TRANSPORTATION RESEARCH CENTER INC.

(A component unit of The Ohio State University)

Basic Financial Statements

As of and For the Years Ended June 30, 2023 and 2022

(With Independent Auditors' Report Thereon)

OHIO AUDITOR OF STATE
KEITH FABER

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Columbus, Ohio 43215
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Board of Directors
Transportation Research Center, Inc. (a component unit of The Ohio State University)
2040 Blankenship Hall 901 Woody Hayes Drive
Columbus, Ohio 43210

We have reviewed the *Independent Auditors' Report* of the Transportation Research Center, Inc. (a component unit of The Ohio State University), Franklin County, prepared by KPMG LLP, for the audit period July 1, 2022 through June 30, 2023. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Keith Faber
Auditor of State
Columbus, Ohio

December 05, 2023

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TRANSPORTATION RESEARCH CENTER INC.

June 30, 2023 and 2022

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

Independent Auditors' Report

The Board of Directors of
Transportation Research Center Inc.:

Report on the Audit of the Financial Statements

We have audited the financial statements of Transportation Research Center Inc. ("TRC Inc."), a component unit of The Ohio State University, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise TRC Inc.'s basic financial statements for the years then ended as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of TRC Inc. as of June 30, 2023 and 2022, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of TRC Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the TRC Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27,2023 on our consideration of TRC Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of TRC Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TRC Inc.'s internal control over financial reporting and compliance.

KPMG LLP

Columbus, Ohio
October 27, 2023

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

Introducing Transportation Research Center Inc.

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

The Transportation Research Center facility was developed by the State of Ohio and began operations in 1974. In 1979, the State of Ohio entered into an agreement with The Ohio State University's College of Engineering to oversee the operations of the Transportation Research Center. In 1988, the State of Ohio sold the facility to Honda of America Manufacturing, Inc. (HAM) as an economic inducement to secure a second automobile manufacturing plant. After the sale, The Ohio State University created TRC Inc. TRC Inc. and HAM entered into a management agreement that provided the foundation for TRC Inc. to manage the Transportation Research Center as a multi-user facility. The management agreement was renewed annually and was terminated on December 31, 2017 in conjunction with the execution of a new Master Lease Agreement (MLA) between TRC Inc. and HAM.

On December 21, 2017, TRC Inc. entered into a 15-year MLA with HAM to lease the Transportation Research Center including testing facilities and equipment. The MLA went into effect January 1, 2018. Prior to January 2018, facility use revenue received by TRC Inc. was paid to HAM, TRC Inc. performed maintenance and repair activities under HAM's direction and HAM compensated TRC Inc. for the maintenance and repair activities. This new agreement significantly changed the operational structure of the relationship. Under the MLA, TRC Inc. has regular reporting requirements to HAM, is responsible for all facility and equipment maintenance and repair, and retains the revenues associated with customer facility use. The agreement was executed with the understanding that both organizations would continue to work collaboratively to address any ambiguities relating to interpretation of the terms of the agreement, including the new reporting requirements. As of the end of TRC Inc.'s fiscal year, these discussions were continuing and TRC Inc is operating under the current signed agreement.

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

TRC Inc. is governed by a eight-member board chaired by the Dean of the College of Engineering at The Ohio State University. The Ex-Officio Directors on the TRC Inc. Board of Directors represent The Ohio State University and its interest within TRC Inc. The Ex-Officio Directors on the TRC Inc. Board of Directors are the persons who hold the following positions at The Ohio State University: the Senior Vice President for Research of the University; the Dean of the College of Engineering of the University; the Senior Vice President for Business and Finance and Chief Financial Officer of the University; and, the President & Chief Executive Officer of Transportation Research Center Inc.

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

Key Financial Highlights

Significant financial events during fiscal year 2023 were:

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

Financial Statement Overview

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

Presented in the financial statements are the Statements of Net Position at June 30, 2023 and June 30, 2022; the Statements of Revenues, Expenses and Changes in Net Position for fiscal years ended June 30, 2023 and 2022; and the Statements of Cash Flows for fiscal years ended June 30, 2023 and 2022.

