

Transportation Research Center Inc.

(A component unit of The Ohio State University)

Consolidated Financial Statements

As of and for the Years Ended

June 30, 2021 and 2020 and

Report of Independent Auditors

OHIO AUDITOR OF STATE
KEITH FABER



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Board of Directors
Transportation Research Center, Inc.
2040 Blankenship Hall
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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, 2020 through June 30, 2021. 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 19, 2021

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Transportation Research Center Inc.

Index

June 30, 2021 and 2020

	Page(s)
Report of Independent Auditors	1–2
Management’s Discussion and Analysis (Unaudited).....	3–8
Consolidated Financial Statements	
Consolidated Statements of Net Position	9
Consolidated Statements of Revenues, Expenses and Other Changes in Net Position.....	10
Consolidated Statements of Cash Flows	11
Notes to Consolidated Financial Statements	12–22
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 <i>Government Auditing Standards</i>	23–24

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Report of Independent Auditors

To the Board of Directors of
Transportation Research Center Inc:

We have audited the accompanying consolidated financial statements of Transportation Research Center Inc. ("TRC Inc."), a component unit of The Ohio State University, appearing on pages 9 to 22, which comprise the consolidated statements of net position as of June 30, 2021 and 2020, the related consolidated 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 consolidated financial statements, which collectively comprise TRC Inc.'s basic consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Transportation Research Center Inc. as of June 30, 2021 and 2020, 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 8 is required by accounting principles generally accepted in the United States of America to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated 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 consolidated 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 consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated 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 19, 2021 on our consideration of TRC Inc.'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, 2021. 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 Inc.'s internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

October 19, 2021

Transportation Research Center Inc.

Management's Discussion and Analysis (Unaudited)

For Fiscal Year Ended June 30, 2021 and 2020

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, 2021, with comparative information for the fiscal years ended June 30, 2020 and June 30, 2019.

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 Inc. 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.

In February 2021, TRC Inc. established a single-member limited liability corporation, TRC CA LLC, to operate an automotive proving ground in Merced County, California, under an operating agreement with the Merced County Supervisors.

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.

Transportation Research Center Inc.

Management's Discussion and Analysis (Unaudited)

For Fiscal Year Ended June 30, 2021 and 2020

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 2021 were:

- Research and testing revenues increased 12.6% to \$41,302,726 driven higher by increase in testing volume that was deferred from events surrounding the COVID-19 pandemic in FY2020 and realization of ongoing business development efforts.
- TRC Inc.'s income from operations decreased by 24.5% from a net operating loss of \$2,953,200 in 2020 to net operating loss of \$3,676,394 in 2021, driven primarily by a 67.1% increase in depreciation expense to \$4,354,219 in 2021.
- In late June 2018, construction began on a new SMARTCenter (Smart Mobility And Research Testing). In fiscal year 2021, grant revenue of \$663,000 and additions to property, plant and equipment of \$10,339,491 were recorded relative to this construction.
- General and administrative expense increased 5.9%, to \$23,655,418 driven primarily by the increase in healthcare costs.
- Increases in the fair value of investments held in the university's Long-Term Investment Pool resulted in an unrealized capital gain of \$1,064,444.
- Total net position decreased \$2,824,861, to \$34,629,125 at June 30, 2021.

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 consolidated financial statements are the Consolidated Statements of Net Position at June 30, 2021 and June 30, 2020; the Consolidated Statements of Revenues, Expenses and Other Changes in Net Position for fiscal years ended June 30, 2021 and 2020; and the Consolidated Statements of Cash Flows for fiscal years ended June 30, 2021 and 2020.

The Consolidated Statements of Net Position reflect TRC Inc.'s assets, liabilities and net position. The Consolidated Statements of Revenues, Expenses and Other Changes in Net Position reflect information showing how net position changed during the fiscal year. The Consolidated 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, 2021 and 2020

Summary Consolidated Statements of Net Position

The major components of the Consolidated Statements of Net Position at June 30, 2021, June 30, 2020 and June 30, 2019 are reflected below:

