Transportation Research Center Inc.

Financial Statements for the Years Ended June 30, 2003 and 2002 and Independent Auditors' Report

Auditor of State
Betty Montgomery

Board of Directors
Transportation Research Center Inc.

We have reviewed the Independent Auditor's Report of the Transportation Research Center Inc., Franklin County, prepared by Deloitte & Touche LLP for the audit period July 1, 2002 through June 30, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Transportation Research Center Inc. is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

November 25, 2003

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TRANSPORTATION RESEARCH CENTER INC.

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TRANSPORTATION RESEARCH CENTER INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis is provided to assist your understanding of Transportation Research Center Inc.'s ("TRC Inc.") accompanying financial statements for the fiscal year ended June 30, 2003 and to provide an overview of its financial performance.

Financial Statement Overview

For a summary of TRC Inc.'s significant accounting policies, please see footnote number two attached in this audit report.

Presented in the audit report are the Statements of Net Assets at June 30, 2003 and 2002; the Statements of Revenues, Expenses and Changes in Net Assets for Fiscal Years Ended June 30, 2003 and 2002; and the Statements of Cash Flows for Fiscal Years Ended June 30, 2003 and 2002.

The Statement of Net Assets reflects TRC Inc.'s assets, liabilities and net assets.

The Statement of Revenues, Expenses and Changes in Net Assets reports information showing how net assets changed during the fiscal year.

The Statement of Cash Flows reports changes in the cash and cash equivalent balances during the fiscal year.

Statements of Net Assets

The major components of the Statements of Net Assets at June 30, 2003 and 2002 are reflected below:

	June 30, 2003	June 30, 2002	Change
Assets			
Current assets	$ 14,436,274	$ 13,446,603	7.4 %
Net property and equipment	3,068,760	2,937,996	4.5 %
Total assets	17,505,034	16,384,599	6.8 %
Liabilities			
Current liabilities	4,590,895	3,857,341	19.0 %
Long-term debt	2,489,797	2,655,193	(6.2)%
Total liabilities	7,080,692	6,512,534	8.7 %
Fund balance	$ 10,424,342	$ 9,872,065	5.6 %

As a result of Research and Testing Agreement Revenue reaching a new historic level in fiscal year 2003, TRC Inc.'s Current Assets increased by 7% from June 30, 2002 to June 30, 2003.

Current Assets

Research and Testing Agreement Revenue was $34,886,213 in fiscal year 2003, representing an increase of 16% in fiscal year 2003. Mainly as a result of this increase in Research and Testing Agreement Revenue, Trade Accounts Receivable also rose by 14% and Operating Cash rose by 45% from June 30, 2002 compared to June 30, 2003. The average collection period of our Trade Accounts Receivable fell by 1 day from June 30, 2002 to June 30, 2003 to 65 days. TRC Inc. was able to convert a significant amount of the sales growth into Operating Cash, thus increasing our Current Assets.

TRC Inc. maintained a strong current ratio of 3.1 to 1 at June 30, 2003. TRC Inc. also funded the entire transfer of $1,605,120 to The Ohio State University from its Operating Cash in fiscal year 2003.

Net Property and Equipment

Net of accumulated depreciation, TRC Inc.'s property and equipment at June 30, 2003 was $3,068,760, representing an increase of $130,764, or 4.5%.

In March 2003, TRC Inc. acquired assets to operate an on-site emissions laboratory, thus providing a new and exciting line of service to further assist our customers in their pursuit of safer, improved products. The assets previously owned by a former resident customer were acquired in exchange for the forgiveness of receivables of a similar amount. Assets acquired were valued at $344,670.

During fiscal year 2003, TRC expended another $273,000 on other capital assets. The three largest acquisitions were a dump truck and snowplow ($76,000), a tractor ($36,000) and a driver-training vehicle ($35,000).

The asset with the largest net book value is the leasehold improvement made to Building 60, totaling $2,085,000, or 68%, of the total net book value. The remaining book value of each the remaining 132 capital asset items is less than $131,000, and generally are assets used to maintain the 4,500-acre facility.

Current Liabilities

In addition to generating historic new levels in Research and Testing Agreement Revenue, TRC Inc. also generated a historic new high in Owners Fees in fiscal year 2003 of $6,008,230, which was an increase of 30% over fiscal year 2002. TRC Inc. typically pays its Owners Fees in 45 days after month end. At June 30, 2002, TRC Inc. owed two months of Owners Fees, or $870,409. At June 30, 2003, TRC Inc. owed three months of Owners Fees, or $1,674,925. With the high level of Owners Fees generated and the 65 days it takes TRC Inc. to turn our Accounts Receivables over, TRC Inc. was unable to pay its April 2003 Owners Fee obligation within the 45 days it typically does. The increase of Owners Fees in Trade Account Payable was the major reason for the 19% increase in Current Liabilities.

Long-Term Debt

TRC Inc. had $2,489,797 in long-term debt at June 30, 2003. TRC Inc. entered into a note payable with a bank in January 1999 to procure $3,200,000 to fund leasehold improvements for one of TRC Inc.'s largest customers. The note is a 15-year instrument with an interest rate of approximately 6%. TRC Inc. recoups the funds expended for the leasehold improvement through a Lease Agreement with the customer. In effect, proceeds from the Lease Agreement with the customer are paying for the loan from the bank.

