CONSOLIDATED FINANCIAL STATEMENTS

Fiscal Years Ended September 30, 2021 and 2020

RAND CORPORATION

Report of Independent Auditors

To the Board of Trustees of The RAND Corporation

We have audited the accompanying consolidated financial statements of The RAND Corporation and its subsidiaries, which comprise the consolidated statements of financial position as of September 30, 2021 and 2020, and the related consolidated statements of activities and of cash flows for the years then ended.

Management's Responsibility 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; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The RAND Corporation and its subsidiaries as of September 30, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

February 11, 2022

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The RAND Corporation

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands)

	September 30, 2021	September 30, 2020
ASSETS		
Current assets		
Cash and cash equivalents	$ 42,194	$ 38,984
Short-term investments	1,040	1,103
Receivables, net		
Billed and unbilled costs	73,316	80,236
Other receivables	5,719	4,986
Prepaid expenses and other current assets	10,822	10,368
Total current assets	133,091	135,677
Property and equipment		
Land	8,804	1,334
Buildings and improvements	122,079	119,323
Leasehold improvements	24,338	24,002
Equipment	89,228	87,867
Construction in progress	4,490	4,252
	248,939	236,778
Less: Accumulated depreciation and amortization	(144,096)	(137,678)
Net property and equipment	104,843	99,100
Long-term investments	327,932	280,337
Other assets	19,906	18,739
Total assets	$ 585,772	$ 533,853
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and other liabilities	$ 25,371	$ 28,740
Unexpended portion of grants and contracts received	12,895	14,564
Accrued compensation and vacation	26,416	26,682
Bank loan payable	-	5,000
Current portion of long-term debt	3,050	11,130
Total current liabilities	67,732	86,116
Deferred rent	7,801	9,062
Accrued postretirement benefit liability	-	59
Other long-term liabilities	18,038	24,086
Long-term debt, less current portion and bond issue cost	94,762	89,211
Total liabilities	188,333	208,534
Net assets		
Without donor restrictions	232,812	185,617
With donor restrictions		
For time or purpose	94,497	70,655
In perpetuity	70,130	69,047
	164,627	139,702
Total net assets	397,439	325,319
Total liabilities and net assets	$ 585,772	$ 533,853

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

The RAND Corporation

CONSOLIDATED STATEMENTS OF ACTIVITIES

(in thousands)

	September 30, 2021			September 30, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT						
Contracts and grants	$ 343,455	$ 7,376	$ 350,831	$ 356,448	$ 7,411	$ 363,859
Net assets released from restrictions - contracts and grants	3,100	(3,100)	-	-	-	-
Total contracts and grants revenue and other support	346,555	4,276	350,831	356,448	7,411	363,859
Investment income, net	2,869	1,689	4,558	3,373	1,922	5,295
Net realized gains on investments	7,245	4,354	11,599	5,341	3,081	8,422
Net unrealized gains on investments	26,669	15,899	42,568	2,800	1,717	4,517
Contributions	1,390	14,730	16,120	4,174	13,036	17,210
Contributed non-financial assets	9,960	-	9,960	-	-	-
Net assets released from restrictions	16,023	(16,023)	-	10,428	(10,428)	-
Other income	76	-	76	-	-	-
Total revenues, gains, and other support	410,787	24,925	435,712	382,564	16,739	399,303
EXPENSES						
Research	289,582	-	289,582	287,362	-	287,362
Management and general	80,070	-	80,070	92,856	-	92,856
Total expenses	369,652	-	369,652	380,218	-	380,218
Change in net assets before other items	41,135	24,925	66,060	2,346	16,739	19,085
Other items:						
Change in fair value of derivative instruments (Note 9)	6,048	-	6,048	(3,760)	-	(3,760)
Other components of net periodic postretirement benefit costs	2,151	-	2,151	2,812	-	2,812
Adjustment to accrued postretirement benefit liability (other than net periodic postretirement benefit cost) (Note 8)	(2,574)	-	(2,574)	(2,816)	-	(2,816)
Foreign exchange gain on revaluation (Note 2)	435	-	435	257	-	257
Change in net assets	47,195	24,925	72,120	(1,161)	16,739	15,578
Net assets at beginning of year	185,617	139,702	325,319	186,778	122,963	309,741
Net assets at end of year	$ 232,812	$ 164,627	$ 397,439	$ 185,617	$ 139,702	$ 325,319

