

# **Transportation Research Center Inc.**

**Financial Statements  
June 30, 2016 and 2015**





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# Transportation Research Center Inc.

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June 30, 2016 and 2015

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## Report of Independent Auditors

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

We have audited the accompanying financial statements of Transportation Research Center Inc. (“TRC”), a component unit of The Ohio State University, appearing on pages 10 to 27, which comprise the statements of net position as of June 30, 2016 and June 30, 2015, and the related statements of revenues, expenses, and other changes in net position, and of cash flows, and the related notes to the financial statements for the years then ended, which collectively comprise TRC’s basic financial statements.

### ***Management’s Responsibility for the Financial Statements***

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

### ***Auditor’s Responsibility***

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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



***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TRC at June 30, 2016 and June 30, 2015, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

The accompanying management's discussion and analysis on pages 3 through 9 and the Required Supplementary Information on GASB 68 Pension Liabilities on page 28 are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated October 7, 2016 on our consideration of the TRC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the TRC's internal control over financial reporting and compliance.

*PricewaterhouseCoopers LLP*

October 7, 2016

# **Transportation Research Center Inc.**

## **Management Discussion and Analysis (Unaudited)**

### **For Fiscal Year Ended June 30, 2016**

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This Management Discussion and Analysis provides an overview of the financial position and activities of Transportation Research Center Inc. (TRC Inc.) for the fiscal year ended June 30, 2016, with comparative information for the fiscal years ended June 30, 2015 and June 30, 2014.

#### **Introducing Transportation Research Center Inc.**

TRC Inc. independently manages the Transportation Research Center, a transportation research and testing facility located on 4,500 acres near East Liberty, Ohio, and various other laboratories. TRC Inc. assists the needs of the mobility industry, government, and educational institutions worldwide by creating safer, improved products through vehicle research and testing services. Research and testing programs are designed to test for safety, energy, fuel economy, emissions, durability, and crash worthiness on passenger vehicles, trucks, buses, motorcycles, recreational vehicles and their associated components.

The Transportation Research Center facility was developed by the State of Ohio and began operations in 1974. In 1979, the State of Ohio entered into an agreement with The Ohio State University's College of Engineering to oversee the operations of the Transportation Research Center. In 1988, the State of Ohio sold the facility to Honda of America Manufacturing, Inc. (HAM) as an economic inducement to secure a second automobile manufacturing plant. After the sale, The Ohio State University created TRC Inc. TRC Inc. and Honda of America Manufacturing, Inc. entered into a management agreement that provides the foundation for TRC Inc. to manage the Transportation Research Center as a multi-user facility.

TRC Inc. is governed by a seven-member board chaired by the Dean of the College of Engineering at The Ohio State University. The Ex-Officio Directors on the TRC Inc. Board of Directors represent The Ohio State University and its interest within TRC Inc. The Ex-Officio Directors on the TRC Inc. Board of Directors are the persons who hold the following positions at The Ohio State University: the Senior Vice President for Research of the University (currently Dr. Caroline C. Whitacre); the Dean of the College of Engineering of the University (currently Dr. David B. Williams); and the President-Chief Executive Officer of Transportation Research Center Inc. (currently Mark-Tami Hotta). TRC Inc. is a discretely presented component unit in the financial statements of The Ohio State University.

New executives were added during the fiscal year ended June 30, 2016 to increase executive capacity to support strategic growth initiatives. Doug Marsden started in October 2015 and is the Vice President of Research/Chief Technical Officer. Tim Leckey started in March 2016 and is the CFO. Brett Roubinek started in March 2016 and is the Vice President of Proving Grounds. Mike Gray started in December 2015 and is the Controller. Amy Luther started in May 2016 and is the Chief Human Resources Officer.

TRC Inc. is a tax-exempt organization as described in section 501(c) (3) and section 509(a) (3) of the Internal Revenue Code. TRC Inc.'s tax-exempt purpose is conducting and supporting humanistic, scientific and engineering research and development activities solely and exclusively to the conduct of, or providing assistance in connection with the conduct of, research in automotive, vehicular, and related forms of transportation, and for the development of improved highway facilities for vehicular traffic. TRC Inc. does perform work outside of this exempt purpose, and as a result, does pay unrelated business tax on that income.



# Transportation Research Center Inc.

## Management Discussion and Analysis (Unaudited)

### For Fiscal Year Ended June 30, 2016

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#### **Key Financial Highlights**

Significant financial events during fiscal year 2016 were:

- An increase in research and testing operating revenues of \$6,485,425, or 20% driven by an increase in testing activity to support new Honda model roll-outs, increased material and supply purchases for NHTSA and increased impact and emission lab activity.
- Operating margins decreased 4% from fiscal year 2015 due to an increase in the purchases of low margin material and supplies for NHTSA.
- General and administrative expense increased due to transition costs to support the new executive alignment, increased benefit costs, travel and consultants to formulate proving ground strategy. Last year's expenses also included a favorable rebate of \$606,506 from the Bureau of Workers Comp and a bonus payment of \$329,298.
- The decline in the market value of investments resulted in an unrealized capital loss of \$306,318;
- Net income before other changes in net position, excluding the decline in the fair value of investments of \$313,314;

#### **Financial Statement Overview**

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

Presented in the financial statements are the Statements of Net Position at June 30, 2016 and June 30, 2015; the Statements of Revenues, Expenses and Changes in Net Position for fiscal years ended June 30, 2016 and 2015; and the Statements of Cash Flows for fiscal years ended June 30, 2016 and 2015.

The Statements of Net Position reflect TRC Inc.'s assets, liabilities and net position.

The Statements of Revenues, Expenses and Changes in Net Position reflect information showing how net position changed during the fiscal year.

The Statements of Cash Flows reports changes in the cash and cash equivalent balances during the fiscal year.

**Transportation Research Center Inc.**  
**Management Discussion and Analysis (Unaudited)**  
**For Fiscal Year Ended June 30, 2016**

**Statements of Net Position**

The major components of the Statements of Net Position at June 30, 2016, June 30, 2015 and June 30, 2014 are reflected below:

	2016	2015	Changes	2014
<b>Assets</b>				
Current assets	\$ 12,699,021	\$ 12,967,954	(2.1)%	\$ 14,064,556
Net property and equipment	1,250,637	515,777	142.5 %	429,034
Deferred outflow related to pension	124,099	39,949	210.6 %	-
Total assets and deferred outflows	<u>\$ 14,073,757</u>	<u>\$ 13,523,680</u>	<u>4.1 %</u>	<u>\$ 14,493,590</u>
<b>Liabilities</b>				
Current liabilities	\$ 3,441,156	\$ 2,970,355	15.9 %	\$ 4,095,352
Net pension liability	365,998	295,980	23.7 %	-
Total liabilities	<u>3,807,154</u>	<u>3,266,335</u>	<u>16.6 %</u>	<u>4,095,352</u>
Deferred inflow related to pension	7,460	5,200	43.5 %	-
<b>Net position</b>	<u>10,259,143</u>	<u>10,252,145</u>	<u>0.1 %</u>	<u>10,398,238</u>
Total liabilities, deferred inflow and net position	<u>\$ 14,073,757</u>	<u>\$ 13,523,680</u>	<u>4.1 %</u>	<u>\$ 14,493,590</u>

**Current Assets**

Current assets decreased \$268,933, or 2%, in fiscal year 2016 to \$12,699,021. The significant changes in Current assets were in cash and cash equivalents and trade accounts receivable.

Cash and cash equivalents decreased by \$1,198,987, or 56%, in fiscal year 2016 to \$937,452. The decrease in cash was due to purchases of property and equipment of \$977,131 in fiscal year 2016, which was made entirely from operating cash.

Investments decreased by \$306,318, or 8%, in fiscal year 2016 to \$3,669,684. The decrease resulted from:

- The market decline 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; and
- The withdrawal of interest earned of \$153,567 on TRC Inc.'s investments at The Ohio State University in fiscal year 2016.

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

The unrealized gain or loss in TRC's equity interest in the investment pool for fiscal years 2016, 2015 and 2014 are as follows:

	2016	2015	2014
Market value of endowment fund	\$ 3,669,684	\$ 3,976,002	\$ 3,921,732
Cost value of endowment fund	<u>3,841,787</u>	<u>3,841,787</u>	<u>3,689,036</u>
Net unrealized gain (loss)	<u>\$ (172,103)</u>	<u>\$ 134,215</u>	<u>\$ 232,696</u>
Unrealized gain (loss)	\$ (306,318)	\$ (98,481)	\$ 385,388

# Transportation Research Center Inc.

## Management Discussion and Analysis (Unaudited)

### For Fiscal Year Ended June 30, 2016

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Research and testing operating revenue made on account increased by \$6,485,425 in fiscal year 2016. Trade accounts receivable, consistent with revenue, increased \$1,306,075, or 25%, in fiscal year 2016 to \$6,489,601. Average receivables were outstanding for 60 days in fiscal year 2016, as compared to 57 days in fiscal year 2015. The valuation of allowance for doubtful accounts fell by \$51,000 in fiscal year 2016 to \$38,000 at June 30, 2016.

