

Financial Report



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Report of Independent Accountants

To the Board of Trustees
The RAND Corporation

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statements of activities and changes in net assets and of cash flows present fairly, in all material respects, the financial position of The RAND Corporation and its subsidiaries at September 29, 2002, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The prior year summarized consolidated comparative information included in the financial statements referred to above has been derived from the Company's September 30, 2001 consolidated financial statements, and in our report dated January 18, 2002, we expressed an unqualified opinion on those financial statements.

PricewaterhouseCoopers LLP

January 28, 2003

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In Thousands)

	<u>September 29, 2002</u>	<u>September 30, 2001</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,808	\$ 3,825
Short-term investments (Note 4)		49,187
Receivables		
Billed and unbilled costs and fees (Note 2)	37,596	35,933
Other receivables	3,481	7,321
Prepaid expenses and other current assets	3,488	3,089
Restricted cash (Note 15)	602	
Total current assets	<u>48,975</u>	<u>99,355</u>
Property and equipment		
Land (Note 14)	1,334	1,334
Buildings and improvements	183	183
Leasehold improvements	5,230	5,012
Equipment	27,386	26,006
	<u>34,133</u>	<u>32,535</u>
Less: Accumulated depreciation and amortization	19,030	16,867
	<u>15,103</u>	<u>15,668</u>
Construction in progress (Note 14)	16,039	6,840
Net property and equipment	<u>31,142</u>	<u>22,508</u>
Long-term investments (Note 5)	131,649	75,336
Building project fund investments (Note 15)	117,231	
Bond issue costs, net (Note 15)	3,166	
Other assets	5,783	6,154
Total assets	<u>\$ 337,946</u>	<u>\$ 203,353</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and other liabilities	\$ 20,457	\$ 17,401
Accrued bond interest payable	515	
Bank loan payable (Note 6)	1,000	3,500
Unexpended portion of grants and contracts received	18,595	21,295
Accrued compensation, vacation, and retirement	11,611	11,228
Total current liabilities	<u>52,178</u>	<u>53,424</u>
Other liabilities	697	1,172
Accrued postretirement benefit liability (Note 8)	10,979	10,906
Long-term debt (Note 15)	130,190	
Commitments and contingencies (Notes 9 and 10)		
Total liabilities	<u>194,044</u>	<u>65,502</u>
Net assets		
Unrestricted		
Operations	2,848	2,958
Designated for investment (Note 11)	108,178	105,793
Designated for special use (Note 11)	4,054	3,110
Total unrestricted	<u>115,080</u>	<u>111,861</u>
Temporarily restricted (Note 12)	9,615	6,576
Permanently restricted (Note 13)	19,207	19,414
Total net assets	<u>143,902</u>	<u>137,851</u>
Total liabilities and net assets	<u>\$ 337,946</u>	<u>\$ 203,353</u>

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

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

with summarized financial information for the year ended September 30, 2001

(In Thousands)

	For the Years Ended						September 30, 2001
	September 29, 2002					Total	
	Unrestricted Net Assets			Temporarily Restricted	Permanently Restricted		
Operations	Designated	Total Unrestricted	Total			Total	
REVENUES, GAINS, AND OTHER SUPPORT							
Contracts and grants	\$ 167,356		\$ 167,356			\$ 167,356	\$ 162,439
Fees	4,980		4,980			4,980	5,491
Income on investments, net		\$ 2,524	2,524	\$ 472		2,996	4,698
Net realized (losses) gains on investments		(1,508)	(1,508)	(337)		(1,845)	1,857
Net unrealized gains (losses) on investments		5,362	5,362	1,243		6,605	(11,534)
Contributions	3,474	194	3,668	5,451	(\$ 207)	8,912	10,809
Other	636		636			636	103
Transfer of designated net assets to operations	3,243	(3,243)					
Net assets released from restrictions due to satisfaction of program restrictions	3,790		3,790	(3,790)			
Total revenues, gains, and other support	183,479	3,329	186,808	3,039	(207)	189,640	173,863
EXPENSES							
Research	150,668		150,668			150,668	147,199
Management and general	32,921		32,921			32,921	30,339
Total expenses	183,589		183,589			183,589	177,538
Change in net assets before other item	(110)	3,329	3,219	3,039	(207)	6,051	(3,675)
Other item—(loss) on sale of land (Note 10)							(1,291)
Change in net assets	(110)	3,329	3,219	3,039	(207)	6,051	(4,966)
Net assets at beginning of year	2,958	108,903	111,861	6,576	19,414	137,851	142,817
Net assets at end of year	\$ 2,848	\$ 112,232	\$ 115,080	\$ 9,615	\$ 19,207	\$ 143,902	\$ 137,851

