TRANSPORTATION RESEARCH CENTER INC.

FINANCIAL STATEMENTS

For The Years Ended June 30, 2006 and 2005

and

Independent Auditors' Report

PARMS & COMPANY, LLC

CERTIFIED PUBLIC ACCOUNTANTS

Auditor of State
Betty Montgomery

Board of Directors
Transportation Research Center, Inc.
2040 Blankenship
901 Woody Hayes Drive
Columbus, Ohio 43210

We have reviewed the *Independent Auditor's Report* of the Transportation Research Center, Inc., Franklin County, prepared by Parms & Company, LLC, for the audit period July 1, 2005 through June 30, 2006. 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 30, 2006

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TRANSPORTATION RESEARCH CENTER INC.

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PARMS & COMPANY, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
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 June 30, 2006, and the related statements of revenues, expenses, and changes in net assets, and of cash flows for the year the 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 audit. The financial statements of TRC for the year ended June 30, 2005 were audited by other auditors whose report dated October 5, 2005 expressed an unqualified opinion on those statements.

We conducted our audit 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the TRC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, 2006 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Managements's Discussion and Analysis on pages 3-12 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. The supplementary information is the responsibility of TRC. 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 18, 2006 our consideration of TRC's internal control over financial reporting and on our tests of its compliance and other matters. The purposes of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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.

Parms & Company, LLC

August 18, 2006.

Transportation Research Center Inc.
Management Discussion and Analysis
For Fiscal Year Ended June 30, 2006

This Management Discussion and Analysis is provided to assist your understanding of Transportation Research Center Inc.'s (TRC Inc.) accompanying financial statements for the fiscal years ended June 30, 2006 and June 30, 2005, and to provide an overview of its financial performance.

Introducing Transportation Research Center Inc.

TRC Inc. independently manages the Transportation Research Center, a transportation research and testing facility located on 4,500 acres near East Liberty, Ohio, and various other laboratories located in Ohio. TRC Inc. assists the needs of the transportation industry, government, and educational institutions worldwide by creating safer, improved products through vehicle research and testing services. Research and testing programs are designed to test for safety, energy, fuel economy, emissions, durability, and crash worthiness on passenger vehicles, trucks, buses, motorcycles, recreational vehicles and their associated components.

The Transportation Research Center facility was developed by the State of Ohio and began operations in 1974. In 1979, the State of Ohio entered into an agreement with The Ohio State University's College of Engineering to oversee the operations of the Transportation Research Center. In 1988, the State of Ohio sold the facility to Honda of America Manufacturing, Inc. as an economic inducement to secure a second automobile manufacturing plant. After the sale, The Ohio State University created TRC Inc. TRC Inc. and Honda of America Manufacturing, Inc. then entered into an agreement. That agreement provided the foundation for TRC Inc. to manage the Transportation Research Center as a multi-user facility.

TRC Inc. is governed by a six-member board chaired by the Dean of the College of Engineering at The Ohio State University. The Ohio State University Affiliates, Inc. is the sole member of TRC Inc. The financial statements of TRC Inc. are included in the financial statement of The Ohio State University.

TRC Inc. is a tax-exempt organization as described in section 501(c)(3) and section 509(a)(3) of the Internal Revenue Code. TRC Inc.'s tax-exempt purpose is conducting and supporting humanistic, scientific and engineering research and development activities solely and exclusively to the conduct of, or providing assistance in connection with the conduct of, research in automotive, vehicular, and related forms of transportation, and for the development of improved highway facilities for vehicular traffic. TRC Inc. does perform work outside of this exempt purpose, and as a result does pay unrelated business tax on that income.

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 Statement of Net Assets at June 30, 2006 and June 30, 2005; the Statements of Revenue, Expenses and Changes in Net Assets for fiscal years ended June 30, 2006 and 2005; and the Statements of Cash Flows for fiscal years ended June 30, 2006 and 2005.

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

The Statement of Revenue, Expenses and Changes in Fund Balance reflect 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.

Statement of Net Assets

The major components of the Statement of Net Assets at June 30, 2006, June 30, 2005 and June 30, 2004 are reflected below:

	June 30, 2006	June 30, 2005	Change	June 30, 2004
Assets:				
Current Assets	$16,678,728	$13,864,221	20.3%	$14,897,884
Net Property & Equip.	$2,180,922	$2,444,563	(10.8)%	$2,763,448
Total Assets	$18,859,650	$16,308,784	15.6%	$17,661,332
Liabilities:				
Current Liabilities	$5,143,639	$4,296,075	19.7%	$4,353,099
Long Term Debt	$1,921,609	$2,125,029	(9.6)%	$2,314,083
Total Liabilities	$7,065,248	$6,421,104	10.0%	$6,667,182
Fund Balance	$11,794,402	$9,887,680	19.3%	$10,994,150

Current Assets

TRC Inc. had an increase in its Current Assets of 20% from June 30, 2005 to June 30, 2006.

