# TRANSPORTATION RESEARCH CENTER, INC.

**FINANCIAL STATEMENTS**
**For The Years Ended June 30, 2010 and 2009**
**and**
**Independent Auditors' Report**

PARMS & COMPANY, LLC
CERTIFIED PUBLIC ACCOUNTANTS

**This Page is Intentionally Left Blank.**

Mary Taylor, CPA
Auditor of State

Board of Directors
Transportation Research Center Inc.
2040 Blankenship Hall
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, 2009 through June 30, 2010. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 22, 2010

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

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, 2010 and 2009, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TRC as of June 30, 2010 and 2009, 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 12, 2010, on our consideration of TRC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purposes of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that 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 important for assessing the results of our audit.

Parms & Company, LLC

October 12, 2010

**Transportation Research Center Inc.**
**Management Discussion and Analysis**
**For Fiscal Year Ended June 30, 2010**

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, 2010 and June 30, 2009, 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. 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 TRC Inc. Board of Directors are the sole members of TRC Inc. The Ex-Officio Directors on the TRC Inc. Board of Directors represent The Ohio State University and its interest within TRC Inc. The Ex-Officio Directors on the TRC Inc. Board of Directors 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 Caroline C. Whitacre); the Dean of the College of Engineering of the University (currently Interim Dean Gregory N. Washington, Ph.D.); and the Director of Transportation Research Center Inc. (currently Rick D. Gildow). The financial statements of TRC Inc. are included in the financial statements 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.

## Key Financials Highlights

Significant financial events during fiscal year 2010 were:

- The increase in total net assets of $929,836, or 10%, over the prior year.
- The increase in research and testing revenue of $1,510,463, or 4%, compared to the prior year.
- Excess revenue over expense before the unrealized appreciation in the fair value of investments was $1,919,367, which increased by 62%, or $732,104, from fiscal year 2009.
- TRC Inc. transferred its fiscal year 2009 excess revenue over expense before unrealized depreciation in the fair value of investments of $1,187,262 in November 2009 to the College of Engineering at The Ohio State University entirely from its operating cash fund.

## Financial Statement Overview

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

Presented in the audit report are the Statements of Net Assets at June 30, 2010 and June 30, 2009; the Statements of Revenue, Expenses and Changes in Net Assets for fiscal years ended June 30, 2010 and 2009; and the Statements of Cash Flows for fiscal years ended June 30, 2010 and 2009.

The Statements of Net Assets reflect TRC Inc.'s assets, liabilities and net assets.

The Statements of Revenue, Expenses and Changes in Net Assets reflect information showing how net assets changed during the fiscal year.

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

## Statements of Net Assets

The major components of the Statement of Net Assets at June 30, 2010, June 30, 2009 and June 30, 2008 are reflected below:

| | June 30, 2010 | June 30, 2009 | Change | June 30, 2008 |
|---|---|---|---|---|
| **Assets:** | | | | |
| Current Assets | $14,144,959 | $12,801,794 | 10.5% | $16,613,257 |
| Net Property & Equip. | $1,153,659 | $1,391,513 | (17.1)% | $1,525,952 |
| Total Assets | $15,298,618 | $14,193,307 | 7.8% | $18,139,209 |
| **Liabilities:** | | | | |
| Current Liabilities | $4,247,120 | $3,802,645 | 11.7% | $5,680,452 |
| Long Term Debt | $932,000 | $1,201,000 | (22.4)% | $1,453,000 |
| Total Liabilities | $5,179,120 | $5,003,645 | 3.5% | $7,133,452 |
| Net Assets | $10,119,498 | $9,189,662 | 10.1% | $11,005,757 |
| Total Liabilities and Net Assets | $15,298,618 | $14,193,307 | 7.8% | $18,139,209 |

### Current Assets

TRC Inc. had an increase of $1,343,165, or 11%, in Current Assets in fiscal year 2010 to $14,144,959. The primary reason for the increase in Current Assets was due to an increase in Trade Accounts Receivable.

Trade Accounts Receivable grew by $1,536,201, or 23%, in fiscal year 2010 to $8,228,033. The average collection period of Trade Accounts Receivable increased by a modest 11 days from June 30, 2009 to June 30, 2010, to 75 days. The percentage of Trade Accounts Receivable over 90-days at June 30, 2010 remained low at 4%, as compared to 3% at June 30, 2009. The increase in Trade Accounts Receivable was due to a 24% increase in Research and Testing Agreement Revenues in the last quarter of fiscal year 2010 as compared to the last quarter of fiscal year 2009. The high level of business in the fourth quarter of fiscal year 2010 required some time to collect upon that business. In spite of the large increase in Trade Accounts Receivable, TRC Inc. considers that virtually all of its Trade Receivables will be collected.

Another major element of TRC Inc.'s Current Assets is the endowment investments that are maintained and managed by The Ohio State University's Office of the Treasurer. TRC Inc.'s investment portfolio of $2,672,599 increased by $337,553, or 14%, from June 30, 2009 to June 30, 2010. The increase was marginal and reflects the same marginal performance of world-wide investment markets. At June 30, 2010, the book value of TRC Inc.'s investment account exceeded the market value by $435,404, which generated an unrealized capital gain of $197,731 in fiscal year 2010. TRC Inc. did not utilize any of its Investments to assist in the annual transfer to The Ohio State University in fiscal year 2010.

Cash is another major element of TRC Inc. Current Assets. Operating cash of $2,452,592 decreased by $790,595 from June 30, 2009 to June 30, 2010. The decrease was a result of the utilization of $1,187,262 of operating cash used to transfer the fiscal year 2009 excess revenue over expense before unrealized depreciation in the fair value of investments to The Ohio State University in fiscal year 2010. TRC Inc. believes is operating cash position at June 30, 2010 remains good.

