

Transportation Research Center Inc.

(A component unit of The Ohio State University)

Financial Statements

As of and for the Years Ended

June 30, 2020 and 2019 and

Report of Independent Auditors

OHIO AUDITOR OF STATE
KEITH FABER



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Board of Directors
Transportation Research Center Inc.
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We have reviewed the *Report of Independent Auditors* of the Transportation Research Center Inc., Franklin County, prepared by PricewaterhouseCoopers LLP, for the audit period July 1, 2019 through June 30, 2020. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

November 17, 2020

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Transportation Research Center Inc.

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June 30, 2020 and 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 25, which comprise the statements of net position as of June 30, 2020 and 2019, 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.



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, 2020 and 2019, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

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 26 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 October 16, 2020 on our consideration of TRC’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended June 30, 2020. 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 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 TRC’s internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

October 16, 2020

Transportation Research Center Inc.

Management's Discussion and Analysis (Unaudited)

For Fiscal Year Ended June 30, 2020 and 2019

This Management's 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, 2020, with comparative information for the fiscal years ended June 30, 2019 and June 30, 2018.

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 provided 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 repair activities under HAM's direction and HAM compensated TRC Inc. for the maintenance and repair 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 repair, 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. 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

Transportation Research Center Inc.

Management's Discussion and Analysis (Unaudited)

For Fiscal Year Ended June 30, 2020 and 2019

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 2020 were:

- Research and testing revenues decreased 6.2% to \$36,682,483 driven by lower testing volume due to events surrounding the COVID-19 pandemic.
- TRC's income from operations decreased by 368.7% from a net operating income of \$1,099,050 in 2019 to net operating loss of \$2,953,200 in 2020, driven primarily by a 192.1% increase in depreciation expense to \$2,605,346 in 2020, a \$728,205 increase in healthcare costs and an overall decrease in revenue.
- In late June 2018, construction began on a new SMARTCenter (Smart Mobility And Research Testing). In fiscal year 2020, grant revenue of \$13,993,265 and additions to property, plant and equipment of \$26,075,968 were recorded relative to this construction.
- General and administrative expense increased 4.7%, to \$22,328,085 driven primarily by the increase in healthcare costs mentioned previously.
- Decreases in the fair value of investments held in the university's Long-Term Investment Pool resulted in an unrealized capital loss of \$147,478.
- Total net position increased \$10,480,094, to \$37,453,986 at June 30, 2020.

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, 2020 and June 30, 2019; the Statements of Revenues, Expenses and Changes in Net Position for fiscal years ended June 30, 2020 and 2019; and the Statements of Cash Flows for fiscal years ended June 30, 2020 and 2019.

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.

Transportation Research Center Inc.
Management's Discussion and Analysis (Unaudited)
For Fiscal Year Ended June 30, 2020 and 2019

Summary Statements of Net Position

The major components of the Statements of Net Position at June 30, 2020, June 30, 2019 and June 30, 2018 are reflected below:

	2020	2019	Changes	2018
Assets				
Current assets	\$ 15,874,016	\$ 16,227,019	(2.18)%	\$ 16,500,386
Net property and equipment	48,760,377	31,609,628	54.26 %	13,184,500
Deferred outflows related to pension and OPEB	-	24,238	(100.00)%	56,008
Total assets and deferred outflows	<u>\$ 64,634,393</u>	<u>\$ 47,860,885</u>	<u>35.05 %</u>	<u>\$ 29,740,894</u>
Liabilities				
Current liabilities	\$ 9,647,316	\$ 7,871,165	22.57 %	\$ 5,734,714
Net pension liability	-	196,482	(100.00)%	389,535
Long term notes payable	17,533,091	12,805,789	36.92 %	11,975,268
Total liabilities	27,180,407	20,873,436	30.22 %	18,099,517
Deferred inflows related to pension and OPEB	-	13,557	(100.00)%	51,960
Net investment in capital assets	28,938,750	16,474,600	75.66 %	1,449,172
Unrestricted net position	8,515,236	10,499,292	(18.90)%	10,140,245
Total liabilities, deferred inflow and net position	<u>\$ 64,634,393</u>	<u>\$ 47,860,885</u>	<u>35.05 %</u>	<u>\$ 29,740,894</u>

Current Assets

Total current assets decreased \$353,003, or 2.2%, to \$15,874,016 at June 30, 2020.

Cash increased by \$1,266,293, or 40.2%, to \$4,415,054 at June 30, 2020.