	2021	2020	Changes	2019
Assets				
Current assets	\$ 15,874,320	\$ 15,874,016	0.00 %	\$ 16,227,019
Net property and equipment	48,579,430	48,760,377	(0.37)%	31,609,628
Deferred outflows related to pension and OPEB	-	-	0.00 %	24,238
Total assets and deferred outflows	<u>\$ 64,453,750</u>	<u>\$ 64,634,393</u>	<u>(0.28)%</u>	<u>\$ 47,860,885</u>
Liabilities				
Current liabilities	\$ 10,955,101	\$ 9,647,316	13.56 %	\$ 7,871,165
Net pension liability	-	-	0.00 %	196,482
Long term notes payable	18,869,524	17,533,091	7.62 %	12,805,789
Total liabilities	<u>29,824,625</u>	<u>27,180,407</u>	<u>9.73 %</u>	<u>20,873,436</u>
Deferred inflows related to pension and OPEB	-	-	0.00 %	13,557
Net investment in capital assets	28,436,052	28,938,750	(1.74)%	16,474,600
Unrestricted net position	<u>6,193,073</u>	<u>8,515,236</u>	<u>(27.27)%</u>	<u>10,499,292</u>
Total liabilities, deferred inflow and net position	<u>\$ 64,453,750</u>	<u>\$ 64,634,393</u>	<u>(0.28)%</u>	<u>\$ 47,860,885</u>

Current Assets

Total current assets increased \$304, or 0.0%, to \$15,874,320 at June 30, 2021. Cash decreased by \$1,321,800, or 29.9%, to \$3,093,254 at June 30, 2021.

Trade accounts receivable increased \$1,752,988, or 30.3%, to \$7,546,418 at June 30, 2021. The increase in trade accounts receivable was the result of increased revenue as well as past due cash receipts received that were subsequently collected in July 2021. On average, TRC Inc.'s receivables were outstanding for 59 days in fiscal year 2021, compared to 62 days in fiscal year 2020.

Investments increased by \$1,064,444, or 27.7%, to \$4,908,467 at June 30, 2021. 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. The Long Term Investment Pool (LTIP) held at the university had a return of 29.2% before mark to market adjustments with a benchmark goal of 25.5%.

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 Inc.'s equity interest in the investment pool for fiscal years 2021, 2020 and 2019 are as follows:

	2021	2020	2019
Market value of endowment fund	\$ 4,908,467	\$ 3,844,023	\$ 3,991,501
Book value of endowment fund	<u>3,841,787</u>	<u>3,841,787</u>	<u>3,841,787</u>
Net unrealized gain	<u>\$ 1,066,680</u>	<u>\$ 2,236</u>	<u>\$ 149,714</u>
Unrealized (loss) gain - current period	\$ 1,064,444	\$ (147,478)	\$ (140,525)

Transportation Research Center Inc.

Management's Discussion and Analysis (Unaudited)

For Fiscal Year Ended June 30, 2021 and 2020

Net Property and Equipment

Net property and equipment decreased \$180,947 to \$48,579,430 at June 30, 2021.

During fiscal year 2021, assets placed into service relative to the SMARTCenter was \$10,339,491. Additionally, \$646,326 was spent on facility maintenance and upgrade projects including electric supercharger infrastructure, building customizations and a redesigned software system. Depreciation on assets that were placed in service in FY2020 and FY2021 relative to the SMARTCenter project has resulted in overall net property and equipment value reducing from FY2020 to FY2021.

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 \$1,307,785 to \$10,955,101 at June 30, 2021. The increase in current liabilities primarily reflects increases to the accrued lease liability and deferred Social Security payments as allowed by the Coronavirus Aid, Relief, and Economic Security (CARES) act as signed into law on March 27, 2020.

Accounts payable decreased \$740,918 to \$2,373,586 at June 30, 2021. The decrease was primarily driven from a decrease in accounts payable days from 57 in FY2020 to 22 in FY2021 and was largely driven by a reduction in payables related to SMARTCenter construction spending.

The current portion of long-term debt increased \$225,426 to \$462,127 at June 30, 2021. The increase in the current portion is the result of the initiation in FY2021 of principal payments relative to the loan discussed in paragraph one of footnote eight in the accompanying notes to the consolidated financial statements.

