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Message from the Chairman and the President

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Now that the boxes are unpacked in our new headquarters building, we can reflect on the process of moving our address a couple hundred yards south from 1700 to 1776 Main Street. The movement, though modest, bespeaks of larger things.

RAND’s leaders identified the need for a new facility 20 years ago. The movement might have seemed glacial to some, but our progress was steady, even under budget once we fixed on our plan five years ago. Each step led to the next, and we ended up in a much better place.

It is fitting to wax philosophical, or at least metaphorical. For nearly six decades, we at the RAND Corporation have been building on a legacy of accomplishments, adding new stories to the foundation and scaling heights that never could have been imagined at the outset. At times, our progress might have seemed imperceptible. But throughout it all, we have taken what we have learned, and we have kept growing and reaching beyond our last best success.
The roots of many of our accomplishments in 2004 can be traced to earlier decades. The pioneers of the Delphi technique, a groundbreaking RAND methodology of the 1950s, probably never envisioned the day when an underlying concept of their technique, first used to forecast future military technologies, would be used to assess the benefits of the arts. Equally unanticipated, our extensive work in securing the skies has spread, more than ever, to securing the seas. Meanwhile, our latest work in the field of human health has led to an utterly unprecedented area of inquiry regarding healthful versus unhealthful built environments.

In the pages that follow, we describe these developments in greater detail. We also summarize five other examples of building on our legacies in strikingly dissimilar fields: military personnel, civil justice, homeland security, education, and religion.

Judging by our work in 2004, we could never rightfully claim that RAND’s best days lie in its past. Our latest legacies compel us to believe that RAND’s best days are yet to come.

Ann McLaughlin Korologos
Chairman

James A. Thomson
President and CEO

For nearly six decades, we have been building on a legacy of accomplishments, adding new stories to the foundation and scaling heights that never could have been imagined at the outset.
Kevin McCarthy is a senior social scientist at the RAND Corporation. He has led several recent arts projects: reframing the debate about the benefits of the arts; a series of separate studies of the state of the performing arts and the visual arts, funded by The Pew Charitable Trusts; a study of the media arts, funded by the Rockefeller Foundation; and an analysis of how to build public involvement in the arts, commissioned by The Wallace Foundation. Dr. McCarthy also has written extensively on demographic trends and their policy implications.

In the 1950s, RAND researchers formulated the Delphi technique, a methodology for eliciting the intuitive judgments of experts and for building a group consensus. The technique has proven useful in extrapolating informed opinion in the absence of exact knowledge.

In 2004, RAND analysts applied the spirit of this technique in distilling expert intuition about the benefits of the arts. The analysts found that policymakers today need this kind of broader expert perspective—one that draws on the knowledge of philosophers, art critics, and artists themselves as well as social scientists and economists—to account for the benefits of the arts to individuals and society.

In recent years, political and financial pressures have compelled arts advocates to justify public support for the arts by trumpeting their “instrumental” benefits—that is, benefits that are not unique to the arts experience per se but that serve as a means, or instrument, toward achieving other social and economic ends. Examples of such benefits of the arts are enhanced learning and higher student test scores, self-discipline, improved mental health, greater civic involvement, and various economic payoffs, such as income, employment, investment, and tax revenue.

But these instrumental benefits fail to capture the true value of the arts, according to the RAND team led by social scientist Kevin McCarthy. In fact, people flock to the arts not to improve their tests scores or to stimulate the economy but to reap the intrinsic benefits of the arts. And many of the intrinsic benefits have value not only for individuals but also for society as a whole.

Grounding their analysis in literature from several disciplines, the RAND team identified three general categories of intrinsic benefits: (1) individual benefits, such as the captivation and pleasure that come from arts experiences and that motivate people to seek more such experiences; (2) individual benefits that also have spillover effects for society, such as cognitive growth in observing details, patterns, and relationships—and an expanded capacity for empathy with people of different backgrounds and cultures; and (3) public benefits, such as the creation of social bonds among those who share and discuss an artistic experience—and the expression of communal meaning.

These intrinsic benefits can be sustained and expanded only by strengthening the capacity of individuals to appreciate the arts, according to the RAND team. Therefore, policymakers should focus on building demand for the arts (by introducing more Americans to engaging arts experiences, especially when they are young) rather than focusing solely on expanding the supply of arts experiences (such as live theater, concerts, and museum exhibits).

Related Reading
- Arts Education Partnerships: Lessons Learned from One School District’s Experience, 2004, Melissa K. Rowe, Laura Werber Castaneda, Tessa Kaganoff, Abby Robyn, MG-222-EDU.
- From Celluloid to Cyberspace: The Media Arts and the Changing Arts World, 2002, Kevin F. McCarthy, Elizabeth Ondaatje, MR-1552-WF.
- A New Framework for Building Participation in the Arts, 2001, Kevin F. McCarthy, Kimberly Jannett, MB-1521-WRDF.
From Air Defense to Sea Defense

In 1953, in response to Soviet belligerence, RAND completed vital projects on the defense of the United States against air attack. In 2004, in response to terrorist belligerence, RAND completed vital projects on the defense of the United States and its allies against sea attack.

Our efforts on behalf of maritime security in 2004 focused on averting terrorist threats both to homeland security in general and to seaports and global commerce in particular. We conducted the work on behalf of the U.S. Coast Guard and the global container shipping industry.

In the wake of the terrorist attacks of September 11, 2001, the Coast Guard was placed within the U.S. Department of Homeland Security and was asked to perform expanded homeland defense duties and other maritime responsibilities in addition to its traditional missions. But to fulfill all of these responsibilities, the Coast Guard will have to accelerate and expand its modernization plans, according to a RAND team led by physicist John Birkler (see Table 1).

The RAND team proposed a dual strategy: The Coast Guard should (1) accelerate and expand the acquisition of modernized cutters, aircraft, helicopters, and unmanned air vehicles, and (2) identify and explore new technologies and platform options, such as stationary offshore platforms, that could leverage the capabilities of the newly acquired surface and air vehicles.

In a study of the global container shipping industry, a separate RAND team found that the U.S. government should take a stronger role in developing a strategy to prepare the container shipping industry for terrorist attacks and to help the industry recover quickly if attacks occur.

During an age of increased terrorist threats, the ability of the global container supply chain to deliver goods efficiently and securely relies on more than just the traditional requirements for cheap and timely deliveries. In addition, cargo must be declared appropriately to trade and other governmental officials. Cargo must also be inspected to minimize smuggling, entry of illegal immigrants, and the use of containers as a means for terrorist attack. Efforts to secure U.S. ports must address all of these priorities.

The RAND report, by Henry Willis and David Ortiz, recommends that the public and private sectors work together on security measures to address the vulnerabilities on global supply routes. Examples of such measures are (1) tamper-evident seals on shipping containers and (2) radio frequency identification devices that monitor ships along their routes. Finally, research and development should focus on improving remote sensing and scanning capabilities to monitor high volumes of shipping traffic. Current technologies are time-consuming, can be inaccurate, and can potentially be circumvented.

Related Reading

### TABLE 1—To Fulfill Both Its Traditional Missions and Emerging Responsibilities, the Coast Guard Will Need Many More Assets Than Originally Planned

<table>
<thead>
<tr>
<th>Asset</th>
<th>In Original Deepwater Plan*</th>
<th>Needed to Meet 60% of Total Demands</th>
<th>Needed to Meet 80% of Total Demands</th>
<th>Needed to Meet 100% of Total Demands</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Security Cutter</td>
<td>8</td>
<td>26</td>
<td>35</td>
<td>44</td>
</tr>
<tr>
<td>Offshore Patrol Cutter</td>
<td>25</td>
<td>28</td>
<td>37</td>
<td>46</td>
</tr>
<tr>
<td>Fast Response Cutter</td>
<td>58</td>
<td>54</td>
<td>72</td>
<td>90</td>
</tr>
<tr>
<td>Maritime Patrol Aircraft</td>
<td>35</td>
<td>24</td>
<td>29</td>
<td>35</td>
</tr>
<tr>
<td>High Altitude Endurance</td>
<td>7</td>
<td>13</td>
<td>17</td>
<td>25</td>
</tr>
<tr>
<td>Unmanned Air Vehicle</td>
<td>34</td>
<td>33</td>
<td>33</td>
<td>33</td>
</tr>
<tr>
<td>Vertical Recovery System</td>
<td>93</td>
<td>112</td>
<td>126</td>
<td>139</td>
</tr>
<tr>
<td>Multimission Cutter Helicopter</td>
<td>69</td>
<td>75</td>
<td>99</td>
<td>123</td>
</tr>
<tr>
<td>Vertical Unmanned Air Vehicle</td>
<td>34</td>
<td>33</td>
<td>33</td>
<td>33</td>
</tr>
</tbody>
</table>

* The original Deepwater plan—short for the Integrated Deepwater System Program—is the U.S. Coast Guard modernization plan that began in 1998.

From Health Plans to Healthy Planning

Our pioneering work in the field of public health commenced in 1971 with the Health Insurance Experiment, a 15-year study of the rates at which families utilized alternative health insurance plans. In 2004, we continued our pioneering tradition in the field of public health by sparking a lively national discussion about the nationwide obesity epidemic and the mounting threat it poses to the nation’s health care system and public health insurance programs.

Our work in this field also linked some obesity-related chronic health conditions to suburban sprawl. Thus, we extended the salience of our work in health care to the field of urban planning.

RAND economists Roland Sturm and Darius Lakdawalla and their teams documented both the disturbing spread of the obesity epidemic over the past 20 years among all U.S. demographic groups and the alarming health and financial consequences. Obesity and its attendant disorders—particularly diabetes, arthritis, and back problems—appear to be associated with steadily rising disability levels nationwide. By the year 2020, one in five health care dollars for those between the ages of 50 and 69 could be consumed by treating only the consequences of obesity, up from less than one in ten dollars for this age group in 1985.

In one hopeful finding, RAND analysts Ashlesha Datar and Roland Sturm found that modest increases in physical education instruction in kindergarten of just one hour per week could reduce the number of overweight five- and six-year-old girls nationally by as much as 10 percent. Providing every child in kindergarten and first grade with five hours of such instruction per week—close to the level recommended—could cut both the number of overweight girls in those two grades by 43 percent and the number of such girls at risk of being overweight by 60 percent.

One factor that contributes to obesity is a sedentary lifestyle, which can be exacerbated by suburban sprawl that is friendly to cars but hostile to walking and biking. Roland Sturm and Deborah Cohen found that people who live in areas with a high degree of suburban sprawl are more likely to report one or more of 16 chronic health conditions, including arthritis and diabetes, than people who live in less sprawling areas (see Figure 1). If future research confirms these initial results, then policies that shape a healthier built environment could play a critical role in preventing obesity as well as a wide variety of chronic diseases.

Related Reading


Ashlesha Datar and Roland Sturm

In 2004, Ashlesha Datar and Roland Sturm wrote articles that were published in Archives of Pediatric and Adolescent Medicine, the American Journal of Public Health, and (with Jennifer Magnabosco) Obesity Research. Dr. Datar, an associate economist whose research interests include child care, child health, and early childhood education, holds a Ph.D. in policy analysis from the Pardee RAND Graduate School. Dr. Sturm is a senior economist whose recent work has focused on the economics of healthy living; health care costs of poor health habits; changes of mental health and substance abuse services under managed care; and effects of the parity legislation for behavioral health care. He has testified on health care issues in Congress and several state legislatures.
From a Volunteer Force to an Entrepreneur Force

RAND found in 1977 that the move to an all-volunteer military force in 1973 had succeeded in attracting a socially representative mix of the desired quantity and quality of recruits at a cost substantially lower than had been commonly assumed. The work confirmed RAND’s leadership in military personnel research and led to decades of subsequent work in this area.