Trade accounts receivable decreased \$858,255, or 12.9%, to \$5,793,430 at June 30, 2020. The decrease in trade accounts receivable was due to decreased volume at the conclusion of the fiscal year. On average, TRC receivables were outstanding for 62 days in fiscal year 2020, compared to 62 days in fiscal year 2019.

Construction of the SMARTCenter began in late June 2018. In fiscal year 2020, grant receivable relative to this construction was \$1,230,060 at June 30, 2020.

Investments decreased by \$147,478, or 3.7%, to \$3,844,023 at June 30, 2020. The decrease resulted from a decrease 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 2020, 2019 and 2018 are as follows:

	2020	2019	2018
Market value of endowment fund	\$ 3,844,023	\$ 3,991,501	\$ 4,132,026
Book value of endowment fund	3,841,787	3,841,787	3,841,787
Net unrealized gain	<u>\$ 2,236</u>	<u>\$ 149,714</u>	<u>\$ 290,239</u>
Unrealized (loss) gain - current period	\$ (147,478)	\$ (140,525)	\$ 123,908

Transportation Research Center Inc.

Management's Discussion and Analysis (Unaudited)

For Fiscal Year Ended June 30, 2020 and 2019

Net Property and Equipment

Net property and equipment increased \$17,150,749 to \$48,760,377 at June 30, 2020.

During fiscal year 2020, the largest asset placed into service relative to the SMARTCenter was \$14,210,320. Additionally, \$1,103,208 was spent on facility maintenance and upgrade projects including parking lot expansion, high speed camera equipment, air conditioning upgrade and privacy fencing.

The remaining book values of each of the individual remaining capital assets are less than \$100,000 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 increased \$1,776,151 to \$9,647,316 at June 30, 2020. The increase in current liabilities primarily reflects increases to the accrued lease liability.

Accounts payable increased \$442,196 to \$3,114,504 at June 30, 2020. The increase was primarily driven from an increase in accounts payable days from 45 in FY2019 to 57 in FY2020.

Accrued payroll expenses increased \$726,686 to \$2,067,552 at June 30, 2020. Increases in accrued payroll wages and FICA liability were the drivers to this increase. FICA liability increased due to deferrals of employer tax remittance allowed by the Coronavirus Aid, Relief and Economic Security (CARES) Act passed into federal law on March 27, 2020 in response to the COVID-19 pandemic.

The current portion of long-term debt decreased \$1,098,069 to \$236,701 at June 30, 2020. This represents the principal amount reductions in fiscal year 2020 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 FY2019, TRC Inc. implemented a related accounting standard, GASB Statement No. 75, which requires employers participating in other postemployment 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 \$196,482, to \$0 at June 30, 2020.

Long term notes payable increased by \$4,727,302 to \$17,533,091 at June 30, 2020. The increase relates to loans provided by the University which were used towards construction of the SMARTCenter. The total amount of long-term debt provided was offset by payments made on principal as well as reclassifications from long term to short term debt.

Transportation Research Center Inc.
Management's Discussion and Analysis (Unaudited)
For Fiscal Year Ended June 30, 2020 and 2019

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, 2020, 2019 and 2018 are reflected below:

	2020	2019	Changes	2018
Operating revenues	\$ 36,682,483	\$ 39,124,543	(6.24)%	\$ 48,240,388
Operating expenses	<u>39,635,683</u>	<u>38,025,493</u>	4.23 %	<u>46,357,453</u>
Operating (loss) income	(2,953,200)	1,099,050	(368.70)%	1,882,935
Net nonoperating expense	(412,493)	(251,088)	64.28 %	(274,181)
Net change in value of equity interest in investment pool	<u>(147,478)</u>	<u>(140,525)</u>	4.95 %	<u>123,908</u>
Excess (expenses over revenue) revenue over expenses	(3,513,171)	707,437	(596.61)%	1,732,662
Capital Grant	<u>13,993,265</u>	<u>14,677,038</u>	(4.66)%	<u>-</u>
Change in net position	10,480,094	15,384,475	(31.88)%	1,732,662
Beginning net position	26,973,892	11,589,417	132.75 %	9,999,170
Cumulative effect of change in accounting principle	<u>-</u>	<u>-</u>	0.00 %	<u>(142,415)</u>
Ending net position	<u>\$ 37,453,986</u>	<u>\$ 26,973,892</u>	38.85 %	<u>\$ 11,589,417</u>

Operating Revenues

The single source of revenue that TRC Inc. earned during fiscal year 2020 was research and testing agreement 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. Revenue from leased facilities is also included in research and testing revenue.