Statements of Revenues, Expenses and Changes in Fund Balance

The major components of the Statements of Revenues, Expenses and Changes in Fund Balance for Fiscal Years Ended June 30, 2003 and 2002 are reflected below:

	June 30, 2003	June 30, 2002	Change
Operating revenues	$39,725,351	$34,563,287	14.9 %
Operating expenses	37,430,412	33,182,659	12.8 %
Excess operating revenues over expenses	2,294,939	1,380,628	66.2 %
Nonoperating revenues (expenses)	96,603	89,948	7.4 %
(Depreciation) of fair value of investments	(234,145)	(878,814)	73.4 %
Excess revenues over expenses	2,157,397	591,762	264.6 %
Fund balance—beginning of year	9,872,065	12,280,303	
Transfer to Ohio State	(1,605,120)	(3,000,000)	(46.5)%
Fund balance—end of year	$10,424,342	$ 9,872,065	5.6 %

Operating Revenues

The three sources of revenues that TRC Inc. earns are Research and Testing Agreement Revenue, Owner's Maintenance and Repair Revenue, and Management Fee Revenue.

Research and Testing Agreement Revenue are revenues TRC Inc. earns from its customers for conducting durability, dynamic, impact and sled research and testing, and for supplying dedicated personnel to customers to operate their research and testing laboratories.

Owner's Maintenance and Repair Revenue is revenue TRC Inc. earns for maintaining and improving the owner's facility as a result of the management agreement between TRC Inc. and the facility owner, Honda of America Mfg., Inc. ("HAM").

Management Fee Revenue is revenue TRC Inc. earns from the owner for managing and scheduling the facility, equipment and buildings owned by HAM. As defined in the management agreement between TRC Inc. and HAM, TRC Inc. remits management and scheduling revenues for facilities, equipment and buildings that are charged to our customers to HAM as an Owners Fee Expense. TRC Inc. receives a 7.5% management fee from HAM for the Owners Fees earned as a result of managing and scheduling the facilities, equipment and buildings

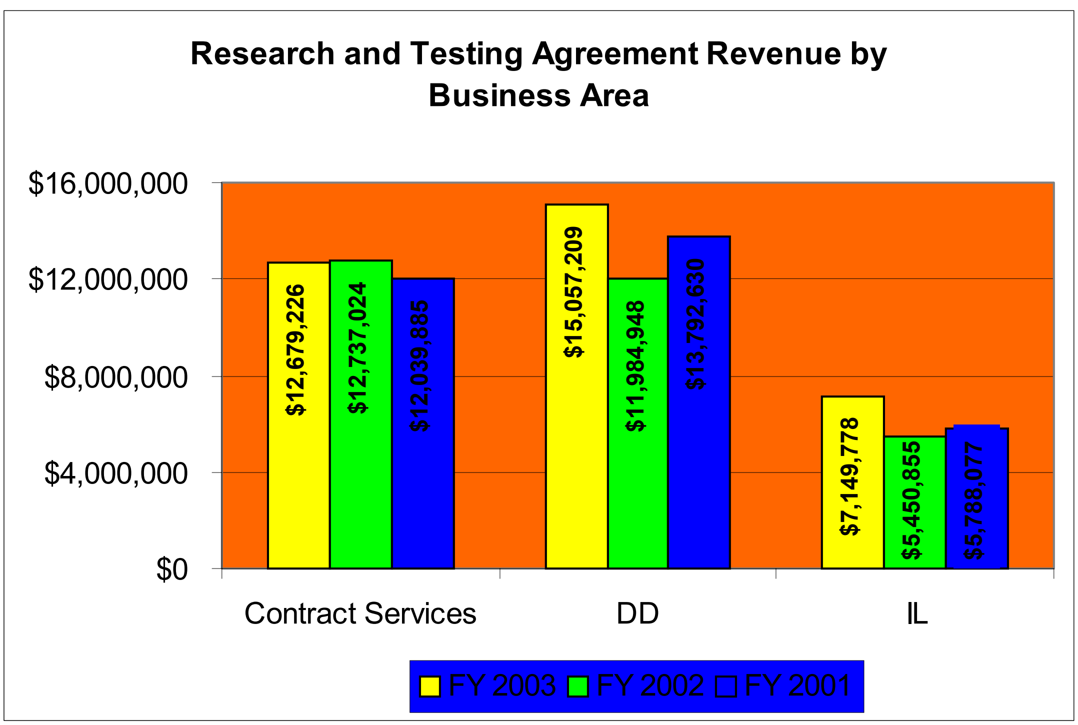
Revenue summary for fiscal years 2003 and 2002 were:

	June 30, 2003	June 30, 2002	Change
Research and Testing Agreement Revenue	$34,886,213	$30,172,827	15.6 %
Owner's maintenance and repair revenue	4,331,902	3,988,798	8.6 %
Management fee revenue	507,236	401,662	26.3 %
Excess operating revenues over expenses	$39,725,351	$34,563,287	14.9 %

In spite of a sluggish economy and turbulence in the automotive industry through downward cost pressure applied by original equipment manufacturers, fiscal year 2003 was the highest Research and Testing Agreement Revenue year in TRC Inc.'s history. TRC Inc. earned a 16% growth in Research and Testing Agreement Revenue in fiscal year 2003 as compared to fiscal year 2002. TRC Inc.'s reputation of providing high-quality service at a world-class proving ground at reasonable prices continues to allow TRC Inc. to thrive in these trying times. TRC Inc.'s largest customer had a 30% revenue increase in fiscal year 2003, while our fourth largest customer grew by 60%. The growth of these two major customers is the main reason TRC Inc. was able to generate record-setting revenues.