**Net Property and Equipment**

The net book value TRC Inc.'s property and equipment is $1,153,659, representing a decrease of $237,854, or 17%, since June 30, 2009. 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 2010, TRC Inc. made no expenditures on any new capital equipment. TRC Inc. did receive a donation of 10 vehicles in support of our driver training program. TRC Inc. capitalized this donation at $130,000.

During fiscal year 2009, TRC Inc. expended $331,870 on ten pieces of equipment used primarily in the maintenance of the proving ground. The largest capital acquisition was $205,489 for two dump trucks used primarily for snow removal.

During fiscal year 2008, TRC Inc. expended $68,494 on five pieces of equipment used primarily in the maintenance of the proving ground.

The asset with the largest net book value at June 30, 2010 is leasehold improvements made to Building 60, totaling $758,299, or 66% of the total net book value. The remaining book value of each the remaining 190 capital assets is less than $75,000, 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 increased by $444,475, or 12%, from June 30, 2009 through June 30, 2010 due primarily to an increase in accrued payroll.

Trade Accounts Payable increased $120,694, or 9%, in fiscal year 2010 to $1,417,554. On average, TRC Inc. paid its supplier's invoices in 17 days in fiscal year 2010.

Accrued Payroll increased by $308,791, or 22%, in fiscal year 2010 to $1,693,745. The increase was due to an accrual made for TRC Inc.'s incentive performance bonus in fiscal year 2010 in the amount of $468,387.

**Long-Term Debt**

TRC Inc. had $932,000 in long-term debt at June 30, 2010 and $1,201,000 at June 30, 2009. 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. 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 Fund Balance for fiscal years ended June 30, 2010, 2009 and 2008 are reflected below:

| | FY 2010 | FY 2009 | Change | FY 2008 |
|---|---|---|---|---|
| Operating Revenues | $42,546,366 | $42,206,106 | 0.8% | $48,011,065 |
| Operating Expenses | $40,730,858 | $40,902,589 | (0.4)% | $45,757,157 |
| Operating Income | $1,815,508 | $1,303,517 | 39.3% | $2,253,908 |
| Non-Operating Revenue | $103,859 | $40,492 | 156.5% | $86,051 |
| Appr./(Depr.)-FMV of Invst. | $197,731 | $(647,706) | 130.5% | $(578,942) |
| Excess Rev. over Exp. | $2,117,098 | $696,303 | 204.0% | $1,761,017 |
| Transfer to Ohio State | $(1,187,262) | $(2,512,398) | (52.7)% | $(1,683,551) |
| Change in Net Assets | $929,836 | $(1,816,095) | (151.2)% | $77,466 |
| Beginning Net Assets | $9,189,662 | $11,005,757 | (16.5)% | $10,928,291 |
| Ending Net Assets | $10,119,498 | $9,189,662 | 10.1% | $11,005,757 |

**<u>Operating Revenues</u>**

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 is revenue TRC Inc. earns from its customers for conducting durability, dynamic, emissions, 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.

Revenue summary for fiscal years 2010, 2009 and 2008 were:

| | FY 2010 | FY 2009 | Change | FY 2008 |
|---|---|---|---|---|
| Research & Testing Agreement Rev. | $39,370,436 | $37,859,973 | 4.0% | $42,790,721 |
| Owner's Maintenance & Repair Rev. | $3,175,930 | $4,346,133 | (26.9)% | $5,220,344 |
| Total Operating Revenue | $42,546,366 | $42,206,106 | 0.8% | $48,011,065 |

Development, research and testing activities during the past fiscal year continued to be impacted by the depressed economic condition of the automobile industry. However, Research and Testing Agreement Revenue still rose 4%. This increase was primarily due to an increase in fuel evaluation studies and in truck testing.

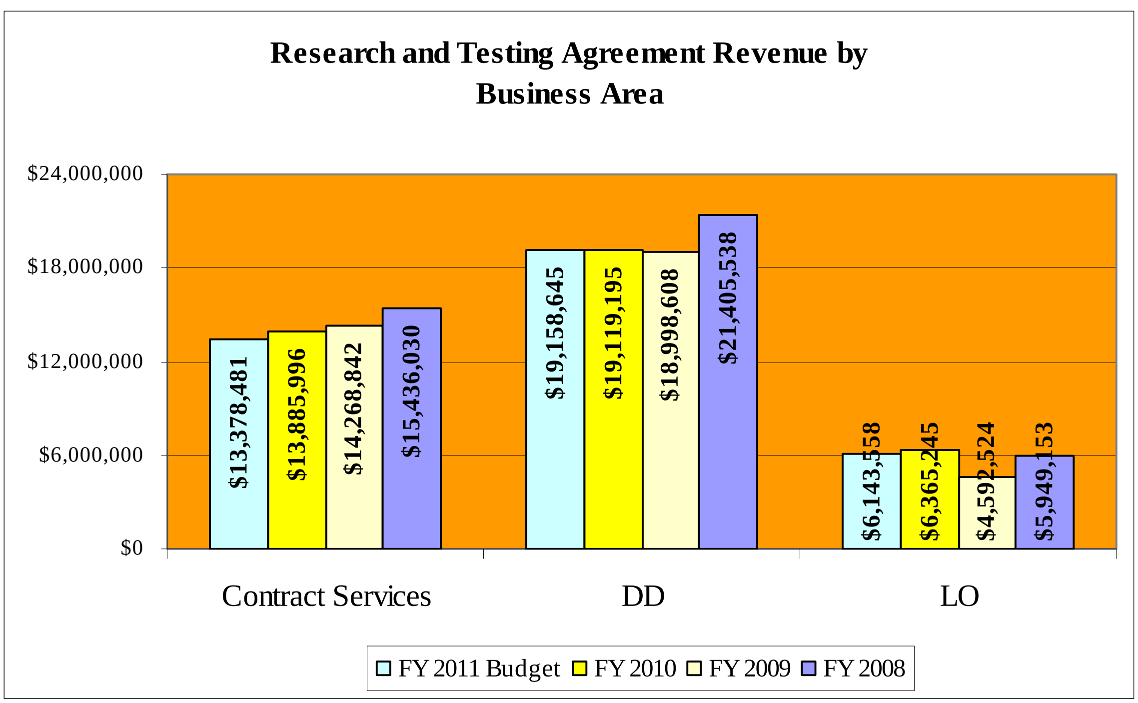
There was one new customer that moved into our top five customer list. That customer is doing an extensive evaluation of fuels. The customer that was displaced from the top five was in bankruptcy and its business was sold. TRC Inc. was able to procure business from the company that bought the bankrupt company, and that company is currently our sixth largest customer.

