Transportation Research Center Inc.

(A component unit of The Ohio State University)
Financial Statements
As of and for the Years Ended June 30, 2018 and 2017
and Report of Independent Auditors

OHIO AUDITOR OF STATE
KEITH FABER

January 22, 2019

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 14, 2019. Reports completed prior to that date contain the signature of my predecessor.

Ohio Auditor of State

Keith Faber

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370
www.ohioauditor.gov

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Board of Directors
OSU Transportation Research Center
2040 Blankenship Hall
901 Woody Hayes Drive
Columbus, Ohio 43210-4016

We have reviewed the *Report of Independent Auditors* of the OSU Transportation Research Center, Franklin County, prepared by PricewaterhouseCoopers LLP, for the audit period July 1, 2017 through June 30, 2018. 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 OSU Transportation Research Center is responsible for compliance with these laws and regulations.

Dave Yost
Auditor of State

January 8, 2019

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Report of Independent Auditors

To the Board of Directors of
Transportation Research Center Inc.:

We have audited the accompanying financial statements of Transportation Research Center Inc. ("TRC"), a component unit of The Ohio State University, appearing on pages 10 to 31, which comprise the statements of net position as of June 30, 2018 and 2017, and the related statements of revenues, expenses, and other changes in net position and of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise TRC's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP, 41 South High Street, Suite 2500, Columbus, OH 43215
T: (614) 225 8700, F: (614) 224 1044, www.pwc.com/us

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, 2018 and 2017, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the basic financial statements, TRC changed the manner in which it accounts for postemployment benefits other than pensions and interest costs incurred during the construction period in 2018. Our opinion is not modified with respect to this matter.

Other Matters

The accompanying management's discussion and analysis on pages 3 through 9 and the Required Supplementary Information on GASB 68 Pension Liabilities and GASB 75 OPEB Liability on page 32 are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2018 on our consideration of the 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 for the year ended June 30, 2018. The purpose of that report is solely 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 effectiveness of the entity's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the TRC's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

December 19, 2018

This Management Discussion and Analysis provides an overview of the financial position and activities of Transportation Research Center Inc. (TRC Inc.) for the fiscal year ended June 30, 2018, with comparative information for the fiscal years ended June 30, 2017 and June 30, 2016.

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 mobility 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. (HAM) 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. entered into a management agreement that provides the foundation for TRC Inc. to manage the Transportation Research Center as a multi-user facility. The management agreement was renewed annually and was terminated on December 31, 2017 in conjunction with the execution of a new Master Lease Agreement (MLA) between TRC Inc. and HAM.

On December 21, 2017, TRC Inc. entered into a 15-year MLA with HAM to lease the Transportation Research Center including testing facilities and equipment. The MLA went into effect January 1, 2018. Prior to January 2018, facility use revenue received by TRC was paid to HAM, TRC Inc. performed maintenance and improvement activities under HAM's direction and HAM compensated TRC Inc. for the maintenance and improvement activities. This new agreement significantly changed the operational structure of the relationship. Under the MLA, TRC Inc. has regular reporting requirements to HAM, is responsible for all facility and equipment maintenance and improvement, and retains the revenues associated with customer facility use. The agreement was executed with the understanding that both organizations would continue to work collaboratively to address any ambiguities relating to interpretation of the terms of the agreement, including the new reporting requirements. As of the end of TRC Inc.'s fiscal year, these discussions were continuing.

TRC Inc. is governed by a seven-member board chaired by the Dean of the College of Engineering at The Ohio State University. 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 Senior Vice President for Research of the University; the Dean of the College of Engineering of the University; the Senior Vice President for Business and Finance and Chief Financial Officer of the University; and, the President & Chief Executive Officer of Transportation Research Center Inc., held by Mr. Brett A. Roubinek. TRC Inc. is a discretely presented component unit in the financial statements of The Ohio State University.

TRC Inc.'s management team was reorganized during the fiscal year. The position of Chief Human Resources Officer was eliminated and one new role was created: Executive Vice President, Services.

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 Financial Highlights
Significant financial events during fiscal year 2018 were:

- Research and testing revenues increased 17% to $46,355,688 while owner's maintenance and repair revenue decreased by 68% to $1,884,700 as the result of the MLA effective January 1, 2018.

- TRC operations swung from a net operating loss of $707,955 in 2017 to net operating income of $1,882,935 in 2018, Operating margins increased 366% from 2017 reflecting new, higher margin service and facility offerings and more efficient use of existing headcount and facilities.

- General and administrative expense increased 18%, to $21,993,077 in 2018, driven by expense associated with continued management transition and expenses associated with the MLA for facilities and maintenance.

- Increases in the fair value of investments held in the university's Long Term Investment Pool resulted in an unrealized capital gain of $123,908.

- Total net position increased $1,590,247, to $11,589,417 at June 30, 2018.

Financial Statement Overview
For a summary of TRC Inc.'s significant accounting policies, please see footnote number two attached to the financial statements.

Presented in the financial statements are the Statements of Net Position at June 30, 2018 and June 30, 2017; the Statements of Revenues, Expenses and Changes in Net Position for fiscal years ended June 30, 2018 and 2017; and the Statements of Cash Flows for fiscal years ended June 30, 2018 and 2017.

The Statements of Net Position reflect TRC Inc.'s assets, liabilities and net position. The Statements of Revenues, Expenses and Changes in Net Position reflect information showing how net position changed during the fiscal year. The Statements of Cash Flows reports changes in the cash and cash equivalent balances during the fiscal year.

Summary Statements of Net Position

The major components of the Statements of Net Position at June 30, 2018, June 30, 2017 and June 30, 2016 are reflected below:

	2018	2017	Changes	2016
Assets				
Current assets	$ 16,500,386	$ 14,661,890	12.5%	$ 12,699,021
Net property and equipment	13,184,500	9,340,964	41.1%	1,250,637
Deferred Outflows Related to Pension and OPEB	56,008	155,105	-63.9%	124,099
Total assets and deferred outflows	$ 29,740,894	$ 24,157,959	23.1%	$ 14,073,757
Liabilities				
Current liabilities	$ 5,734,714	$ 7,766,794	-26.2%	$ 3,441,156
Net Pension Liability	389,535	382,408	1.9%	365,998
Long term notes payable	11,975,268	6,000,000	100.0%	-
Total liabilities	18,099,517	14,149,202	27.9%	3,807,154
Deferred Inflows Related to Pension and OPEB	51,960	9,587	442.0%	7,460
Net Position	11,589,417	9,999,170	15.9%	10,259,143
Total liabilities, deferred inflow and net position	$ 29,740,894	$ 24,157,959	23.1%	$ 14,073,757

Current Assets

Total current assets increased $1,838,496, or 13%, to $16,500,386 at June 30, 2018, primarily reflecting increases in cash, which were partially offset by a reduction in accounts receivable.

Cash increased by $2,430,797, or 104%, to $4,778,608 at June 30, 2018. The increase in cash was due to a positive cash flow from capital and related financing activities, which is attributed to the proceeds from long-term debt exceeding capital expenditures during the year.

Trade accounts receivable decreased $1,167,663, or 15%, to $6,406,492 at June 30, 2018. The decrease in trade accounts receivable was due to execution of the MLA. Beginning in January 2018, TRC Inc. no longer invoices HAM for facility maintenance and improvement activities, and all receivables for facility maintenance and repair were paid in full by HAM at June 30, 2018. On average, TRC receivables were outstanding for 50 days in fiscal year 2018, compared to 59 days in fiscal year 2017.

Investments increased by $123,908, or 3%, to $4,132,026 at June 30, 2018. The increase resulted from an increase in the fair market value of the underlying investments of TRC Inc.'s equity interest in the investment pool maintained and managed by The Ohio State University's Office of Investments.

TRC Inc. records the unrealized gain or loss on its equity interest in the university's investment pool each year.