The primary reason for the increase in Current Assets was a $2,919,067 increase in Trade Accounts Receivable from June 30, 2005 through June 30, 2006, or 45%. Increased Research and Testing Agreement Revenues in the last two months of fiscal year 2006 caused the significant increase in Trade Accounts Receivable. Research and Testing

Revenue increased 33% in the last two months of fiscal year 2006 as compared to the last two months of fiscal year 2005. Because of the increase in Research and Testing Revenue late in fiscal year 2006, turnover of Trade Accounts Receivable could not occur until early in fiscal year 2007.

The increase in Trade Accounts Receivable caused the average collection period of our Trade Accounts Receivable to increase by 18 days from June 30, 2005 to June 30, 2006 to 84 days. Despite the increase in Trade Accounts Receivable and the average collection period, the percentage of Trade Accounts Receivable over 90-days at June 30, 2006 was less than 1%, as compared to 1.6% at June 30, 2005.

Investments increased $426,415, or 10%. TRC Inc. made a transfer of $1,129,979 to The Ohio State University in fiscal year 2006. This transfer was made entirely from operating cash. TRC Inc. still plans to replenish $1.7 million to its investment account for the fiscal year 2005 transfer of excess revenue over expense made in fiscal year 2006 from its investment account. TRC Inc. supported $549,084, or 24%, of the fiscal year 2005 excess revenue over expense transfer from its operating cash. The remaining $1,700,000 was funded from the current investment account.

TRC Inc.'s investments benefited from improvements in the market. TRC Inc. initially funded the $1,129,979 transfer made in fiscal year 2006 to The Ohio State University from its investment account, which generated a realized capital gain of $57,154. In addition, at June 30, 2006, the market value of TRC Inc.'s investment account exceeded the book value by $298,528, which generated an unrealized gain of $168,362.

TRC Inc. maintained a strong current ratio of 3.2 to 1 at June 30, 2006.

Net Property and Equipment

Net of accumulated depreciation, TRC Inc.'s property and equipment amounted to $2,180,922, representing a decrease of $263,641, or 11%. The decrease is due to disposal of assets no longer useful to TRC Inc. and an increasing number of assets becoming fully depreciated.

During fiscal year 2006, TRC Inc. expended $262,445 on capital assets. TRC Inc. received a donation from Honda of thirty 2002 Acura RSX's. These vehicles are used in TRC Inc.'s driver training program. Because of the harsh dynamic handling conditions these vehicles have been and will be put through, TRC Inc. capitalized each of these thirty vehicles at 50% of their blue book value, totaling $168,000. The other two largest acquisitions made in fiscal year 2006 were a telephone system upgrade for $19,184.70 and a new travel vehicle for $18,550.

During fiscal year 2005, TRC Inc. expended $286,122 on capital assets. The three largest acquisitions were a wheel loader ($59,032), a dump truck with snowplow spreader ($55,081) and a tractor ($51,504). This new equipment helped TRC Inc. manage the severe weather experienced in the winter of 2005.

During fiscal year 2004, TRC Inc. expended $262,712 on capital assets. The three largest acquisitions were an automated steering controller ($142,000), a pickup truck ($23,900) and a minivan ($20,700). The automated steering controller equipment is used to assist customers to develop safer vehicles by improving the rollover resistance of their vehicles. This equipment is yet another example of how TRC Inc. remains the worldwide industry leader in enabling our customers to create safer and improved vehicles worldwide.

The asset with the largest net book value is leasehold improvements made to Building 60, totaling $1,516,598, or 70% of the total net book value. The remaining book value of each the remaining 170 capital asset items is less than $48,000, and generally are assets used to maintain the 4,500-acre facility.

Current Liabilities

TRC Inc.'s current liabilities rose by $847,564, or 20%, from June 30, 2005 through June 30, 2006. On average, TRC Inc. paid its suppliers invoices in 22 days in fiscal year 2006.

Long-Term Debt

TRC Inc. had $1,921,609 in long-term debt at June 30, 2006 and $2,125,029 at June 30, 2005. TRC Inc. entered into a note payable with Bank One 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. There is an interest swap agreement in place with the bank that helps mitigate the fluctuation in interest rates. In effect, proceeds from the Lease Agreement with the customer are servicing the debt.

Statements of Revenue, Expenses and Changes in Fund Balance

The major components of the Statements of Revenue, Expenses and Changes in Fund Balance for Fiscal Years Ended June 30, 2006, 2005 and 2004 are reflected below:

	FY 2006	FY 2005	Change	FY 2004
Operating Revenues	$44,350,740	$39,471,659	12.4%	$41,920,724
Operating Expenses	$41,624,745	$38,403,470	8.4%	$39,630,495
Operating Income	$2,725,995	$1,068,189	155.2%	$2,290,229
Non-Operating Revenue	$85,190	$77,734	9.6%	$58,449
Appr./(Depr.)-FMV of Invst.	$225,516	$(3,309)	6,915.2%	$406,291
Excess Rev. over Exp.	$3,036,701	$1,142,614	165.8%	$2,754,969
Transfer to Ohio State	$(1,129,979)	$(2,249,084)	(49.8)%	$(2,185,161)
Change in Net Assets	$1,906,722	$(1,106,470)	272.3%	$569,808
Beginning Fund Balance	$9,887,680	$10,994,150	(10.1)%	$10,424,342
Ending Fund Balance	$11,794,402	$9,887,680	19.3%	$10,994,150

Operating Revenues

The three sources of revenue 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. It also includes revenues 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 to HAM for facilities, equipment and buildings that are charged to our customers. Prior to amendment three of the Management Agreement on July 1, 2004 between TRC Inc. and HAM, TRC Inc. received a 7.5% management fee from HAM for the Owners Fees earned as a result of managing and scheduling the facilities, equipment and buildings. After commencement of amendment three of the Management Agreement on July 1, 2004 between TRC Inc. and HAM, TRC Inc. no longer earns a management fee from HAM for the revenues earned as a result of managing and scheduling the facilities, equipment and buildings.