Noncurrent Liabilities

Long term notes payable increased \$1,336,433 to \$18,869,524 at June 30, 2021. 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, 2021 and 2020

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

The major components of the Consolidated Statements of Revenue, Expenses and Changes in Net Position for fiscal years ended June 30, 2021, 2020 and 2019 are reflected below:

	2021	2020	Changes	2019
Operating revenues	\$ 41,302,726	\$ 36,682,483	12.60 %	\$ 39,124,543
Operating expenses	<u>44,979,120</u>	<u>39,635,683</u>	<u>13.48 %</u>	<u>38,025,493</u>
Operating (loss) income	(3,676,394)	(2,953,200)	24.49 %	1,099,050
Net nonoperating expense	(875,911)	(412,493)	112.35 %	(251,088)
Net change in value of equity interest in investment pool	<u>1,064,444</u>	<u>(147,478)</u>	<u>(821.76)%</u>	<u>(140,525)</u>
Excess (expenses over revenue) revenue over expenses	(3,487,861)	(3,513,171)	(0.7)%	707,437
Capital Grant	<u>663,000</u>	<u>13,993,265</u>	<u>(95.26)%</u>	<u>14,677,038</u>
Change in net position	(2,824,861)	10,480,094	(127.0)%	15,384,475
Beginning net position	<u>37,453,986</u>	<u>26,973,892</u>	<u>38.85 %</u>	<u>11,589,417</u>
Ending net position	<u>\$ 34,629,125</u>	<u>\$ 37,453,986</u>	<u>(7.54)%</u>	<u>\$ 26,973,892</u>

Operating Revenues

The single source of revenue that TRC Inc. earned during fiscal year 2021 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.

Research and testing revenue increased by \$4,620,243, or 12.6%, in fiscal year 2021 to \$41,302,726 driven higher by increase in testing volume that was deferred from events surrounding the COVID-19 pandemic and ongoing business development efforts.

Operating Expenses

Major components of operating expense in fiscal years 2021, 2019 and 2018 were:

	2021	2020	Changes	2019
Direct expense	\$ 16,969,483	\$ 14,702,252	15.42 %	\$ 15,797,910
General and administrative expense	\$ 23,655,418	22,328,085	5.94 %	21,335,612
Depreciation expense	<u>4,354,219</u>	<u>2,605,346</u>	<u>67.13 %</u>	<u>891,971</u>
Total operating expense	<u>\$ 44,979,120</u>	<u>\$ 39,635,683</u>	<u>13.48 %</u>	<u>\$ 38,025,493</u>

Direct expense increased by \$2,267,231, or 15.4% in fiscal year 2021, to \$16,969,483. The increase is a result of increased material and equipment purchased for and to be used by key customers in research and testing.

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

**Transportation Research Center Inc.
Management’s Discussion and Analysis (Unaudited)
For Fiscal Year Ended June 30, 2021 and 2020**

In FY2021 and FY2020, fixed assets related to the SMARTCenter were placed in service of \$10,339,491 and \$14,210,320, respectively, with years of service ranging from 5 to 30 years. Depreciation expense has significantly increased accordingly.

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 as well as unrelated parties and other expense relates to a tax penalty.

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 \$663,000 was received in fiscal year 2021 and is related to the SMARTCenter project.

Summary Consolidated Statements of Cash Flows

TRC Inc. cash decreased \$1,321,800 in 2021. Net cash flows from capital and related financing activities decreased \$1,613,543 primarily related to payments on loans and additions to property and equipment. Total cash flow from investing activities increased \$519,221 and is related to interest received from the investment pool with OSU.

Summary cash flows for fiscal years 2021, 2020 and 2019 were follows:

	2021	2020	2019
Cash flows from operating activities	\$ 938,043	\$ 3,470,702	\$ 2,548,653
Cash flows from noncapital financing activities	-	(1,038,888)	(1,200,000)
Cash flows from capital and related financing activities	(2,779,064)	(1,165,521)	(3,306,678)
Cash flows from investing activities	519,221	-	328,178
Net (decrease) increase in cash	<u>\$ (1,321,800)</u>	<u>\$ 1,266,293</u>	<u>\$ (1,629,847)</u>

Future Outlook

As vehicle technology advances, TRC Inc. will be the beneficiary of new business as we partner with new and emerging customers in the marketplace. Traditional passenger and heavy duty vehicle manufacturers are no longer the only type of companies with a vested interest in vehicle testing and utilization of our facilities. Emerging technology created new markets with customers in those markets that now rely on TRC Inc. for testing and services. Software companies, Insurance Companies, Autonomous/Electric vehicle start-ups, taxis/low speed shuttles or self-driving delivery units are all sharing the same facilities and laboratories that were once dominated by more traditional vehicles. Vehicle technology will continue to evolve, and TRC Inc. will continue to evolve as well to serve all who have needs.