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

The RAND Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	For the Year Ended September 30, 2021	For the Year Ended September 30, 2020
Cash flows from operating activities:		
Change in net assets	$ 72,120	$ 15,578
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	11,265	11,593
Loss on debt extinguishment	850	-
Net realized/unrealized gain	(54,167)	(12,939)
Contributions with donor restrictions for long-term purposes	(1,899)	(2,392)
Contributed non-financial assets	(9,960)	-
Change in postretirement benefit liability	2,574	2,816
Change in fair value of derivative instruments	(6,048)	3,760
Foreign exchange gain	(359)	(268)
Loss on disposition of property and equipment	138	14
Changes in assets and liabilities:		
(Increase) decrease in:		
Billed and unbilled costs and fees	6,920	(19,595)
Other receivables	(130)	2,673
Prepaid expenses and other current assets	(454)	(1,508)
Other long-term assets	(1,127)	(370)
Increase (decrease) in:		
Accounts payable and other liabilities	(3,369)	8,601
Unexpected portion of grants and contracts received	(1,669)	(2,496)
Accrued compensation and vacation	(266)	470
Deferred rent	(1,261)	(1,309)
Accrued postretirement benefit liability	(2,633)	(2,757)
Net cash provided by operating activities	10,525	1,871
Cash flows from investing activities:		
Purchases of investments	(34,900)	(77,633)
Sales of investments	43,457	82,292
Purchases of property and equipment	(8,166)	(8,447)
Net cash provided by (used in) investing activities	391	(3,788)
Cash flows from financing activities:		
Payments of bond issuance costs	506	-
Principal payments on long term debt	(2,945)	(2,795)
Contributions with donor restrictions for long term purposes	1,899	2,392
Net proceeds of borrowing under line-of-credit agreement	-	20,000
Repayments on borrowings under line-of-credit agreement	(5,000)	(15,000)
Net cash (used in) provided by financing activities	(5,540)	4,597
Effect of currency exchange rate changes on cash	(244)	(550)
Net increase in cash, cash equivalents, and restricted cash	5,132	2,130
Cash, cash equivalents, and restricted cash at beginning of period	38,984	36,854
Cash, cash equivalents, and restricted cash at end of period	$ 44,116	$ 38,984
Supplemental cash flow information:		
Cash paid for interest	$ 3,170	$ 3,720

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 two foreign subsidiaries: RAND Europe, a Community Interest Company domiciled in the United Kingdom, and RAND Australia, a Proprietary Company limited by shares, based in Australia. On August 20, 2020, RAND formed 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 87% and 85% of its contracts and grants revenues in fiscal years 2021 and 2020, 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. Included within Cash and cash equivalents is restricted cash of $0 and $1,270,000 for the periods ended September 30, 2021 and 2020, respectively. The September 30, 2020 restriction relates to collateral held on behalf of one of RAND's counterparties to its interest rate swap agreements (see Note 9). 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 September 30, 2021 end of period cash, cash equivalents, and restricted cash amount is $42,194,000 in cash and equivalents, $1,040,000 of restricted cash as collateral for a line of credit related to RAND Europe in Short-term investments, and $882,000 of cash in the balance of the Long-term investments.

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. The short-term investment balance of $1,040,000, as of September 30, 2021, is restricted as collateral for a line of credit related to RAND Europe. RAND held short-term investments with readily determinable fair values of $1,103,000 and an amortized cost basis of $1,103,000 as of September 30, 2020.

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 is 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 estimated useful lives of the assets or the remaining term of the lease. 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.

The percentage of net assets without donor restrictions related to Board-designated funds distributed for use was approximately 5% in fiscal years 2021 and 2020 based on the average of the trailing 12-quarter market values of the funds. The total net distribution was $9,330,000 and $8,839,000 for fiscal years 2021 and 2020, respectively.

Gains and losses on investments and investment income are reported as increases or decreases in net assets with and without donor restriction, accordingly, 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. The asset has a net book value of $7,234,000 as of September 30, 2021. The asset has amortized costs of $2,351,000 which is recorded in the Management and general expense on the Consolidated Statements of Activities for the year ended September 30, 2021.

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. RAND adopted ASU 2014-09 on October 1, 2020, the first day of RAND's fiscal year 2021. The adoption did not result in an adjustment to net assets as of September 30, 2020 and did not result in any changes to RAND's revenue recognition for the year ended September 30, 2021.

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 and changes in net assets. 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 significant cost disallowances once the audits are completed.

- *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 contracts 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 $83,616,000 and $90,260,000 as of September 30, 2021 and 2020, 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; these grants are generally 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 $23,945,000 and $24,938,000 as of September 30, 2021 and 2020, respectively. $2,407,000 and $2,013,000 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, 2021 and 2020, 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 2021 and 2020 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 ASC 605.

Exchange and non-exchange transactions included in Contracts and grants revenue on the Consolidated Statements of Activities for years ended September 30, 2021 and 2020 are as follows (in thousands):

	September 30, 2021	September 30, 2020
Exchange transactions	$ 287,824	$ 303,714
Non-exchange transactions	63,007	60,145
Total contracts and grants revenue	$ 350,831	363,859

Within the $63,007,000 and $60,145,000 of non-exchange revenues recognized in fiscal years 2021 and 2020, $55,631,000 and $52,734,000 was released from restriction as the associated time and/or purpose restriction was met in fiscal year 2021 and 2020, 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.

Contributed Non-financial Assets. On December 30, 2020, RAND was gifted two, nine-unit apartment buildings in Los Angeles appraised at $9,960,000 that are intended to be used to support the Pardee RAND Graduate School and its graduate students and/or faculty housing or related uses (such as visiting scholars and common spaces for the Pardee RAND community). RAND formed Goshen Avenue Housing, LLC for the exclusive purpose of holding title to the Goshen Avenue Housing property. RAND estimated the fair value on the basis of the appraiser's analysis which considered the physical aspects of the property and its competitive position in the market with the focus on the ownership interest that the lessor maintains in the property under a lease. Contribution of this nonfinancial asset is presented as a separate revenue line item in the Consolidated Statements of Activities, apart from contributions of cash and other financial assets while any rental income will be reported as Other income. Furthermore, the fair market value is split $7,470,000 and

$2,490,000 between Land and Buildings and improvements, respectively, under Property and equipment on the Consolidated Statements of Financial Position as of September 30, 2021. The assets were placed into service on December 30, 2020 with a useful life of 40 years on a straight-line depreciation schedule.