Nearly 30 years later, two teams of RAND researchers proposed how the U.S. military might derive greater capability, accountability, and creativity from its personnel. In the first study, Margaret Harrell, Harry Thie, and their team found that senior military officers spend much less time in their high-level assignments and retire much earlier than do their private-sector counterparts. Thus, the rapidly revolving door of military leadership could be depriving the services of higher degrees of effectiveness and accountability.

At the most senior levels in the military, four-star officers average only 3.5 years there before they retire (and that might include more than one assignment at that rank). In contrast, chief executive officers in the private sector typically spend 8.4 years in their positions. Furthermore, nearly 90 percent of four-star officers retire before reaching age 60, compared with only about a third of their private-sector peers (see Figure 2).

Military leaders have worried that lengthening the careers of senior officers would clog the system and thus delay promotions throughout the officer corps. But Harrell and her team found that lengthening the assignments of many of the highest-ranking military positions to four years would enhance stability and accountability without unreasonably stifling any promotion opportunity.

In the second study, Beth Asch and James Hosek found that the entire military personnel and compensation system must begin to place a higher value on innovation, intelligent risk-taking, and entrepreneurship. The system must also begin to produce greater variation in career paths. These changes are crucial for military transformation—or for developing the kinds of personnel capabilities that will be needed to defend the United States against a spectrum of unknown or uncertain threats, ranging from weapons of mass destruction to attacks on information systems.

![FIGURE 2—Generals and Admirals Have Shorter Tenures and Retire Younger than CEOs](image)

Asch and Hosek recommend four ways for military commanders to update the personnel system: (1) Place greater emphasis on innovation, creativity, and entrepreneurship in performance appraisals; (2) grant awards to innovators; (3) allow service members more choice in duty and job assignments; and (4) offer service members performance-based pay raises without promotions. These measures would help military commanders to build the kind of force required for military transformation.

**Related Reading**

*Aligning the Stars: Improvements in General and Flag Officer Management, 2004, Margaret C. Harrell, Harry J. Thie, Peter Schirmer, Kevin Brancato, MR-1712-OSD.*


**Beth Asch and James Hosek**

Beth Asch is a senior economist whose areas of study include labor economics and defense manpower. She has led numerous studies on compensation design in the military and in the federal civil service, and on military recruiting and personnel supply to the armed forces. Her research has been widely disseminated as reports, briefings, and journal articles among the policy community, the media, and the academic community. Jim Hosek is editor-in-chief of the RAND Journal of Economics and professor of economics at the Pardee RAND Graduate School. In recent years, he has examined the structure of military compensation, personnel quality, information technology personnel, and the impact of peacetime operations on promotion and retention.
From Air Crash Litigation to Terrorism Compensation

In a 1988 landmark study of air crash litigation in the United States, RAND described the characteristics of the decedents and compiled data on the economic losses suffered by survivors, the compensation paid, and the costs of litigation. In 2004, we built on this expertise, first by examining the impact of medical malpractice reform legislation and then by giving the nation an accounting of the payouts made in response to the terrorist attacks of September 2001.

RAND researcher Nicholas Pace and his colleagues assessed the impact on jury awards of California’s Medical Injury Compensation Reform Act of 1975. The law “caps” the amount that a malpractice plaintiff can recover at trial to $250,000 for noneconomic damages—pain, suffering, emotional distress, and mental anguish—but does not cap the amount for economic damages, such as the costs of medical care and lost wages. The law also limits the fees that plaintiffs’ attorneys can collect, based on a sliding scale that reduces the allowable percentage paid to attorneys as the size of any trial award or settlement grows.

The law has had intended and unintended effects. It has reduced the aggregate amount of jury awards by 30 percent, skimming the net recoveries for plaintiffs by 15 percent while slashing the net recoveries for attorneys by 60 percent. But the law has had dramatically different effects on different types of cases. For example, the net recoveries for some plaintiffs have actually increased, especially for plaintiffs with initially modest awards for noneconomic damages. In contrast, the net recoveries for plaintiffs in death cases and the most serious nonfatal injury cases have often decreased, sometimes sharply.

Also in 2004, the RAND team of Lloyd Dixon and Rachel Kaganoff Stern compiled national data on the amount of compensation paid to the victims of the 9/11 terrorist attacks. The team calculated that businesses and individuals received a total of $38 billion from three sources of compensation: the insurance industry, government agencies, and charitable organizations.

The insurance industry paid more than half of the benefits ($19.6 billion), with a predominant share of insurance payouts going to businesses in New York City. Government agencies paid more than 40 percent of the benefits, with large shares set aside for civilians killed or seriously injured and for businesses. Charitable organizations paid 7 percent of the total benefits (see Figure 3).

There is no guarantee that a similar mix of resources will be available for victims of future terrorist attacks. Moreover, the RAND analysts warn, there is no consensus in the public policy community about the appropriate and respective roles that should be played by government, the insurance industry, charities, and the legal system.

Related Reading
Capping Non-Economic Awards in Medical Malpractice Trials: California Jury Verdicts Under MICRA, 2004, Nicholas M. Pace, Daniela Golinelli, Laura Zakaras, MG-234-ICJ.
From Nuclear Plant Security to Airport Security

In the 1970s and 1980s, RAND analyzed the motives and capabilities of potential adversaries of U.S. nuclear programs and suggested a strategy, later employed by the U.S. Department of Energy, to safeguard nuclear facilities from terrorist attacks and other forms of sabotage. In 2004, we continued to identify the components of the civilian infrastructure that are most vulnerable to terrorism and to propose ways to mitigate the vulnerabilities.

For example, a RAND team led by Donald Stevens found the most cost-effective ways to reduce the impact of a potential terrorist attack at Los Angeles International Airport, believed to be one of the country’s prime terrorist targets. The RAND team examined a number of plausible attack scenarios and concluded that various kinds of potential bomb attacks present the greatest and most plausible risks (see Figure 4). The major threats include bombs placed on airplanes—either as cargo or by an insider who plants a bomb without boarding—and bombs placed in vehicles or in luggage around the airport.

Given the scenarios, the most cost-effective short-term option for protecting the traveling public is simply to add more employees to check luggage. That would expedite passenger check-in and Transportation Security Administration screening, thereby reducing the number of travelers gathered in a tightly confined area. In fact, increasing the number of check-in and screening workers by just 5 percent could reduce fatalities by 80 percent if terrorists detonated a luggage bomb in a check-in area.

In addition to reducing the density of crowds in the terminals, it would be cost-effective to add a permanent vehicle checkpoint program to spot vehicles that might be carrying large bombs. A vehicle screening system might eventually include scales embedded in the roadway to quickly weigh all vehicles entering the airport, allowing officials to identify those that might be weighed down with explosives.

Beyond these two security measures that would address vulnerabilities at a relatively low cost, four other measures should be considered for improving airport security. Two would address major vulnerabilities but are relatively expensive: screening all cargo transported in passenger planes and improving the employee selection and clearance procedures. The other two measures—improving perimeter fencing and improving the airport’s rapid-response capability—would address less serious vulnerabilities but could be implemented at low cost.

Related Reading


How Much Is Enough! Sizing the Deployment of Baggage Screening Equipment by Considering the Economic Cost of Passenger Delays, 2004, Russell Shaver, Michael Kennedy, Chad Shirley, Paul Dwyer, DB-410-RC.

How Much Is Enough! Sizing the Deployment of Baggage Screening Equipment to Minimize the Cost of Flying: Executive Summary, 2004, Russell Shaver, Michael Kennedy, Chad Shirley, Paul Dwyer, DB-412-RC.

Near-Term Options for Improving Security at Los Angeles International Airport, 2004, Donald Stevens, Terry Schell, Thomas Hamilton, Richard Meuc, Michael Scott Brown, Edward Wei-Min Chan, Mel Eisenman, Eric V. Larson, Marvin Schaffer, Bruce Newcombe, John Gibson, Ethyn Harris, DB-468-1-LAWA.

Donald Stevens

Donald Stevens is a senior engineer who led the 2004 study examining short-term options for improving security at LAX. Other recent projects include examining the military force posture overseas and the role of the military in fighting terrorism. For the Quadrennial Defense Review, he is leading a study that examines the risks in the force structure. He has written numerous books including The Requirements and Affordability of the Joint Strike Fighter and United States Air and Space Power in the 21st Century.
From Educational Reforms to Scaling Them Up

In 1975, RAND evaluated an array of “top-down” federal educational programs and concluded that many of them had undergone significant adaptation at local sites. The study helped launch an area of research on the importance of implementation in improving the performance of students in America’s public schools.

In 2004, a RAND team led by Thomas Glennan and Susan Bodilly completed an analysis of 15 educational reforms and the efforts involved in taking them “to scale”—that is, replicating the reforms at many sites. Central to the analysis was a concept of scale-up that emphasized not just spreading to more sites but also enhancing implementation at the school and classroom level, sustaining the new practices over time, and shifting ownership of the reforms from developers to educators.

Developers of the reforms have made some progress toward improving teaching and learning, with several reforms demonstrating measurable gains in student performance in multiple schools or districts. Some of the efforts have focused on teachers, some on schools, and some on clusters of schools. But two common lessons have emerged for future efforts at widespread and lasting educational reform.

First, no matter the target of reform or its design, the scale-up process is necessarily iterative and complex and requires the support of multiple actors. Key to success is rejecting a one-way replication model in favor of an interactive model that requires coordination among developers, district officials, school leaders, and teachers. The interactive model implies give-and-take, reciprocal learning, and mutual adaptation.

Second, if scale-up is to succeed according to the criteria defined by the RAND authors, the actors involved must jointly address a set of known, interconnected tasks, especially the alignment of school policies and infrastructure to sustain the reform effort. The infrastructural requirements are more than textbooks and technologies. Of noteworthy importance is a human-resource infrastructure—encompassing professional development, hiring and retention policies, and performance incentives—that can ensure an adequate supply of teachers and administrators with the skills needed to sustain reform.

In both cases, all actors must take ownership of the effort. According to the RAND team, the faddism prevalent in public education improvement strategies is testimony to the fact that a shift in ownership seldom takes place. Without this shift, developers must permanently subsidize the reform efforts, a relationship that cannot be, and has not been, sustained over the long haul.

Related Reading

Challenges and Potential of a Collaborative Approach to Education Reform, 2004, Susan J. Bodilly, Jean Chan, Gina Beemoro, Sue Stickleby; MG-216-FF.


Thomas K. Glennan, Jr.