TRC Inc. has a positive future outlook. By developing relationships with customers in this new marketplace, making long-term commitments, by increasing and improving the services we are able to offer and by making sure TRC Inc. evolves at the same rate as the technology within the mobility industry, TRC Inc. is able to ensure financial success.

Transportation Research Center Inc.
Consolidated Statements of Net Position
June 30, 2021 and 2020

	2021	2020
Assets		
Current assets		
Cash	\$ 3,093,254	\$ 4,415,054
Investments	4,908,467	3,844,023
Trade accounts receivable, net of allowance for doubtful accounts of \$166,144 and \$55,273	7,546,418	5,793,430
Grant receivable	94,500	1,230,060
Interest receivable	-	342,411
Supplies and prepaid expenses	231,681	249,038
Total current assets	<u>15,874,320</u>	<u>15,874,016</u>
Noncurrent assets		
Property and equipment	63,906,142	59,732,870
Less: Accumulated depreciation	<u>(15,326,712)</u>	<u>(10,972,493)</u>
Property and equipment, net	<u>48,579,430</u>	<u>48,760,377</u>
Total assets	<u><u>\$ 64,453,750</u></u>	<u><u>\$ 64,634,393</u></u>
Liabilities		
Current liabilities		
Trade accounts payable	\$ 2,373,586	\$ 3,114,504
Lease liability	4,470,114	3,133,795
Accrued payroll and related expenses	2,052,180	2,067,552
Advance payments for goods and services	1,597,094	1,094,764
Short-term note payable	462,127	236,701
Total current liabilities	<u>10,955,101</u>	<u>9,647,316</u>
Long-term liabilities		
Long-term note payable	<u>18,869,524</u>	<u>17,533,091</u>
Total long-term liabilities	<u>18,869,524</u>	<u>17,533,091</u>
Total liabilities	<u>29,824,625</u>	<u>27,180,407</u>
Net position		
Net investment in capital assets	28,436,052	28,938,750
Unrestricted net position	<u>6,193,073</u>	<u>8,515,236</u>
Total net position	<u>34,629,125</u>	<u>37,453,986</u>
Total liabilities and net position	<u><u>\$ 64,453,750</u></u>	<u><u>\$ 64,634,393</u></u>

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

Transportation Research Center Inc.
Consolidated Statements of Revenues, Expenses and Other Changes in Net
Position
Years Ended June 30, 2021 and 2020

	2021	2020
Operating revenues		
Research and testing	\$ 41,302,726	\$ 36,682,483
Total operating revenues	<u>41,302,726</u>	<u>36,682,483</u>
Operating expenses		
Direct	16,969,483	14,702,252
General and administrative	23,655,418	22,328,085
Depreciation	4,354,219	2,605,346
Total operating expenses	<u>44,979,120</u>	<u>39,635,683</u>
Net operating loss	<u>(3,676,394)</u>	<u>(2,953,200)</u>
Nonoperating income (expense)		
Net change in value of equity interest in investment pool	1,064,444	(147,478)
Other expense	(326,619)	-
Interest income	176,810	172,860
Interest expense	(726,102)	(585,353)
Net nonoperating income (expense)	<u>188,533</u>	<u>(559,971)</u>
Net loss before other changes in net position	<u>(3,487,861)</u>	<u>(3,513,171)</u>
Other changes in net position		
Capital grant	663,000	13,993,265
Total other changes in net position	<u>663,000</u>	<u>13,993,265</u>
Change in net position	(2,824,861)	10,480,094
Net position		
Beginning of year	37,453,986	26,973,892
End of year	<u>\$ 34,629,125</u>	<u>\$ 37,453,986</u>

