and the related consolidated statements of activities and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2023. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

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Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

PricewaterhouseCoopers LLP

Los Angeles, California
February 8, 2024

The RAND Corporation

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands)

	September 30, 2023	September 30, 2022
ASSETS		
Current assets		
Cash and cash equivalents	$ 76,192	$ 46,113
Short-term investments	979	861
Receivables, net		
Billed and unbilled costs	75,138	86,480
Other receivables	21,323	8,089
Prepaid expenses and other current assets	12,862	17,371
Total current assets	186,494	158,914
Property and equipment		
Land	8,804	8,804
Buildings and improvements	123,577	122,683
Leasehold improvements	26,524	24,950
Equipment	82,731	78,861
Construction in progress	10,555	9,944
	252,191	245,242
Less: Accumulated depreciation and amortization	(146,338)	(139,554)
Net property and equipment	105,853	105,688
Long-term investments	288,674	266,233
Other assets	31,595	16,399
Right-of-use assets - operating leases	86,637	-
Total assets	$ 699,253	$ 547,234
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and other liabilities	$ 20,657	$ 24,716
Unexpended portion of grants and contracts received	6,474	8,655
Accrued compensation and vacation	27,962	26,456
Current portion of long-term debt	3,305	3,165
Short-term operating lease liability	12,304	-
Total current liabilities	70,702	62,992
Deferred rent	-	6,210
Long-term operating lease liability	79,460	-
Accrued postretirement benefit liability	136	-
Other long-term liabilities	4,590	7,547
Long-term debt, less current portion and bond issue cost	88,332	91,617
Total liabilities	243,220	168,366
Net assets		
Without donor restrictions	245,481	202,748
With donor restrictions		
For time or purpose	137,902	105,958
In perpetuity	72,650	70,162
	210,552	176,120
Total net assets	456,033	378,868
Total liabilities and net assets	$ 699,253	$ 547,234

The accompanying notes are an integral part of these consolidated financial statements.

The RAND Corporation
CONSOLIDATED STATEMENTS OF ACTIVITIES

(in thousands)

	September 30, 2023			September 30, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT						
Contracts and grants	$ 383,158	$ 13,131	$ 396,289	$ 348,133	$ 34,165	$ 382,298
Net assets released from restrictions - contracts and grants	15,014	(15,014)	-	5,634	(5,634)	-
Total contracts and grants revenue and other support	398,172	(1,883)	396,289	353,767	28,531	382,298
Investment income, net	2,262	1,438	3,700	4,506	2,782	7,288
Net realized gains on investments	3,088	1,964	5,052	4,095	2,526	6,621
Net unrealized gains (losses) on investments	12,225	7,774	19,999	(34,638)	(21,535)	(56,173)
Contributions	32,371	42,191	74,562	401	14,371	14,772
Net assets released from restrictions	17,052	(17,052)	-	15,182	(15,182)	-
Other income	2,089	-	2,089	1,719	-	1,719
Total revenues, gains, and other support	467,259	34,432	501,691	345,032	11,493	356,525
EXPENSES						
Research	328,882	-	328,882	298,677	-	298,677
Management and general	98,158	-	98,158	86,040	-	86,040
Total expenses	427,040	-	427,040	384,717	-	384,717
Change in net assets before other items	40,219	34,432	74,651	(39,685)	11,493	(28,192)
Other items:						
Change in fair value of derivative instruments (Note 9)	2,957	-	2,957	10,491	-	10,491
Other components of net periodic postretirement benefit costs	2,180	-	2,180	3,125	-	3,125
Adjustment to accrued postretirement benefit liability (other than net periodic postretirement benefit cost) (Note 8)	(4,778)	-	(4,778)	(2,431)	-	(2,431)
Foreign exchange gain/(loss) on revaluation (Note 2)	2,155	-	2,155	(1,564)	-	(1,564)
Change in net assets	42,733	34,432	77,165	(30,064)	11,493	(18,571)
Net assets at beginning of year	202,748	176,120	378,868	232,812	164,627	397,439
Net assets at end of year	$ 245,481	$ 210,552	$ 456,033	$ 202,748	$ 176,120	$ 378,868

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	For the Year Ended September 30, 2023	For the Year Ended September 30, 2022
Cash flows from operating activities:		
Change in net assets	$ 77,165	$ (18,571)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	10,950	12,231
Amortization of right-of-use assets	7,211	-
Net realized/unrealized (gain)/loss	(25,051)	49,552
Contributions with donor restrictions for long-term purposes	(2,488)	(681)
Change in postretirement benefit liability	4,778	2,431
Change in fair value of derivative instruments	(2,957)	(10,491)
Foreign exchange (gain)/loss	(202)	970
Changes in assets and liabilities:		
(Increase) decrease in:		
Billed and unbilled costs and fees	11,342	(13,164)
Other receivables	(12,725)	(4,077)
Prepaid expenses and other current assets	4,509	(6,549)
Other assets	(15,200)	2,327
Increase (decrease) in:		
Accounts payable and other liabilities	(4,059)	(655)
Unexpended portion of grants and contracts received	(2,181)	(4,240)
Accrued compensation and vacation	1,506	40
Deferred rent	-	(1,591)
Operating lease liability	(8,294)	-
Accrued postretirement benefit liability	(4,642)	(2,431)
Net cash provided by operating activities	39,662	5,101
Cash flows from investing activities:		
Purchases of investments	(24,341)	(32,005)
Sales of investments	29,843	45,157
Purchases of property and equipment	(11,089)	(11,870)
Net cash (used in) provided by investing activities	(5,587)	1,282
Cash flows from financing activities:		
Principal payments on long term debt	(3,165)	(3,050)
Contributions with donor restrictions for long-term purposes	1,896	681
Net cash used in financing activities	(1,269)	(2,369)
Effect of currency exchange rate changes on cash	165	912
Net increase in cash, cash equivalents, and restricted cash	32,971	4,926
Cash, cash equivalents, and restricted cash at beginning of period	49,042	44,116
Cash, cash equivalents, and restricted cash at end of period	$ 82,013	$ 49,042
Supplemental cash flow information:		
Cash paid for interest	$ 4,354	$ 2,992

The accompanying notes are an integral part of these consolidated financial statements.

1. Corporate Organization:

The RAND Corporation (RAND) is a nonprofit, tax-exempt corporation performing research and analysis funded primarily by contracts, grants, and contributions. In addition, the Pardee RAND Graduate School, which is part of the RAND Corporation, confers PhD degrees in Policy Analysis.

The consolidated financial statements of RAND include the accounts of three subsidiaries: RAND Europe, a Community Interest Company domiciled in the United Kingdom, RAND Australia, a Proprietary Company limited by shares, based in Australia, and Goshen Avenue Housing, LLC, for the exclusive purpose of holding title to the Goshen Avenue Housing property. All intercompany balances and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies:

Fiscal Year. RAND's fiscal year is from October 1st to September 30th.

Basis of Presentation. The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP) in the United States of America applicable to not-for-profit organizations.

Net Assets. Under GAAP applicable to not-for-profit organizations, net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of RAND and changes therein have been classified and are reported as follows:

- Net Assets without donor restrictions – Net assets not subject to donor-imposed stipulations; donor-restricted contributions whose restrictions are met in the same reporting period as the contribution is received; and net assets designated by the Board of Trustees or management for specific purposes.
- Net Assets with donor restrictions for time or purpose – Net assets subject to donor-imposed stipulations that will be met either by actions of RAND pursuant to those stipulations and/or by the passage of time.
- Net Assets with donor restrictions in perpetuity – Net assets subject to donor-imposed stipulations that require RAND to maintain them in perpetuity. Generally, the donors of these assets permit RAND to use all or part of the income earned on related investments for general or specific purposes.