In fiscal year 2003, TRC Inc. earned 87% of its revenue from its eight largest customers. The risk of losing one of these significant customers would have an impact on the generation of future revenues. However, TRC Inc. has operated under this type of revenue concentration for over a decade and has continued to thrive in this manner. We are confident that our strategy of providing excellent service to these top eight customers will enable TRC Inc. to meet a revenue increase of 2% in fiscal year 2004.

The major sources of Research and Testing Agreement Revenue are Contract Services, Durability and Dynamics ("DD"), and Impact Laboratory ("IL"). Revenue comparisons for these three areas from fiscal year 2001 through fiscal year 2003 are as follows:



Contract Services maintained approximately the same level of revenue in fiscal year 2003 as it did in fiscal year 2002. This business area provides customers with high quality engineering and technical support to improve the safety, quality and competitiveness of our customer's products. As a result of changing customer needs, TRC Inc. lost revenue on 25 full-time positions that were eliminated in March 2003. TRC Inc. anticipates a further decline in this business area in fiscal year 2004, as the customer does not foresee restoring those 25 positions.

Durability and Dynamics had solid revenue growth of 26% in fiscal year 2003, rebounding from a soft year in fiscal year 2002. The major reason for the decline in fiscal year 2002 was the completion of three significant projects in early fiscal year 2002 that had been running from one to three years. TRC Inc. was unable to replenish those completed projects with new projects in fiscal year 2002. However, late in the fourth quarter of fiscal year 2002, one of those customers returned to TRC Inc. with a significant amount of work. We also had significant growth from TRC Inc.'s largest customer in this business area. We project revenues in Durability and Dynamics for fiscal year 2004 to continue to be strong. With the addition of revenues from our newly acquired emissions laboratory, we anticipate growth of 9% in fiscal year 2004 in Durability and Dynamics.

The Impact Laboratory was also very strong in fiscal year 2003, with a revenue increase of 31% in fiscal year 2003. The cause for the decline in fiscal year 2002 was the loss of a major customer that had conducted significant research testing in fiscal year 2001. That customer did not return in fiscal year 2003 because the customer was located much closer to a competitor laboratory of TRC Inc. The customer's decision not to return was due to convenience that TRC Inc. was not able to overcome. TRC Inc. was able to replace that lost customer with another major manufacturer in fiscal year 2003. To date, that new customer is very pleased with the service that we have provided. We also had anticipated the loss of another major customer in fiscal year 2003 due to that customer building a laboratory in-house. As it turned out, that customer has continued to heavily utilize TRC Inc. for their crash testing services as their needs far exceeded the capacity of their in-house laboratory. TRC Inc. expects a modest 3% decrease in revenues in fiscal year 2004.

Owner's Maintenance and Repair Revenue increased by 9% in fiscal year 2003. The major component of this revenue is the level of capital improvements to the facility that HAM funds each year. There was an increase in the level of HAM-funded capital improvements in fiscal year 2003. Since most of these capital improvements are subcontracted out and resold to HAM at TRC Inc. cost, gain or loss of revenue in this area does not affect excess revenues over expenses.

Management Fee Revenue rose by 26% in fiscal year 2003. With the 30% increase in Owners Fees that TRC Inc. experienced in fiscal year 2003, there was also a corresponding increase in Management Fee Revenue.

Operating Expenses

Major components of operating expenses in fiscal years 2003 and 2002 were:

	June 30, 2003	June 30, 2002	Change
Direct expense	$23,891,750	$21,034,826	15.6 %
General and administrative expense	13,051,933	11,647,699	8.6 %
Depreciation expense	486,729	500,134	26.3 %
Total operating expenses	$37,430,412	$33,182,659	14.9 %

With the 16% increase in Research and Testing Revenue, TRC Inc. managed to hold the increase in its total operating expense to 13%. The biggest expense TRC Inc. incurs is salaries and benefits, which in fiscal year

2003 was $21,838,583, or 58%, of total expense. Salaries and benefits rose 11% in fiscal year 2003. TRC Inc. has faced and continues to face a continuing escalation of health insurance expense. Health insurance expense increased 21% in fiscal year 2003, and we expect a similar increase in fiscal year 2004.

Owner's Fee Expense totaled $6,008,230, or 16% of total operating expense. Owner's Fee Expense increased 30% in fiscal year 2003, which is a historical new level.

Depreciation expense fell in fiscal year 2003 because older assets have become fully depreciated.

Nonoperating Revenues and Expenses

Interest expense represents the interest paid to a bank for the note that was described in the Long-Term Debt section.

Interest income reflects the interest earned from TRC Inc.'s operating cash account and the interest earned from investments TRC Inc. owns in the endowment fund at The Ohio State University.