Revenue summary for fiscal years 2006, 2005 and 2004 were:

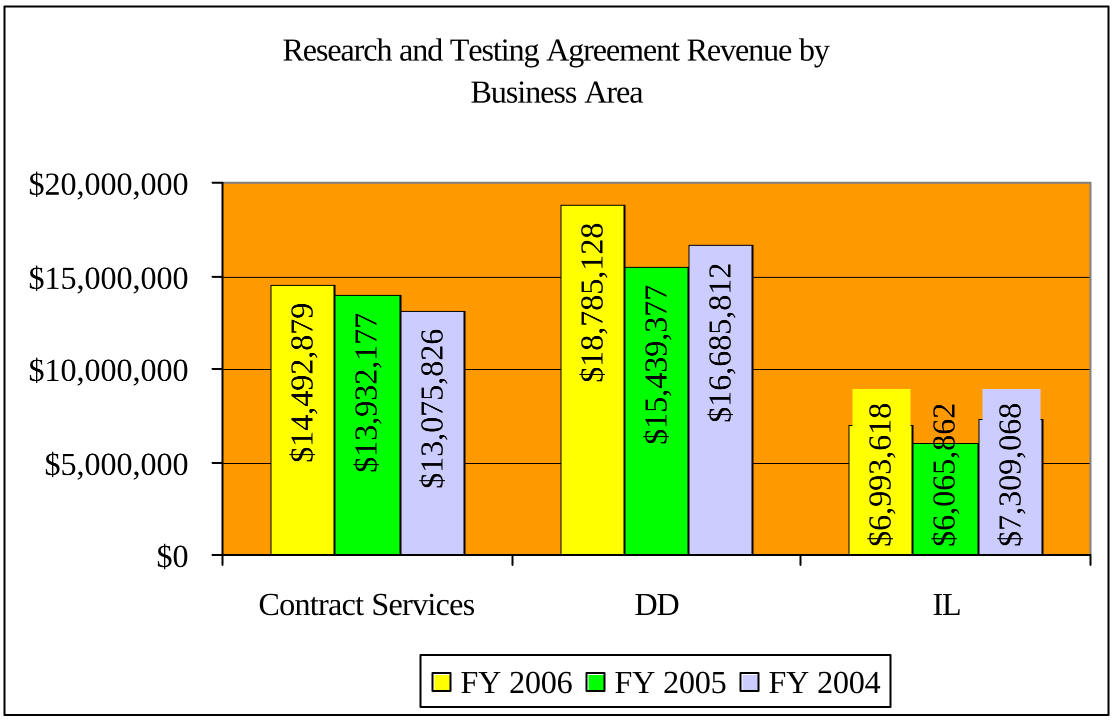
	FY 2006	FY 2005	Change	FY 2004
Research & Testing Agreement Rev	$40,271,625	$35,437,417	13.6%	$37,070,704
Owner's Maintenance & Repair Rev.	$4,079,115	$4,034,242	1.1%	$4,304,249
Management Fee Revenue	$0	$0	0.0%	$545,771
Total Operating Revenue	$44,350,740	$39,471,659	12.4%	$41,920,724

TRC Inc. rebounded in fiscal year 2006 to post a new historic high in Research and Testing Agreement Revenue, surpassing the previous high set in fiscal year 2004. Research and Testing Agreement Revenue rose 14% in fiscal year 2006 as compared to fiscal year 2005, due to a strong final quarter in fiscal year 2006. Research and Testing Revenue increased 35% in the last quarter of fiscal year 2006 as compared to the last quarter of fiscal year 2005, and represented 30% of total fiscal year 2006 revenue.

There was little fluctuation in the composition of the top eight customers. However, while five of our top eight customers either maintained or had marginal revenue increases in fiscal year 2006, the other three had significant revenue gains ranging from 38% to 180%. The revenue gains are primarily the result of those three customers validating new vehicles or components.

In fiscal year 2006 and fiscal year 2005, TRC Inc. earned 88% of its revenue from its eight largest customers. In fiscal year 2004, TRC Inc. earned 83% 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. TRC Inc. has operated under this type of revenue concentration for over a decade. We are confident that our strategy of providing excellent service to these top eight customers will enable TRC Inc. to grow in the future. TRC Inc. anticipates about the same level Research and Testing Agreement Revenue in fiscal year 2007 and therefore budgeted Research and Testing Agreement Revenue to equate to fiscal year 2006 levels.