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

	For the Year Ended September 29, 2002	For the Year Ended September 30, 2001
Cash flows from operating activities:		
Change in net assets	\$ 6,051	(\$ 4,966)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Adjustment to postretirement benefit liability	73	(146)
Depreciation	3,286	2,989
Amortization	399	672
(Gain) loss on disposition of property and equipment	(26)	13
Permanently restricted contributions	(282)	(4,984)
Net realized/unrealized (gains) losses	(4,760)	9,677
Increase in billed and unbilled costs and fees	(1,663)	(4,080)
Decrease (increase) in other receivables	3,840	(3,272)
Increase in prepaid expenses and other current assets	(399)	(722)
Increase in restricted cash	(602)	
Increase in accounts payable and other liabilities	3,056	2,469
Increase in bond interest payable	515	
(Decrease) increase in unexpended portion of grants and contracts received	(2,700)	6,000
Increase in accrued compensation, vacation, and retirement	383	989
Decrease in other liabilities	(475)	
Net cash provided by operating activities	<u>6,696</u>	<u>4,639</u>
Cash flows from investing activities:		
Purchase of investments	(72,377)	(38,588)
Proceeds from sale of investments	70,197	35,045
Purchases of building project fund investments	(117,231)	
Purchase of property and equipment	(12,155)	(5,873)
Proceeds from disposal of property and equipment	66	35
Net cash used in investing activities	<u>(131,500)</u>	<u>(9,381)</u>
Cash flows from financing activities:		
Permanently restricted contributions	282	4,984
Net repayments under line-of-credit	(2,500)	(250)
Principal payment of bonds		
Proceeds from issuance of bonds	130,192	
Payment of bond issue costs	(3,187)	
Net cash provided by financing activities	<u>124,787</u>	<u>4,734</u>
Net decrease in cash and cash equivalents	(17)	(8)
Cash and cash equivalents at beginning of year	<u>3,825</u>	<u>3,833</u>
Cash and cash equivalents at end of year	<u>\$ 3,808</u>	<u>\$ 3,825</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest (net of capitalized interest of \$323,000 and \$327,000 in fiscal years 2002 and 2001, respectively)	\$ 70	\$ 110

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES:

A. CORPORATE ORGANIZATION. The RAND Corporation (RAND) is a nonprofit, tax-exempt corporation performing research and analysis funded by contracts, grants, and contributions. In addition, RAND conducts educational programs that provide graduate training.

The consolidated financial statements of RAND include the accounts of two controlled affiliates: RAND Europe, a foundation domiciled in The Netherlands, and the Council for Aid to Education (CAE), a nonprofit organization in New York. All inter-company balances and transactions have been eliminated in consolidation.

B. FISCAL YEAR. RAND's fiscal reporting for both financial statement and tax purposes is based on a 52- or 53-week year ending on the Sunday closest to September 30. The fiscal year includes operations for a 52-week period in 2002 and a 53-week period in 2001.

C. BASIS OF PRESENTATION. The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with the American Institute of Certified Public Accountants Audit and Accounting Guide, "Not-for-Profit Organizations."

Certain prior-year amounts have been reclassified to conform with the current-year presentation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. 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.

Net assets are classified into three categories according to donor-imposed restrictions, as follows:

Permanently restricted—Net assets subject to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of RAND. Generally, the donors of these assets permit RAND to use all or part of the investment return on these assets.

Temporarily restricted—Net assets whose use by RAND is subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of RAND.

Unrestricted—Net assets that are not subject to donor-imposed stipulations. Unrestricted assets may be designated for specific purposes by action of the Board of Trustees.