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 2020, 2019 and 2018 are summarized below:

	FY 2020	FY 2019	Changes	FY 2018
Research and testing agreement revenue	\$ 36,682,483	\$ 39,124,543	(6.24)%	\$ 46,355,688
Owner's maintenance and repair revenue	<u>-</u>	<u>-</u>	0.00 %	<u>1,884,700</u>
Total operating revenue	<u>\$ 36,682,483</u>	<u>\$ 39,124,543</u>	(6.24)%	<u>\$ 48,240,388</u>

Research and testing revenue decreased by \$2,442,060 or 6.2%, in fiscal year 2020 to \$36,682,483. Lower testing volume overall relative to the COVID-19 pandemic contributed to this decrease.

**Transportation Research Center Inc.
Management's Discussion and Analysis (Unaudited)
For Fiscal Year Ended June 30, 2020 and 2019**

Operating Expenses

Major components of operating expense in fiscal years 2020, 2019 and 2018 were:

	2020	2019	Changes	2018
Direct expense	\$ 14,702,252	\$ 15,797,910	(6.94)%	\$ 23,670,366
General and administrative expense	22,328,085	21,335,612	4.65 %	21,993,077
Depreciation expense	<u>2,605,346</u>	<u>891,971</u>	<u>192.09 %</u>	<u>694,010</u>
Total operating expense	<u>\$ 39,635,683</u>	<u>\$ 38,025,493</u>	<u>4.23 %</u>	<u>\$ 46,357,453</u>

Direct expense decreased by \$1,095,658, or 6.9%, in fiscal year 2020 to \$14,702,252. The decrease is a result of reduction in sales attributable to the COVID-19 pandemic.

Within general and administrative expenses, several categories saw a year over year increase greater than \$100,000 including payroll and management agent expenses as well as healthcare related expenses.

Depreciation expense has significantly increased due to SMARTCenter assets being placed into service in fiscal year 2020.

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.

Other Changes in Net Position

Capital grant revenue of \$13,993,265 was received in fiscal year 2020 and is related to the SMARTCenter project.

Summary Statements of Cash Flows

TRC cash increased \$1,266,293 in 2020. Net cash flows provided by operating activities increased \$922,049 driven by a lower amount of cash paid to suppliers while the level of cash receipts from customers remained consistent with FY2019. Net cash flows provided by noncapital financing activities increased by \$161,112 due eliminate of debt in FY2020. Net cash flows from capital and related financing activities increased \$2,141,157. Cash used for additions to property and equipment were substantially offset by proceeds from related grants and loans. Total cash flow from investing activities decreased \$328,178 and is related to interest received from the investment pool with OSU. Prior to fiscal year 2018 the interest was reinvested, but in fiscal years 2019 and 2020 it was not paid to TRC, Inc.

Transportation Research Center Inc.
Management's Discussion and Analysis (Unaudited)
For Fiscal Year Ended June 30, 2020 and 2019

Summary cash flows for fiscal years 2020, 2019 and 2018 were follows:

	2020	2019	2018
Cash flows from operating activities	\$ 3,470,702	\$ 2,548,653	\$ 3,402,847
Cash flows from noncapital financing activities	(1,038,888)	(1,200,000)	2,115,029
Cash flows from capital and related financing activities	(1,165,521)	(3,306,678)	(3,087,845)
Cash flows from investing activities	-	328,178	766
Net (decrease) increase in cash	<u>\$ 1,266,293</u>	<u>\$ (1,629,847)</u>	<u>\$ 2,430,797</u>

Transportation Research Center Inc.
Statements of Net Position
June 30, 2020 and 2019

