Transportation Research Center Inc.

Financial Statements for the Years Ended June 30, 2004 and 2003 and Independent Auditors' Report

Auditor of State
Betty Montgomery

Board of Directors
Ohio State University Transportation Research Center, Inc.
2080 Blankenship Hall
901 Woody Hayes Drive
Columbus, Ohio 43210-4016

We have reviewed the Independent Auditor's Report of the Ohio State University Transportation Research Center, Inc., Franklin County, prepared by Deloitte & Touche LLP, for the audit period July 1, 2003 to June 30, 2004. 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 Ohio State University Transportation Research Center, Inc. is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

January 4, 2005

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TRANSPORTATION RESEARCH CENTER INC.

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Transportation Research Center Inc.

We have audited the accompanying statements of net assets of Transportation Research Center Inc. ("TRC"), a component unit of The Ohio State University, as of June 30, 2004 and 2003, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of TRC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of TRC as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 2 – 8 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2004 on our consideration of TRC's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

August 31, 2004

TRANSPORTATION RESEARCH CENTER INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEARS ENDED JUNE 30, 2004 AND 2003

This Management's Discussion and Analysis is provided to assist your understanding of Transportation Research Center Inc.'s (TRC Inc.) accompanying financial statements for the Fiscal Years ended June 30, 2004 and June 30, 2003, and to provide an overview of its financial performance.

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 audit report are the Statement of Net Assets at June 30, 2004 and June 30, 2003; the Statements of Revenue, Expenses and Changes in Net Assets for Fiscal Years Ended June 30, 2004 and 2003; and the Statements of Cash Flows for Fiscal Years Ended June 30, 2004 and 2003.

The Statement of Net Assets reflects TRC Inc.'s assets, liabilities and net assets.

The Statement of Revenue, Expenses and Changes in Fund Balance reports information showing how net assets changed during the Fiscal Year.

The Statement of Cash Flows reports changes in the cash and cash equivalent balances during the Fiscal Year.

Statement of Net Assets

The major components of the Statement of Net Assets at June 30, 2004, June 30, 2003 and June 30, 2002 are reflected below:

	June 30, 2004	June 30, 2003	Change	June 30, 2002
Assets:				
Current Assets	$14,897,884	$14,436,274	3.2%	$13,446,603
Net Property & Equip.	$2,763,448	$3,068,760	(9.9)%	$2,937,996
Total Assets	$17,661,332	$17,505,034	0.9%	$16,384,599
Liabilities:				
Current Liabilities	$4,353,099	$4,590,896	(5.2)%	$3,857,341
Long Term Debt	$2,314,083	$2,489,797	(7.1)%	$2,655,193
Total Liabilities	$6,667,182	$7,080,693	(5.8)%	$6,512,534
Fund Balance	$10,994,150	$10,424,342	5.5%	$9,872,065

Current Assets

TRC Inc. increased its Current Assets by 3% from June 30, 2003 to June 30, 2004.

The primary reason for the increase in Current Assets was because of a 29% increase in Trade Accounts Receivable from June 30, 2003 through June 30, 2004. Trade Accounts Receivable increased because of increases in Research and Testing Agreement Revenue and a slowdown in collection of our Trade Accounts Receivable. Research and Testing Agreement Revenue was $37,070,704 in Fiscal Year 2004, representing an increase of 6% from Fiscal Year 2003.

Because of a slowdown in collection of our Trade Accounts Receivable, Operating Cash fell by 41% from June 30, 2003 through June 30, 2004. The average collection period of our Trade Accounts Receivable rose by 14 days from June 30, 2003 to June 30, 2004 to 79 days. The average days outstanding of TRC Inc.'s second largest customer has doubled from June 30, 2003 through June 30, 2004. We believe a major reason for this slowdown is due to the slow legislative action regarding appropriations.

Current investments fell $630,600, or 12%. TRC Inc. made a transfer of $2,185,161 to The Ohio State University in Fiscal Year 2004. In years past, TRC Inc. funded this transfer entirely from its operating cash. In Fiscal Year 2004, however, TRC Inc. was able to only support $1,385,161, or 63%, of this transfer from its operating cash. The remaining $800,000 was funded from the current investment account. TRC Inc.'s current investments did benefit from improvements in the market. However, those market value improvements were offset by the utilization of these investments to assist in TRC Inc.'s annual transfer to The Ohio State University.

TRC Inc. maintained a strong current ratio of 3.4 to 1 at June 30, 2004.

Net Property and Equipment

Net of accumulated depreciation, TRC Inc.'s property and equipment amounted to $2,763,448, representing a decrease of $305,312, or 10%. The decrease is due to the number of assets becoming fully depreciated.

During Fiscal Year 2004, TRC expended $262,712 on capital assets. The three largest acquisitions were an automated steering controller ($142,000), a pickup truck ($23,900) and a minivan ($20,700). The automated steering controller is an exciting new piece of equipment that will be used to assist customers to develop safer vehicles by improving the rollover resistance of their vehicles. This equipment is yet another example of how TRC Inc. remains the industry leader in enabling our customers to create safer and improved vehicles worldwide.