All five of TRC Inc.'s top customers are government agencies or large corporations in the truck or automotive manufacturing market. In fiscal year 2010, three of our top five customers had an increase in Research and Testing Agreement Revenue. The two accounts that had a decrease are automotive manufacturers that are dealing with the depressed economic condition of the automobile industry. Those two accounts have cut expenses in response to that condition.

In fiscal year 2010, the top five customers account for 71% of total Research and Testing Agreement Revenue. In fiscal year 2009, the top five customers account for 78% of total Research and Testing Agreement Revenue.

In fiscal year 2011, TRC Inc. anticipates a slow recovery from the automotive industry and a slow down in the fuel evaluation study. As a result, TRC Inc. anticipates a decrease in Research and Testing Agreement Revenue in fiscal year 2011 to $38.7 million. TRC Inc. may have a reduction of headcount from the new contract service customers in fiscal year 2011.

The major sources of Research and Testing Agreement Revenue are Contract Services, Durability and Dynamics (DD), and Laboratory Operations (LO). Revenue comparisons for these three areas from fiscal year 2008 through budgeted fiscal year 2011 are as follows:



Contract Services Research and Testing Agreement Revenue fell by 3% in fiscal year 2010 as compared to fiscal year 2009. 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 had four customers in fiscal year 2010. One new customer purchased an automotive component manufacturer that went bankrupt. That new customer generated $2.3 million of revenue in fiscal year 2010. The bankrupt company that they bought was also a customer of TRC Inc.'s and is no longer in business. As a result, Contract Services finished fiscal year 2010 with three customers. One of the other two customers in this business area had a Research and Testing Agreement Revenue increase of 4%, while the other had a decrease of 15%.

TRC Inc. estimates total Research and Testing Agreement Revenue in Contract Services to decrease by 4% in fiscal year 2011. We expect headcount reductions from one customer who is in the depressed automotive manufacturing industry, leading to a 13% decrease in Research and Testing Agreement Revenue in fiscal year 2011 for that customer. We anticipate a decrease of 4% in Research and Testing Agreement Revenue from a government agency customer in fiscal year 2011, also due to headcount reductions. We expect a 10% increase from the third customer, who was new in fiscal year 2010, primarily because of having a full year of revenue from that customer.

In fiscal year 2010, TRC Inc. moved its Emissions Laboratory from the Durability and Dynamics business area to the Laboratory Operations business area. The Emission Laboratory generated $2.5 million of Research and Testing Agreement Revenue in fiscal year 2010 and $1.2 million in fiscal year 2009.

Durability and Dynamics had a 1% growth in Research and Testing Agreement Revenue in fiscal year 2010. The increase in Research and Testing Agreement Revenue in Durability and Dynamics was primarily due to the fuel evaluation study and in truck testing. However, gains in those two areas were negated by revenue decreases from customers in the depressed automotive manufacturing industry that continued to make expense cuts, as well as the management decision to move the Emissions Laboratory to the Laboratory Operations business area. TRC Inc. foresees Durability and Dynamics' Research and Testing Agreement Revenue in the Durability and Dynamics business area remaining level in fiscal year 2011. Anticipated slowdowns from the fuel evaluation study will be offset with expected increases from the automotive manufacturing customers.

Research and Testing Agreement Revenues in Laboratory Operations increased 39% in fiscal year 2010, primarily due to the fuel evaluation study conducted in fiscal year 2010 and the management decision to move the Emissions Laboratory to the Laboratory Operations business area. The Impact Laboratory has been significantly affected by cuts from customers in the depressed automotive manufacturing industry. TRC Inc. expects crash test activity to remain stable in fiscal year 2011, but foresees a slowdown in the fuel evaluation testing. As a result, Research and Testing Agreement Revenue in the Laboratory Operations business area is expected to fall by 3% in fiscal year 2011.

Owner's Maintenance and Repair Revenue fell 27% in fiscal year 2010 as compared to fiscal year 2009. The major components of this revenue are the capital improvements and maintenance made to the facility that the landlord funds each year. The owner decreased dollars spent on maintenance and capital improvements of the facility in fiscal year 2010. Since most of the capital improvements are subcontracted out and resold to the landlord at TRC Inc. cost, gain or loss of revenue on this line item does not have a major impact upon excess revenues over expenses.