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.

(Continued)

Summary Statements of Net Position

The major components of the Statements of Net Position at June 30, 2023 and June 30, 2022 are reflected below:

		2023	2022
Assets:			
Current assets	$	23,701,507	19,944,151
Net property and equipment		56,288,596	55,167,551
Other noncurrent assets		5,875,210	5,935,546
Total assets and deferred outflows	$	85,865,313	81,047,248
Liabilities:			
Current liabilities	$	11,565,029	9,805,706
Noncurrent liabilities		29,106,543	28,405,062
Total liabilities		40,671,572	38,210,768
Deferred inflows of resources – leases		8,431,020	7,983,486
Net investment in capital assets		26,263,116	22,658,667
Unrestricted net position		10,499,605	12,194,327
Total liabilities, deferred inflow and net position	$	85,865,313	81,047,248

Current Assets

Total current assets increased $3,757,356, or 18.8%, to $23,701,507 at June 30, 2023. Unrestricted cash increased by $2,034,571, or 60.9%, to $5,376,236 at June 30, 2023. Restricted cash of $1,857,863 was received for a construction project related to a future lease that will begin in fiscal year 2024.

Trade accounts receivable, net of allowance for doubtful accounts, decreased $405,220, or 4.3%, to $9,072,611 at June 30, 2023. On average, TRC Inc. receivables were outstanding for 51 days in fiscal year 2023, compared to 64 days in fiscal year 2022.

Investments increased by 2.2%, or $102,785, to $4,712,032 at June 30, 2023. The increase resulted from an increase in the fair market value of the underlying investments of TRC Inc.'s equity interest in the investment pool maintained and managed by The Ohio State University's Office of Investments.

TRC Inc. records the unrealized gain or loss on its equity interest in the university's investment pool each year. The unrealized gain or loss in TRC Inc.'s equity interest in the investment pool for fiscal years 2023 and 2022 are as follows:

		2023	2022
Market value of endowment fund	$	4,712,032	4,609,247
Book value of endowment fund		3,841,787	3,841,787
Net unrealized gain	$	870,245	767,460
Unrealized gain (loss) – current period	$	102,785	(299,220)

Current Liabilities

Total current liabilities increased $1,759,323 to $11,565,029 at June 30, 2023. The increase in current liabilities primarily reflects funds related to customer funded build to suit project that will be reclassified at the time of lease start date.

Accounts payable increased $1,037,035 to $3,029,734 at June 30, 2023. The increase was primarily driven by funds received by a customer for an expansion project that has not yet begun and would be reimbursable to the customer immediately if the project was cancelled.

The current portion of long-term debt decreased $2,607,408 to $746,543 at June 30, 2023. The decrease in the current portion is the result of principal payments relative to repayment of a short-term loan. See footnote 9 for further details.

Noncurrent Liabilities

Long term notes payable decreased $636,345 to $18,043,427 at June 30, 2023. The decrease relates to loans which were used towards construction of the James A. Rhodes Conference Center as well as construction and subsequent expansion of the SMARTCenter. The total amount of long-term debt provided was offset by payments made on principal as well as reclassifications from long term to short term debt.

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

The major components of the Statements of Revenue, Expenses and Changes in Net Position for fiscal years ended June 30, 2023 and 2022 are reflected below:

		2023	2022
Operating revenues	$	64,853,839	53,661,157
Operating expenses		63,180,670	56,512,584
Operating income (loss)		1,673,169	(2,851,427)
Net nonoperating expense		(726,424)	(851,917)
Net change in value of equity interest in investment pool		102,785	(299,220)
Excess (expenses over revenue) revenue over expenses		1,049,530	(4,002,564)
Capital grant		860,197	1,181,500
Change in net position		1,909,727	(2,821,064)
Beginning net position		34,852,994	37,674,058
Ending net position	$	36,762,721	34,852,994

Operating Revenues

The sources of revenue that TRC Inc. earned during fiscal year 2023 was research, testing, and leases.

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

Operating revenue increased by 20.9%, or $11,192,682, in fiscal year 2023 to $64,853,839 driven higher by increase in testing volume relative to ongoing business development efforts.

