



TRANSPORTATION RESEARCH CENTER INC.
(A component unit of The Ohio State University)

Basic Financial Statements

As of and For the Years Ended June 30, 2024 and 2023

(With Independent Auditors' Report Thereon)

OHIO AUDITOR OF STATE
KEITH FABER



65 East State Street
Columbus, Ohio 43215
ContactUs@ohioauditor.gov
800-282-0370

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

We have reviewed the *Independent Auditors' Report* of the Transportation Research Center Inc., Franklin County, prepared by KPMG LLP, for the audit period July 1, 2023 through June 30, 2024. 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 cursive script that reads 'Keith Faber'.

Keith Faber
Auditor of State
Columbus, Ohio

December 06, 2024

This page intentionally left blank.

TRANSPORTATION RESEARCH CENTER INC.

June 30, 2024 and 2023

Table of Contents

	Page(s)
Independent Auditors' Report	1–2
Management's Discussion and Analysis (Unaudited)	3–9
Basic Financial Statements:	
Statements of Net Position	10
Statements of Revenues, Expenses, and Changes in Net Position	11
Statements of Cash Flows	12
Notes to Financial Statements	13–28
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29–30

This page intentionally left blank.



KPMG LLP
Suite 500
191 West Nationwide Blvd.
Columbus, OH 43215-2568

Independent Auditors' Report

The Board of Directors of
Transportation Research Center Inc.:

Report on the Audit of the Financial Statements

We have audited the financial statements of Transportation Research Center Inc. ("TRC Inc."), a component unit of The Ohio State University, as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise TRC Inc.'s basic financial statements for the years then ended as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of TRC Inc. as of June 30, 2024 and 2023, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of TRC Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about TRC Inc.'s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 TRC Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the TRC Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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 November 1, 2024 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. 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 TRC Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TRC Inc.'s internal control over financial reporting and compliance.

KPMG LLP

Columbus, Ohio
November 1, 2024

TRANSPORTATION RESEARCH CENTER INC.

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

This Management's Discussion and Analysis provides an overview of the financial position and activities of Transportation Research Center Inc. (TRC Inc.) as of and for the fiscal year ended June 30, 2024, with comparative information for the fiscal years ended June 30, 2023 and June 30, 2022.

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 HAM 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 MLA 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 and TRC Inc is operating under the current signed agreement.

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 an eight-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.

TRANSPORTATION RESEARCH CENTER INC.

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

TRC Inc. is exempt from income taxes under Section 501(a) as an organization described in Section 501(c)(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 occasionally, and as a result, may pay unrelated business tax on that income.

Key Financial Highlights

Significant financial events during fiscal year 2024 were:

- Operating revenues increased 5.4% to \$68,354,364 driven higher by increased testing volume related to realization of ongoing business development efforts.
- TRC Inc.'s results from operations decreased by 138.4% from a net operating income of \$1,673,169 in 2023 to net operating loss of \$642,046 in 2024, driven primarily by an increase in direct and indirect expenses.
- Direct expenses increased 8.6%, to \$28,799,065 driven primarily by material purchases made on behalf of TRC clients.
- General and administrative expense increased 12.3%, to \$33,186,108 driven primarily by an increase in healthcare and PTO related fringe expense.
- Increases in the fair value of investments held in the university's Long-Term Investment Pool resulted in an unrealized capital gain of \$283,446, due to market changes.
- Total net position decreased \$1,093,361 to \$35,669,360 at June 30, 2024.

Significant financial events during fiscal year 2023 were:

- Operating revenues increased 20.9% to \$64,853,839 driven higher by increased testing volume related to realization of ongoing business development efforts.
- TRC Inc.'s results from operations increased by 158.7% from a net operating loss of \$2,851,427 in 2022 to net operating income of \$1,673,169 in 2023, driven primarily by an increase in revenue while fixed expenses, specifically depreciation and amortization, increased at a slower rate.
- General and administrative expense increased 12.0%, to \$29,546,560 driven primarily by an increase in healthcare related fringe expense.
- Increases in the fair value of investments held in the university's Long-Term Investment Pool resulted in an unrealized capital gain of \$102,785, due to market changes.
- Total net position increased \$1,909,727 to \$36,762,721 at June 30, 2023.

TRANSPORTATION RESEARCH CENTER INC.
Management's Discussion and Analysis (Unaudited)
June 30, 2024 and 2023

Financial Statement Overview

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

Presented in the financial statements are the Statements of Net Position at June 30, 2024 and June 30, 2023; the Statements of Revenues, Expenses and Changes in Net Position for fiscal years ended June 30, 2024 and 2023; and the Statements of Cash Flows for fiscal years ended June 30, 2024 and 2023.

