# TRANSPORTATION RESEARCH CENTER INC.
# FINANCIAL STATEMENTS

For The Years Ended June 30, 2007 and 2006

and
Independent Auditors' Report

**PARMS & COMPANY, LLC**
CERTIFIED PUBLIC ACCOUNTANTS

Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Transportation Research Center, Franklin County, prepared by Parms & Company, LLC, for the audit period July 1, 2006 through June 30, 2007. 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 is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 26, 2007

88 E. Broad St. / Fifth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

**This Page is Intentionally Left Blank.**

**TRANSPORTATION RESEARCH CENTER INC.**

**TABLE OF CONTENTS**

---

**This Page is Intentionally Left Blank.**

PARMS & COMPANY, LLC
CERTIFIED PUBLIC ACCOUNTANTS

585 South Front Street
Suite 220
Columbus, OH 43215

Office: 614-224-3078
Fax: 614-224-4616
www.parms.com

# 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, 2007 and 2006, and the related statements of revenues, 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TRC as of June 30, 2007 and 2006, 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 on pages 3-12 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. 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 October 5, 2007, 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

October 5, 2007

**Transportation Research Center Inc.**
**Management's Discussion and Analysis**
**For Fiscal Year Ended June 30, 2007**

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, 2007 and June 30, 2006, 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. During fiscal year 2007, TRC Inc. amended its Articles of Incorporation and its Code of Regulations. Changes made to these corporate governing documents transferred the sole membership of TRC Inc. from The Ohio State University Affiliates, Inc. to the TRC Inc. Ex Officio Directors. The Ex Officio Directors of TRC Inc. are the persons who hold the following positions at The Ohio State University: the University Controller (currently Greta J. Russell); the Senior Vice President for Research of the University (currently Dr. Robert T. McGrath); the Dean of the College of Engineering of the University (current Dr. William A. Baeslack III); and the Director of Transportation Research Center (currently Rick D. Gildow). The Ex Officio Directors represent The Ohio State University and its interest within 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, 2007 and June 30, 2006; the Statements of Revenue, Expenses and Changes in Net Assets for fiscal years ended June 30, 2007 and 2006; and the Statements of Cash Flows for fiscal years ended June 30, 2007 and 2006.

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

The Statement of Revenue, Expenses and Changes in Net Assets reflects 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, 2007, June 30, 2006 and June 30, 2005 are reflected below:

| | June 30, 2007 | June 30, 2006 | Change | June 30, 2005 |
|---|---|---|---|---|
| **Assets:** | | | | |
| Current Assets | $15,438,344 | $16,678,728 | (7.4)% | $13,864,221 |
| Net Property & Equip. | $1,990,335 | $2,180,922 | (8.7)% | $2,444,563 |
| Total Assets | $17,428,679 | $18,859,650 | (7.6)% | $16,308,784 |
| **Liabilities:** | | | | |
| Current Liabilities | $4,813,388 | $5,143,639 | (6.4)% | $4,296,075 |
| Long Term Debt | $1,687,000 | $1,921,609 | (12.2)% | $2,125,029 |
| Total Liabilities | $6,500,388 | $7,065,248 | (8.0)% | $6,421,104 |
| Net Assets | $10,928,291 | $11,794,402 | (7.3)% | $9,887,680 |

## Current Assets

TRC Inc. had a decrease in its Current Assets of 7% from June 30, 2006 to June 30, 2007.

The primary reason for the decrease in Current Assets was a $984,858 decrease in Trade Accounts Receivable from June 30, 2006 through June 30, 2007, or 10%. Trade Accounts Receivable fell because Research and Testing Revenues fell in fiscal year 2007 and accounts receivable collections improved. Research and Testing Revenues decreased by $420,158, or 1%, in fiscal year 2007. The average collection period of our Trade Accounts Receivable improved by 8 days from June 30, 2006 to June 30, 2007 to 76 days. Despite the decrease in Trade Accounts Receivable and the improvement in the average collection period, the percentage of Trade Accounts Receivable over 90-days at June 30, 2007 was 6%, as compared to 1% at June 30, 2006.

TRC Inc. owns endowment investments that are maintained and managed by The Ohio State University's Office of the Treasurer. These investments are in mutual funds. TRC Inc.'s investments decreased $314,780, or 7%, from June 30, 2006 to June 30, 2007 because TRC Inc. utilized a portion of these investments to assist in the transfer of fiscal year 2006 Excess of Revenues over Expenses. TRC Inc. made a transfer of $2,860,341 to The Ohio State University in fiscal year 2007. TRC Inc. made this transfer using $1,875,341 of operating cash, or 66% of the total amount transferred, while the remaining $985,000, or 34%, came from the TRC Inc. investment endowment fund at The Ohio State University. TRC Inc. plans to replenish the $985,000 used to assist in the fiscal year 2007 transfer, as well as the $1.7 million used to assist in the fiscal year 2006 transfer for the fiscal year 2005 Excess of Revenue over Expense, as operating cash improves and allows us to do so.

TRC Inc.'s investments benefited from improvements in the stock market. TRC Inc. initially funded the $1,360,341 of the $2,860,341 transfer made in fiscal year 2007 to The Ohio State University from its investment endowment fund, which generated a realized capital gain of $170,746. In addition, at June 30, 2007, the market value of TRC Inc.'s investment account exceeded the book value by $609,206, which generated an unrealized capital gain of $310,679 in fiscal year 2007.

TRC Inc. maintained a strong current ratio of 3.2 to 1 at June 30, 2007.

## Net Property and Equipment

Net of accumulated depreciation, TRC Inc.'s property and equipment amounted to $1,990,335, representing a decrease of $190,587, or 9%. 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 2007, TRC Inc. expended $395,449 on capital assets. TRC Inc. received a donation from Honda of three Acura TL's, valued at $63,710 in fiscal year 2007. These vehicles are used in TRC Inc.'s driver training program. The other two largest acquisitions made in fiscal year 2007 was a Caterpillar wheel loader for $167,650 and a new Chevrolet Suburban for $46,571. The Caterpillar wheel loader is used for snow removal on the facility, and the Chevrolet Suburban is part of TRC Inc.'s pool of travel vehicles.

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 $19,185 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.

The asset with the largest net book value at June 30, 2007 is leasehold improvements made to Building 60, totaling $1,327,023, or 67% of the total net book value. The Caterpillar wheel loader is the second largest asset that TRC Inc. owns, with a net book value of $111,767, or 6% of the total net book value. The remaining book value of each the remaining 176 capital assets is less than $46,000, and generally are assets used to maintain and secure the 4,500-acre facility, assist in the driver training program, or are vehicles used for travel purposes.