Operating Expenses

Major components of operating expense in fiscal years 2023 and 2022 and were:

		2023	2022
Direct expense	$	26,509,081	23,102,080
General and administrative expense		29,546,560	26,383,283
Depreciation expense		7,125,029	7,027,221
Total operating expense	$	63,180,670	56,512,584

Direct expense increased by 14.7%, or $3,407,001 in fiscal year 2023, to $26,509,081. The increase is a result of increased direct labor expense and material purchased for and to be used by key customers in research and testing.

General and administrative expenses increased by 12.0%, or $3,163,277 in fiscal year 2023. The largest subcategory increase within general and adminstrative expenses was finge benefits which increased 17.07%, or $1,823,655 in fiscal year 2023. Indirect labor increased 11.0%, or $1,304,567 in fiscal year 2023. This increase is related to the increased revenue of 20.9% as discussed previously.

Nonoperating Revenues and Expenses

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

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

Net Change in Value of Equity Interest in Investment Pool

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

Other Changes in Net Position

Capital grant revenue of $860,197 was received in fiscal year 2023 and is related to the SMARTCenter construction and subsequent expansion.

Summary Statements of Cash Flows

TRC Inc. cash increased $3,892,434 in 2023. Net cash from operating activities increased primarily due to operating activities at TRC CA. Net cash flows from capital and related financing activities decreased primarily related to transactions related to leasing activities and fixed asset purchases fiscal year 2023. Total cash flow from investing activities increased $365,501 and is related to interest that has not yet been received from the investment pool with OSU.

Summary cash flows for fiscal years 2023 and 2022 were follows:

		2023	2022
Cash flows from operating activities	$	4,880,101	423,642
Cash flows from capital and related financing activities		(1,353,168)	(175,231)
Cash flows from investing activities		365,501	—
Net (decrease) increase in cash	$	3,892,434	248,411

(Continued)

Future Outlook

TRC continues to expand both broadly and deeply to satisfy the needs of both new and existing clients. Whether it be through expanding infrastructure to support increased demands of our electrical capability or to create bespoke workshops and facility tracks, TRC has continued to evolve right alongside our client base in mutually beneficial ways. TRC is also looking to expand into new service lines in the coming year to be more essential to an entire product development cycle.

From the industry standpoint, more products will continue to come to the market that have long been developed. Legacy auto manufacturers are shifting to product lines that are fully electric technologies and eschewing internal combustion engines which will cause a shift in the industry that TRC will benefit from. In terms of nascent technologies, there is continued progress in the development of Electric Semi Trucks as well as the knowledge that robo-taxis and self-driving trucks remain on the horizon, albeit closer than ever before. TRC will continue to remain not only relevant but necessary to the success of the mobility industry as the service offerings, infrastructure, and capability scale to match the demands of our clients.

TRANSPORTATION RESEARCH CENTER INC.

Statements of Net Position

June 30, 2023 and 2022

Assets		**2023**	**2022**
Current assets:			
Cash	$	5,376,236	3,341,665
Restricted cash		1,857,863	—
Investments		4,712,032	4,609,247
Accounts receivable, net of allowance for doubtful accounts of $65,703 and $166,144		9,072,611	9,477,831
Interest receivable		—	178,005
Lease receivable		2,472,817	2,288,270
Supplies and prepaid expenses		209,948	49,133
Total current assets		23,701,507	19,944,151
Noncurrent assets:			
Lease receivable		5,875,210	5,935,546
Capital assets		87,285,983	79,143,791
Less accumulated depreciation and amortization		(30,997,387)	(23,976,240)
Capital assets, net		56,288,596	55,167,551
Total assets	$	85,865,313	81,047,248
Liabilities			
Current liabilities:			
Accounts payable	$	3,029,734	1,992,699
Lease liability		88,933	—
Accrued payroll and related expenses		1,597,145	2,046,968
Advance payments for goods and services		6,102,674	2,412,088
Note payable		746,543	3,353,951
Total current liabilities		11,565,029	9,805,706
Noncurrent liabilities:			
Note payable		18,043,427	18,679,772
Lease liability (including accrued interest of $964,056 and $640,611)		11,063,116	9,725,290
Total noncurrent liabilities		29,106,543	28,405,062
Total liabilities		40,671,572	38,210,768
Deferred inflow of resources – leases		8,431,020	7,983,486
Net Position			
Net investment in capital assets		26,263,116	22,658,667
Unrestricted net position		10,499,605	12,194,327
Total net position		36,762,721	34,852,994
Total liabilities, deferred inflow of resources, and net position	$	85,865,313	81,047,248

See accompanying notes to financial statements.