In March 2003, TRC Inc. acquired assets to operate an on-site emissions laboratory, thus providing a new line of service to further assist our customers in their pursuit of safer, improved products. The assets were acquired from a former resident customer who operated the emissions laboratory in exchange for the forgiveness of receivables of a similar amount. Assets acquired were valued at $345,000.

During Fiscal Year 2003, TRC expended $226,152 on other capital assets. The three largest acquisitions were a dump truck and snowplow ($76,000), a tractor ($36,000) and a driver-training vehicle ($35,000).

The asset with the largest net book value is the leasehold improvement made to Building 60, totaling $1,895,800, or 62% of the total net book value. The remaining book value of each of the remaining 143 capital asset items is less than $139,000, and generally are assets used to maintain the 4,500-acre facility.

Current Liabilities

TRC Inc. reduced its current liabilities by $237,796, or 5%, from June 30, 2003 through June 30, 2004. On average, TRC Inc. paid its suppliers invoices in 24 days in Fiscal Year 2004.

Long-Term Debt

TRC Inc. had $2,314,083 in long-term debt at June 30, 2004. TRC Inc. entered into a note payable with a bank in January 1999 to procure $3,200,000 to fund leasehold improvements for one of TRC Inc.'s largest customers. The note is a 15-year instrument with an interest rate of approximately 6%. TRC Inc. recoups the funds expended for the leasehold improvement through a Lease Agreement with the customer. In effect, proceeds from the Lease Agreement with the customer are servicing the debt.

Statements of Revenue, Expenses and Changes in Fund Balance

The major components of the Statements of Revenue, Expenses and Changes in Fund Balance for Fiscal Years Ended June 30, 2004, 2003 and 2002 are reflected below:

	FY 2004	FY 2003	Change	FY 2002
Operating Revenues	$41,920,724	$39,725,351	5.5%	$34,563,287
Operating Expenses	$39,630,495	$37,430,412	5.9%	$33,182,659
Excess Op. Rev. over Exp.	$2,290,229	$2,294,939	0.2%	$1,380,628
Non-Operating Revenue	$58,449	$96,603	(39.5)%	$89,948
Appr./(Depr.)-FMV of Invst.	$406,291	$(234,145)	273.5%	$(878,814)
Excess Rev. over Exp.	$2,754,969	$2,157,397	27.7%	$591,762
Beginning Fund Balance	$10,424,342	$9,872,065	5.6%	$12,280,303
Transfer to Ohio State	$(2,185,161)	$(1,605,120)	36.1%	$(3,000,000)
Ending Fund Balance	$10,994,150	$10,424,342	5.5%	$9,872,065

Operating Revenues

The three sources of revenue that TRC Inc. earns are Research and Testing Agreement Revenue, Owner's Maintenance and Repair Revenue, and Management Fee Revenue.

Research and Testing Agreement Revenue are revenues TRC Inc. earns from its customers for conducting durability, dynamic, impact and sled research and testing. It also includes revenues for supplying dedicated personnel to customers to operate their research and testing laboratories.

Owner's Maintenance and Repair Revenue is revenue TRC Inc. earns for maintaining and improving the owner's facility as a result of the management agreement between TRC Inc. and the facility owner, Honda of America Mfg., Inc. (HAM).

Management Fee Revenue is revenue TRC Inc. earns from the owner for managing and scheduling the facility, equipment and buildings owned by HAM. As defined in the management agreement between TRC Inc. and HAM, TRC Inc. remits management and scheduling revenues for facilities, equipment and buildings that are charged to our customers to HAM as an Owners Fee Expense. TRC Inc. receives a 7.5% management fee from HAM for the Owners Fees earned as a result of managing and scheduling the facilities, equipment and buildings

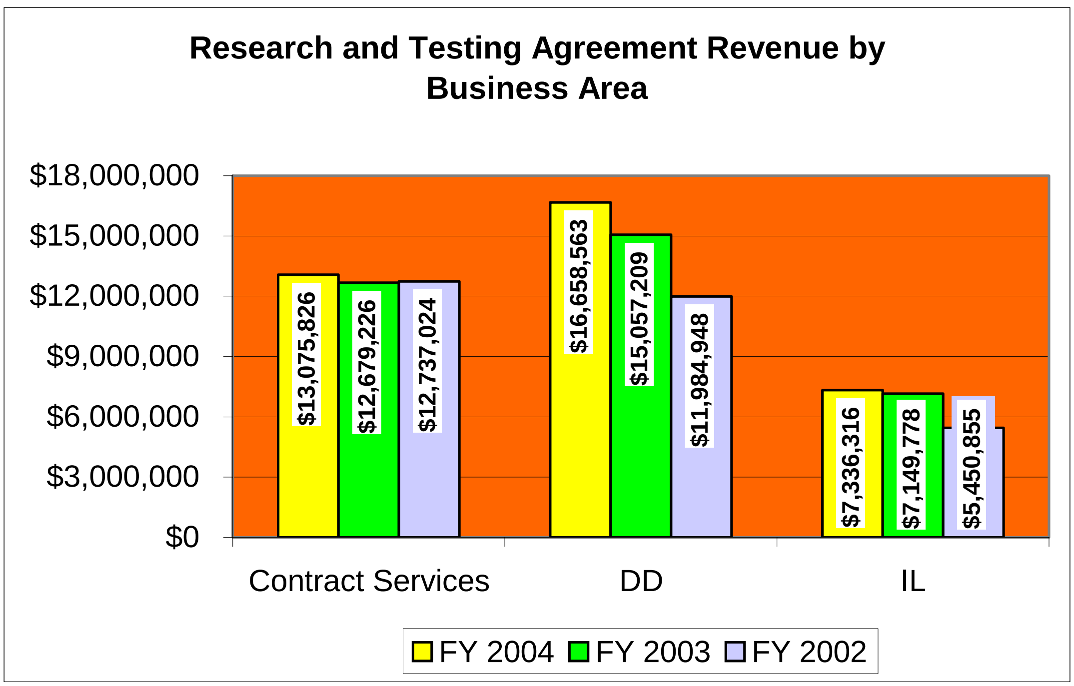
Revenue summary for fiscal years 2004, 2003 and 2002 were:

	FY 2004	FY 2003	Change	FY 2002
Research & Testing Agreement Rev	$37,070,704	$34,886,213	6.3%	$30,172,827
Owner's Maintenance & Repair Rev.	$4,304,249	$4,331,902	(0.6)%	$3,988,798
Management Fee Revenue	$545,771	$507,236	7.6%	$401,662
Total Operating Revenue	$41,920,724	$39,725,351	5.5%	$34,563,287

Fiscal Year 2004 was the highest Research and Testing Agreement Revenue year in TRC Inc.'s history. Research and Testing Agreement Revenue grew 6% in Fiscal Year 2004 as compared to Fiscal Year 2003. TRC Inc.'s largest customer had an increase in revenue of 16% in Fiscal Year 2004, while our fourth largest customer grew by 121%. The growth of these two major customers is the main reason TRC Inc. was able to generate record-setting revenues.

In Fiscal Year 2004, TRC Inc. earned 83% of its revenue from its eight largest customers. In Fiscal Year 2003, TRC Inc. earned 87% of its revenue from its eight largest customers. The risk of losing one of these significant customers would have an impact on the generation of future revenues. However, TRC Inc. has operated under this type of revenue concentration for over a decade and has continued to thrive in this manner. We are confident that our strategy of providing excellent service to these top eight customers will enable TRC Inc. to meet a revenue increase of 2% in Fiscal Year 2005.

The major sources of Research and Testing Agreement Revenue are Contract Services, Durability and Dynamics (DD), and Impact Laboratory (IL). Revenue comparisons for these three areas from Fiscal Year 2002 through Fiscal Year 2004 are as follows:



Contract Services grew by 3% in Fiscal Year 2004 as compared to Fiscal Year 2003. This business area provides customers with high quality engineering and technical support to improve the safety, quality and competitiveness of our customer's products. This business area has three customers. Two of the customers had revenue increases of 6% and 28%, while the third customer had a decrease of 16%. The customers with the increases grew as a result of both an increase in price and headcount. The customer with the decrease had a decline of 25 positions in late Fiscal Year 2003. That customer did not restore those positions in Fiscal Year 2004, thus the reason for the 16% decrease in revenue. TRC Inc. estimates an increase in revenue in this business area in Fiscal Year 2005 of 4.5%.

Durability and Dynamics had solid revenue growth of 11% in Fiscal Year 2004. The growth was primarily due to the largest customer in this business area having a revenue increase of 110%. This customer's growth propelled the customer from the fifth highest customer in the business area in Fiscal Year 2003 to first place in Fiscal Year 2004. This business area also operated the Emissions Laboratory, the equipment for which was acquired in April 2003. Revenues from the Emissions Laboratory In Fiscal Year 2004 were $910,000, representing a 777% increase from Fiscal Year 2003. The increase was due to the fact that the Emissions Laboratory was only in operation for three months in Fiscal Year 2003. TRC Inc. projects revenues in Durability and Dynamics for Fiscal Year 2005 to be at the same levels as in Fiscal Year 2004.

Revenues from the Impact Laboratory in Fiscal Year 2004 grew by 2.6% in Fiscal Year 2004 as compared to Fiscal Year 2003. TRC Inc. expects a 4% increase in revenues from the Impact Laboratory in Fiscal Year 2005.

Owner's Maintenance and Repair Revenue remained at about the same levels in Fiscal Year 2004 as compared to Fiscal Year 2003. The major components of this revenue are the capital improvements to the facility that HAM funds each year and maintenance and repair to upkeep the facility. Both of these components stayed constant in Fiscal Year 2004 as compared to Fiscal Year 2003. Since most of these capital improvements are subcontracted out and resold to HAM at TRC Inc. cost, gain or loss of revenue in this area does not affect excess revenues over expenses.

Management Fee Revenue rose by 8% in Fiscal Year 2004. This growth is a result of the growth in Owners Fees of 8%. As a result of the restructuring of the Management Agreement between TRC Inc. and HAM, there will no longer be any Management Fee Revenue in the future, commencing in Fiscal Year 2005.

Operating Expenses

Major components of operating expense in Fiscal Years 2004, 2003 and 2002 were:

	FY 2004	FY 2003	Change	FY 2002
Direct Expense	$25,117,642	$23,891,750	5.1%	$21,034,826
General and Admin. Exp.	$13,947,830	$13,051,933	6.9%	$11,647,699
Depreciation Expense	$565,023	$486,729	16.1%	$500,134
Total Operating Expense	$39,630,495	$37,430,412	5.9%	$33,182,659

With the 6% increase in Research and Testing Revenue, TRC Inc. managed to hold the increase in its total operating expense to 6% as well.