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

Summary Statements of Net Position

The major components of the Statements of Net Position at June 30, 2024 and June 30, 2023 are reflected below:

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Assets:			
Current assets	\$ 24,054,710	23,701,507	19,944,151
Net property and equipment	53,150,912	56,288,596	55,167,551
Other noncurrent assets	<u>4,846,650</u>	<u>5,875,210</u>	<u>5,935,546</u>
Total assets and deferred outflows	<u>\$ 82,052,272</u>	<u>85,865,313</u>	<u>81,047,248</u>
Liabilities:			
Current liabilities	\$ 10,252,921	11,565,029	9,805,706
Noncurrent liabilities	<u>28,587,081</u>	<u>29,106,543</u>	<u>28,405,062</u>
Total liabilities	38,840,002	40,671,572	38,210,768
Deferred inflows of resources – leases	7,542,910	8,431,020	7,983,486
Net investment in capital assets	21,788,203	26,263,116	22,658,667
Unrestricted net position	<u>13,881,157</u>	<u>10,499,605</u>	<u>12,194,327</u>
Total liabilities, deferred inflow and net position	<u>\$ 82,052,272</u>	<u>85,865,313</u>	<u>81,047,248</u>

Current Assets

Total current assets increased \$353,203, or 1.5%, to \$24,054,710 at June 30, 2024. Unrestricted cash increased \$1,181,731, or 22.0%, to \$6,557,967 at June 30, 2024.

Trade accounts receivable, net of allowance for doubtful accounts, increased \$943,457, or 10.4%, to \$10,016,068 at June 30, 2024. On average, TRC Inc. receivables were outstanding for 51 days in fiscal year 2024 and 2023.

TRANSPORTATION RESEARCH CENTER INC.
Management's Discussion and Analysis (Unaudited)
June 30, 2024 and 2023

Investments increased by 6.0%, or \$283,446, to \$4,995,478 at June 30, 2024. The increase resulted from an increase in the fair market value of the underlying investments of TRC Inc.'s equity interest in the investment pool maintained and managed by The Ohio State University's Office of Investments.

TRC Inc. records the unrealized gain or loss on its equity interest in the university's investment pool each year. The unrealized gain or loss in TRC Inc.'s equity interest in the investment pool for fiscal years 2024 and 2023 are as follows:

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Market value of endowment fund	\$ 4,995,478	4,712,032	4,609,247
Book value of endowment fund	<u>3,841,787</u>	<u>3,841,787</u>	<u>3,841,787</u>
Net unrealized gain	<u>\$ 1,153,691</u>	<u>870,245</u>	<u>767,460</u>
Unrealized gain – current period	\$ 283,446	102,785	(299,220)

Current Liabilities

Total current liabilities decreased \$1,312,108 to \$10,252,921 at June 30, 2024. The decrease in current liabilities primarily reflects funds related to customer funded build to suit projects that were reclassified reclassified at the time of lease start date.

Accounts payable increased \$1,329,775 to \$4,359,509 at June 30, 2024. The increase was primarily driven by invoicing for an expansion project in TRC CA that has not yet been completed.

The current portion of long-term debt increased \$23,735 to \$770,278 at June 30, 2024. The increase is related to an increase in scheduled principal payments as existing loans continue to amortize. See footnote 9 for further details.

Advance payments for goods and services decreased \$4,014,793 to \$2,087,881 at June 30, 2024. In fiscal year 2023, TRC Inc. received \$3,919,055 from a customer for a construction project related to a future lease of a new facility and expansion of an existing facility. This project was delivered to the customer, and the lease began in fiscal year 2024. As a result, the amount was reclassified to deferred inflow of resources.

Long term notes payable decreased \$770,278 to \$17,273,149 at June 30, 2024. The decrease relates to ongoing regular principal payments on loans. See footnote 9 for further details.

TRANSPORTATION RESEARCH CENTER INC.
Management's Discussion and Analysis (Unaudited)
June 30, 2024 and 2023

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, 2024 and 2023 are reflected below:

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Operating revenues	\$ 68,354,364	64,853,839	53,661,157
Operating expenses	<u>68,996,410</u>	<u>63,180,670</u>	<u>56,512,584</u>
Operating (loss) income	(642,046)	1,673,169	(2,851,427)
Net nonoperating expense	(734,761)	(726,424)	(851,917)
Net change in value of equity interest in investment pool	<u>283,446</u>	<u>102,785</u>	<u>(299,220)</u>
Excess (expenses over revenue) revenue over expenses	(1,093,361)	1,049,530	(4,002,564)
Capital grant	<u>—</u>	<u>860,197</u>	<u>1,181,500</u>
Change in net position	(1,093,361)	1,909,727	(2,821,064)
Beginning net position	<u>36,762,721</u>	<u>34,852,994</u>	<u>37,674,058</u>
Ending net position	<u>\$ 35,669,360</u>	<u>36,762,721</u>	<u>34,852,994</u>

Operating Revenues

The sources of revenue that TRC Inc. earned during fiscal year 2024 was research, testing, and leases.

Research and testing 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.

Operating revenue increased by 5.4%, or \$3,500,525, in fiscal year 2024 to \$68,354,364 driven higher by increase in testing volume relative to ongoing business development efforts.

Operating Expenses

Major components of operating expense in fiscal years 2024 and 2023 and were:

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Direct expense	\$ 28,799,065	26,509,081	23,102,080
General and administrative expense	33,186,108	29,546,560	26,383,283
Depreciation expense	<u>7,011,237</u>	<u>7,125,029</u>	<u>7,027,221</u>
Total operating expense	<u>\$ 68,996,410</u>	<u>63,180,670</u>	<u>56,512,584</u>

TRANSPORTATION RESEARCH CENTER INC.