## Current Liabilities

TRC Inc.'s current liabilities fell by $330,251, or 6%, from June 30, 2006 through June 30, 2007. On average, TRC Inc. paid its suppliers invoices in 22 days in both fiscal year 2007 and fiscal year 2006.

## Long-Term Debt

TRC Inc. had $1,687,000 in long-term debt at June 30, 2007 and $1,921,609 at June 30, 2006. TRC Inc. entered into a note payable with Capital 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 Net Assets**

The major components of the Statements of Revenue, Expenses and Changes in Net Assets for Fiscal Years Ended June 30, 2007, 2006 and 2005 are reflected below:

| | FY 2007 | FY 2006 | Change | FY 2005 |
|---|---|---|---|---|
| Operating Revenues | $44,110,978 | $44,350,740 | (0.5)% | $39,471,659 |
| Operating Expenses | $42,727,211 | $41,624,745 | 2.6% | $38,403,470 |
| Operating Income | $1,383,767 | $2,725,995 | (49.2)% | $1,068,189 |
| Non-Operating Revenue | $129,038 | $85,190 | 51.5% | $77,734 |
| Appr./(Depr.)-FMV of Invst. | $481,425 | $225,516 | 113.5% | $(3,309) |
| Excess Rev. over Exp. | $1,994,230 | $3,036,701 | (34.3)% | $1,142,614 |
| Transfer to Ohio State | $(2,860,341) | $(1,129,979) | 153.1% | $(2,249,084) |
| Change in Net Assets | $(866,111) | $1,906,722 | (145.4)% | $(1,106,470) |
| Beginning Net Assets | $11,794,402 | $9,887,680 | 19.3% | $10,994,150 |
| Ending Net Assets | $10,928,291 | $11,794,402 | (7.3)% | $9,887,680 |

**Operating Revenues**

The two sources of revenue that TRC Inc. earns are Research and Testing Agreement Revenue and Owner's Maintenance and Repair 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 Manufacturing, Inc. (HAM).

Revenue summary for fiscal years 2007, 2006 and 2005 were:

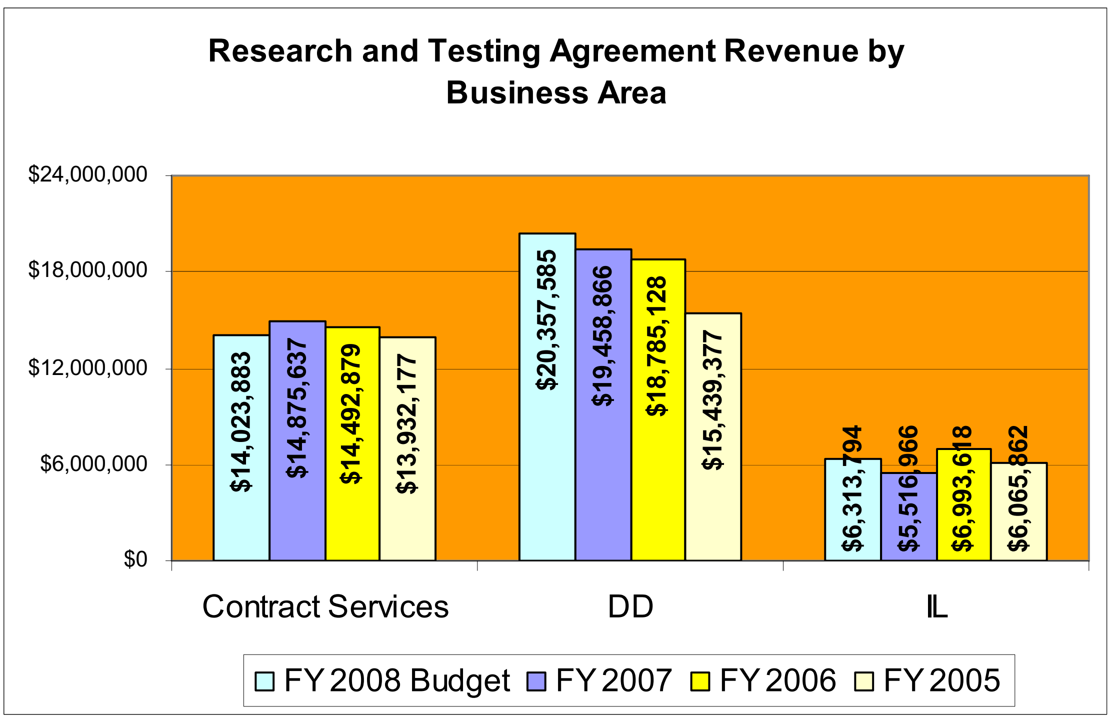
| | FY 2007 | FY 2006 | Change | FY 2005 |
|---|---|---|---|---|
| Research & Testing Agreement Rev. | $39,851,467 | $40,271,625 | (1.0)% | $35,437,417 |
| Owner's Maintenance & Repair Rev. | $4,259,511 | $4,079,115 | 4.4% | $4,034,242 |
| Total Operating Revenue | $44,110,978 | $44,350,740 | (0.5)% | $39,471,659 |

Research and Testing Agreement Revenue fell $420,158, or 1%, in fiscal year 2007 as compared to the historic high achieved in fiscal year 2006.

There was little fluctuation in the composition of the top eight customers. However, TRC Inc. incurred a revenue decline from four of our top six customers in fiscal year 2007, ranging from a 3% decrease from our second largest customer to a 23% drop for our sixth largest customer. Two of these customers released new models in fiscal year 2006 which resulted in less testing in fiscal year 2007. The other two customers reduced our contract support personnel in the operation of their laboratories.

In fiscal year 2007, TRC Inc. earned 87% of its revenue from its eight largest customers. In fiscal year 2006 and 2005, TRC Inc. earned 88% 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 growth of 2% in Research and Testing Agreement Revenue in fiscal year 2008 to $40.7 million.

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 2005 through fiscal year 2007 are as follows:




Contract Services Research and Testing Agreement Revenue grew by 3% in fiscal year 2007 as compared to fiscal year 2006. 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 four customers. Two of the customers had revenue decreases ranging from 2% to 4% in fiscal year 2007 as compared to fiscal year 2006. These two customers fell as a result of a decrease in headcount. The third customer had revenues that increased by 20% between fiscal years 2006 and 2007 as a result of a price increase and growth in headcount. Contract Services procured a new fourth customer in late fiscal year 2007. TRC Inc. estimates Research and Testing Agreement Revenue in Contract Services to decrease by 6% in fiscal year

2008. The decrease is as a result of a major customer in this area downsizing their staffing needs as a result of their bankruptcy proceedings.