#### **Net Property and Equipment**

Net property and equipment increased \$734,860, or 142%, in fiscal year 2016 to \$1,250,637. The increase was due to capital additions for vehicles, trucks, leasehold improvements and a new ERP system.

During fiscal year 2016, TRC Inc. expended \$977,131. The largest acquisition, at \$409,461, was the initial purchase of software for the new ERP system and consulting fees related to work completed in 2016. A fuel truck, forklift and four automobiles were also purchased at a total cost of \$434,849.

The remaining book values of each of the individual remaining capital assets are less than \$75,000 individually and generally are assets used to maintain and secure the 4,500-acre facility, assist in the driver training program, or are vehicles used for travel purposes. Most of the capital assets are fully depreciated.

#### **Current Liabilities**

Current liabilities increased \$470,801, or 14%, in fiscal year 2016 to \$3,441,156. The significant changes in current liabilities were in accrued payroll and related expenses and advanced payments for goods and services.

Accrued payroll and related expenses increased by 21% to \$1,450,519, reflecting the increase in salaries to support increased revenue and increased benefit expenses.

Advance payments for goods and services increased \$261,477 or 125%, in fiscal year 2016 to \$471,127. Advance payments for goods and services reflect prepayments received from TRC Inc. customers in advance of testing. The increase in advance payments for goods and services is due to the increase of customers wanting to prepay TRC Inc. and in new customers testing with TRC Inc. for the first time. TRC Inc. requires payment before testing for brand new customers.

#### **Noncurrent Liabilities**

On July 1, 2014, TRC implemented GASB Statement No.68, *Accounting and Financial Reporting for Pensions*. The adoption of the new standard requires employers participating in cost-sharing multi-employer retirement plans to recognize a share of the retirement plans' unfunded pension liabilities. The net pension liability recognized by TRC at June 30, 2016 was \$365,998, which increased \$70,018 or 24% from June 30, 2015.

**Transportation Research Center Inc.**  
**Management Discussion and Analysis (Unaudited)**  
**For Fiscal Year Ended June 30, 2016**

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**Statements of Revenue, Expenses and Changes in Net Assets**

The major components of the Statements of Revenue, Expenses and Changes in Net Position for fiscal years ended June 30, 2016, 2015 and 2014 are reflected below:

	2016	2015	Changes	2014
Operating revenues	\$ 44,448,939	\$ 37,350,764	19.0 %	\$ 37,843,270
Operating expenses	<u>44,293,887</u>	<u>35,741,382</u>	23.9 %	<u>36,445,986</u>
Operating income	155,052	1,609,382	(90.4)%	1,397,284
Net nonoperating revenue (expense)	158,264	136,155	16.2 %	132,723
Net change in value of equity interest in investment pool	<u>(306,318)</u>	<u>(98,481)</u>	211.0 %	<u>385,388</u>
Excess revenue over expenses	6,998	1,647,056	(99.6)%	1,915,395
Transfer to Transportation Research Fund	-	<u>(1,530,007)</u>	(100.0)%	<u>(210,928)</u>
Change in net position	6,998	117,049	(94.0)%	1,704,467
Beginning net position	10,252,145	10,398,238	(1.4)%	8,693,771
Cumulative effect of change in accounting principle	-	<u>(263,142)</u>	(100.0)%	-
Ending net position	<u>\$ 10,259,143</u>	<u>\$ 10,252,145</u>	0.1 %	<u>\$ 10,398,238</u>

**Operating Revenues**

The two sources of revenue that TRC Inc. earns are research and testing agreement revenue and owner's maintenance and repair revenue.

Research and testing agreement revenue is revenue TRC Inc. earns from its customers for conducting durability, dynamic, emissions, impact and sled research and testing. It also includes revenues for supplying dedicated personnel to customers to operate their research and testing laboratories.

Owner's maintenance and repair revenue is revenue TRC Inc. earns for maintaining and improving the owner's facility as a result of the Management Agreement between TRC Inc. and the facility owner.

Revenue summary for fiscal years 2016, 2015 and 2014 were:

	2016	2015	Changes	2014
Research and testing agreement revenue	\$ 39,161,036	\$ 32,675,611	19.9 %	\$ 31,988,002
Owner's maintenance and repair revenue	<u>5,287,903</u>	<u>4,675,153</u>	13.1 %	<u>5,855,268</u>
Total operating revenue	<u>\$ 44,448,939</u>	<u>\$ 37,350,764</u>	19.0 %	<u>\$ 37,843,270</u>

Research and testing revenue increased by \$6,485,425, or 20%, in fiscal year 2016 to \$39,161,036.

Revenue increased due to new model roll-out testing for Honda, increased purchases of materials and supplies for VRTC/NHTSA and additional lab testing for FCA and Lubrizol.

Owner's maintenance and repair revenue increased by \$612,750, or 13%, in fiscal year 2016 to \$5,287,903. The major components of this revenue are maintenance and capital improvements made to the facility that the facility owner funds each year. Since most of the capital improvements and maintenance items are sold to the facility owner at TRC Inc. cost, increase or decrease in revenue on this line item does not have a major impact upon total operating income.

**Transportation Research Center Inc.  
Management Discussion and Analysis (Unaudited)  
For Fiscal Year Ended June 30, 2016**

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**Operating Expenses**

Major components of operating expense in fiscal years 2016, 2015 and 2014 were:

	<b>2016</b>	<b>2015</b>	<b>Changes</b>	<b>2014</b>
Direct expense	\$ 27,133,740	\$ 21,710,775	25.0 %	\$ 22,533,579
General and administrative expense	16,917,876	13,787,619	22.7 %	13,557,217
Depreciation expense	242,271	242,988	(0.3)%	355,190
Total operating expense	<u>\$ 44,293,887</u>	<u>\$ 35,741,382</u>	<u>23.9 %</u>	<u>\$ 36,445,986</u>

Direct expense increased by \$5,422,965, or 25%, in fiscal year 2016 to \$27,133,740. The 25% increase in direct expense in fiscal 2016 correlates with the increase in testing revenue and the increase in material and supply purchases to support VRTC/NHTSA.

General and administrative expenses increased \$3,130,257 over last year. Approximately half of the increase is related to one-time transition costs to support the new organizational alignment (\$669,000), additional travel and consultants to formulate proving ground strategy (\$515,000) and a non-recurring favorable adjustment stemming a refund from the bureau of workers comp in fiscal year 2015 (\$277,000). The remainder of the increase is recurring in nature and associated with increased benefits for direct headcount to support increased revenue (\$479,000), increased salaries to increase executive and management capability (\$818,000), associate merit increases and increases in healthcare premiums (\$355,000).

**Nonoperating Revenues and Expenses**

Interest income reflects the interest earned from TRC Inc.'s operating cash account and the interest earned from investments TRC Inc. owns in the endowment fund at The Ohio State University. Gain on sales of assets reflects the sale of property and equipment.

**Net Change in Value of Equity Interest in Investment Pool**

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

**Net Income before Other Changes in Net Position**

Excess revenue over expense before the unrealized appreciation in the fair value of investments and before the transfer to the Transportation Research Fund decreased by \$1,432,221, or 82%, in fiscal year 2016 to \$313,316. The decrease is driven by increased general and administrative expenses.

**Transportation Research Center Inc.**  
**Management Discussion and Analysis (Unaudited)**  
**For Fiscal Year Ended June 30, 2016**

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**Statement of Cash Flows**

TRC cash and cash equivalents decreased \$1,198,987 in 2016. Net cash flows provided by operating activities decreased \$815,704. The decrease is primarily due to increases in cash paid to employees and suppliers. Net cash flows used in noncapital financing activities decreased \$1,530,007, reflecting the decision to reinvest funds rather than transfer to the Transportation Research Fund during fiscal year 2016. Net cash flows used in capital and related financing activities increased \$641,222, primarily due to additions of fixed assets in fiscal year 2016. Total cash used by investing activities was largely unchanged year over year.