Expenses. Expenses (research expenses as well as management and general expenses) are generally 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 loss on the revaluation of a long-term intercompany loan. RAND does not anticipate settling the long-term intercompany loan with RAND Europe in the foreseeable future, so consistent with ASC 830 *Foreign Currency Matters*, RAND has recognized foreign exchange losses of $369,000, and $182,000 for the years ended September 30, 2021 and September 30, 2020, respectively.

Accounting Pronouncements Adopted. In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (ASC 606)*. For exchange transactions, this ASU will supersede the revenue recognition requirement in ASC 605 as well as some industry-specific guidance. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard is effective for annual reporting periods beginning after December 15, 2019 and RAND has adopted this guidance effective for the year ended September 30, 2021 using the modified retrospective method. RAND elected to apply the standard to contracts that were not completed at the date of adoption. RAND evaluated the impact of the ASU adoption and determined that there was no material impact on the consolidated financial statements because the method in which RAND recognizes revenue remains unchanged. In accordance with the new guidance, additional revenue recognition disclosures have been included in the consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 provides revised accounting guidance related to the accounting for and reporting of financial instruments. It also amends certain disclosure requirements associated with the fair value of financial instruments. This guidance was effective for RAND beginning on October 1, 2019. However, on October 1, 2018, RAND early adopted part of the guidance that exempts RAND from disclosing the fair value of financial instruments measured at amortized cost. RAND has fully adopted this guidance for the year ended September 30, 2020 and it did not have a material effect on RAND's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments,* which is intended to reduce diversity in practice in how certain transactions are classified in the Consolidated Statements of Cash Flows. The guidance is effective for annual reporting periods beginning after December 15, 2018. RAND has adopted this guidance effective for the year ended September 30, 2020 and it did not have a material effect on RAND's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows, Restricted Cash.* This standard requires that the Consolidated Statements of Cash Flows explain the change during the period in the total cash, cash equivalents, restricted cash, and restricted cash equivalents ("Total Cash"). Additionally, a disclosure describing the nature of the restrictions and a reconciliation of Total Cash to the amounts of Cash and cash equivalents presented on the Consolidated Statements of Financial Position is required. This standard is effective for annual reporting periods beginning after December 15, 2018. RAND has adopted this guidance effective for the year ended September 30, 2020 and it did not have a material impact on RAND's consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,* which is intended to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost and requires the bifurcation of net benefit cost. The service cost component will be presented with other employee compensation costs in operating income (or capitalized in assets). The other components will be reported separately outside of operations and will not be eligible for capitalization. The new standard requires retrospective application and allows a practical expedient that permits an employer to use the amounts disclosed in its employee benefits footnote for the prior comparative periods as the estimation basis for applying the retrospective presentation. RAND utilized the practical expedient to estimate the impact on the fiscal year 2019 consolidated financial statements. The adoption of the standard resulted in the reclassification of net periodic postretirement benefit costs, other than service costs, from research expense, included in RAND's measure of operations, to other components of net periodic postretirement benefit cost, excluded from RAND's measure of operations, presented in the Consolidated Statements of Activities. The $2,151,000 and $2,812,000 in other components of net periodic postretirement benefit costs for the years ended September 30, 2021 and 2020, respectively, were reclassified from Research expenses to the non-operating line item Other components of net periodic postretirement benefit costs.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement: Disclosure Framework- Changes to the Disclosure Requirements for Fair Value Measurement.* This ASU is effective for annual reporting periods beginning after December 15, 2019, with early adoption permissible. This ASU removes certain disclosures, modifies certain disclosures and adds additional disclosures related to fair value measurement. RAND has adopted this guidance effective for the year ended September 30, 2021 and it did not have a material impact on RAND's consolidated financial statements.

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Non-financial Assets*. ASU 2020-07 improves financial reporting by providing new presentation and disclosure requirements concerning contributed non-financial assets and includes additional disclosure requirements for recognized contributed services. Nonfinancial assets may include land, buildings, equipment, the use of fixed assets or utilities, materials and supplies, intangible assets, services, and unconditional promises of those assets. The guidance is effective on a retrospective basis and is effective for fiscal periods beginning after June 15, 2021 with early adoption permitted. RAND has elected to early adopt this guidance effective for the year ended September 30,2021.

New Accounting Pronouncements. In February 2016, the FASB issued ASU 2016-02, *Leases.* ASU 2016-02 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. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2021 (RAND's fiscal year 2023). RAND is currently evaluating the effect of adoption to the consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference rate reform (ASC 848): Facilitation of the effects of reference rate reform on financial reporting*. In response to concerns about structural risks of interbank offered rates (IBORs), and, particularly, the risk of cessation of the London Interbank Offered Rate (LIBOR), regulators around the world have undertaken reference rate reform initiatives to identify alternative reference rates that are more observable or transaction based and less susceptible to manipulation. The amendments provide optional guidance for a limited time to ease the potential burden in accounting for (or recognizing the effects) of reference rate reform on financial reporting. The amendments provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. In January 2021, the FASB issued 2021-01 *Reference rate reform (ASC 848)* to clarify that certain optional expedients and exceptions in ASC 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. Specifically, certain provisions in ASC 848, if elected by an entity, apply to derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform. Amendments in this Update to the expedients and exceptions in ASC 848 capture the incremental consequences of the scope clarification and tailor the existing guidance to derivative instruments affected by the discounting transition. The amendments are elective and are effective for all entities as of March 12, 2020 through December 31, 2022. RAND is currently evaluating the effect of the adoption to the consolidated financial statements.