The late Thomas Glennan was an architect of RAND’s first education work in the late 1960s. His research spanned a wide variety of policy planning issues in such diverse areas as education, manpower training, energy, environmental enforcement, demonstration program management in health and human services, and military research and development. In 1971, he published one of the classic pieces of work (with Burton H. Klein and Gustave H. Shubert) in the area of weapon acquisition strategy that examined the role of prototypes. His father, T. Keith Glennan, was a member of the RAND Board of Trustees and the first of three generations to serve RAND. His son Stuart was a member of the research staff in the late 1980s.
From Regional Studies to Religio-Political Studies

RAND pioneered the field of Soviet Studies in 1950 and has since pursued regional studies that focus on Russia, Europe, Asia, Eurasia, and the Middle East. In 2004, we broadened the scope of our regional studies by examining how Muslim religious trends extend far beyond any single geographic region and affect regions differently. Because of the tectonic events of the past four years—from the 9/11 attacks to the wars in Afghanistan and Iraq—the United States needs to craft a new strategy toward the entire Muslim world, according to RAND analyst Angel Rabasa and his team. They outlined such a strategy by sketching a “religio-political map” of the ideological orientations across the Muslim world, by charting critical cleavages among Muslims, and by tracing the roots of Islamic radicalism.

The team proposed that the United States consider a variety of social, political, and military options to ameliorate the conditions that produce Islamic radicalism. Socially, the United States could support moderate Islamic networks in opposition to radical networks, use psychological operations for disrupting radical networks, deny radical networks their financial resources, foster madrassa and mosque reform, and expand economic opportunities, particularly for the young.

Politically, the United States could support secular and moderate Muslim organizations that are working for democracy and human rights, encourage other Islamic groups to participate in the democratic political process, and engage international Muslim organizations in responding to humanitarian crises.

Militarily, the United States could rebuild close military ties with key countries, notably Pakistan and Indonesia, two of the most important countries in the Muslim world. The United States also needs to assert a different type of military presence in sensitive regions, reducing U.S. visibility as an “occupying power” and increasing its capabilities in areas such as civil affairs (offering medical assistance) and cultural intelligence (deploying more linguists and regional specialists).

In all of its dealings with the Muslim world, the United States should demonstrate that its efforts are intended not to strengthen authoritarian or oppressive regimes but rather to promote democratic change. Fundamental to such efforts is differentiating among the Muslim religious and political currents according to several criteria, such as overarching ideology, political and legal orientation, preferred form of government, attitude toward human rights, social agenda, links to terrorism, and propensity for violence. Based on these distinctions, U.S. policymakers can choose suitable partners for promoting democratic change in the Muslim world.

Related Reading


Angel Rabasa

Angel Rabasa is a senior policy analyst whose research interests include regional security, Colombia, Latin America, South East Asia, Indonesia, and Malaysia. He is coauthor of The Role of Southeast Asia in U.S. Strategy Toward China; Indonesia’s Transformation and the Stability of Southeast Asia; and Colombian Labyrinth: The Synergy of Drugs and Insurgency and Its Implications for Regional Stability. Before coming to RAND in 1999, Dr. Rabasa served as Deputy Director, Office of Philippines, Indonesia, Malaysia, Brunei, and Singapore Affairs at the U.S. Department of State.
The Year in Review

RAND’s mission calls for us to communicate our research to key decisionmakers and the public. Each year, in addition to the numerous briefings and other research products, we publish hundreds of books, reports, and articles to enrich and shape the public debate about major issues of importance. Regular updates on our projects and results are posted at www.rand.org.

**Selected Publications - Child Policy**


**2004 Milestones - Child Policy**

As part of its Initiative for Middle East Youth, the RAND Center for Middle East Public Policy (CMEPP) helped develop a specially adapted version of *Sesame Street* to be shown in schools and other settings in Afghanistan.

**Selected Publications - Civil Justice**

Assessment of 24-Hour Care Options for California, Donna O. Farley, Michael Greenberg, Christopher Nelson, Seth Seabury, MG-280-ICJ.

Capping Non-Economic Awards in Medical Malpractice Trials: California Jury Verdicts Under MICRA, Nicholas M. Pace, Daniela Galinelli, Laura Zakaras, MG-234-ICJ.

Compensation for Losses from the 9/11 Attacks, Lloyd Dixon, Rachel Kaganoff Sten, MG-264-ICJ.


Issues and Options for Government Intervention in the Market for Terrorism Insurance, Lloyd Dixon, John Arlington, Stephen Carroll, Darius Lakdawalla, Robert Reville, David Adamson, OP-135-ICJ.

**2004 Milestones - Civil Justice**

A RAND Institute for Civil Justice (ICJ) evaluation of California’s permanent disability rating system led to significant reform of California’s workers’ compensation system.

The ICJ launched the Kaufman-RAND Center for the Study of Small Business and Regulation, which will study the way legal and regulatory policymaking affects small businesses and entrepreneurship. The Center will endeavor to assess and improve legal and regulatory policymaking as it relates specifically to small businesses and entrepreneurship in a wide range of settings, including corporate governance, employment law, consumer law, securities regulation, and business ethics.

RAND and LRN, the nation’s leading provider of legal, compliance, ethics management, and corporate governance services, established the LRN-RAND Center for Corporate Ethics, Law and Governance to study ways businesses can best conduct operations ethically, legally, and profitably at the same time.
2004 Milestones
RAND, Educational Testing Service, and CTB/McGraw-Hill have cooperated with the Evaluation Institute to develop the world’s first standardized tests in Arabic.

Implementation of many education reforms based on RAND recommendations began at Qatar University, which has embarked on a comprehensive reform effort to strengthen its key governance and management processes.

The RAND Council for Aid to Education released the results of its annual Voluntary Support of Education survey, showing that contributions to colleges and universities in the United States remained stable in 2003.

Selected Publications


HEALTH AND HEALTH CARE
Selected Publications


Evaluation of the Low Back Pain Practice Guideline Implementation in the Army Medical Department, Donna O. Farley, Georges Vernez, Will Nicholas, Elaine S. Quiter, George J. Dydek, Suzanne Pieklik, Shan Cretin, MR-1758-A.


The RAND Corporation of New York, Jennifer Sloan McCombs, Sheila Nataraj Kirby, Heather Barney, Hilary Darilek, Scarlett Magee, TR-180-EDU.

Expanding the Reach of Education Reforms: Perspectives from Leaders in the Scale-Up Approach to Education Reform, Susan J. Bodilly, Jo-an Chun, Gina Ikemoto, Sue Stockly, MG-216-FF.

External Audiences for Test-Based Accountability: The Perspectives of Journalists and Foundations, Laura Hamilton, Brian Stecher, OP-111-FF.

Focus on the Wonder Years: Challenges Facing the American Middle School, Jaana Juvonen, Vi-Nhu Le, Tessa Kaganoff, Catherine Augustine, Louay Constant, MG-136-WFHF.

Organizational Improvement and Accountability: Lessons for Education from Other Sectors, Brian Stecher, Sheila Nataraj Kirby, eds., MG-136-WFHF.

Reforming Teacher Education: A First-Year Progress Report on Teachers for a New Era, Sheila Nataraj Kirby, Jennifer Sloan McCombs, Scott Naftel, Heather Barney, Hilary Darilek, Frederick Doolittle, Joseph Cordes, TR-149-EDU.


When Computers Go to School: How Kent School Implements Information Technology to Enrich Teaching and Learning, Phillip D. Devin, TR-126-EDU.

Selected Publications

Arts Education Partnerships: Lessons Learned from One School District’s Experience, Melissa K. Rowe, Laura Werber Castaneda, Tessa Kaganoff, Abby Robyn, MG-222-EDU.


Public Health Preparedness in California: Lessons learned from Seven Health Jurisdictions, Nicole Lurie, R. Burciaga Valdez, Jeffrey Wasserman, Michael Stoto, Sarah Myers, Roger Molander, Steven Asch, B. David Mussington, Vanessa Solomon, TR-181.


2004 Milestones

RAND Health interviewed a diverse sample of individuals from Capitol Hill and from the Brentwood postal facility, including Hill staffers who were either directly or potentially indirectly exposed to the letter containing anthrax that was sent to Senator Tom Daschle’s office in 2001. The results highlighted the need to provide clear, accurate information on an ongoing basis during a public health emergency and to integrate private physicians into the public health response.

Humana Inc. became the first health benefits company to test the Quality Assessment Tools—software that scans and analyzes health claims data—developed by RAND Health to ascertain whether consumers are receiving appropriate care.

RAND Health began the third phase of its ACOVE study (Assessing Care of Vulnerable Elders), which will expand upon the quality-of-care measurements developed by RAND in conjunction with Pfizer.

INTERNATIONAL AFFAIRS

Selected Publications


Ambivalent Allies? A Study of South Korean Attitudes Toward the United States, Eric V. Larson, Norman D. Levin, Seonhae Baik, Bogdan Savyts, TR-141-SRF.

Cuba After Castro: Legacies, Challenges, and Impediments, Edward Gonzalez, Kevin F. McCarthy, MG-111-RC.

Do the Ties Still Bind? The U.S.-ROK Security Relationship After 9/11, Norman D. Levin, MG-115-AF/KF.


Insurgency and Counterinsurgency in Iraq, Bruce Hoffman, OP-127-IPC/CMEPP.


The Muslim World After 9/11, Angel M. Rabasa, Cheryl Benard, Peter Chalk, C. Christine Fair, Theodore Karasik, Rollie Lal, Ian Leser, David Thaler, MG-246-AF.

Must All Join? America, 1788; Europe, 2004, James Thomson, OP-136-RC.

Public Diplomacy: How to Think About and Improve It, Charles Wolf, Jr., Brian Rosen, OP-134-RC.

Shanghai? The Economic and Political Implications of the Flow of Information Technology and Investment Across the Taiwan Strait, Michael S. Chase, Kevin L. Pollpeter, James C. Mulvenon, TR-133.

The United States, Europe, and the Wider Middle East, Shahram Chubin, Bruce Hoffman, William Rosenau, CF-210-GC3P/CMEPP.

U.S.-China Security Management: Assessing the Military-to-Military Relationship, Kevin Pollpeter, MG-143-AS.

Testimony


Hong Kong at the Crossroads, William H. Overholt, CT-228.

The Hong Kong Legislative Election of September 12, 2004: Assessment and Implications, William H. Overholt, CT-232-1.


2004 Milestones

RAND projects in Qatar now include work on information technology, a national health care strategy, the environment, public infrastructure, quality-of-life monitoring, effective governance, long-range planning, quality improvement and innovation, and military strategy and operations.

RAND continues its analytical support to the Iraqi Reconstruction Management Office, an element of the U.S. Embassy in Baghdad. On-the-ground support included participation in the development of the national counterterrorism strategy, disarmament and integration of the military into the Iraqi police, and building the defense ministry’s capabilities.
Based on recommendations made by RAND, the Bush administration created a new interagency unit, housed in the State Department, dedicated to providing institutional continuity to future American nation-building operations.

NATIONAL SECURITY

Selected Publications


Aligning the Stars: Improvements to General and Flag Officer Management, Margaret C. Hanrell, Harry J. Thie, Peter Schirmer, Kevin Brancato, MR-1712-OSD.

Assuring Access in Key Strategic Regions: Toward a Long-Term Strategy, Eric V. Larson, Derek Eaton, Paul Erlick, Theodore Karasik, Robert Klein, Sherrill Lingel, Brian Nichiporuk, Robert Uy, John Zavadil, MG-112-A.

Base Realignment and Closure (BRAC) and Organizational Restructuring in the DoD: Implications for Education and Training Infrastructure, Dina G. Levy, Joy S. Moini, Tessa Kaganoff, Edward G. Keating, Catherine H. Augustine, Tora K. Bikson, Kristin Leuschner, Susan M. Gates, MG-153-OSD.