Net Depreciation in Fair Value of Investments

TRC Inc. owns investments that are maintained and managed by The Ohio State University's Office of the Treasurer. These investments are in mutual funds. There are two components to the appreciation or depreciation of the fair value of these investments. The first component is the realized gain that TRC Inc. recognizes when we sell investments. Typically, TRC Inc. sells a portion of its investments to assist in the transfer of the previous fiscal year's excess revenue over expenses to The Ohio State University. Selling these investments triggers a realized capital gain or loss that TRC Inc. recognizes on this line item. In September 2002, TRC Inc. sold $1,355,120 of securities to assist in the annual transfer to The Ohio State University. TRC Inc. replenished that amount into our endowment fund during the course of fiscal year 2003. The sale of those securities generated a capital loss of $206,381, which was recognized in the Statement of Revenues, Expenses and Changes in Net Assets.

The second component is the unrealized appreciation or depreciation of the investments that is recorded in accordance with Governmental Accounting Standards Board Statement Number 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

The realized and unrealized appreciation or depreciation for Fiscal Years 2001 through 2003 is as follows:

	June 30, 2003	June 30, 2002	June 30, 2001
Market value of endowment fund	$ 5,188,232	$ 5,132,029	$ 54,772
Book value of endowment fund	5,584,587	5,500,620	48,325
Appreciation (depreciation)	$ (396,355)	$ (368,591)	$ 6,448
Unrealized gain (loss) from prior year	$ (27,764)	$ (1,013,354)	$ (2,171,805)
Realized gain (loss) from investment sales	(206,381)	134,540	1,053,789
Net depreciation	$ (234,145)	$ (878,814)	$ (1,118,016)

Excess of Revenues Over Expenses

Overall, TRC Inc. rebounded in fiscal year 2003 and had a successful financial year based on operations. The stock market remained quite volatile in fiscal year 2003, and returns on investments continued to be poor. TRC Inc. expects Research and Testing Agreement Revenue to increase 2% in fiscal year 2004, with Excess Revenues over Expenses expected to be $1.8 million. We expect lower margins as compared to fiscal year 2003 as we feel we will begin to experience the downward cost pressure the original equipment manufacturers have applied to many automotive suppliers in our industry. Nonetheless, results from operations have had a good start in fiscal year 2004, and the stock market has bounced back in the last few months.

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Deloitte & Touche

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Transportation Research Center Inc.

We have audited the accompanying statements of net assets of Transportation Research Center Inc. ("TRC"), a component unit of The Ohio State University, as of and for the years ended June 30, 2003 and 2002, and the related statements of revenue, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of TRC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of TRC as of June 30, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2003 on our consideration of TRC's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

August 5, 2003

Deloitte
Touche
Tohmatsu

TRANSPORTATION RESEARCH CENTER INC.

STATEMENTS OF NET ASSETS
JUNE 30, 2003 AND 2002

	2003	2002
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,577,203	$ 1,089,330
Restricted cash	80,316	75,160
Investments	5,188,232	5,132,029
Trade accounts receivable, net of allowance for doubtful accounts of $105,500 for 2003 and $51,523 for 2002	6,311,488	5,532,248
Receivable from HAM	1,201,873	1,536,636
Supplies and prepaid expenses	77,162	81,200
Total current assets	14,436,274	13,446,603
PROPERTY AND EQUIPMENT:		
Machinery and equipment	5,941,954	5,374,432
Less accumulated depreciation	(2,873,194)	(2,436,436)
Property and equipment—net	3,068,760	2,937,996
TOTAL	$ 17,505,034	$ 16,384,599
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 166,000	$ 154,000
Trade accounts payable	1,758,970	1,575,426
Accounts payable HAM	1,674,925	870,409
Accrued payroll and related expenses	991,000	1,257,506
Total current liabilities	4,590,895	3,857,341
LONG-TERM DEBT (less current portion)	2,489,797	2,655,193
NET ASSETS:		
Property and equipment—net of related debt	3,068,760	2,937,996
Restricted—accumulated surplus	2,792,736	2,240,459
Unrestricted net assets	4,562,846	4,693,610
Total net assets	10,424,342	9,872,065
TOTAL	$ 17,505,034	$ 16,384,599

See notes to financial statements.

TRANSPORTATION RESEARCH CENTER INC.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
OPERATING REVENUES:		
Research and testing	$ 34,886,213	$ 30,172,827
Owner's maintenance and repair	4,331,902	3,988,798
Management fee	507,236	401,662
Total operating revenues	39,725,351	34,563,287
OPERATING EXPENSES:		
Direct	23,891,750	21,034,826
General and administrative	13,051,933	11,647,699
Depreciation	486,729	500,134
Total operating expenses	37,430,412	33,182,659
OPERATING INCOME	2,294,939	1,380,628
NONOPERATING REVENUES (EXPENSES):		
Interest expense	(187,883)	(200,596)
Interest income	284,486	290,544
Total non-operating revenues	96,603	89,948
NET DEPRECIATION IN FAIR VALUE OF INVESTMENTS	(234,145)	(878,814)
EXCESS OF REVENUES OVER EXPENSES BEFORE TRANSFERS	2,157,397	591,762
TRANSFER TO TRANSPORTATION RESEARCH FUND	(1,605,120)	(3,000,000)
CHANGES IN NET ASSETS	552,277	(2,408,238)
NET ASSETS—Beginning of year	9,872,065	12,280,303
NET ASSETS—End of year	$ 10,424,342	$ 9,872,065

See notes to financial statements.