	2020	2019
Assets		
Current assets		
Cash	\$ 4,415,054	\$ 3,148,761
Investments	3,844,023	3,991,501
Trade accounts receivable, net of allowance for doubtful accounts of \$55,273 and \$111,772	5,793,430	6,651,685
Grant receivable	1,230,060	1,708,368
Interest receivable	342,411	169,551
Supplies and prepaid expenses	249,038	557,153
Total current assets	<u>15,874,016</u>	<u>16,227,019</u>
Noncurrent assets		
Property and equipment	59,732,870	39,976,775
Less: Accumulated depreciation	<u>(10,972,493)</u>	<u>(8,367,147)</u>
Property and equipment, net	48,760,377	31,609,628
Deferred outflows related to pension and OPEB	<u>-</u>	<u>24,238</u>
Total assets and deferred outflows	<u>\$ 64,634,393</u>	<u>\$ 47,860,885</u>
Liabilities		
Current liabilities		
Trade accounts payable	\$ 3,114,504	\$ 2,672,308
Lease liability	3,133,795	1,851,495
Accrued payroll and related expenses	2,067,552	1,340,866
Advance payments for goods and services	1,094,764	671,726
Short-term note payable	<u>236,701</u>	<u>1,334,770</u>
Total current liabilities	<u>9,647,316</u>	<u>7,871,165</u>
Long-term liabilities		
Long-term note payable	17,533,091	12,805,789
Net Pension and OPEB Liabilities	<u>-</u>	<u>196,482</u>
Total long-term liabilities	<u>17,533,091</u>	<u>13,002,271</u>
Total liabilities	<u>27,180,407</u>	<u>20,873,436</u>
Deferred inflows related to pension and OPEB	<u>-</u>	<u>13,557</u>
Net position		
Net investment in capital assets	28,938,750	16,474,600
Unrestricted net position	<u>8,515,236</u>	<u>10,499,292</u>
Total net position	<u>37,453,986</u>	<u>26,973,892</u>
Total liabilities, deferred inflows and net position	<u>\$ 64,634,393</u>	<u>\$ 47,860,885</u>

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, 2020 and 2019

	2020	2019
Operating revenues		
Research and testing	\$ 36,682,483	\$ 39,124,543
Total operating revenues	<u>36,682,483</u>	<u>39,124,543</u>
Operating expenses		
Direct	14,702,252	15,797,910
General and administrative	22,328,085	21,335,612
Depreciation	<u>2,605,346</u>	<u>891,971</u>
Total operating expenses	<u>39,635,683</u>	<u>38,025,493</u>
Net operating income (loss)	<u>(2,953,200)</u>	<u>1,099,050</u>
Nonoperating income (expense)		
Net change in value of equity interest in investment pool	(147,478)	(140,525)
Gain on sale of assets	-	25,000
Interest income	172,860	169,686
Interest expense	<u>(585,353)</u>	<u>(445,774)</u>
Net nonoperating expense	<u>(559,971)</u>	<u>(391,613)</u>
Net income (loss) before other changes in net position	<u>(3,513,171)</u>	<u>707,437</u>
Other changes in net position		
Capital grant	<u>13,993,265</u>	<u>14,677,038</u>
Total other changes in net position	<u>13,993,265</u>	<u>14,677,038</u>
Change in Net Position	10,480,094	15,384,475
Net position - Beginning of year	<u>26,973,892</u>	<u>11,589,417</u>
Net position, end of year	<u>\$ 37,453,986</u>	<u>\$ 26,973,892</u>

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

Transportation Research Center Inc.
Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Cash received from customers and HAM	\$ 38,005,685	\$ 38,739,644
Cash paid to suppliers and HAM	(10,453,231)	(12,842,952)
Cash paid for taxes	(300,000)	(300,000)
Cash paid to employees	(17,811,836)	(17,761,250)
Cash paid for fringe benefits and payroll taxes	(5,969,916)	(5,286,789)
Net cash provided by operating activities	<u>3,470,702</u>	<u>2,548,653</u>
Cash flows from noncapital and related financing activities		
Cash paid on noncapital notes payable	(1,021,133)	(1,134,425)
Cash paid for interest on noncapital notes payable	(17,755)	(65,575)
Net cash used in noncapital and related financing activities	<u>(1,038,888)</u>	<u>(1,200,000)</u>
Cash flows from capital and related financing activities		
Proceeds from sale of property and equipment	-	25,000
Additions to property and equipment	(19,719,863)	(17,774,922)
Proceeds from capital grants	14,471,573	12,968,670
Cash paid on capital notes payable	(234,933)	(310,517)
Proceeds from capital notes payable	4,885,300	2,165,290
Cash paid for interest	(567,598)	(380,199)
Net cash used in capital and related financing activities	<u>(1,165,521)</u>	<u>(3,306,678)</u>
Cash flows from investing activities		
Interest income	-	328,178
Net cash provided by investing activities	<u>-</u>	<u>328,178</u>
Net increase (decrease) in cash and cash equivalents	1,266,293	(1,629,847)
Cash		
Beginning of the year	<u>3,148,761</u>	<u>4,778,608</u>
End of the year	<u>\$ 4,415,054</u>	<u>\$ 3,148,761</u>
Reconciliation of operating income (loss) to net cash used in operating activities		
Operating income (loss)	\$ (2,953,200)	\$ 1,099,050
Adjustments to reconcile operating income to net cash used in operating activities		
Depreciation	2,605,346	891,971
Provision for bad debt expense	(41,288)	136,739
Changes in assets and liabilities		
Trade accounts receivable	899,540	(379,180)
Supplies and prepaid expenses	308,116	298,063
Deferred outflows - pension and OPEB	24,238	31,769
Trade accounts payable	405,963	(891,951)
Lease liability	1,282,300	1,334,828
Accrued payroll and related expenses	726,688	271,847
Advance payments for goods and services	423,038	(13,027)
Net pension and OPEB liabilities	(196,482)	(193,053)
Deferred inflows - pension and OPEB	(13,557)	(38,403)
Net cash provided by operating activities	<u>\$ 3,470,702</u>	<u>\$ 2,548,653</u>
Supplemental cash flow information		
Net change in value of equity interest in investment pool	\$ (147,478)	\$ (140,525)
Interest receivable	342,411	169,551
Noncash investing and financing activities		
Purchase of property and equipment included in accounts payable	2,051,835	2,015,602