Subsequent Events. During the period October 2021 through February 11, 2022, RAND had capital calls related to its Private Real Asset, Private Credit, and Private Equity Funds totaling $1,453,000, $576,000 and $2,333,000, respectively.

Subsequent events have been evaluated through February 11, 2022, 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, 2021	September 30, 2020
Total assets at year end	$ 585,772	$ 533,853
Less: Financial assets not available for current use	(18,327)	(16,411)
Less: Property and equipment and other non-financial assets	(126,516)	(118,788)
Long-term investments	(327,932)	(280,337)
Total financial assets available at year end for current use	112,997	118,317
Add: Board-designated investments	204,097	177,262
Total with Board-designated investments	$ 317,094	$ 295,579

Although the organization does not intend to spend from its Board-designated funds other than amounts appropriated 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.

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 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, 2021	September 30, 2020
U.S. government agencies		
Billed	$ 42,356	$ 23,324
Unbilled	4,074	24,843
	46,430	48,167
State, local and private sponsors		
Billed	5,485	11,026
Unbilled	21,530	22,043
	27,015	33,069
Allowance for bad debt	(129)	(1,000)
	$ 73,316	$ 80,236

Unbilled amounts principally represent recoverable costs billed in the first quarter of fiscal year 2021 and 2020, 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 $13,806,000 and $13,544,000 as of September 30, 2021 and September 30, 2020, 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, 2021		September 30, 2020	
In one year or less	$	5,579	$	4,125
Between 1 yr. and 5 yrs.		9,055		10,456
		14,634		14,581
Less: Discount		(767)		(977)
Allowance for Bad Debt		(61)		(60)
	$	13,806	$	13,544

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

	September 30, 2021		September 30, 2020	
Restricted for time or purpose	$	12,812	$	12,023
Restricted in perpetuity		994		1,521
	$	13,806	$	13,544

During the fiscal year ended September 30, 2021, RAND received payments on prior year pledges in the amount of $2,674,000.

RAND had conditional promises to give of $2,400,000 and $2,500,000 related to the Pardee RAND graduate school and for research for the years ended September 30, 2021 and 2020, respectively. RAND has commitments totaling $28,188,000 and $28,850,000 for the Pardee RAND Graduate School and research as of September 30, 2021 and 2020, respectively. Revenue associated with these commitments will be recorded as they qualify for recognition.

6. Long-Term Investments:

Long-term investments are presented at fair value and all related transactions are recorded on the trade date. The investments consist of cash equivalents, equity, fixed income, private equity and real assets, private credit, and alternative investments. Approximately 36% and 38% of long-term investments consist of foreign investment holdings as of September 30, 2021 and September 30, 2020, respectively. RAND's net investment return was $58,725,000 and $18,234,000 for the years ended September 30, 2021 and September 30, 2020, respectively.

As of September 30, 2021, RAND had commitments outstanding to purchase private equity, real asset, and credit funds of $42,414,000; $20,604,000 of these commitments are estimated to be due within one year.

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

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

	September 30, 2021	September 30, 2020
Cash and cash equivalents	$ 3,528	$ 2,400
Equity Funds, at fair value	152,675	132,470
Fixed Income Funds, at fair value	104,096	104,144
Alternative Investments		
Private Credit Funds	10,934	-
Private Equity and Real Asset Funds	56,209	40,665
Multi-strategy and long/short hedge funds	490	658
	$ 327,932	$ 280,337

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 shall not be categorized using the aforementioned levels. These investments will be 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 or NAV 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.

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. Alternative investments are to be included in the NAV category if the underlying values are based on NAV equivalents, such as ending capital balance amounts.

Derivative Financial Instruments – RAND uses two interest rate swaps to fix the interest rate on a portion of its Series 2021 variable rate bonds. These are the same swaps that were used to fix the interest rate on its Series 2008A and a portion of its Series 2008B variable rate bonds, which were refunded on April 1, 2021. 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, 2021 were as follows (in thousands):

	Level 1	Level 2	Level 3	NAV	Balance as of September 30, 2021
Assets					
Investments					
Cash equivalents	$ 3,528	$ -	$ -	$ -	$ 3,528
Equity Funds	132,955	-	-	19,720	152,675
Fixed Income Funds	53,406	-	-	50,690	104,096
Alternative Investments					
Private Credit Funds	-	-	-	10,934	10,934
Private Equity and Real Asset Funds	-	-	-	56,209	56,209
Multi-Strategy and Long/Short Hedge Funds	-	-	-	490	490
Total Assets	$ 189,889	$ -	$ -	$ 138,043	$ 327,932
Liabilities					
Derivatives	$ -	$ 18,038	$ -	$ -	$ 18,038