TRANSPORTATION RESEARCH CENTER INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 12,636,146	$ 16,748,968
Cash received from affiliates	26,114,469	19,004,041
Cash paid to suppliers	(6,397,980)	(6,100,902)
Cash paid to affiliates	(8,373,707)	(7,036,153)
Cash paid to employees	(16,913,937)	(15,429,885)
Cash paid for fringe benefits and payroll taxes	(4,393,111)	(4,086,463)
Other receipts (payments)	(438)	2,374
Net cash provided by operating activities	2,671,442	3,101,980
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES:		
Transfer to Transportation Research Fund	(1,605,120)	(3,000,000)
Non capital financing interest expense	(187,883)	(200,596)
Net cash used by non capital financing activities	(1,793,003)	(3,200,596)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payment of long-term debt	(153,396)	(143,099)
Additions to property and equipment	(226,152)	(177,490)
Restricted cash	(5,156)	(5,146)
Net cash used in capital and related financing activities	(384,704)	(325,735)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	284,486	290,544
Purchase of investments	(290,348)	(533,622)
Net cash used in investing activities	(5,862)	(243,078)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	487,873	(667,429)
CASH AND CASH EQUIVALENTS—Beginning of year	1,089,330	1,756,759
CASH AND CASH EQUIVALENTS—End of year	$ 1,577,203	$ 1,089,330
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 2,294,939	$ 1,380,628
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	486,729	500,134
Write-off of accounts receivable and provision for bad debt expense	102,470	31,535
Changes in certain assets and liabilities:		
Trade accounts receivable	(1,226,380)	1,500,821
Receivable from HAM	334,763	(36,610)
Payable to HAM	804,516	(29,576)
Supplies and prepaid expenses	4,038	(19,540)
Trade accounts payable	136,873	(224,160)
Accrued payroll and related expenses	(266,506)	(1,252)
Net cash provided by operating activities	$ 2,671,442	$ 3,101,980
SUPPLEMENTAL CASH FLOW INFORMATION:		
Unrealized loss on investments	$ (27,764)	$ (1,013,354)
Cash paid for income taxes	$ 39,821	$ 4,702
Purchases of property in accounts payable	$ 46,673	
NON CASH CAPITAL AND RELATED FINANCING ACTIVITIES—		
Acquisition of equipment—see Note 13	$ 344,670	

See notes to financial statements.

1. DESCRIPTION OF THE BUSINESS

The Transportation Research Center of Ohio (the "Center") was created by the General Assembly of the State of Ohio in October 1972 for the conduct of research in automotive, vehicular and related forms of transportation and for the development of improved highway facilities for vehicular traffic. On January 26, 1988, substantially all of the assets of the Center were sold to Honda of America Manufacturing ("HAM").

In conjunction with the sale, the legislation which initially established the Transportation Research Board was repealed. The Center was reincorporated as a not-for-profit organization, Transportation Research Center Inc. ("TRC"), with The Ohio State University Affiliates, Inc. ("OSU") as the sole shareholder of the corporation. TRC is considered a component member of OSU. Therefore, TRC's financial statements are consolidated with OSU's for purposes of complying with OSU's reporting requirements.

TRC has an agreement with HAM to manage the operations of the facility. Under the agreement, HAM pays TRC a management fee of 7.5% of the owner's fees collected by TRC plus 7.5% of facility rents paid to HAM by TRC. The agreement is automatically renewed for two-year terms and may be terminated by HAM or TRC with 180 days notice at the end of any term.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of TRC's significant accounting policies applied in preparation of the financial statements is as follows:

***Basis of Accounting*—**The financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America. Proprietary fund types are presented using the flow of economic resources measurement focus. This measurement focus emphasizes the determination of net income. All assets and liabilities associated with the operation of these funds are included in the statement of net assets. The statements of revenues, expenses and changes in net assets present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. TRC follows applicable Government Accounting Standards Board ("GASB") guidance and Financial Accounting Standard Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with, or contradict, GASB pronouncements. The proprietary fund types are reported using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liabilities are incurred. Differences between amounts earned and received are shown as receivables. Differences between expenses incurred and paid are shown as liabilities.

Estimates—The preparation of financial statements in accordance 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 at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant Customers**—**TRC derives a substantial portion of total revenues from a limited number of commercial enterprises and government agencies. For the year ended June 30, 2003, the revenue from the four highest volume commercial enterprises and one government agency was $22,011,337 and $7,189,144 respectively. For the year ended June 30, 2002, revenue from these sources was $18,276,697 and $7,156,503 respectively. The above amounts are exclusive of revenues related to the HAM management agreement.

Revenue Recognition**—**TRC derives revenue from facility usage, personnel charges, cost reimbursement and management of the facility. Revenues for facility usage are remitted to HAM as described in Note 6 and are included in direct expense. Revenue is recognized on the percentage of completion basis. TRC evaluates the credit of customers and establishes its allowance for doubtful accounts based on its evaluation of credit risk related to individual customers. TRC does not require collateral with its receivables.