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 2004 through fiscal year 2006 are as follows:



Contract Services grew by 4% in fiscal year 2006 as compared to fiscal year 2005. This business area provides customers with high quality engineering and technical support to improve the safety, quality and competitiveness of our customer's products. This business area has three customers. Two of the customers had revenue increases of 5% or more in fiscal year 2006 as compared to fiscal year 2005. These customers grew as a result of an increase in price or in headcount, or both. The third customer had revenues that were constant between fiscal years 2005 and 2006. While this customer had a price increase, we experienced personnel turnover that caused lost revenue opportunities with this customer. TRC Inc. estimates a revenue increase in this business area in fiscal year 2007 of 3%.

After a downturn in fiscal year 2005, Durability and Dynamics rebounded with a historic revenue year in fiscal year 2006. Durability and Dynamics had a revenue increase of 22% in fiscal year 2006 as compared to fiscal year 2005. The top four customers in Durability and Dynamics each had increases of greater than 20%, with one of the customers increasing 196%. Much of the business gain took place in the last quarter of fiscal year 2006. The increase was due to customers improving the quality of new and existing vehicles and components. Due to the anticipation that cyclical testing by some Durability and Dynamics' customers will be completed in early fiscal 2007, TRC Inc. projects revenues in Durability and Dynamics to fall 3% in fiscal year 2007.

Revenues from the Impact Laboratory increased by 15% in fiscal year 2006 as compared to fiscal year 2005. Total crash tests performed increased by 17% in fiscal year 2006 as compared to fiscal year 2005. Sled tests performed improved by 13% in fiscal year 2006 as compared to fiscal year 2005. Seven of the top eight customers in the Impact Laboratory had increases of 5% or greater in fiscal year 2006 due to the demand of automobile manufacturers to get vehicles certified to safety standards. Federal government revenue was up 62% in fiscal year 2006 due to regulatory changes, shifting appropriations of the federal government and the award of a major research and testing agreement. Due to the anticipated reduction of crash tests that we perform for the Impact Laboratory's largest customer, TRC Inc. anticipates a 3% decrease in revenues from the Impact Laboratory in fiscal year 2007.

Owner's Maintenance and Repair Revenue rose 1% in fiscal year 2006 as compared to fiscal year 2005. The major components of this revenue are the capital improvements to the facility that HAM funds each year and maintenance and repair of the facility. The owner slightly increased dollars spent on maintenance and capital improvements of the facility in fiscal year 2006. Since most of the capital improvements are subcontracted out and resold to HAM at TRC Inc. cost, gain or loss of revenue in this area does not have a major impact upon excess revenues over expenses.

As a result of the restructuring of the Management Agreement between TRC Inc. and HAM, there will no longer be any Management Fee Revenue, commencing in fiscal year 2005.

Operating Expenses

Major components of operating expense in fiscal years 2006, 2005 and 2004 were:

	FY 2006	FY 2005	Change	FY 2004
Direct Expense	$26,153,790	$24,072,177	8.7%	$25,117,642
General and Admin. Exp.	$14,944,870	$13,726,286	8.9%	$13,947,830
Depreciation Expense	$526,085	$605,007	(13.0)%	$565,023
Total Operating Expense	$41,624,745	$38,403,470	8.4%	$39,630,495

Direct expenses were up by 9% in fiscal year 2006, in nearly similar proportions to the increase in Research and Testing Revenue. Direct labor increased 6% in order to handle the additional workload from our customers. Owner's fees are a direct expense resulting from charges made to our customers for their use of HAM-owned facilities, equipment and buildings. Owner's fees totaled $6,974,922, or 17% of total operating expense in fiscal year 2006. Owner's fees increased by 16% in fiscal year 2006 because of the additional workload from our customers, and an increase in use rates to recover the costs of several specially-built facilities constructed for a customer of TRC Inc.'s.

TRC Inc.'s biggest operating expense is salaries and benefits. In fiscal year 2006, salaries and benefits were $23,985,537, or 58% of total operating expense. In fiscal year 2005, salaries and benefits were $22,582,455, or 59% of total operating expense. Salaries and benefits increased 6% in fiscal year 2006 and fell 1% in fiscal year 2005. FICA and Medicare payroll tax expense was $1,352,155 in fiscal year 2006, which was an increase of 6% from fiscal year 2005.

Large general and administrative operating expenditures made in fiscal year 2006 include:

- Health insurance for $2,505,949. Health insurance expense increased 11% in fiscal year 2006 as compared to fiscal year 2005, which is better than the industry average.

- Building leases of $779,524 in fiscal year 2006, which was a 1% increase compared to fiscal year 2005.

- Retirement plan contributions of $832,911. Contributions are made on the behalf of TRC Inc. employees to the Public Employees Retirement System and through a company-sponsored defined contribution retirement plan. Retirement plan contributions increased by 9% in fiscal year 2006. Contributions to the company-sponsored defined contribution retirement plan are based on revenue. The increase in retirement plan contributions is a direct result of the increase in revenue.

Depreciation expense decreased 13% in fiscal year 2006 because of older assets capitalized at TRC Inc.'s creation in 1988 becoming fully depreciated.

<u>Nonoperating Revenues and Expenses</u>

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 annual 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 2005, TRC Inc. sold $1,129,979 of securities to assist in the annual transfer to The Ohio State University. The sale of those securities generated a realized capital gain of $57,154, which was recognized in the Statement of Revenue, Expense and Changes in Net Assets. TRC Inc. replenished the $1,129,979 back into our endowment fund in October 2005.