Communications Networks to Support Integrated Intelligence, Surveillance, Reconnaissance, and Strike Operations, Elham Ghashghai, TR-159-AF.

The Effects of Equipment Age on Mission-Critical Failure Rates: A Study of M1 Tanks, Eric Peltz, Lisa Colabella, Brian Williams, Patricia M. Boren, MR-1789-A.

Examining the Army’s Future Warrior: Force-on-Force Simulation of Candidate Technologies, Randall Steeb, John Matsumura, Paul Steinberg, Tom Herbert, Phyllis Kantar, Patrick Bogue, MG-140-A.

Expanding Enlisted Lateral Entry: Options and Feasibility, Dina Levy, Joy Moini, Jennifer Sharp, Harry J. Thie, MG-134-OSD.

Information Sharing Among Military Headquarters: The Effects on Decision-making, Walter L. Perry, James Mufati, MG-226-UK.

Intern Programs as a Human Resources Management Tool for the Department of Defense, Susan M. Gates, Christopher Paul, MG-138-OSD.

Lessons from the North: Canada’s Privatization of Military Ammunition Production, W. Michael Hix, Bruce Held, Ellen M. Pint, MG-169-OSD.


Modeling the Departure of Military Pilots from the Services, Marc N. Elliott, Kanika Kapur, Carole Roan Gresenz, MR-1327-OSD.

Network-Based Operations for the Swedish Defence Forces: An Assessment Methodology, Walter Perry, John Gordon IV, Michael Boito, Gina Kingston, TR-119-FOI.


Policy and Methodology to Incorporate War-time Plans into Total U.S. Air Force Manpower Requirements, Manuel J. Carrillo, Hugh G. Massey, Joseph G. Bolten, TR-144-AF.

Policy Options for Military Recruiting in the College Market: Results from a National Survey, Beth Asch, Can Du, Matthias Schonlau, MG-105-OSD.

Portfolio Analysis and Management for Naval Research and Development, Richard Silberglitt, Lance Sherry, Carolyn Wong, Michael Tseng, Emile Ettegugi, Aaron Watts, Geoffrey Stothard, MG-271-NAVY.

Reporters on the Battlefield: The Embedded Press System in Historical Context, Christopher Paul, James J. Kim, MG-200-RC.

Stretching the Network: Using Transformed Forces in Demanding Contingencies Other Than War, David C. Gompert, Hans Pung, Kevin A. O’Brien, Jeffrey Peterson, OP-109-RC.


Supporting Air and Space Expeditionary Forces: A Methodology for Determining Air Force Deployment Requirements, Don Snyder, Patrick Mills, MG-176-AF.

Survivability Options for Maneuver and Transport Aircraft: Analytic Support to the Army Science Board, John Matsumura, Randall Steeb, Blake Crowe, Nicholas Dionna, Yuna Huh, Gary Quintero, William Soloffrey, MG-123-A.

Test and Evaluation Trends and Costs for Aircraft and Guided Weapons, Bernard Fox, Michael Boito, John C. Graser, Obaid Younossi, MG-109-AF.


U.S. Army Security Cooperation: Toward Improved Planning and Management, Thomas S. Szayna, Adam Grissom, Jeff- ferson P. Marquis, Thomas-Durell Young, Brian Rosen, Yuna Huh, MG-165-A.

Testimony

Developing and Using General and Flag Officers, Harry J. Thie, CT-221.

Deployment, Retention, and Compensation, James Hosek, CT-222.

Toward an Expeditionary Army: New Options for Combatant Commanders, Eric Peltz, CT-223.

2004 Milestones

RAND Project AIR FORCE research helped the Air Force explore its options for replacing the AC-130 gunship platform. The next-generation gunship needs to be much more survivable; to operate over longer distances and over remote, hostile areas; and to be able to attack stationary or moving ground targets with precision. The Air Force asked PAF to conduct an analysis of alternatives (AoA) to identify the most cost-effective options for providing these capabilities.

A study conducted in the RAND National Security Research Division has played a central role in the National Security Agency’s sweeping efforts to reshape its business practices.

The RAND Arroyo Center analyzed Operation Iraqi Freedom logistics support and identified the problem areas, resulting in much faster, more reliable service for units in Iraq and the problem areas, resulting in much faster, more reliable service for units in Iraq and the problem areas, resulting in much faster, more reliable service for units in Iraq and reduced burdens on the forces in theater.

POPULATION AND AGING

Selected Publications

Assimilating Immigrants: Why America Can and France Cannot, Robert A. Levine, OP-132-RC.


An Investigation of the Factors Influencing Breastfeeding Patterns, Alison Jacknowitz, RGSD-182.


The 21st Century at Work: Forces Shaping the Future Workforce and Workplace in the United States, Lynn A. Karoly, Constantijn W. A. Panis, MG-164-DOL.


2004 Milestones

RAND Labor and Population’s Center for the Study of Aging received multimillion-dollar funding ($7.3 million) from the National Institute on Aging to do research on the economic and health determinants of retirement.

Los Angeles Family and Neighborhood Survey, a project within RAND Labor and Population, began wave 2 (Socioeconomic and Ethnic Disparities in Adult Health) with funding from the National Institute on Aging and the National Institute on Child Health and Human Development ($10.6 million combined).

PUBLIC SAFETY

Selected Publications


The Benefits of Positive Passenger Profiling on Baggage Screening Requirements, Russell Shaver, Michael Kennedy, DB-411-RC.

Emergency Responder Injuries and Fatalities: An Analysis of Surveillance Data, Ari N. Houser, Brian A. Jackson, James T. Bartis, D. J. Peterson, TR-100-NIOSH.

Evaluating the Security of the Global Containerized Supply Chain, Henry H. Willis, David S. Ortiz, TR-214-RC.

How Much Is Enough? Sizing the Deployment of Baggage Screening Equipment by Considering the Economic Cost of Passenger Delays, Russell Shaver, Michael Kennedy, Chad Shirley, Paul Dreyer, DB-410-RC.

Near-Term Options for Improving Security at Los Angeles International Airport, Donald Stevens, Terry Schell, Thomas Hamilton, Richard Mesic, Michael Scott Brown, Edward Wei-Min Chan, Mel Eisman, Eric V. Larson, Marvin Schaffer, Bruce Newsome, John Gibson, Elwyn Harris, DB-468-1-LAWA.


2004 Milestones

RAND Infrastructure, Safety, and Environment signed a memorandum of understanding with Northwestern University Center for Public Safety to collaboratively develop research pertaining to law enforcement and transportation safety.

SCIENCE AND TECHNOLOGY

Selected Publications

Attracting the Best: How the Military Competes for Information Technology Personnel, James R. Hosek, Michael G. Mattock, C. Christine Fair, Jennifer Kavanagh, Jennifer Sharp, Mark Totten, MG-108-OSD.

Collecting the Dots: Problem Formulation and Solution Elements, Martin C. Libicki, Shari Lawrence Pfleeger, OP-103-RC.

Exploring Information Superiority: A Methodology for Measuring the Quality of Information and Its Impact on Shared Awareness, Walter Perry, David Signori, John Boon, MR-1467-OSD.


Future Army Bandwidth Needs and Capabilities, Leland Joe, Isaac Porche III, MG-156-A.

High-Techology Manufacturing and U.S. Competitiveness, Charles Kelley, Mark Wang, Gordon Bitko, Michael Chase, Aaron Kofner, Julia Lowell, James Mulvenon, David Ortiz, Kevin Pol lipeter, TR-136-OSTP.


Vital Assets: Federal Investment in Research and Development at the Nation’s Universities and Colleges, Donna Fossum, Lawrence S. Painter, Elisa Eiseman, Emile Et tedgui, David M. Adamson, MR-1824-NSF.


Testimony
Identifying Federally Funded Research and Development on Information Technology, Donna Fossum, CT-229-1.


2004 Milestones
Researchers from RAND Europe have completed a yearlong “foresight” project for the UK government to explore the application and implications of next-generation information technologies in such areas as identity and authenticity, surveillance, system robustness, security, and information assurance.

SUBSTANCE ABUSE

Selected Publications

Cannabis Policy, Implementation and Outcomes, Mirjam van het Loo, Stijn Hoo rens, Christian van’t Hof, James P. Kahan, MR-1805-VWS.


TERRORISM & HOMELAND SECURITY

Selected Publications

Confronting the “Enemy Within”: Security Intelligence, the Police, and Counterterrorism in Four Democracies, Peter Chalk, William Rosenau, MG-100-RC.

Coordinating the War on Terrorism, Lynn E. Davis, Gregory F. Treverton, Daniel Byman, Sara Daly, William Rosenau, OP-110-RC.

The Counterterror Coalitions: Cooperation with Pakistan and India, C. Christine Fair, MG-141-AF.

The Dynamic Terrorist Threat: An Assessment of Group Motivations and Capabilities in a Changing World, Kim Cragin, Sara A. Daly, MR-1782-AF.

Hitting America’s Soft Underbelly: The Potential Threat of Deliberate Biological Attacks Against the U.S. Agricultural and Food Industry, Peter Chalk, MG-135-OSD.


The Office of Science and Technology Policy Blue Ribbon Panel on the Threat of Biological Terrorism Directed Against Livestock, Terrence K. Kelly, Peter Chalk, James Bonomo, John Parachin, Brian A. Jackson, Gary Cecchine, CF-193-OSTP.


Urban Battle Fields of South Asia: Lessons Learned from Sri Lanka, India, and Pakistan, C. Christine Fair, MG-104-MIPT.


Testimony


The Effect of Terrorist Attacks in Spain on Transatlantic Cooperation in the War on Terror, James Dobbins, CT-225.


Terrorism and Rail Security, Jack Riley, CT-224.

Terrorism and the Security of Public Surface Transportation, Brian Michael Jenkins, CT-226.

2004 Milestones

A survey conducted by RAND Europe, in conjunction with Janusian Security Risk Management, highlighted the growing nature of the terrorist threat to business.

RAND hosted a conference in Washington, D.C., entitled Three Years After: Next Steps in the War on Terror. The conference was attended by more than 200 people, including current administration officials, military officers, congressional staff, foreign embassy representatives, members of nongovernmental organizations (NGOs), the private sector, and the media. Participants heard six presentations by RAND researchers and a keynote address by the Deputy Secretary of Defense.

RAND National Security Research Division prepared a primer for law enforcement personnel that describes the logic behind suicide bombing, how others have coped, and the lessons they learned in the process.

Transportation & Infrastructure

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The full- and part-time staff of more than 1,600 represent diversity in work experience; political and ideological outlook; race, gender, and ethnicity; and academic training.

Most staff members work at RAND’s three principal U.S. locations: Santa Monica, California; Arlington, Virginia; and Pittsburgh, Pennsylvania. Others operate from RAND Europe in Leiden, the Netherlands; Berlin, Germany; and Cambridge, U.K.; from the RAND-Qatar Policy Institute in Doha, Qatar; from the RAND Council for Aid to Education in New York City; and from several smaller sites. Eighty-five percent of the research staff hold advanced degrees, with more than 50 percent having earned Ph.D.’s or M.D.’s.