Included in accounts receivable are $550,282 and $383,700 of unbilled accounts receivable for fiscal years 2003 and 2002, respectively. Unbilled accounts receivable represent revenue recognized in excess of amounts billed.

Cash and Cash Equivalents**—**TRC considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Cash is held in one bank at June 30, 2003 and 2002.

Restricted Cash**—**TRC is required to deposit funds monthly into a sinking fund as part of its long-term debt agreement (see Note 7). TRC does not have access to these funds once they are deposited into the sinking fund.

Investments**—**Investments consist of cash invested in The Ohio State University Endowment Fund and are recorded at fair value, as reported by The Ohio State University's Office of the Treasurer. TRC realized a net loss of $206,381 in 2003 and a net gain of $134,540 in 2002. The calculation of realized gains is independent of the calculation of the net increase in fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in a given year may have been recognized as an increase or decrease in the fair value of investments reported in prior years. The net change in the unrealized losses of investments during 2003 and 2002 is a loss of $27,764 and $1,013,354, respectively. These amounts take into account all changes in fair value (including purchases and sales) that occurred during each respective year. The cumulative unrealized loss on investments held at June 30, 2003 and 2002 is $396,355 and $368,591, respectively.

Property and Equipment**—**Property and equipment is recorded at cost. Depreciation is provided for in amounts sufficient to allocate the cost of depreciable assets to operations over their estimated service lives, which range from 3 to 15 years, on the straight-line method. TRC removes the asset cost and related accumulated depreciation from the appropriate accounts and reflects any gain or loss in current operations upon sale or retirement.

Compensated Absences**—**Employees are granted vacation and sick leave in amounts which vary by length of service. The policy prohibits employees from accumulating unused compensated absences.

Reclassifications**—**Certain reclassifications were made to the prior year's presentation to conform to the current year's presentation.

3. INCOME TAXES

In July 1989, TRC received Internal Revenue Service ("IRS") approval of its tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. In addition, because of its relationship as a supporting organization of OSU, TRC has received qualification from the IRS as a public charity and, therefore, is not subject to various taxes and restrictions applicable to other organizations, such as private foundations.

TRC is subject to unrelated business tax for the leasing of certain TRC employees. Unrelated income tax expense in 2003 is estimated to be approximately $36,000 and $39,000 for 2002.

4. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash, cash equivalents and investments at June 30, 2003 and 2002 were as follows:

	2003	2002
Cash on hand	$ 600	$ 600
Cash in general fund account	1,576,603	1,088,730
Investment in The Ohio State University Endowment Fund	5,188,232	5,132,029
Total	$6,765,435	$6,221,359

At June 30, 2003 and 2002, $100,000 of the bank balance was covered by federal deposit insurance and the remaining portion ($1,476,603) was uninsured but collateralized by pools of securities pledged by the depository bank and held in the name of the bank. The investment in The Ohio State University Endowment Fund includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in TRC's name.

5. PROPERTY

The property balance at June 30, 2003 and 2002 consists of the following:

	Balance June 30, 2002	Additions	Disposals/ Deletions	Balance June 30, 2003
Capital Assets:				
Vehicles	$ 1,891,889	$ 262,131	$ (39,220)	$ 2,114,800
Testing Equipment	336,077	344,670	(6,480)	674,267
Leasehold improvements, furniture and fixtures	3,146,466		(4,271)	3,142,195
Construction in progress		10,692		10,692
Total capital assets	5,374,432	617,493	(49,971)	5,941,954
Less accumulated depreciation:				
Vehicles	(1,266,521)	(270,871)	39,220	(1,498,172)
Testing Equipment	(311,389)	(15,895)	6,480	(320,804)
Leasehold improvements, furniture and fixtures	(858,526)	(199,963)	4,271	(1,054,218)
Total accumulated depreciation	(2,436,436)	(486,729)	49,971	(2,873,194)
Property—net	$ 2,937,996	$ 130,764	$ -	$ 3,068,760

The property balance at June 30, 2002 and 2001 consists of the following:

	Balance June 30, 2001	Additions	Disposals/ Deletions	Balance June 30, 2002
Capital Assets:				
Vehicles	$ 1,764,894	$ 177,490	$(50,496)	$ 1,891,888
Testing Equipment	338,027		(1,949)	336,078
Leasehold improvements, furniture and fixtures	3,174,638		(28,172)	3,146,466
Construction in progress				
Total capital assets	5,277,559	177,490	(80,617)	5,374,432
Less accumulated depreciation:				
Vehicles	(1,060,158)	(256,860)	50,496	(1,266,522)
Testing Equipment	(279,039)	(34,298)	1,949	(311,388)
Leasehold improvements, furniture and fixtures	(677,722)	(208,976)	28,172	(858,526)
Total accumulated depreciation	(2,016,919)	(500,134)	80,617	(2,436,436)
Property—net	$ 3,260,640	$ (322,644)	$ -	$ 2,937,996

6. MANAGEMENT AGREEMENT

Under the terms of the Management Agreement with HAM, TRC remits to HAM certain revenues for use of the facilities (owner revenues) and receives a management fee based on percentages of owner's fees and facility rents. Additionally, expenses for repairs and capital improvements made by TRC are reimbursed by HAM (owner expenses).