Use of Estimates. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the Consolidated Statements of Financial Position. Estimates also affect the reported amount of revenues, expenses, or other changes in net assets during the reporting period. Actual results could differ from these estimates.

Concentrations of Risk. Cash and cash equivalents are maintained with several financial institutions. Deposits held with banks may exceed the amount of FDIC insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions of reputable credit and therefore bear minimal credit risk.

RAND derived 88% and 87% of its United States Contracts and grants revenues in fiscal years 2023 and 2022, respectively, from agencies of the United States Federal Government.

Cash and Cash Equivalents. RAND considers all highly liquid financial instruments purchased with an original maturity of three months or less, and whose purpose is not restricted, to be cash equivalents. RAND classifies cash equivalents held as part of the investment portfolio as investments. Such investments are not included in the line item "Cash, cash equivalents, and restricted cash" in the Consolidated Statements of Cash Flows. Included in the end of period Cash, cash equivalents, and restricted cash amount is $76,192,000 and $46,113,000 in Cash and cash equivalents, $979,000 and $861,000 of restricted cash as collateral for a line of credit related to RAND Europe in Short-term investments, and $4,842,000 and $2,068,000 of cash in the balance of the Long-term investments as of September 30, 2023 and 2022, respectively.

Short-term Investments. Investments with an original maturity of one year or less, whose purpose is without donor restriction, and which are not managed as part of the Long-term investment portfolio are classified as Short-term investments. RAND held Short-term investments with readily determinable fair values of $979,000 and $861,000 as of September 30, 2023 and 2022, respectively.

Contributions Receivable. Contributions receivable, including unconditional promises to give, are recognized as revenue in the period received and are reported as increases in net assets with donor restrictions for time or purpose or with donor restrictions in perpetuity based upon donor-imposed stipulations. The receivables are recorded net of the discount for future cash flows and allowance for bad debt using the credit-adjusted rate of return appropriate for the expected term of the promise to give determined at the time the unconditional promise to give is initially recognized. Receivables expected to be collected in one year or less are included in Other receivables, and receivables expected to be collected after one year are included in Other assets on the Consolidated Statements of Financial Position. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Property and Equipment. Property and equipment are stated at cost. Depreciation is computed by the straight-line method over the estimated useful lives of the assets ranging from 3 to 40 years. Leasehold improvements are amortized by the straight-line method over the shorter of the non-cancelable lease term or the unique useful life of the asset. Construction in progress will be amortized over the estimated useful lives of the respective assets when they are ready for their intended use and placed in service. Certain computer systems and software are internally developed. Costs associated with the application development stage are capitalized and depreciated over the useful life of the system or software. All other costs are expensed as incurred.

Investments. All investments related to net assets without donor restriction, including Board-designated amounts, and certain net assets with time and/or purpose or perpetual donor restrictions, are pooled in Long-term investments. Income from Long-term investments is allocated to individual funds based on the average balance for each fund.

Board-designated funds distributed for use was approximately 5% in fiscal years 2023 and 2022 based on the average of the trailing 12-quarter market values of the funds. In April 2018, the Board approved a special distribution of up to 2% per year for a period of 5 years commencing with the first distribution.

In fiscal year 2022, RAND made its first 2% distribution based on the average of the trailing 12-quarter market values of the funds. This 2% special distribution was in addition to the board approved 5% distribution. In fiscal year 2023, only the 5% distribution was made. The total net distribution was $7,941,000 and $11,906,000 for fiscal years 2023 and 2022, respectively.

Gains and losses on investments and Investment income are reported as increases or decreases in net assets without donor restriction, unless otherwise stipulated by the donor.

Other Assets. RAND early adopted ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract,* in fiscal year 2018 and had accumulated capitalizable costs of $9,585,000 through October 1, 2019, the date the asset was placed into service.

(in thousands):

	September 30, 2023		September 30, 2022	
Net Book Value	$	4,883	$	6,058
Accumulated Amortization	$	4,702	$	3,527
Amortization Expense	$	1,175	$	1,175

Income Tax Status. RAND is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding California provisions and has qualified for the 50% charitable contributions limitation. RAND has been classified as an organization that is not a private foundation under Section 509(a)(1) and has been designated a "publicly supported" organization under Section 170(b)(1)(A)(vi) of the U.S. Internal Revenue Code.

Revenue and Expense Recognition. RAND's revenue and expense recognition policies are as follows:

Revenue. In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, *Revenue from Contracts with Customers (ASC 606).* ASU 2014-09 supersedes the revenue recognition guidance in *Revenue Recognition* (ASC 605). Transfers of assets are first analyzed to determine if they represent a contribution or an exchange transaction. If the transfer of assets is not considered to be a contribution, then it is considered to be an exchange transaction and assessed using the five-step model in ASC 606, whereby revenue is recognized as performance obligations within the contract are satisfied.

Revenues from Contracts and grants:

- *Contracts received from governmental and non-governmental sources* - Generally are considered exchange transactions which are recognized over time using an input method as allowable expenditures under such agreements are incurred. For fixed price contracts and fee revenues associated with cost plus fixed fee contracts, revenue is recognized over time based on an input method that uses costs incurred relative to total estimated costs to satisfy the performance obligation. RAND has determined that the input methods used to recognize revenue provide a faithful depiction of the transfer of services to the customer and RAND's progress toward satisfaction of the performance obligation. RAND has determined that each research study specified in its contracts represents a performance obligation. This is supported by the fact that RAND's contracts explicitly state what work will be performed for the customer, the stages or timeline of work that will be performed by RAND, and a completion date of when the final report will be provided to the customer. Thus, RAND's contracts are defined as having a single performance obligation – the completed research study. RAND's significant payment terms generally consist of invoices due net 30 days. When it is probable that a contract will result in a loss and that loss can be reasonably estimated, the entirety of the loss is recognized in the Consolidated Statements of Activities. Substantially all United States government contracts awarded to RAND provide for the reimbursement of various indirect costs based on rates negotiated with the Defense Contract Management Agency (DCMA), RAND's federal cognizant agency for the negotiation and approval of indirect cost rates. While allowable expenditures under RAND's agreements are subject to audit by the DCMA through annual contract cost submissions, RAND has determined that no constraint on revenue is required as it is not probable that there will be a significant reversal of revenue due to cost disallowances once the audits are completed. $3,429,000 and $4,242,000 in advance payments on such transactions have been deferred and are recorded in Unexpended portion of grants and contracts received on the Consolidated Statements of Financial Position as of September 30, 2023 and 2022, respectively.

- *Grants received from departments or agencies of the government* - Generally are considered non-exchange transactions and are reported as increases in net assets without donor restrictions as the associated barriers are overcome, which generally is as allowable expenditures under such agreements are incurred. RAND has elected a policy to report awards where the condition and restriction are met in the same reporting period within net assets without donor restrictions. Substantially all United States government grants awarded to RAND provide for the reimbursement of various indirect costs based on rates negotiated with the DCMA, RAND's federal cognizant agency for the negotiation and approval of indirect cost rates. Conditional government non-exchange transactions that were not recorded in the consolidated financial statements totaled $69,956,000 and $79,869,000 as of September 30, 2023 and 2022, respectively. A majority of these conditional non-exchange transactions are related to the performance of specific research.