The unrealized gain or loss in TRC's equity interest in the investment pool for fiscal years 2018, 2017 and 2016 are as follows:

	2018	2017	2016
Market value of endowment fund	$ 4,132,026	$ 4,008,118	$ 3,669,684
Book value of endowment fund	3,841,787	3,841,787	3,841,787
Net unrealized gain (loss)	$ 290,239	$ 166,331	$ (172,103)
Unrealized gain (loss) - current period	$ 123,908	$ 338,434	$ (306,318)

Net Property and Equipment

Net property and equipment increased $3,843,536 to $13,184,500 at June 30, 2018, primarily due to the completion of capital additions including a conference center, new customer workbays, and a track safety and control system.

During fiscal year 2018, TRC Inc. recorded $4,648,714 of capital additions. The largest acquisition, at $2,449,451, was to complete new customer workbays. Additionally, $1,398,638 was spent to complete a new conference center. Further, $145,537 was spent on research equipment, $158,100 was spent on software and technology upgrades, and $496,988 was expended toward the SMARTCenter (Smart Mobility And Research Testing).

The remaining book values of each of the individual remaining capital assets are less than $75,000 individually 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. Most of these capital assets are fully depreciated.

Current Liabilities

Total current liabilities decreased $2,032,080 to $5,734,714 at June 30, 2018. The significant net decrease in current liabilities primarily reflects reductions in accounts payable, which was partially offset by an increase in the current portion of long term debt.

Accounts payable decreased $4,264,308 to $2,536,000 at June 30, 2018. The decrease in accounts payable was due to payment of invoices related to capital asset additions and execution of the MLA. The work on capital asset additions was performed in fiscal year 2017 but not paid for until fiscal year 2018. Execution of the MLA on December 21, 2017 was contingent upon full payment of collected customer facility fees payable to HAM through that date.

The current portion of long term debt increased from $0 to $1,444,943 at June 30, 2018. This represents the principal amounts due in fiscal year 2019 on loans from the University and JobsOhio.

Noncurrent Liabilities

GASB Statement No.68*, Accounting and Financial Reporting for Pensions*, requires employers participating in cost-sharing multi-employer retirement plans to recognize a share of the retirement plans' unfunded pension liabilities. During FY2018, TRC Inc. implemented a related accounting standard, GASB Statement No. 75, which requires employers participating in other post-employment benefit (OPEB) plans to recognize liabilities for plans whose actuarial liabilities exceed the plan's net assets. OPEB benefits consist primarily of post-retirement healthcare. The net pension liability recognized by TRC decreased $145,989, to $236,419 at June 30, 2018. The net OPEB liability at June 30, 2018 was $153,116. Total pension and OPEB expense recognized during 2018 was $22,460.

Long term notes payable increased by $5,975,268 to $11,975,268 at June 30, 2018. The increase relates to loans provided by the University and JobsOhio. Proceeds of the loans were used to pay off HAM payable and for work on the conference center, new customer workbay, safety and security upgrades and the SMARTCenter.

Summary Statements of Revenues, Expenses and Other Changes in Net Position

The major components of the Statements of Revenue, Expenses and Changes in Net Position for fiscal years ended June 30, 2018, 2017 and 2016 are reflected below:

	2018	2017	Changes	2016
Operating revenues	$ 48,240,388	$ 45,514,761	6.0%	$ 44,448,939
Operating expenses	46,357,453	46,222,716	0.3%	44,293,887
Operating income	1,882,935	(707,955)	-366.0%	155,052
Net nonoperating revenue	(274,181)	109,548	-350.3%	158,264
Net change in value of equity interest in investment pool	123,908	338,434	-63.4%	(306,318)
Excess revenue over expenses	1,732,662	(259,973)	-766.5%	6,998
Transfer to Transporation Research Fund	-	-	0.0%	-
Change in net position	1,732,662	(259,973)	-766.5%	6,998
Beginning net position	9,999,170	10,259,143	-2.5%	10,252,145
Cumulative effect of change in accounting principle	(142,415)	-	0.0%	-
Ending net position	$ 11,589,417	$ 9,999,170	15.9%	$ 10,259,143

Operating Revenues

The two sources of revenue that TRC Inc. earned during fiscal year 2018 were research and testing agreement revenue and, through December 31, 2017, owner's maintenance and repair revenue.

Research and testing agreement revenue is revenue TRC Inc. earns from its customers for use of the transportation research and testing facility and 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. earned for maintaining and improving the owner's facility as a result of the Management Agreement between TRC Inc. and the facility owner. After December 31, 2017 with the MLA, TRC Inc. no longer receives these revenues from the facility owner.

Operating revenues for fiscal years 2018, 2017 and 2016 are summarized below:

	FY 2018	FY 2017	Changes	FY 2016
Research and testing agreement revenue	$ 46,355,688	$ 39,596,508	17.1%	$ 39,161,036
Owner's maintenance and repair revenue	1,884,700	5,918,253	-68.2%	5,287,903
Total operating revenue	$ 48,240,388	$ 45,514,761	6.0%	$ 44,448,939

Research and testing revenue increased by $6,759,180 or 17.1%, in fiscal year 2018 to $46,355,688. Revenue from new customer workbays completed early in the fiscal year contributed to the increase in revenue along with new service offerings.

Owner's maintenance and repair revenue decreased by $4,033,553 or 68.2%, in fiscal year 2018 to $1,884,700. The major components of this revenue are maintenance and capital improvements made to the facility that the facility owner funds each year. The decrease in fiscal year 2018 relates to the MLA effective January 1, 2018. Under the MLA, TRC no longer receives revenue related to maintenance and capital improvements but retains revenue associated to customer facility use and testing.

Operating Expenses

Major components of operating expense in fiscal years 2018, 2017 and 2016 were:

	2018	2017	Changes	2016
Direct expense	$ 23,670,366	$ 27,264,767	-13.2%	$ 27,133,740
General and administrative expense	21,993,077	18,707,678	17.6%	16,917,876
Depreciation expense	694,010	250,271	177.3%	242,271
Total operating expense	$ 46,357,453	$ 46,222,716	0.3%	$ 44,293,887

Direct expense decreased by $3,594,401, or 13.2%, in fiscal year 2018 to $23,670,366. The decrease is a result of the MLA, which eliminated payments to HAM related to customer facility use and resulted in owner's maintenance and repair expenses, previously recorded as direct expense, now being recorded as general and administrative expense beginning on January 1, 2018.

General and administrative expenses increased $3,285,399 over last year. The increase is primarily driven by facilities expenses including rent and maintenance and repair expenses, which were recognized as direct expenses associated to owner's maintenance repair revenue prior to January 1, 2018. Increased professional fees and administrative compensation expenses also contributed to the increase.

Nonoperating Revenues and Expenses

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 expense relates to interest paid on the loan from the University. Gain on sales of assets reflects the sale of property and equipment.

Net Change in Value of Equity Interest in Investment Pool

TRC Inc. owns an equity interest in a long-term investment pool that is maintained and managed by The Ohio State University's Office of Investments. See further discussion under Current Assets.

Net Income before Other Changes in Net Position

Excess revenue over expense increased by $1,992,635 in fiscal year 2018 to $1,732,662. The change is primarily driven by increases in research and testing revenue.

Summary Statements of Cash Flows

TRC cash increased $2,430,797 in 2018. Net cash flows provided by operating activities increased $3,638,172. The increase is primarily due to an increase in cash received from customers and HAM and a decrease in cash paid to suppliers and HAM. Net cash flows provided by noncapital financing activities increased by $2,115,029 due to an increase in long-term debt used to pay trade accounts payable and HAM for accumulated facility use fee liabilities as of December 21, 2017 and the execution of the MLA. Net cash flows from capital and related financing activities decreased $4,579,962, primarily due to additions to property and equipment. Total cash flow from investing activities decreased $152,801 and is related interest received from the investment pool with OSU. Prior to fiscal year 2017 the interest was reinvested, but in fiscal years 2017 and 2018 it was paid to TRC, Inc.