To provide the varied expertise needed to fully address public policy issues, the staff’s training reflects the broad scope of disciplines shown in the figure.
President’s Awards

President’s Awards recognize individuals whose work exemplifies RAND’s two core values of quality and objectivity and who have also recently made exemplary contributions to the RAND community, through new business development or fund-raising initiatives, outstanding outreach and dissemination efforts, or effective participation in internal activities aimed at improving the efficiency of our research environment. Made possible by the generosity of donors to the RAND Policy Circle, the awards provide staff with research time and support to pursue activities related to career development or exploratory research. These individuals are the fiscal year 2005 President’s Award recipients.

Ross Anthony, senior economist and Director, Global Health, RAND Center for Domestic and International Health Security, for his intellectual leadership of RAND’s global health initiatives in Asia, the Middle East, and Latin America, as well as his leadership of RAND’s research on ensuring a stable, peaceful, and prosperous Palestinian state.

Bart Bennett, senior operations researcher, group manager for the Management Sciences Group, and Professor of Operations Research in the Pardee RAND Graduate School (PRGS), for his exemplary development of future generations of policy analysts, particularly in his service to PRGS, where he was voted Distinguished Teacher in 2004 and chaired the 2004 qualifying examination committee.

Sandra Berry, senior behavioral/social scientist; Senior Director, Survey Research Group; and Professor of Policy Analysis in the Pardee RAND Graduate School (PRGS), for her long track record of developing innovative analytic methods, her wide-ranging service to PRGS, and her multiple contributions to the planning process for RAND’s new headquarters campus.

Lynn Davis, senior political scientist, for her leadership of several complex research projects, especially the development of guidelines for individual preparedness for terrorist attacks with weapons of mass destruction; and for her skillful and tireless efforts to disseminate the findings to policymakers, the media, and members of the general public.

James Dobbins, senior fellow and Director, International Security and Defense Policy Center, for leading a multiyear effort to analyze U.S. and U.N. experiences in peacekeeping and nation-building and apply those lessons to current challenges; and for making numerous other contributions to RAND’s research on international security.

Russell Glenn, senior policy researcher, for his growing body of research on strategies and tactics for effective urban operations, drawing on extensive field work in Afghanistan and Iraq; and his contributions to the growth of RAND’s office in Pittsburgh.

Charles Goldman, senior economist; Associate Director, RAND Education; and Professor of Economics in the Pardee RAND Graduate School (PRGS), for his steady leadership in helping to shape and conduct research on education reform in Qatar, his skill as a mentor of junior and other new researchers, and his multiple contributions to the PRGS.

Meg Matthius, Director of Events for Corporate Outreach, for her diligent planning and organizational skill in helping to build and strengthen RAND’s fund-raising and outreach efforts throughout the United States.

Andrew Rathmell, Director of RAND Europe’s Defense and Security research team, for his analytical contributions and exemplary service as Director of Policy Planning for the Coalition Provisional Authority in Baghdad, during which time he was awarded the Office of the Secretary of Defense Medal for Valor for bravery under fire, as well as his contributions to the growth of RAND Europe’s office in Cambridge.

Lynn Helbling Sirinek, Associate Director, Business Development and Planning, Pittsburgh Office, for her creative efforts to elevate RAND’s profile and effectiveness in the Pittsburgh region by making new connections to the philanthropic, government, and business communities and devising new approaches for disseminating relevant RAND research findings.
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Investing in Ideas

Philanthropic donations are a true testament to RAND’s enduring value as a charitable organization. As a nonprofit organization, RAND funds groundbreaking research and centers of excellence through the generous contributions of individual donors, foundations, and corporations. These critical funds allow RAND to address pressing global public policy issues confronting the world. The support RAND receives from all of its donors is critical to ensuring that RAND’s contributions to policy in the next half-century of public service can match those of the past 50 years.

Funds from donors have enabled RAND to make the following contributions to society.

- Earlier in RAND’s history, we used funds from the RAND endowment to model the AIDS epidemic before it emerged on the public health radar screen.
- RAND helped underwrite research on preventing drug abuse and crime and supported analyses that illuminated the trade-offs between various policies—for example, the reduction in drug use resulting from treatment or imprisonment of addicts.
- The RAND endowment supported analyses of the economic progress of immigrants and the savings behavior of the elderly—work that is informing current debates on Social Security reform.
- RAND-sponsored work that synthesized three decades of research on the quality of health care helped put quality on the national policy agenda and shaped the discussion about how quality can be measured and improved.
- RAND funds built a database that profiles terrorist activities and modes of operating. Investigators draw upon this unique resource after terrorist incidents. In the process of building it, we established terrorism as a scholarly discipline and trained many current experts.

In 2004, donors enabled RAND to investigate and propose solutions for issues ranging from ending world hunger to improving homeland security. Some of the most recent contributions include the following examples.

- Designing a concept for a new computer network and database that could help the U.S. intelligence community “connect the dots” by quickly identifying and interpreting the clues of a possible terrorist attack.
- Proposing a new approach to conceptualizing and conducting public diplomacy, convincing foreign societies, especially those in the Muslim world, that the ideals such as pluralism, freedom, women’s rights, and democracy are fundamental human values that will resonate in their own countries.
- Comparing the Green Revolution with the current genetically modified crop movement to assess not only the technological differences in the crops and agricultural methods of these two movements, but more generally to examine the economic, cultural, and political factors that influence whether a new agricultural technology is adopted and accepted by farmers, consumers, and governments.
- Finding ways to eliminate certain passengers as airline security risks through a “registered traveler” program, thus making it possible to concentrate on screening the baggage of other passengers. And then, calculating the minimum cost to the nation’s economy of providing baggage scanning at all U.S. airports without affecting security.

Philanthropic donations are a true testament to RAND’s enduring value as a charitable organization.
“I know of no other organization with the depth and breadth of RAND’s research agenda. . . . I know my gift to RAND is a wise investment in improving my future, my children’s future, and the world’s future.”
Major donor Amy Pascal has been connected to RAND for many years. Since 1999, she has served on the RAND Corporation Board of Trustees, but her familiarity with RAND reaches back to her childhood. Her father, Anthony Pascal, was an economist at RAND for several decades.

“When many people hear ‘the RAND Corporation,’ they conjure up images of the Soviet Union or the Cold War. But that wasn’t the RAND that I grew up with,” says Ms. Pascal. “My father’s research was always on social welfare issues, such as education reform, housing, and racial discrimination. He was one of the first economists to look at the cost of treating AIDS. That’s the RAND I know. So when I wanted to donate money to help make the world a better place, the first organization that came to mind was one I know the best: RAND.”

“I feel so strongly about the contributions RAND has made to the world that I am helping to underwrite a documentary film that will tell the RAND story.”
Former Secretary of Defense Frank Carlucci began his third (nonconsecutive) term on the Board of Trustees in 2000; his first was in 1983. Carlucci Investigator Award recipient Rollie Lal has been working at RAND since 2002.

"My intent is to provide seed money to explore research in areas that are unexplored.... We need to take full advantage of the creativity and insightfulness of our researchers."

Frank Carlucci
Chairman Emeritus, The Carlyle Group

Mr. Carlucci chairs the RAND Center for Middle East Public Policy Advisory Board and serves on the RAND Corporation Board of Trustees. Through his generous donation, RAND created the Carlucci Investigator Award. "My intent is to provide seed money to explore research in areas that are unexplored. I recognize that RAND’s clients need to find solutions to current problems but we also need to take full advantage of the creativity and insightfulness of our researchers. This grant should help them do that."

Rollie Lal, the most recent winner of the Carlucci Investigator Award, explored the working mechanisms of organized crime in South Asia and its influence on terrorist networks. She began by looking solely at India, but soon her research branched out to include all of South Asia.
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The Pardee RAND Graduate School

With 54 professors and a student body of 91, the School enjoys one of the most favorable faculty-student ratios in higher education. Its student body is remarkable and remarkably diverse. Most students have already earned advanced degrees, ranging from doctorates in the sciences or in medicine to master’s degrees in a variety of disciplines. Graduates have gone to high-level positions in government, the private sector, academia, and nonprofit groups. In all their diversity, its students have three things in common: passion, discipline, and intellectual power.

The School’s Ph.D. in policy analysis is designed to train creative thinkers to play important roles in solving major problems facing the nation and the world. Rigorous courses all operate as seminars, and students get the opportunity to work alongside top RAND researchers on a broad range of projects as part of their on-the-job training. All students receive fellowships that pay for all tuition costs and health care, and a stipend based on the work they perform on RAND research projects.

The RAND Graduate Student Summer Associate Program

The Graduate Student Summer Associate Program is designed for students who have completed at least two years in a graduate program leading to a doctorate or other advanced degree. Each summer associate conducts independent research during the approximately 12 weeks that he or she spends at RAND assigned to a research project and mentored by a research staff member.
In 2004, 28 summer associates from 20 different universities applied their skills to the analysis of a wide range of public policy problems.

A sample of summer associate research topics in 2004 includes

- an examination of advanced automotive engine technologies, particularly hybrid-electric vehicles
- a project that examined how terrorist attacks might affect oil supplies
- an education project on organizational responses to accountability in education and the impact of the No Child Left Behind Act
- the development of case studies pertaining to creating police forces in nation-building efforts, and initiatives to study and reduce violence
- a study of the social impacts of defense applications of nanotechnology
- a health study relating to the effectiveness and utility of syndromic surveillance in public health practice

Students are selected for associateships based on their interests and skills and their match with current RAND research projects. Several hundred individuals apply each year. In 2004, 12 of the associates worked in the Santa Monica Office, 10 in the Washington Office, and 6 in the Pittsburgh Office.

Other Educational Opportunities

Several specialized pre- and postdoctoral programs are conducted under the auspices of individual research units. The programs offer formal and informal training and extensive collaboration with RAND researchers.

RAND Labor and Population offers the RAND Fellows in Population Studies and the Study of Aging program, sponsored by the National Institutes of Health. The program enables outstanding junior scholars in demographic and aging research to sharpen their analytic skills, learn to communicate research results effectively, and advance their research agenda.

The program has also sponsored yearlong fellowships and shorter study visits for students and researchers from a number of developing countries, including Bangladesh, Cameroon, Guatemala, India, Indonesia, Kenya, Malaysia, Mexico, Pakistan, the Gambia, and the Philippines. Many of these students return to their countries to work in universities, government, or international agencies. For more than two decades, the program has offered these fellowships and study visits, supported by grants from the Agency for International Development, the Population Council, and the Hewlett Foundation.

- Participants in the Robert Wood Johnson Clinical Scholars Program at the University of California, Los Angeles (UCLA), have the opportunity to involve themselves in RAND Health projects as part of their training. The program is designed to allow young physicians committed to clinical medicine to acquire new skills and training in the nonbiological sciences that are important to medical care systems. The program prepares physicians to act as health services research leaders and agents for change in diverse settings such as the community, federal and state governments, health care organizations, and academic departments. The program focuses on two priority areas: Improving the Care for America's At-Risk Populations and Improving Quality of Care in a Changing Social and Economic Environment.

- RAND Health and the UCLA School of Public Health jointly sponsor a postdoctoral training program that offers training in health services research methods and policy analysis and research experience through ongoing research projects at RAND or UCLA.