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

Transportation Research Center Inc.
Consolidated Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Cash received from customers and HAM	\$ 39,898,230	\$ 38,005,685
Cash paid to suppliers and HAM	(13,208,228)	(10,453,231)
Cash paid for taxes	(135,000)	(300,000)
Cash paid to employees	(20,515,831)	(17,811,836)
Cash paid for fringe benefits and payroll taxes	(5,101,128)	(5,969,916)
Net cash provided by operating activities	<u>938,043</u>	<u>3,470,702</u>
Cash flows from noncapital and related financing activities		
Cash paid on noncapital notes payable	-	(1,021,133)
Cash paid for interest on noncapital notes payable	-	(17,755)
Net cash used in noncapital and related financing activities	<u>-</u>	<u>(1,038,888)</u>
Cash flows from capital and related financing activities		
Additions to property and equipment	(5,413,381)	(19,719,863)
Proceeds from capital grants	1,798,560	14,471,573
Cash paid on capital notes payable	(236,701)	(234,933)
Proceeds from capital notes payable	1,798,560	4,885,300
Cash paid for interest	(726,102)	(567,598)
Net cash used in capital and related financing activities	<u>(2,779,064)</u>	<u>(1,165,521)</u>
Cash flows from investing activities		
Interest income	519,221	-
Net cash provided by investing activities	<u>519,221</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(1,321,800)	1,266,293
Cash		
Beginning of the year	4,415,054	3,148,761
End of the year	<u>\$ 3,093,254</u>	<u>\$ 4,415,054</u>
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$ (3,676,394)	\$ (2,953,200)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	4,354,219	2,605,346
Provision for bad debt expense	158,841	(41,288)
Changes in assets and liabilities		
Trade accounts receivable	(1,906,829)	899,540
Supplies and prepaid expenses	17,357	308,116
Deferred outflows - pension and OPEB	-	24,238
Trade accounts payable	167,572	405,963
Lease liability	1,336,319	1,282,300
Accrued payroll and related expenses	(15,372)	726,688
Advance payments for goods and services	502,330	423,038
Net pension and OPEB liabilities	-	(196,482)
Deferred inflows - pension and OPEB	-	(13,557)
Net cash provided by operating activities	<u>\$ 938,043</u>	<u>\$ 3,470,702</u>
Supplemental cash flow information		
Net change in value of equity interest in investment pool	\$ 1,064,444	\$ (147,478)
Interest receivable	-	342,411
Noncash investing and financing activities		
Purchase of property and equipment included in accounts payable	811,726	2,051,835

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

Transportation Research Center Inc.

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

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 Inc."). TRC Inc. 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 Inc. is considered a component unit of The Ohio State University ("OSU"). Therefore, TRC Inc.'s financial statements are consolidated with OSU's for purposes for complying with OSU's reporting requirements.

In February 2021, TRC Inc. established a single-member limited liability corporation, TRC CA LLC ("TRC CA"), to operate an automotive proving ground in Merced County, California, under an operating agreement with the Merced County Supervisors. TRC CA is considered a component unit of TRC Inc. The governing body of the component unit is substantively the same as the governing body of the primary government, there are financial benefit and burden relationships between the primary government and the component unit, and management of the primary government has operational responsibility for the component unit. Accordingly, TRC CA is included in TRC Inc.'s consolidated financial statements in a blended presentation.

Basis of Presentation

TRC Inc. complies with generally accepted accounting principles ("GAAP"). GAAP includes all relevant Governmental Accounting Standards Board ("GASB") pronouncements. TRC Inc. 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 Inc. presents Management's Discussion and Analysis, a Consolidated Statement of Net Position, a Consolidated Statement of Revenues, Expenses and Other Changes in Net Position, a Consolidated Statement of Cash Flows and Notes to the consolidated 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 Inc. and invested for the purpose of generating present and future income, which may either be expended or added to the principal.

Transportation Research Center Inc.

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Expendable

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

Unrestricted

Amounts whose use by TRC Inc. 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 Inc.'s policy to apply restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. TRC Inc. did not have a restricted net position at either June 30, 2021 or June 30, 2020.

2. Summary of Significant Accounting Policies

A summary of TRC Inc.'s significant accounting policies applied in preparation of the consolidated financial statements is as follows:

Basis of Accounting

The consolidated financial statements of TRC Inc. 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 consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Significant estimates primarily related to valuation of certain investments and allowance for doubtful accounts. These estimates and assumptions are based on TRC Inc.'s historical results as well as management's future expectations. Actual results could differ from those estimates.