The biggest expense TRC Inc. incurs is salaries and benefits. In Fiscal Year 2004, salaries and benefits was $22,769,542, or 57% of total operating expense. In Fiscal Year 2003, salaries and benefits was $21,838,583, or 58% of total operating expense. Salaries and benefits rose 4.5% in Fiscal Year 2004 and 11% in Fiscal Year 2003. TRC Inc. managed to hold its health insurance rates at equal levels in Fiscal Year 2004 as compared to Fiscal Year 2003, after incurring an increase of 21% in health insurance expense in Fiscal Year 2003. TRC Inc. incurred an increase of 188% in workers compensation expense in Fiscal Year 2004.

Owner's Fee Expense totaled $6,478,516, or 16% of total operating expense. Owner's Fee Expense increased 8% in Fiscal Year 2004, and this represents a historical new level.

Depreciation expense rose in Fiscal Year 2004 because of the first full year of depreciation of the Emissions Laboratory, which amounted to about $100,000.

Nonoperating Revenues and Expenses

Interest expense represents the interest paid to a bank for the note that was described in the Long-Term Debt section.

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.

Net Appreciation (Depreciation) in Fair Value of Investments

TRC Inc. owns investments that are maintained and managed by The Ohio State University's Office of the Treasurer. These investments are in mutual funds. There are two components to the appreciation or depreciation of the fair value of these investments. The first component is the realized gain that TRC Inc. recognizes when we sell investments. Typically, TRC Inc. sells a portion of its investments to assist in the transfer of the previous Fiscal Year's Excess Revenue over Expenses to The Ohio State University. Selling these investments triggers a realized capital gain or loss that TRC Inc. recognizes on this line item. In September 2003, TRC Inc. sold $2,185,161 of securities to assist in the annual transfer to The Ohio State University. The sale of those securities generated a realized capital loss of $99,594, which was recognized in the Statement of Revenue, Expense and Changes in Net Assets. TRC Inc. replenished $1,385,161 of that amount back into our endowment fund during the course of Fiscal Year 2004.

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

The realized and unrealized appreciation or depreciation for Fiscal Years 2002 through 2004 is as follows:

	FY 2004	FY 2003	FY 2002
Market Value of Endowment Fund	$4,557,632	$5,188,232	$5,132,029
Book Value of Endowment Fund	$4,448,102	$5,584,587	$5,500,620
Appreciation (Depreciation)	$109,530	$(396,355)	$(368,591)
Unrealized Gain/(Loss) from Prior Year	$505,885	$(27,764)	$(1,013,354)
Realized Gain/(Loss) from Investment Sales	$(99,594)	$(206,381)	$134,540
Net Appreciation (Depreciation)	$406,291	$(234,145)	$(878,814)

Excess of Revenues Over Expenses

Based on financial operations overall, TRC Inc. had a successful Fiscal Year 2004. The stock market improved in Fiscal Year 2004, and returns on investments improved. TRC Inc. expects Research and Testing Agreement Revenue to increase 2% in Fiscal Year 2005. Despite the estimated growth in Research and Testing Agreement Revenue, Excess Revenues over Expenses are expected to be lower in Fiscal Year 2005 than in Fiscal Year 2004. Excess Revenues over Expenses are projected to be $2.1 million in Fiscal Year 2005. The reason for the decline is primarily due to Management Fee Revenue being eliminated, which represents a loss of revenue of $545,771 from Fiscal Year 2004 to Fiscal Year 2005.

TRANSPORTATION RESEARCH CENTER INC.

STATEMENTS OF NET ASSETS
JUNE 30, 2004 AND 2003

ASSETS	2004	2003
CURRENT ASSETS:		
Cash and cash equivalents	$ 924,123	$ 1,577,203
Restricted cash	86,483	80,316
Investments	4,557,632	5,188,232
Trade accounts receivable, net of allowance for doubtful accounts of $178,188 for 2004 and $105,500 for 2003	8,152,805	6,311,488
Receivable from HAM	1,085,822	1,201,873
Supplies and prepaid expenses	91,019	77,162
Total current assets	14,897,884	14,436,274
PROPERTY AND EQUIPMENT:		
Machinery and equipment	6,140,420	5,941,954
Less accumulated depreciation	(3,376,972)	(2,873,194)
Property and equipment—net	2,763,448	3,068,760
TOTAL	$ 17,661,332	$ 17,505,034

LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 177,000	$ 166,000
Trade accounts payable	2,293,540	1,758,970
Accounts payable HAM	461,432	1,674,925
Accrued payroll and related expenses	1,421,127	991,000
Total current liabilities	4,353,099	4,590,895
LONG-TERM DEBT (less current portion)	2,314,083	2,489,797
NET ASSETS:		
Property and equipment—net of related debt	2,763,448	3,068,760
Restricted—accumulated surplus	3,362,544	2,792,736
Unrestricted net assets	4,868,158	4,562,846
Total net assets	10,994,150	10,424,342
TOTAL	$ 17,661,332	$ 17,505,034

See notes to financial statements.