Cash flows for fiscal years 2016, 2015 and 2014 were follows:

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Cash flows from operating activities	\$ (226,553)	\$ 589,151	\$ 3,279,117
Cash flows from noncapital financing activities	-	(1,530,007)	(212,993)
Cash flows from capital and related financing activities	(970,954)	(329,732)	(196,309)
Cash flows from investing activities	(1,480)	(16,596)	(16,156)
Net (decrease) increase in cash	<u>\$ (1,198,987)</u>	<u>\$ (1,287,184)</u>	<u>\$ 2,853,659</u>

**Transportation Research Center Inc.**  
**Statements of Net Position**  
**June 30, 2016 and 2015**

	2016	2015
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 937,452	\$ 2,136,439
Investments	3,669,684	3,976,002
Trade accounts receivable, net of allowance for doubtful accounts of \$38,000 and \$89,000	6,489,601	5,183,526
Receivable from HAM (Note 6)	653,468	750,087
Interest receivable	153,567	-
Supplies and prepaid expenses	795,249	921,900
Total current assets	12,699,021	12,967,954
Noncurrent assets		
Property and equipment	8,596,065	7,742,777
Less: Accumulated depreciation	(7,345,428)	(7,227,000)
Property and equipment, net	1,250,637	515,777
Deferred outflows related to pension	124,099	39,949
Total assets and deferred outflows	\$ 14,073,757	\$ 13,523,680
<b>Liabilities</b>		
Current liabilities		
Trade accounts payable	\$ 831,337	\$ 947,816
Accounts payable to HAM (Note 6)	688,173	615,590
Accrued payroll and related expenses	1,450,519	1,197,299
Advance payments for goods and services	471,127	209,650
Total current liabilities	3,441,156	2,970,355
Long-term liabilities		
Net pension liability	365,998	295,980
Total liabilities	3,807,154	3,266,335
Deferred inflows related to pension	7,460	5,200
<b>Net position</b>		
Investment in property and equipment, net of related debt	1,250,637	515,777
Unrestricted net position	9,008,506	9,736,368
Total net position	10,259,143	10,252,145
Total liabilities, deferred inflows and net position	\$ 14,073,757	\$ 13,523,680

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

**Transportation Research Center Inc.**  
**Statements of Revenues, Expenses and Other Changes in Net Position**  
**Years Ended June 30, 2016 and 2015**

	2016	2015
<b>Operating revenues</b>		
Research and testing	\$ 39,161,036	\$ 32,675,611
Owner's maintenance and repair	5,287,903	4,675,153
Total operating revenues	<u>44,448,939</u>	<u>37,350,764</u>
<b>Operating expenses</b>		
Direct	27,133,740	21,710,775
General and administrative	16,917,876	13,787,619
Depreciation	242,271	242,988
Total operating expenses	<u>44,293,887</u>	<u>35,741,382</u>
Total operating income	<u>155,052</u>	<u>1,609,382</u>
<b>Nonoperating income (expense)</b>		
Net change in value of equity interest in investment pool	(306,318)	(98,481)
Gain on sale of assets	6,177	-
Interest income	152,087	136,155
Net nonoperating (expense) income	<u>(148,054)</u>	<u>37,674</u>
Net income before other changes in net position	6,998	1,647,056
<b>Other transfers and changes</b>		
Transfer to Transportation Research Fund	-	1,530,007
Change in net position	6,998	117,049
Cumulative effect of change in accounting principle	-	(263,142)
Net position, beginning of year	<u>10,252,145</u>	<u>10,398,238</u>
Net position, end of year	<u>\$ 10,259,143</u>	<u>\$ 10,252,145</u>

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



**Transportation Research Center Inc.**  
**Statements of Cash Flows**  
**Years Ended June 30, 2016 and 2015**

	2016	2015
<b>Cash flows from operating activities</b>		
Cash received from customers and HAM	\$ 43,549,461	\$ 37,906,553
Cash paid to suppliers	(9,803,497)	(8,048,333)
Cash paid for taxes	(600,000)	(600,000)
Cash paid to HAM	(10,920,473)	(9,968,991)
Cash paid to employees	(17,023,997)	(14,172,476)
Cash paid for fringe benefits and payroll taxes	(5,428,047)	(4,527,602)
Net cash (used in) provided by operating activities	<u>(226,553)</u>	<u>589,151</u>
<b>Cash flows from noncapital financing activities</b>		
Transfer to transportation research fund	-	(1,530,007)
Cash used in noncapital financing activities	<u>-</u>	<u>(1,530,007)</u>
<b>Cash flows from capital and related financing activities</b>		
Proceeds from sale of property and equipment	6,177	-
Additions to property and equipment	(977,131)	(329,732)
Net cash used in capital and related financing activities	<u>(970,954)</u>	<u>(329,732)</u>
<b>Cash flows from investing activities</b>		
Interest income (expense)	(1,480)	136,155
Purchase of investments	-	(152,751)
Net cash used in investing activities	<u>(1,480)</u>	<u>(16,596)</u>
Net decrease in cash and cash equivalents	(1,198,987)	(1,287,184)
<b>Cash and cash equivalents</b>		
Beginning of period	2,136,439	3,423,623
End of period	<u>\$ 937,452</u>	<u>\$ 2,136,439</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$ 155,052	\$ 1,609,382
Adjustments to reconcile operating income to net cash (used in) provided by operating activities		
Depreciation	242,271	242,988
Provision for bad debt expense	(48,500)	(48,035)
Changes in assets and liabilities		
Trade accounts receivable	(1,257,575)	(95,738)
Receivable from HAM for property maintenance	96,619	769,015
Supplies and prepaid expenses	126,651	(761,554)
Deferred outflows - pension	(84,150)	(13,796)
Trade accounts payable	(116,479)	(889,849)
Accounts payable to HAM for property maintenance	72,583	(309,532)
Accrued payroll and related expenses	253,220	191,874
Advance payments for goods and services	261,477	(117,490)
Net pension liability	70,018	6,686
Deferred inflows - pension	2,260	5,200
Net cash used in operating activities	<u>(381,605)</u>	<u>(1,020,231)</u>
Net cash (used in) provided by operating activities	<u>\$ (226,553)</u>	<u>\$ 589,151</u>
<b>Supplemental cash flow information</b>		
Net change in value of equity interest in investment pool	\$ (306,318)	\$ (98,481)
Interest receivable	\$ 153,567	\$ -

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

# Transportation Research Center Inc.

## Notes to Financial Statements

### June 30, 2016 and 2015

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#### 1. Description of the Business

The Transportation Research Center of Ohio (the "Center") was created by the General Assembly of the State of Ohio in October 1972. On January 26, 1988, substantially all of the assets of the Center were sold to Honda of America Manufacturing ("HAM").

In conjunction with the sale, the legislation which initially established the Transportation Research Board was repealed. The Center was reincorporated as a not-for-profit organization, Transportation Research Center Inc. ("TRC"), with The Ohio State University Affiliates, Inc. ("OSU") as the sole member of TRC. TRC is organized exclusively for educational, charitable, and scientific purposes within the meaning of Section 501(c)(3) and Section 509(a)(3) of the Internal Revenue Code by conducting and supporting humanistic, scientific and engineering research and development activities solely and exclusively to the conduct of, or providing assistance in connection with the conduct of, research in automotive, vehicular and related forms of transportation, and for the development of improved highway facilities for vehicular traffic. TRC is considered a component unit of OSU. Therefore, TRC's financial statements are consolidated with OSU's for purposes for complying with OSU's reporting requirements.

#### **Basis of Presentation**

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

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

#### ***Net Investment in Property and Equipment***

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

#### ***Restricted***

##### ***Nonexpendable***

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

##### ***Expendable***

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

#### ***Unrestricted***

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

# Transportation Research Center Inc.

## Notes to Financial Statements

### June 30, 2016 and 2015

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It is TRC's policy to apply restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. TRC did not have a restricted net position at either June 30, 2016 or June 30, 2015.

## 2. Summary of Significant Accounting Policies

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

### **Basis of Accounting**

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

### **Estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Significant estimates primarily related to valuation of certain investments, allowance for doubtful accounts and pension and other post-retirement benefits. These estimates and assumptions are based on TRC's historical results as well as management's future expectations. Actual results could differ from those estimates.

### **Revenue Recognition**

TRC derives revenue from facility usage, personnel charges, cost reimbursement and management of the facility. TRC recognizes revenue when the related service is performed. Revenues for facility usage are remitted to HAM as described in Note 6 and the related expenses are included in direct expenses. TRC evaluates the credit of customers and establishes its allowance for doubtful accounts based on its evaluation of credit risk related to individual customers. TRC does not require collateral with its receivables.

TRC derives a substantial portion of research and testing revenue from a limited number of commercial enterprises and governmental agencies. For the years ended June 30, 2016 and 2015, the revenue from the four highest volume commercial enterprises and one government agency was \$31,939,066 and \$27,036,091, respectively.

Included in accounts receivables are \$1,123,736 and \$288,064 of unbilled accounts receivable at June 30, 2016 and 2015, respectively. Unbilled accounts receivable represent revenue earned 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, 2016 and 2015.