For the years ended June 30, 2003 and 2002, the amounts of transactions with HAM are as follows:

	2003	2002
Owner revenues	$ 6,008,230	$ 4,626,357
Owner expenses	4,331,902	3,988,798
Management fee	507,236	401,662

At June 30, 2003 and 2002, the receivable from HAM is comprised of the following:

	2003	2002
Receivable for owner expenses	$ 1,066,692	$ 1,462,238
Receivable for management fee	134,881	74,398
Total	$ 1,201,573	$ 1,536,636

At June 30, 2003 and 2002 the payable to HAM was $1,674,925 and $870,409, respectively.

TRC also earns operational revenues from HAM outside of the Management Agreement. These revenues were $12,937,612 and $8,256,539 for the years ended June 30, 2003 and 2002, respectively. Trade accounts receivable at June 30, 2003 and 2002 included $1,994,726 and $1,767,295, respectively, related to these operational revenues. TRC recorded accounts payable due to HAM at $1,341 for June 30, 2002. At June 30, 2003 there were no accounts payable due to HAM.

7. LONG-TERM DEBT

In January 1999, TRC entered into a promissory note agreement (the "Note") for $3.2 million with a lending institution. The Note bears interest at a floating rate of interest, which is adjusted weekly by the lender (1.1% at June 30, 2003). Interest on the Note is due monthly and principal payments are due in semi-annual installments through January 1, 2014.

The lending institution made the loan from proceeds received from the sale of the Lender's Floating Rate Option Notes. The Floating Rate Option Notes of the lender are secured by an initial $3.2 million letter of credit (the "LOC") issued by a bank. The available LOC balance decreases semi - annually in conjunction with the scheduled payments on the Note. The LOC bears interest at a rate of prime plus 2% and expires on January 6, 2009 with the option to extend the expiration date, subject to certain conditions set forth in the agreement. There were no amounts outstanding on the LOC as of June 30, 2003.

In January 1999, TRC also entered into a reimbursement agreement with the bank that issued the LOC. Under the reimbursement agreement with the bank, TRC is required to make monthly principal and interest payments into a sinking fund account on the first of each month through January 1, 2014. The sinking fund is owned by TRC, but use of the funds is restricted to payment of the scheduled semi-annual payments on the Note. The Reimbursement Agreement contains restrictive covenants and warranties, which, among others, requires TRC to maintain complete and accurate accounting records. In addition, in order to secure the payment of amounts due under the Reimbursement Agreement, TRC assigned to the bank its interest in certain leaseholds, buildings, and land created by the Ground and Existing Building Lease with HAM (see Note 11) as well as future rental payments received from the sublease of the same leasehold, building and land.

In the event that the LOC agreement is not extended after January 6, 2009, the entire unpaid principal amount due on the Note and therefore the reimbursement agreement becomes due and payable on January 6, 2009.

Annual maturities of long-term debt are as follows:

	Principal	Interest
2004	$ 166,000	$ 150,013
2005	177,000	140,358
2006	190,000	130,016
2007	204,000	118,928
2008	219,000	107,038
2009-2013	1,355,000	324,442
2014	344,797	15,272
Total	$ 2,655,797	$ 986,067

In 1999, TRC entered into an interest rate swap agreement with a bank for a total notional amount of $3.2 million maturing on January 1, 2009, to mitigate potential interest rate fluctuations on variable rate long-term debt. TRC is exposed to credit loss only in the event of nonperformance by the bank on the interest rate swap, which TRC does not anticipate. The fair value of the interest rate swap at June 30, 2003 and 2002 is an unrealized loss of $357,609 and $164,626, respectively, which represents the amount at which it could be settled, based on estimates obtained from dealers.

8. DEFERRED COMPENSATION PLAN

TRC's employees are able to participate in a deferred compensation plan (the "Plan") created in accordance with Internal Revenue Code Section 457. The Plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

As a result of the implementation of GASB No. 32 in fiscal 1999, all amounts of compensation deferred under the Plan, all property and rights purchased with these amounts and all income attributable to those amounts, property or rights (until paid or made available to the employee or other beneficiary) are solely the property and rights of the Ohio Public Employees Deferred Compensation Program ("OPEDC"). Accordingly, TRC has not recorded any deferred compensation assets or liabilities in the financial statements.

9. NET ASSETS

TRC's Articles of Incorporation stipulate that TRC shall, within 120 days of the end of its fiscal year, transfer any accumulated surplus in excess of its January 27, 1988 net assets (contributed capital) to the Transportation Research Fund of The Ohio State University (the "Fund"). At June 30, 2003 and 2002 no amounts were due to the Fund. Upon the ultimate dissolution of the organization, any remaining funds are to be transferred to the Fund. At June 30, 2003 and 2002, the net assets were comprised of the following:

	2003	2002
Property and equipment, net of related debt	$ 3,068,760	$ 2,937,996
Restricted—accumulated surplus	2,792,736	2,240,459
Unrestricted net assets	4,562,846	4,693,610
Total	$ 10,424,342	$ 9,872,065

The accumulated surplus balance includes cumulative unrealized losses at June 30, 2003 and 2002 of $396,355 and $368,591, respectively.