TRANSPORTATION RESEARCH CENTER INC.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
OPERATING REVENUES:		
Research and testing	$ 37,070,704	$ 34,886,213
Owner's maintenance and repair	4,304,249	4,331,902
Management fee	545,771	507,236
Total operating revenues	41,920,724	39,725,351
OPERATING EXPENSES:		
Direct	25,117,642	23,891,750
General and administrative	13,947,830	13,051,933
Depreciation	565,023	486,729
Total operating expenses	39,630,495	37,430,412
OPERATING INCOME	2,290,229	2,294,939
NONOPERATING REVENUES (EXPENSES):		
Interest expense	(176,150)	(187,883)
Interest income	234,599	284,486
Total non-operating revenues	58,449	96,603
NET APPRECIATION (DEPRECIATION) IN FAIR VALUE OF INVESTMENTS	406,291	(234,145)
EXCESS OF REVENUES OVER EXPENSES BEFORE TRANSFERS	2,754,969	2,157,397
TRANSFER TO TRANSPORTATION RESEARCH FUND	(2,185,161)	(1,605,120)
CHANGES IN NET ASSETS	569,808	552,277
NET ASSETS—Beginning of year	10,424,342	9,872,065
NET ASSETS—End of year	$ 10,994,150	$ 10,424,342

See notes to financial statements.

TRANSPORTATION RESEARCH CENTER INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 12,624,762	$ 12,636,146
Cash received from affiliates	27,495,320	26,114,469
Cash paid to suppliers	(6,030,472)	(6,397,980)
Cash paid to affiliates	(10,919,038)	(8,373,707)
Cash paid to employees	(17,245,743)	(16,913,937)
Cash paid for fringe benefits and payroll taxes	(5,076,126)	(4,393,111)
Other receipts (payments)	3,688	(438)
Net cash provided by operating activities	852,391	2,671,442
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfer to Transportation Research Fund	(2,185,161)	(1,605,120)
Non capital financing interest expense	(176,150)	(187,883)
Net cash used in non-capital financing activities	(2,361,311)	(1,793,003)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payment of long-term debt	(164,714)	(153,396)
Additions to property and equipment	(262,712)	(226,152)
Proceeds on sale of property	17,943	
Restricted cash	(6,167)	(5,156)
Net cash used in capital and related financing activities	(415,650)	(384,704)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	234,599	284,486
Purchase of investments		(290,348)
Proceeds from sale of investments	1,036,891	
Net cash provided by (used in) investing activities	1,271,490	(5,862)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(653,080)	487,873
CASH AND CASH EQUIVALENTS—Beginning of year	1,577,203	1,089,330
CASH AND CASH EQUIVALENTS—End of year	$ 924,123	$ 1,577,203
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	2,290,229	2,294,939
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	565,023	486,729
Write-off of accounts receivable and provision for bad debt expense	71,688	102,470
Gain in property sales	(14,942)	
Changes in certain assets and liabilities:		
Trade accounts receivable	(1,913,005)	(1,226,380)
Receivable from HAM	116,051	334,763
Payable to HAM	(1,213,493)	804,516
Supplies and prepaid expenses	(13,857)	4,038
Trade accounts payable	534,570	136,873
Accrued payroll and related expenses	430,127	(266,506)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 852,391	$ 2,671,442
SUPPLEMENTAL CASH FLOW INFORMATION:		
Unrealized loss on investments	$ 505,585	$ (27,764)
Cash paid for income taxes	$ 35,115	$ 39,821
Purchases of property in accounts payable	$ -	$ 46,673
NON CASH CAPITAL AND RELATED FINANCING ACTIVITIES—		
Acquisition of equipment—see Note 13	$ -	$ 344,670

See notes to financial statements.

TRANSPORTATION RESEARCH CENTER INC.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

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 for the conduct of research in automotive, vehicular and related forms of transportation and for the development of improved highway facilities for vehicular traffic. On January 26, 1988, substantially all of the assets of the Center were sold to Honda of America Manufacturing ("HAM").

In conjunction with the sale, the legislation which initially established the Transportation Research Board was repealed. The Center was reincorporated as a not-for-profit organization, Transportation Research Center Inc. ("TRC"), with The Ohio State University Affiliates, Inc. ("OSU") as the sole shareholder of the corporation. TRC is considered a component member of OSU. Therefore, TRC's financial statements are consolidated with OSU's for purposes of complying with OSU's reporting requirements.

TRC has an agreement with HAM to manage the operations of the facility. Under the agreement, HAM pays TRC a management fee of 7.5% of the owner's fees collected by TRC plus 7.5% of facility rents paid to HAM by TRC. This agreement was amended on July 1, 2004, eliminating the fee.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting—The financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America. Proprietary fund types are presented using the flow of economic resources measurement focus. This measurement focus emphasizes the determination of net income. All assets and liabilities associated with the operation of these funds are included in the statement of net assets. The statements of revenues, expenses and changes in net assets present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. TRC follows applicable Government Accounting Standards Board ("GASB") guidance and Financial Accounting Standard Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with, or contradict, GASB pronouncements. The proprietary fund types are reported using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liabilities are incurred. Differences between amounts earned and received are shown as receivables. Differences between expenses incurred and paid are shown as liabilities.