Durability and Dynamics had another historic revenue year in fiscal year 2007. Durability and Dynamics had a revenue increase of 4% in fiscal year 2007 as compared to fiscal year 2006. The growth was a result of an increase in full-time personnel for an onsite customer, an increase in testing for a federal government agency, an increase in durability testing of an truck manufacturer, and a two-week demonstration event for a brand new customer. Due to the anticipation that cyclical testing by some Durability and Dynamics' customers will restart in fiscal 2008, TRC Inc. projects Research and Testing Agreement Revenue in Durability and Dynamics to increase by 5% in fiscal year 2008.

Research and Testing Agreement Revenue Revenues in the Impact Laboratory decreased by 21% in fiscal year 2007 as compared to fiscal year 2006. Total crash tests performed decreased by 22% in fiscal year 2007 as compared to fiscal year 2006. The Impact Laboratory's had three large customers cut back on their crash testing due to a natural dip in their development cycle. Those customers also performed their crash testing at their own crash laboratories. These factors resulted in revenue decreases ranging from 42% to 76% for those three customers. Other crash customers have also put severe price pressure on the Impact Laboratory which also contributed the revenue decline. Sled tests performed increased by 85% in fiscal year 2007 as compared to fiscal year 2006, due to a large increase of sled testing by a federal government agency. Due to the anticipated increase of crash tests that we perform for the Impact Laboratory's largest customer, TRC Inc. anticipates a 14% increase in revenues from the Impact Laboratory in fiscal year 2008.

Owner's Maintenance and Repair Revenue rose 4% in fiscal year 2007 as compared to fiscal year 2006. 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 increased dollars spent on maintenance and capital improvements of the facility in fiscal year 2007. 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.

**<u>Operating Expenses</u>**

Major components of operating expense in fiscal years 2007, 2006 and 2005 were:

| | FY 2007 | FY 2006 | Change | FY 2005 |
|---|---|---|---|---|
| Direct Expense | $26,245,784 | $26,153,790 | 0.4% | $24,072,177 |
| General and Admin. Exp. | $15,895,391 | $14,944,870 | 6.4% | $13,726,286 |
| Depreciation Expense | $586,036 | $526,085 | 11.4% | $605,007 |
| Total Operating Expense | $42,727,211 | $41,624,745 | 2.6% | $38,403,470 |

Direct expenses remained constant in fiscal year 2007, and in nearly similar proportions to changes in Research and Testing Agreement Revenue. Direct labor totaled

$12,505,943 and stayed at a constant level with fiscal year 2006. 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 $6,247,785, or 15% of total operating expense in fiscal year 2007. Owner's fees decreased by 10% in fiscal year 2007, primarily because of the decrease in workload at the Impact Laboratory.

TRC Inc.'s biggest operating expense is salaries and benefits. In fiscal year 2007, salaries and benefits were $24,933,688, or 58% of total operating expense. In fiscal year 2006, salaries and benefits were $23,985,537, or 58% of total operating expense. Salaries and benefits increased 4% in fiscal year 2007 and increased 6% in fiscal year 2006.

Large general and administrative operating expenditures made in fiscal year 2007 include:

- Health insurance for $2,916,410. Health insurance expense increased 16% in fiscal year 2007 as compared to fiscal year 2006.

- FICA and Medicare tax expense for $1,405,821, which was a 4% increase compared to fiscal year 2006.

- Retirement plan contributions of $827,757. 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 decreased by $4,145 in fiscal year 2007. Contributions to the company-sponsored defined contribution retirement plan are based on revenue. The decrease in retirement plan contributions is a direct result of the decrease in Research and Testing Agreement Revenue.

- Building leases of $811,546 in fiscal year 2007, which was a 4% increase compared to fiscal year 2006.

Depreciation expense increased 11% in fiscal year 2007 because of the acquisition of new capital assets in the past two fiscal years.

**<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 Appreciation 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 2006, TRC Inc. sold $1,360,341 of securities to assist in the annual transfer to The Ohio State University. The sale of those securities generated a realized capital gain of $170,746, which was recognized in the Statement of Revenue, Expense and Changes in Net Assets. TRC Inc. replenished $375,341 back into our endowment fund in the fourth quarter of calendar year 2006.

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 2005 through 2007 is as follows:

| | FY 2007 | FY 2006 | FY 2005 |
|---|---|---|---|
| Market Value of Endowment Fund | $4,491,539 | $4,806,319 | $4,379,904 |
| Book Value of Endowment Fund | $3,882,333 | $4,507,792 | $4,249,739 |
| Appreciation | $609,206 | $298,527 | $130,165 |
| | | | |
| Unrealized Gain from Prior Year | $310,679 | $168,362 | $20,635 |
| Realized Gain/(Loss) from Invmt. Sales | $170,746 | $57,154 | $(23,944) |
| Net Appreciation (Depreciation) | $481,425 | $225,516 | $(3,309) |

## Excess of Revenue Over Expense

Based on financial operations overall, TRC Inc. had a successful year in fiscal year 2007. The excess revenue over expense before transfers decreased by 34%, or $1,042,471, in fiscal year 2007, as compared to fiscal year 2006. Much of this decline is due to several core customers reducing their testing as a result of the normal valley in the production of new models, price reduction pressure from customers in a competitive industry, and reductions of headcount within contract services.

TRC Inc. expects Research and Testing Agreement Revenue to grow by 2% in fiscal year 2008 as a result of resumption of testing from certain core customers who are ramping up testing for new model introduction.

TRC Inc. introduced a new employee performance management system on July 1, 2007, which will share financial success or failure with employees. This new system will give the TRC Inc. the ability to control its largest expense, that being labor expense, in years that are financially slow, as well as share financial success in years that are strong.

TRC Inc. anticipates Excess Revenues over Expenses before Unrealized Gains in the Fair Value of Investments to increase by $316,449, or 19%, from $1,683,551 to $2,000,000 in fiscal year 2008.