- *Grants received from private foundations and other non-governmental sources* - Generally are considered non-exchange transactions –
  - Conditional non-exchange transactions, which are characterized by both the presence of one or more donor-imposed barriers to RAND's entitlement to promised resources and the donor's right of return of funds or the right to be released of obligations to transfer assets in the future, are recorded when RAND overcomes such barriers. Barriers may include performance-related stipulations, limitations on RAND's discretion over the use of awarded funds, and/or other stipulations related to the purpose of the contribution. Conditional non-exchange transactions from private foundations and other non-governmental agencies that were not recorded in the Consolidated Statements of Activities were $24,798,000 and $51,220,000 as of September 30, 2023 and 2022, respectively. $3,045,000 and $4,413,000 in advance payments on such non-exchange transactions have been deferred and are recorded in Unexpended portion of grants and contracts received on the Consolidated Statements of Financial Position as of September 30, 2023 and 2022, respectively. A majority of these conditional non-exchange transactions are related to the performance of specific research.
  - Unconditional non-exchange transactions are recognized as revenue in the period in which the agreement is received and as an increase in Contracts and grants revenue within the appropriate net asset category.

Contracts and grants revenue on the fiscal year 2023 and 2022 Consolidated Statements of Activities includes agreements that are accounted for as exchange transactions in accordance with ASC 606 and non-exchange transactions in accordance with the contribution accounting guidance in ASC 958-605, *Not-for-Profit Entities, Revenue Recognition.*

Exchange and non-exchange transactions included in Contracts and grants revenue on the Consolidated Statements of Activities for the years ended September 30, 2023 and 2022 are as follows (in thousands):

	September 30, 2023		September 30, 2022	
Exchange transactions	$	320,681	$	293,475
Non-exchange transactions		75,608		88,823
Total contracts and grants revenue	$	396,289	$	382,298

Within the $75,608,000 and $88,823,000 of non-exchange revenues recognized in fiscal years 2023 and 2022, $62,477,000 and $54,658,000 was released from restriction as the associated time and/or purpose restriction was met in fiscal year 2023 and 2022, respectively.

Revenues from Contributions:

- Contributions, including unconditional promises to give, are recognized as revenue in the period received and are reported as increases in the appropriate category of net assets.

Expenses. Expenses (Research expenses as well as Management and general expenses) are reported as decreases in net assets without donor restrictions.

Foreign Currency Translation. RAND's foreign subsidiaries primarily transact in the local currencies. RAND translates the foreign assets and liabilities at exchange rates in effect at the Consolidated Statements of Financial Position dates and translates the revenues and expenses using average rates during the year. Gains and losses resulting from exchange rate changes on transactions denominated in a currency other than the local currency are included in Change in net assets before other items on the Consolidated Statements of Activities.

Within Other items on the Consolidated Statements of Activities, RAND has recorded a foreign exchange gain on the revaluation of a long-term intercompany loan. Consistent with ASC 830, *Foreign Currency Matters*, RAND has recognized a foreign exchange gain of $340,000, and a loss of $738,000 for the years ended September 30, 2023, and 2022, respectively.

Accounting Pronouncements Adopted. In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefits Plans – General*. The new guidance changes the disclosures required for defined benefit pension and other postretirement benefit plans. Certain disclosures are no longer required, including the effect of a one-percentage-point change in the assumed healthcare cost trend rate on the aggregate of the service and interest cost components of net periodic benefit cost and on the benefit obligation for postretirement healthcare benefits. Additionally, new disclosures are required, including the reasons for significant gains and losses affecting benefit obligations. RAND adopted ASU 2018-14 for the fiscal year ended September 30, 2022. Adoption did not have a material impact on RAND's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (ASC 842)*. The standard requires recognition of rights and obligations arising from lease contracts, including existing and new arrangements, as assets and liabilities on the Consolidated Statements of Financial Position. This ASU is effective for non-profit organizations with annual reporting periods beginning after December 15, 2021. In July 2018, the FASB issued ASU 2018-11, *Leases (ASC 842): Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented, or as permitted by ASU 2018-11, at the beginning of the period in which it is adopted. RAND adopted Topic 842 on October 1, 2022 (the effective date). As part of this adoption, RAND elected the 'package of practical expedients', an option which permits it to not reassess prior conclusions about (i) lease identification, (ii) lease classification and (iii) initial direct costs under the new standard. Additionally, RAND elected not to record leases with an initial term of 12 months or less on the Consolidated Statements of Financial Position. RAND also elected the practical expedient to use the risk-free rate for the discount rate for all classes of underlying assets. For all domestic leases, RAND used the United States Treasury 10 year par yield rate. For international leases, RAND used the 10 year GILT rate for European leases and the 10 year Australian bond rate for the Australian lease. RAND did not elect the 'hindsight practical expedient' to determine the lease term for existing leases, which permits entities to consider available information prior to the effective date of the new guidance as to the actual or likely exercise of options to extend or terminate the lease. Furthermore, RAND has lease agreements with non-lease components that relate to the lease components. RAND did not elect the practical expedient to account for non-lease components and lease components on a combined basis. As a result of adoption, RAND recognized $25,813,000 in Right-of-use assets – operating leases and $32,022,000 in Operating lease liabilities on the Consolidated Statement of Financial Position at the beginning of fiscal year 2023. Additional information, including qualitative and quantitative disclosures, is included in Footnote 10.

Subsequent Events. During the period October 2023 through February 8, 2024, RAND had capital calls related to its Private Real Asset, Private Credit, and Private Equity Funds totaling $1,665,000, $387,000 and $675,000, respectively. RAND received distributions related to its Private Real Asset, Private Credit, and Private Equity totaling $1,292,000, $401,000, and $2,549,000, respectively.

On October 12, 2023, RAND settled the long-term intercompany loan with RAND Europe and converted this to equity through share issuance.

Subsequent events have been evaluated through February 8, 2024, the date the consolidated financial statements were available to be issued.

3. Liquidity and Availability:

RAND's financial assets available to meet its general expenditures within one year of the date of the Consolidated Statements of Financial Position are as follows (in thousands):

	September 30, 2023	September 30, 2022
Total assets at year end	$ 699,253	$ 547,234
Less: Financial assets not available for current use	(52,462)	(38,881)
Less: Property and equipment and other non-financial assets	(218,566)	(132,534)
Less: Long-term investments	(288,674)	(266,233)
Total financial assets available at year end for current use	139,551	109,586
Add: Board-designated investments	176,803	162,828
Total with Board-designated investments	$ 316,354	$ 272,414

The organization allocates amounts from its Board-designated funds for general expenditures as part of its annual budget approval and appropriation process. Amounts from its Board-designated funds could be made available if necessary to the extent that the underlying investments are not restricted to redemption.

RAND regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, RAND considers all expenditures related to operating expenses and scheduled principal payments on debt.

As part of RAND's liquidity management, RAND maintains an uncollateralized line of credit that expires in April 2024 in the principal amount of $50,000,000 (see Footnote 9).