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

Direct expense increased by 8.6%, or \$2,289,984 in fiscal year 2024, to \$28,799,065. The increase is a result of increased material purchased for and to be used by key customers in research and testing.

General and administrative expenses increased by 12.3%, or \$3,639,548 in fiscal year 2024. The largest subcategory increase within general and administrative expenses was fringe benefits which increased 14.5%, or \$1,875,544 in fiscal year 2024. Specifically, within fringe, healthcare related expenses increased 14.9%, or \$955,634 in fiscal year 2024. Indirect labor increased 6.5%, or \$637,573 in fiscal year 2024. This increase is related to the retention of key resources while ongoing business development efforts occurred.

Nonoperating Revenues and Expenses

Interest income reflects interest earned from investments TRC Inc. owns in the endowment fund at The Ohio State University and interest income recognized from leased assets.

Interest expense relates to interest paid on the loans from the University and unrelated parties as well as expense recognized for leased assets

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.

Summary Statements of Cash Flows

TRC Inc. cash decreased \$676,132 in 2024. Net cash from operating activities decreased primarily due to fringe related cash payments. Net cash flows from capital and related financing activities decreased primarily related to transactions related to leasing activities and fixed asset purchases fiscal year 2024. Total cash flow from investing activities decreased \$66,757 and is related to interest received from the investment pool with OSU.

Summary cash flows for fiscal years 2024 and 2023 were follows:

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Cash flows from operating activities	\$ 2,695,517	4,880,101	423,642
Cash flows from capital and related financing activities	(3,670,393)	(1,353,168)	(175,231)
Cash flows from investing activities	<u>298,744</u>	<u>365,501</u>	<u>—</u>
Net (decrease) increase in cash	<u>\$ (676,132)</u>	<u>3,892,434</u>	<u>248,411</u>

TRANSPORTATION RESEARCH CENTER INC.

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

Future Outlook

As TRC Inc. celebrates its 50th year of operations, one must call upon the old adage that says the only consistent thing in life is change. While TRC continues to provide industry-leading service offerings and testing solutions, we must continue to grow and evolve to meet the needs of our stakeholders. Some of these growth and improvement items will be happening to our infrastructure, where we are adding new testing courses as well as securing funding for a full remodel of TRC's Impact Laboratory. TRC has also undergone repair and maintenance on key facilities that will allow us to continue to provide state of the art testing surfaces as well as other quality of life improvements to access roads, electric charging capabilities and other critical surfaces on-site.

Continuing with the theme of change, we see our customers and the industry evolving through their earned successes. Robotaxi companies are expanding their operations in more locations and autonomous trucking companies continue to reach regulatory approvals. Traditional manufacturers are making vehicles safer and better than ever and successfully integrating alternative fuels which they can test at TRC. We are also seeing the electrification of different types of service vehicles, such as refuse trucks or delivery trucks starting to integrate into fleets. TRC is celebrating its first 50 years of operations, but we cannot pause long to reflect-as the technologies that propel the mobility industry forward are ever-moving and depend on TRC to move with it.

TRANSPORTATION RESEARCH CENTER INC.

Statements of Net Position

June 30, 2024 and 2023

Assets	2024	2023
Current assets:		
Cash	\$ 6,557,967	5,376,236
Restricted cash	—	1,857,863
Investments	4,995,478	4,712,032
Accounts receivable, net of allowance for doubtful accounts of \$203,418 and \$65,703	10,016,068	9,072,611
Lease receivable	2,189,337	2,472,817
Supplies and prepaid expenses	295,860	209,948
Total current assets	<u>24,054,710</u>	<u>23,701,507</u>
Noncurrent assets:		
Lease receivable	4,846,650	5,875,210
Capital assets	91,159,537	87,285,983
Less accumulated depreciation and amortization	<u>(38,008,625)</u>	<u>(30,997,387)</u>
Capital assets, net	<u>53,150,912</u>	<u>56,288,596</u>
Total assets	<u>\$ 82,052,272</u>	<u>85,865,313</u>
Liabilities		
Current liabilities:		
Accounts payable	\$ 4,359,509	3,029,734
Lease liability	710,894	88,933
Accrued payroll and related expenses	2,324,359	1,597,145
Advance payments for goods and services	2,087,881	6,102,674
Note payable	<u>770,278</u>	<u>746,543</u>
Total current liabilities	<u>10,252,921</u>	<u>11,565,029</u>
Noncurrent liabilities:		
Note payable	17,273,149	18,043,427
Lease liability (including accrued interest of \$1,289,044 and \$964,056)	<u>11,313,932</u>	<u>11,063,116</u>
Total noncurrent liabilities	<u>28,587,081</u>	<u>29,106,543</u>
Total liabilities	<u>38,840,002</u>	<u>40,671,572</u>
Deferred inflow of resources – leases	7,542,910	8,431,020
Net Position		
Net investment in capital assets	21,788,203	26,263,116
Unrestricted net position	<u>13,881,157</u>	<u>10,499,605</u>
Total net position	<u>35,669,360</u>	<u>36,762,721</u>
Total liabilities, deferred inflow of resources, and net position	<u>\$ 82,052,272</u>	<u>85,865,313</u>

See accompanying notes to financial statements.