The financial statements include certain prior-year summarized comparative information in total but not by net asset category. Such prior-year information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with RAND's financial statements for the year ended September 30, 2001, from which the summarized financial information was derived.

D. REVENUE AND EXPENSE RECOGNITION. RAND derived 76 percent of its revenues in 2002 and 77 percent of its revenues in 2001 from contracts, grants, and fees with agencies of the federal government.

Contract and grant revenues are recognized as the related services are performed in accordance with the terms of the contract or grant or using the percentage of completion method.

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. Donor-restricted contributions which are received and either spent or deemed spent within the same fiscal year are reported as unrestricted revenue.

Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations or of board designations that simultaneously increase one class of net assets and decrease another are reported as transfers between the applicable classes of net assets.

Gains and losses on investments and investment income are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulation.

Investment income is shown net of related expenses of \$623,000 and \$575,000, for the fiscal years ended September 29, 2002, and September 30, 2001, respectively.

E. CASH AND CASH EQUIVALENTS. RAND considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

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F. PROPERTY AND EQUIPMENT. Property and equipment are stated at cost and are depreciated using the straight-line method over their estimated useful lives, as follows:

	<u>Estimated Useful Life</u>
Buildings and improvements	5 years
Leasehold improvements	2–15 years
Equipment	3–10 years

When assets are retired, the assets and related allowances for depreciation and amortization are eliminated from the accounts and any resulting gain or loss is reflected in operations.

G. 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 percent 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 Internal Revenue Code.

2. BILLED AND UNBILLED COSTS AND FEES:

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

	<u>September 29, 2002</u>	<u>September 30, 2001</u>
U.S. government agencies		
Billed	\$ 14,629	\$ 12,752
Unbilled	10,075	9,971
	<u>24,704</u>	<u>22,723</u>
State, local, and private sponsors		
Billed	5,691	7,154
Unbilled	7,201	6,056
	<u>12,892</u>	<u>13,210</u>
	<u>\$ 37,596</u>	<u>\$ 35,933</u>

Unbilled amounts principally represent recoverable costs and accrued fees billed in October 2002 and October 2001, respectively.

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

3. CONTRIBUTIONS RECEIVABLE:

At September 29, 2002, and September 30, 2001, RAND included \$2,563,000 and \$5,952,000, respectively, of unconditional promises to give in the financial statements as part of other receivables. The receivables are recorded net of the discount for future cash flows. The discount rate applied was 5 percent.

Realization of the promises at September 29, 2002, and September 30, 2001, is expected in the following periods (in thousands):

	<u>September 29, 2002</u>	<u>September 30, 2001</u>
In one year or less	\$ 1,797	\$ 2,005
Between one year and five years	812	4,571
Less discount	(46)	(624)
	<u>\$ 2,563</u>	<u>\$ 5,952</u>

Contributions receivable at September 29, 2002, and September 30, 2001, are intended for the following uses (in thousands):

	September 29, 2002	September 30, 2001
General support	\$ 2,272	\$ 1,687
Permanently restricted	291	4,265
	<u>\$ 2,563</u>	<u>\$ 5,952</u>

During the fiscal year ended September 29, 2002, RAND received payments of prior-year promises in the amount of \$4,614,000. No allowance for uncollectible promises receivable has been recorded in the consolidated financial statements at September 29, 2002, or September 30, 2001.

Donors have made conditional promises to give of \$4,378,000 and \$2,640,000 as of September 29, 2002, and September 30, 2001, respectively. The conditional promises to give, which include revocable deferred gifts, are not recorded in these consolidated financial statements.

4. SHORT-TERM INVESTMENTS:

The proceeds from the sale of the Main Street property (see Note 14) were invested under a one-year agreement with Morgan Stanley to purchase securities with an agreement to resell ("REPO"). The original agreement was executed on May 4, 2000, and the repurchase transaction matured on April 24, 2002. In June 2002, these funds were earmarked for long-term investment as designated by RAND's Board of Trustees.

5. LONG-TERM INVESTMENTS:

Cash and cash equivalents include commercial paper, money market funds, and other short-term investments and are carried at cost, which approximates fair value.