4. Billed and Unbilled Costs:

The following table summarizes the components of billed and unbilled contract and grant costs (in thousands):

	September 30, 2023	September 30, 2022
U.S. government agencies		
Billed	$ 14,153	$ 18,714
Unbilled	25,898	24,647
	40,051	43,361
State, local and private sponsors		
Billed	10,651	10,241
Unbilled	24,565	33,007
	35,216	43,248
Allowance for bad debt	(129)	(129)
	$ 75,138	$ 86,480

Amounts representing long-term unbilled receivables for State, local and private sponsors is $7,751,000 as of September 30, 2023, and included in Other assets on the Consolidated Statements of Financial Position.

Unbilled amounts principally represent recoverable costs billed in the first quarter of fiscal years 2024 and 2023, respectively.

No significant contract terminations are anticipated, and past contract terminations have not resulted in significant unreimbursed costs.

5. Contributions Receivable:

Unconditional promises to give were $39,378,000 and $14,381,000 as of September 30, 2023 and 2022, respectively. The carrying amount of the receivables is deemed a reasonable estimate of their fair value.

Realization of the pledges is expected in the following periods (in thousands):

	September 30, 2023		September 30, 2022	
In one year or less	$	21,205	$	7,517
Between 1 yr. and 5 yrs.		20,274		7,515
		41,479		15,032
Less: Discount		(1,893)		(591)
Allowance for Bad Debt		(208)		(60)
	$	39,378	$	14,381

Contributions receivable in the following net asset with donor restrictions categories are primarily intended to be used for the purposes more fully described in Footnote 12 (in thousands):

	September 30, 2023		September 30, 2022	
Restricted for time or purpose	$	37,612	$	13,128
Restricted in perpetuity		1,766		1,253
	$	39,378	$	14,381

RAND received payments on prior year pledges in the amount of $7,611,000 and $4,268,000 for years ended September 30, 2023 and 2022, respectively.

Per estate bequests, retirement account designations, or insurance policy designations, RAND had conditional promises totaling $3,984,000 and $4,134,000 and commitments totaling $29,773,000 and $29,963,000 for the Pardee RAND Graduate School and research as of September 30, 2023 and 2022, respectively. Revenue associated with these commitments will be recorded as they qualify for recognition.

6. Long-Term Investments:

Long-term investments are recorded at fair value and all related transactions are recorded on the trade date. The investments consist of cash and cash equivalents, equity, fixed income, private equity and real assets, private credit, and alternative investments. Approximately 37% and 32% of Long-term investments consist of foreign investment holdings as of September 30, 2023 and 2022, respectively. RAND's net investment return for years ended September 30, 2023 and 2022 is a gain of $28,751,000 and a loss of ($42,263,000), respectively.

As of September 30, 2023, RAND had commitments outstanding to purchase private equity, real asset, and credit funds of $29,737,000; $6,121,000 of these commitments are estimated to be due within one year.

On the Consolidated Statements of Activities, Investment income and realized/unrealized gains (losses) are shown net of related investment expenses and any carried interest amount.

Long-term investments consist of the following (in thousands):

	September 30, 2023	September 30, 2022
Cash and Cash Equivalents	$ 5,894	$ 2,376
Equity Funds, at fair value	110,902	105,353
Fixed Income Funds, at fair value	86,857	79,306
Alternative Investments		
Private Credit Funds	19,155	17,414
Private Equity and Real Asset Funds	65,587	61,283
Multi-strategy and Long/Short Hedge Funds	279	501
	$ 288,674	$ 266,233

7. Fair Value Measurements:

The authoritative accounting guidance for fair value measurement provides the definition of fair value, establishes a fair value hierarchy based on the inputs used to measure fair value, and details the required disclosures about the use of fair value measurements.

Under the guidance, fair value is defined as the price that would be received to sell an asset (or paid to transfer a liability), or the "exit price." The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into levels:

Level 1 – Quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or other inputs that are observable or whose significant value drivers are observable.

Level 3 – Significant inputs are supported by little or no market activity and are thus unobservable.

Investments for which fair value is measured using the Net Asset Value (NAV) per share (or its equivalent) as a practical expedient are not categorized using the aforementioned levels. These investments are classified in a separate NAV category.

As required by the guidance, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. RAND's assessment of the significance of particular inputs to the fair value measurement requires judgment and may affect the selection of the hierarchy level and the valuation itself. RAND's own creditworthiness has been considered in the fair value measurements contained herein, as it relates to RAND's interest rate swaps.

Long-Term Investments – Quoted market prices are used to determine fair value for fixed income funds and equity funds when available. All such investments are considered Level 1. Certain equity funds are not actively traded but the underlying investments have observable inputs valued at NAV. As such, ASC 820, *Fair Value Measurement,* defines these funds as NAV. Alternative investments include RAND's share of private credit, private equity and real asset funds, multi-strategy funds, and hedge funds, which are not actively traded. Fair value measurement for alternative investments considers all available information for each investment fund, including annual audited financial statements, known activity subsequent to the fund's audited financial statement date, and valuation information from the fund manager.

Derivative Financial Instruments – RAND uses two interest rate swaps to fix the interest rate on a portion of its Series 2021 variable rate bonds. Dealer quotes, based on cash flow models discounted at relevant market interest rates, are used to determine the fair value of the swaps, both of which are considered Level 2.

RAND's assets and liabilities measured and reported in the consolidated financial statements at fair value on a recurring basis as of September 30, 2023 were as follows (in thousands):

	Level 1	Level 2	Level 3	NAV	September 30, 2023
Assets					
Investments					
Cash and Cash Equivalents	$ 5,894	$ -	$ -	$ -	$ 5,894
Equity Funds	110,902	-	-	-	110,902
Fixed Income Funds	34,491	-	-	52,366	86,857
Alternative Investments					
Private Credit Funds	-	-	-	19,155	19,155
Private Equity and Real Asset Funds	-	-	-	65,587	65,587
Multi-Strategy and Long/Short Hedge Funds	-	-	-	279	279
Total Assets	$ 151,287	$ -	$ -	$ 137,387	$ 288,674
Liabilities					
Derivatives	$ -	$ 4,590	$ -	$ -	$ 4,590

RAND's assets and liabilities measured and reported in the consolidated financial statements at fair value on a recurring basis as of September 30, 2022 were as follows (in thousands):

	Level 1	Level 2	Level 3	NAV	September 30, 2022
Assets					
Investments					
Cash and Cash Equivalents	$ 2,376	$ -	$ -	$ -	$ 2,376
Equity Funds	96,679	-	-	8,674	105,353
Fixed Income Funds	34,871	-	-	44,435	79,306
Alternative Investments					
Private Credit Funds	-	-	-	17,414	17,414
Private Equity and Real Asset Funds	-	-	-	61,283	61,283
Multi-Strategy and Long/Short Hedge Funds	-	-	-	501	501
Total Assets	$ 133,926	$ -	$ -	$ 132,307	$ 266,233
Liabilities					
Derivatives	$ -	$ 7,547	$ -	$ -	$ 7,547

RAND uses the NAV or its equivalent to determine the fair value of all the underlying investments that (i) do not have a readily determinable fair value and (ii) either have the attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company.