TRANSPORTATION RESEARCH CENTER INC.

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2024 and 2023

	2024	2023
Operating revenues:		
Research and testing	\$ 63,869,141	61,575,542
Lease	4,485,223	3,278,297
Total operating revenues	68,354,364	64,853,839
Operating expenses:		
Direct	28,799,065	26,509,081
General and administrative	33,186,108	29,546,560
Depreciation and amortization	7,011,237	7,125,029
Total operating expenses	68,996,410	63,180,670
Net operating (loss) income	(642,046)	1,673,169
Nonoperating revenues (expenses):		
Investment income	283,446	102,785
Other income (expense)	19,135	(9,239)
Interest income	959,727	1,022,186
Interest expense	(1,713,623)	(1,739,371)
Nonoperating expenses, net	(451,315)	(623,639)
Net (loss) income before other changes in net position	(1,093,361)	1,049,530
Other changes in net position:		
Capital grant	—	860,197
Total other changes in net position	—	860,197
Change in net position	(1,093,361)	1,909,727
Net position:		
Beginning of year	36,762,721	34,852,994
End of year	\$ 35,669,360	36,762,721

See accompanying notes to financial statements.

TRANSPORTATION RESEARCH CENTER INC.

Statements of Cash Flows

Years ended June 30, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Cash received from customers	\$ 63,157,807	59,373,671
Cash paid to suppliers	(21,581,907)	(16,430,648)
Cash paid to employees	(24,715,211)	(25,057,298)
Cash paid for fringe benefits and payroll taxes	(14,165,172)	(13,005,624)
Net cash provided by operating activities	2,695,517	4,880,101
Cash flows from capital and related financing activities:		
Purchases of property and equipment	(5,504,168)	(7,256,173)
Proceeds from capital grants	—	860,197
Proceeds from customer for leasehold improvements	—	5,776,918
Cash paid on capital notes	(746,543)	(3,749,345)
Proceeds from capital notes	—	505,592
Cash received on leases	3,632,958	3,414,324
Cash received for interest	660,983	834,690
Cash paid for interest	(1,713,623)	(1,739,371)
Net cash used in capital and related financing activities	(3,670,393)	(1,353,168)
Cash flows from investing activities:		
Interest income	298,744	365,501
Net cash provided by investing activities	298,744	365,501
Net (decrease) increase in cash and cash equivalents	(676,132)	3,892,434
Cash:		
Beginning of the year	7,234,099	3,341,665
End of the year	\$ 6,557,967	7,234,099
Reconciliation of operating (loss) income to net cash provided by operating activities:		
Operating (loss) income	\$ (642,046)	1,673,169
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	7,011,237	7,125,029
Provision for bad debt expense	137,715	(100,441)
Amortization of deferred inflows	(4,485,223)	(3,278,297)
Changes in assets and liabilities:		
Trade accounts receivable	(1,081,172)	505,661
Supplies and prepaid expenses	(85,912)	(160,815)
Trade accounts payable	118,780	(205,914)
Accrued payroll and related expenses	727,214	(449,823)
Advance payments for goods and services	994,924	(228,468)
Net cash provided by operating activities	\$ 2,695,517	4,880,101
Supplemental cash flow information:		
Net change in value of equity interest in investment pool	\$ 283,446	102,785
Noncash investing and financing activities:		
Purchase of property and equipment included in accounts payable	1,294,456	83,461

See accompanying notes to financial statements.

TRANSPORTATION RESEARCH CENTER INC.

Notes to Financial Statements

June 30, 2024 and 2023

(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) 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 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.

(2) Summary of Significant Accounting Policies

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

(a) Basis of Accounting and Presentation

The preparation of these financial statements is in conformity with generally accepted accounting principles accepted in the United States of America (US GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The financial statements of TRC Inc. have been prepared on the accrual basis of accounting. TRC Inc. reports as a special purpose government entity engaged primarily in business-type activities, as defined by GASB. Business-type activities are those that are financed in whole or in part by fees charged to external parties.

(b) Estimates

The preparation of financial statements in accordance with GAAP 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 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.

TRANSPORTATION RESEARCH CENTER INC.

Notes to Financial Statements

June 30, 2024 and 2023

(c) Net Position

TRC Inc.'s financial resources are classified for accounting and reporting purposes into the following net position categories:

- Net investment in capital assets: Property and equipment, net of accumulated depreciation, lease liabilities 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.
 - 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.

TRC Inc. did not have a restricted net position at either June 30, 2024 or 2023.

- 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 or 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.

(d) Revenue Recognition and Accounts Receivable

TRC Inc. derives revenue from facility usage, personnel charges, cost reimbursement and management of the facility, as services are provided. 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 and does not require collateral. 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, 2024 and 2023, the revenue from the four highest volume commercial enterprises and one government agency was \$44,619,988 and \$38,320,777, respectively. These five customers make up \$5,449,851 and \$4,390,649 of TRC Inc.'s accounts receivable at June 30, 2024 and 2023, respectively.