## TRANSPORTATION RESEARCH CENTER INC.

### STATEMENTS OF NET ASSETS
### AS OF JUNE 30, 2007 AND 2006

| ASSETS | 2007 | 2006 |
|---|---|---|
| Cash and cash equivalents | $ 1,412,952 | $ 1,508,391 |
| Restricted cash | 89,264 | 98,855 |
| Investments | 4,491,539 | 4,806,319 |
| Trade accounts receivable, net of allowance for doubtful accounts of $156,000 for 2007 and 2006 | 8,544,873 | 9,388,273 |
| Receivable from HAM | 903,373 | 764,826 |
| Supplies and prepaid expenses | 137,801 | 112,064 |
| Total current assets | 15,579,802 | 16,678,728 |
| Machinery and equipment | 6,729,697 | 6,369,248 |
| Less accumulated depreciation | (4,739,362) | (4,188,326) |
| Property and equipment, net | 1,990,335 | 2,180,922 |
| Total Assets | $ 17,570,137 | $ 18,859,650 |
| LIABILITIES AND NET ASSETS | | |
| Trade accounts payable | $ 2,337,631 | $ 2,232,089 |
| Accounts payable HAM | 638,872 | 815,027 |
| Accrued payroll and related expenses | 1,617,885 | 1,604,100 |
| Deferred revenues | 141,458 | 288,423 |
| Current portion of long-term debt | 219,000 | 204,000 |
| Total current liabilities | 4,954,846 | 5,143,639 |
| Long-term portion of debt | 1,687,000 | 1,921,609 |
| Total liabilities | 6,641,846 | 7,065,248 |
| Investment in property and equipment, net of related debt | 1,990,335 | 2,180,922 |
| Restricted - accumulated surplus | 4,002,434 | 4,002,434 |
| Unrestricted net assets | 4,935,522 | 5,611,046 |
| Total net assets | 10,928,291 | 11,794,402 |
| Total liabilities and net assets | $ 17,570,137 | $ 18,859,650 |

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, 2007 AND 2006

| OPERATING REVENUES | 2007 | 2006 |
|---|---|---|
| Research and testing | $ 39,851,467 | $ 40,271,625 |
| Owner's maintenance and repair | 4,259,511 | 4,079,115 |
| Total operating revenue | 44,110,978 | 44,350,740 |
| OPERATING EXPENSES | | |
| Direct | 26,245,784 | 26,153,790 |
| General and administrative | 15,895,391 | 14,944,870 |
| Depreciation | 586,036 | 526,085 |
| Total operating expenses | 42,727,211 | 41,624,745 |
| Total operating income | 1,383,767 | 2,725,995 |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest expense | (130,069) | (148,019) |
| Interest income | 259,107 | 233,209 |
| Total nonoperating revenues | 129,038 | 85,190 |
| Net appreciation in fair value of investments | 481,425 | 225,516 |
| Excess of revenues over expenses before transfers | 1,994,230 | 3,036,701 |
| OTHER TRANSFERS AND CHANGES | | |
| Transfer to Transportation Research Fund | (2,860,341) | (1,129,979) |
| Change in net assets | (866,111) | 1,906,722 |
| Net assets, beginning of year | 11,794,402 | 9,887,680 |
| Net assets, end of year | $ 10,928,291 | $ 11,794,402 |

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, 2007 AND 2006

| | 2007 | 2006 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | $ 16,125,246 | $ 12,853,693 |
| Cash received from affiliates | 28,546,564 | 29,190,277 |
| Cash paid to suppliers | (7,389,589) | (6,851,407) |
| Cash paid for taxes | (225,130) | (188,918) |
| Cash paid to affiliates | (9,530,415) | (9,586,571) |
| Cash paid to employees | (19,028,707) | (18,242,199) |
| Cash paid for fringe benefits and payroll taxes | (6,049,899) | (5,672,285) |
| Advances to employees | (2,944) | (356) |
| Net cash provided by operating activities | 2,445,126 | 1,502,234 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Transfer to Transportation Research Fund | (2,860,341) | (1,129,979) |
| Non capital financing interest expense | (130,069) | (148,019) |
| Cash used in noncapital financing activities | (2,990,410) | (1,277,998) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Payment of long-term debt | (219,609) | (183,228) |
| Additions to property and equipment | (395,449) | (262,445) |
| Proceeds on sale of property | - | - |
| Restricted cash | 9,591 | (6,192) |
| Net cash used in capital and related financing activities | (605,467) | (451,865) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest income | 259,107 | 233,209 |
| Purchase of investments | (2,064,136) | (1,338,878) |
| Proceeds from sale of investments | 2,860,341 | 1,131,788 |
| Net cash provided by investing activities | 1,055,312 | 26,119 |
| Increase in cash and cash equivalents | (95,439) | (201,510) |
| Cash and cash equivalents, beginning of year | 1,508,391 | 1,709,901 |
| Cash and cash equivalents, end of year | $ 1,412,952 | $ 1,508,391 |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Operating Income | $ 1,383,767 | $ 2,725,995 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 586,036 | 526,085 |
| Provision for bad debt expense | - | 31,844 |
| Decrease/(Increase) in trade accounts receivable | 843,400 | (2,950,911) |
| (Increase)/Decrease in receivable from HAM | (138,547) | 355,362 |
| (Decrease)/Increase in payable to HAM | (176,155) | 206,096 |
| Increase in supplies and prepaid expenses | (25,737) | (19,705) |
| Increase in trade accounts payable | 105,542 | 118,110 |
| Increase in accrued payroll and related expenses | 13,785 | 220,935 |
| (Decrease)/Increase in deferred revenue | (146,965) | 288,423 |
| Net cash provided by operating activities | $ 2,445,126 | $ 1,502,234 |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Unrealized gain on investments | $ 310,679 | $ 168,362 |

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. On January 26, 1988, substantially all of the assets of the Center were sold to Honda of America Manufacturing ("HAM"). The corporation is organized exclusively for educational, charitable, and scientific purposes within the meaning of Section 501(c)(3) and Section 509(a)(3) of the Internal Revenue Code by 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.

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.

## 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 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, 2007, the revenue from the four highest volume commercial enterprises and one government agency was $25,209,084 and $7,591,884, respectively. For the year ended June 30, 2006, revenue from these sources was $27,133,705 and $7,789,383, 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 $484,809 and $265,182 of unbilled accounts receivable for fiscal years 2007 and 2006, 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, 2007 and 2006.

***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 $107,746 and $57,154 during 2007 and 2006, respectively. 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 2007 and 2006 is a gain of $310,678 and $168,362, 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, 2007 and 2006 is $609,206 and $298,527, 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. 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 2007 is estimated to be approximately $169,000 and was approximately $162,000 for 2006.