Estimates—The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant Customers—TRC derives a substantial portion of total revenues from a limited number of commercial enterprises and government agencies. For the year ended June 30, 2004, the revenue from the four highest volume commercial enterprises and one government agency was $22,360,698 and $7,612,798, respectively. For the year ended June 30, 2003, revenue from these sources was $22,011,337 and $7,189,144, respectively. The above amounts are exclusive of revenues related to the HAM management agreement.

Revenue Recognition—TRC derives revenue from facility usage, personnel charges, cost reimbursement and management of the facility. Revenues for facility usage are remitted to HAM as described in Note 6 and are included in direct expense. Revenue is recognized on the percentage of completion basis. TRC evaluates the credit of customers and establishes its allowance for doubtful accounts based on its evaluation of credit risk related to individual customers. TRC does not require collateral with its receivables.

Included in accounts receivable are $658,033 and $550,282 of unbilled accounts receivable for fiscal years 2004 and 2003, respectively. Unbilled accounts receivable represent revenue recognized in excess of amounts billed.

Cash and Cash Equivalents—TRC considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Cash is held in one bank at June 30, 2004 and 2003.

Restricted Cash—TRC is required to deposit funds monthly into a sinking fund as part of its long-term debt agreement (see Note 7). TRC does not have access to these funds once they are deposited into the sinking fund.

Investments—Investments consist of cash invested in The Ohio State University Endowment Fund and are recorded at fair value, as reported by The Ohio State University's Office of the Treasurer. TRC realized a net loss of $99,594 in 2004 and a net loss of $206,381 in 2003. The calculation of realized gains is independent of the calculation of the net increase in fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in a given year may have been recognized as an increase or decrease in the fair value of investments reported in prior years. The net change in the unrealized losses of investments during 2004 and 2003 is a gain of $505,885 and a net loss of $27,764, respectively. These amounts take into account all changes in fair value (including purchases and sales) that occurred during each respective year. The cumulative unrealized gain on investments held at June 30, 2004 is $109,530 and a cumulative unrealized loss at June 30, 2003 of $396,355.

Property and Equipment—Property and equipment is recorded at cost. Depreciation is provided for in amounts sufficient to allocate the cost of depreciable assets to operations over their estimated service lives, which range from 3 to 15 years, on the straight-line method. TRC removes the asset cost and related accumulated depreciation from the appropriate accounts and reflects any gain or loss in current operations upon sale or retirement.

Compensated Absences—Employees are granted vacation and sick leave in amounts which vary by length of service. The policy prohibits employees from accumulating unused compensated absences.

3. INCOME TAXES

In July 1989, TRC received Internal Revenue Service ("IRS") approval of its tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. In addition, because of its relationship as a supporting organization of OSU, TRC has received qualification from the IRS as a public charity and, therefore, is not subject to various taxes and restrictions applicable to other organizations, such as private foundations.

TRC is subject to unrelated business tax for the leasing of certain TRC employees. Unrelated income tax expense in 2004 is estimated to be approximately $74,000 and $36,000 for 2003.

4 CASH, CASH EQUIVALENTS AND INVESTMENTS

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

	2004	2003
Cash on hand	$ 600	$ 600
Cash in general fund account	923,523	1,576,603
Investment in The Ohio State University Endowment Fund	4,557,632	5,188,232
Total	$ 5,481,755	$ 6,765,435

At June 30, 2004 and 2003, $100,000 of the bank balance was covered by federal deposit insurance and the remaining portion ($823,523) was uninsured but collateralized by pools of securities pledged by the depository bank and held in the name of the bank. The investment in The Ohio State University Endowment Fund includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in TRC's name.

5. PROPERTY

The property balance at June 30, 2004 and 2003 consists of the following:

	Balance June 30, 2003	Additions	Disposals/ Transfers	Balance June 30, 2004
Capital Assets:				
Vehicles	$ 2,114,800	$ 110,316	$(61,368)	$ 2,163,748
Testing equipment	674,267	142,000		816,267
Leasehold improvements, furniture and fixtures	3,142,195		(5,697)	3,136,498
Construction in progress	10,692	23,907	(10,692)	23,907
Total capital assets	5,941,954	276,223	(77,757)	6,140,420
Less accumulated depreciation:				
Vehicles	(1,498,172)	(227,023)	55,548	(1,669,647)
Testing equipment	(320,804)	(148,425)		(469,229)
Leasehold improvements, furniture and fixtures	(1,054,218)	(189,575)	5,697	(1,238,096)
Total accumulated depreciation	(2,873,194)	(565,023)	61,245	(3,376,972)
Property—net	$ 3,068,760	$ (288,800)	$ (16,512)	$ 2,763,448

The property balance at June 30, 2003 and 2002 consists of the following:

	Balance June 30, 2002	Additions	Disposals/ Transfers	Balance June 30, 2003
Capital Assets:				
Vehicles	$ 1,891,889	$ 262,131	$(39,220)	$ 2,114,800
Testing equipment	336,077	344,670	(6,480)	674,267
Leasehold improvements, furniture and fixtures	3,146,466		(4,271)	3,142,195
Construction in progress		10,692		10,692
Total capital assets	5,374,432	617,493	(49,971)	5,941,954
Less accumulated depreciation:				
Vehicles	(1,266,521)	(270,871)	39,220	(1,498,172)
Testing equipment	(311,389)	(15,895)	6,480	(320,804)
Leasehold improvements, furniture and fixtures	(858,526)	(199,963)	4,271	(1,054,218)
Total accumulated depreciation	(2,436,436)	(486,729)	49,971	(2,873,194)
Property—net	$ 2,937,996	$ 130,764	$ -	$ 3,068,760

6. MANAGEMENT AGREEMENT

Under the terms of the Management Agreement with HAM, TRC remits to HAM certain revenues for use of the facilities (owner revenues) and receives a management fee based on percentages of owner's fees and facility rents. Additionally, expenses for repairs and capital improvements made by TRC are reimbursed by HAM (owner expenses).