TRANSPORTATION RESEARCH CENTER INC.

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2023 and 2022

		2023	2022
Operating revenues:			
Research and testing	$	61,575,542	51,223,951
Lease		3,278,297	2,437,206
Total operating revenues		64,853,839	53,661,157
Operating expenses:			
Direct		26,509,081	23,102,080
General and administrative		29,546,560	26,383,283
Depreciation and amortization		7,125,029	7,027,221
Total operating expenses		63,180,670	56,512,584
Net operating income (loss)		1,673,169	(2,851,427)
Nonoperating revenues (expenses):			
Investment income (loss)		102,785	(299,220)
Other expense		(9,239)	(56,833)
Interest income		1,022,186	1,007,613
Interest expense		(1,739,371)	(1,802,697)
Nonoperating expenses, net		(623,639)	(1,151,137)
Net income (loss) before other changes in net position		1,049,530	(4,002,564)
Other changes in net position:			
Capital grant		860,197	1,181,500
Total other changes in net position		860,197	1,181,500
Change in net position		1,909,727	(2,821,064)
Net position:			
Beginning of year		34,852,994	37,674,058
End of year	$	36,762,721	34,852,994

See accompanying notes to financial statements.

TRANSPORTATION RESEARCH CENTER INC.

Statements of Cash Flows

Years ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Cash received from customers	$ 59,373,671	50,446,514
Cash paid to suppliers	(16,430,648)	(18,356,509)
Cash paid for taxes	—	(180,000)
Cash paid to employees	(25,057,298)	(20,293,835)
Cash paid for fringe benefits and payroll taxes	(13,005,624)	(11,192,528)
Net cash provided by operating activities	4,880,101	423,642
Cash flows from capital and related financing activities:		
Purchases of property and equipment	(7,256,173)	(5,421,000)
Proceeds from capital grants	860,197	1,276,000
Proceeds from customer for leasehold improvements	5,776,918	—
Cash paid on capital notes	(3,749,345)	(458,928)
Proceeds from capital notes	505,592	3,161,000
Cash received on leases	3,414,324	2,108,944
Cash received for interest	834,690	829,607
Cash paid for interest	(1,739,371)	(1,670,854)
Net cash used in capital and related financing activities	(1,353,168)	(175,231)
Cash flows from investing activities:		
Interest income	365,501	—
Net cash provided by investing activities	365,501	—
Net increase in cash and cash equivalents	3,892,434	248,411
Cash:		
Beginning of the year	3,341,665	3,093,254
End of the year	$ 7,234,099	3,341,665
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ 1,673,169	(2,851,427)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	7,125,029	7,027,221
Provision for bad debt expense	(100,441)	—
Amortization of deferred inflows	(3,278,297)	(2,437,206)
Changes in assets and liabilities:		
Trade accounts receivable	505,661	(1,930,913)
Supplies and prepaid expenses	(160,815)	182,548
Trade accounts payable	(205,914)	(376,363)
Accrued payroll and related expenses	(449,823)	(5,212)
Advance payments for goods and services	(228,468)	814,994
Net cash provided by operating activities	$ 4,880,101	423,642
Supplemental cash flow information:		
Net change in value of equity interest in investment pool	$ 102,785	(299,220)
Interest receivable	—	178,005
Noncash investing and financing activities:		
Purchase of property and equipment included in accounts payable	83,461	749,871

See accompanying notes to financial statements.