Shares of bond funds and investment funds are presented at fair value. Investment funds consist of investments in both domestic and foreign equity securities and bonds. Approximately 8 percent of the long-term assets consist of foreign stocks and bonds.

RAND also has equity interest in alternative investments that invest in securities and other instruments. The alternative investments are carried at RAND's portion of each investment's net book value which approximates fair value.

Cost of securities sold is determined by the specific identification method.

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

	September 29, 2002	September 30, 2001
Cash and cash equivalents	\$ 12,673	\$ 26
Shares of bond funds, at fair value (cost, 2002—\$ 74,330, and 2001—\$ 18,899)	79,485	19,450
Shares of equity funds, at fair value (cost, 2002—\$ 29,347, and 2001—\$ 47,477)	24,598	41,793
Alternative investments (cost, 2002—\$ 10,140, and 2001—\$ 10,511)	14,893	14,067
	<u>\$ 131,649</u>	<u>\$ 75,336</u>

6. BANK LOAN:

RAND has an uncollateralized line of credit with Bank of America in the principal amount of \$18,000,000 at September 29, 2002, which expires on May 31, 2003. The line of credit contains covenants that require RAND to maintain a minimum amount of liquid assets and tangible net worth. The outstanding balance at September 29, 2002, and at September 30, 2001, was \$1,000,000 and \$3,500,000, respectively. Under the terms of the credit agreement, interest is payable monthly at the prime interest rate less 0.75 percent, which was 4.00 percent at September 29, 2002. The largest amounts drawn on the line-of-credit agreement were \$15,325,000 and \$15,575,000 in 2002 and 2001, respectively. Interest expense was \$191,000 and \$425,000 for the fiscal years ended September 29, 2002, and September 30, 2001, respectively.

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7. EMPLOYEE RETIREMENT PLANS:

RAND has three defined contribution employee plans: a Qualified Retirement Plan ("QRP"), a Supplemental Retirement Annuity Plan ("SRAP"), 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. 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 the NSP are entirely RAND financed. RAND's contributions to the Plans for eligible employees range from 5 percent to 14 percent 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 percent at the end of four years of service. The NSP vests under various conditions specified in the plan. All contributions made by RAND are charged to operations. RAND's contributions were \$7,630,000 and \$7,198,000 for the fiscal years ended September 29, 2002, and September 30, 2001, respectively. The SRAP only requires employee contributions and RAND does not contribute to this plan.

8. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS:

In addition to providing pension benefits, RAND provides 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. Retirees may elect coverage under the Preferred Provider Organization, various HMOs, or reimbursement of individually purchased Medigap policies. Medicare becomes the primary coverage for retirees when they reach age 65. Retirees and dependents share substantially in the cost of coverage. RAND retains the right, subject to existing agreements, to change or eliminate these benefits.

The following table sets forth the plan's funded status reconciled with the amount shown in the consolidated statements of financial position (in thousands):

	September 29, 2002	September 30, 2001
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 11,846	\$ 10,802
Service cost	352	316
Increase due to passage of time	843	795
Plan participants' contributions	230	215
Amendments	69	
Actuarial (gain) loss	(186)	261
Benefits paid	(726)	(543)
Benefit obligation at end of year	<u>12,428</u>	<u>11,846</u>
Change in plan assets		
Fair value of plan assets at beginning of year	3,502	4,257
Actual return on plan assets	(326)	(855)
Employer contributions	597	428
Plan participants' contributions	215	206
Benefits paid	(695)	(534)
Fair value of plan assets at end of year	<u>3,293</u>	<u>3,502</u>
Funded status	(9,135)	(8,344)
Unrecognized net actuarial gain	(1,476)	(2,023)
Unrecognized prior service cost	(368)	(539)
	<u>\$ (10,979)</u>	<u>\$ (10,906)</u>

The health care cost trend rate assumption has a significant effect on the amounts reported. Increasing the assumed health care cost trend rates by one percentage point in each year would increase the service cost and increase due to passage-of-time components of the fiscal year 2002 expense by \$207,000 and the accumulated postretirement benefit obligation as of September 29, 2002, by \$1,778,000. Decreasing the assumed health care cost trend rates by one percentage point in each year would decrease the service cost and increase due to passage-of-time components of the fiscal year 2002 expense by \$168,000 and the accumulated postretirement benefit obligation as of September 29, 2002, by \$1,472,000.