The following table lists these investments by major category as of September 30, 2023 (in thousands):

Category	Strategy	NAV	Unfunded Commitments	Nature and Risks of the Investment
Fixed Income	Global fixed income, preferred and convertible securities	$ 52,366	$ -	Redemptions/withdrawals are permitted semi-monthly to quarterly.
Private Credit	Credit, non-performing loans, secured and unsecured	19,155	2,352	Investment timeframe is 7 years; time to draw down commitments is 0-2 years; interest in the funds can be sold only with the consent of the fund managers.
Private Equity and Private Real Asset	Private Equity: Venture capital, buyouts, special situations Private Real Asset: Real estate and natural resources	65,587	27,385	Private Equity: Investment timeframes are 0-9 years; time to draw down commitments is 0-4 years; interest in the funds can be sold only with the consent of the fund managers. Private Real Asset: Investment timeframes are 0-8 years; time to draw down commitments is 0-2 years; interest in the funds can be sold only with the consent of the fund manager.
Multi-Strategy	Various (fixed income arbitrage, structured credit, event-driven)	279	-	Redemptions dependent upon realization of side-pocket or other underlying investment sale.
Total		$ 137,387	$ 29,737	

The following table lists these investments by major category as of September 30, 2022 (in thousands):

Category	Strategy	NAV	Unfunded Commitments	Nature and Risks of the Investment
Equity	Closed-end funds, Absolute return	$ 8,674	$ -	Quarterly partial redemptions permitted. A shareholder request to redeem all its share will be effected in stages over four successive quarters.
Fixed Income	Global fixed income, preferred and convertible securities	44,435	-	Redemptions/withdrawals are permitted semi-monthly to quarterly.
Private Credit	Credit, non-performing loans, secured and unsecured	17,414	3,961	Investment timeframe is 7 years; time to draw down commitments is 0-2 years; interest in the funds can be sold only with the consent of the fund managers.
Private Equity and Private Real Asset	Private Equity: Venture capital, buyouts, special situations Private Real Asset: Real estate and natural resources	61,283	34,654	Private Equity: Investment timeframes are 0-9 years; time to draw down commitments is 0-4 years; interest in the funds can be sold only with the consent of the fund managers. Private Real Asset: Investment timeframes are 0-8 years; time to draw down commitments is 0-2 years; interest in the funds can be sold only with the consent of the fund manager.
Multi-Strategy	Various (fixed income arbitrage, structured credit, event-driven)	501	-	Redemptions dependent upon realization of side-pocket or other underlying investment sale.
Total		$ 132,307	$ 38,615	

8. Postretirement Benefits Other Than Pensions:

The RAND Retiree Group Medical Benefits Plan (Plan) and the RAND Corporation Retiree HRA Plan (HRA) provide health care benefits to certain employees who retire having met the required age and years of service with RAND. This coverage also applies to their dependents. Under the Plan, retirees and their dependents under age 65 may elect RAND-sponsored group coverage under the Preferred Provider Organization and various HMOs. Retirees and dependents share substantially in the cost of group coverage. Medicare becomes the primary coverage for retirees when they reach age 65. Post-65 retirees and their post-65 dependent spouse/partner are covered under the HRA and provided health care benefits through a private exchange. A health reimbursement arrangement account is annually funded from which they can be reimbursed for eligible health care expenses, including Medicare Part B and Part D premiums, health care premiums, and co-insurance associated with individual insurance contracts purchased through the private exchange. A legacy group of post-65 retirees and their dependent spouse/partner are eligible for a catastrophic prescription drug plan.

RAND retains the right, subject to existing agreements, to change or eliminate these benefits.

The following table sets forth the Plan's funded status as shown in the Consolidated Statements of Financial Position (in thousands):

	September 30, 2023	September 30, 2022
Change in benefit obligation		
Benefit obligation at beginning of year	$ 19,566	$ 24,372
Service cost	681	1,100
Increase due to passage of time	1,072	703
Plan participants' contributions	234	215
Actuarial loss (gain)	4,268	(5,511)
Benefits paid	(1,124)	(1,281)
Benefits paid from RAND assets	(46)	(32)
Benefit obligation at end of year	$ 24,651	$ 19,566
Change in plan assets		
Fair value of the Plan's total assets at beginning of year	$ 22,709	$ 27,920
Actual return on plan assets	2,697	(4,145)
Employer contributions	45	32
Plan participants' contributions	234	215
Benefits paid	(1,170)	(1,313)
Fair value of the Plan's total assets at end of year	$ 24,515	$ 22,709
Reconciliation of funded status		
Projected benefit obligation at end of year	$ (24,651)	$ (19,566)
Fair value of the Plan's assets at end of year	24,515	22,709
(Unfunded) Surplus status	$ (136)	$ 3,143

The unfunded and surplus status are shown on the Consolidated Statements of Financial Position in Accrued postretirement benefit liability and Other assets as of September 30, 2023 and 2022, respectively. As shown in the table above, the net benefit obligation is offset by the total plan assets during the year. Plan assets represent the fair value of investments stemming from contributions less any benefits paid to participants. The contributions received for the fiscal year ended September 30, 2023 were $279,000 and the contributions expected to be received during the fiscal year ended September 30, 2024 are $50,000.

Amounts expected to be recognized in Other components of net periodic benefit cost during fiscal year 2024, consist of (in thousands):

Net gain	$	593
Prior service credit		517
Total	$	1,110

The following table provides the relevant weighted-average assumptions used:

	September 30, 2023	September 30, 2022
Discount rate used to determine benefit obligation	6.10%	5.65%
Discount rate used to determine net periodic postretirement benefit cost	5.65%	2.95%
Long-term rate of return on the Plan's investment assets	7.50%	7.00%

The long-term rate of return on plan assets is based on management's expectation of earnings on the assets that secure RAND's funded plans, taking into account the mix of invested assets, the arithmetic average of past returns, economic and stock market conditions and future expectations, and the long-term nature of the projected benefit obligation to which these investments relate. RAND believes that the long-term rate of return on plan assets used in determining plan expense is reasonable based on historical returns.

Assumed pre-65 healthcare cost trend rates are as follows:

	September 30, 2023	September 30, 2022
Health care cost trend rate assumed for the next year	6.75%	7.00%
Rate to which the cost trend rate is assumed to decline	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2029	2029

Future increases for the post-65 Individual Marketplace HRA contributions are assumed to be 2.50% based on the normative level of CPI for October 1, 2022 U.S. Capital Market Assumptions.

The net periodic postretirement benefit cost for the years ended September 30, 2023 and 2022 included the following components (in thousands):

	September 30, 2023		September 30, 2022	
Service cost-benefits attributed to service during the period	$	(681)	$	(1,100)
Increase in the accumulated postretirement benefit obligation due to the passage of time		(1,072)		(703)
Expected return on the Plan's investment assets		1,549		1,917
Net prior service credit amortization		517		517
Gain amortization		1,186		1,394
Net periodic postretirement benefit income	$	1,499	$	2,025

As required under ASC 715-20-50-1, the amounts in accumulated other comprehensive income recognized in net assets that have not yet been recognized as components of net period benefit cost for the years ended September 30, 2023 and 2022 included the following components (in thousands):

	September 30, 2023	September 30, 2022
Net prior service credit	$ 863	$ 1,380
Net gain	6,294	10,600
Cumulative amounts recognized in net assets without donor restrictions	$ 7,157	$ 11,980

Details to compute the adjustment of ($4,823,000) and ($2,463,000) for the accrued postretirement benefits liability (other than net periodic retirement benefit costs) in Other items on the Consolidated Statements of Activities for the years ended September 30, 2023 and 2022, respectively, included the following components (in thousands):

	September 30, 2023	September 30, 2022
Cumulative amounts recognized in net assets without donor restrictions at prior fiscal year end	$ 11,980	$ 14,443
Net prior service credit amortization during the year:		
Net gain amortized during the year	(1,186)	(1,394)
Net prior service credit	(517)	(517)
Net loss that occurred during the year	(3,120)	(552)
Cumulative amounts recognized in net assets without donor restrictions at current fiscal year end	$ 7,157	$ 11,980

For September 30, 2023, the difference between the $7,157,000 and $11,980,000 is an adjustment of ($4,823,000) which is primarily due to a gain related to an increase in the discount rate from 5.65% to 6.10% offset by net loss that occurred during the year. For September 30, 2022, the difference between the $11,980,000 and the amount at September 30, 2021 of $14,443,000 is an adjustment of ($2,463,000) which is primarily due to an increase in the discount rate from 2.95% to 5.65% offset by net loss that occurred during the year.