10. DEFINED BENEFIT PENSION PLAN AND POST-EMPLOYMENT BENEFITS

TRC and all of its employees are required to make contributions to the Social Security Administration. A portion of TRC's employees participate in the Public Employees Retirement System of Ohio ("PERS"), a cost sharing, multiple employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, health care benefits, and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code assigns the authority to establish and amend benefit provisions. PERS issues a publicly available comprehensive annual financial report which includes financial statements and required supplementary information for PERS. That report may be obtained by writing to the Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1 (800) 222-PERS (7377). TRC's total PERS payroll for the years ended June 30, 2003 and 2002 was $2,663,587 and $2,147,315, respectively.

Plan members are required to contribute 8.5% of their annual covered salary, while the 2003 employer contribution rate for state employers was 13.31% of covered payroll and for local government employer units the rate was 13.55%. TRC's contributions to PERS for the years ended June 30, 2003, 2002, and 2001 were $283,672, $229,000, and $303,000, respectively, equal to the required contributions for each year.

In addition to the pension benefits, PERS provides postretirement health care coverage to age and service retirements with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by PERS is considered an Other Postemployement Benefit ("OPEB") as described in GASB Statement No. 12. At December 31, 2002, the Plan had approximately 402,041 active participants.

A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care. The 2003 employer contribution rate for state employers was 13.31% of covered payroll, of which 5% was the portion used to fund health care for the year.

The Ohio Revised Code provides statutory authority requiring public employers to fund postretirement health care through their contributions to PERS. Of the 13.31% of employee payroll contributed by TRC, 5% or approximately $114,000 was the portion used to fund health care expenses.

The actuarial value of PERS' net assets available for OPEB at December 31, 2001 was $11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $16.4 billion and $4.8 billion, respectively.

The actuarial present value of accrued postemployment benefits was determined based on the entry age normal method of funding. Significant actuarial assumptions based on PERS' latest Actuarial Review performed as of December 31, 2001 are as follows: an investment rate of return of 8.00%, investments valued at market value, adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets, no change in the number of active employees, base pay rate increases of 4.00% and annual pay increases over and above the 4.00% base increase ranging from .50% to 6.30%, and health care costs assume an increase of 4.00% annually.

11. LEASES

As agent for HAM, TRC leases various buildings to TRC's customers. Lease terms range from one to fifteen years with various renewal option features. The leases are accounted for as operating leases.

At June 30, 2003, future minimum lease receipts are due as follows:

2004	$ 905,288
2005	832,488
2006	832,488
2007	832,488
2008	793,229
2009-2013	3,524,355
2014	169,152
Total	$ 7,889,488

TRC leases office space from HAM under agreements with terms expiring through 2014. These operating leases contain renewal options with an indefinite term.

Future minimum rental payments under operating leases with initial terms in excess of one year are summarized as follows:

2004	$ 722,222
2005	722,222
2006	722,222
2007	722,222
2008	722,222
2009-2013	2,949,073
Total	$ 6,560,183

Rental expense charged to operations was $722,222 and $694,360 during 2003 and 2002, respectively.

12. RISK MANAGEMENT

During the course of the year TRC is subjected to certain types of risks in the performance of its normal functions. These risks include risks that TRC might be subjected to by its employees in the performance of their normal duties. TRC manages these types of risks through commercial insurance.

13. ASSET ACQUISITION

TRC purchased emissions testing laboratory equipment from a former tenant in 2003. TRC recorded the equipment at its fair value of $344,670, as determined by an independent appraisal. In exchange for the equipment, TRC forgave outstanding accounts receivable, net of any payments due to the former tenant in the amount of $369,070. As part of the transaction, TRC reduced its allowance for doubtful accounts by $24,400.

The purchase expands TRC's capabilities to include chassis dynamometer, gasoline and diesel fuel evaporative emissions, chemical speciation, particulate measurement and engine-stand testing.

14. EMPLOYEES' RETIREMENT SAVINGS PLAN AND TRUST

TRC maintains the Employees' Retirement Savings Plan and Trust (the "Plan"). The Plan is intended to comply with Section 401(a) of the Internal Revenue Code. All employees are eligible to participate in the Plan. Employer contributions to the Plan are determined solely at the discretion of TRC's Board of Directors. For the years ended June 30, 2003 and 2002, TRC expensed $474,601 and $478,352, respectively, for contributions to the Plan.

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ADDITIONAL INFORMATION

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Transportation Research Center Inc.

We have audited the financial statements of Transportation Research Center, Inc. ("TRC") as of and for the years ended June 30, 2003 and 2002, and have issued our report thereon dated August 5, 2003. We conducted our audit in accordance with auditing standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Compliance

As part of obtaining reasonable assurance about whether TRC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered TRC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more for the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended solely for the information and use of TRC's management, The Ohio State University and the Ohio Auditor of State and is not intended to be and should not be used by anyone other than those specified parties.

Deloitte & Touche LLP

August 5, 2003

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TRANSPORTATION RESEARCH CENTER, INC.

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 9, 2003