- RAND Summer Institute (RSI) consists of two annual conferences that address critical issues facing our aging population: the MiniMedical School for Social Scientists and a workshop on Demography, Economics, and Epidemiology of Aging. The MiniMedical School, sponsored by the National Institute on Aging and the NIH Office of Behavioral and Social Sciences Research, is offered to non-medically trained scholars whose research relates to the aging process and the medical treatment of elderly.

Graduates have gone to high-level positions in government, the private sector, academia, and nonprofit groups. In all their diversity, its students have three things in common: passion, discipline, and intellectual power.
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The Feinberg Group, LLP

Paul G. Flynn
Judge, Los Angeles Superior Court

Kenneth C. Frazier
Senior Vice President and General Counsel, Merck & Co., Inc.

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Terry J. Hatter, Jr.
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Judge John W. Ford Professor of Dispute Resolution, Stanford Law School
Patrick E. Higginbotham  
Circuit Judge, U.S. Court of Appeals, 5th Circuit

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Chairman of the Board and CEO, Lincolnshire Management

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  - Deputy Chief of Staff for Plans and Programs
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  - Deputy Chief of Staff, G-2, U.S. Army
- **LTG James J. Lovelace**
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- **LTG Claude V. Christianson**
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  - Director, Defense Advanced Research Projects Agency
- **Nancy Spruill** (Executive Agent)
  - Director, Acquisition Resources and Analysis, Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics)
### RAND Board of Trustees

<table>
<thead>
<tr>
<th>Year</th>
<th>Trustee Name</th>
<th>Position and Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>1959–1969</td>
<td>William J. Carnes</td>
<td>President</td>
</tr>
<tr>
<td>1960–1963</td>
<td>Charles Dollard</td>
<td>Chairman</td>
</tr>
<tr>
<td>1961–1971</td>
<td>J. Paul Austin</td>
<td>President</td>
</tr>
<tr>
<td>1961–1976</td>
<td>W. Richard Goodwin</td>
<td>President</td>
</tr>
</tbody>
</table>

### Advisory Trustees

<table>
<thead>
<tr>
<th>Year</th>
<th>Trustee Name</th>
<th>Position and Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972–1982</td>
<td>Lewis M. Branscomb</td>
<td>Trustee Emeritus</td>
</tr>
<tr>
<td>1977–1986</td>
<td>Erich W. Joerres</td>
<td>Trustee Emeritus</td>
</tr>
</tbody>
</table>

### Former Trustees

<table>
<thead>
<tr>
<th>Year</th>
<th>Trustee Name</th>
<th>Position and Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956–1958</td>
<td>Ernest O. Lawrence</td>
<td>President</td>
</tr>
<tr>
<td>1959–1963</td>
<td>J. Paul Austin</td>
<td>President</td>
</tr>
<tr>
<td>1961–1963</td>
<td>J. Richard Munro</td>
<td>President</td>
</tr>
</tbody>
</table>

*Dates indicate service as a RAND trustee.*
Report of Independent Auditors

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 26, 2004, 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. Those standards 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 28, 2003 consolidated financial statements, and in our report dated January 22, 2004, we expressed an unqualified opinion on those financial statements.

PricewaterhouseCoopers LLP
February 11, 2005
The RAND Corporation

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

with summarized financial information for the year ended September 28, 2003
(in thousands)

<table>
<thead>
<tr>
<th></th>
<th>September 26, 2004</th>
<th>September 28, 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>5,727</td>
<td>8,681</td>
</tr>
<tr>
<td>Receivables</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Billed and unbilled costs and fees</td>
<td>39,824</td>
<td>32,837</td>
</tr>
<tr>
<td>Other receivables</td>
<td>5,979</td>
<td>3,661</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>4,267</td>
<td>6,473</td>
</tr>
<tr>
<td>Total current assets</td>
<td>55,797</td>
<td>51,652</td>
</tr>
<tr>
<td>Property and equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>1,334</td>
<td>1,334</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>213</td>
<td>183</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>6,753</td>
<td>6,518</td>
</tr>
<tr>
<td>Equipment</td>
<td>33,498</td>
<td>28,505</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>105,437</td>
<td>53,699</td>
</tr>
<tr>
<td>Less: Accumulated depreciation and amortization</td>
<td>(25,542)</td>
<td>(22,075)</td>
</tr>
<tr>
<td>Net property and equipment</td>
<td>121,693</td>
<td>68,164</td>
</tr>
<tr>
<td>Long-term investments</td>
<td>159,289</td>
<td>141,255</td>
</tr>
<tr>
<td>Building project fund investments</td>
<td>38,605</td>
<td>87,686</td>
</tr>
<tr>
<td>Other assets</td>
<td>11,983</td>
<td>9,988</td>
</tr>
<tr>
<td>Total assets</td>
<td>$ 387,367</td>
<td>$ 358,745</td>
</tr>
<tr>
<td><strong>LIABILITIES AND NET ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and other liabilities</td>
<td>33,755</td>
<td>32,618</td>
</tr>
<tr>
<td>Unexpended portion of grants and contracts received</td>
<td>19,096</td>
<td>15,074</td>
</tr>
<tr>
<td>Accrued compensation and vacation</td>
<td>14,676</td>
<td>13,887</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>67,527</td>
<td>61,579</td>
</tr>
<tr>
<td>Accrued postretirement benefit liability</td>
<td>11,471</td>
<td>11,148</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>130,177</td>
<td>130,184</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>209,175</td>
<td>202,911</td>
</tr>
<tr>
<td>Commitments and contingencies (Note 8)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operations</td>
<td>5,235</td>
<td>3,229</td>
</tr>
<tr>
<td>Designated for investment</td>
<td>122,602</td>
<td>116,084</td>
</tr>
<tr>
<td>Designated for special use</td>
<td>6,547</td>
<td>5,146</td>
</tr>
<tr>
<td>Total unrestricted</td>
<td>134,384</td>
<td>124,469</td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>13,182</td>
<td>11,883</td>
</tr>
<tr>
<td>Permanently restricted</td>
<td>30,626</td>
<td>19,482</td>
</tr>
<tr>
<td>Total net assets</td>
<td>178,192</td>
<td>155,834</td>
</tr>
<tr>
<td>Total liabilities and net assets</td>
<td>$ 387,367</td>
<td>$ 358,745</td>
</tr>
</tbody>
</table>

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 28, 2003  
(in thousands)

<table>
<thead>
<tr>
<th>For the Years Ended</th>
<th>September 26, 2004</th>
<th>September 28, 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES, GAINS, AND OTHER SUPPORT</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Unrestricted Net Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Operations</td>
<td>Designated</td>
</tr>
<tr>
<td>Contracts and grants</td>
<td>$208,305</td>
<td>$—</td>
</tr>
<tr>
<td>Fees</td>
<td>9,478</td>
<td>—</td>
</tr>
<tr>
<td>Income on investments, net</td>
<td>—</td>
<td>2,938</td>
</tr>
<tr>
<td>Net realized gains on investments</td>
<td>—</td>
<td>5,318</td>
</tr>
<tr>
<td>Net unrealized gains on investments</td>
<td>—</td>
<td>3,265</td>
</tr>
<tr>
<td>Contributions</td>
<td>4,574</td>
<td>150</td>
</tr>
<tr>
<td>Other investment income</td>
<td>1,067</td>
<td>—</td>
</tr>
<tr>
<td>Transfer of designated net assets to operations</td>
<td>3,762</td>
<td>(3,762)</td>
</tr>
<tr>
<td>Net assets released from restrictions due to satisfaction of program restrictions</td>
<td>3,714</td>
<td>—</td>
</tr>
<tr>
<td>Total revenues, gains, and other support</td>
<td>230,900</td>
<td>7,909</td>
</tr>
<tr>
<td><strong>EXPENSES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research</td>
<td>181,726</td>
<td>—</td>
</tr>
<tr>
<td>Management and general</td>
<td>44,568</td>
<td>—</td>
</tr>
<tr>
<td>Total expenses</td>
<td>226,294</td>
<td>—</td>
</tr>
<tr>
<td>Change in net assets before other item</td>
<td>4,606</td>
<td>7,909</td>
</tr>
<tr>
<td>Other item—loss on sale of land (Note 8)</td>
<td>(2,600)</td>
<td>—</td>
</tr>
<tr>
<td>Change in net assets after other item</td>
<td>2,006</td>
<td>7,909</td>
</tr>
<tr>
<td>Net assets at beginning of year</td>
<td>3,229</td>
<td>121,240</td>
</tr>
<tr>
<td>Net assets at end of year</td>
<td>$5,235</td>
<td>$129,149</td>
</tr>
</tbody>
</table>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
with summarized financial information for the year ended September 28, 2003
(in thousands)

<table>
<thead>
<tr>
<th></th>
<th>For the Year Ended</th>
<th>For the Year Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>September 26, 2004</td>
<td>September 28, 2003</td>
</tr>
</tbody>
</table>

**Cash flows from operating activities:**

Change in net assets $ 22,358 $ 11,932

Adjustments to reconcile change in net assets to net cash provided by operating activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjustment to postretirement benefit liability</td>
<td>323</td>
<td>169</td>
</tr>
<tr>
<td>Depreciation</td>
<td>4,404</td>
<td>4,260</td>
</tr>
<tr>
<td>Amortization</td>
<td>85</td>
<td>720</td>
</tr>
<tr>
<td>Loss on disposition of property and equipment</td>
<td>—</td>
<td>102</td>
</tr>
<tr>
<td>Contributions restricted for purchase of property and equipment</td>
<td>(378)</td>
<td>—</td>
</tr>
<tr>
<td>Permanently restricted contributions</td>
<td>(8,220)</td>
<td>(355)</td>
</tr>
<tr>
<td>Net realized/unrealized gains</td>
<td>(10,135)</td>
<td>(10,999)</td>
</tr>
<tr>
<td>Exchange gains</td>
<td>(258)</td>
<td>(720)</td>
</tr>
<tr>
<td>Decrease (increase) in billed and unbilled costs and fees</td>
<td>(6,987)</td>
<td>4,759</td>
</tr>
<tr>
<td>Decrease (increase) in other receivables</td>
<td>(2,318)</td>
<td>(1,399)</td>
</tr>
<tr>
<td>Increase in prepaid expenses and other current assets</td>
<td>2,206</td>
<td>(1,085)</td>
</tr>
<tr>
<td>(Increase) decrease in other long-term assets</td>
<td>(2,087)</td>
<td>602</td>
</tr>
<tr>
<td>Increase in accounts payable and other liabilities</td>
<td>1,390</td>
<td>12,074</td>
</tr>
<tr>
<td>Increase (decrease) in unexpended portion of grants and contracts received</td>
<td>4,022</td>
<td>(3,521)</td>
</tr>
<tr>
<td>Increase in accrued compensation, vacation, and retirement</td>
<td>789</td>
<td>520</td>
</tr>
<tr>
<td>Decrease in other liabilities</td>
<td>—</td>
<td>(697)</td>
</tr>
</tbody>
</table>

Net cash provided by operating activities 5,184 16,362

**Cash flows from investing activities:**

<table>
<thead>
<tr>
<th>Description</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of investments</td>
<td>(97,253)</td>
<td>(22,602)</td>
</tr>
<tr>
<td>Proceeds from sale of investments</td>
<td>89,354</td>
<td>24,146</td>
</tr>
<tr>
<td>Purchases of building project fund investments</td>
<td>49,081</td>
<td>29,545</td>
</tr>
<tr>
<td>Purchases for construction in progress</td>
<td>(53,112)</td>
<td>(37,734)</td>
</tr>
<tr>
<td>Purchases of property and equipment</td>
<td>(4,821)</td>
<td>(4,227)</td>
</tr>
</tbody>
</table>

Net cash used in investing activities (16,751) (10,872)

**Cash flows from financing activities:**

<table>
<thead>
<tr>
<th>Description</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions restricted for purchase of property and equipment</td>
<td>378</td>
<td>—</td>
</tr>
<tr>
<td>Permanently restricted contributions</td>
<td>8,220</td>
<td>355</td>
</tr>
<tr>
<td>Net repayments under line-of-credit</td>
<td>—</td>
<td>(1,000)</td>
</tr>
<tr>
<td>Payment of bond issue costs</td>
<td>—</td>
<td>(192)</td>
</tr>
</tbody>
</table>

Net cash provided by (used in) financing activities 8,598 (837)

Effect of exchange rate changes on cash 15 220

Net increase (decrease) in cash and cash equivalents (2,954) 4,873

Cash and cash equivalents at beginning of year 8,681 3,808

Cash and cash equivalents at end of year $5,727 $8,681

The accompanying notes are an integral part of these consolidated financial statements.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Organization:
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 intercompany balances and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies:
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 years include operations for 52-week periods in 2004 and 2003.