**Operating Expenses**

Major components of operating expense in fiscal years 2010, 2009 and 2008 were:

| | FY 2010 | FY 2009 | Change | FY 2008 |
|---|---|---|---|---|
| Direct Expense | $24,994,929 | $24,895,933 | 0.4% | $28,227,655 |
| General and Admin. Exp. | $15,368,075 | $15,540,347 | (1.1)% | $16,996,625 |
| Depreciation Expense | $367,854 | $466,309 | (21.1)% | $532,877 |
| Total Operating Expense | $40,730,858 | $40,902,589 | (0.4)% | $45,757,157 |

Despite the 4% increase in Research and Testing Revenue, total operating expense remained constant in fiscal year 2010. In response to the 12% reduction of Research and Testing Revenue that occurred in fiscal year 2009, TRC Inc. cut many various operating expenses in fiscal year 2009. TRC Inc. has been prudent and reserved in bringing back some of the expenses cut in fiscal year 2009 in fiscal year 2010.

TRC Inc.'s biggest operating expense is salaries and benefits. In fiscal year 2010, salaries and benefits were $23,158,292, or 57% of total operating expense. In fiscal year 2009, salaries and benefits were $24,105,199, or 59% of total operating expense. In fiscal year 2008, salaries and benefits were $26,276,206, or 57% of total operating expense. Salaries and benefits decreased 4% in fiscal year 2010 and decreased 8% in fiscal year 2009.

Depreciation expense decreased 21% in fiscal year 2010. This decrease was due to assets becoming fully depreciated in fiscal year 2010.

**Nonoperating Revenues and Expenses**

Interest expense represents the interest paid to a bank for the note payable that was described in the Long-Term Debt section. Interest expense decreased 77% due to the expiration of an interest SWAP agreement that TRC Inc. had with the bank that holds the note payable

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. Interest income was down 6% in fiscal year 2010 due to reduced interest rates in the market.

## Net Appreciation/(Loss) 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 stocks and 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 fiscal year 2010, TRC Inc. funded the entire transfer made to The Ohio State University from operating cash. Since no investments were used to make the transfer, there was no realized capital gain in fiscal year 2010. In September 2008, TRC Inc. sold $2,000,000 of securities to assist in the annual transfer to The Ohio State University. The sale of those securities generated a realized capital loss of $156,746, which was recognized in the Statement of Revenue, Expense and Changes in Net Assets.

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

The realized and unrealized appreciation or depreciation in the fair value of investments for fiscal years 2008 through 2010 is as follows:

| | FY 2010 | FY 2009 | FY 2008 |
|---|---|---|---|
| Market Value of Endowment Fund | $2,672,599 | $2,335,046 | $4,092,763 |
| Book Value of Endowment Fund | $3,108,003 | $2,968,181 | $4,234,938 |
| Appreciation/(Depreciation) | $(435,404) | $(633,135) | $(142,175) |
| | | | |
| Unrealized Gain | $197,731 | $(490,960) | $(751,381) |
| Realized Gain/(Loss) from Invmt. Sales | $0 | $(156,746) | $172,439 |
| Net Appreciation (Depreciation) | $197,731 | $(647,706) | $(578,942) |

As was the case with the world-wide market in fiscal year 2009, TRC Inc.'s investments took a beating in fiscal year 2009. The increase that resulted in fiscal 2010 was marginal and reflects the same marginal performance of world-wide investment markets.

## Excess of Revenue over Expense

Excess revenue over expense before the unrealized appreciation in the fair value of investments and before the transfer to the Transportation Research Fund was $1,919,367, which increased by 62%, or $732,104, from fiscal year 2009. The increased business that TRC Inc. received from the truck industry and for the fuel evaluation study was enough to overcome the still sluggish economy and the depressed automotive industry, which continue to have an impact upon TRC Inc. financially. TRC Inc. has managed through this volatility by keeping expenses low in many areas.

TRC Inc. expects slow recoveries in the economy, the automotive industry and the investment markets. TRC Inc. also expects that the fuel study that was performed in fiscal year 2010 to slow down in fiscal year 2011. TRC Inc. anticipates Research and Testing Agreement Revenue to fall by 2% in fiscal year 2011 to $38.7 million. The reduction is expected due to the expectation that our customers will continue to hold their expenses at the same level in fiscal year 2011 as they did in fiscal year 2010 and the reduction in headcount of employees in Contract Services. TRC Inc. foresees Excess Revenues over Expenses before Unrealized Gains/Loss in the Fair Value of Investments decreasing by $199,368, or 10%, from $1,919,368 to $1,720,000 in fiscal year 2011.