# Transportation Research Center Inc.

## Notes to Financial Statements

### June 30, 2016 and 2015

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#### **Investment Policy**

All investments consist of TRC's equity interest in The Ohio State University Long Term Investment Pool. The university's Office of Financial Services commingles the funds with other university-related organizations and allocates to TRC its equity share of the investment pool, the value of which is based on the underlying fair value of the individual investments within the university's investment pool. Earned investment income is allocated to each organization based on its share of the total funds invested at the beginning of each year. The net change in the value of TRC's equity interest in the investment pool during the years ended June 30, 2016 and 2015 is a decrease of \$306,318 and \$98,481, respectively. These amounts take into account all changes in fair value of the underlying investments in the university's investment pool (including purchases and sales) that occurred during each respective year.

The calculation of realized gain or loss is independent of the calculation of the net increase in fair value of the underlying investments in the university's investment pool. As of June 30, 2016, there is a cumulative unrealized loss on investments of \$(172,103). As of June 30, 2015, there is a cumulative unrealized gain on investments of \$134,215. Investment income from endowment investments is unrestricted by the donors, and as such becomes a part of unrestricted net position.

#### **Property and Equipment**

Property and equipment is recorded at cost. Depreciation is provided for in amounts sufficient to allocate the cost of depreciable assets to operations over the following the estimated service lives on the straight-line basis:

<b>Type of Asset</b>	<b>Estimated Useful Life</b>
New or used tractors and used vehicles or equipment	3 years
New vehicles or equipment	5 years
Buildings / leasehold improvements	7 to 15 years
Software	5 to 10 years

TRC removes the asset cost and related accumulated depreciation from the appropriate accounts and reflects any gain or loss in current operations upon sale or retirements. Expenditures for maintenance, repairs or renewals, which neither materially add to the value of the property nor appreciably extend its useful life are charged to expense as incurred.

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

#### **Compensated Absences**

Employees are granted paid time off in amounts which vary by length of service. The policy prohibits employees from accumulating unused compensated absences.

#### **Related Party Transactions**

Payments are made to OSU as reimbursement for various expenses incurred by OSU on TRC's behalf. Such payments totaled approximately \$888,558 and \$480,817 for the years ended June 30, 2016 and 2015, respectively, and are recorded as General and Administrative Expenses on the Statement of Revenues, Expenses and Other Changes in Net Position.

# Transportation Research Center Inc.

## Notes to Financial Statements

### June 30, 2016 and 2015

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#### **Implementation of GASB Statement No. 68**

During the year ended June 30, 2015, TRC implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB 68 requires employers participating in cost-sharing multiple-employer pension plans to recognize a proportionate share of the net pension liabilities of the plans. TRC participates in the Public Employees Retirement System of Ohio. A proportionate share of the net pension liabilities of the retirement system has been allocated to TRC, based on retirement plan contributions, for TRC employees. The cumulative effect of adopting GASB 68 was a \$263,142 reduction in TRC's unrestricted net position as of July 1, 2014. Additional information regarding net pension liabilities, related deferrals and pension expense is provided in Note 9.

#### **Newly Issued Accounting Pronouncements**

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB 68*, and Amendments to Certain Provisions of GASB Statements 67 and 68. Statement 73 establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria pensions that are not within the scope of Statement 68. Statement 73 is effective for financial statements for fiscal years beginning after June 15, 2016.

In June 2015, the GASB issued Statements No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statements 74 and 75 establish new accounting and reporting standards for other postemployment benefits (OPEB), such as health insurance provided to retirees. Under the new standards, governments that participate in OPEB plans will be required to report in their statement of net position a net OPEB liability, which is the difference between the total OPEB liability and the assets set aside to pay OPEB. Statement 74, which applies to plans (such as OPERS and STRS-Ohio), is effective for periods beginning after June 15, 2016. Statement 75, which applies to plan participants, is effective for periods beginning after June 15, 2017.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This standard amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The standard is effective for financial statements for fiscal years beginning after December 15, 2015.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. Statement 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. These criteria were formerly based on SEC regulations. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23–26, and 40, which are effective for reporting periods beginning after December 15, 2015.

**Transportation Research Center Inc.**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

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In March 2016, the GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statement No. 67, No.68 and No.73*. This standard addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purpose, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The standard is effective for financial statements for fiscal years beginning after June 15, 2016.

TRC management has elected to early-implement Statement 82 during the fiscal year ending June 30, 2016. The Required Supplementary Information on pensions has been revised to reflect covered payroll for the fiscal years ending June 30, 2016 and 2015. TRC management is currently assessing the impact that implementation of GASB Statements 73, 74, 75, 78, 79, 80 and 81 will have on TRC's financial statements.

**3. Income Taxes**

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

TRC is subject to unrelated business income tax for the leasing of certain TRC employees. Unrelated income tax expense in 2016 is estimated to be approximately \$433,177 and was \$524,761 for 2015.

**4. Cash, Cash Equivalents and Investments**

Cash, cash equivalents, and investments at June 30, 2016 and 2015 were as follows:

	<b>2016</b>	<b>2015</b>
Cash on hand	\$ 600	\$ 600
Cash in bank	936,852	2,135,839
Investment in OSU's long term investment pool	<u>3,669,684</u>	<u>3,976,002</u>
	<u>\$ 4,607,136</u>	<u>\$ 6,112,441</u>

At June 30, 2016 and 2015, the bank statement balances of cash in banks were \$1,375,812 and \$3,086,899, respectively. Of the bank statement balances, \$1,375,812 and \$3,086,899, respectively, represented overnight sweep investments which are generally not covered by FDIC.

**Transportation Research Center Inc.**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

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TRC's investments are maintained in the university's investment pool and, as such, all collateralization is held by the university. The 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 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 pool is intended to provide the long-term growth necessary to preserve the value of these funds, adjusted for inflation, while making distributions to support TRC's mission.

Annual distributions to named funds in the university investment pool are computed using the share method of accounting for pooled investments. Annual distribution per share is 4.25% of the average market value per share of the Long Term Investment Pool over the most recent seven year period.

TRC Inc. held 649,2046 shares in the university's investment pool at June 30, 2016 and 2015, respectively. The value of TRC's equity interest in the university's investment pool was \$3,669,684 and \$3,976,002 at June 30, 2016 and 2015, respectively. There were no realized gains or losses during the years ended June 30, 2016 and 2015. Total net unrealized losses for the year ended June 30, 2016 and 2015 were \$(306,318) and \$(98,481), respectively. TRC may redeem its shares in the university investment pool at its discretion.

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

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

**5. Property and Equipment**

The property and equipment balance at June 30, 2016 consists of the following:

	<b>Balance June 30, 2015</b>	<b>Additions</b>	<b>Disposals/ Transfers</b>	<b>Balance June 30, 2016</b>
<b>Capital assets</b>				
Building/leasehold improvements	\$ 3,095,603	\$ 132,820	\$ -	\$ 3,228,423
Equipment	4,561,042	434,849	(123,843)	4,872,048
Construction-in-progress	-	409,462	-	409,462
Other	86,132	-	-	86,132
Total capital assets	<u>7,742,777</u>	<u>977,131</u>	<u>(123,843)</u>	<u>8,596,065</u>
<b>Less accumulated depreciation</b>				
Building/leasehold improvements	3,020,575	30,573	-	\$ 3,051,148
Equipment	4,120,293	211,698	(123,843)	4,208,148
Other	86,132	-	-	86,132
Total accumulated depreciation	<u>7,227,000</u>	<u>242,271</u>	<u>(123,843)</u>	<u>7,345,428</u>
Property and equipment, net	<u>\$ 515,777</u>	<u>\$ 734,860</u>	<u>\$ -</u>	<u>\$ 1,250,637</u>

**Transportation Research Center Inc.**  
**Notes to Financial Statements**  
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The property and equipment balance at June 30, 2015 consists of the following:

	Balance June 30, 2014	Additions	Disposals/ Transfers	Balance June 30, 2015
<b>Capital assets</b>				
Building/leasehold improvements	\$ 3,020,574	\$ 75,029	\$ -	\$ 3,095,603
Equipment	4,339,900	254,702	(33,560)	4,561,042
Other	86,132	-	-	86,132
Total capital assets	<u>7,446,606</u>	<u>329,731</u>	<u>(33,560)</u>	<u>7,742,777</u>
<b>Less accumulated depreciation</b>				
Building/leasehold improvements	2,973,181	47,394	-	3,020,575
Equipment	3,958,259	195,594	(33,560)	4,120,293
Other	86,132	-	-	86,132
Total accumulated depreciation	<u>7,017,572</u>	<u>242,988</u>	<u>(33,560)</u>	<u>7,227,000</u>
Property and equipment, net	<u>\$ 429,034</u>	<u>\$ 86,743</u>	<u>\$ -</u>	<u>\$ 515,777</u>

**6. Management Agreement**

Under the terms of the Management Agreement with HAM, the owner of the Transportation Research Center of Ohio (facility) retains TRC as the sole and exclusive manager and agent to control, manage, supervise and direct the operations of the facility. The term of the Agreement commenced on January 28, 1988 and is automatically renewed for successive two year terms. The Agreement may be terminated by either party at the end of any term, by giving at least 180 days prior written notice thereof to the other party. Under the Management Agreement, TRC remits to HAM certain revenues for use of the facilities (owner revenues). Additionally, expenses for repairs and capital improvements made by TRC are reimbursed by HAM (owner expenses). In the Statement of Revenues, Expenses and Other Charges in Net Position, the amounts TRC remits to HAM are recorded as direct expenses, and the amounts TRC are reimbursed by HAM are recorded as owner's maintenance and repair revenues.