TRC Inc.'s accounts receivable include \$834,065 and \$1,116,790 of unbilled accounts receivable at June 30, 2024 and 2023, respectively. Unbilled accounts receivable represent revenue earned in excess of amounts billed.

TRANSPORTATION RESEARCH CENTER INC.

Notes to Financial Statements

June 30, 2024 and 2023

(e) Cash and Cash Equivalents

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, 2024 and 2023.

(f) Investments

Amounts invested in the OSU Long-Term Investment Pool are reported at fair value. These funds are managed by the Investment Office of OSU, which commingles the funds with other OSU related organizations. Earned investment income is based on the moving average of its monthly market value percentage to the overall pool.

(g) Capital assets

Capital assets are 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:

<u>Type of asset</u>	<u>Estimated useful life</u>
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. TRC applies a capitalization threshold of \$10,000 for movable furniture, fixtures, vehicles and equipment. TRC has no capitalization threshold policy for buildings/leasehold improvements or software. 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.

(h) Operating and Nonoperating Activities

TRC Inc. defines operating activities, for purposes of reporting on the Statement of Revenues, Expenses and 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, if any, recorded as other expense, substantially all TRC Inc. expenses are considered operating expenses. Certain TRC Inc. revenue streams are recorded as nonoperating revenues 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, 2024 and 2023

(i) Direct Expenses

TRC Inc. defines direct expenses as direct labor and direct material costs directly identified and attributed to a customer project.

(j) 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 \$3,072,142 and \$2,904,571 for the years ended June 30, 2024 and 2023, respectively, and are recorded as General and Administrative Expenses on the Statement of Revenues, Expenses and Changes in Net Position.

(k) Leases as a lessee

TRC is a lessee in certain noncancellable leases of buildings and land. For leases that have a maximum possible term of 12 months or less at commencement, TRC recognizes expense based on the provisions of the lease contract. For all other leases (i.e. those that are not short-term), TRC recognizes a leased asset and liability. At lease commencement, TRC initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, less lease payments made at or before the lease commencement date, plus any direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently, the lease asset is amortized into depreciation and amortization expense on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

TRC generally uses the University's internal bank loan rate as the discount rate for leases unless the rate that the lessor charges is known.

(l) Leases as a lessor

TRC is a lessor in certain noncancellable leases of buildings. For leases that have a maximum possible term of 12 months or less at commencement, TRC recognizes income based on the provisions of the lease contract. For all other leases (i.e. those that are not short term, TRC recognizes a deferred inflow of resources from leases and a lease receivable. At lease commencement, TRC initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently the lease receivable is reduced by the principal portion of lease payments made. Deferred inflows of resources related to leases are measured at the amount of initial measurement of the lease receivable, plus any payments received at or before commencement of the lease term that relate to future periods and are amortized on a straight-line basis over the lease term as lease operating revenue.

TRC generally uses the University's internal bank loan rate as the discount rate for leases in which TRC operates as the lessor in the transaction.

TRANSPORTATION RESEARCH CENTER INC.

Notes to Financial Statements

June 30, 2024 and 2023

(m) Newly Issued Accounting Pronouncements

In fiscal year 2024, TRC implemented GASB Statement No. 101, *Compensated Absences*. This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if the leave is attributable to services already rendered, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. TRC Inc. has analyzed the standard and determined that the effects of the standard are immaterial to the financial statements as a whole.

(3) Income Taxes

TRC Inc. is exempt from income taxes under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code, except for taxes on income determined to be unrelated business taxable income. TRC, Inc. assess uncertain tax positions and has determined there were no such positions that have a material effect on the financial statements.

(4) Cash and Investments

Cash and investments at June 30, 2024 and 2023 were as follows:

	<u>2024</u>	<u>2023</u>
Cash in bank	\$ 6,557,967	5,376,236
Restricted cash in bank	—	1,857,863
Investment in OSU's long term investment pool	<u>4,995,478</u>	<u>4,712,032</u>
	<u>\$ 11,553,445</u>	<u>11,946,131</u>

At June 30, 2024 and 2023, the bank statement balances of cash in banks were \$7,230,109 and \$8,163,256, respectively and represented overnight sweep investments which are not covered by 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.

TRC Inc. held 649,2046 shares in the Investment Pool as of June 30, 2024 and 2023. The value of TRC Inc.'s equity interest in the Investment Pool was \$4,995,478 and \$4,712,032 at June 30, 2024 and 2023, respectively. There were no realized gains or losses during the years ended June 30, 2024 and 2023. Total net accumulated gain for the years ended June 30, 2024 and 2023 were \$1,153,691 and \$870,245 respectively. TRC Inc. may redeem its shares in the Investment Pool at its discretion.

TRANSPORTATION RESEARCH CENTER INC.