## TRANSPORTATION RESEARCH CENTER INC.

### STATEMENTS OF NET ASSETS
### AS OF JUNE 30, 2010 AND 2009

| **ASSETS** | **2010** | **2009** |
|---|---|---|
| Current assets | | |
| Cash and cash equivalents | $ 2,452,592 | $ 3,243,187 |
| Restricted cash | 110,056 | 102,637 |
| Investments | 2,672,599 | 2,335,046 |
| Trade accounts receivable, net of allowance for doubtful accounts of $146,600 for 2010 and $156,000 for 2009 | 8,228,033 | 6,691,832 |
| Receivable from HAM | 575,676 | 321,056 |
| Supplies and prepaid expenses | 106,003 | 108,036 |
| Total current assets | 14,144,959 | 12,801,794 |
| Noncurrent assets | | |
| Machinery and equipment | 6,959,588 | 6,838,577 |
| Less accumulated depreciation | (5,805,929) | (5,447,064) |
| Property and equipment, net | 1,153,659 | 1,391,513 |
| **Total Assets** | **15,298,618** | **14,193,307** |
| **LIABILITIES** | | |
| Current liabilites | | |
| Trade accounts payable | 1,417,554 | 1,296,860 |
| Accounts payable HAM | 737,769 | 582,128 |
| Accrued payroll and related expenses | 1,693,745 | 1,384,954 |
| Deferred revenues | 129,052 | 286,703 |
| Current portion of long-term debt | 269,000 | 252,000 |
| Total current liabilities | 4,247,120 | 3,802,645 |
| Noncurrent liabilities | | |
| Long-term portion of debt | 932,000 | 1,201,000 |
| **Total Liabilities** | **5,179,120** | **5,003,645** |
| **NET ASSETS** | | |
| Investment in property and equipment, net of related debt | 1,153,659 | 1,391,513 |
| Restricted - accumulated surplus | 4,002,434 | 4,002,434 |
| Unrestricted net assets | 4,963,405 | 3,795,715 |
| **Total Net Assets** | **$ 10,119,498** | **$ 9,189,662** |

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, 2010 AND 2009

| | 2010 | 2009 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Research and testing | $ 39,370,436 | $ 37,859,973 |
| Owner's maintenance and repair | 3,175,930 | 4,346,133 |
| **Total Operating Revenue** | **42,546,366** | **42,206,106** |
| **OPERATING EXPENSES** | | |
| Direct | 24,994,929 | 24,895,933 |
| General and administrative | 15,368,075 | 15,540,347 |
| Depreciation | 367,854 | 466,309 |
| Total Operating Expenses | 40,730,858 | 40,902,589 |
| **Total Operating Income** | **1,815,508** | **1,303,517** |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| Interest expense | (21,789) | (93,242) |
| Interest income | 125,648 | 133,734 |
| Total Nonoperating Revenues | 103,859 | 40,492 |
| Net Change in Fair Value of Investments | 197,731 | (647,706) |
| **Excess of Revenues Over Expenses Before Transfers** | **2,117,098** | **696,303** |
| **OTHER TRANSFERS AND CHANGES** | | |
| Transfer to Transportation Research Fund | (1,187,262) | (2,512,398) |
| **Change in Net Assets** | **929,836** | **(1,816,095)** |
| **Net Assets, Beginning of Year** | **9,189,662** | **11,005,757** |
| **Net Assets, End of Year** | **$ 10,119,498** | **$ 9,189,662** |

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, 2010 AND 2009

| | 2010 | 2009 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash received from customers | $ 24,253,258 | $ 21,243,532 |
| Cash received from affiliates | 16,337,332 | 24,448,164 |
| Cash paid to suppliers | (8,526,963) | (7,679,909) |
| Cash paid for taxes | (269,731) | (350,963) |
| Cash paid to affiliates | (8,033,838) | (9,314,984) |
| Cash paid to employees | (17,181,616) | (18,955,990) |
| Cash paid for fringe benefits and payroll taxes | (5,763,697) | (6,136,930) |
| Advances to employees | 7,303 | 7,039 |
| **Net cash provided by operating activities** | **822,048** | **3,259,959** |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| Transfer to Transportation Research Fund | (1,187,262) | (2,512,398) |
| Non capital financing interest expense | (21,789) | (93,242) |
| **Cash used in noncapital financing activities** | **(1,209,051)** | **(2,605,640)** |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Payment of long-term debt | (252,000) | (234,000) |
| Additions to property and equipment | (130,000) | (331,870) |
| Restricted cash | (7,419) | (6,920) |
| **Net cash used in capital and related financing activities** | **(389,419)** | **(572,790)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Interest income | 125,648 | 133,734 |
| Purchase of investments | (1,327,083) | (1,402,387) |
| Proceeds from sale of investments | 1,187,262 | 2,512,398 |
| **Net cash provided by investing activities** | **(14,173)** | **1,243,745** |
| **Increase in cash and cash equivalents** | **(790,595)** | **1,325,274** |
| **Cash and cash equivalents, beginning of year** | **3,243,187** | **1,917,913** |
| **Cash and cash equivalents, end of year** | **$ 2,452,592** | **$ 3,243,187** |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | | |
| Operating Income | $ 1,815,508 | $ 1,303,517 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 367,854 | 466,309 |
| Provision for bad debt expense | - | - |
| (Increase)/Decrease in trade accounts receivable | (1,536,202) | 3,018,717 |
| (Increase)/Decrease in receivable from HAM | (254,620) | 333,509 |
| Increase/(Decrease) in payable to HAM | 155,641 | (303,158) |
| Decrease in supplies and prepaid expenses | 2,033 | 33,714 |
| Increase/(Decrease) in trade accounts payable | 120,694 | (872,915) |
| Increase/(Decrease) in accrued payroll and related expenses | 308,791 | (860,137) |
| (Decrease)/Increase in deferred revenue | (157,651) | 140,403 |
| **Net cash provided by operating activities** | **$ 822,048** | **$ 3,259,959** |
| **SUPPLEMENTAL CASH FLOW INFORMATION** | | |
| Unrealized gain (loss) on investments | $ 197,731 | $ (490,960) |

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 unit 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 accounts payable and accrued 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, 2010, the revenue from the four highest volume commercial enterprises and one government agency was $23,540,953 and $8,669,573, respectively. For the year ended June 30, 2009, revenue from these sources was $24,577,738 and $8,184,352, 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 $396,831 and $317,677 of unbilled accounts receivable for fiscal years 2010 and 2009, 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, 2010 and 2009.