Revenue Recognition

TRC Inc. derives revenue from facility usage, personnel charges, cost reimbursement and management of the facility. TRC Inc. evaluates the credit of customers and establishes its allowance for doubtful accounts based on its evaluation of credit risk related to individual customers. TRC Inc. does not require collateral with its receivables. TRC Inc. recognizes revenue as services are provided. Additionally, TRC Inc. receives grants for certain capital improvements. Grant revenue is recognized on an eligible expense incurred basis.

TRC Inc. 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, 2021 and 2020, the revenue from the five highest volume commercial enterprises and one government agency was \$23,361,418 and \$24,779,299, respectively. These five customers make up \$3,241,813 and \$2,656,979 of TRC Inc.'s accounts receivable at June 30, 2021 and 2020, respectively.

TRC Inc.'s accounts receivable include \$849,421 and \$750,499 of unbilled accounts receivable at June 30, 2021 and 2020, respectively. Unbilled accounts receivable represent revenue earned in excess of amounts billed.

Transportation Research Center Inc.

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Cash

TRC Inc. 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, 2021 and 2020.

Investment Policy

All investments consist of TRC Inc.'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 Inc. 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 Inc.'s equity interest in the Investment Pool during the years ended June 30, 2021 and 2020 is an increase of \$1,064,444 and a decrease of \$147,478, 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, 2021, there is a cumulative unrealized gain on investments of \$1,066,680. As of June 30, 2020, there is a cumulative unrealized gain on investments of \$2,236. 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 Inc. 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*.

Transportation Research Center Inc.

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

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 Inc. defines operating activities, for purposes of reporting on the Consolidated 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 and tax penalties recorded as other expense, substantially all TRC Inc. expenses are considered operating expenses. Certain TRC Inc. 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.

Direct Expenses

TRC Inc. 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 Inc.'s behalf. Such payments totaled approximately \$865,470 and \$919,709 for the years ended June 30, 2021 and 2020, respectively, and are recorded as General and Administrative Expenses on the Consolidated 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 Inc. management is currently assessing the impact that implementation of GASB Statements 87 will have on TRC Inc.'s consolidated financial statements.

3. Income Taxes

In July 1989, TRC Inc. 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 Inc. 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 Inc. is subject to unrelated business income tax for the leasing of certain TRC Inc. employees. Unrelated income tax expense in 2021 is estimated to be approximately \$44,646 and was \$65,433 for 2020.

Transportation Research Center Inc.
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

4. Cash and Investments

Cash and investments at June 30, 2021 and 2020 were as follows:

	2021	2020
Cash on hand	\$ 600	\$ 600
Cash in bank	3,092,654	4,414,454
Investment in OSU's long term investment pool	<u>4,908,467</u>	<u>3,844,023</u>
	<u>\$ 8,001,721</u>	<u>\$ 8,259,077</u>

At June 30, 2021 and 2020, the bank statement balances of cash in banks were \$3,418,949 and \$5,271,691, respectively. Of the bank statement balances, \$3,418,949 and \$5,271,691, respectively, represented overnight sweep investments which are not covered by the FDIC.

TRC Inc.'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 Inc.'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, 2021 and 2020, 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, 2021 and 2020, respectively. The value of TRC Inc.'s equity interest in the university's Investment Pool was \$4,908,467 and \$3,844,023 at June 30, 2021 and 2020, respectively. There were no realized gains or losses during the years ended June 30, 2021 and 2020. Total net unrealized gain (loss) for the years ended June 30, 2021 and 2020 were \$1,064,444 and (\$147,478) respectively. TRC Inc. 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.

Transportation Research Center Inc.
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

5. Property and Equipment

The property and equipment balance at June 30, 2021 consists of the following:

	Balance June 30, 2020	Additions	Disposals/ Transfers	Balance June 30, 2021
Capital assets				
Building/leasehold Improvements	\$ 40,017,507	\$ 10,932,867	\$ -	\$ 50,950,374
Vehicles and equipment	8,331,255	620,626	-	8,951,881
Construction-in-progress	10,207,193	4,137,582	(11,841,909)	2,502,866
Software	967,541	324,106	-	1,291,647
Other	209,374	-	-	209,374
Total capital assets	<u>59,732,870</u>	<u>16,015,181</u>	<u>(11,841,909)</u>	<u>63,906,142</u>
Less accumulated depreciation				
Building/leasehold Improvements	5,418,590	3,033,875	-	8,452,465
Vehicles and equipment	5,054,501	1,161,967	-	6,216,468
Software	344,237	150,740	-	494,977
Other	155,165	7,637	-	162,802
Total accumulated depreciation	<u>10,972,493</u>	<u>4,354,219</u>	<u>-</u>	<u>15,326,712</u>
Property and equipment, net	<u>\$ 48,760,377</u>	<u>\$ 11,660,962</u>	<u>\$ (11,841,909)</u>	<u>\$ 48,579,430</u>

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>

6. Deferred Compensation Plan

TRC Inc.'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.