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

Transportation Research Center Inc.

Notes to Financial Statements

June 30, 2020 and 2019

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"). 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 The Ohio State University ("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 goods 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.

Transportation Research Center Inc.

Notes to Financial Statements

June 30, 2020 and 2019

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, 2020 or June 30, 2019.

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 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. 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 recognizes revenue as services are provided. Additionally, TRC receives grants for certain capital improvements. Grant revenue is recognized on an eligible expense incurred basis.

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, 2020 and 2019, the revenue from the five highest volume commercial enterprises and one government agency was \$24,779,299 and \$28,944,105, respectively. These five customers make up \$2,656,979 and \$3,118,374 of TRC's accounts receivable at June 30, 2020 and 2019, respectively.

TRC accounts receivable include \$750,499 and \$1,295,937 of unbilled accounts receivable at June 30, 2020 and 2019, 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 two banks at June 30, 2020 and 2019.

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

Transportation Research Center Inc.

Notes to Financial Statements

June 30, 2020 and 2019

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, 2020 and 2019 is a decrease of \$147,478 and a decrease of \$140,525, 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, 2020, there is a cumulative unrealized gain on investments of \$2,236. As of June 30, 2019, there is a cumulative unrealized gain on investments of \$149,714. 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 NonOperating 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 nonoperating 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.

Transportation Research Center Inc.
Notes to Financial Statements
June 30, 2020 and 2019

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 \$919,709 and \$597,650 for the years ended June 30, 2020 and 2019, 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 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 June 15, 2021 (FY2022).

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

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 2020 is estimated to be approximately \$224,726 and was \$261,264 for 2019.

4. Cash and Investments

Cash and investments at June 30, 2020 and 2019 were as follows:

	2020	2019
Cash on hand	\$ 600	\$ 600
Cash in bank	4,414,454	3,148,161
Investment in OSU's long term investment pool	<u>3,844,023</u>	<u>3,991,501</u>
Total	<u>\$ 8,259,077</u>	<u>\$ 7,140,262</u>

At June 30, 2020 and 2019, the bank statement balances of cash in banks were \$5,271,691 and \$4,428,124, respectively. Of the bank statement balances, \$5,271,691 and \$4,428,124, respectively, represented overnight sweep investments which are not covered by the FDIC.

Transportation Research Center Inc.
Notes to Financial Statements
June 30, 2020 and 2019

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 years ended June 30, 2020 and 2019, 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, 2020 and 2019, respectively. The value of TRC's equity interest in the university's Investment Pool was \$3,844,023 and \$3,991,501 at June 30, 2020 and 2019, respectively. There were no realized gains or losses during the years ended June 30, 2020 and 2019. Total net unrealized loss for the years ended June 30, 2020 and 2019 were (\$147,478) and (\$140,525) 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, 2020 consists of the following:

	Balance June 30, 2019	Additions	Disposals/ Transfers	Balance June 30, 2020
Capital assets				
Building/leasehold Improvements	\$ 14,780,690	\$ 25,236,817	\$ -	\$ 40,017,507
Vehicles and equipment	6,388,896	1,942,359	-	8,331,255
Construction-in-progress	17,630,274	18,121,394	(25,544,475)	10,207,193
Software	967,541	-	-	967,541
Other	209,374	-	-	209,374
Total capital assets	<u>39,976,775</u>	<u>45,300,570</u>	<u>(25,544,475)</u>	<u>59,732,870</u>
Less accumulated depreciation				
Building/leasehold Improvements	3,769,878	1,648,712	-	5,418,590
Vehicles and equipment	4,242,772	811,729	-	5,054,501
Software	230,462	113,775	-	344,237
Other	124,035	31,130	-	155,165
Total accumulated depreciation	<u>8,367,147</u>	<u>2,605,346</u>	<u>-</u>	<u>10,972,493</u>
Property and equipment, net	<u>\$ 31,609,628</u>	<u>\$ 42,695,224</u>	<u>\$ (25,544,475)</u>	<u>\$ 48,760,377</u>