Summary cash flows for fiscal years 2018, 2017 and 2016 were follows:

	2018	2017	2016
Cash flows from operating activities	$ 3,402,847	$ (235,325)	$ (226,553)
Cash flows from noncapital financing activities	2,115,029	-	-
Cash flows from capital and related financing activities	(3,087,845)	1,492,117	(970,954)
Cash flows from investing activities	766	153,567	(1,480)
Net increase (decrease) in cash	$ 2,430,797	$ 1,410,359	$ (1,198,987)

Transportation Research Center Inc.

Statements of Net Position

June 30, 2018 and 2017

	2018	2017
Assets		
Current assets		
Cash	$ 4,778,608	$ 2,347,811
Investments	4,132,026	4,008,118
Trade accounts receivable, net of allowance for doubtful accounts of $114,582 and $34,034	6,406,492	7,574,155
Interest Receivable	328,042	162,126
Supplies and prepaid expenses	855,218	569,680
Total current assets	16,500,386	14,661,890
Noncurrent assets		
Property and equipment	20,785,241	16,765,439
Less: Accumulated depreciation	(7,600,741)	(7,424,475)
Property and equipment, net	13,184,500	9,340,964
Deferred outflows related to pension and OPEB	56,008	155,105
Total assets and deferred outflows	$ 29,740,894	$ 24,157,959
Liabilities		
Current Liabilities		
Trade accounts payable	$ 2,536,000	$ 6,800,308
Accrued payroll and related expenses	1,069,018	929,875
Advance payments for goods and services	684,753	36,611
Short-Term Note Payable	1,444,943	-
Total Current Liabilities	5,734,714	7,766,794
Long-term liabilities		
Long-term note payable	11,975,268	6,000,000
Net Pension and OPEB Liabilities	389,535	382,408
Total long-term liabilities	12,364,803	6,382,408
Total liabilities	18,099,517	14,149,202
Deferred inflows related to pension and OPEB	51,960	9,587
Net Position		
Net Investment in Capital Assets	1,449,172	1,468,228
Unrestricted net position	10,140,245	8,530,942
Total net position	11,589,417	9,999,170
Total liabilities, deferred inflows and net position	$ 29,740,894	$ 24,157,959

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

Transportation Research Center Inc.

Statements of Revenues, Expenses and Other Changes in Net Position
Years Ended June 30, 2018 and 2017

	2018	2017
Operating revenues		
Research and testing	$ 46,355,688	$ 39,596,508
Owner's maintenance and repair	1,884,700	5,918,253
Total operating revenues	48,240,388	45,514,761
Operating expenses		
Direct	23,670,366	27,264,767
General and administrative	21,993,077	18,707,678
Depreciation	694,010	250,271
Total operating expenses	46,357,453	46,222,716
Net operating income (loss)	1,882,935	(707,955)
Nonoperating income (expense)		
Net change in value of equity interest in investment pool	123,908	338,434
Gain on sale of assets	113,702	8,062
Interest income	166,682	162,126
Interest expense	(554,565)	(60,640)
Net nonoperating (expense) income	(150,273)	447,982
Net income (loss) before other changes in net position	1,732,662	(259,973)
Net Position - Beginnng of Year		
Beginning of year, as prevously reported	9,999,170	10,259,143
Cumulative effect of accounting change	(142,415)	-
Beginning of year, as restated	9,856,755	10,259,143
Net position, end of year	$ 11,589,417	$ 9,999,170

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

Transportation Research Center Inc.
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Cash received from customers and HAM	$ 49,959,950	$ 44,649,159
Cash paid to suppliers and HAM	(20,197,420)	(18,954,637)
Cash paid for taxes	(450,000)	(450,000)
Cash paid to employees	(20,310,946)	(19,780,842)
Cash paid for fringe benefits and payroll taxes	(5,598,737)	(5,699,005)
Net cash provided by (used in) operating activities	3,402,847	(235,325)
Cash flows from noncapital and related financing activities		
Cash paid on long-term notes payable	(672,163)	-
Proceeds from long-term notes payable	2,827,723	-
Cash paid for interest	(40,531)	-
Net cash provided by noncapital and related financing activities	2,115,029	-
Cash flows from capital and related financing activities		
Proceeds from sale of property and equipment	224,868	-
Additions to property and equipment	(8,063,330)	(4,447,243)
Cash paid on long-term notes payable	(5,000,000)	-
Proceeds from long-term notes payable	10,264,652	6,000,000
Cash paid for interest	(514,034)	(60,640)
Net cash (used in) provided by capital and related financing activities	(3,087,844)	1,492,117
Cash flows from investing activities		
Interest income	766	153,567
Net cash provided by investing activities	766	153,567
Net increase in cash and cash equivalents	2,430,798	1,410,359
Cash		
Beginning of period	2,347,811	937,452
End of period	$ 4,778,609	$ 2,347,811
Reconciliation of operating income (loss) to net cash used in operating activities		
Operating income (loss)	$ 1,882,935	$ (707,955)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation	694,010	250,270
Provision for bad debt expense	80,548	(3,966)
Changes in assets and liabilites		
Trade accounts receivable	1,087,115	(427,120)
Supplies and prepaid expenses	(285,534)	225,569
Deferred outflows - pension and OPEB	99,097	(31,006)
Trade accounts payable	(849,692)	1,395,506
Accrued payroll and related expenses	139,141	(520,644)
Advance payments for goods and services	648,142	(434,516)
Net pension and OPEB liabilities	(135,288)	16,410
Deferred inflows - pension and OPEB	42,373	2,127
Net cash provided by (used in) operating activities	$ 3,402,847	$ (235,325)
Supplemental cash flow information		
Net change in value of equity interest in investment pool	$ 123,908	$ 338,434
Interest Receivable	$ 328,042	$ 162,126
Non-cash investing and financing activities		
Purchase of property and equipment included in accounts payable	$ 470,676	$ 3,885,292

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”).

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 member of TRC. TRC 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. 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.

Basis of Presentation

TRC complies with generally accepted accounting principles (“GAAP”). GAAP includes all relevant Governmental Accounting Standards Board (“GASB”) pronouncements. TRC reports as a special purpose government engaged solely in “business type activities” under GASB Statements No. 34. Business type activities are those that are financed in whole or in part by fees charged to external parties for good and services. In accordance with BTA reporting, TRC presents Management’s Discussion and Analysis, a Statement of Net Position, a Statement of Revenues, Expenses and Other Changes in Net Position, a Statement of Cash Flows and Notes to the financial statements.

GASB Statement No. 34 requires that resources be classified for accounting and reporting purposes into the following net position categories:

Net Investment in Capital Assets

Property and equipment, net of accumulated depreciation, and outstanding accounts payable and debt attributable to the acquisition and construction or improvement of those assets.

Restricted

Nonexpendable

Amounts subject to externally imposed stipulations that they be maintained permanently by TRC and invested for the purpose of generating present and future income, which may either be expended or added to the principal.

Expendable

Amounts whose use by TRC is subject to externally imposed stipulations that can be fulfilled by actions of TRC pursuant to those stipulations or that expire by the passage of time.

Unrestricted

Amounts whose use by TRC is not subject to externally imposed stipulations. Unrestricted amounts may be designated for specific purposes by action of management of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

It is TRC's policy to apply restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. TRC did not have a restricted net position at either June 30, 2018 or June 30, 2017.

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 of TRC have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by GASB.

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. Significant estimates primarily related to valuation of certain investments, allowance for doubtful accounts and pension and other post-retirement benefits. These estimates and assumptions are based on TRC's historical results as well as management's future expectations. Actual results could differ from those estimates.

Revenue Recognition

TRC derives revenue from facility usage, personnel charges, cost reimbursement and management of the facility. Revenues for facility usage earned prior to January 1, 2018 were remitted to HAM as described in Note 6 and the related expenses are included in direct expenses. 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.

TRC derives a substantial portion of research and testing revenue from a limited number of commercial enterprises and governmental agencies. For the years ended June 30, 2018 and 2017, the revenue from the four highest volume commercial enterprises and one government agency was $37,708,526 and $33,230,376, respectively. These five customers make up $3,303,564 and $4,877,957 of TRC's accounts receivable at June 30, 2018 and 2017, respectively.