***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.

***Investment Policy*** - All investments consist of amounts invested in The Ohio State University Long Term Investment Pool and are recorded at fair value, as reported by The Ohio State University's Office of the Treasurer. Investments are carried at market value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. There was no realized gain or loss during 2010. TRC realized a net loss of $156,746 during 2009. The calculation of realized gain or loss is independent of the calculation of the net increase in fair value of investments. The net change in the value of investments during 2010 and 2009, is a gain of $197,731 and a loss of $490,960, respectively. These amounts take into account all changes in fair value (including purchases and sales) that occurred during each respective year. The cumulative unrealized loss on investments held at June 30, 2010 and 2009, is $435,404 and $633,135, respectively.

***GASB Pronouncements*** - During 2010, the provisions of GASB Statement No. 51 – Accounting and Financial Reporting for Intangible Assets, GASB Statement No. 53 - Accounting and Financial Reporting for Derivative Instruments, GASB Statement 57 - OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans and GASB 58 - Accounting and Financial Reporting for Chapter 9 Bankruptcies became effective. These pronouncement had no significant effect of the financial reporting of TRC during 2010.

***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 paid time off 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 to other organizations, such as private foundations.

TRC is subject to unrelated business tax for the leasing of certain TRC employees. Unrelated income tax expense in 2010 is estimated to be approximately $240,000 and was approximately $287,548 for 2009.

## 4. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash, cash equivalents, and investments at June 30, 2010 and 2009 were as follows:

| | 2010 | 2009 |
|---|---|---|
| Cash on hand | $ 600 | $ 600 |
| Cash in bank | 2,451,992 | 3,242,587 |
| Restricted cash | 110,056 | 102,637 |
| Investment in OSU's Long Term Investment Pool | 2,672,599 | 2,335,046 |
| Total | $ 5,235,247 | $ 5,680,870 |

At June 30, 2010 and 2009, the bank statement balances of cash in banks were $3,139,102 and $3,398,754, respectively. Of the bank statement balances, $3,025,740 and $3,213,943, respectively, represented overnight sweep investments which are generally not covered by FDIC. The remaining bank balances were covered by FDIC insurance, which covers up to $250,000 per financial institution. The investment in The Ohio State University's Long Term Investment Pool 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. TRC's investment value in the pool is the same as the value of pool shares. Investments in pooled shares of The Ohio State University's Long Term Investment Pool at June 30, 2010 and 2009, are as follows:

| | 2010 | 2009 |
|---|---|---|
| Common Stock | $ 446,712 | $ 334,179 |
| Equity Mutual Funds | 67,714 | 356,163 |
| US Govt Obligations | 9,223 | 24,534 |
| US Govt Agency Obligations | 1,642 | 69,109 |
| Repurchase Agreements | 1,430 | - |
| Corporate Bonds & Notes | 110,050 | 137,567 |
| Bond Mutual Funds | 171,356 | 196,201 |
| International Bonds | - | 717 |
| Partnerships and Hedge Funds | 1,750,224 | 1,006,560 |
| Cash & Other Adjustments | 114,248 | 210,016 |
| Total | $ 2,672,599 | $ 2,335,046 |

**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. The Ohio State University's audited financial statements contains additional disclosures regarding investment valuation.

***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, 2010 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 | $ 9,223 | $ - | $ - | $ - | $ 9,223 |
| U.S. agency obligations | 1,642 | - | 849 | 793 | - |
| Repurchase Agreement | 1,430 | 1,430 | - | - | - |
| Corporate bonds | 110,050 | 474 | 29,385 | 72,421 | 7,770 |
| Bond mutual funds | 171,356 | 10,998 | 74,143 | 70,563 | 15,652 |
| Total | $293,701 | $ 12,902 | $ 104,377 | $ 143,777 | $ 32,645 |

The maturities of TRC's interest-bearing investments at June 30, 2009 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 | $ 24,534 | $ - | $ 7,402 | $ 12,691 | $ 4,441 |
| U.S. agency obligations | 69,109 | 4,696 | 752 | 21,364 | 42,297 |
| Corporate bonds | 137,567 | 2,035 | 29,019 | 94,283 | 12,230 |
| Bond mutual funds | 196,201 | (6,268) | 86,879 | 95,546 | 20,044 |
| International bonds | 717 | - | - | 717 | - |
| Total | $428,128 | $ 463 | $124,052 | $224,601 | $ 79,012 |

***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, 2010 are as follows:

| Credit Rating (S&P) | Total | U.S. Govt & Agency Obligations | Repurchase Agreement | Corporate Bonds | Bond Mutual Funds |
|---|---|---|---|---|---|
| AAA | $ 132,959 | $ 9,795 | $ 1,430 | $ - | $121,734 |
| AA | 25,009 | - | - | 10,052 | 14,957 |
| A | 60,424 | - | - | 46,438 | 13,986 |
| BBB | 67,924 | 1,070 | - | 50,149 | 16,705 |
| BB | 4,381 | - | - | 1,662 | 2,719 |
| B | 279 | - | - | 279 | - |
| CCC | 596 | - | - | - | 596 |
| CC | - | - | - | - | - |
| C | - | - | - | - | - |
| Not rated | 2,129 | - | - | 1,470 | 659 |
| Total | $293,701 | $ 10,865 | $ 1,430 | $110,050 | $171,356 |