Transportation Research Center Inc.
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

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 Inc. has not recorded any deferred compensation assets or liabilities in the financial statements.

7. Net Position

TRC Inc.’s Code of Regulations specify that TRC Inc. shall, within 120 days of the end of TRC Inc.’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 Inc.’s obligations. If net position funds fall below \$6,677,225, no transfer may take place.

In the past, the TRC Inc. 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, 2021 and 2020, at the Board’s direction, no funds were transferred.

TRC Inc.’s Articles of Incorporation stipulate that upon the ultimate dissolution of TRC Inc., 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 Inc., The Ohio State University is not an organization described in Code Section 170(c)(1), TRC Inc.’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, 2021 and 2020, the net position was comprised of the following:

	2021	2020
Net investment in capital assets	\$ 28,436,052	\$ 28,938,750
Unrestricted net position	<u>6,193,073</u>	<u>8,515,236</u>
Total net position	<u>\$ 34,629,125</u>	<u>\$ 37,453,986</u>

Unrestricted net position includes a cumulative unrealized gain in investments of \$1,066,680 at June 30, 2021 and \$2,236 at June 30, 2020.

Transportation Research Center Inc.
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

8. Leases

TRC Inc. leases various buildings to TRC Inc.'s customers. Lease terms range with various renewal option features. The leases are accounted for as operating leases. For the years ended June 30, 2021 and 2020, lease revenue included in research and testing revenues was \$2,824,031 and \$2,891,943, respectively. At June 30, 2021, future minimum lease receipts are due as follows:

2022	\$ 3,083,026
2023	2,423,471
2024	2,121,071
2025	1,986,671
2026	1,986,671
2027 - 2031	9,933,354
2032 - 2036	6,827,243
2037 - 2041	1,772,322
2042 - 2046	67,515
	<u>\$ 30,201,344</u>

On December 21, 2017, after a 30-year business relationship, TRC Inc. entered into a master lease agreement with HAM (the "HAM Lease") for portions of the TRC Inc. 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 Inc., the lease will renew for one 15-year renewal term. Under the HAM Lease, TRC Inc. 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, 2021, TRC Inc. 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, 2021, HAM has not issued notice of default.

TRC Inc. and OSU have separately entered into a letter of support arrangement, whereby OSU has agreed to support the operational needs of TRC Inc. should TRC Inc. 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 \$1,967,503 and \$2,089,807 for the year ended June 30, 2021 and 2020, 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 Inc. over a period of approximately 14 years and three months. TRC Inc. recognized rental income of \$836,993 and \$993,011 during the year ended June 30, 2021 and 2020, respectively, which is included in research and testing revenues. TRC Inc. reports the rental income on a gross basis, separate from the rental expense incurred under the terms of the HAM Lease.

TRC Inc. 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 \$11,046,489 and \$12,033,432 for the years ended June 30, 2021 and 2020, respectively. Trade accounts receivable at June 30, 2021 and 2020 included \$1,725,391 and \$1,324,918, respectively, from HAM and affiliated entities related to these research, testing and facility usage revenues.

Transportation Research Center Inc.
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

Although HAM and its affiliates pay TRC Inc. for facility use, each entity is individually responsible for payment of their associated facility use fees.

Under the HAM Lease, TRC Inc. 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 Inc. remits estimated monthly property tax payments to HAM as part of lease agreement. TRC Inc. 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, 2021, future minimum rental payments under operating leases with initial terms in excess of one year are summarized as follows:

2022	\$ 665,716
2023	751,354
2024	800,067
2025	1,369,604
2026	2,869,501
2027 - 2031	18,568,853
2032 - 2036	1,873,421
	<u>\$ 26,898,516</u>

Rental expense charged to operations was \$2,262,111 and \$2,296,493 for the years ended June 30, 2021 and 2020, respectively, and is included in general and administrative expenses.