TRC accounts receivable include $1,470,431 and $1,020,130 of unbilled accounts receivable at June 30, 2018 and 2017, respectively. Unbilled accounts receivable represent revenue earned in excess of amounts billed.

Cash

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, 2018 and 2017.

Investment Policy

All investments consist of TRC's equity interest in The Ohio State University Long Term Investment Pool (the "Investment Pool"). The university's Office of Financial Services commingles the funds with other university-related organizations and allocates to TRC its equity share of the Investment Pool, the value of which is based on the underlying fair value of the individual investments within the university's Investment Pool. Earned investment income is allocated to each organization based on its share of the total funds invested at the beginning of each year. The net change in the value of TRC's equity interest in the Investment Pool during the years ended June 30, 2018 and 2017 is an increase of $123,908 and an increase of $338,434, respectively. These amounts take into account all changes in fair value of the underlying investments in the university's Investment Pool (including purchases and sales) that occurred during each respective year.

The calculation of realized gain or loss is independent of the calculation of the net increase in fair value of the underlying investments in the university's Investment Pool. As of June 30, 2018, there is a cumulative unrealized gain on investments of $290,239. As of June 30, 2017, there is a cumulative unrealized gain on investments of $166,331. Investment income from endowment investments is unrestricted by the donors, and as such becomes a part of unrestricted net position.

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 the following the estimated service lives on the straight-line basis:

Type of Asset	Estimated Useful Life
Moveable furniture, fixtures, vehicles and equipment	3 to 15 years
Buildings / leasehold improvements	15 to 30 years
Software	3 to 5 years

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. Expenditures for maintenance, repairs or renewals, which neither materially add to the value of the property nor appreciably extend its useful life are charged to expense as incurred.

Leasehold improvements are depreciated over the shorter of the estimated useful life or the remaining period of the lease.

In the event that facts and circumstances indicate property and equipment may be impaired, the amount of the impairment is assessed based on whether the asset will continue to be used. If an asset is expected to continue to be used, the amount of the impairment is based on the most appropriate reflection of the decline in service utility of the asset as prescribed in GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

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.

Operating and Non-Operating Activities

TRC defines operating activities, for purposes of reporting on the Statement of Revenues, Expenses and Other Changes in Net Position, as those activities that generally result from exchange transactions, such as payments received for providing services and payments made for goods and services received. With the exception of interest expense on long-term indebtedness, substantially all TRC expenses are considered operating expenses. Certain TRC revenue streams are recorded as non-operating revenues, as defined by GASB Statement No. 35, including interest income, net change in value of equity interest in the university's long-term investment pool and gain/loss on sale of assets.

Direct Expenses

TRC defines direct expenses as direct labor and direct material costs directly identified and attributed to a customer project for which revenue is recognized.

Related Party Transactions

Payments are made to OSU as reimbursement for various expenses incurred by OSU on TRC's behalf. Such payments totaled approximately $1,084,810 and $577,776 for the years ended June 30, 2018 and 2017, respectively, and are recorded as General and Administrative Expenses on the Statement of Revenues, Expenses and Other Changes in Net Position.

Newly Issued Accounting Pronouncements

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations.* This standard establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The deferred outflow is recognized as expense over the life of the related asset. The determination of when the liability is incurred is based on the existence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Internal obligating events include the occurrence of contamination, placing into use a tangible capital asset that is required to be retired, abandoning a tangible capital asset before use begins, or acquiring a tangible capital asset that has an existing asset retirement obligation. This standard is effective for periods beginning after June 15, 2018 (FY2019).

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This standard establishes criteria for identifying and reporting fiduciary activities of all state and local governments. The focus of the criteria generally is whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. Governments with activities meeting the criteria are required to present these activities in a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to this requirement is provided for a business-type activity that expects to hold assets in a custodial fund for three months or less. This standard is effective for periods beginning after December 15, 2018 (FY2020).

In June 2017, the GASB issued Statement No. 87, *Leases*. This standard establishes accounting and reporting for leases, based on the foundational principle that all leases are financings of the right to use an underlying asset for a period of time. Lessees will record an intangible right-of-use asset and corresponding lease liability. Lessors will record a lease receivable and a corresponding deferred inflow of resources. The standard provides an exception for short-term leases with a maximum possible term of 12 months or less. This standard is effective for periods beginning after December 15, 2019 (FY2021).

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This standard is intended to improve note disclosures related to debt, including direct borrowings and private placements. It defines debt, for disclosure purposes, as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) to settle an amount that is fixed at the date the contractual obligation is established. The standard requires additional disclosures related to unused lines of credit, assets pledged as collateral and significant provisions related to default, termination events and acceleration clauses. In addition, it requires that disclosures for direct borrowings and private placements be shown separately from other debt. The standard is effective for reporting periods beginning after June 15, 2018 (FY2019).

TRC management is currently assessing the impact that implementation of GASB Statements 83, 84, 87 and 88 will have on TRC's financial statements.

Implementation of GASB Statement No. 75
In fiscal year 2018, TRC implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement requires employers in cost-sharing, multi-employer plans to recognize a proportionate share of the net other post-employment benefit (OPEB) liabilities of the plans. Certain TRC employees participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer retirement plan that provides pensions and post-retirement healthcare benefits. A proportionate share of the net OPEB liabilities of the retirement systems has been allocated to TRC, based on retirement plan contributions for TRC employees. The cumulative effect of adopting GASB Statement No. 75 was a $142,415 reduction in TRC's net position as of July 1, 2017. Additional information regarding net OPEB liabilities, related deferrals and OPEB expense is provided in Note 9.

Early Implementation of GASB Statement No. 89
On July 1, 2017, TRC early-implemented GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This standard requires that interest cost incurred during the period of construction be recognized as an expense in the period in which the cost is incurred. These costs will no longer be included in the historical cost of capital assets. In accordance with the provisions of GASB 89, the standard was applied on a prospective basis, and thus there was no effect on amounts previously reported.

Reclassification of HAM Receivables and Payables
At June 30, 2018, TRC combined its receivable from HAM, which had previously been presented on a separate line in the Statement of Net Position, with trade accounts receivable. Additionally, TRC combined its accounts payable to HAM, which had previously been presented on a separate line in the Statement of Net Position, with trade accounts payable. To conform with the current

year presentation, the following reclassifications have been made to the Statement of Net Position at June 30, 2017:

Statement of Net Position at June 30, 2017:

	As originally reported	Effect of reclassification	As reclassified
Trade accounts receivable, net	$ 6,451,943	$ 1,122,212	$ 7,574,155
Receivable from HAM	1,122,212	(1,122,212)	-
Total current assets	14,661,890	-	14,661,890
Trade accounts payable	$ 5,329,982	$ 1,470,326	$ 6,800,308
Accounts payable to HAM	1,470,326	(1,470,326)	-
Total current liabilities	7,766,794	-	7,766,794

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 income tax for the leasing of certain TRC employees. Unrelated income tax expense in 2018 is estimated to be approximately $268,033 and was $298,884 for 2017.

4. Cash and Investments

Cash and investments at June 30, 2018 and 2017 were as follows:

	2018	2017
Cash on hand	$ 600	$ 600
Cash in bank	4,778,008	2,347,211
Investment in OSU's long term investment pool	4,132,026	4,008,118
Total	$ 8,910,634	$ 6,355,929

At June 30, 2018 and 2017, the bank statement balances of cash in banks were $5,201,537 and $2,806,402, respectively. Of the bank statement balances, $5,201,537 and $2,806,402, respectively, represented overnight sweep investments which are not covered by the FDIC.

TRC's investments are maintained in the university's Investment Pool and, as such, all collateralization is held by the university. The Investment Pool consists of more than 5,000 named funds. Each named fund is assigned a number of shares, based on the value of the gifts, income-to-principal transfers, or transfers of operating funds to that named fund. The Investment Pool is invested in a diversified portfolio of equities and fixed income securities, as well as a number of alternative investment funds, such as real estate limited partnerships, hedge funds, private equity funds, venture capital funds and natural resources funds. The Investment Pool is intended to provide the long-term growth necessary to preserve the value of these funds, adjusted for inflation, while making distributions to support TRC's mission.