Notes to Financial Statements

June 30, 2024 and 2023

OSU holds certain types of alternative investments funds which are carried at the net asset 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) Capital Assets

Capital assets at June 30, 2024 consists of the following:

	Balance June 30, 2023	Additions	Disposals/ transfers	Balance June 30, 2024
Capital assets:				
Building/leasehold improvements	\$ 57,358,610	6,766,804	—	64,125,414
Vehicles and equipment	11,053,877	413,087	—	11,466,964
Construction-in-progress	5,882,455	7,032,616	(7,497,341)	5,417,730
Software	1,347,710	—	—	1,347,710
Other	212,394	—	—	212,394
Total capital assets	75,855,046	14,212,507	(7,497,341)	82,570,212
Less accumulated depreciation:				
Building/leasehold improvements	15,682,916	3,979,005	—	19,661,921
Vehicles and equipment	8,844,590	914,712	—	9,759,302
Software	811,711	139,847	—	951,558
Other	187,457	8,219	—	195,676
Total accumulated depreciation	25,526,674	5,041,783	—	30,568,457
Property and equipment, net	\$ 50,328,372	9,170,724	(7,497,341)	52,001,755
		Lease assets (note 8)		1,149,157
		Total capital assets		\$ 53,150,912

TRANSPORTATION RESEARCH CENTER INC.

Notes to Financial Statements

June 30, 2024 and 2023

	Balance June 30, 2022	Additions	Disposals/ transfers	Balance June 30, 2023
Capital assets:				
Building/leasehold improvements	\$ 55,832,642	1,525,968	—	57,358,610
Vehicles and equipment	10,739,895	313,982	—	11,053,877
Construction-in-progress	1,188,710	6,500,518	(1,806,773)	5,882,455
Software	1,291,647	56,063	—	1,347,710
Other	212,394	—	—	212,394
Total capital assets	69,265,288	8,396,531	(1,806,773)	75,855,046
Less accumulated depreciation:				
Building/leasehold improvements	11,979,166	3,703,750	—	15,682,916
Vehicles and equipment	7,609,169	1,235,421	—	8,844,590
Software	645,502	166,209	—	811,711
Other	179,239	8,218	—	187,457
Total accumulated depreciation	20,413,076	5,113,598	—	25,526,674
Property and equipment, net	\$ 48,852,212	3,282,933	(1,806,773)	50,328,372
		Lease assets (note 8)		5,960,224
		Total capital assets	\$	56,288,596

(6) Deferred Compensation Plan

Some of 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 those 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"). 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.

TRANSPORTATION RESEARCH CENTER INC.

Notes to Financial Statements

June 30, 2024 and 2023

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, 2024 and 2023, 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, 2024 and 2023, the net position was comprised of the following:

	<u>2024</u>	<u>2023</u>
Net investment in capital assets	\$ 21,788,203	26,263,116
Unrestricted net position	<u>13,881,157</u>	<u>10,499,605</u>
Total net position	<u>\$ 35,669,360</u>	<u>36,762,721</u>

Unrestricted net position includes net accumulated gains in investments of \$1,153,691 at June 30, 2024 and \$870,245 at June 30, 2023.

(8) Leases

TRC Inc. as Lessee

TRC Inc. is a lessee for various noncancellable leases of real estate and equipment. Lease assets are reported with capital assets and lease liabilities are reported as current and noncurrent liabilities in the Statement of Net Position.

TRANSPORTATION RESEARCH CENTER INC.

Notes to Financial Statements

June 30, 2024 and 2023

Lease asset activity for the year ended June 30, 2024 is summarized as follows:

	2024				
	Beginning balance	Additions	Remeasurements	Deductions	Ending balance
Lease assets:					
Real estate	\$ 20,209,486	—	—	—	20,209,486
Equipment	1,041,438	421,844	(110,915)	—	1,352,367
Total lease assets	21,250,924	421,844	(110,915)	—	21,561,853
Less accumulated amortization – lease assets:					
Real estate	4,906,325	1,782,657	—	—	6,688,982
Equipment	564,387	101,934	84,861	—	751,182
Total accumulated amortization	5,470,712	1,884,591	84,861	—	7,440,164
Total lease assets, net	\$ 15,780,212	(1,462,747)	(195,776)	—	14,121,689
Less deferred inflows netted against lease assets for lease-leaseback					12,972,532
Total lease assets, net					\$ 1,149,157

Lease asset activity for the year ended June 30, 2023 is summarized as follows:

	2023				
	Beginning balance	Additions	Remeasurements	Deductions	Ending balance
Lease assets:					
Real estate	\$ 19,397,927	811,559	—	—	20,209,486
Equipment	973,978	228,231	28,428	189,199	1,041,438
Total lease assets	20,371,905	1,039,790	28,428	189,199	21,250,924
Less accumulated amortization – lease assets:					
Real estate	3,131,253	1,775,072	—	—	4,906,325
Equipment	431,910	236,360	—	103,883	564,387
Total accumulated amortization	3,563,163	2,011,432	—	103,883	5,470,712
Total lease assets, net	\$ 16,808,742	(971,642)	28,428	85,316	15,780,212
Less deferred inflows netted against lease assets for lease-leaseback					9,819,988
Total lease assets, net					\$ 5,960,224

TRANSPORTATION RESEARCH CENTER INC.