The credit ratings of TRC's interest-bearing investments at June 30, 2009 are as follows:

| Credit Rating (S&P) | Total | U.S. Govt & Agency Obligations | Corporate Bonds | Bond Mutual Funds | International Bonds |
|---|---|---|---|---|---|
| AAA | $ 243,908 | $ 93,643 | $ 4,745 | $ 145,520 | $ - |
| AA | 41,321 | - | 18,043 | 23,278 | - |
| A | 96,475 | - | 71,621 | 24,854 | - |
| BBB | 40,875 | - | 39,124 | 1,034 | 717 |
| BB | 5,508 | - | 3,993 | 1,515 | - |
| B | - | - | - | - | - |
| CCC | - | - | - | - | - |
| CC | - | - | - | - | - |
| C | - | - | - | - | - |
| Not rated | 41 | - | 41 | - | - |
| Total | $428,128 | $ 93,643 | $137,567 | $196,201 | $ 717 |

***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, 2010, TRC's exposure to foreign currency risk is as follows:

| | Totals | Common Stocks | Bond Mutual Funds | Corporate Bonds | International Bonds | Private Equity |
|---|---|---|---|---|---|---|
| Australian Dollar | $ 37,300 | $ 3,344 | $ 747 | $ 1,874 | $ - | $ 31,335 |
| Brazilian Real | 20,274 | 7,427 | 12,846 | 1 | - | - |
| Canadian Dollar | 24,020 | 12,326 | 11,694 | - | - | - |
| EURO | 83,495 | 44,540 | 20,894 | - | - | 18,061 |
| Hong Kong Dollar | 8,683 | 8,683 | - | - | - | - |
| Indonesian Rupiah | 4,988 | 4,988 | - | - | - | - |
| Japanese Yen | 32,708 | 28,648 | 4,060 | - | - | - |
| Mexican Peso | 6,360 | 1,445 | 4,915 | - | - | - |
| New Taiwan Dollar | 8,502 | 8,502 | - | - | - | - |
| Great Britain Pound Sterling | 31,706 | 25,120 | 6,586 | - | - | - |
| South African Rand | 10,388 | 10,388 | - | - | - | - |
| South Korean Won | 16,790 | 16,790 | - | - | - | - |
| Swiss Franc | 6,131 | 6,131 | - | - | - | - |
| Other Foreign Currencies | 21,877 | 21,556 | 321 | - | - | - |
| Total | $313,222 | $199,888 | $ 62,063 | $ 1,875 | $ - | $ 49,396 |

At June 30, 2009, TRC's exposure to foreign currency risk is as follows:

| | Totals | Common Stocks | Equity Mutual | Bond Mutual | International Bonds |
|---|---|---|---|---|---|
| Argentina Peso | $ 12,406 | $ 4,160 | $ 8,046 | $ 200 | - |
| Brazilian Real | 8,186 | 3,235 | 3,359 | 1,592 | - |
| Canadian Dollar | 22,437 | 10,643 | 11,004 | 790 | - |
| China-Yuan | 4,400 | - | 4,400 | - | - |
| EURO | 115,943 | 56,092 | 35,253 | 24,598 | - |
| Great Britain Pound Sterling | 56,972 | 31,210 | 23,101 | 2,661 | - |
| Hong Kong Dollar | 13,052 | 10,406 | 2,646 | - | - |
| Japanese Yen | 79,595 | 37,626 | 26,512 | 15,457 | - |
| New Taiwan Dollar | 6,907 | 4,252 | 2,655 | - | - |
| South African Rand | 5,232 | 3,563 | 1,669 | - | - |
| South Korean Won | 11,360 | 8,521 | 2,839 | - | - |
| Swedish Krona | 6,748 | 3,810 | 2,715 | 223 | - |
| Swiss Franc | 15,125 | 6,600 | 8,288 | 237 | - |
| Other Foreign Currency | 24,025 | 11,214 | 11,452 | 642 | 717 |
| Total | $382,388 | $191,332 | $143,939 | $ 46,400 | $ 717 |

## 5. PROPERTY

The property balance at June 30, 2010 consists of the following:

| | Balance June 30, 2009 | Additions | Disposals/ Transfers | Balance June 30, 2010 |
|---|---|---|---|---|
| Capital Assets: | | | | |
| Vehicles | $ 2,903,148 | 130,000 | - | 3,033,148 |
| Testing equipment | 814,844 | | (4,337) | 810,507 |
| Leasehold improvements furniture and fixtures | 3,120,585 | - | (4,652) | 3,115,933 |
| Total capital assets | 6,838,577 | 130,000 | (8,989) | 6,959,588 |
| Less accumulated depreciation | | | | |
| Vehicles | (2,463,761) | (176,681) | - | (2,640,442) |
| Testing equipment | (814,844) | - | (4,337) | (810,507) |
| Leasehold improvements, furniture and fixtures | (2,168,459) | (191,173) | (4,652) | (2,354,980) |
| Total accumulated depreciation | (5,477,064) | (367,854) | (8,989) | (5,805,929) |
| Property - net | $ 1,391,513 | (237,854) | - | $ 1,153,659 |

The property balance at June 30, 2009 consist of the following:

| | Balance June 30, 2008 | Additions | Disposals/ Transfers | Balance June 30, 2009 |
|---|---|---|---|---|
| Capital Assets: | | | | |
| Vehicles | $ 2,805,637 | 331,870 | (234,359) | $ 2,903,148 |
| Testing equipment | 814,844 | - | - | 814,844 |
| Leasehold improvements, furniture and fixtures | 3,120,585 | - | - | 3,120,585 |
| Total capital assets | 6,741,066 | 331,870 | (234,359) | 6,838,577 |
| Less accumulated depreciation | | | | |
| Vehicles | (2,426,182) | (271,938) | 234,359 | (2,463,761) |
| Testing equipment | (814,844) | - | - | (814,844) |
| Leasehold improvements, furniture and fixtures | (1,974,088) | (194,371) | - | (2,168,459) |
| Total accumulated depreciation | (5,215,114) | (466,309) | 234,359 | (5,447,064) |
| Property - net | $ 1,525,952 | (134,439) | - | $ 1,391,513 |