Annual distributions to named funds in the Investment Pool are computed using the share method of accounting for pooled investments. For the year ended June 30, 2018, the annual distribution per share was 4.5% of the average fair value per share of the Investment Pool over the most recent seven-year period. For the year ended June 30, 2017, the annual distribution per share was 4.5% of the average fair value per share of the Investment Pool over the most recent seven-year period.

TRC Inc. held 649.2046 shares in the university's Investment Pool June 30, 2018 and 2017, respectively. The value of TRC's equity interest in the university's Investment Pool was $4,132,026 and $4,008,118 at June 30, 2018 and 2017, respectively. There were no realized gains or losses during the years ended June 30, 2018 and 2017. Total net unrealized gain (loss) for the years ended June 30, 2018 and 2017 were $123,908 and $338,434 respectively. TRC may redeem its shares in the university Investment Pool at its discretion.

The university holds certain types of alternative investments funds which are carried at the net assets value provided by the management of these funds, which represents estimated fair value. The purpose of this alternative investment fund class is to increase portfolio diversification and reduce risk due to the low correlation with other asset classes.

Management of the alternative investment funds, namely the general partner, use methods, such as discounted cash flows, recent transactions and other model-based calculations, to estimate the fair value of the investments held by the fund.

5. Property and Equipment

The property and equipment balance at June 30, 2018 consists of the following:

	Balance June 30, 2017	Additions	Disposals/ Transfers	Balance June 30, 2018
Capital assets				
Building/leasehold Improvements	$ 3,228,423.0	$ 7,884,392	$ -	$ 11,112,815
Vehicles and equipment	5,123,322.0	322,914	(628,913)	4,817,323
Construction-in-progress	7,530,225.0	4,421,883	(8,219,410)	3,732,698
Software	797,337.0	170,204	-	967,541
Other	86,132.0	68,732	-	154,864
Total capital assets	16,765,439.0	12,868,125	(8,848,323)	20,785,241
Less accumulated depreciation				
Building/leasehold Improvements	3,106,944	349,514	-	3,456,458
Vehicles and equipment	4,218,110	255,140	(517,744)	3,955,506
Software	13,289	66,445	-	79,734
Other	86,132	22,911	-	109,043
Total accumulated depreciation	7,424,475	694,010	(517,744)	7,600,741
Property and equipment, net	$ 9,340,964	$ 12,174,115	$ (8,330,579)	$ 13,184,500

The property and equipment balance at June 30, 2017 consists of the following:

	Balance June 30, 2016	Additions	Disposals/ Transfers	Balance June 30, 2017
Capital assets				
Building/leasehold Improvements	$ 3,228,423	$ -	$ -	$ 3,228,423
Vehicles and equipment	4,872,048	427,399	(176,125)	5,123,322
Construction-in-progress	409,462	8,319,634	(1,198,871)	7,530,225
Software	-	797,337	-	797,337
Other	86,132	-	-	86,132
Total capital assets	8,596,065	9,544,370	(1,374,996)	16,765,439
Less accumulated depreciation				
Building/leasehold Improvements	3,051,148	55,796	-	3,106,944
Vehicles and equipment	4,208,148	181,185	(171,223)	4,218,110
Software	-	13,289	-	13,289
Other	86,132	-	-	86,132
Total accumulated depreciation	7,345,428	250,270	(171,223)	7,424,475
Property and equipment, net	$ 1,250,637	$ 9,294,100	$ (1,203,773)	$ 9,340,964

6. Management and Master Lease Agreements with HAM

Prior to January 1, 2018, HAM, which is the owner of the Transportation Research Center of Ohio facilities, retained TRC as the sole and exclusive manager and agent to control, manage, supervise and direct the operations of the facility under the terms of a Management Agreement. Under the Management Agreement, TRC remitted to HAM certain revenues for use of the facilities (owner revenues). Additionally, expenses for repairs and capital improvements made by TRC were reimbursed by HAM (owner expenses). In the Statement of Revenues, Expenses and Other Changes in Net Position, the amounts TRC remitted to HAM were recorded as direct expenses, and the amounts reimbursed by HAM were recorded as owner's maintenance and repair revenues. For the years ended June 30, 2018 and 2017 the amounts of transactions with HAM were as follows:

	2018	2017
Owner revenues	$ 3,117,215	$ 6,126,235
Owner expenses	1,884,700	5,918,253

At June 30, 2017, there was a receivable from HAM for owner expenses of $1,122,212 and a payable to HAM for owner revenues earned of $1,470,326, included in trade accounts receivable and trade accounts payable, respectively.

On December 21, 2017, after a 30-year business relationship, TRC entered into a master lease agreement with HAM (the "HAM Lease") for portions of the TRC real property and related improvements, effective January 1, 2018. The Management Agreement between TRC and HAM was terminated, effective December 31, 2017.

The initial term of the HAM Lease is for approximately 14 years and three months, ending March 31, 2032. At the end of the initial term, at the option of HAM and TRC, the lease will renew for one 15-year renewal term. Under the HAM Lease, TRC pays rent to HAM, retains all revenues related to facilities usage and is responsible for maintenance and repairs to the leased facilities. At June 30, 2018, TRC was not in compliance with certain provisions of the master lease agreement with HAM, which could lead to an event of default, as defined in the master lease agreement. An event of default could result in HAM terminating the agreement. However, based on information provided from HAM, they have represented that no determination has been made to issue a notice of default.

TRC and OSU have separately entered into a letter of support arrangement, whereby OSU has agreed to support the operational needs of TRC should TRC be unable to support its own operations.

The total rental expense under the HAM Lease, which is being recognized on a straight-line basis over the initial term of the lease, was $1,091,315 for the year ended June 30, 2018. In conjunction with the HAM Lease, HAM and its affiliates separately agreed to rent certain portions of the facility from TRC over a period of approximately 14 years and three months. TRC recognized rental income of $518,706 during the year ended June 30, 2018, which is included in research and testing revenues. TRC reports the rental income on a gross basis, separate from the rental expense incurred under the terms of the HAM Lease. Gross future minimum payments under the HAM lease and other TRC leases is provided in Note 10.

TRC also earns research and testing revenues from Honda of America Manufacturing and affiliated entities outside of the Management Agreement and the HAM Lease. Revenues attributed to HAM and HAM affiliates were $18,636,603 and $18,080,894 for the years ended June 30, 2018 and 2017, respectively. Trade accounts receivable at June 30, 2018 and 2017 included $1,262,509 and $1,948,690, respectively, from HAM and affiliated entities related to these research, testing and facility usage revenues. Although HAM and its affiliates pay TRC Inc. for facility use, each entity is individually responsible for payment of their associated facility use fees.

7. 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.

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"). In accordance with GASB Statement No. 32, TRC has not recorded any deferred compensation assets or liabilities in the financial statements.

8. Net Position

TRC's Code of Regulations specify that TRC shall, within 120 days of the end of TRC's fiscal year, transfer any accumulated surplus in excess of its January 27, 1988 fund balance, less $911,466, or $6,677,225, or such lesser amount authorized by the Board, to the endowment portfolio of The Ohio State University to form a fund, the income from which is to be used as determined by the Board of Trustees of The Ohio State University for the support and encouragement of research in automotive, vehicular and related forms of transportation, and for the development of improved highway facilities for vehicular traffic. Upon such transfer, those funds shall no longer be available to pay for any of TRC's obligations. If net position funds fall below $6,677,225, no transfer may take place.

In the past, the TRC Board has typically authorized an amount to be transferred equating to the fiscal year's excess of revenues over expenses less any unrealized change in the fair value of investments. During the years ended June 30, 2018 and 2017, at the Board's direction, no funds were transferred.