The following estimated benefit payments, which reflect expected future service and Medicare Part D subsidies, as appropriate, are expected to be paid (in thousands):

	Gross Benefit Payments
2024	1,227
2025	1,260
2026	1,326
2027	1,372
2028	1,429
Next Five years	8,331

RAND contributes to the RAND Retiree Medical Benefit Trust (the Trust). The Trust was established to hold the investment assets for the Plan. The Plan and the Trust together are intended to constitute a Voluntary Employee Benefit Association.

The Plan's Long-term investments consist of money market funds, equity funds, fixed income funds, private credit funds, private equity and real asset funds. Approximately 36% and 32% of the Plan's Long-term investments consist of foreign holdings as of September 30, 2023 and 2022, respectively. Commitments of $404,000 are due within one year as of September 30, 2023.

Fair value measurement is required for the investment assets of the Plan. Note all identification, evaluation, and disclosures required for RAND's Long-term investments shown in Footnote 7 also apply to the Plan's investment assets.

The Plan's investment assets measured and reported at fair value on a recurring basis as of September 30, 2023 were as follows (in thousands):

	Level 1	NAV	September 30, 2023
Assets			
Investments			
Cash Equivalents	$ 488	$ -	$ 488
Equity Funds	10,894	-	10,894
Fixed Income Funds	3,891	4,089	7,980
Alternative Investments			
Private Credit	-	1,524	1,524
Private Equity and Real Asset Funds	-	3,619	3,619
Total Assets	$ 15,273	$ 9,232	$ 24,505

The Plan's investment assets measured and reported at fair value on a recurring basis as of September 30, 2022 were as follows (in thousands):

	Level 1	NAV	September 30, 2022
Assets			
Investments			
Cash Equivalents	$ 508	$ -	$ 508
Equity Funds	9,054	770	9,824
Fixed Income Funds	3,727	3,801	7,528
Alternative Investments			
Private Credit	-	1,381	1,381
Private Equity and Real Asset Funds	-	3,458	3,458
Total Assets	$ 13,289	$ 9,410	$ 22,700

Certain investment assets of the Plan use the NAV or its equivalent for the fair value of all the underlying investments because they (i) do not have a readily determinable fair value and (ii) either have the attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company.

The following table lists these investments by major category as of September 30, 2023 (in thousands):

Category	Strategy	NAV	Unfunded Commitments	Nature and Risks of the Investment
Fixed Income	Global fixed income, preferred and convertible securities	$ 4,089	$ -	Redemptions/withdrawals are permitted semi-monthly to quarterly.
Private Credit	Credit, non-performing loans, secured and unsecured	1,524	186	Investment timeframe is 7 years; time to draw down commitments is 0-2 years; interest in the funds can be sold only with the consent of the fund managers.
Private Equity and Private Real Asset	Private Equity: Venture capital and buyouts Private Real Asset: Real estate and natural resources	3,619	1,725	Private Equity: Investment timeframes are 0-9 years; time to draw down commitments is 0-4 years; interest in the funds can be sold only with the consent of the fund managers. Private Real Asset: Investment timeframes are 4-8 years; time to draw down commitments is 0-2 years; interest in the funds can be sold only with the consent of the fund manager.
		$ 9,232	$ 1,911	

The following table lists these investments by major category as of September 30, 2022 (in thousands):

Category	Strategy	NAV	Unfunded Commitments	Nature and Risks of the Investment
Equity	Closed-end funds, absolute return	$ 770	$ -	Quarterly partial redemptions permitted. A shareholder request to redeem all its shares will be effected in stages over four successive quarters.
Fixed Income	Global fixed income, preferred and convertible securities	3,801	-	Redemptions/withdrawals are permitted semi-monthly to quarterly.
Private Credit	Credit, non-performing loans, secured and unsecured	1,381	313	Investment timeframe is 7 years; time to draw down commitments is 0-2 years; interest in the funds can be sold only with the consent of the fund managers.
Private Equity and Private Real Asset	Private Equity: Venture capital and buyouts Private Real Asset: Real estate and natural resources	3,458	2,082	Private Equity: Investment timeframes are 0-9 years; time to draw down commitments is 0-4 years; interest in the funds can be sold only with the consent of the fund managers. Private Real Asset: Investment timeframes are 4-8 years; time to draw down commitments is 0-2 years; interest in the funds can be sold only with the consent of the fund manager.
		$ 9,410	$ 2,395	

9. Borrowing Arrangements:

The following table sets forth the long-term debt issued to finance the construction of RAND's Santa Monica headquarters facility as shown in the Consolidated Statements of Financial Position (in thousands):

	September 30, 2023	September 30, 2022
Variable Rate Revenue Bonds, Series 2021, issued in the original principal amount of $98,225,000, in connection with the refinancing of the Series 2008A and Series 2008B bonds, in April 2021; average interest rate of 4.17% and 1.39% for fiscal years ending September 30, 2023 and September 30, 2022, respectively.	$ 92,010	$ 95,175
Bond issuance costs	(373)	(393)
	91,637	94,782
Less: current portion	(3,305)	(3,165)
	$ 88,332	$ 91,617

In April 2021, RAND issued $98,225,000 of tax-exempt variable rate revenue bonds (Series 2021), via direct placement with a lender, to refinance the Series 2008A and Series 2008B tax-exempt variable rate revenue bonds through a non-cash financing transaction. The interest rate is 79% of one-month LIBOR plus a fixed spread, subject to a minimum rate (floor). Costs incurred in connection with the issuance of the Series 2021 bonds of approximately $506,000 were paid by RAND. The initial rate of interest was 1.08% and annual principal payments ranging from $3,050,000 to $6,760,000 are due from April 1, 2022, to April 1, 2042.

The bonds contain various covenants including compliance with the following financial measures: either a minimum debt service coverage ratio or a minimum liquidity level. RAND is in compliance with all covenants as of September 30, 2023.

Effective October 1, 2022, RAND amended its current bond agreement to update the underlying interest rate from one-month London Interbank Offered Rate (LIBOR) to one-month Secured Overnight Financing Rate (SOFR). All other terms remained unchanged.

Interest Rate Swaps. Concurrent with the issuance of the Series 2007 variable rate bonds, which were refinanced with the issuance of the Series 2008A bonds, RAND entered into an interest rate swap agreement with a counterparty whereby RAND agreed to pay the counterparty a fixed rate of interest of 3.955% and the counterparty agreed to pay RAND the Series 2007 variable rate until April 1, 2012, and 67% of one-month LIBOR thereafter. Simultaneously, RAND entered into an additional interest rate swap agreement with another counterparty for $42,350,000 of its Series 2002B variable rate bonds, which were refinanced with the issuance of the Series 2008B bonds, whereby RAND agreed to pay the counterparty a fixed rate of interest of 3.955% and the counterparty agreed to pay RAND 67% of one-month LIBOR.