For the years ended June 30, 2016 and 2015 the amounts of transactions with HAM are as follows:

	2016	2015
Owner revenues	\$ 7,291,952	\$ 6,455,620
Owner expenses	5,287,903	4,675,153

At June 30, 2016 and 2015, there was a receivable from HAM for owner expenses of \$653,468 and \$750,087, respectively. In addition, at June 30, 2016 and 2015, there was a payable to HAM for owner revenues earned of \$688,173 and \$615,590, respectively.

TRC also earns research and testing revenues from Honda of America Manufacturing and affiliated entities outside of the Management Agreement. Sales were \$18,308,151 and \$16,506,303 for the years ended June 30, 2016 and 2015, respectively. Trade accounts receivable at June 30, 2016 and 2015 included \$2,747,080 and \$3,066,554, respectively, from HAM and affiliated entities related to these research and testing revenues.



**Transportation Research Center Inc.**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

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**7. Deferred Compensation Plan**

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

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

**8. Net Position**

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

In the past, the TRC Board has typically authorized an amount to be transferred equating to the fiscal year's excess of revenues over expenses less any unrealized change in the fair value of investments.

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

**Transportation Research Center Inc.**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

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At June 30, 2016 and 2015, the net position was comprised of the following:

	2016	2015
Investment in property and equipment, net of related debt	\$ 1,250,637	\$ 515,777
Unrestricted net position	<u>9,008,506</u>	<u>9,736,368</u>
Total net position	<u>\$ 10,259,143</u>	<u>\$ 10,252,145</u>

Unrestricted net position includes a cumulative unrealized (loss) gain in investments at June 30, 2016 and 2015 of \$(172,103) and \$134,215, respectively.

**9. Defined Benefit Pension Plan and Post-Employment Benefits**

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

OPERS offer three separate plans: 1) a defined benefit plan, 2) a defined contribution plan and 3) a combined plan. Each of these three options is discussed in greater detail in the following sections.

**Defined Benefit Plans**

OPERS offer statewide cost-sharing multiple-employer defined benefit pension plans. OPERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by state statute and are calculated using formulas that include years of service and final average salary as factors. OPERS issues separate, publicly available financial reports that include financial statements and required supplemental information. These reports may be obtained by contacting the organization.

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

In accordance with GASB Statement No. 68, employers participating in cost-sharing multiple-employer plans are required to recognize a proportionate share of the collective net pension liabilities of the plans. Although changes in the net pension liability generally are recognized as pension expense in the current period, GASB 68 requires certain items to be deferred and recognized as expense in future periods. Deferrals for differences between projected and actual investment returns are amortized to pension expense over five years. Deferrals for employer contributions subsequent to the measurement date are amortized in the following period (one year). Other deferrals are amortized over the estimated remaining service lives of both active and inactive employees (amortization periods range from 3 to 9 years).

**Transportation Research Center Inc.**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

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The collective net pension liabilities of the retirement systems and TRC's proportionate share of these net pension liabilities as of June 30, 2016 and 2015 are as follows:

	<b>OPERS</b>	
	<u>2016</u>	<u>2015</u>
Net pension liability - all employers	\$ 17,321,260,626	\$ 12,022,615,276
Proportion of the net pension liability - TRC	0.002 %	0.002 %
Proportionate share of net pension liability	365,998	295,980

Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources as of June 30, 2016 and 2015:

	<b>OPERS</b>	
	<u>2016</u>	<u>2015</u>
<b>Deferred outflows of resources</b>		
Net difference between projected and actual earnings on pension plan investments	\$ 109,226	\$ 15,793
Employer contributions subsequent to the measurement date	14,873	24,156
	<u>\$ 124,099</u>	<u>\$ 39,949</u>

	<b>OPERS</b>	
	<u>2016</u>	<u>2015</u>
<b>Deferred inflows of resources</b>		
Differences between expected and actual experience	\$ 7,460	\$ 5,200
	<u>\$ 7,460</u>	<u>\$ 5,200</u>

Net deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense during the years ending June 30, 2016 as follows:

	<b>OPERS</b>
2017	\$ 38,617
2018	25,742
2019	27,934
2020	24,346
	<u>\$ 116,639</u>

**Transportation Research Center Inc.**  
**Notes to Financial Statements**  
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**Summary of Employer Pension Expense**

Total pension expense recognized for the years ended June 30, 2016 and 2015 including employer contributions and accruals associated with recognition of net pension liability and related deferrals is presented below:

	<b>OPERS</b>	
	<b>2016</b>	<b>2015</b>
Employer contributions	\$ 31,652	\$ 43,840
GASB 68 accruals	<u>(11,871)</u>	<u>(1,911)</u>
Total pension expense	<u>\$ 19,781</u>	<u>\$ 41,929</u>

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

**Transportation Research Center Inc.**  
**Notes to Financial Statements**  
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The following table provides additional details on the pension benefit formulas, contribution requirements and significant assumptions used in the measurement of total pension liabilities for the retirement system.

	<b>OPERS</b>
<b>Statutory Authority</b>	Ohio Revised Code Chapter 145
<b>Benefit Formula</b>	<p>Benefits are calculated on the basis of age, final average salary (FAS), and service credit. State and Local members in transition Groups A and B are eligible for retirement benefits at age 60 with 60 contributing months of service credit or at age 55 with 25 or more years of service credit. Group C for State and Local is eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service. For Groups A and B, the annual benefit is based on 2.2% of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. For Group C, the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of 35. FAS represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.</p> <p>The base amount of a member's pension benefit is locked in upon receipt of the initial benefit payment for calculation of annual cost-of-living adjustment.</p>
<b>Cost-of-Living Adjustments</b>	Once a benefit recipient retiring under the Traditional Pension Plan has received benefits for 12 months, an annual 3% cost-of-living adjustment is provided on the member's base benefit.
<b>Contribution Rates</b>	Employee and member contribution rates are established by the OPERS Board and limited by Chapter 145 of the Ohio Revised Code. For 2014, employer rates for the State and Local Divisions were 14% of covered payroll (and 18.1% for the Law Enforcement and Public Safety Divisions). Member rates for the State and Local Divisions were 10% of covered payroll (13% for Law Enforcement and 12% for Public Safety).
<b>Measurement Date</b>	December 31, 2015
<b>Actuarial Assumptions</b>	<p><b>Valuation Date:</b> December 31, 2015  <b>Actuarial Cost Method:</b> Individual entry age  <b>Investment Rate of Return:</b> 8.00%  <b>Inflation:</b> 3.75%  <b>Projected Salary Increases:</b> 4.25% - 10.05%  <b>Cost-of-Living Adjustments:</b> 3.00% Simple</p>
<b>Mortality Rates</b>	RP-2000 mortality table projected 20 years using Projection Scale AA. For males, 105% of the combined healthy male mortality rates were used. For females, 100% of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males, 120% of the disabled female mortality rates were used set forward two years. For females, 100% of the disabled female mortality rates were used.