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.”

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 28, 2003, from which the summarized financial information was derived.

Use of Estimates. 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 amounts of revenues, expenses, or other changes in net assets during the reporting period. Actual results could differ from these estimates.

Revenue and Expense Recognition. 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 that 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.

Concentrations of Risk. Cash and cash equivalents are maintained with several financial institutions. Deposits held with banks may exceed the amount of 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 72 percent of its research revenues in fiscal years 2004 and 2003 from contracts, grants, and fees with agencies of the federal government.

Cash and Cash Equivalents. RAND considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

Property and Equipment. Property and equipment is stated at cost. Depreciation is computed by the straight-line method over the following estimated useful lives of the assets: 5 to 40 years for building and improvements and 3 to 20 years for equipment. Leasehold improvements are amortized by the straight-line method over the shorter of the estimated useful lives of the assets or the 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.

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. As of September 26, 2004, and September 28, 2003, approximately $11,913,000 and $7,952,000, respectively, of fully depreciated assets were in use.

Investments. All investments of permanently restricted net assets and unrestricted net assets board designated for investment are pooled in a long-term investment fund. Income on pooled investments is allocated to the general use or individual special use funds based on the average balance for each fund (see Note 9).

The percentage of board-designated funds distributed for unrestricted use was 3.75 percent and 4.25 percent in fiscal years 2004 and 2003, respectively, based on the trailing twelve-quarter market value of the unrestricted funds.
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.

**Building Project Fund Investments.** The net proceeds from the tax-exempt bond issuance (see Note 7) 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. Other investment income includes interest earned of $1,042,000 and $1,866,000 on these investments in fiscal years 2004 and 2003, respectively. Withdrawals are made to fund the Santa Monica building project.

**Bond Issuance Costs.** Bond issuance costs represent expenses incurred in connection with issuing RAND’s revenue bonds (see Note 7) and are being amortized over the term of the related bond issue. Unamortized costs were $3,173,000 and $3,265,000 at September 26, 2004, and September 28, 2003, respectively, and are included in other assets on the consolidated statements of financial position.

**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.

**Foreign Currency Translation.** The assets and liabilities of RAND Europe are translated at year-end exchange rates; transactions are translated at the average exchange rates during the year. The accumulated unrealized gain included in unrestricted net assets from operations on the statement of financial position was $442,000 and $199,000 as of September 26, 2004, and September 28, 2003, respectively. Gains and losses from foreign currency translation for the period are included in the statement of activities and changes in net assets.

**Supplemental Cash Flow Information.** Cash paid for interest was $1,180,000 in fiscal year 2004 and $1,779,000 in fiscal year 2003. These amounts are net of capitalized interest of $1,470,000 and $544,000, in the respective years.

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

3. **Billed and Unbilled Costs and Fees:**

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

<table>
<thead>
<tr>
<th></th>
<th>September 26,</th>
<th>September 28,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
<td>2003</td>
</tr>
<tr>
<td>U.S. government agencies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Billed</td>
<td>$ 9,215</td>
<td>$ 7,123</td>
</tr>
<tr>
<td>Unbilled</td>
<td>10,554</td>
<td>12,416</td>
</tr>
<tr>
<td></td>
<td>19,769</td>
<td>19,539</td>
</tr>
<tr>
<td>State, local, and private sponsors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Billed</td>
<td>10,983</td>
<td>6,909</td>
</tr>
<tr>
<td>Unbilled</td>
<td>9,072</td>
<td>6,389</td>
</tr>
<tr>
<td></td>
<td>20,055</td>
<td>13,298</td>
</tr>
<tr>
<td></td>
<td>$ 39,824</td>
<td>$ 32,837</td>
</tr>
</tbody>
</table>

Unbilled amounts principally represent recoverable costs and accrued fees billed in October 2004 and October 2003, respectively.

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

4. **Contributions Receivable:**

At September 26, 2004, and September 28, 2003, RAND included $7,706,000 and $3,437,000, respectively, of unconditional promises to give in the financial statements as part of other receivables and other assets. The receivables are recorded net of the discount for future cash flows. The discount rate applied was 5 percent for pledges due within five years and 7 percent for pledges due after five years. Receivables expected in one year or less are included in other receivables and receivables expected after one year are included in other assets on the consolidated statements of financial position.

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

<table>
<thead>
<tr>
<th></th>
<th>September 26,</th>
<th>September 28,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
<td>2003</td>
</tr>
<tr>
<td>In one year or less</td>
<td>$ 4,315</td>
<td>$ 2,218</td>
</tr>
<tr>
<td>Between one year and five years</td>
<td>2,217</td>
<td>1,307</td>
</tr>
<tr>
<td>Five years or more</td>
<td>3,156</td>
<td>—</td>
</tr>
<tr>
<td>Less discount</td>
<td>(1,982)</td>
<td>(88)</td>
</tr>
<tr>
<td></td>
<td>$ 7,706</td>
<td>$ 3,437</td>
</tr>
</tbody>
</table>

Contributions receivable are intended for the following uses (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>September 26,</th>
<th>September 28,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
<td>2003</td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>$ 4,454</td>
<td>$ 3,109</td>
</tr>
<tr>
<td>Permanently restricted</td>
<td>3,252</td>
<td>328</td>
</tr>
<tr>
<td></td>
<td>$ 7,706</td>
<td>$ 3,437</td>
</tr>
</tbody>
</table>
During the fiscal year ended September 26, 2004, RAND received payments of prior-year pledges in the amount of $1,418,000. No allowance for uncollectible pledges was deemed necessary at September 26, 2004, or September 28, 2003.

Donors have made conditional promises to give of $4,603,000 and $4,537,000 as of September 26, 2004, and September 28, 2003, respectively. These conditional pledges, which include revocable deferred gifts, are not recorded in these consolidated financial statements.

5. Long-Term Investments:
Cash and cash equivalents included in long-term investments consist of commercial paper, money market funds, and other short-term investments and are carried at cost, which approximates fair value.

Shares of bond funds and equity funds are presented at fair value. These funds consist of investments in both domestic and foreign equity securities and bonds. Approximately 24 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, some of which do not have a readily available market value. 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.

As of September 26, 2004, and September 28, 2003, RAND had commitments outstanding to purchase alternative investments of $702,000 and $962,000, respectively.

Investment income is shown net of related expenses of $617,000 and $404,000, for the fiscal years ended September 26, 2004, and September 28, 2003, respectively.

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

<table>
<thead>
<tr>
<th>September 26</th>
<th>September 28</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$4,498</td>
</tr>
<tr>
<td>Shares of bond funds, at fair value</td>
<td>78,791</td>
</tr>
<tr>
<td>(cost, 2004—$78,479, and 2003—$70,031)</td>
<td></td>
</tr>
<tr>
<td>Shares of equity funds, at fair value</td>
<td>46,356</td>
</tr>
<tr>
<td>(cost, 2004—$37,377, and 2003—$34,607)</td>
<td></td>
</tr>
<tr>
<td>Alternative investments</td>
<td>29,644</td>
</tr>
<tr>
<td>(cost, 2004—$19,842, and 2003—$15,224)</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>159,289</strong></td>
</tr>
</tbody>
</table>

6. Postretirement Benefits Other Than Pensions:
In addition to providing certain retirement 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.

RAND has not yet determined whether the benefits provided by this plan are actuarially equivalent to the drug benefits provided under the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act). Therefore, the effects of the Act are not reflected in the accrued liability and net periodic benefit cost of the plan.

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

<table>
<thead>
<tr>
<th>September 26</th>
<th>September 28</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Change in benefit obligation</strong></td>
<td></td>
</tr>
<tr>
<td>Benefit obligation at beginning of year</td>
<td>$16,586</td>
</tr>
<tr>
<td>Service cost</td>
<td>548</td>
</tr>
<tr>
<td>Increase due to passage of time</td>
<td>1,036</td>
</tr>
<tr>
<td>Plan participants’ contributions</td>
<td>277</td>
</tr>
<tr>
<td>Amendments</td>
<td>—</td>
</tr>
<tr>
<td>Actuarial (gain) loss</td>
<td>2,617</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(893)</td>
</tr>
<tr>
<td><strong>Benefit obligation at end of year</strong></td>
<td><strong>20,171</strong></td>
</tr>
<tr>
<td><strong>Change in plan assets</strong></td>
<td></td>
</tr>
<tr>
<td>Fair value of plan assets at beginning of year</td>
<td>3,863</td>
</tr>
<tr>
<td>Actual return on plan assets</td>
<td>328</td>
</tr>
<tr>
<td>Employer contributions</td>
<td>950</td>
</tr>
<tr>
<td>Plan participants’ contributions</td>
<td>277</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(893)</td>
</tr>
<tr>
<td><strong>Fair value of plan assets at end of year</strong></td>
<td><strong>4,525</strong></td>
</tr>
<tr>
<td>Funded status</td>
<td>(15,646)</td>
</tr>
<tr>
<td>Unrecognized net actuarial gain</td>
<td>4,356</td>
</tr>
<tr>
<td>Unrecognized prior service cost</td>
<td>(181)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>(11,471)</strong></td>
</tr>
</tbody>
</table>
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 2004 expense by $367,000 and the accumulated postretirement benefit obligation as of September 26, 2004, by $3,025,000. Decreasing the assumed health care cost trend rates by one percentage point in each year would decrease the service cost and decrease due to passage-of-time components of the fiscal year 2004 expense by $294,000 and the accumulated postretirement benefit obligation as of September 26, 2004, by $2,493,000.

For measuring the liabilities, the health care cost trend rates were assumed to be 9.5 percent for the fiscal year ended September 26, 2004, for pre-65 and post-65 benefits, gradually declining to 5.0 percent for both after 7 years, and remaining at that level thereafter. The APBO discount rate was 6.10 percent and 6.35 percent at September 26, 2004, and September 28, 2003, respectively.