The net periodic postretirement benefit cost (credit) for fiscal years ended September 29, 2002, and September 30, 2001, included the following components (in thousands):

	2002	2001
Service cost-benefits attributed to service during the period	\$ 352	\$ 316
Increase in the accumulated postretirement benefit obligation to recognize the effects of the passage of time	844	795
Return on plan assets	(274)	(320)
Recognition of gain	(150)	(408)
Recognition of prior service cost	(101)	(101)
	<u>\$ 671</u>	<u>\$ 282</u>

RAND contributes to a Voluntary Employee Benefit Association irrevocable trust that is used to partially fund health care benefits for future retirees. In general, retiree health benefits are paid as covered expenses are incurred.

For measuring the liabilities, the health care cost trend rates were assumed to be 9.0 percent and 10.0 percent for the fiscal year ended September 29, 2002, for pre-65 and post-65 benefits, respectively, gradually declining to 5.0 percent for both after 8 years, and remaining at that level thereafter. The APBO discount rate was 6.75 percent and 7.25 percent at September 29, 2002, and September 30, 2001, respectively.

9. LONG-TERM COMMITMENTS:

Operating lease commitments, net of sublease income of \$2,743,000, are as follows (in thousands):

2003	\$ 6,746
2004	5,595
2005	4,644
2006	4,101
2007	4,073
Thereafter	<u>34,603</u>
	<u>\$ 59,762</u>

Future minimum rentals are primarily composed of several microcomputer, equipment, office, and warehouse space leases. All property leases generally require RAND to pay for utilities, insurance, taxes, and maintenance. RAND's rental expense was \$9,063,000 and \$8,015,000 for the fiscal years ended September 29, 2002, and September 30, 2001, respectively.

10. COMMITMENTS AND CONTINGENCIES:

Contract costs billed to government clients are subject to audit by the Defense Contract Audit Agency ("DCAA"). Resulting indirect cost adjustments, if any, are prorated to all contracts. Contract costs billed prior to September 30, 2001, have been audited and accepted. To date, there have been no significant cost disallowances. In the opinion of management, contract costs billed subsequent to September 30, 2001, are allowable, and any potential cost disallowance would not materially affect RAND's financial position or results of operations.

RAND has certain contingent liabilities with respect to claims arising from the ordinary course of business. In the opinion of management, such contingent liabilities will not result in any loss that would materially affect RAND's financial position or results of operations.

During development and construction of the new Santa Monica facility, RAND will lease its current building from the City of Santa Monica for a period not to extend beyond October 31, 2005. Under the terms of the lease, RAND will pay all maintenance, and operating costs of the property, in lieu of rent. At the termination of the lease and occupation of the new facility, RAND is responsible for demolition of the existing buildings and environmental remediation with respect to the underlying land. RAND accrued an additional liability of \$1,291,000 in fiscal year 2001 presented as "Other item—loss on sale of land" for this purpose. The estimated outstanding liability associated with the demolition and environmental remediation included in liabilities is \$4,657,000 and \$4,800,000 as of September 29, 2002, and September 30, 2001, respectively. In accordance with the agreement with the City of Santa Monica, an escrow account has been established to ensure performance of these matters.

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11. BOARD-DESIGNATED NET ASSETS:

Board-designated net assets are available for the following purposes (in thousands):

	September 29, 2002	September 30, 2001
Designated for investment	\$ 108,178	\$ 105,793
Designated for special use		
Institute for Civil Justice	1,897	1,788
National Security Research and Training	1,093	877
Center for Russia and Eurasia	425	373
President's Fund	316	
RAND Education	176	
Lectureship on Science Policy	59	44
Other	88	28
	<u>4,054</u>	<u>3,110</u>
	<u>\$ 112,232</u>	<u>\$ 108,903</u>

12. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following purposes (in thousands):