**Transportation Research Center Inc.**  
**Notes to Financial Statements**  
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	<b>OPERS</b>																										
<b>Date of Last Experience Study</b>	December 31, 2010																										
<b>Investment Return Assumptions</b>	<p>The long term expected rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation. The following table displays the Board approved asset allocation policy for 2014 and the long-term expected real rates of return:</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><b>Asset Class</b></th> <th style="text-align: right;"><b>Target Allocation</b></th> <th style="text-align: right;"><b>Long Term Expected Return *</b></th> </tr> </thead> <tbody> <tr> <td>Fixed income</td> <td style="text-align: right;">23.0 %</td> <td style="text-align: right;">2.31 %</td> </tr> <tr> <td>Domestic equity</td> <td style="text-align: right;">20.7</td> <td style="text-align: right;">5.84 %</td> </tr> <tr> <td>Real estate</td> <td style="text-align: right;">10.0</td> <td style="text-align: right;">4.25 %</td> </tr> <tr> <td>Private equity</td> <td style="text-align: right;">10.0</td> <td style="text-align: right;">9.25 %</td> </tr> <tr> <td>International equity</td> <td style="text-align: right;">18.3</td> <td style="text-align: right;">7.40 %</td> </tr> <tr> <td>Other investments</td> <td style="text-align: right;">18.0</td> <td style="text-align: right;">4.59 %</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">100.0 %</td> <td></td> </tr> </tbody> </table> <p>* Returns presented as arithmetic means</p>			<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long Term Expected Return *</b>	Fixed income	23.0 %	2.31 %	Domestic equity	20.7	5.84 %	Real estate	10.0	4.25 %	Private equity	10.0	9.25 %	International equity	18.3	7.40 %	Other investments	18.0	4.59 %		100.0 %	
<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long Term Expected Return *</b>																									
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International equity	18.3	7.40 %																									
Other investments	18.0	4.59 %																									
	100.0 %																										
<b>Discount Rate</b>	<p>The discount rate used to measure the total pension liability was 8.0% for both the Traditional Pension Plan and the Combined Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.</p>																										
<b>Sensitivity of Net Pension Liability to Changes in Discount Rate</b>	<b>1 % Decrease (7.00%)</b>	<b>Current Rate (8.00%)</b>	<b>1% Increase (9.00%)</b>																								
	\$ 584,788	\$ 365,998	\$ 181,516																								

**Defined Contribution Plans**

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

# Transportation Research Center Inc.

## Notes to Financial Statements

### June 30, 2016 and 2015

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#### **Combined Plans**

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

#### **Post-Retirement Health Care Benefits**

OPERS currently provide post-employment health care benefits to retirees with ten or more years of qualifying service credit. These benefits are advance-funded on an actuarially determined basis and are financed through employer contributions and investment earnings. OPERS determines the amount, if any, of the associated health care costs that will be absorbed by OPERS. Under Ohio Revised Code (ORC), funding for medical costs paid from the funds of OPERS is included in the employer contribution rate. For calendar year 2013, OPERS allocated 1.0% of the employer contribution rate to fund the health care program for retirees, and this rate was increased to 2.0% for calendar year 2014 as recommended by the OPERS actuary.

#### **Funding Policy**

ORC provides OPERS statutory authority to set employee and employer contributions. The required contribution rates (as a percentage of covered payroll) for plan members and TRC are 10% and 14%, respectively.

TRC's contributions, which represent 100% of required employer contributions, for the years ended June 30, 2016 and 2015 were \$31,652 and \$43,840, respectively.

## **10. Leases**

As an agent for HAM, TRC leases various buildings to TRC's customers. Lease terms range from one to four years with various renewal option features. The leases are accounted for as operating leases. At June 30, 2016, future minimum lease receipts are due as follows:

2017	\$	1,038,238
2018		925,373
2019		256,080
	\$	<u>2,219,691</u>

**Transportation Research Center Inc.**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

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TRC leases office space from HAM under agreements with terms expiring through July 31, 2024. These operating leases contain renewal options with an indefinite term. The lease amount is subject to annual adjustment based on the consumer price index. As of June 30, 2016, future minimum rental payments under operating leases with initial terms in excess of one year are summarized as follows:

2017	\$	1,031,386
2018		1,031,386
2019		1,031,386
2020		1,031,386
2021		1,031,386
2022-2024		3,180,107
	\$	<u>8,337,037</u>

Rental expense charged to operations was \$1,031,386 and \$950,695 during 2016 and 2015, respectively.

**11. Risk Management**

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

**12. Employees' Retirement Savings Plan And Trust**

TRC maintains the Employees' Retirement Savings Plan and Trust (the "Plan"). The Plan is intended to comply with Section 401(a) of the Internal Revenue Code. All employees are eligible to participate in the Plan. Employer contributions to the Plan are determined solely at the discretion of TRC's board of directors. For the years ended June 30, 2016 and 2015, TRC expended \$459,319 and \$409,782, respectively, for contributions to the Plan, which are included in direct and general and administrative operating expenses in the Statements of Revenues, Expenses and Other Charges in Net Position.



**Transportation Research Center Inc.**  
**Required Supplementary Information on GASB 68 Pension Liabilities (Unaudited)**  
**For Fiscal Years Ended June 30, 2016 and 2015**

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**Schedule of TRC's Proportionate Share of OPERS Net Pension Liability:**

	<b>2016</b>	<b>2015</b>
TRC proportion of the net pension liability	0.002 %	0.002 %
TRC proportionate share of the net pension liability	\$ 365,998	\$ 295,980
TRC covered payroll	304,372	326,793
TRC's proportionate share of the net pension liability as a percentage of its covered payroll	120 %	90.6 %
Plan fiduciary net position as a percentage of the total pension liability	81.2 %	86.5 %

**Schedule of TRC's Contributions to OPERS:**

	<b>2016</b>	<b>2015</b>
Contractually required contribution	\$ 31,652	\$ 43,840
Contribution in relation to the contractually required contribution	<u>31,652</u>	<u>43,840</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
TRC's covered payroll	\$ 304,372	\$ 326,793
Contribution as a percentage of covered payroll	10.4 %	13.9 %



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Transportation Research Center Inc. ("TRC"), a component unit of The Ohio State University, appearing on pages 10 to 27, which comprise the statement of net position as of June 30, 2016, and the related statements of revenue, expenses, and other changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 7, 2016.

***Internal Control over Financial Reporting***

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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



Segregation of Duties of Manual Journal Entries

Observation: Based on audit procedures performed over manual journal entries made during the period, we identified a lack of segregation of duties with respect to individuals who are responsible for reviewing and approving manual journal entries who also have the ability to create and post manual journal entries.

Recommendation: We recommend for the Company to remove the “create and post” access rights for any individual within the organization that is responsible for reviewing and approving journal entries and/or key account reconciliations.

Management Response: We agree with the recommendation. We are in the process of implementing a new ERP system which will allow “create and post” access rights to be removed from individuals using the general ledger.

**Compliance and Other Matters**

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

**TRC’s Response to Findings**

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

**Purpose of this Report**

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

*PricewaterhouseCoopers LLP*

October 7, 2016

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# **Transportation Research Center Inc. Employees' Retirement Savings Plan and Trust**

**Financial Statements**

**December 31, 2015 and 2014, and**

**Supplemental Schedule at December 31, 2015**

**Transportation Research Center Inc.  
Employees' Retirement Savings Plan and Trust  
Index  
December 31, 2015 and 2014**

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Note: All other schedules required by Section 2520.103-10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act ("ERISA") of 1974 have been omitted because they are not applicable.



## Independent Auditor's Report

To the Administrator of the  
Transportation Research Center Inc. Employees'  
Retirement Savings Plan and Trust

### **Report on the Financial Statements**

We were engaged to audit the accompanying financial statements of the Transportation Research Center Inc. Employees' Retirement Savings Plan and Trust (the "Plan"), which comprise the statements of net assets available for benefits as of December 31, 2015 and 2014 and the related statements of changes in net assets available for benefits for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### ***Basis for Disclaimer of Opinion***

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note 4, which was certified by Reliance Trust Company, the custodian of the Plan, except for comparing such information with the related information included in the financial statements. We have been informed by the plan administrator that the custodian holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the custodian as of December 31, 2015 and 2014 and for the years then ended, that the information provided to the plan administrator by the custodian is complete and accurate.



***Disclaimer of Opinion***

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.

***Other Matter***

The supplemental Schedule of Assets (Held at End of Year) at December 31, 2015 is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 and is presented for the purpose of additional analysis and is not a required part of the financial statements. Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we do not express an opinion on this supplemental schedule.