The net periodic postretirement benefit cost (credit) for fiscal years ended September 26, 2004, and September 28, 2003, included the following components (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost-benefits attributed to service during the period</td>
<td>$548</td>
<td>$378</td>
</tr>
<tr>
<td>Increase in the accumulated postretirement benefit obligation to recognize the effects of the passage of time</td>
<td>$1,036</td>
<td>$824</td>
</tr>
<tr>
<td>Return on plan assets</td>
<td>$(318)</td>
<td>$(266)</td>
</tr>
<tr>
<td>Recognition of gain</td>
<td>$85</td>
<td>$(70)</td>
</tr>
<tr>
<td>Recognition of prior service cost</td>
<td>$(93)</td>
<td>$(93)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,258</strong></td>
<td><strong>$773</strong></td>
</tr>
</tbody>
</table>

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.

7. Borrowing Arrangements:

Revenue Bonds. In July 2002, RAND issued $130,000,000 of tax-exempt revenue bonds to finance construction of its new Santa Monica facility. The payment of the principal and interest on the bonds is insured by a third party. Long-term debt, including unamortized bond premium, is as follows (in thousands):

<table>
<thead>
<tr>
<th>September 26,</th>
<th>September 28,</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>2003</td>
</tr>
<tr>
<td>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, in 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, including unamortized bond premium of $177,000 and $184,000 as of September 26, 2004, and September 28, 2003, respectively</td>
<td>$32,677</td>
</tr>
<tr>
<td>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, in July 2002; weighted average interest rate of 1.05% inception to date as of September 26, 2004; annual principal payments ranging from $1,430,000 to $4,400,000, beginning April 1, 2006, and ending April 1, 2042</td>
<td>97,500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$130,177</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Amount (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$</td>
</tr>
<tr>
<td>2006</td>
<td>2,415</td>
</tr>
<tr>
<td>2007</td>
<td>1,785</td>
</tr>
<tr>
<td>2008</td>
<td>1,835</td>
</tr>
<tr>
<td>2009</td>
<td>1,910</td>
</tr>
<tr>
<td>Thereafter</td>
<td>122,055</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$130,000</strong></td>
</tr>
</tbody>
</table>

Accrued interest payable relating to the bonds was $937,000 and $896,000 as of September 26, 2004, and September 28, 2003, respectively.

Line of Credit. RAND has an uncollateralized line of credit in the principal amount of $18,000,000 at September 26, 2004, which expires in June 2005. The line of credit contains covenants that require RAND to maintain a minimum amount of liquid assets and tangible net worth. There were no amounts outstanding at September 26, 2004, and September 28, 2003. Under the terms of the credit agreement, interest is payable monthly at either the prime rate less .75 percent or the LIBOR rate plus 1.5 percent, as selected by RAND. The largest
amounts drawn on the line-of-credit agreement were $11,700,000 and $8,400,000 in fiscal years 2004 and 2003, respectively. Interest expense was $46,000 and $29,000 for the fiscal years ended September 26, 2004, and September 28, 2003, respectively.

8. Commitments and Contingencies:

Lease Commitments. Operating lease commitments, net of sublease income of $1,922,000, are as follows (in thousands):

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$ 7,818</td>
</tr>
<tr>
<td>2006</td>
<td>8,649</td>
</tr>
<tr>
<td>2007</td>
<td>8,701</td>
</tr>
<tr>
<td>2008</td>
<td>8,330</td>
</tr>
<tr>
<td>2009</td>
<td>7,972</td>
</tr>
<tr>
<td>Thereafter</td>
<td>46,372</td>
</tr>
</tbody>
</table>

$ 87,842

Future minimum rentals are primarily comprised of microcomputer, equipment, office, and warehouse space leases. All property leases generally require RAND to pay for utilities, insurance, taxes, and maintenance. RAND’s net rental expense was $10,380,000 and $10,439,000 for the fiscal years ended September 26, 2004, and September 28, 2003, respectively.

Construction Commitment. RAND is obligated for $77,185,000 under the Final Guaranteed Maximum Price Contract related to the construction of a new headquarters facility in Santa Monica, California. As of September 26, 2004, and September 28, 2003, $74,099,000 and $33,689,000 had been expended under the contract and recorded as construction in progress. Also included in construction in progress are $3,023,000 and $1,552,000 for capitalized interest as of September 26, 2004, and September 28, 2003, respectively.

Other Commitments. 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 28, 2003, 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 28, 2003, are allowable, and any potential cost disallowance would not materially affect RAND’s consolidated 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.

Environmental Remediation. Under the terms of an agreement with the City of Santa Monica (the City) for the sale of land owned by RAND, RAND is responsible for the demolition of existing buildings on the site and environmental remediation with respect to the underlying land. In addition, RAND will be entitled to reimbursement from the City of specified entitlement costs, including costs of energy-efficient construction of the new headquarters building.

During 2004, RAND reevaluated its best estimate of costs related to the demolition and remediation and, based on the new information available, accrued additional expenses and liability of $2,600,000 included in other item—loss on sale of land and other liabilities. The estimated outstanding liability associated with the demolition and environmental remediation, net of the receivable for specified entitlement costs, is $7,175,000 and $4,637,000 as of September 26, 2004, and September 28, 2003, respectively. In accordance with the terms of the agreement, an escrow account has been established to ensure performance of these matters.

9. Net Assets:

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

<table>
<thead>
<tr>
<th>Purpose</th>
<th>September 26, 2004</th>
<th>September 28, 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Designated for investment</td>
<td>$ 122,602</td>
<td>$ 116,094</td>
</tr>
</tbody>
</table>
| Designated for special use:
  RAND Education                                    | 2,139              | 1,027              |
  RAND Institute for Civil Justice                  | 1,946              | 1,834              |
  National Security Research and Training           | 1,669              | 1,381              |
  President’s Fund                                  | 478                | 407                |
  RAND Center for Russia and Eurasia                | 105                | 364                |
  Lectureship on Science Policy                    | 100                | 80                 |
  Pardee RAND Graduate School                       | 43                 | 31                 |
  Paul O’Neill Alcoa Professorship in Policy Analysis | 31                 | —                  |
  Pardee Center for Longer Range Global Policy      | 24                 | —                  |
  Other                                            | 12                 | 22                 |
| Total                                             | 6,547              | 5,146              |
| Total                                             | $ 129,149          | $ 121,240          |
**Temporarily Restricted Net Assets.** Temporarily restricted net assets are available for the following purposes *(in thousands)*:

<table>
<thead>
<tr>
<th></th>
<th>September 26, 2004</th>
<th>September 28, 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pardee RAND Graduate School</td>
<td>$2,252</td>
<td>$1,270</td>
</tr>
<tr>
<td>RAND Center for Middle East Public Policy</td>
<td>2,240</td>
<td>2,778</td>
</tr>
<tr>
<td>National Security Research and Training</td>
<td>1,610</td>
<td>1,603</td>
</tr>
<tr>
<td>RAND Center for Russia and Eurasia:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RAND Business Leaders Forum</td>
<td>1,272</td>
<td>1,490</td>
</tr>
<tr>
<td>General support</td>
<td>396</td>
<td>—</td>
</tr>
<tr>
<td>RAND Center for Domestic and International Health Security</td>
<td>1,224</td>
<td>2,032</td>
</tr>
<tr>
<td>RAND Headquarters</td>
<td>904</td>
<td>153</td>
</tr>
<tr>
<td>RAND Center for Asia Pacific Policy</td>
<td>683</td>
<td>707</td>
</tr>
<tr>
<td>RAND Health</td>
<td>542</td>
<td>274</td>
</tr>
<tr>
<td>RAND Child Policy</td>
<td>455</td>
<td>—</td>
</tr>
<tr>
<td>Paul O'Neill Alcoa Professorship in Policy Analysis</td>
<td>348</td>
<td>201</td>
</tr>
<tr>
<td>RAND Institute for Civil Justice</td>
<td>286</td>
<td>358</td>
</tr>
<tr>
<td>Pardee Center for Longer Range Global Policy</td>
<td>255</td>
<td>449</td>
</tr>
<tr>
<td>RAND Center for Terrorism Risk Management Policy</td>
<td>168</td>
<td>30</td>
</tr>
<tr>
<td>Lectureship on Science Policy</td>
<td>136</td>
<td>144</td>
</tr>
<tr>
<td>RAND Alumni</td>
<td>133</td>
<td>121</td>
</tr>
<tr>
<td>RAND Drug Policy Research Center</td>
<td>119</td>
<td>214</td>
</tr>
<tr>
<td>RAND Infrastructure, Safety, and Environment</td>
<td>44</td>
<td>32</td>
</tr>
<tr>
<td>RAND Education</td>
<td>31</td>
<td>14</td>
</tr>
<tr>
<td>Other</td>
<td>84</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>$13,182</td>
<td>$11,883</td>
</tr>
</tbody>
</table>

**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)*:

<table>
<thead>
<tr>
<th></th>
<th>September 26, 2004</th>
<th>September 28, 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pardee RAND Graduate School:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General support</td>
<td>$10,420</td>
<td>$1,574</td>
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<tr>
<td>Awards and Scholarships</td>
<td>2,254</td>
<td>970</td>
</tr>
<tr>
<td>National Security Research and Training</td>
<td>4,500</td>
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<tr>
<td>RAND Institute for Civil Justice</td>
<td>4,125</td>
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</tr>
<tr>
<td>Pardee Center for Longer Range Global Policy</td>
<td>3,670</td>
<td>3,670</td>
</tr>
<tr>
<td>Paul O'Neill Alcoa Professorship in Policy Analysis</td>
<td>2,479</td>
<td>2,479</td>
</tr>
<tr>
<td>RAND—general support</td>
<td>2,410</td>
<td>1,396</td>
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<td>RAND Center for Russia and Eurasia</td>
<td>250</td>
<td>250</td>
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<tr>
<td>Lectureship on Science Policy</td>
<td>246</td>
<td>246</td>
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<tr>
<td>RAND Education</td>
<td>241</td>
<td>241</td>
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<tr>
<td>Other</td>
<td>31</td>
<td>31</td>
</tr>
<tr>
<td></td>
<td>$30,626</td>
<td>$19,482</td>
</tr>
</tbody>
</table>

10. **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 $8,865,000 and $8,590,000 for the fiscal years ended September 26, 2004, and September 28, 2003, respectively. The SRAP only requires employee contributions and RAND does not contribute to this plan.

11. **Subsequent Event:**

On September 29, 2004, RAND obtained the certification of occupancy for its new facility in Santa Monica, California. In relation to that event, $3,127,000 of buildings and improvements and $6,387,000 of equipment as of September 26, 2004, were sold or retired. A loss of $323,000 was recorded in fiscal year 2005 relating to those transactions. Construction in progress of $105,437,000 was placed in service in fiscal year 2005.
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(Inside front cover) Sheila Kirby, Associate Director, RAND Education, circa 2004
(Back cover) Bruce Hoffman, Director, Washington Office, circa 2004
(Inside back cover) RAND researcher Amron Katz, circa 1950

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Suburban sprawl, Corona, California, December 2002 (page 9)

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Staff Sergeant Sally McCabe, Lackland Air Force Base, Texas, October 2004 (page 11)

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Holiday travelers, Los Angeles International Airport, December 2004 (page 15)

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Reading lesson, Newport News, Virginia, May 2004 (page 16)

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Woman reading Koran, Kabul, Afghanistan, October 2004 (page 18)

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