## 4. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash, cash equivalents, and investments at June 30, 2007 and 2006 were as follows:

| | 2007 | 2006 |
|---|---|---|
| Cash on hand | $ 600 | $ 600 |
| Cash in bank | 1,412,352 | 1,507,791 |
| Investment in The Ohio State University Endowment Fund | 4,491,539 | 4,806,319 |
| Total | $5,904,491 | $ 6,314,710 |

At June 30, 2007 and 2006, $100,000 of the bank balance was covered by federal deposit insurance and the remaining portion $1,312,352 and $1,407,791, 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 30,2007 and 2006, are as follows:

| | 2007 | 2006 |
|---|---|---|
| Common stock | $ 1,476,240 | $ 1,555,455 |
| Equity mutual funds | 1,346,656 | 1,627,348 |
| U.S. government obligations | 78,410 | 61,402 |
| U.S. government agency obligations | 111,169 | 86,395 |
| Corporate bonds and notes | 168,017 | 168,226 |
| Bond mutual funds | 187,136 | 629,960 |
| International bonds | 33,213 | 46,606 |
| Partnerships & hedge funds | 685,407 | 375,335 |
| Real Estate | 285,800 | 240,618 |
| Other | 119,491 | 14,974 |
| Total | $4,491,539 | $ 4,806,319 |

**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, 2007 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 | $ 78,411 | $ 3,899 | $ 9,336 | $ 53,540 | $ 11,636 |
| U.S. agency obligations | 111,169 | 4,404 | 24,088 | 18,240 | 64,437 |
| Corporate bonds | 168,016 | 6,610 | 44,836 | 69,918 | 46,652 |
| Bond mutual funds | 187,135 | 15,042 | 65,918 | 80,023 | 26,152 |
| International bonds | 33,213 | - | 5,672 | 6,023 | 21,518 |
| Total | $577,944 | $ 29,955 | $149,850 | $227,744 | $170,395 |

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 |

***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, 2007 are as follows:

| Credit Rating (S&P) | Total | U.S. Govt & Agency Obligations | Corporate Bonds | Bond Mutual Funds | International Bonds |
|---|---|---|---|---|---|
| AAA | $273,063 | $187,488 | $ 17,977 | $ 67,598 | $ - |
| AA | 24,794 | 1,378 | 13,556 | 9,434 | 426 |
| A | 60,044 | - | 32,066 | 27,978 | - |
| BBB | 37,469 | - | 28,835 | 6,515 | 2,119 |
| BB | 51,132 | - | 9,252 | 27,441 | 14,439 |
| B | 75,658 | - | 38,028 | 35,757 | 1,873 |
| CCC | 24,795 | - | 13,986 | 10,809 | - |
| CC | - | - | - | - | - |
| C | - | - | - | - | - |
| Not rated | 30,989 | 714 | 14,316 | 1,603 | 14,356 |
| Total | $577,944 | $189,580 | $168,016 | $187,135 | $ 33,213 |

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

| Credit Rating (S&P) | Total | U.S. Govt & Agency Obligations | Corporate Bonds | Bond Mutual Funds | International Bonds |
|---|---|---|---|---|---|
| AAA | $ 473,906 | $ 147,797 | $ 16,160 | $ 309,949 | $ |
| AA | 50,311 | | 9,496 | 40,815 | |
| A | 123,259 | | 41,517 | 79,537 | 2,205 |
| BBB | 90,485 | | 33,779 | 50,324 | 6,382 |
| BB | 77,430 | | 10,522 | 39,421 | 27,487 |
| B | 137,145 | | 45,522 | 83,917 | 7,706 |
| CCC | 23,125 | | 11,230 | 11,412 | 483 |
| CC | | | | | |
| C | 1,343 | | | 1,343 | |
| Not rated | 15,585 | | | 13,242 | 2,343 |
| Total | $992,589 | $ 147,797 | $168,226 | $629,960 | $ 46,606 |

***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, 2007, TRC's exposure to foreign currency risk is as follows:

| | Totals | Common Stocks | Equity Mutual | Bond Mutual | Corp. Bonds | Int. Bonds |
|---|---|---|---|---|---|---|
| Argentina Peso | $ 40,567 | $ - | $ 36,855 | $ - | $ - | $ 3,712 |
| Brazilian Real | 28,365 | 9,105 | 17,335 | 1,925 | - | - |
| Canadian Dollar | 73,860 | 15,291 | 55,331 | 3,238 | - | - |
| EURO | 391,834 | 111,047 | 254,318 | 26,469 | - | - |
| Hong Kong Dollar | 26,299 | 15,595 | 10,704 | - | - | - |
| Japanese Yen | 242,796 | 69,852 | 148,303 | 24,641 | - | - |
| New Taiwan Dollar | 17,628 | 6,920 | 10,708 | - | - | - |
| Norwegian Krone | 25,579 | 14,734 | 10,845 | - | - | - |
| Great Britain Pound Sterling | 208,329 | 49,759 | 154,777 | 3,793 | - | - |
| South African Rand | 27,493 | 16,209 | 9,298 | 1,986 | - | - |
| South Korean Won | 33,202 | 17,752 | 15,450 | - | - | - |
| Swedish Krona | 30,861 | 7,954 | 21,724 | 1,183 | - | - |
| Swiss Franc | 52,672 | 7,976 | 44,304 | 392 | - | - |
| US Dollar | 234,782 | 56,927 | 134,168 | 8,477 | 8,922 | 26,288 |
| Other Foreign Currency | 134,184 | 33,032 | 78,905 | 18,274 | 760 | 3,213 |
| Total | $1,568,451 | $432,153 | $1,003,025 | $90,378 | $9,682 | $33,213 |

At June 30, 2006, TRC's exposure to foreign currency risk is as follows:

| | Totals | Common Stocks | Equity Mutual Funds | Bond Mutual Funds | International Bonds |
|---|---|---|---|---|---|
| Australian Dollar | $ 19,348 | $ 5,019 | $ 8,586 | $ 5,743 | $ - |
| Brazilian Real | 11,384 | 2,177 | 4,003 | 1,350 | 3,854 |
| Canadian Dollar | 31,515 | 10,474 | 12,892 | 8,149 | - |
| EURO | 168,001 | 77,164 | 54,474 | 36,363 | - |
| Hong Kong Dollar | 9,690 | 7,217 | 2,473 | - | - |
| Japanese Yen | 114,376 | 56,749 | 38,724 | 18,903 | - |
| Norwegian Kroner | 13,161 | 10,153 | 3,008 | - | - |
| Great Britain Pound Sterling | 91,622 | 44,184 | 41,462 | 5,976 | - |
| South African Rand | 10,518 | 7,862 | 2,463 | 193 | - |
| Swedish Krona | 12,711 | 6,761 | 3,635 | 2,315 | - |
| Swiss Franc | 15,529 | 9,373 | 6,156 | - | - |
| US Dollar | 74,828 | 30,138 | - | 6,416 | 38,274 |
| Other Foreign Currencies | 45,973 | 8,542 | 21,305 | 12,296 | 3,830 |
| Total | $618,656 | $ 275,813 | $ 199,181 | $ 97,704 | $ 45,958 |