RAND's assets and liabilities measured and reported in the consolidated financial statements at fair value on a recurring basis as of September 30, 2020 were as follows (in thousands):

	Level 1	Level 2	Level 3	NAV	Balance as of September 30, 2020
Assets					
Investments					
Cash equivalents	$ 2,400	$ -	$ -	$ -	$ 2,400
Equity Funds	115,477	-	-	16,993	132,470
Fixed Income Funds	53,722	-	-	50,422	104,144
Alternative Investments					
Private Equity and Real Asset Funds	-	-	-	40,665	40,665
Multi-Strategy and Long/ Short Hedge Funds	-	-	-	658	658
Total Assets	$ 171,599	$ -	$ -	$ 108,738	$ 280,337
Liabilities					
Derivatives	$ -	$ 24,086	$ -	$ -	$ 24,086

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, 2021 (in thousands):

Category	Strategy	NAV	Unfunded Commitments	Nature and Risks of the Investment
Equity	Closed-end funds, Absolute return	$ 19,720	$ -	Quarterly partial redemptions permitted. A shareholder request to redeem all its share will be effected in stages over four successive quarters.
Private Equity and Private Real Asset	**Private Equity:** Venture capital, buyouts, special situations **Private Real Asset:** Real estate and natural resources	56,209	35,672	**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 1-8 years; time to draw down commitments is 0-4 years; interest in the funds can be sold only with the consent of the fund manager.
Private Credit	Credit, non-performing loans, secured and unsecured	10,934	6,742	Investment timeframe is 6 years; time to draw down commitments is 1 year; interest in the funds can be sold only with the consent of the fund managers.
Fixed Income	Global fixed income, preferred and convertible securities	50,690	-	Redemptions/withdrawals are permitted semi-monthly to quarterly.
Multi-Strategy	Various (fixed income arbitrage, structured credit, event-driven)	490	-	Redemptions dependent upon realization of side-pocket or other underlying investment sale.
Total		$ 138,043	$ 42,414	

The following table lists these investments by major category as of September 30, 2020 (in thousands):

Category	Strategy	NAV	Unfunded Commitments	Nature and Risks of the Investment
Equity	Closed-end funds, Absolute return	$ 16,993	$ -	Quarterly partial redemptions permitted. A shareholder request to redeem all its share will be effected in stages over four successive quarters.
Private Equity and Private Real Asset	**Private Equity:** Venture capital, buyouts, special situations **Private Real Asset:** Real estate and natural resources	38,063	33,037	**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 1-8 years; time to draw down commitments is 0-4 years; interest in the funds can be sold only with the consent of the fund manager.
Private Credit	Credit, non-performing loans, secured and unsecured	2,603	4,391	Investment timeframe is 6 years; time to draw down commitments is 1 year; interest in the funds can be sold only with the consent of the fund managers.
Fixed Income	Global fixed income, preferred and convertible securities	50,421	-	Redemptions/withdrawals are permitted semi-monthly to quarterly.
Multi-Strategy	Various (fixed income arbitrage, structured credit, event-driven)	659	-	Redemptions dependent upon realization of side-pocket or other underlying investment sale.
Total		$ 108,739	$ 37,428	

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 Provided 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 grandfathered 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, 2021		September 30, 2020	
Change in benefit obligation				
Benefit obligation at beginning of year	$	24,213	$	22,792
Service cost		1,119		974
Increase due to passage of time		676		725
Plan participants' contributions		186		161
Actuarial (gain) loss		(622)		600
Benefits paid		(1,171)		(1,000)
Benefits paid from RAND assets		(29)		(39)
Benefit obligation at end of year	$	24,372	$	24,213
Change in plan assets				
Fair value of the Plan's total assets at beginning of year	$	24,154	$	23,712
Actual return on plan assets		4,759		1,287
Employer contributions		21		33
Plan participants' contributions		186		161
Benefits paid		(1,200)		(1,039)
Fair value of the Plan's total assets at end of year	$	27,920	$	24,154
Reconciliation of funded status				
Projected benefit obligation at end of year	$	(24,372)	$	(24,213)
Fair value of the Plan's assets at end of year		27,920		24,154
Funded status	$	3,548	$	(59)
Amounts recognized in the Statement of Financial Position				
Accrued postretirement benefit (surplus) liability	$	(3,548)	$	59

The funded status is shown on the Consolidated Statements of Financial Position in Other assets for the year ended September 30, 2021 and Accrued postretirement benefit liability for the year ended September 30, 2020. 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, 2021 were $0; the contributions expected to be received during the fiscal year ended September 30, 2022 are $0.

Amounts expected to be recognized in Other components of net periodic benefit cost during fiscal year 2022, consist of (in thousands):

Net gain	$	(1,394)
Prior service credit		(517)
Total	$	(1,911)

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

	September 30, 2021	September 30, 2020
Discount rate used to determine benefit obligation	2.95%	2.85%
Discount rate used to determine net periodic postretirement benefit cost	2.85%	3.25%
Long-term rate of return on the Plan's investment assets	7.00%	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 was reasonable based on historical returns.

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

	September 30, 2021	September 30, 2020
Health care cost trend rate assumed for the next year	6.00%	6.25%
Rate to which the cost trend rate is assumed to decline	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2025	2025

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, 2020 U.S. Capital Market Assumptions.