On September 27, 2022, RAND completed the novation on its first swap position, transferring ownership from one counterparty to another counterparty. In addition, effective October 3, 2022, the fixed rate RAND agreed to pay the counterparty was updated to 3.916% and the counterparty agreed to pay RAND 67% of one-month SOFR.

Both swaps remain in effect with the same terms (except the first counterparty agreed to pay RAND the Series 2008A variable rate in place of the Series 2007 variable rate) and terminate on April 1, 2042, the maturity date of the Series 2021 bonds. Related primarily to these interest rate swaps, within the Change in fair value of derivative instruments included in Other items on the Consolidated Statements of Activities, is a gain of $2,957,000 and $10,491,000 for fiscal years 2023 and 2022, respectively. The liability related to the interest rate swaps of $4,590,000 and $7,547,000 for fiscal years 2023 and 2022, respectively, are shown on the Consolidated Statements of Financial Position in Other long-term liabilities.

Annual bond principal payments are required in the following fiscal years (in thousands):

2024	$ 3,305
2025	3,440
2026	3,590
2027	3,720
2028	3,875
Thereafter	74,080
	$ 92,010

Accrued interest payable relating to the bonds was $0 and $310,000 as of September 30, 2023 and 2022, respectively. RAND's total interest expense was $4,354,000 and $3,302,000 for the fiscal years ended September 30, 2023 and 2022, respectively.

Line of Credit. RAND has an uncollateralized line of credit that expires in April 2024. The principal amount is $50,000,000. The line of credit contains covenants that require RAND to achieve the same financial measures as the Series 2021 revenue bonds. Under the terms of the credit agreement, interest is payable monthly at Daily Simple SOFR plus 0.90%.

10. Commitments and Contingencies:

Leases. RAND is committed to minimum annual lease payments under several long-term non-cancellable operating leases for equipment, buildings, and office space expiring at various dates through 2035. RAND has entered into the following lease arrangements:

Short-Term Leases. RAND did not have any short-term leases (less than 12 months) during the fiscal year.

Operating Leases – Lessee. RAND has various equipment and real estate leases for office space that expire in various years through 2035. These leases generally contain renewal options for periods ranging from 1 year to 7 years and certain RAND office leases contain rent escalation clauses and fair-market renewal options. Office leases generally require RAND to pay for utilities, insurance, taxes, and maintenance. Equipment leases generally require RAND to pay for taxes, maintenance, and supplies. RAND is reasonably certain the renewal options will be exercised on the Arlington office lease and has included them in the terms. RAND is not reasonably certain the renewal options will be exercised on all other properties and has not included them in the terms. RAND's rental expense for operating leases was $10,900,000 and $10,351,000 for the fiscal years ended September 30, 2023, and 2022, respectively.

Operating Leases – Lessor. RAND has a property in which it is the lessor. RAND owns two multi-family housing buildings that are leased to the students of the RAND Pardee Graduate School. Leases are generally one-year terms or less and are classified as operating leases. These leasing arrangements are not material to the consolidated financial statements. RAND has two subleases in the Pittsburgh and Santa Monica office spaces. The Pittsburgh sublease expires in 2026 and contains a renewal option of 5 years. The Santa Monica sublease is for one-year periods without explicit renewal options. The sublease agreements do not include any rent escalation clauses. The tenant is required to pay for utilities and taxes to RAND, included in their rent payments. RAND's sublease rental income was $385,000 and $384,000 for the fiscal years ended September 30, 2023 and 2022, respectively.

The components of lease expense for the years ended September 30, 2023 and 2022, are as follows (in thousands):

	September 30, 2023	September 30, 2022
Operating lease cost	$ 10,900	$ 10,351
Sublease income	(385)	(384)
Total	$ 10,515	$ 9,967

Other Information	September 30, 2023
Cash paid for amounts included in the measurement of lease liabilities	
Operating - Operating cash flows	$ -
Right-of-use assets obtained in the exchange for lease liabilities	
Operating leases	$ 68,036
Weighted-average remaining lease term	
Operating leases	11.2 years
Weighted-average discount rate	
Operating leases	3.83%

Future aggregate minimum lease payments as of September 30, 2023, are as follows (in thousands):

	September 30, 2023
2024	$ 10,990
2025	11,221
2026	10,232
2027	8,423
2028	8,337
Thereafter	64,500
Total	113,703
Less: amounts representing interest	(21,939)
PV of net minimum lease payments	$ 91,764

Future minimum lease payments at September 30, 2022, prior to the adoption of ASC 842, are as follows (in thousands):

	September 30, 2022
2023	$ 11,013
2024	10,031
2025	10,172
2026	3,769
2027	47
Thereafter	94
Total	$ 35,126

Contingencies. Contract costs billed prior to September 30, 2019 have been audited by Defense Contract Audit Agency (DCAA) and accepted by the DCMA. To date, there have been no significant cost disallowances with these annual contract cost submissions. In management's opinion, contract costs billed subsequent to September 30, 2019 are allowable, and any potential cost disallowance would not materially affect RAND's Consolidated Statements of Financial Position, Consolidated Statements of Activities, and Consolidated Statements of Cash Flows.

RAND receives funding or reimbursement from agencies of the United States government for various activities that are subject to audit for compliance to federal government cost accounting standards. RAND is currently in discussions to resolve an audit finding where the DCMA has asserted a potential noncompliance with CAS 410, involving allocation of general and administration expense. While the outcomes of audits are inherently uncertain, RAND has recognized an estimated liability of $3,000,000 for ongoing audits as the contingency is probable and reasonably estimable. RAND has certain contingent liabilities with respect to claims arising from the ordinary course of business. In management's opinion, such contingent liabilities will not result in any loss that would materially affect RAND's financial position, changes in net assets, or cash flows.

11. Endowment:

RAND's endowment consists of approximately 54 individual investment funds established for a variety of purposes. It has both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Absent explicit donor stipulations to the contrary, RAND classifies the original value of gifts donated to the permanent endowment as net assets with donor restrictions in perpetuity. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions in perpetuity is classified as net assets with donor restrictions for time or purpose until those amounts are appropriated for expenditure by RAND in a manner consistent with the standard of prudence prescribed by Uniform Prudent Management of Institutional Funds Act ("UPMIFA").