## 5. PROPERTY

The property balance at June 30, 2007 and 2006 consist of the following:

| | Balance June 30, 2006 | Additions | Disposals/ Transfers | Balance June 30, 2007 |
|---|---|---|---|---|
| Capital Assets: | | | | |
| Vehicles | $ 2,433,819 | 395,449 | (35,000) | $ 2,794,268 |
| Testing equipment | 814,844 | - | - | 814,844 |
| Leasehold improvements, furniture and fixtures | 3,120,585 | - | - | 3,120,585 |
| Total capital assets | 6,369,248 | 395,449 | (35,000) | 6,729,697 |
| Less accumulated depreciation | | | | |
| Vehicles | (1,845,573) | (347,660) | 35,000 | (2,158,233) |
| Testing equipment | (760,148) | (42,863) | - | (803,011) |
| Leasehold improvements, furniture and fixtures | (1,582,605) | (195,513) | - | (1,778,118) |
| Total accumulated depreciation | (4,188,326) | (586,036) | 35,000 | (4,739,362) |
| Property - net | $ 2,180,922 | (190,587) | - | $ 1,990,335 |

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 furniture and fixtures | 3,103,717 | 19,185 | (2,317) | 3,120,585 |
| 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, furniture and fixtures | (1,394,890) | (190,032) | 2,317 | (1,582,605) |
| Total accumulated depreciation | (3,726,078) | (526,086) | 63,838 | (4,188,326) |
| Property - net | $ 2,444,563 | (263,641) | - | $ 2,180,922 |

## 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, 2007 and 2006 the amounts of transactions with HAM are as follows:

| | 2007 | 2006 |
|---|---|---|
| Owner revenues | $ 6,247,785 | $ 6,974,922 |
| Owner expenses | $ 4,259,510 | $ 4,079,115 |

At June 30, 2007 and 2006, there was a receivable from HAM for owner expenses of $903,373 and $764,826, respectively. In addition, at June 30, 2007 and 2006 there was a payable to HAM for owner revenues earned of $638,872 and $815,027, respectively.

TRC also earns operational revenues from HAM outside of the Management Agreement. These revenues were $17,719,680 and $18,882,566 for the years ended June 30, 2007 and 2006, respectively. Trade accounts receivable at June 30, 2007 and 2006 included $4,380,895 and $4,839,021, 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, 2007). 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, 2007.

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 |
|---|---|---|
| 2008 | $ 219,000 | $ 107,014 |
| 2009 | 234,000 | 94,265 |
| 2010 | 252,000 | 80,599 |
| 2011 | 269,000 | 65,930 |
| 2012 - 2014 | 932,000 | 98,775 |
| Total Outstanding | $1,906,000 | $ 446,583 |
| Current Portion | (219,000) | |
| Long Term Portion | $1,687,000 | |

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, 2007 and 2006 is an unrealized loss of $15,870 and $17,009, respectively, which represents the amount at which it could be settled, based on estimates obtained rom the bank.

## 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 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, 2007 and 2006 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, 2007 and 2006 the net assets were comprised of the following:

| | 2007 | 2006 |
|---|---|---|
| Investment in property & equipment - net of related debt | $ 1,990,335 | $ 2,180,922 |
| Restricted - accumulated surplus | 4,002,434 | 4,002,434 |
| Unrestricted net assets | 4,935,522 | 5,611,046 |
| Total net assets | $10,928,291 | $ 11,794,402 |

The accumulated surplus balance includes a cumulative unrealized gain at June 30, 2007 and 2006 of $609,206 and $298,528, 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 ("OPERS"), a cost sharing, multiple employer defined benefit pension plan. OPERS 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. OPERS issues a publicly available comprehensive annual financial report which includes financial statements and required supplementary information for OPERS. That report may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio, 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

OPERS administers three separate pension plans as described below:

1. The Traditional Pension Plan - a cost sharing, multiple-employer defined benefit pension plan.

2. The Member-Directed Plan - a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.

3. The Combined Plan - a cost sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. The Ohio Revised Code provides statutory authority for member and employer contributions. For 2006, member and employer contribution rates were consistent across all three plans. For 2006, the member and employer contribution rates were 9% and 13.77%, respectively.

TRC's total PERS payroll for the years ended June 30, 2007, 2006 and 2005 was $1,539,310, $1,711,202 and $1,818,850, respectively. TRC's employer contributions to PERS for the years ended June 30, 2007, 2006 and 2005 were $211,963, $227,761 and $242,089, respectively, equal to 100% of the required contributions for each year.

OPERS also 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, 2007, the rate for state employers was 13.70% of covered payroll; 4.5% was the portion that was used to fund health care for the year. These rates are the actuarially determined contribution requirement for OPERS.

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, 2005. 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, not to exceed a 12% corridor. The investment assumption rate for 2005 was 6.50%. 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 .50% to 6% for the next 9 years. In subsequent years (10 and beyond) health care costs were assumed to increase 4% (the projected wage inflation rate).

OPEB are advance-funded on an actuarially determined basis. The Traditional Pension and Combined Plans had 369,214 active contributing participants as of December 31, 2006. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. The amount of employer contributions used to fund post-employment benefits is estimated to be $70,435 (based on multiplying actual contributions by .3323).

As of December 31, 2005, the actuarial value of the Retirement System's net assets available for OPEB was $11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $31.3 billion and $20.2 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 an 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, 2007, future minimum lease receipts are due as follows:

| | |
|---|---|
| 2008 | $ 967,830 |
| 2009 | 872,038 |
| 2010 | 835,037 |
| 2011 | 819,820 |
| 2012-2014 | 1,747,101 |
| Total | $5,241,826 |

TRC leases office space from HAM under agreements with terms expiring through July 31, 2012. These operating leases contain renewal options with an indefinite term. The lease amount is subject to annual adjustment based on the consumer price indexs. As of June 30, 2007, future minimum rental payments under operating leases with initial terms in excess of one year are summarized as follows:

| | |
|---|---|
| 2008 | $ 914,802 |
| 2009 | 914,802 |
| 2010 | 914,802 |
| 2011 | 914,802 |
| 2012-2013 | 991,036 |
| Total | $4,650,244 |

Rental expense charged to operations was $914,958 and $859,319 during 2007 and 2006, 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, 2007 and 2006 TRC expended $615,794 and $604,149, respectively, for contributions to the Plan.