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 2004 through 2006 is as follows:

	FY 2006	FY 2005	FY 2004
Market Value of Endowment Fund	$4,806,319	$4,379,904	$4,557,632
Book Value of Endowment Fund	$4,507,792	$4,249,739	$4,448,102
Appreciation (Depreciation)	$298,527	$130,165	$109,530
Unrealized Gain/(Loss) from Prior Year	$168,362	$20,635	$505,885
Realized Gain/(Loss) from Invmt. Sales	$57,154	$(23,944)	$(99,594)
Net Appreciation (Depreciation)	$225,516	$(3,309)	$406,291

Excess of Revenue Over Expense

Based on financial operations overall, TRC Inc. had a strong fiscal year 2006. The excess revenue over expense increased by 166%, or $1,894,087, in fiscal year 2006, as compared to fiscal year 2005. Much of this growth is because of the increase of outsourced testing in the industry, testing of manufacturer's new vehicle models, and the ability to test during the mild winter in fiscal year 2006.

TRC Inc. expects Research and Testing Agreement Revenue to stay at a constant level in fiscal year 2007. TRC Inc. anticipates Excess Revenues over Expenses to decrease by 21% to $2,500,000 in fiscal year 2007. The fiscal year 2007 estimate does not include an attempt to estimate what the gain on our investments will be, an amount that totaled $225,516 in fiscal year 2006. Removing the capital gains from the excess revenue over expense earned in fiscal year 2006 reflects that we anticipate excess revenue over expense from operations dropping by 13% in fiscal year 2007. Continued increases in labor and health insurance are the main reasons for the decrease in excess revenue over expense from operations.

TRANSPORTATION RESEARCH CENTER INC.

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2006 AND 2005

ASSETS	2006	2005
Cash and cash equivalents	$ 1,508,391	$ 1,709,901
Restricted cash	98,855	92,663
Investments	4,806,319	4,379,904
Trade accounts receivable, net of allowance for doubtful accounts of $156,000 and $124,156, respectively	9,388,273	6,469,206
Receivable from HAM	764,826	1,120,188
Supplies and prepaid expenses	112,064	92,359
Total current assets	16,678,728	13,864,221
Machinery and equipment	6,369,248	6,170,641
Less accumulated depreciation	(4,188,326)	(3,726,078)
Property and equipment, net	2,180,922	2,444,563
Total Assets	$ 18,859,650	$ 16,308,784
LIABILITIES AND NET ASSETS		
Trade accounts payable	$ 2,232,089	$ 2,113,979
Accounts payable HAM	815,027	608,931
Accrued payroll and related expenses	1,604,100	1,383,165
Deferred revenues	288,423	-
Current portion of long-term debt	204,000	190,000
Total current liabilities	5,143,639	4,296,075
Long-term portion of debt	1,921,609	2,125,029
Total liabilities	7,065,248	6,421,104
Investment in property and equipment, net of related debt	2,180,922	2,444,563
Restricted - accumulated surplus	4,002,434	2,256,075
Unrestricted net assets	5,611,046	5,187,042
Total net assets	11,794,402	9,887,680
Total liabilities and net assets	$ 18,859,650	$ 16,308,784

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

TRANSPORTATION RESEARCH CENTER INC.

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

OPERATING REVENUES	2006	2005
Research and testing	$ 40,271,625	$ 35,437,417
Owner's maintenance and repair	4,079,115	4,034,242
Total operating revenue	44,350,740	39,471,659
OPERATING EXPENSES		
Direct	26,153,790	24,072,177
General and administrative	14,944,870	13,726,286
Depreciation	526,085	605,007
Total operating expenses	41,624,745	38,403,470
Total operating income	2,725,995	1,068,189
NONOPERATING REVENUES (EXPENSES)		
Interest expense	(148,019)	(162,686)
Interest income	233,209	240,420
Total nonoperating revenues (expenses)	85,190	77,734
Net appreciation (depreciation) in fair value of investments	225,516	(3,309)
Excess of revenues over expenses before transfers	3,036,701	1,142,614
Transfer to Transportation Research Fund	(1,129,979)	(2,249,084)
Change in net assets	1,906,722	(1,106,470)
Net assets, beginning of year	9,887,680	10,994,150
Net assets, end of year	$ 11,794,402	$ 9,887,680