	September 29, 2002	September 30, 2001
Center for Middle East Public Policy	\$ 2,944	\$ 518
National Security Research and Training	1,546	1,570
RAND Health	1,057	
Center for Domestic and International Health Security	774	
RAND Graduate School	636	385
Drug Policy Research Center—general support	495	962
Center for Asia Pacific Policy	377	234
Center for Russia and Eurasia		
General support	219	218
Business Leaders Forum	922	757
Institute for Civil Justice	185	101
Lectureship on Science Policy	117	118
Labor and Population	115	
RAND Education—general support	108	122
Council for Aid to Education	60	867
Other	60	724
	<u>\$ 9,615</u>	<u>\$ 6,576</u>

13. PERMANENTLY RESTRICTED NET ASSETS:

Permanently restricted assets are shown below by the purpose designated by the donor. The assets are invested in perpetuity and the income is available to support the restricted activities (in thousands):

	September 29, 2002	September 30, 2001
National Security Research and Training	\$ 4,500	\$ 4,500
Institute for Civil Justice—general support	4,149	4,149
RAND Frederick S. Pardee Center	3,788	4,192
Professorship in Policy Analysis	2,471	2,467
RAND Graduate School		
General support	1,533	1,510
Awards	970	920
RAND—general support	1,152	1,152
Center for Russia and Eurasia—general support	250	250
Lectureship on Science Policy	246	246
RAND Education	115	
Other	33	28
	<u>\$ 19,207</u>	<u>\$ 19,414</u>

14. CONSTRUCTION COMMITMENT:

Effective June 12, 2002, RAND is obligated for \$72,728,000 under an Initial Guaranteed Maximum Price Contract related to the construction of a new facility in Santa Monica, California. As of September 29, 2002, \$2,403,000 had been expended under the contract and recorded as Construction in Progress. Also included in Construction in Progress are \$934,000 and \$649,000 for capitalized interest as of September 29, 2002, and September 30, 2001, respectively.

15. LONG-TERM DEBT:

RAND issued \$130,000,000 of tax-exempt revenue bonds in July 2002, to finance construction of its new Santa Monica facility. Long-term debt as of September 29, 2002, is as follows:

	<u>2002</u>
California Infrastructure and Economic Development Fixed Rate Revenue Bonds, Series 2002A, issued in the original principal amount of \$32,500,000, in connection with the construction of a new facility in Santa Monica, California, on July 2002; interest rates ranging from 3.50% to 5.50%; annual principal payments ranging from \$345,000 to \$1,905,000, beginning April 1, 2006, and ending April 1, 2042, net of unamortized bond premium of 190,247 as of September 29, 2002	\$ 32,690,247
California Infrastructure and Economic Development Bank Variable Rate Revenue Bonds, Series 2002B, issued in the original principal amount of \$97,500,000, in connection with the construction of a new facility in Santa Monica, California, on July 2002; weighted average interest rate of 1.26% for the year ended September 29, 2002; annual principal payments ranging from \$1,430,000 to \$4,400,000, beginning April 1, 2006, and ending April 1, 2042	<u>97,500,000</u> <u>\$ 130,190,247</u>

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

2003	\$	—
2004		—
2005		—
2006		2,415,000
2007		1,785,000
Thereafter		<u>125,800,000</u>
		<u>\$ 130,000,000</u>

The payment of the principal and interest on the bonds is insured by a third party.

RESTRICTED CASH. Restricted cash is related to bond issue proceeds held in the bond trustee account at year end to be used for payment of interest on October 1, 2002, and remaining costs of bond issuance on December 31, 2002.

BUILDING PROJECT FUND INVESTMENTS. The net proceeds from the tax-exempt bond issuance have been invested under a collateralized flexible draw investment agreement. The interest rate is based on the Bond Market Association Municipal Swap Index Rate plus sixty-five (65) basis points. The amount of interest earned on the investments in fiscal year 2002 was \$506,000. Withdrawals are made to fund the Santa Monica building project.

BOND ISSUE COSTS, NET OF AMORTIZATION. Bond issue costs represent expenses incurred in connection with issuing the bonds and are being amortized on a straight-line basis over the term of the related bond issue.