9. Long-term Notes Payable

In July 2016, TRC Inc. 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 were made for the first five years of the 15-year term with principal payments beginning in July 2021. At June 30, 2021, TRC Inc. has made net draws totaling \$3,000,000 and has available borrowing capacity of \$5,000,000.

In July of 2017, TRC Inc. 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 Inc. 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, 2021, TRC Inc. made draws of \$1,798,560 under this loan. At June 30, 2021, TRC Inc.'s available capacity under this loan was \$386,197. The annual interest rate was modified to 4.75% and has a 30-year term. Monthly interest-only payments will be made during the first five years of the 30-year term.

In December 2017 TRC Inc. 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, 2021 the principal was paid in full on this loan.

Transportation Research Center Inc.
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

In May 2018, TRC Inc. 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 required TRC Inc. 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, 2021, TRC Inc. has complied with all covenants set forth within the arrangement.

In May 2018, TRC Inc. 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 Inc. 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, 2021, TRC Inc. had not made any borrowings under this agreement. In May 2021, TRC Inc. initiated a project to expand the SMARTCenter. In the same month, the completion date within the original loan was extended to June 30, 2022.

In May 2021, TRC Inc. entered into a Memorandum of Understanding with OSU to provide a \$3,000,000 line of credit for expansion of the SMARTCenter facility. The annual interest rate for the loan is 2.50% and has a 13-month term. Monthly interest-only payments occur upon the first borrowing. At June 30, 2021, TRC Inc. has made net draws totaling \$0 and has available borrowing capacity of \$3,000,000. Subsequent to June 30, 2021, TRC Inc. has made net draws totaling \$2,220,000.

Debt activity for the year ended June 30, 2021 is as follows:

	Beginning Balance	Additions	Repayments	Ending Balance	Current Portion
OSU loans	\$ 13,315,242	\$ 1,798,560	\$ -	\$ 15,113,802	\$ 143,752
JobsOhio - Infrastructure loan	4,454,550	-	236,701	4,217,849	318,375
Total capital assets	<u>\$ 17,769,792</u>	<u>\$ 1,798,560</u>	<u>\$ 236,701</u>	<u>\$ 19,331,651</u>	<u>\$ 462,127</u>

Debt activity for the year ended June 30, 2020 were 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	4,689,483	-	234,933	4,454,550	236,701
Total capital assets	<u>\$ 14,140,559</u>	<u>\$ 4,885,300</u>	<u>\$ 1,256,067</u>	<u>\$ 17,769,792</u>	<u>\$ 236,701</u>

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

2022	\$ 318,375
2023	321,573
2024	324,818
2025	328,079
2026	331,374
2027 - 2033	2,593,630
	<u>\$ 4,217,849</u>

Transportation Research Center Inc.
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

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

2022	\$	143,752
2023		147,377
2024		413,470
2025		433,543
2026		454,590
2027 - 2051		<u>13,521,070</u>
	\$	<u>15,113,802</u>

10. Risk Management

During the course of the year, TRC Inc. is subjected to certain types of risks in the performance of its normal functions. These risks include risks that TRC Inc. might be subjected to by its employees in the performance of their normal duties. TRC Inc. manages these types of risks through commercial insurance.

11. Employees' Retirement Savings Plan and Trust

TRC Inc. 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 Inc.'s board of directors. For the years ended June 30, 2021 and 2020, TRC Inc. expended \$586,994 and \$540,440, respectively, for contributions to the Plan, which are included in direct and general and administrative operating expenses in the Consolidated Statements of Revenues, Expenses and Other Charges in Net Position.



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 consolidated financial statements of Transportation Research Center Inc. ("TRC Inc."), a component unit of The Ohio State University, appearing on pages 9 to 22, which comprise the consolidated statement of net position as of June 30, 2021, and the related consolidated 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 consolidated financial statements, and have issued our report thereon dated October 19, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered TRC Inc.'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of TRC Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of TRC Inc.'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 consolidated 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 Inc.'s consolidated 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 consolidated 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 19, 2021

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 12/2/2021

88 East Broad Street, Columbus, Ohio 43215
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This report is a matter of public record and is available online at
www.ohioauditor.gov