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

TRANSPORTATION RESEARCH CENTER INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 12,853,693	$ 10,646,476
Cash received from affiliates	29,190,277	30,524,729
Cash paid to suppliers	(7,040,325)	(6,935,074)
Cash paid to affiliates	(9,586,571)	(8,716,601)
Cash paid to employees	(18,242,199)	(16,677,729)
Cash paid for fringe benefits and payroll taxes	(5,672,285)	(5,189,911)
Other receipts	(356)	2,717
Net cash provided by operating activities	1,502,234	3,654,607
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to Transportation Research Fund	(1,129,979)	(2,249,085)
Non capital financing interest expense	(148,019)	(162,686)
Cash used in noncapital financing activities	(1,277,998)	(2,411,771)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payment of long-term debt	(183,228)	(176,054)
Additions to property and equipment	(262,445)	(286,122)
Proceeds on sale of property	-	31,504
Restricted cash	(6,192)	(6,180)
Net cash used in capital and related financing activities	(451,865)	(436,852)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	233,209	240,420
Purchase of investments	(1,338,878)	1,810,730
Proceeds from sale of investments	1,131,788	(2,071,356)
Net cash provided by (used in) investing activities	26,119	(20,206)
Increase in cash and cash equivalents	(201,510)	785,778
Cash and cash equivalents, beginning of year	1,709,901	924,123
Cash and cash equivalents, end of year	$ 1,508,391	$ 1,709,901
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	$ 2,725,995	$ 1,068,189
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	526,085	605,007
Provision for bad debt expense	31,844	-
Gain in property sale	-	(31,504)
(Increase)/decrease in trade accounts receivable	(2,950,911)	1,683,599
Decrease/(increase) in receivable from HAM	355,362	(34,366)
Increase in payable to HAM	206,096	147,499
Decrease in supplies and preapaid expenses	(19,705)	(1,340)
Increase in trade accounts payable	118,110	179,561
Increase in accrued payroll and related expenses	220,935	37,962
Increase in deferred revenue	288,423	-
Net cash provided by operating activities	$ 1,502,234	$ 3,654,607
SUPPLEMENTAL CASH FLOW INFORMATION		
Unrealized gain on investments	$ 168,362	$ 20,636
Cash paid for income taxes	$ 188,918	$ 73,000

The accompanying notes are an integral part of these 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 for complying with OSU's reporting requirements.

TRC operates under an agreement with HAM to manage the operations of the facility. Under the agreement, HAM paid 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 fee was eliminated by an amendment to the agreement effective July 1, 2004.

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 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 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, 2006, the revenue from the four highest volume commercial enterprises and one government agency was $27,133,705 and $7,789,383, respectively. For the year ended June 30, 2005, revenue from these sources was $22,903,665 and $7,562,727, 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 expenses. 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 receivables are $265,182 and $316,880 of unbilled accounts receivable for fiscal years 2006 and 2005, 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, 2006 and 2005.

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 amounts 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 gain of $57,154 in 2006 and realized a net loss of $23,945 in 2005. The calculation of realized gain or loss 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 2006 and 2005 is a gain of $168,362 and $20,636, respectively. These amounts take into account all changes in fair value (including purchases and sales) that occurred during each respective year. The cumulative unrealized gain on investments held at June 30, 2006 and 2005 is $298,527 and $130,165, respectively.

Deposit and Investment Risk Disclosures - In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment to GASB No. 3*, which addresses common deposit and investment ricks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. The standard is effective for periods beginning after June 15, 2004. TRC has presented the required information in Note 4.

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes accounting and financial reporting standards for impairment of capital assets. This Statement also clarifies and establishes accounting requirements for insurance recoveries. The standard was effective for periods beginning after December 15, 2004. This standard did not have a material impact on its reported financial statements.

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 retirements.

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.

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 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 2006 is estimated to be approximately $162,000 and was approximately $133,000 for 2005.

4. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash, cash equivalents, and investments at June 30, 2006 and 2005 were as follows:

	2006	2005
Cash on hand	$ 600	$ 600
Cash in bank	1,507,791	1,709,301
Investment in The Ohio State University Endowment Fund	4,806,319	4,379,904
Total	$6,314,710	$ 6,089,805

At June 30, 2006 and 2005, $100,000 of the bank balance was covered by federal deposit insurance and the remaining portion $1,407,791 and $1,609,301, respectively, were 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.

Investments in pooled shares of The Ohio State University Endowment Fund endowment at June 30,2006 and 2005 are as follows:

	2006	2005
Common stock	$ 1,555,455	$ 1,289,167
Equity mutual funds	1,627,348	1,621,886
U.S. government obligations	61,402	128,507
U.S. government agency obligations	86,395	105,879
Corporate bonds and notes	168,226	121,511
Bond mutual funds	629,960	662,977
International bonds	46,606	-
Partnerships & hedge funds	375,335	218,987
Real Estate	240,618	214,760
Other	14,974	16,230
Total	$ 4,806,319	$ 4,379,904

Additional Risk Disclosures on Deposits and Investments:

GASB Statement Nos. 3 and 40 require certain additional disclosures related to the interest-rate, credit and foreign currency risks associated with deposits and investments.

Interest-rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates.

The maturities of TRC's interest-bearing investments at June 30, 2006 are as follows:

	Investment Maturities (in years)				
	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. government obligations	$ 61,402	$ 3,758	$ 19,968	$ 25,141	$ 12,535
U.S. agency obligations	86,395	8,711	28,308	18,301	31,075
Corporate bonds	168,226	7,207	54,731	63,939	42,348
Bond mutual funds	629,960	23,536	304,570	196,051	105,804
International bonds	46,606		809	19,483	26,314
Total	$ 992,589	$ 43,212	$ 408,386	$ 322,915	$ 218,076

The maturities of TRC's interest-bearing investments at June 30, 2005 are as follows:

	Investment Maturities (in years)				
	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. government obligations	$ 128,507	$ 808	$ 63,817	$ 37,260	$ 26,622
U.S. agency obligations	105,879	3,983	39,080	39,463	23,353
Corporate bonds	121,511	5,287	45,235	31,887	39,102
Bond mutual funds	662,977	16,173	299,030	220,623	127,151
Total	$1,018,874	$ 26,251	$447,162	$329,233	$216,228

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality information - as commonly expressed in terms of the credit ratings issued by nationally recognized statistical rating organizations such as Moody's Investors Services, Standard & Poor's, or Fitch Ratings - provides a current depiction of potential variable cash flows and credit risk.