TRC's Articles of Incorporation stipulate that upon the ultimate dissolution of TRC, any remaining funds shall be paid to The Ohio State University and be devoted exclusively to public purposes and/or other purposes permissible under Code Section 501(c)(3), with any cash, marketable securities, investments and accounts receivable being transferred to the endowment portfolio of The Ohio State University to form a fund, the income from which is to be used as determined by the Board of Trustees of The Ohio State University for the support and encouragement of research in automotive, vehicular and related forms of transportation, and for the development of improved highway facilities for vehicular traffic. However, if at the time of dissolution of TRC, The Ohio State University is not an organization described in Code Section 170(c)(1), TRC's remaining assets shall be paid over to such organization or organizations as shall be selected by the affirmative vote of a majority of the Board of Directors, provided, however, that such organization or organizations shall be exempt from federal income taxation and described in either Section 170(c)(1) or Code Section 501(c)(3) with such remaining assets to be devoted exclusively to public purposes and/or other purposes permissible under Code Section 501(c)(3).

At June 30, 2018 and 2017, the net position was comprised of the following:

	2018	2017
Net Investment in Capital Assets	$ 1,449,172	$ 1,468,228
Unrestricted net position	$ 10,140,245	8,530,942
Total net position	$ 11,589,417	$ 9,999,170

Unrestricted net position includes a cumulative unrealized gain (loss) in investments at June 30, 2018 and 2017 of $290,239 and $166,331, respectively.

9. Defined Benefit Pension Plan and Post-Employment Benefits

As part of the formation of TRC on January 27, 1988, existing employees were given the option to continue participation in the Ohio Public Employees Retirement System ("OPERS"), a cost sharing, multiple employer defined benefit pension plan. The following disclosure reflects the portion of TRC, Inc. employees who opted to continue to participate in OPERS. Since the time of formation, new employees of TRC are not eligible to participate in this plan.

Defined Benefit Plans

OPERS offers retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. In addition, OPERS provides other post-employment benefits (OPEB), consisting primarily of healthcare. Benefits are established by state statute and are calculated using formulas that include years of service and final average salary as factors. OPERS issues separate, publicly available financial reports that include financial statements and required supplemental information. These reports may be obtained by contacting the organization.

OPERS, Attn: Finance Director
277 East Town Street
Columbus, OH 43215-4642
(614) 222-5601
(800) 222-7377
www.opers.org/investments/cafr.shtml

In accordance with GASB Statements Nos. 68 and 75, employers participating in cost-sharing multiple-employer plans are required to recognize a proportionate share of the collective net pension and OPEB liabilities of the plans. Although changes in the net pension and OPEB liabilities generally are recognized as expense in the current period, certain items are deferred and recognized as expense in future periods. Deferrals for differences between projected an actual investment returns are amortized to pension expense over five years. Deferrals for employer contributions subsequent to the measurement date are amortized in the following period (one year). Other deferrals are amortized over the estimated remaining service lives of both active and inactive employees (amortization periods are approximately 3 years).

The collective net pension liabilities of OPERS and TRC's proportionate share of these liabilities as of June 30, 2018 and June 30, 2017 are as follows:

	2018	2017
Net pension liability - all employers	$ 15,688,061,327	$ 22,708,299,469
Proportion of the net pension liability - TRC	0.002%	0.002%
Proportionate share of net pension liability	$ 236,419	$ 382,408

The collective net OPEB liabilities of OPERS and TRC's proportionate share of these liabilities as of June 30, 2018 are as follows:

	2018
Net OPEB liability - all employers	$ 10,859,263,395
Proportion of the net OPEB liability - TRC	0.001%
Proportionate share of net OPEB liability	$ 153,116

Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources as of June 30, 2018 and 2017:

	2018	2017
Deferred Outflows of Resources:		
Differences between expected and actual experience	$ 268	$ 517
Changes in assumptions	31,572	60,655
Net difference between projected and actual earnings on pension plan investments	-	80,933
Employer contributions subsequent to the measurement date	12,900	13,000
Total	**$ 44,740**	**$ 155,105**
Deferred Inflows of Resources:		
Differences between expected and actual experience	$ 4,759	$ 2,910
Net difference between projected and actual earnings on pension plan investments	35,794	6,677
Changes in proportion of TRC contributions	-	-
Total	**$ 40,554**	**$ 9,587**

Deferred outflows of resources and deferred inflows of resources for OPEB were related to the following sources as of June 30, 2018:

	2018
Deferred Outflows of Resources:	
Differences between expected and actual experience	$ 120
Changes in assumptions	11,148
Total	**$ 11,268**
Deferred Inflows of Resources:	
Net difference between projected and actual earnings on OPEB plan investments	$ 11,406
Total	**$ 11,406**

Net deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense during the years ending June 30 as follows:

	OPERS
2019	$ 45,388
2020	2,181
2021	(22,526)
2022	(20,856)
2023	-
2024 and Thereafter	-
Total	**$ 4,187**

Net deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense during the years ending June 30 as follows:

	OPERS
2019	$ 2,536
2020	2,536
2021	(2,358)
2022	(2,852)
Total	**$ (138)**

Summary of Employer Pension Expense

Total pension and OPEB expense for the years ended June 30, 2018 and 2017, including employer contributions and accruals associated with recognition of net pension liabilities, net OPEB liabilities and related deferrals, is presented below.

	2018	2017
Employer Contributions	$ 16,277	$ 29,941
GASB 68 Pension Accruals	(4,656)	(12,469)
GASB 75 OPEB Accruals	10,839	-
Total Pension and OPEB Expense	**$ 22,460**	**$ 17,472**

Total pension expense is included in direct operating expenses in the Statements of Revenues, Expenses and Other Changes in Net Position.

The following table provides additional details on the benefit formulas, contribution requirements and significant assumptions used in the measurement of total pension and OPEB liabilities for OPERS (information below applies to both pensions and OPEB unless otherwise indicated).

	OPERS
Statutory Authority	Ohio Revised Code Chapter 145
Benefit Formula	**Pensions** -- Benefits are calculated on the basis of age, final average salary (FAS), and service credit. State and Local members in transition Groups A and B are eligible for retirement benefits at age 60 with 60 contributing months of service credit or at age 55 with 25 or more years of service credit. Group C for State and Local is eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service. For Groups A and B, the annual benefit is based on 2.2% of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. For Group C, the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of 35. FAS represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career. The base amount of a member's pension benefit is locked in upon receipt of the initial benefit payment for calculation of annual cost-of-living adjustment. **OPEB** – The Ohio Revised Code permits, but does not require, OPERS to offer post-employment health care coverage. The ORC allows a portion of the employers' contributions to be used to fund health care coverage. The health care portion of the employer contribution rate for the Traditional Pension Plan and Combined Plan is comparable, as the same coverage options are provided

	to participants in both plans. Beginning January 1, 2015, the service eligibility criteria for health care coverage increased from 10 years to 20 years with a minimum age of 60, or 30 years of qualifying service at any age. Beginning with January 2016 premiums, Medicare-eligible retirees could select supplemental coverage through the Connector, and may be eligible for monthly allowances deposited to an HRA to be used for reimbursement of eligible health care expenses. Coverage for non-Medicare retirees includes hospitalization, medical expenses and prescription drugs. The System determines the amount, if any, of the associated health care costs that will be absorbed by the System and attempts to control costs by using managed care, case management, and other programs. Additional details on health care coverage can be found in the Plan Statement in the OPERS 2017 CAFR. OPERS no longer participates in the Medicare Part D program as of December 31, 2016. OPERS will receive the final distribution of funds from the Medicare Part D program for calendar year 2016 in 2018. Total federal subsidies received for the year ended December 31, 2017 were $812,170.
Cost-of-Living Adjustments (COLAs)	Once a benefit recipient retiring under the Traditional Pension Plan has received benefits for 12 months, current law provides for an annual COLA. The COLA is calculated on the member's base pension benefit at the date of retirement and is not compounded. Members retiring under the Combined Plan receive a COLA on the defined benefit portion of their pension benefit. For those who retired prior to January 7, 2013, current law provides for a 3% COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, current law provides that the adjustment will be based on the average percentage increase in the Consumer Price Index, capped at 3%.
Contribution Rates	Employee and member contribution rates are established by the OPERS Board and limited by Chapter 145 of the Ohio Revised Code. For 2017, employer rates for the State and Local Divisions were 14% of covered payroll (and 18.1% for the Law Enforcement and Public Safety Divisions). Member rates for the State and Local Divisions were 10% of covered payroll (13% for Law Enforcement and 12% for Public Safety).
Measurement Date	December 31, 2017 (OPEB is rolled forward from December 31, 2016 actuarial valuation date)
Actuarial Assumptions	**Valuation Date:** December 31, 2017 for pensions; December 31, 2016 for OPEB **Actuarial Cost Method:** Individual entry age **Investment Rate of Return:** 7.5% for pensions; 6.5% for OPEB **Inflation:** 3.25% **Projected Salary Increases:** 3.25% - 10.75% **Cost-of-Living Adjustments:** 3.00% Simple – for those retiring after January 7, 2013, 3.00% Simple through 2018, then 2.15% Simple. **Health Care Cost Trends:** 7.5% initial; 3.25% ultimate
Mortality Rates	Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular

calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

Date of Last Experience Study

December 31, 2015

Investment Return Assumptions

The long term expected rates of return on defined benefit pension and health care investment assets were determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

The following table displays the Board-approved asset allocation policy for defined benefit pension assets for 2017 and the long-term expected real rates of return:

Asset Class	Target Allocation	Long Term Expected Return*
Fixed Income	23.0%	2.20%
Domestic Equity	19.0%	6.37%
Real Estate	10.0%	5.26%
Private Equity	10.0%	8.97%
International Equity	20.0%	7.88%
Other Investments	18.0%	5.26%
Total	100.0%	

* Returns presented as arithmetic means

The following table displays the Board-approved asset allocation policy for health care assets for 2017 and the long-term expected real rates of return:

Asset Class	Target Allocation	Long Term Expected Return*
Fixed Income	34.0%	1.88%
Domestic Equities	21.0%	6.37%
REITs	6.0%	5.91%
International Equities	22.0%	7.88%
Other Investments	17.0%	5.39%
Total	100.0%	

* Returns presented as arithmetic means

Discount Rate

Pensions -- The discount rate used to measure the total pension liability was 7.5% for the Traditional Pension Plan, the Combined Plan and the Member-Directed Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

OPEB – A single discount rate of 3.85% was used to measure the OPEB liability on the measurement date of December 31, 2017. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position

	is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50% and a municipal bond rate of 3.31%. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.
Changes in Assumptions Since the Prior Measurement Date	N/A
Benefit Term Changes Since the Prior Measurement Date	**Pensions** -- For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, current law provides that the COLA adjustment will be based on the average percentage increase in the Consumer Price Index, capped at 3%.

Sensitivity of Net Pension Liability to Changes in Discount Rate

1% Decrease (6.5%)	Current Rate (7.5%)	1% Increase (8.5%)
$ 422,446	$ 236,419	$ 81,472

Sensitivity of Net OPEB Liability to Changes in Discount Rate

1% Decrease (2.85%)	Current Rate (3.85%)	1% Increase (4.85%)
$ 203,426	$ 153,116	$ 112,422

Sensitivity of Net OPEB Liability to Changes in Medical Trend Rate

1% Decrease in Trend Rate	Current Trend Rate	1% Increase in Trend Rate
$ 146,503	$ 153,116	$ 159,954

Defined Contribution Plans

OPERS also offers a defined contribution plan, the Member-Directed Plan (MD). The MD plan does not provide disability benefits, annual cost-of-living adjustments, post-retirement health care benefits or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options.

Combined Plans

OPERS also offers a combined plan. This is a cost-sharing multiple-employer defined benefit plan that has elements of both a defined benefit and defined contribution plan. In the combined plan, employee contributions are invested in self-directed investments, and the employer contribution is used to fund a reduced defined benefit. Employees electing the combined plan receive post-retirement health care benefits. OPERS provides retirement, disability, survivor and post-retirement health benefits to qualifying members of the combined plan.

Post-Retirement Health Care Benefits

OPERS currently provides post-employment health care benefits to retirees with ten or more years of qualifying service credit. These benefits are advance-funded on an actuarially determined basis and are financed through employer contributions and investment earnings. OPERS determines the amount, if any, of the associated health care costs that will be absorbed by OPERS. Under Ohio Revised Code (ORC), funding for medical costs paid from the funds of OPERS is included in the employer contribution rate. For calendar year 2017, OPERS allocated 2.0% of the employer contribution rate to fund the health care program for retirees.

10. Leases

TRC leases various buildings to TRC's customers. Lease terms range with various renewal option features. The leases are accounted for as operating leases. For the years ended June 30, 2018 and 2017, lease revenue included in research and testing revenues was $1,821,786 and $1,065,386, respectively. At June 30, 2018, future minimum lease receipts are due as follows:

2019	$2,701,586
2020	2,635,891
2021	2,635,891
2022	2,635,891
2023	2,338,741
2024 - 2043	20,261,997
Total	$33,209,997

Under the HAM Lease, TRC leases research and testing facilities and office space from HAM with terms expiring through March 31, 2032. The lease amount is subject to annual adjustment based on the consumer price index. TRC also leases a fleet of vehicles from Enterprise for use by employees. The lease term is five years on a vehicle by vehicle basis with terms expiring through April 2023. As of June 30, 2018, future minimum rental payments under operating leases with initial terms in excess of one year are summarized as follows:

2019	$465,498
2020	476,608
2021	488,163
2022	500,179
2023	493,097
2024 - 2032	21,707,192
Total	$24,130,737

Rental expense charged to operations was $1,682,319 and $1,031,386 for the years ended June 30, 2018 and 2017, respectively.

11. Long-term Notes Payable

In July 2016, TRC entered into a Memorandum of Understanding with OSU to provide an $8,000,000 line of credit for infrastructure improvements. The annual interest rate for the loan is 4.75% and has a 15-year term. Monthly interest-only payments will be made during the construction period. The final amortization schedule will be determined upon completion of construction. Through June 30, 2018, TRC has made net draws totaling $3,000.000.

In July of 2017, TRC entered in a Memorandum of Understanding with OSU to provide a $3,264,652 loan to fund SMARTCenter construction site costs. The annual interest rate for the loan is 5.25% and has a 20-year term. Monthly interest-only payments will be made during the construction period. After construction is complete, TRC Inc. and OSU will evaluate when principal payments will begin.

In December 2017 TRC entered into a Memorandum of Understanding with OSU to provide a $2,615,028 loan to pay certain required amounts to HAM according to the MLA. The annual interest rate for the loan is 4% and has a 28-month term. Monthly principal and interest payments are required in the amount of $100,000.

In May 2018, TRC closed on a loan with Ohio Development Service Agency in the amount of $5,000,000 to reimburse funds spent to build the new conference center, customer workbay and traffic control system. The proceeds of this loan were used to repay a portion of the outstanding borrowings on the OSU line of credit. The annual interest rate for the loan is 1% and has 15-year term. The loan anticipates the total project investment will be $8,000,000 and requires TRC to create ten new jobs and retain 318 existing jobs by December of 2020. Failure to create and retain the specified jobs may result in an increase to the annual interest rate of the loan.

In May 2018, TRC closed on a loan with Ohio Development Service Agency in the amount of $2,875,000 to provide additional funding for the SMART Center. The annual interest rate for the loan is 1% and has a 15-year term. The loan anticipates the total project investment will be $45,000,000 and requires TRC to create five new jobs and retain 328 existing jobs by December of 2020. Failure to create and retain the specified jobs may result in an increase to the annual interest rate of the loan. As of June 30, 2018 TRC had not made any borrowings under this agreement.