(1) Description of the Business

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

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

In February 2021, TRC Inc. established a single-member limited liability corporation, TRC CA LLC (“TRC CA”), to operate an automotive proving ground in Merced County, California, under an operating agreement with the Merced County Supervisors. TRC CA is considered a component unit of TRC Inc. The governing body of the component unit is substantively the same as the governing body of the primary government, there are financial benefit and burden relationships between the primary government and the component unit, and management of the primary government has operational responsibility for the component unit. Accordingly, TRC CA is included in TRC Inc. financial statements in a blended presentation. TRC CA is continuing to grow; however, TRC CA’s operations accounted for less than 10% of total assets, total operating revenues and total operating expenses of TRC Inc. as of and for the years ended June 30, 2023 and 2022.

(2) Summary of Significant Accounting Policies

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

(a) Basis of Accounting and Presentation

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

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

(b) Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period.

Significant estimates primarily related to valuation of certain investments and allowance for doubtful accounts. These estimates and assumptions are based on TRC Inc.'s historical results as well as management's future expectations. Actual results could differ from those estimates.

(c) Net Position

The Center's financial resources are classified for accounting and reporting purposes into the following net position categories:

- Net investment in capital assets: Property and equipment, net of accumulated depreciation, lease liabilities and outstanding accounts payable and debt attributable to the acquisition and construction or improvement of those assets.
- Restricted:
  - Nonexpendable:

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

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

  TRC Inc. did not have a restricted net position at either June 30, 2023 or 2022.
- Unrestricted: Amounts whose use by TRC Inc. is not subject to externally imposed stipulations. Unrestricted amounts may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. It is TRC Inc.'s policy to apply restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

(d) Revenue Recognition and Accounts Receivable

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

TRC Inc. derives a substantial portion of research and testing revenue from a limited number of commercial enterprises and governmental agencies. For the years ended June 30, 2023 and 2022, the revenue from the three highest volume commercial enterprises and two government agencies was $38,320,777 and $32,113,841, respectively. These five customers make up $4,390,649 and $4,301,157 of TRC Inc.'s accounts receivable at June 30, 2023 and 2022, respectively.

(Continued)

TRC Inc.'s accounts receivable include $1,116,790 and $805,825 of unbilled accounts receivable at June 30, 2023 and 2022, respectively. Unbilled accounts receivable represent revenue earned in excess of amounts billed.

(e) Cash and Cash Equivalents

TRC Inc. considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Cash is held in one bank at June 30, 2023 and 2022.

(f) Investments

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

(g) Capital assets

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

Type of asset	Estimated useful life
Moveable furniture, fixtures, vehicles and equipment	3 to 15 years
Buildings/leasehold improvements	15 to 30 years
Software	3 to 5 years

TRC Inc. removes the asset cost and related accumulated depreciation from the appropriate accounts and reflects any gain or loss in current operations upon sale or retirements. TRC applies a capitalization threshold of $10,000 for movable furniture, fixtures, vehicles and equipment. TRC has no capitalization threshold policy for buildings/leasehold improvements or software. Expenditures for maintenance, repairs or renewals, which neither materially add to the value of the property nor appreciably extend its useful life are charged to expense as incurred.

Leasehold improvements are depreciated over the shorter of the estimated useful life or the remaining period of the lease.

(h) Operating and Nonoperating Activities

TRC Inc. defines operating activities, for purposes of reporting on the Statement of Revenues, Expenses and Other Changes in Net Position, as those activities that generally result from exchange transactions, such as payments received for providing services and payments made for goods and services received. With the exception of interest expense on long-term indebtedness and tax penalties, if any, recorded as other expense, substantially all TRC Inc. expenses are considered operating expenses. Certain TRC Inc. revenue streams are recorded as nonoperating revenues including interest income, net change in value of equity interest in the university's long-term investment pool and gain/loss on sale of assets.

(i) Direct Expenses

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

(j) Related Party Transactions

Payments are made to OSU as reimbursement for various expenses incurred by OSU on TRC Inc.'s behalf. Such payments totaled approximately $2,904,571 and $1,815,529 for the years ended June 30, 2023 and 2022, respectively, and are recorded as General and Administrative Expenses on the Statement of Revenues, Expenses and Other Changes in Net Position.