The credit ratings of TRC's interest-bearing investments at June 30, 2006 are as follows:

Credit Rating (Moody's)	Total	U.S. Govt Obligations	U.S. Agency Obligations	Corp. Bonds	Bond Mutual Funds	International Bonds
Aaa	$ 473,906	$ 61,402	$ 86,395	$ 16,160	$ 309,949	$
Aa	50,311			9,496	40,815	
A	123,259			41,517	79,537	2,205
Baa	90,485			33,779	50,324	6,382
Ba	77,430			10,522	39,421	27,487
B	137,145			45,522	83,917	7,706
Caa	23,125			11,230	11,412	483
Ca						
C	1,343				1,343	
Unrated	15,585				13,242	2,343
Total	$ 992,589	$ 61,402	$ 86,395	$ 168,226	$ 629,960	$ 46,606

The credit ratings of TRC's interest-bearing investments at June 30, 2005 are as follows:

Credit Rating (Moody's)	Total	U.S. Government Obligations	U.S. Agency Obligations	Corporate Bonds	Bond Mutual Funds
Aaa	$ 635,039	$ 128,507	$ 105,879	$ 16,111	$ 384,542
Aa	51,904			14,675	37,229
A	153,301			47,550	105,751
Baa	108,968			42,265	66,703
Ba	10,616			910	9,706
B	55,002				55,002
Caa	4,044				4,044
Ca					
C					
Total	$ 1,018,874	$ 128,507	$ 105,879	$ 121,511	$ 662,977

Foreign currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. At June 30, 2006, TRC's exposure to foreign currency risk is as follows:

	Common Stocks	Equity Mutual Funds	Bond Mutual Funds	International Bonds
Australian Dollar	$ 5,019	$ 8,586	$ 5,743	$ -
Brazilian Real	2,177	4,003	1,350	3,854
Canadian Dollar	10,474	12,892	8,149	-
EURO	77,164	54,473	36,363	-
Hong Kong Dollar	7,217	2,473	-	-
Japanese Yen	56,749	38,724	18,903	-
Norwegian Kroner	10,153	3,007	-	-
Pound Sterling	44,184	41,462	5,976	-
South African Rand	7,862	2,463	193	-
South Korean Won	-	5,035	-	-
Swedish Krona	6,761	3,635	2,315	-
Swiss Franc	9,373	6,156	-	-
Other Foreign	38,680	16,272	18,712	42,104
Total	$ 275,813	$ 199,181	$ 97,704	$ 45,958

At June 30, 2005, TRC's exposure to foreign currency risk is as follows:

	Common Stocks	Equity Mutual Funds	Bond Mutual Funds
Australian Dollar	$ 1,092	$ 18,471	$ 408
Canadian Dollar	1,935	23,496	2,582
EURO	20,162	112,772	55,714
Hong Kong Dollar	1,410	5,237	
Japanese Yen	13,541	68,897	39,000
Korean Won		9,006	
Pound Sterling	15,249	85,201	7,202
Swedish Krona	785	5,680	
Swiss Franc	5,867	16,262	
Taiwon Dollar		7,522	
Other Foreign Currencies	1,881	35,937	2,174
Total	$ 61,922	$ 388,481	$ 107,080

5. PROPERTY

The property balance at June 30, 2006 and 2005 consists of the following:

	Balance June 30, 2005	Additions	Disposals/ Transfers	Balance June 30, 2006
Capital Assets:				
Vehicles	$ 2,252,080	243,260	(61,521)	2,433,819
Testing equipment	814,844		-	814,844
Leasehold improvements				
Construction in progress	-	-	-	-
Total capital assets	6,170,641	262,445	(63,838)	6,369,248
Less accumulated depreciation				
Vehicles	(1,704,541)	(202,553)	61,521	(1,845,573)
Testing equipment	(626,647)	(133,501)	-	(760,148)
Leasehold improvements,				
Total accumulated depreciation	(3,726,078)	(526,086)	63,838	(4,188,326)
Property - net	$ 2,444,563	(263,641)	-	$ 2,180,922

The property balance at June 30, 2005 and 2004 consist of the following:

	Balance June 30, 2004	Additions	Disposals/ Transfers	Balance June 30, 2005
Capital Assets:				
Vehicles	$ 2,163,748	310,029	(221,697)	$ 2,252,080
Testing equipment	816,267	-	(1,423)	814,844
Leasehold improvements,				
Construction in progress	23,907	-	(23,907)	-
Total capital assets	6,140,420	310,029	(279,808)	6,170,641
Less accumulated depreciation				
Vehicles	(1,669,647)	(256,591)	221,697	(1,704,541)
Testing equipment	(469,229)	(158,841)	1,423	(626,647)
Leasehold improvements,				
Total accumulated depreciation	(3,376,972)	(605,007)	255,901	(3,726,078)
Property - net	$ 2,763,448	(294,978)	(23,907)	$ 2,444,563

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). Additionally, expenses for repairs and capital improvements made by TRC are reimbursed by HAM (owner expenses).