Transportation Research Center Inc.
Notes to Financial Statements
June 30, 2020 and 2019

The property and equipment balance at June 30, 2019 consists of the following:

	Balance June 30, 2018	Additions	Disposals/ Transfers	Balance June 30, 2019
Capital assets				
Building/leasehold Improvements	\$ 11,112,815	\$ 3,667,875	\$ -	\$ 14,780,690
Vehicles and equipment	4,820,343	1,694,118	(125,565)	6,388,896
Construction-in-progress	3,732,698	16,852,010	(2,954,434)	17,630,274
Software	967,541	-	-	967,541
Other	151,844	57,530	-	209,374
Total capital assets	<u>20,785,241</u>	<u>22,271,533</u>	<u>(3,079,999)</u>	<u>39,976,775</u>
Less accumulated depreciation				
Building/leasehold Improvements	3,352,878	417,000	-	3,769,878
Vehicles and equipment	4,009,881	358,456	(125,565)	4,242,772
Software	116,687	113,775	-	230,462
Other	121,296	2,739	-	124,035
Total accumulated depreciation	<u>7,600,742</u>	<u>891,970</u>	<u>(125,565)</u>	<u>8,367,147</u>
Property and equipment, net	<u>\$ 13,184,499</u>	<u>\$ 21,379,563</u>	<u>\$ (2,954,434)</u>	<u>\$ 31,609,628</u>

6. 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.

7. 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, 2020 and 2019, at the Board's direction, no funds were transferred.

Transportation Research Center Inc.
Notes to Financial Statements
June 30, 2020 and 2019

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, 2020 and 2019, the net position was comprised of the following:

	2020	2019
Net investment in capital assets	\$ 28,938,750	\$ 16,474,600
Unrestricted net position	<u>8,515,236</u>	<u>10,499,292</u>
Total net position	<u>\$ 37,453,986</u>	<u>\$ 26,973,892</u>

Unrestricted net position includes a cumulative unrealized gain in investments at June 30, 2020 and 2019 of \$2,236 and \$149,714, respectively.

8. 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 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.

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

Transportation Research Center Inc.
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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 and 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). As of July 1, 2018, TRC had no active employees in either OPERS or OPEB.

The collective net pension liabilities of OPERS and TRC's proportionate share of these liabilities as of June 30, 2020 and 2019 are as follows:

	2020	2019
Net pension liability - all employers	\$ 19,765,678,367	\$ 27,387,972,593
Proportion of the net pension liability - TRC	0.000 %	0.005 %
Proportionate share of net pension liability	\$ -	\$ 136,118

The collective net OPEB liabilities of OPERS and TRC's proportionate share of these liabilities as of June 30, 2020 and 2019 are as follows:

	2020	2019
Net OPEB liability - all employers	\$ 13,812,597,868	\$ 13,037,639,421
Proportion of the net OPEB liability - TRC	0.000 %	0.005 %
Proportionate share of net OPEB liability	\$ -	\$ 60,364

Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources as of June 30, 2020 and 2019:

	2020	2019
Deferred outflows of resources		
Differences between expected and actual experience	\$ -	\$ 18
Changes in assumptions	-	13,604
Employer contributions subsequent to the measurement date	-	4,700
Total	<u>\$ -</u>	<u>\$ 18,322</u>
Deferred inflows of resources		
Differences between expected and actual experience	\$ -	\$ 3,222
Net difference between projected and actual earnings on pension plan investments	-	7,193
Total	<u>\$ -</u>	<u>\$ 10,415</u>

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Deferred outflows of resources and deferred inflows of resources for OPEB were related to the following sources as of June 30, 2020 and 2019:

	2020	2019
Deferred outflows of resources		
Differences between expected and actual experience	\$ -	\$ 62
Changes in assumptions	-	5,854
Total	<u>\$ -</u>	<u>\$ 5,916</u>
Deferred inflows of resources		
Differences between expected and actual experience	\$ -	\$ 164
Net difference between projected and actual earnings on OPEB plan investments	-	2,978

Summary of Employer Pension and OPEB Expense

Total pension and OPEB expense for the years ended June 30, 2020 and 2019, including employer contributions and accruals associated with recognition of net pension liabilities, net OPEB liabilities and related deferrals, is presented below.