Notes to Financial Statements

June 30, 2024 and 2023

Lease liability activity for the year ended June 30, 2024 is summarized as follows:

	2024					
	Beginning balance	Additions	Remeasurements	Reductions	Ending balance	Current portion
Gross lease liabilities	\$ 21,589,467	907,685	(25,974)	676,476	21,794,702	710,894
Less lease receivables netted against liabilities for lease-leaseback					9,769,876	—
Lease liabilities, net, as presented in the statement of net position					\$ 12,024,826	710,894

Lease liability activity for the year ended June 30, 2023 is summarized as follows:

	2023					
	Beginning balance	Additions	Remeasurements	Reductions	Ending balance	Current portion
Gross lease liabilities	\$ 20,649,710	1,648,670	28,428	737,341	21,589,467	88,933
Less lease receivables netted against liabilities for lease-leaseback					10,437,418	—
Lease liabilities, net, as presented in the statement of net position					\$ 11,152,049	88,933

	Principal	Interest	Total
Year ending June 30:			
2025	\$ 710,894	958,791	1,669,685
2026	2,245,544	884,620	3,130,164
2027	2,586,579	782,052	3,368,632
2028	3,453,755	642,529	4,096,284
2029	3,581,290	485,798	4,067,088
2030–2034	9,216,640	505,052	9,721,692

TRANSPORTATION RESEARCH CENTER INC.

Notes to Financial Statements

June 30, 2024 and 2023

TRC Inc. as Lessor

TRC Inc. is lessor for various noncancellable leases of real estate. Lease-related revenues recognized for the years ended June 30, 2024 and 2023 are as follows:

	2024	2023
Lease revenue	\$ 4,485,223	3,278,297
Interest revenue	660,983	834,690
	\$ 5,146,206	4,112,987

Lease-Leaseback Transaction

On December 21, 2017, after a 30-year business relationship, TRC Inc. entered into a master lease agreement with Honda of America Manufacturing (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. TRC Inc. pays rent to HAM, retains all revenues related to facilities usage and is responsible for maintenance and repairs to the leased facilities. The HAM lease also provides for exclusive use of certain facilities by Honda R&D of America, which pays TRC Inc. a monthly base use rate and other charges, and provides standard terms for subleases of space to HAM and its affiliates.

The HAM lease and related subleases to HAM and its affiliates are considered to be lease-leaseback transactions under GASB Statement No. 87. In a lease-leaseback transaction, each party is both a lessor and lessee. Because each portion of the transaction is with the same counterparty, a right of offset exists. Lease receivables and deferred inflows associated with the HAM lease and subleases are netted against lease liabilities and lease assets for presentation in the Statement of Net Position.

Gross lease liabilities and receivables related to the lease-leaseback arrangement with HAM at June 30, 2024 and June 30, 2023 are summarized as follows:

	2024	2023
Gross liabilities	\$ 17,612,222	17,287,234
Gross receivables	9,769,876	10,437,418
Net liability under lease-leaseback	\$ 7,842,346	6,849,816

(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.

TRANSPORTATION RESEARCH CENTER INC.

Notes to Financial Statements

June 30, 2024 and 2023

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. At June 30, 2024, TRC Inc. no longer had any additional capacity under this loan. The annual interest rate was modified to 4.75% and has a 30-year term.

In March 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 work bay 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. As of June 30, 2024, TRC Inc. has complied with all covenants set forth within the arrangement.

Debt activity for the year ended June 30, 2024 is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Repayments</u>	<u>Ending balance</u>	<u>Current portion</u>
OSU loans	\$ 15,212,069	—	421,725	14,790,344	442,199
JobsOhio – infrastructure loan	3,577,901	—	324,818	3,253,083	328,079
Total debt	<u>\$ 18,789,970</u>	<u>—</u>	<u>746,543</u>	<u>18,043,427</u>	<u>770,278</u>

Debt activity for the year ended June 30, 2023 is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Repayments</u>	<u>Ending balance</u>	<u>Current portion</u>
OSU loans	\$ 18,134,249	505,592	3,427,772	15,212,069	421,725
JobsOhio – infrastructure loan	3,899,474	—	321,573	3,577,901	324,818
Total debt	<u>\$ 22,033,723</u>	<u>505,592</u>	<u>3,749,345</u>	<u>18,789,970</u>	<u>746,543</u>

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

2025	\$ 328,079
2026	331,374
2027	334,702
2028	338,063
2029	341,457
2030–2033	<u>1,579,408</u>
	<u>\$ 3,253,083</u>

TRANSPORTATION RESEARCH CENTER INC.

Notes to Financial Statements

June 30, 2024 and 2023

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

2025	\$	442,199
2026		463,666
2027		486,177
2028		509,779
2029		534,528
2030–2049		<u>12,353,995</u>
	\$	<u>14,790,344</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 as well as litigation arising in the normal course of business. TRC Inc. manages these types of risks through commercial insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(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, 2024 and 2023, TRC Inc. expended \$779,916 and \$697,965, respectively, for contributions to the Plan, which are included in direct and general and administrative operating expenses in the Statements of Revenues, Expenses and Changes in Net Position.

TRANSPORTATION RESEARCH CENTER INC.