The net periodic postretirement benefit cost for fiscal years ended September 30, 2021 and September 30, 2020 included the following components (in thousands):

	September 30, 2021		September 30, 2020	
Service cost-benefits attributed to service during the period	$	1,119	$	974
Increase in the accumulated postretirement benefit obligation due to the passage of time		676		725
Expected return on the Plan's Investment assets		(1,656)		(1,626)
Net prior service credit amortization		(517)		(517)
Gain amortization		(1,078)		(1,394)
Net periodic postretirement benefit cost	$	(1,456)	$	(1,838)

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 fiscal years ended September 30, 2021 and September 30, 2020 included the following components (in thousands):

	September 30, 2021		September 30, 2020	
Net prior service credit	$	(1,897)	$	(2,413)
Net gain		(12,546)		(9,900)
Cumulative amounts recognized in net assets without donor restrictions	$	(14,443)	$	(12,313)

Details to compute the adjustment of ($2,130,000) and $2,848,000 for the accrued postretirement benefits liability (other than net periodic retirement benefit costs) in other items on the Consolidated Statements of Activities for the year ended September 30, 2021 and September 30, 2020, respectively, included the following components (in thousands):

	September 30, 2021		September 30, 2020	
Cumulative amounts recognized in net assets without donor restrictions at prior fiscal year end	$	(12,313)	$	(15,161)
Net prior service credit amortization during the year:				
Net gain amortized during the year		1,078	$	1,394
Net prior service credit		517	$	517
Net (gain) loss that occurred during the year		(3,725)		937
Cumulative amounts recognized in net assets without donor restrictions at current fiscal year end	$	(14,443)	$	(12,313)

For September 30, 2021, the difference between the ($14,443,000) and ($12,313,000) is an adjustment of ($2,130,000) which is primarily due to a gain related to an increase in the discount rate from 2.85% to 2.95% offset by a change in the mortality scale utilized. For September 30, 2020, the difference between the ($12,313,000) and the amount at September 30, 2019 of ($15,161,000) is an adjustment of $2,848,000 which is primarily due to a decrease in the discount rate from 3.25% to 2.85% offset by a change in the mortality scale utilized.

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
2022	1,067
2023	1,092
2024	1,098
2025	1,121
2026	1,180
Next Five years	6,325

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 40% of the Plan's long-term investments consist of foreign holdings as of September 30, 2021 and 2020, respectively. Commitments of $1,173,000 are due within one year.

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 Note 6 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, 2021 were as follows (in thousands):

	Level 1		NAV		Balance as of September 30, 2021	
Assets						
Investments						
Cash equivalents	$	598	$	-	$	598
Equity Funds		12,000		1,751		13,751
Fixed Income Funds		5,222		4,513		9,735
Alternative Investments						
Private Credit		-		904		904
Private Equity and Real Asset Funds		-		3,290		3,290
Total Assets	$	17,820	$	10,458	$	28,278

The Plan's investment assets measured and reported at fair value on a recurring basis as of September 30, 2020 were as follows (in thousands):

	Level 1	NAV	Balance as of September 30, 2020
Assets			
Investments			
Cash equivalents	$ 1	$ -	$ 1
Equity Funds	10,381	1,499	11,880
Fixed Income Funds	5,429	4,457	9,886
Alternative Investments			
Private Credit	-	228	228
Private Equity and Real Asset Funds	-	2,201	2,201
Total Assets	$ 15,811	$ 8,385	$ 24,196

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, 2021 (in thousands):

Category	Strategy	NAV	Unfunded Commitments	Nature and Risks of the Investment
Equity	Closed-end funds, absolute return	$ 1,751	$ -	Quarterly partial redemptions permitted. A shareholder request to redeem all its shares will be effected in stages over four successive quarters.
Private Equity and Private Real Asset	**Private Equity:** Venture capital and buyouts **Private Real Asset:** Real estate and natural resources	3,290	2,055	**Private Equity:** Investment timeframes are 1-9 years; time to draw down commitments is 0-5 years; interest in the funds can be sold only with the consent of the fund managers. **Private Real Asset:** Investment timeframes are 6-9 years; time to draw down commitments is 0-4 years; interest in the funds can be sold only with the consent of the fund manager.
Fixed Income	Global fixed income, preferred and convertible securities	4,513	-	Redemptions/withdrawals are permitted semi-monthly to quarterly.
Private Credit	Credit, non-performing loans, secured and unsecured	904	551	Investment timeframe is 6 years; time to draw down commitments is 1 year; interest in the funds can be sold only with the consent of the fund managers.
		$ 10,458	$ 2,606	

The following table lists these investments by major category as of September 30, 2020 (in thousands):

Category	Strategy	NAV	Unfunded Commitments	Nature and Risks of the Investment
Equity	Closed-end funds, absolute return	$ 1,501	$ -	Quarterly partial redemptions permitted. A shareholder request to redeem all its shares will be effected in stages over four successive quarters.
Private Equity and Private Real Asset	**Private Equity:** Venture capital and buyouts **Private Real Asset:** Real estate and natural resources	2,198	1,664	**Private Equity:** Investment timeframes are 1-9 years; time to draw down commitments is 0-5 years; interest in the funds can be sold only with the consent of the fund managers. **Private Real Asset:** Investment timeframes are 6-9 years; time to draw down commitments is 0-4 years; interest in the funds can be sold only with the consent of the fund manager.
Fixed Income	Global fixed income, preferred and convertible securities	4,458	-	Redemptions/withdrawals are permitted semi-monthly to quarterly.
Private Credit	Credit, non-performing loans, secured and unsecured	228	122	Investment timeframe is 6 years; time to draw down commitments is 1 year; interest in the funds can be sold only with the consent of the fund managers.
		$ 8,385	$ 1,786	