## 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, 2010 and 2009 the amounts of transactions with HAM are as follows:

| | 2010 | 2009 |
|---|---|---|
| Owner revenues | $ 6,332,778 | $ 6,151,479 |
| Owner expenses | $ 3,175,930 | $ 4,346,133 |

At June 30, 2010 and 2009, there was a receivable from HAM for owner expenses of $575,676 and $321,056, respectively. In addition, at June 30, 2010 and 2009, there was a payable to HAM for owner revenues earned of $737,769 and $582,128, respectively.

TRC also earns operational revenues from HAM outside of the Management Agreement. These revenues were $13,169,284 and $18,421,783 for the years ended June 30, 2010 and 2009, respectively. Trade accounts receivable at June 30, 2010 and 2009 included $3,147,309 and $3,394,047, respectively, related to these operational revenues.

## 7. LONG - TERM DEBT

Long-term debt as of June 30, 2010 and 2009, is summarized as follows:

| | Balance June 30, 2009 | New Debt | Reduction | Balance June 30, 2010 | Current Portion | Noncurrent Portion |
|---|---|---|---|---|---|---|
| Note with floating interest rate of 2.98% and 5.38%, at June 30, 2010 and 2009 | $1,453,000 | - | (252,000) | $1,201,000 | $269,000 | $932,000 |
| Total | $1,453,000 | - | (252,000) | $1,201,000 | $269,000 | $932,000 |

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. 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 expired on January 6, 2009. As allowed under the terms of the LOC, the expiration date was extended for a year until January 6, 2010, with the option for additional extensions on the expiration date, subject to certain conditions set forth in the agreement. There were no amounts outstanding on the LOC as of June 30, 2010.

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 the expiration date, the entire unpaid principal amount due on the Note and therefore the reimbursement agreement becomes due and payable. Annual maturities of long-term debt are as follows:

| June 30: | Principal | Interest |
|---|---|---|
| 2011 | $269,000 | $ 65,036 |
| 2012 | 290,000 | 49,307 |
| 2013 | 310,000 | 32,432 |
| 2014 | 332,000 | 14,354 |
| Total Outstanding | $1,201,000 | $ 161,129 |
| Current Portion | (269,000) | |
| Long Term Portion | $ 932,000 | |

## 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, 2010 and 2009 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, 2010 and 2009 the net assets were comprised of the following:

| | 2010 | 2009 |
|---|---|---|
| Investment in property & equipment - net of related debt | $ 1,153,659 | $ 1,391,513 |
| Restricted - accumulated surplus | 4,002,434 | 4,002,434 |
| Unrestricted net assets | 4,963,405 | 3,795,715 |
| Total net assets | $10,119,498 | $ 9,189,662 |

The accumulated surplus balance includes a cumulative unrealized loss at June 30, 2010 and 2009 of $435,404 and $633,135, 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 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.

Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, Attention: Finance Director, 277 East Town Street, Columbus, OH 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

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, including post-employment health care coverage. The Ohio Revised Code provides statutory authority for member and employer contributions. For 2009, the member and employer contribution rates were 10.0% and 14.0%, respectively.

TRC's total PERS payroll for the years ended June 30, 2010, 2009 and 2008 was $938,729, $1,304,929, and $1,497,643, respectively. TRC's employer contributions to PERS for the years ended June 30, 2010, 2009 and 2008 were $131,422, $182,690, and $209,670, respectively, equal to 100% of the required contributions for each year.

<u>Post-Employment Benefits Other Than Pension</u>

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. Of the covered payroll for 2009, the portion of employer contributions allocated for health care was 7.00% from January 1 through March 31, 2009 and 5.5% from April 1 through December 31, 2009. For calendar year 2008, the employer contribution allocated to the health care plan was 7.0%. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts very depending on the number of covered dependents and the coverage selected.

The Health Care Preservation Plan ("HCPP") adopted by the OPERS Retirement Board on on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1, of each year from 2006 to 2008. These rate increases allowed additional funds to be allocated to the health care plan.

TRC's employer contributions to OPERS for the years ended June 30, 2010, 2009 and 2008 were $131,422, $182,690, and $209,670, respectively, of which the amount of employer contributions used to fund post-employment benefits is estimated to be $51,636, $91,345, and $91,353, respectively.

## 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, 2010, future minimum lease receipts are due as follows:

| | |
|---|---|
| 2011 | 1,079,418 |
| 2012 | 1,079,418 |
| 2013 | 1,079,418 |
| 2014 | 2,158,836 |
| Total | $ 5,397,090 |

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 index. As of June 30, 2010, future minimum rental payments under operating leases with initial terms in excess of one year are summarized as follows:

| | |
|---|---|
| 2011 | $ 944,122 |
| 2012 | 944,122 |
| 2013 | 78,676 |
| Total | $1,966,920 |

Rental expense charged to operations was $974,239 and $978,704 during 2010 and 2009, 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, 2010 and 2009, TRC expended $402,213 and $423,948, 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 year ended June 30, 2010, and have issued our report thereon dated October 12, 2010. 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 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 TRC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of TRC's internal control over financial reporting.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 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 use of the audit committee, 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 12, 2010

**This Page is Intentionally Left Blank.**

Mary Taylor, CPA
Auditor of 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 7, 2010**

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