Notes to Financial Statements

June 30, 2024 and 2023

(12) Condensed Information for Component Units

As indicated in the Basis of Presentation in Note 1, TRC Inc consolidates two component units in a blended presentation. Condensed financial information for the year ended June 30, 2024 is presented below:

	<u>TRC Inc.</u>	<u>TRC CA LLC</u>	<u>Total</u>
Condensed statements of net position:			
Current assets	\$ 14,685,163	9,369,547	24,054,710
Capital asset, net	51,305,938	1,844,974	53,150,912
Other assets	<u>4,749,427</u>	<u>97,223</u>	<u>4,846,650</u>
Total assets	<u>\$ 70,740,528</u>	<u>11,311,744</u>	<u>82,052,272</u>
Current liabilities	\$ 8,129,347	2,123,574	10,252,921
Noncurrent liabilities	<u>28,009,907</u>	<u>577,174</u>	<u>28,587,081</u>
Total liabilities	<u>36,139,254</u>	<u>2,700,748</u>	<u>38,840,002</u>
Deferred inflow of resources – leases	7,139,272	403,638	7,542,910
Net position:			
Net investment in capital assets	19,282,601	2,505,602	21,788,203
Unrestricted net position	<u>8,179,401</u>	<u>5,701,756</u>	<u>13,881,157</u>
Total net position	<u>27,462,002</u>	<u>8,207,358</u>	<u>35,669,360</u>
Total liabilities and net position	<u>\$ 70,740,528</u>	<u>11,311,744</u>	<u>82,052,272</u>

TRANSPORTATION RESEARCH CENTER INC.

Notes to Financial Statements

June 30, 2024 and 2023

	TRC Inc.	TRC CA LLC	Total
Condensed statements of revenues, expenses and changes in net position:			
Operating revenues:			
Research and testing	\$ 57,611,657	6,257,484	63,869,141
Lease	4,174,989	310,234	4,485,223
Total operating revenues	61,786,646	6,567,718	68,354,364
Operating expenses:			
Direct	28,515,843	283,222	28,799,065
General and administrative	30,990,657	2,195,451	33,186,108
Depreciation and amortization	6,906,742	104,495	7,011,237
Total operating expenses	66,413,242	2,583,168	68,996,410
Net operating (loss) income	(4,626,596)	3,984,550	(642,046)
Nonoperating income (expense):			
Net change in value of equity interest in investment pool	283,446	—	283,446
Other income (expense)	19,294	(159)	19,135
Interest income	838,006	121,721	959,727
Interest expense	(1,685,810)	(27,813)	(1,713,623)
Net nonoperating (expense) income	(545,064)	93,749	(451,315)
Net (loss) income before other changes in net position	(5,171,660)	4,078,299	(1,093,361)
Other changes in net position:			
Capital grant	—	—	—
Total other changes in net position	—	—	—
Change in net position	(5,171,660)	4,078,299	(1,093,361)
Net position:			
Beginning of year	32,633,662	4,129,059	36,762,721
End of year	\$ 27,462,002	8,207,358	35,669,360

TRANSPORTATION RESEARCH CENTER INC.

Notes to Financial Statements

June 30, 2024 and 2023

	TRC Inc.	TRC CA LLC	Total
Condensed statements of cash flows:			
Net cash provided (used) by:			
Operating activities	\$ (622,730)	3,318,247	2,695,517
Capital and related financing activities	(2,612,335)	(1,058,058)	(3,670,393)
Cash flows from investing activities	193,649	105,095	298,744
Net (decrease) increase in cash	(3,041,416)	2,365,284	(676,132)
Cash:			
Beginning of the year	3,841,943	3,392,156	7,234,099
End of the year	\$ 800,527	5,757,440	6,557,967

(13) Subsequent Events

In July 2024, TRC Inc. received a \$24,000,000 grant from the State of Ohio for infrastructure improvements specifically to build a new Impact Lab. Construction will begin in fiscal year 2025 with a target completion date at the end of fiscal year 2027.

In September 2024, TRC Inc. entered into a Memorandum of Understanding with OSU to provide an \$5,000,000 line of credit for infrastructure improvements. The annual interest rate for the loan is 3.75% and has a 3 year term.

On October 5, 2024, TRC Inc. completed the acquisition of Automotive Enviro Testing, LLC (AET) with a purchase price of \$40 million. AET is a premier winter proving ground based near Baudette, Minnesota and generates annual sales of approximately \$10 million. AET was acquired to expand TRC Inc.'s capabilities and product offering to clients. In September 2024, TRC Inc. entered into a Memorandum of Understanding with OSU to provide an \$40,500,000 line of credit to be used for this purchase. The annual interest rate for the loan is 5.50% and has a 10-year term. Due to the recent acquisition date, the purchase accounting for AET was not final at the time of this filing, and a preliminary allocation of consideration exchanged to the estimated fair values of assets acquired and liabilities assumed was not complete. The final valuation will be completed within the one-year measurement period following the acquisition date.



KPMG LLP
Suite 500
191 West Nationwide Blvd.
Columbus, OH 43215-2568

**Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

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

We have audited, in accordance with the 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 Inc.), a component unit of The Ohio State University, which comprise TRC Inc.'s statement of net position as of June 30, 2024, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 1, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered TRC Inc.'s internal control over financial reporting (internal control) as a basis for designing 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 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 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether TRC Inc.'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.

KPMG LLP

Columbus, Ohio
November 1, 2024

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 12/19/2024

65 East State 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