PARMS & COMPANY, LLC
CERTIFIED PUBLIC ACCOUNTANTS

585 South Front Street
Suite 220
Columbus, OH 43215

Office: 614-224-3078
Fax: 614-224-4616
www.parms.com

# 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, 2007, and have issued our report thereon dated October 5, 2007. 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.

<u>Internal Control Over Financial Reporting</u>

In planning and performing our audit, we considered the TRC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the TRC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the TRC's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the TRC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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*.

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

October 5, 2007

**TRANSPORTATION RESEARCH CENTER INC.**
**EMPLOYEES' RETIREMENT SAVINGS PLAN**
**AND TRUST**

Financial Statements
As of and For the Years Ended
December 31, 2006 and 2005

**PARMS & COMPANY, LLC**
CERTIFIED PUBLIC ACCOUNTANTS

**TRANSPORTATION RESEARCH CENTER INC.**
**EMPLOYEES' RETIREMENT SAVINGS PLAN AND TRUST**

## TABLE OF CONTENTS

PARMS & COMPANY, LLC
CERTIFIED PUBLIC ACCOUNTANTS

585 South Front Street
Suite 220
Columbus, OH 43215

Office: 614-224-3078
Fax: 614-224-4616
www.parms.com

# INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Transportation Research Center Inc.
Employees' Retirement Savings Plan and Trust

We were engaged to audit the financial statements of Transportation Research Center Inc. Employees' Retirement Savings Plan and Trust (the "Plan") as of and for the years ended December 31, 2006 and 2005 and the supplemental schedule for the year ended December 31, 2006, as listed in the table of contents. These financial statements and supplemental schedule are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information, summarized in Notes 3 and 4, which was certified by Reliance Trust Company, the trustee of the Plan, except for comparing such information with the related information included in the 2006 and 2005 financial statements and the supplemental schedule. We have been informed by the plan administrator that the trustee holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee as of and for the years ended December 31, 2006 and 2005, that the information provided to the plan administrator by the trustee is complete and accurate.

Because of the significance of the information that we did not audit, we are unable to express, and do not express, an opinion on the accompanying financial statements and supplemental schedule as of and for the years ended December 31, 2006 and 2005 taken as a whole. The form and content of the information included in the financial statements and supplemental schedule, other than that derived from the information certified by the trustee, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Parms & Company, LLC

October 3, 2007

## TRANSPORTATION RESEARCH CENTER, INC.
## EMPLOYEES' RETIREMENT SAVINGS PLAN AND TRUST

### Statements of Net Assets Available for Benefits
### For the Years Ended December 31, 2006 and 2005

| | 2006 | 2005 |
|---|---|---|
| **ASSETS:** | | |
| Cash | $ - | $ - |
| Investments - at fair value | | |
| Fixed Income Funds | 1,300,386 | 1,124,035 |
| Equity Funds | 7,752,784 | 6,071,006 |
| Total Investments | 9,053,170 | 7,195,041 |
| Accounts receivable | | |
| Employer contribution receivable | 198,243 | 95,452 |
| Employee contribution receivable | - | - |
| Total accounts receivable | 198,243 | 95,452 |
| Other - participant loans | 255,968 | 216,886 |
| Total assets | $ 9,507,381 | $ 7,507,379 |
| **LIABILITIES:** | | |
| Benefits payable | $ - | $ - |
| **NET ASSETS AVAILABLE FOR BENEFITS** | $ 9,507,381 | $ 7,507,379 |

See notes to the financial statements.

**TRANSPORTATION RESEARCH CENTER, INC.**
**EMPLOYEES' RETIREMENT SAVINGS PLAN AND TRUST**

**Statements of Changes in Net Assets Available for Benefits**
**For the Years Ended December 31, 2006 and 2005**

| | 2006 | 2005 |
|---|---|---|
| **ADDITIONS:** | | |
| Employer contributions | $ 634,745 | $ 520,123 |
| Employee contributions | 713,289 | 652,029 |
| Interest from participant loans | 15,159 | 10,565 |
| Interest and dividends | 421,974 | 231,590 |
| Net appreciation in fair value of investments | 548,314 | 336,008 |
| Other | 4,131 | - |
| Total additions | 2,337,612 | 1,750,315 |
| **DEDUCTIONS:** | | |
| Benefits paid | 308,003 | 498,550 |
| Loan initiation fees | 3,250 | 3,000 |
| Administrative expenses | 26,357 | 20,688 |
| Total deductions | 337,610 | 522,238 |
| **INCREASE IN NET ASSETS** | 2,000,002 | 1,228,077 |
| **NET ASSETS AVAILABLE FOR BENEFITS:** | | |
| Beginning of year | 7,507,379 | 6,279,302 |
| End of Year | $ 9,507,381 | $ 7,507,379 |

See notes to the financial statements.

## NOTE 1 - PLAN DESCRIPTION

The following description of Transportation Research Center Inc. (the Company) Employees' Retirement Savings Plan and Trust (the "Plan") provides only general information. Participants should refer to the Plan Document for a more complete description of the Plan's provisions.

**General** - The Plan was adopted by Transportation Research Center Inc. (the "Company") effective July 1, 1992 and was amended and restated on January 1, 2003. The purpose of the Plan is to provide an opportunity for employees to increase their savings and provide additional income upon retirement. The Plan is a defined contribution with a cash or deferred arrangement. Employees age 50 or older may make "catch-up contributions" with certain restrictions. Employer contributions are allocated to each participant's account on a credits-allocation basis determined by compensation and years of service. There are two types of employer contributions: safe harbor matching and profit-sharing contributions. Participants should refer to the Plan Agreement for more complete information.

Employees are eligible to participate in the Plan and make tax-deferred contributions after completing one year of eligibility service. An eligible employee may authorize the Company to withhold from 1% to 75% of their compensation. Tax-deferred contributions could not exceed $15,000 for the 2006 Plan Year.

**Vesting** - Participants are immediately vested in their voluntary contributions and employer safe harbor matching contributions. Participants become vested in employer profit-sharing contributions after completing five years of continuous employment. Non-vested employer contributions for terminated participants are forfeited by the participant and are used to first reinstate previously forfeited account balances of re-employed participants. The remaining forfeitures, if any, are allocated to the employer contribution accounts of eligible participants.

**Plan Termination** - While the Company has not expressed any intent to terminate the Plan, the event of any such termination, the Plan provides that participants would be entitled to receive the amounts allocated to their respective participants accounts.

**Contributions** - Employer profit sharing contributions are determined annually based on the discretion of the Board of Directors of the Company.