For the years ended June 30, 2004 and 2003, the amounts of transactions with HAM are as follows:

	2004	2003
Owner revenues	$ 6,478,516	$ 6,008,230
Owner expenses	4,304,249	4,331,902
Management fee	545,771	507,236

At June 30, the receivable from HAM is comprised of the following:

	2004	2003
Receivable for owner expenses	$ 493,736	$ 1,066,692
Receivable for management fee	92,588	134,881
Total	$ 586,324	$ 1,201,573

At June 30, 2004 and 2003 the payable to HAM was $461,432 and $1,674,925, respectively.

TRC also earns operational revenues from HAM outside of the Management Agreement. These revenues were $13,236,079 and $12,937,612 for the years ended June 30, 2004 and 2003, respectively. Trade accounts receivable at June 30, 2004 and 2003 included $2,814,654 and $1,994,726, respectively, related to these operational revenues.

7. LONG-TERM DEBT

In January 1999, TRC entered into a promissory note agreement (the "Note") for $3.2 million with a lending institution. The Note bears interest at a floating rate of interest, which is adjusted weekly by the lender (1.1% at June 30, 2004). Interest on the Note is due monthly and principal payments are due in semi-annual installments through January 1, 2014.

The lending institution made the loan from proceeds received from the sale of the Lender's Floating Rate Option Notes. The Floating Rate Option Notes of the lender are secured by an initial $3.2 million letter of credit (the "LOC") issued by a bank. The available LOC balance decreases semi-annually in conjunction with the scheduled payments on the Note. The LOC bears interest at a rate of prime plus 2% and expires on January 6, 2009 with the option to extend the expiration date, subject to certain conditions set forth in the agreement. There were no amounts outstanding on the LOC as of June 30, 2004.

In January 1999, TRC also entered into a reimbursement agreement with the bank that issued the LOC. Under the reimbursement agreement with the bank, TRC is required to make monthly principal and interest payments into a sinking fund account on the first of each month through January 1, 2014. The sinking fund is owned by TRC, but use of the funds is restricted to payment of the scheduled semi-annual payments on the Note. The Reimbursement Agreement contains restrictive covenants and warranties, which, among others, requires TRC to maintain complete and accurate accounting records. In addition, in order to secure the payment of amounts due under the Reimbursement Agreement, TRC assigned to the bank its interest in certain leaseholds, buildings, and land created by the Ground and Existing Building Lease with HAM (see Note 11) as well as future rental payments received from the sublease of the same leasehold, building and land.

In the event that the LOC agreement is not extended after January 6, 2009, the entire unpaid principal amount due on the Note and therefore the reimbursement agreement becomes due and payable on January 6, 2009.

Annual maturities of long-term debt are as follows:

	Principal	Interest
2005	$ 177,000	$ 140,358
2006	190,000	130,016
2007	204,000	118,928
2008	219,000	107,038
2009	234,000	94,289
2010-2014	1,467,083	245,425
Total	$2,491,083	$ 836,054

In 1999, TRC entered into an interest rate swap agreement with a bank for a total notional amount of $3.2 million maturing on January 1, 2009, to mitigate potential interest rate fluctuations on variable rate long-term debt. TRC is exposed to credit loss only in the event of nonperformance by the bank on the interest rate swap, which TRC does not anticipate. The fair value of the interest rate swap at June 30, 2004 and 2003 is an unrealized loss of $169,679 and $357,609, respectively, which represents the amount at which it could be settled, based on estimates obtained from dealers.

8. DEFERRED COMPENSATION PLAN

TRC's employees are able to participate in a deferred compensation plan (the "Plan") created in accordance with Internal Revenue Code Section 457. The Plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

As a result of the implementation of GASB Statement No. 32 in fiscal 1999, all amounts of compensation deferred under the Plan, all property and rights purchased with these amounts and all income attributable to those amounts, property or rights (until paid or made available to the employee or other beneficiary) are solely the property and rights of the Ohio Public Employees Deferred Compensation Program ("OPEDC"). Accordingly, TRC has not recorded any deferred compensation assets or liabilities in the financial statements.

9. NET ASSETS

TRC's Articles of Incorporation stipulate that TRC shall, within 120 days of the end of its fiscal year, transfer any accumulated surplus in excess of its January 27, 1988 net assets (contributed capital) to the Transportation Research Fund of The Ohio State University (the "Fund"). At June 30, 2004 and 2003 no amounts were due to the Fund. Upon the ultimate dissolution of the organization, any remaining funds are to be transferred to the Fund. At June 30, the net assets were comprised of the following:

	2004	2003
Property and equipment, net of related debt	$ 2,763,448	$ 3,068,760
Restricted—accumulated surplus	3,362,544	2,792,736
Unrestricted net assets	4,868,158	4,562,846
Total	$10,994,150	$10,424,342

The accumulated surplus balance includes a cumulative unrealized gain at June 30, 2004 of $109,530 and a cumulative unrealized loss at June 30, 2003 of $396,355.