**Report on Form and Content in Compliance with DOL Rules and Regulations**

The form and content of the information included in the financial statements and supplemental schedule, other than that derived from the information certified by the custodian, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

*PricewaterhouseCoopers LLP*

September 29, 2016



**Transportation Research Center Inc.  
Employees' Retirement Savings Plan and Trust  
Statements of Net Assets Available for Benefits  
December 31, 2015 and 2014**

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	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
Investments		
Investments, at fair value	\$ 14,989,505	\$ 14,824,836
Fully benefit-responsive investment contracts, at contract value	<u>2,408,811</u>	<u>2,193,959</u>
Total investments	<u>17,398,316</u>	<u>17,018,795</u>
Receivables		
Employer contributions	16,133	19,586
Employee contributions	23,543	28,256
Notes receivable from participants	<u>372,330</u>	<u>521,887</u>
Total receivables	<u>412,006</u>	<u>569,729</u>
Cash	<u>4,026</u>	<u>3,943</u>
Total assets	<u>17,814,348</u>	<u>17,592,467</u>
<b>Liabilities</b>		
Due to broker for securities purchased	<u>4,026</u>	<u>3,943</u>
Total liabilities	<u>4,026</u>	<u>3,943</u>
Net assets available for benefits	<u>\$ 17,810,322</u>	<u>\$ 17,588,524</u>

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

**Transportation Research Center Inc.  
Employees' Retirement Savings Plan and Trust  
Statements of Changes in Net Assets Available for Benefits  
Years Ended December 31, 2015 and 2014**

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	2015	2014
<b>Additions</b>		
Investment income		
Interest and dividends	\$ 754,434	\$ 714,265
Net (depreciation) appreciation in fair value of investments	<u>(684,925)</u>	<u>350,421</u>
Total investment income	<u>69,509</u>	<u>1,064,686</u>
Contributions		
Employee contributions	758,412	662,902
Employer contributions	438,517	355,500
Rollovers	<u>-</u>	<u>104,826</u>
Total contributions	<u>1,196,929</u>	<u>1,123,228</u>
Interest on notes receivable from participants	<u>18,503</u>	<u>21,550</u>
Total additions	<u>1,284,941</u>	<u>2,209,464</u>
<b>Deductions</b>		
Benefit payments	1,008,644	1,286,168
Administrative expenses	<u>54,499</u>	<u>54,287</u>
Total deductions	<u>1,063,143</u>	<u>1,340,455</u>
Net increase in net assets available for benefits	221,798	869,009
Net assets available for benefits, beginning of year	<u>17,588,524</u>	<u>16,719,515</u>
Net assets available for benefits, end of year	<u>\$ 17,810,322</u>	<u>\$ 17,588,524</u>

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

# Transportation Research Center Inc. Employees' Retirement Savings Plan and Trust

## Notes to Financial Statements

### December 31, 2015 and 2014

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#### 1. Plan Description

The following description of the Transportation Research Center Inc. Employees' Retirement Savings Plan and Trust (the "Plan") provides only general information. Participants should refer to the Plan Document for a more complete description of the Plan's provisions.

##### **General**

The Plan was adopted by the Transportation Research Center Inc. (the "Company") effective July 1, 1992 and was amended and restated on January 1, 2009. The purpose of the Plan is to provide an opportunity for employees to increase their savings and provide additional income upon retirement. The Plan is a defined contribution plan with a deferral feature. Employees are eligible to participate in the Plan and make contributions after completing one year of eligible service.

##### **Custodian and Recordkeeper**

The Company has entered into an agreement with Reliance Trust Company whereby it has the authority as custodian to invest and control all contributions made to it under the Plan. The Company has entered into an agreement with The Standard Retirement Services, Inc. whereby it provides the Company with an array of core services, most notably recordkeeping, transaction processing, and compliance testing.

##### **Administration**

The Plan is administered by certain members of the Company's management. Administrative expenses are paid by the Plan to the extent they are not paid by the Company. Loan processing fees are paid by the Plan participants and are directly deducted from the participant's account balance.

##### **Plan Participation**

Participants employed in a job classification covered by the Plan become eligible to make contributions, receive employer contributions, and receive Safe Harbor Match contributions upon completion of one year (1,000 hours) of service.

##### **Contributions**

Participants may contribute up to 75% of their compensation, as defined by the Plan, on a pretax and/or after-tax basis, subject to Internal Revenue Code ("IRC") limitations (\$18,000 and \$17,500 for 2015 and 2014, respectively, except that participants age 50 or over may be eligible to make an additional catch-up contribution of up to \$6,000 and \$5,500 per year, respectively). After-tax contributions were permitted by the Plan starting in 2014. Participants may also contribute funds from another qualified plan ("rollover contributions"), subject to certain requirements. The Company's matching contribution is equivalent to 100% of the first 3% of the participant's contribution and 50% of the next 2% of the participant's contribution. Employer profit sharing contributions are determined based on the discretion of the Board of Directors of the Company. The Company did not make any discretionary profit sharing contributions for the years ended December 31, 2015 and 2014.

**Transportation Research Center Inc.  
Employees' Retirement Savings Plan and Trust  
Notes to Financial Statements  
December 31, 2015 and 2014**

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**Participant Accounts**

Each participant's account is credited with the participant's contribution, the Company's matching and discretionary contributions, and the participant's allocation of plan earnings (loss) and expenses. The allocation of contributions to one or more of the investment accounts is designated by each participant. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

**Vesting**

Participants are immediately vested in their voluntary contributions and employer matching contributions. Participants become vested in employer profit sharing contributions after completing three years of 1,000 or more hours of service.

**Investments**

Upon enrollment into the Plan, a participant may direct employee and employer contributions in 1% increments into various investment options. The Plan currently offers 17 investment options to participants. Participants may reallocate their investments at any time during the year.

**Notes Receivable from Participants**

A participant may borrow a minimum of \$1,000 or a maximum equal to the lesser of \$50,000 or 50% of the participant's vested account balance, subject to Plan limitations. Loans are collateralized by the participant's nonforfeitable interest in the Plan and are supported by a promissory note with interest rates of 4.25% at December 31, 2015 and 2014. Loans must be repaid over a period not to exceed five years, except if used to purchase a primary residence. Principal and interest are paid through payroll deductions.

**Distribution of Benefits**

The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account. Benefits may be distributed to participants upon termination of employment by reason of retirement, disability, death or other separation from service. Participants receive a lump-sum amount equal to the value of the participant's vested interest in their account. A participant may also request a withdrawal upon attainment of age 59 1/2 or upon demonstration by the participant to the plan administrator that the participant is suffering from a hardship, as defined by the IRC.

**Plan Termination**

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and terminate the Plan subject to the provisions of ERISA. In the event of plan termination, participants will become fully vested in their account balances.

**Forfeitures**

When certain terminations of participation in the Plan occur, the nonvested portion of a participant's account represents a forfeiture, as defined by the Plan. If a forfeiting participant is re-employed and fulfills certain requirements, as set forth in the Plan, the participant's account will be restored. Remaining forfeitures are allocated among participants' accounts. Forfeitures of \$2 and \$1,427 were allocated among participant's accounts for the years ended December 31, 2015 and 2014, respectively. Unallocated forfeitures remaining at December 31, 2015 and 2014 were \$0 and \$0, respectively.

**Transportation Research Center Inc.  
Employees' Retirement Savings Plan and Trust  
Notes to Financial Statements  
December 31, 2015 and 2014**

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**2. Summary of Significant Accounting Policies**

**Basis of Accounting**

The financial statements are prepared on the accrual basis of accounting.

**Investment Valuation and Income Recognition**

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 for discussion of fair value measurements.

Guaranteed investment contracts with insurance companies that are fully benefit responsive are reported at contract value. Contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the plan. The Plan has evaluated the guaranteed investment contract and determined that it is a fully benefit-responsive contract. Accordingly, the Statements of Net Assets Available for Benefits present the contract value of the investment contracts. The Statements of Changes in Net Assets Available for Benefits is also prepared on a contract value basis. See Note 5 for discussion of the guaranteed investment contract.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation (depreciation) includes the Plan's gains and losses on investments bought and sold as well as held during the year.

**Notes Receivable from Participants**

Notes receivable from participants are stated at the unpaid principal balance plus any accrued but unpaid interest. Delinquent participant loans are reclassified as distributions if the participant fails to make payment within ninety days following the date on which such payment is due. No allowance for credit losses has been recorded as of December 31, 2015 and 2014.

**Contributions**

Employee contributions are made through regular payroll deductions and are paid into the Plan each payroll period along with the corresponding Company matching contribution.

**Payments of Benefits**

Benefit payments are recorded when paid.

**Use of Estimates**

The preparation of financial statements in conformity 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 and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

# Transportation Research Center Inc.

## Employees' Retirement Savings Plan and Trust

### Notes to Financial Statements

#### December 31, 2015 and 2014

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#### **Risks and Uncertainties**

The Plan provides investment options which allow participants to invest in a combination of various funds. Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the Statements of Net Assets Available for Benefits and the Statements of Changes in Net Assets Available for Benefits.

#### **Recently Adopted Accounting Pronouncements**

In May 2015, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2015-07, *Fair Value Measurement (Topic 820) Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The reporting entity should continue to disclose information on investments for which fair value is measured at net asset value (or its equivalent) as a practical expedient to help users understand the nature and risks of the investments and whether the investments, if sold, are probable of being sold at amounts different from net asset value. The Plan adopted this new guidance retrospectively, which did not have a material impact on the financial statements.