## NOTE 1 - PLAN DESCRIPTION (continued)

**Tax Status** - The Plan obtained its latest determination letter on April 23, 1999, in which the Internal Revenue Service (IRS) stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. The Plan has been amended and restated since receiving the determination letter, and the Company has not applied for an updated IRS determination letter. However, the Company believes that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code, and the Plan and related trust continue to be tax-exempt. Therefore, no provisions for income taxes have been included in the Plan's financial statements.

**Participant Accounts** - Each participant's account is credited with the participant's contribution, proportionate share of the Company's contribution and Plan's earnings, and charged with withdrawals and loan fees, as applicable. Each participant is entitled only to the benefit that can be provided from the participant's account.

**Investments** - Upon enrollment into the Plan, a participant may direct employee and employer contributions in 1% increments into various investment options. The Plan currently offers 13 mutual funds as investment options for participants. Participants may reallocate their investments at any time during the year.

**Participant Loans** - The Plan makes loans to participants and beneficiaries not to exceed the lesser of one-half of the participant's vested account balance or $50,000. Loan terms range up to five years. Loans bear interest at a rate determined by the Plan administrator at the time that the loans are consummated. Principal and interest are paid through payroll deductions.

**Payment of Benefits** - On termination of service due to death, disability or retirement, a participant may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his or her account, or annual installments over a ten-year period.

## NOTE 2 - SUMMARY OF ACCOUNTING POLICIES

**Basis of Accounting** - The Plan's financial statements are prepared on the accrual basis of accounting.

---

## NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (continued)

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Plan management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

**Investment Valuation and Income Recognition** - Investments of the Plan are reflected in the accompanying statements of net assets available for Plan benefits at market value, which is the valuation of the security or interest in a fund at year-end as determined by the quoted market price. All investments are participant-directed. Participant loans are stated at cost which approximates fair value.

The Plan utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as, interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets available for benefits.

Purchases or sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

**Payments of Benefits** - Benefits are recorded when paid.

**Administrative Expenses** - Plan expenses are paid by the Company, except for participant loan fees and investment consulting fees which are paid by the Plan.

**Reclassification** – Certain accounts in the 2005 financial statements have been reclassified to conform to the presentation in the 2006 financial statements.

## NOTE 3 - INVESTMENTS (UNAUDITED)

The following presents investments at December 31, 2006 and 2005 that represent 5% or more of the Plan's net assets:

| | 2006 | 2005 |
|---|---|---|
| Fixed Income Funds: | | |
| Gartmore Morley Invt. Ominbus | $ 667,283 | $ 597,396 |
| Goldman Sachs Tr Govt Income Fund | 633,103 | 526,639 |
| Equity Funds | | |
| Artisan Mid Cap Fund | 519,723 | 459,803 |
| Dodge & Cox Stock Fund | 1,705,610 | 1,262,379 |
| Goldman Sachs Mid Cap Value Fund | 605,149 | 520,908 |
| Mainstay S&P 500 Index Fund | 686,683 | 554,345 |
| American Growth Fund of America | 1,214,764 | 959,836 |
| American Europacific Fund | 925,196 | 676,379 |
| Pimco Total Return Fund | 843,401 | 720,247 |
| Davis New York Venture Fund | 492,975 | - |

For the years ended December 31, 2006 and 2005, the Plan's investments, including gains and losses on investments bought and sold, as well as held during the year, appreciated in value by $548,314 and $336,008, respectively, as follows:

| | Net Appreciation in Fair Value | |
|---|---|---|
| | 2006 | 2005 |
| Fixed Income Funds | $ 23,912 | $ 15,308 |
| Equity Funds | 524,402 | 320,700 |
| Total Appreciation | $548,314 | $336,008 |

## NOTE 4 – INFORMATION CERTIFIED BY THE PLAN'S TRUSTEE (UNAUDITED)

The following is a summary of the unaudited information regarding the Plan, included in the accompanying financial statements and supplemental schedule, which was prepared by Reliance Trust Company and furnished to the Plan Administrator. The Plan Administrator has obtained certifications from the trustees that such information is complete and accurate.

| | 2006 | 2005 |
|---|---|---|
| Statements of Net Assets Available for Benefits: | | |
| Investments-at Fair Value | | |
| Fixed Income Funds | $1,300,386 | $1,124,034 |
| Equity Funds | 7,752,784 | 6,071,007 |
| Statements of Changes in Net Assets Available for Benefits: | | |
| Interest and Dividends | $ 421,032 | $ 231,573 |
| Net Appreciation in Fair Value of Investments | 548,314 | 336,008 |

**TRANSPORTATION RESEARCH CENTER, INC.**
**EMPLOYEES' RETIREMENT SAVINGS PLAN AND TRUST**

**Form 5500, Schedule H, Part IV, Line 4i - Schedule of Assets (Held at End of Year)**
**As of December 31, 2006**

| (b)<br>Indentity of Issuer, Borrower,<br>Lessor, or Similar Party | (c)<br>Description of Investment Including<br>Maturity Date, Rate of Interest,<br>Collateral, Par, or Maturity Value | (e)<br>Current<br>Value |
|---|---|---|
| FIXED INCOME FUNDS: | | |
| Gartmore Morley | Invt Omibus Instl CL A; 33,199 shares | $ 667,283 |
| Goldman Sachs | Govt Income FD CL; 44,304 shares | 633,103 |
| Total Fixed Income Funds | | 1,300,386 |
| EQUITY FUNDS: | | |
| American Funds | Growth FD of America CL R; 37,194 shares | 1,214,764 |
| American Funds | Europacific Fund CL R; 20,122 shares | 925,196 |
| Artisan | Inc Mid Cap FD Inv Shs; 17,062 shares | 519,723 |
| Columbia Funds | Acorn Fund CL A; 13,380 shares | 388,287 |
| Davis New York | Venture Fund CL A; 12,798 shares | 492,975 |
| Dodge & Cox | Stock Fund Com; 11,114 shares | 1,705,610 |
| Goldman Sachs | Small Cap Value FD; 8,394 shares | 370,241 |
| Goldman Sachs | Mid Cap Value A; 15,665 shares | 605,149 |
| Mainstay | S & P 500 Index Fund CL A; 21,161 shares | 686,683 |
| Pimco | Total Return FD Admin Shs; 81,253 shares | 843,401 |
| Vanguard | Balanced Index FD Inc Com; 35 shares | 755 |
| Total Equity Funds | | 7,752,784 |
| PARTICIPANT LOANS<br>(Various Participants) | Outstanding balance of participant loans<br>(with interest rates ranging from 5% to 9.25%) | 255,968 |
| TOTAL | | 9,309,138 |

Mary Taylor, CPA
Auditor of State

**OHIO STATE 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 6, 2007**

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us