9. Borrowing Arrangements:

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

	September 30, 2021	September 30, 2020
California Infrastructure and Economic Development Bank (IBank) Variable Rate Revenue Bonds, Series 2021, issued in the original principal amount of $98,225,000, in connection with the refunding of the Series 2008A and Series 2008B bonds, in April 2021; average interest rate of 1.08% for the fiscal year ending September 30, 2021	$ 98,225	$ -
California Infrastructure and Economic Development Bank (IBank) Variable Rate Revenue Bonds, Series 2008A, issued in the original principal amount of $34,575,000, in connection with the refunding of the Series 2007 bonds, in May 2008; average interest rates of 0.61% and 1.33% for the fiscal years ending September 30, 2021 and September 30, 2020, respectively.	-	27,325
California Infrastructure and Economic Development Bank (IBank) Variable Rate Revenue Bonds, Series 2008B, issued in the original principal amount of $93,565,000, in connection with the refunding of the Series 2002B bonds, in June 2008; average interest rates of 0.61% and 1.33% for the fiscal years ending September 30, 2021 and September 30 2020, respectively.	-	73,845
Bond issuance costs	(413)	(829)
	97,812	100,341
Less: current portion	(3,050)	(11,130)
	$ 94,762	$ 89,211

In 2008, RAND issued $34,575,000 of tax-exempt variable rate revenue bonds (Series 2008A) to refinance the Series 2007 tax-exempt variable rate revenue bonds. Costs incurred in connection with the issuance of the Series 2008A bonds of approximately $379,000 were paid by RAND. The initial rate of interest was 1.65% and annual principal payments ranging from $450,000 to $1,825,000 were due from April 1, 2009 to April 1, 2042. In 2008, RAND issued $93,565,000 of tax-exempt variable rate revenue bonds (Series 2008B) to refinance the Series 2002B tax-exempt variable rate revenue bonds. Included in the par amount of the Series 2008B bonds was approximately $1,035,000 of costs incurred in connection with issuance. The initial rate of interest was 1.15% and annual principal payments ranging from $1,110,000 to $4,935,000 were due from April 1, 2009 to April 1, 2042.

In August 2012, RAND entered into two Continuing Covenant Agreements with a lender whereby the lender purchased the entire Series 2008A and entire Series 2008B bonds from the existing bondholders and RAND in turn agreed to make bond principal and interest payments to the new lender. The interest rate on the bonds is reset monthly based on 67% of one-month LIBOR plus a fixed spread. The initial term of the agreements was seven years, but effective June 2016, the term was extended to June 2021.

In May 2018, the IBank and Bond Trustee executed, with the consent of RAND and the lender, two Supplemental Bond Indentures, one for the Series 2008A bonds and one for the Series 2008B bonds. RAND and the lender also entered into two Continuing Covenant Agreement Amendments, one for Series 2008A bonds and one for Series 2008B bonds. Pursuant to these documents, the interest rate on the bonds resets monthly based on 79% of one-month LIBOR plus a fixed spread. This action fulfilled a bond indenture provision that was activated when the United States government decreased the maximum corporate tax rate to 21% from 35% as stipulated by the Tax Cuts and Jobs Act, signed into law on December 22, 2017.

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 $506,174 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, 2021.

Interest Rate Swaps. RAND uses two interest rate swaps, entered into in 2007, to fix the interest rate on a portion of its Series 2021 variable rate bonds. Concurrent with the issuance of the Series 2007 variable rate 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 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. 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 $6,048,000 and a loss of $3,760,000 for fiscal years 2021 and 2020, respectively. The liability related to the interest rate swaps is 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):

2022	$	3,050
2023		3,165
2024		3,305
2025		3,440
2026		3,590
Thereafter		81,675
	$	98,225

Accrued interest payable relating to the bonds was $274,618 and $190,000 as of September 30, 2021 and September 30, 2020, respectively. RAND's total interest expense was $3,108,000 and $3,341,000 for the fiscal years ended September 30, 2021 and September 30, 2020, respectively.

Line of Credit. RAND has an uncollateralized line of credit that expires in April 2022. 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 the one-month LIBOR rate plus 0.90%.

10. Commitments and Contingencies:

Lease Commitments. Operating lease commitments are as follows (in thousands):

2022	$	10,609
2023		10,611
2024		10,121
2025		10,276
2026		3,990
Thereafter		305
Total	$	45,912

Future minimum rentals are comprised of office leases. Certain RAND office leases contain rent escalation clauses and fair-market renewal options. Property leases generally require RAND to pay for utilities, insurance, taxes and maintenance. RAND's net rental expense was $9,907,000 and $10,243,000 for the fiscal years ended September 30, 2021 and September 30, 2020, respectively.