In July 2015, the Financial Accounting Standards Board issued ASU 2015-12, *Plan Accounting*, which simplifies reporting and disclosure requirements for employee benefit plan financial statements. ASU 2015-12 is comprised of three parts: (1) fully benefit-responsive investment contracts, (2) plan investment disclosures and (3) measurement date practical expedient. Part 1 of ASU 2015-12 designates contract value as the only required measure for fully benefit-responsive investment contracts. Part 2 of ASU 2015-12 simplifies and reduces duplicative investment-related disclosures. Part 3 of ASU 2015-12 provides a practical expedient to permit employee benefit plans to measure investments and investment-related accounts as of a month-end date that is closest to the employee benefit plan's fiscal year-end when the fiscal period does not coincide with a month-end. Part 3 is not applicable to the Plan. The Plan has adopted Parts 1 and 2 of the new guidance retrospectively. This adoption impacted the Statements of Net Assets Available for Benefits, Note 3 – Fair Value Measurements and eliminated the Investment footnote disclosures. There was no impact to the Statements of Changes in Net Assets Available for Benefits.

### **3. Fair Value Measurements**

Accounting guidance for fair value measurements establishes a framework for measuring fair value and expanded disclosures regarding fair value measurements. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under accounting guidance for fair value measurements are described as follows:

Level 1      Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.

Level 2      Inputs to the valuation methodology include:

**Transportation Research Center Inc.  
Employees' Retirement Savings Plan and Trust  
Notes to Financial Statements  
December 31, 2015 and 2014**

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- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value:

*Mutual Funds:* Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within fair value hierarchy, the Plan's assets at fair value as of December 31, 2015 and 2014:

	<b>Assets at Fair Value as of December 31, 2015</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Mutual funds	\$ 14,989,505	\$ -	\$ -	\$ 14,989,505
Total investments, at fair value	\$ 14,989,505	\$ -	\$ -	\$ 14,989,505
	<b>Assets at Fair Value as of December 31, 2014</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Mutual funds	\$ 14,824,836	\$ -	\$ -	\$ 14,824,836
Total investments, at fair value	\$ 14,824,836	\$ -	\$ -	\$ 14,824,836

**Transportation Research Center Inc.  
Employees' Retirement Savings Plan and Trust  
Notes to Financial Statements  
December 31, 2015 and 2014**

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**4. Information Certified by the Custodian**

The following financial information and data in the Plan's financial statements and supplemental schedule at December 31, 2015 and 2014 and for the years then ended was certified as complete and accurate by Reliance Trust Company, the custodian of the Plan, in accordance with Section 2520.103-5 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA:

	<b>2015</b>	<b>2014</b>
Statements of Net Assets Available for Benefits		
Investments, at fair value		
Mutual funds	\$ 14,989,505	\$ 14,824,836
Fully benefit-responsive investment contracts, at contract value	2,408,811	2,193,959
Statements of Changes in Net Assets Available for Benefits		
Interest and dividends	754,434	714,265
Net (depreciation) appreciation in fair value of investments	(684,925)	350,421

**5. Guaranteed Investment Contract with Insurance Company**

The Plan and Company entered into a fully benefit-responsive guaranteed investment contract with Standard Insurance Company ("The Standard") in 2012. The Standard maintains the contributions in a general account named The Standard Stable Asset Fund A. The account is credited with earnings on the underlying investments and charged for participant withdrawals and administrative expenses. The guaranteed investment contract issuer is contractually obligated to repay the principal and a specified interest rate that is guaranteed to the Plan, which is 1% as of December 31, 2015 and 2014.

Because the guaranteed investment contract is fully benefit-responsive, contract value is the relevant measurement attribute for that portion of the net assets available for benefits attributable to the guaranteed investment contract. Contract value, as reported to the Plan by The Standard, represents contributions made under the contract, plus earnings, less participant withdrawals and administrative expenses. Participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value. The total value of the synthetic investment contracts at December 31, 2015 and 2014 were \$2,408,811 and \$2,193,959, respectively.

There are no reserves against contract value for credit risk of the contract issuer or otherwise. The average yield and crediting interest rates were 2.19% and 2.19% for the year ended December 31, 2015, respectively. The average yield and crediting interest rates were 2.35% and 2.35% for the year ended December 2014, respectively. Crediting rates are reset quarterly by The Standard.

Certain events limit the ability of the Plan to transact at contract value with the issuer. Such events include termination of the contract, spin-offs, divestitures, layoffs, corporate relocation, partial or total plan termination, retirement incentive programs, and the liberalization of plan withdrawal or transfer rules. Upon occurrence of any of these events, a payout adjustment may apply. The plan administrator believes that any events that would limit the Plan's ability to transact at contract value with participants are not probable of occurring.



**Transportation Research Center Inc.  
Employees' Retirement Savings Plan and Trust  
Notes to Financial Statements  
December 31, 2015 and 2014**

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The guaranteed investment contract may be terminated for reasonable cause, which includes the contract owner's failure to abide by state and federal law, failure to render performance necessary to comply with the terms of the contract, failure to maintain assets of at least \$25,000, and plan disqualification. Upon termination, a payout value adjustment may apply.

**6. Tax Status**

The Plan obtained its latest determination letter on October 10, 2011, in which the Internal Revenue Service (the "IRS") stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. The Plan has been amended since receiving the determination letter. However, the Plan Administrator believes that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code and the Plan and related trust continue to be tax-exempt. Therefore, no provisions for income taxes have been included in the Plan's financial statements.

Accounting principles generally accepted in the United States of America require Plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. The Plan administrator has analyzed the tax positions by the Plan and has concluded that as of December 31, 2015, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Plan administrator believes it is no longer subject to income tax examinations for years prior to 2012.

**7. Related Party Transactions**

The Plan has notes receivable from participants, as described in Note 1, that are considered party-in-interest transactions. The Plan also maintains an investment in a guaranteed investment contract with The Standard, who is also the recordkeeper to the plan. Activity relating to this investment, including purchases and sales, qualify as party-in-interest transactions. In addition, the Company provides certain accounting, recordkeeping and administrative services to the Plan for which it is not compensated.

**8. Reconciliation of Financial Statements to Form 5500**

Net assets available for benefits per the financial statements at December 31, 2015 and 2014 include cash of \$4,026 and \$3,943, respectively, and due to broker for securities purchased liability of \$4,026 and \$3,943, respectively. These amounts are not included on the Form 5500 at December 31, 2015 and 2014. No difference in net assets available for benefits at December 31, exists between the financial statements and the Form 5500.

**9. Subsequent Events**

The Plan has evaluated subsequent events through September 29, 2016 as this was the date financial statements were made available to be issued. No matters were identified that would materially impact the financial statements or require disclosure.

**Transportation Research Center Inc.  
Employees' Retirement Savings Plan and Trust  
Schedule H, Line 4i - Schedule of Assets (Held at End of Year)  
December 31, 2015**

( a )	( b )	( c )	( d )	( e )
	Identity of Issue, Borrower, Lessor, or Similar Party	Description of Investment	Cost **	Current Value ***
*	<b>Guaranteed Investment Contract</b>			
	The Standard Stable Asset Fund A	Guaranteed investment contract		\$ 2,408,811
	<b>Mutual Funds</b>			
	American Funds EuroPacific GR R4	Mutual fund		1,289,617
	Artisan Mid Cap Investor	Mutual fund		1,299,751
	BlackRock Inflation Protection Bond Inv A	Mutual fund		77,411
	Cohen & Steers Instl Realty Shares	Mutual fund		375,678
	Dodge & Cox Stock	Mutual fund		2,282,398
	Goldman Sachs Small Cap Value	Mutual fund		721,590
	Loomis Sayles Bond Instl	Mutual fund		239,621
	Metropolitan West Total Return Bond M	Mutual fund		1,742,056
	T. Rowe Price Blue Chip Growth Adv	Mutual fund		2,362,913
	T. Rowe Price New Horizons	Mutual fund		332,774
	Schwab Hedged Equity	Mutual fund		248,517
	Templeton Global Bond A	Mutual fund		132,023
	Vanguard Mid-Cap Value Index Admiral	Mutual fund		596,967
	Vanguard 500 Index Admiral	Mutual fund		2,185,123
	Vanguard Balanced Index Adm	Mutual fund		117,309
	Vanguard Interim Term Treasury Admiral	Mutual fund		985,757
	<b>Other</b>			
*	Participant loans	Interest rates at 4.25% with maturities through 2023		372,330
				<u>\$ 17,770,646</u>

Note: This schedule reports those assets required to be reported under ERISA Section 2502.102-11 and Form 5500 Schedule H, Line 4i.

\* Reliance Trust Company and The Standard are parties-in-interest

\*\* Information omitted because all investments are participant directed.

\*\*\* Information certified as to completeness and accuracy by Reliance Trust Company.



# Dave Yost • Auditor of State

THE OHIO STATE UNIVERSITY TRANSPORTATION RESEARCH CENTER, INC.

FRANKLIN COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
DECEMBER 13, 2016