Debt activity for the year ended June 30, 2018 is as follows:

	Beginning Balance	Additions	Repayments	Ending Balance	Current Portion
OSU Loans	$6,000,000	$8,092,375	$5,672,164	$8,420,211	$1,134,426
JobsOhio - Infastructure Loan	$0	$5,000,000	$0	$5,000,000	$310,517
Total	$6,000,000	$13,092,375	$5,672,164	$13,420,211	$1,444,943

Debt activity for the year ended June 30, 2017 were as follows:

	Beginning Balance	Additions	Repayments	Ending Balance	Current Portion
OSU Loan	$0	$6,000,000	$0	$6,000,000	$0

Principal payments to unrelated parties on notes are due as follows:

2019		$310,517
2020		313,637
2021		316,788
2022		319,970
2023 - 2033		3,739,088
	Total	$5,000,000

Principal payments to related parties on notes are due as follows:

2019		$1,134,425
2020		1,021,133
	Total	$2,155,558

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, 2018 and 2017, TRC expended $479,726 and $462,002, respectively, for contributions to the Plan, which are included in direct and general and administrative operating expenses in the Statements of Revenues, Expenses and Other Charges in Net Position.

14. Subsequent Events

In July 2018, TRC entered into a Memorandum of Understanding with OSU, as an addendum to the MOU from July of 2017, to provide an additional $9,235,348 of funding toward construction of the SMARTCenter. Monthly interest-only payments will be made during the first five years. The annual interest rate for the loan is 4.75% and has a 25-year term. The loan is secured by the College of Engineering.

In August 2018, TRC entered into a Memorandum of Understanding with OSU memorializing $12,500,000 of grant funding toward construction of the SMARTCenter. Draws must be approved by the CFO of the University and the University reserves the right to conduct an audit of expenses reimbursed under the grant.

In September 2018 TRC Inc. was awarded a federal government, five-year services contract for a total of $85,000,000. This contract replaces a former five-year contract for similar services which expired on September 30, 2018.

Transportation Research Center Inc.

Required Supplementary Information on GASB 68 Pension Liabilities and GASB 75 OPEB Liability (Unaudited)

June 30, 2018, 2017 and 2016

Schedule of Proportionate Share of the Net Pension Liability

	2018	2017	2016
TRC proportion of the collective net pension liability	0.002%	0.002%	0.002%
TRC proportionate share of the net pension liability	$ 236,419	$ 382,408	$ 365,998
TRC covered payroll	$ 162,766	$ 236,058	$ 304,372
TRC proportionate share of the net pension liability as a percentage of its covered payroll	145%	162%	120%
Plan fiduciary net position as a percentage of the total pension liability	84.7%	77.3%	81.2%

Schedule of University Contributions

	2018	2017	2016
Contractually required contribution	$ 16,277	$ 29,941	$ 31,652
Contributions in relation to the contractually required contribution	$ 16,277	$ 29,941	$ 31,652
Contribution deficiency (excess)	$ -	$ -	$ -
TRC covered payroll	$ 162,766	$ 236,058	$ 304,372
Contributions as a percentage of covered payroll	10.0%	12.7%	10.4%

Schedule of Proportionate Share of the Net OPEB Liability

	2018
TRC proportion of the collective net OPEB liability	0.001%
TRC proportionate share of the net OPEB liability	$ 153,116
TRC covered payroll	$ 162,766
TRC proportionate share of the net OPEB liability as a percentage of its covered payroll	94%
Plan fiduciary net position as a percentage of the total OPEB liability	84.7%

Report of Independent Auditors 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, 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, the financial statements of Transportation Research Center Inc. ("TRC"), a component unit of The Ohio State University, appearing on pages 10 to 31, which comprise the statement of net position as of June 30, 2018, and the related statements of revenues, expenses, and other changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 19, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered TRC's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of TRC's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described below that we consider to be significant deficiencies:

1) *Create and Post Capabilities Related to Journal Entries*

Observation: During fiscal year 2018, several members of TRC's accounting and finance department members had access to "create and post" manual journal entries to the general ledger. To address the risks related to "create and post" access, management has designed a compensating control whereby on a monthly basis, a designated individual within TRC's accounting and finance department reviews a list of all manual entries created and posted for that month. Additionally, the designated individual is responsible for the review and approval of all key account reconciliations on a monthly basis.

For the review and approval process to be designed effectively, the individual performing the review of monthly manual journal entries and key account reconciliations should not also have IT system rights giving him/her the access to also create and post journal entries. For at least a portion of the year, the person designated in this review responsibility role also had the ability to create and post manual journal entries. Additionally, this monthly control, including an assessment of completeness of the review, should be formally documented and all evidence should be maintained.

Implication: The existence of create and post ability of journal entries increases the risk of fictitious or erroneous entries. The ability to create and post such entries along with reviewing such entries and key reconciliations diminishes the effectiveness of compensating controls to mitigate this risk.

Recommendation: Based on discussions with management, we understand that TRC limited the "create and post" access rights during fiscal year 2018. On an ongoing basis, we recommend TRC monitor "create and post" access rights and ensure that such rights do not exist for any individual within the organization that is responsible for reviewing and approving journal entries and/or key account reconciliations. For the review and approval oversight process to be designed effectively, there should be a segregation of duties between the individuals who are able to create and post journal entries and the individuals responsible for reviewing and approving such entries. Additionally, TRC should ensure that the aforementioned monthly review and approval of manual journal entries, including management's completeness assessment of such entries, is formally documented and maintained.

Management Response: TRC is continuing to assess their journal entry processes. In order to achieve appropriate segregation of duties, TRC will ensure that each transaction will be initiated and approved by separate individuals, either manually or systematically.

2) *Oversight of Period End Closing Process and System Updates*

Observation: TRC has experienced a number of significant changes over the course of the past year throughout many facets of the organization. Namely, TRC implemented a new Enterprise Resource Planning (ERP) system in the last quarter of fiscal 2017 and continued to make modifications to its ERP system during fiscal 2018; experienced significant management turnover at both the executive level and within its accounting/finance function; and embarked on significant strategic initiatives, including new business opportunities and sizable contract negotiations with key business partners. With all of these changes taking place and without a full time CFO or controller in place during nearly all of fiscal year 2018, we identified a number of adjustments during the course of our year-end audit and recommended substantial changes to the TRC's stand-alone financial statements, mostly in the area of the statement of cash flows and required disclosure. Certain accounts were not fully reconciled in a timely manner which resulted in delays in the financial reporting process. Audit adjustments related primarily to revenue and expense cut-off.

Implication: TRC's management is ultimately responsible for the preparation and fair presentation in the financial statements of financial position, respective changes in net position, and cash flows in conformity with generally accepted accounting principles, including the appropriate selection and application of accounting policies. Without proper attention to these matters, TRC will be challenged to provide full stand-alone GAAP-based financial statements that are free of material misstatement.

Recommendation: As TRC enters into new business ventures and other potentially new or complex transactions, management should ensure that it has the appropriate resources in place to timely identify accounting and reporting matters related to these types of transactions and ensure accounting, including the related financial statement disclosure, is appropriate. All accounts need to be reconciled on a timely basis, and management should ensure that transactions entered into near the end of the reporting period are closely analyzed to ensure appropriate financial statement cut-off.

We recognize that near and after year-end, TRC has already taken significant strides in this area, as it has brought on a full-time CFO and a controller. While this assessment of TRC's internal controls over financial reporting is focused on the year-ended June 30, 2018, it appears that TRC is in the process of taking appropriate the steps to address the concerns that have been raised.

Management Response: TRC continues to review and update accounting processes that will provide timely attention and a standardize approach to ensuring proper accounting treatment of new types of transactions. As well, TRC is implementing new processes on preparation and review of account reconciliations on a recurring basis. In association with this new direction, TRC will ensure proper documentation of all processes and practices.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether TRC's financial statements are free from 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 or other matters that are required to be reported under *Government Auditing Standards*.

TRC's Response to Findings

TRC's response to the findings identified in our audit is described previously. TRC's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

December 19, 2018

OHIO AUDITOR OF STATE
KEITH FABER

THE OHIO STATE UNIVERSITY 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
JANUARY 22, 2019