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 financial position, changes in net assets, or 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 with DCMA to resolve some of these audit findings. In one case, DCMA has asserted a 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 $2,000,000 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, 2021 (in thousands):

	Without donor restriction	For Time or Purpose	In Perpetuity	Total
Donor restricted funds	$ -	$ 53,695	$ 68,916	$ 122,611
Board-designated funds	205,321	-	-	205,321
End of year	$ 205,321	$ 53,695	$ 68,916	$ 327,932

The following table summarizes this long-term investment fund by net asset class as of September 30, 2020 (in thousands):

	Without donor restriction	For Time or Purpose	In Perpetuity	Total
Donor restricted funds	$ -	$ 35,844	$ 67,017	$ 102,861
Board-designated funds	177,476	-	-	177,476
End of year	$ 177,476	$ 35,844	$ 67,017	$ 280,337

The following table summarizes the activity in the endowment during fiscal year 2021 (in thousands):

	Without donor restriction	For Time or Purpose	In Perpetuity	Total
Beginning of the year	$ 177,476	$ 35,844	$ 67,017	$ 280,337
Investment return	36,783	21,942	-	58,725
Contributions	-	-	1,899	1,899
Appropriations	(8,938)	(4,091)	-	(13,029)
End of year	$ 205,321	$ 53,695	$ 68,916	$ 327,932

The following table summarizes the activity in the endowment during fiscal year 2020 (in thousands):

	Without donor restriction	For Time or Purpose	In Perpetuity	Total
Beginning of the year	$ 174,801	$ 32,688	$ 64,625	$ 272,114
Investment return	11,514	6,721	-	18,235
Contributions	-	-	2,392	2,392
Appropriations	(8,839)	(3,565)	-	(12,404)
End of year	$ 177,476	$ 35,844	$ 67,017	$ 280,337

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. In the event that an endowment is underwater, RAND's endowment spending policy permits the appropriation of spending from underwater funds.

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, 2021	September 30, 2020
Designated for investment	$ 197,929	$ 171,851
Designated for special use		
RAND Education	3,623	3,220
Pardee RAND Graduate School	2,545	2,191
	$ 204,097	$ 177,262

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, 2021	September 30, 2020
Pardee RAND Graduate School		
General Support	$ 9,855	$ 8,035
Awards and Scholarships	19,811	14,928
RAND General Support	10,581	10,686
RAND Justice, Infrastructure, and Environment	6,382	2,685
RAND Institute for Civil Justice	5,753	4,316
National Security Research and Training	5,640	6,119
RAND Center for Asia Pacific Policy	4,398	2,164
RAND Health	4,240	2,721
Paul O'Neill Alcoa Professorship in Policy Analysis	2,335	2,421
Various Special Purpose Funds	2,249	1,273
RAND Center for Middle East Public Policy	1,970	1,182
Pardee Center for Longer Range Global Policy	1,686	1,884
RAND Education	1,553	4
RAND Center for Global Risk and Security	1,410	743
RAND Headquarters	1,139	570
Tang Institute for U.S. - China Relations	915	839
Haskins Lectureship on Science Policy	779	779
RAND Center for Russia and Eurasia	600	381
Other	1,514	1,514
Subtotal gift contributions	82,810	63,244
Non-exchange grant transactions for research	11,687	7,411
	$ 94,497	$ 70,655

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

	September 30, 2021	September 30, 2020
Pardee RAND Graduate School		
General Support	$ 17,737	$ 17,106
Awards and Scholarships	17,202	16,842
National Security Research and Training	4,500	4,500
RAND Institute for Civil Justice	4,185	4,185
RAND General Support	4,102	4,216
Pardee Center for Longer Range Global Policy	3,670	3,670
Tang Institute for U.S. - China Relations	3,000	3,000
Samueli Institute fund 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	2,952
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	1,025	1,025
Center for Global Risk and Security-Demographer Endowed Position	809	800
Other	900	751
	$ 70,130	$ 69,047

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.

For the year ended September 30, 2021, natural and functional expenses consist of the following (in thousands):

	Research	Management and General	Fundraising	Year Ended September 30, 2021 Total
Personnel	$ 225,432	$ 43,490	$ 4,403	$ 273,325
Expenses	32,807	15,284	184	48,275
Subcontracts/Professional Services	28,883	4,734	-	33,617
Depreciation and Amortization	2,460	8,805	-	11,265
Interest	-	3,170	-	3,170
Total	$ 289,582	$ 75,483	$ 4,587	$ 369,652
Non-operating expenses:				
Other components of net periodic postretirement benefit costs	$ (2,151)			$ (2,151)

For the year ended September 30, 2020, natural and functional expenses consist of the following (in thousands):

	Research	Management and General	Fundraising	Year Ended September 30, 2020 Total
Personnel	$ 232,003	$ 47,274	$ 4,759	$ 284,036
Expenses	27,613	22,043	1,274	50,930
Subcontracts/Professional Services	26,448	3,697	1	30,146
Depreciation and Amortization	1,298	10,295	-	11,593
Interest	-	3,513	-	3,513
Total	$ 287,362	$ 86,822	$ 6,034	$ 380,218
Non-operating expenses:				
Other components of net periodic postretirement benefit costs	$ (2,812)			$ (2,812)

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 $16,243,000 and $17,725,000 for the fiscal years ended September 30, 2021 and September 30, 2020, respectively. The SRAP and NDCP only require employee contributions, and RAND does not contribute to these plans.