The following table summarizes this Long-term investment fund by net asset class as of September 30, 2023 (in thousands):

	Without donor restriction	For Time or Purpose	In Perpetuity	Total
Donor restricted funds	$ -	$ 41,441	$ 70,430	$ 111,871
Board-designated funds	176,803	-	-	176,803
End of year	$ 176,803	$ 41,441	$ 70,430	$ 288,674

The following table summarizes this Long-term investment fund by net asset class as of September 30, 2022 (in thousands):

	Without donor restriction	For Time or Purpose	In Perpetuity	Total
Donor restricted funds	$ -	$ 33,984	$ 69,421	$ 103,405
Board-designated funds	162,828	-	-	162,828
End of year	$ 162,828	$ 33,984	$ 69,421	$ 266,233

The following table summarizes the activity in the endowment during fiscal year 2023 (in thousands):

	Without donor restriction	For Time or Purpose	In Perpetuity	Total
Beginning of the year	$ 162,828	$ 33,984	$ 69,421	$ 266,233
Investment return	17,594	11,175	-	28,769
Contributions	-	887	1,009	1,896
Appropriations	(7,941)	(4,605)	-	(12,546)
Other charges/reclassification	4,322	-	-	4,322
End of year	$ 176,803	$ 41,441	$ 70,430	$ 288,674

The following table summarizes the activity in the endowment during fiscal year 2022 (in thousands):

	Without donor restriction	For Time or Purpose	In Perpetuity	Total
Beginning of the year	$ 205,321	$ 53,695	$ 68,916	$ 327,932
Investment return	(26,038)	(16,226)	-	(42,264)
Contributions	-	709	681	1,390
Appropriations	(11,906)	(4,370)	-	(16,276)
Other charges/reclassification	(4,549)	176	(176)	(4,549)
End of year	$ 162,828	$ 33,984	$ 69,421	$ 266,233

Investment and Spending Policies. RAND's investment and spending policies are in compliance with UPMIFA. In accordance with UPMIFA, RAND considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund, the mission of RAND, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, the investment policies of the organization, and RAND's other resources. Per RAND's investment policy, endowment assets are invested in a manner that is intended to increase the purchasing power on a long-term basis after inflation and payment for RAND operations. RAND relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). RAND targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Per RAND's spending policy, a percentage of its endowment fund's average fair value over the prior 12 quarters through June 30 is appropriated for distribution each year. In establishing this policy, RAND considered the long-term expected return on its endowment. Accordingly, over the long term, RAND expects the current spending policy to allow its endowment to grow at a rate equal to or in excess of inflation. From time to time, the fair value of endowment funds may fall below the original gift amount. Deficiencies of this nature are referred to as underwater endowments. If an endowment is underwater, RAND complies with the donor's agreement.

RAND recorded no deficit for the year ended September 30, 2023, and a deficit of $58,000 for the year ended September 30, 2022.

12. Net Assets:

Net Assets Without Donor Restrictions Designated By The Board. Net assets without donor restrictions contains Board-designated net assets (net of cumulative net asset transfers) that are available for the following purposes (in thousands):

	September 30, 2023	September 30, 2022
Designated for investment - long term	$ 170,476	$ 156,884
Designated for investment - general	25,486	1,455
Designated for investment - special use		
RAND Education	3,718	3,478
Pardee RAND Graduate School	2,609	2,467
	$ 202,289	$ 164,284

Net Assets With Donor Restrictions. Net Assets With Donor Restrictions (including pledges) are shown below by the purpose designated by the donor:

For time or purpose (in thousands):

	September 30, 2023	September 30, 2022
RAND General	$ 30,172	$ 8,649
Pardee RAND Graduate School		
Awards	20,243	12,696
General Support	6,132	5,843
RAND Justice, Infrastructure, and Environment	6,686	6,107
National Security Research and Training	4,666	3,538
Michael D. Rich Chair in Countering Truth Decay	4,409	3,342
RAND Center for Asia Pacific Policy	4,214	4,563
RAND Institute for Civil Justice	4,205	4,453
RAND Health	3,482	3,347
Others	2,854	-
RAND Center for Middle East Public Policy	2,847	2,369
Various Special Purpose Funds	2,296	2,217
Paul O'Neill Alcoa Professorship in Policy Analysis	1,921	1,492
RAND Center for Global Risk and Security	1,208	1,274
RAND Global and Emerging Risks	1,176	-
Hauser Foundation - Impact Awards	926	928
Pardee Center for Longer Range Global Policy	842	604
Haskins - Science Policy	674	623
RAND Center for Russia and Eurasia	570	544
RAND Education	45	2,013
RAND Headquarters	-	1,139
	99,568	65,741
Non-exchange grant contributions	38,334	40,217
	$ 137,902	$ 105,958

The following net assets are invested in perpetuity and the income is available to support the restricted activities (in thousands):

	September 30, 2023	September 30, 2022
Pardee RAND Graduate School		
Awards	$ 20,090	$ 17,400
General Support	17,104	17,737
National Security Research and Training	5,190	4,500
RAND Institute for Civil Justice	4,184	4,184
RAND General	3,812	4,076
Pardee Center for Longer Range Global Policy	3,670	3,670
Tang Institute for US-China Relations	3,000	3,000
Samuelli Institute for Policy Studies in Integrative Medicine	3,000	3,000
Tang Chair in China Policy Studies	3,000	3,000
Leonard Schaeffer Medal Awards	3,000	3,000
Paul O'Neill Alcoa Professorship in Policy Analysis	2,500	2,500
Research Position Endowment	1,500	1,500
Michael Gould Professional Development Endowed Funds	1,035	1,025
CGRS - Demographer Endowed Position	814	809
Others	751	761
	$ 72,650	$ 70,162

13. Expenses by Natural and Functional Classification:

Expenses are presented by functional classification in accordance with the overall mission of RAND. Each functional classification displays all expenses related to the underlying operations by natural classification. Personnel expenses are charged to functional categories based on time and effort incurred. All other expenses are charged functionally on a direct basis.

For the year ended September 30, 2023, natural and functional expenses consist of the following (in thousands):

	Research	Management and General	Fundraising	Total
Personnel	$ 252,758	$ 46,049	$ 4,322	$ 303,129
Expenses	41,398	25,853	1,403	68,654
Subcontracts/Professional Services	32,524	7,429	-	39,953
Depreciation and Amortization	2,202	8,748	-	10,950
Interest	-	4,354	-	4,354
Total	$ 328,882	$ 92,433	$ 5,725	$ 427,040

For the year ended September 30, 2022, natural and functional expenses consist of the following (in thousands):

	Research	Management and General	Fundraising	Total
Personnel	$ 230,086	$ 43,261	$ 4,698	$ 278,045
Expenses	33,821	16,528	1,450	51,799
Subcontracts/Professional Services	32,328	6,993	-	39,321
Depreciation and Amortization	2,442	9,789	-	12,231
Interest	-	3,321	-	3,321
Total	$ 298,677	$ 79,892	$ 6,148	$ 384,717

14. Employee Retirement Plans:

RAND has four defined contribution employee plans: a Qualified Retirement Plan ("QRP"), a Supplemental Retirement Annuity Plan ("SRAP"), a Nonqualified Deferred Compensation Plan ("NDCP"), and a Nonqualified Supplementary Plan ("NSP"). Most full-time, regular employees are eligible to participate in the QRP and SRAP. Certain employees are eligible to participate in the NSP and NDCP. RAND has reserved the right to terminate the plans at any time, but in such an event, the benefits already purchased by the participant and contributions already made by RAND would not be affected. The QRP and NSP are entirely RAND-financed. RAND's contributions to the Plans for eligible employees range from 5% to 14% of salaries, depending on the level of wages and age of the participating employee. RAND's contributions to the QRP vest at the earlier of retirement or four years of service. Vesting begins after two years of service and increases weekly to 100% at the end of four years of service. The NSP and NDCP vest under various conditions specified in the plan. All contributions made by RAND are charged to operations. RAND's contributions were $18,365,000 and $16,855,000 for the fiscal years ended September 30, 2023 and 2022, respectively. The SRAP and NDCP only require employee contributions, and RAND does not contribute to these plans.