	2020	2019
Employer Contributions	\$ -	\$ -
GASB 68 Pension Accruals	(128,212)	(104,020)
GASB 75 OPEB Accruals	<u>(57,590)</u>	<u>(95,665)</u>
Total Pension and OPEB Expense	<u>\$ (185,802)</u>	<u>\$ (199,685)</u>

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

9. 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, 2020 and 2019, lease revenue included in research and testing revenues was \$2,891,943 and \$2,770,517, respectively. At June 30, 2020, future minimum lease receipts are due as follows:

2021	\$ 2,633,726
2022	2,451,304
2023	2,167,104
2024	1,930,504
2025	1,930,504
2026 - 2030	9,652,522
2031 - 2035	4,030,361
2036 - 2040	83,580
2041 - 2045	37,611
Total	<u>\$ 24,917,216</u>

Transportation Research Center Inc.
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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 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, 2020, 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 lease agreement. As of June 30, 2020, HAM has not issued 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 in the case of an event of default under the lease agreement with HAM.

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 \$2,089,807 and \$2,125,162 for the year ended June 30, 2020 and 2019, respectively, and is include in general and administrative expenses. 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 \$993,011 and \$1,037,411 during the year ended June 30, 2020 and 2019, respectively, 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.

TRC also earns research and testing revenues from Honda of America Manufacturing and affiliated entities outside of the HAM Lease. Revenues attributed to HAM and HAM affiliates were \$12,033,432 and \$12,858,874 for the years ended June 30, 2020 and 2019, respectively. Trade accounts receivable at June 30, 2020 and 2019 included \$1,324,918 and \$1,164,747, respectively, from HAM and affiliated entities related to these research, testing and facility usage revenues. Although HAM and its affiliates pay TRC for facility use, each entity is individually responsible for payment of their associated facility use fees.

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. In addition to the base rent outlined below, TRC remits estimated monthly property tax payments to HAM as part of lease agreement. 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, 2020, future minimum rental payments under operating leases with initial terms in excess of one year are summarized as follows:

2021	\$ 525,538
2022	537,555
2023	523,193
2024	471,906
2025	941,443
2026 - 2030	15,229,668
2031 - 2035	5,078,108
Total	<u>\$ 23,307,411</u>

Transportation Research Center Inc.

Notes to Financial Statements

June 30, 2020 and 2019

Rental expense charged to operations was \$2,296,493 and \$2,314,495 for the years ended June 30, 2020 and 2019, respectively, and is included in general and administrative expenses.

10. 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. At June 30, 2020, TRC has made net draws totaling \$3,000,000 and has available borrowing capacity of \$5,000,000.

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 was 5.25% and had a 20-year term. In June of 2018, TRC entered into a Memorandum of Understanding (Addendum 1) that increased the capacity of this loan to \$12,500,000. During the year ended June 30, 2020, TRC made draws of \$4,885,300 under this loan. At June 30, 2020, TRC's available capacity under this loan was \$2,184,758. The annual interest rate was modified to 4.75% and has a 30-year term. Monthly interest-only payments will be made during the construction period.

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. At June 30, 2020 the principal was paid in full on this loan.

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. As of June 30, 2020, TRC has complied with all covenants set forth within the arrangement.

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, 2020, TRC had not made any borrowings under this agreement.

Transportation Research Center Inc.
Notes to Financial Statements
June 30, 2020 and 2019

Debt activity for the year ended June 30, 2020 is as follows:

	Beginning Balance	Additions	Repayments	Ending Balance	Current Portion
OSU Loans	\$ 9,451,076	\$ 4,885,300	\$ 1,021,134	\$ 13,315,242	\$ -
JobsOhio - Infrastructure Loan	<u>4,689,483</u>	<u>-</u>	<u>234,933</u>	<u>4,454,550</u>	<u>236,701</u>
Total	<u>\$ 14,140,559</u>	<u>\$ 4,885,300</u>	<u>\$ 1,256,067</u>	<u>\$ 17,769,792</u>	<u>\$ 236,701</u>

Debt activity for the year ended June 30, 2019 were as follows:

	Beginning Balance	Additions	Repayments	Ending Balance	Current Portion
OSU Loans	\$ 8,420,211	\$ 2,165,290	\$ 1,134,425	\$ 9,451,076	\$ 1,021,133
JobsOhio - Infrastructure Loan	<u>5,000,000</u>	<u>-</u>	<u>310,517</u>	<u>4,689,483</u>	<u>313,637</u>
Total	<u>\$ 13,420,211</u>	<u>\$ 2,165,290</u>	<u>\$ 1,444,942</u>	<u>\$ 14,140,559</u>	<u>\$ 1,334,770</u>

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

2021	\$ 236,701
2022	318,375
2023	321,573
2024	324,804
2025	328,067
2026 - 2035	<u>2,925,030</u>
Total	<u>\$ 4,454,550</u>

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

2021	\$ -
2022	-
2023	-
2024	-
2025	201,717
2026-2050	<u>10,113,525</u>
Total	<u>\$ 10,315,242</u>

11. 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.

Transportation Research Center Inc.

Notes to Financial Statements

June 30, 2020 and 2019

The global outbreak of COVID-19, a new strain of coronavirus that can result in severe respiratory disease, was declared a pandemic by the World Health Organization on March 11, 2020 and a national emergency by the President of the United States on March 13, 2020. The outbreak of the disease has affected travel, commerce, economies, and financial markets globally, including in the United States. In response to the public health crisis, the Governor of Ohio and the Director of the Ohio Department of Health took certain actions to limit the spread of the virus and its impact on the State's local communities and health care services, including the declaration of a state of emergency in the State and the closure of all non-essential businesses commencing on March 23, 2020. On May 1, 2020, the State began a phased-in process of reopening certain businesses.

The COVID-19 pandemic resulted in a delay of testing activities by TRC's potential and existing customers, thus resulting in reduced revenues. TRC reduced expenses at the onset of the pandemic and continues to closely monitor all spending within the organization.

The COVID-19 pandemic has negatively affected national, state, and local economies and global financial markets. The outbreak and related actions taken by federal and state governments may materially impact TRC's financial position and its results of operations. While the impacts of COVID-19 may materially affect financial results for 2021 and potentially beyond, TRC management believes that the TRC has sufficient liquidity to meet its operating and financial needs in fiscal year 2021. However, given the difficulty in predicting the duration and severity of the COVID-19 pandemic and its effects on the TRC, the economy and financial markets, the ultimate impact is unknown. TRC's management continues to monitor the course of the pandemic and is prepared to take additional measures to continue providing core services to its customer base.

12. 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, 2020 and 2019, TRC expended \$540,440 and \$489,594, 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.

Transportation Research Center Inc.
Required Supplementary Information on GASB 68 Pension Liabilities and
GASB 75 OPEB Liability (Unaudited)
June 30, 2020, 2019, 2018, 2017 and 2016

Schedule of Proportionate Share of the Net Pension Liability	2020	2019	2018	2017	2016
TRC proportion of the collective net pension liability	0.000 %	0.000 %	0.000 %	0.000 %	0.000 %
TRC proportionate share of the net pension liability	\$ -	\$ 136,118	\$ 236,419	\$ 382,408	\$ 365,998
TRC covered payroll	-	67,186	162,766	236,058	304,372
TRC proportionate share of the net pension liability as a percentage of its covered payroll	0 %	203 %	145 %	162 %	120 %
Plan fiduciary net position as a percentage of the total pension liability	0.0 %	74.7 %	84.7 %	77.4 %	81.2 %

Schedule of University Contributions	2020	2019	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	0.0 %	0.0 %	10.0 %	12.7 %	10.4 %

Schedule of Proportionate Share of the Net OPEB Liability	2020	2019
TRC proportion of the collective net OPEB liability	0.000 %	0.0005 %
TRC proportionate share of the net OPEB liability	-	60,364
TRC covered payroll	-	67,186
TRC proportionate share Of the net OPEB liability as a percentage of its covered payroll	0.0 %	89.8 %
Plan fiduciary net position as a percentage of the total OPEB liability	0.0 %	46.3 %



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 25, which comprise the statement of net position as of June 30, 2020 and June 30, 2019, 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 October 16, 2020.

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") as a basis for designing 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. 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.



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 financial statements. 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*.

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

October 16, 2020

OHIO AUDITOR OF STATE KEITH FABER



THE OHIO STATE UNIVERSITY TRANSPORTATION RESEARCH CENTER, INC

FRANKLIN COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 12/1/2020

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

This report is a matter of public record and is available online at
www.ohioauditor.gov