10. DEFINED BENEFIT PENSION PLAN AND POST-EMPLOYMENT BENEFITS

TRC and all of its employees are required to make contributions to the Social Security Administration. A portion of TRC's employees participate in the Public Employees Retirement System of Ohio ("PERS"), a cost sharing, multiple employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, health care benefits, and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code assigns the authority to establish and amend benefit provisions. PERS issues a publicly available comprehensive annual financial report which includes financial statements and required supplementary information for PERS. That report may be obtained by writing to the Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1 (800) 222-PERS (7377). TRC's total PERS payroll for the years ended June 30, 2004 and 2003 was $2,043,348 and $2,663,587, respectively.

Plan members are required to contribute 8.5% of their annual covered salary, while the 2003 employer contribution rate for state employers was 13.31% of covered payroll and for local government employer units the rate was 13.55%. TRC's contributions to PERS for the years ended June 30, 2004, 2003, and 2002 were $271,970, $283,672 and $229,000, respectively, equal to the required contributions for each year.

In addition to the pension benefits, PERS provides postretirement health care coverage to age and service retirements with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by PERS is considered an Other Postemployement Benefit ("OPEB") as described in GASB Statement No. 12. At December 31, 2002, the Plan had approximately 402,041 active participants.

A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care. The 2003 employer contribution rate for state employers was 13.31% of covered payroll, of which 5% was the portion used to fund health care for the year.

The Ohio Revised Code provides statutory authority requiring public employers to fund postretirement health care through their contributions to PERS. Of the 13.31% of employee payroll contributed by TRC, 5% or approximately $114,000 was the portion used to fund health care expenses.

The actuarial value of PERS' net assets available for OPEB at December 31, 2001 was $11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $16.4 billion and $4.8 billion, respectively.

The actuarial present value of accrued postemployment benefits was determined based on the entry age normal method of funding. Significant actuarial assumptions based on PERS' latest Actuarial Review performed as of December 31, 2001 are as follows: an investment rate of return of 8.00%, investments valued at market value, adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets, no change in the number of active employees, base pay rate increases of 4.00% and annual pay increases over and above the 4.00% base increase ranging from .50% to 6.30%, and health care costs assume an increase of 4.00% annually.

11. LEASES

As agent for HAM, TRC leases various buildings to TRC's customers. Lease terms range from one to fifteen years with various renewal option features. The leases are accounted for as operating leases.

At June 30, 2004, future minimum lease receipts are due as follows:

2005	$ 864,156
2006	864,156
2007	864,156
2008	823,916
2009	820,257
2010-2014	3,024,392
Total	$ 7,261,033

TRC leases office space from HAM under agreements with terms expiring through 2014. These operating leases contain renewal options with an indefinite term.

Future minimum rental payments under operating leases with initial terms in excess of one year are summarized as follows:

2005	$ 782,327
2006	782,327
2007	782,327
2008	782,327
2009	782,327
2010-2014	2,450,469
Total	$ 6,362,104

Rental expense charged to operations was $812,660 and $722,222 during 2004 and 2003, respectively.

12. RISK MANAGEMENT

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

13. ASSET ACQUISITION

TRC purchased emissions testing laboratory equipment from a former tenant in 2003. TRC recorded the equipment at its fair value of $344,670, as determined by an independent appraisal. In exchange for the equipment, TRC forgave outstanding accounts receivable, net of any payments due to the former tenant in the amount of $369,070. As part of the transaction, TRC reduced its allowance for doubtful accounts by $24,400.

The purchase expands TRC's capabilities to include chassis dynamometer, gasoline and diesel fuel evaporative emissions, chemical speciation, particulate measurement and engine-stand testing.

14. EMPLOYEES' RETIREMENT SAVINGS PLAN AND TRUST

TRC maintains the Employees' Retirement Savings Plan and Trust (the "Plan"). The Plan is intended to comply with Section 401(a) of the Internal Revenue Code. All employees are eligible to participate in the Plan. Employer contributions to the Plan are determined solely at the discretion of TRC's Board of Directors. For the years ended June 30, 2004 and 2003, TRC expensed $616,370 and $474,601, respectively, for contributions to the Plan.

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ADDITIONAL INFORMATION

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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*

Board of Directors
Transportation Research Center Inc.

We have audited the financial statements of Transportation Research Center, Inc. ("TRC") as of and for the years ended June 30, 2004 and 2003, and have issued our report thereon dated August 31, 2004. We conducted our audit in accordance with auditing standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered TRC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more for the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether TRC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of TRC's management, The Ohio State University and the Ohio Auditor of State and is not intended to be and should not be used by anyone other than those specified parties.

Deloitte & Touche LLP

August 31, 2004

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Betty Montgomery

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OHIO STATE UNIVERSITY TRANSPORTATION RESEARCH CENTER, INC.

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 18, 2005