For the years ended June 30, 2006 and 2005 the amounts of transactions with HAM are as follows:

	2006	2005
Owner revenues	$ 6,974,922	$ 6,039,062
Owner expenses	$ 4,079,115	$ 4,034,242

At June 30, 2006 and 2005, there was a receivable from HAM for owner expenses of $764,826 and $1,120,188, respectively. In addition, at June 30, 2006 and 2005 there was a payable to HAM for owner revenues earned of $815,027 and $608,931, respectively.

TRC also earns operational revenues from HAM outside of the Management Agreement. These revenues were $18,882,566 and $16,728,458 for the years ended June 30, 2006 and 2005, respectively. Trade accounts receivable at June 30, 2006 and 2005 included $4,839,021 and $3,757,333, respectively, related to these operational revenues.

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 (5.38% at June 30, 2006). 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 (“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, 2006.

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:

June 30:	Principal	Interest
2007	$ 204,000	$ 118,904
2008	219,000	107,014
2009	234,000	94,265
2010	252,000	80,599
2011	269,000	65,930
2012 - 2014	947,609	98,775
Total	$2,125,609	$ 565,487

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, 2006 and 2005 is an unrealized loss of $17,099 and $121,781, respectively, which represents the amount at which it could be settled, based on estimates obtained rom the bank.

At June 30, 2005 TRC was in violation of certain debt covenants requiring total net assets to be in excess of $10,000,000. TRC obtained a waiver from the bank concerning this covenant. TRC was in compliance as of June 30, 2006.

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 Statement No. 32 in fiscal 1999, all amounts of compensation deferred under the Plan, all property and rights purchased with these amounts an 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, 2006 and 2005 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, 2006 and 2005 the net assets were comprised of the following:

	2006	2005
Investment in property & equipment - net of related debt	$ 2,180,922	$ 2,444,563
Restricted - accumulated surplus	4,002,434	2,256,075
Unrestricted net assets	5,611,046	5,187,042
Total net assets	$11,794,402	$ 9,887,680

The accumulated surplus balance includes a cumulative unrealized gain at June 30, 2006 and 2005 of $298,528 and $130,165, 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).

OPERS provides postretirement health care coverage to age and service retirees with ten 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 the retirement system is considered an Other Postemployment Benefit ("OPEB") as described in GASB Statement No. 12, *Disclosure of Information of Postemployment Benefits other than Pension Benefits by State and Local Government Employers*. A portion of each contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for authority for employer contributions. Effective January 1, 2006, the rate for state employers was 13.31% of covered payroll; 4% was the portion that was used to fund health care for the year. These rates are the actuarially determined contribution requirement for OPERS.

TRC's total PERS payroll for the years ended June 30, 2006, 2005 and 2004 was $1,711,202, $1,818,850 and $2,043,348, respectively. TRC's contributions to PERS for the years ended June30, 2006, 2005 and 2004 were $227,761, $242,089 and $271,970, respectively equal to the required contributions for each year.

Other postemployment benefits for health care costs provided by OPERS are as follows:

> The assumptions and calculations below were based on the Retirement System's latest actuarial review performed as of December 31, 2004. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets annually. The investment assumption rate for 2004 was 8.00%. An annual increase of 4.00% compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.30%. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase 4% (the projected wage inflation rate).
>
> OPEB are advance-funded on an actuarially determined basis. As of December 31, 2004, the actuarial value of the Retirement System's net assets available for OPEB was $10.8 billion. The number of active contributing participants was 376,109. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $29.5 billion and $18.7 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan ("HCPP") with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs. In 2005, OPERS created in 2005 a separate investment pool for health care assets. In addition, member and employer contribution rates increased as of January 1, 2006.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

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, 2006, future minimum lease receipts are due as follows:

2007	$ 874,501
2008	874,501
2009	874,501
2010	782,306
2011	751,574
2012-2014	1,691,042
Total	$5,848,425

TRC leases office space from HAM under agreements with terms expiring through 2014. These operating leases contain renewal options with an indefinite term. As of June 30, 2006, future minimum rental payments under operating leases with initial terms in excess of one year are summarized as follows:

2007	$ 859,567
2008	859,567
2009	859,567
2010	859,567
2011	859,567
2011-2013	931,198
Total	$5,229,033

Rental expense charged to operations was $859,319 and $829,322 during 2006 and 2005, 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. 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, 2006 and 2005 TRC expended $604,149 and $520,623, respectively, for contributions to the Plan.

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

To the Board of Directors of
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, 2006 and have issued our report thereon dated August 18, 2006. We conducted our audit 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.

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 of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud 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.

Compliance and Other Matters

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 amount. 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*.

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.

Parms & Company, LLC

August 18, 2006

Auditor of State
Betty Montgomery

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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 19, 2006