(k) Newly Issued Accounting Pronouncements

In fiscal year 2023, TRC implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements.* GASB 96 extends the right-of-use accounting concepts introduced in GASB Statement No. 87 to subscription-based information technology arrangements, or SBITAs. Under GASB 96, governments are required to identify arrangements that qualify as SBITAs and recognize a right-to-use subscription asset, initially measured as the sum of the initial subscription liability amount, payments made to the vendor before commencement of the subscription term, and capitalizable implementation costs. The subscription asset is then amortized over the subscription term. The adoption of the new standard resulted in no changes in TRC reporting.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if the leave is attributable to services already rendered, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. The Statement is effective for fiscal years beginning after December 15, 2023 (FY2025).

TRC Inc. is currently assessing the impact that implementation of GASB Statement 101 will have on the financial statements.

(l) Immaterial Correction

Amounts previously reported in the 2022 financial statements have been revised for certain immaterial corrections related to lease accounting, including increasing lease receivable, property and equipment, lease liability, and deferred inflows of resources by $1,320,271, $2,635,420, $2,896,101, and $1,294,386, respectively.

(3) Income Taxes

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

(Continued)

(4) Cash and Investments

Cash and investments at June 30, 2023 and 2022 were as follows:

		2023	2022
Cash in bank	$	5,376,236	3,341,665
Restricted cash in bank		1,857,863	—
Investment in OSU's long term investment pool		4,712,032	4,609,247
	$	11,946,131	7,950,912

At June 30, 2023 and 2022, the bank statement balances of cash in banks were $8,163,256 and $4,009,180, respectively. Of the bank statement balances, $8,163,256 and $4,009,180, respectively, represented overnight sweep investments which are not covered by FDIC.

TRC Inc. received $1,857,863 in cash from a customer in FY2023 for a construction project related a future lease to expand an existing building. Construction had not started as of June 30, 2023, therefore this amount is classified as restricted cash and current liabilities.

TRC Inc.'s investments are maintained in the university's Investment Pool and, as such, all collateralization is held by the university. The Investment Pool consists of more than 5,000 named funds. Each named fund is assigned a number of shares, based on the value of the gifts, income-to-principal transfers, or transfers of operating funds to that named fund. The Investment Pool is invested in a diversified portfolio of equities and fixed income securities, as well as a number of alternative investment funds, such as real estate limited partnerships, hedge funds, private equity funds, venture capital funds and natural resources funds. The Investment Pool is intended to provide the long-term growth necessary to preserve the value of these funds, adjusted for inflation, while making distributions to support TRC Inc.'s mission.

TRC Inc. held d 649.2046 shares in the Investment Pool as of June 30, 2023 and 2022. The value of TRC Inc.'s equity interest in the Investment Pool was $4,712,032 and $4,609,247 at June 30, 2023 and 2022, respectively. There were no realized gains or losses during the years ended June 30, 2023 and 2022. Total net accumulated gain for the years ended June 30, 2023 and 2022 were $791,885 and $767,460 respectively. TRC Inc. may redeem its shares in the Investment Pool at its discretion.

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

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

(5) Capital Assets

Capital assets at June 30, 2023 consists of the following:

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

		Balance June 30, 2021	Additions	Disposals/ transfers	Balance June 30, 2022
Capital assets:					
Building/leasehold improvements	$	50,950,374	4,882,268	—	55,832,642
Vehicles and equipment		8,951,881	1,788,014	—	10,739,895
Construction-in-progress		2,502,866	5,670,383	(6,984,539)	1,188,710
Software		1,291,647	—	—	1,291,647
Other		209,374	3,020	—	212,394
Total capital assets		63,906,142	12,343,685	(6,984,539)	69,265,288
Less accumulated depreciation:					
Building/leasehold improvements	$	8,452,465	3,526,701	—	11,979,166
Vehicles and equipment		6,216,468	1,392,701	—	7,609,169
Software		494,977	150,525	—	645,502
Other		162,802	16,437	—	179,239
Total accumulated depreciation		15,326,712	5,086,364	—	20,413,076
Capital assets, net	$	48,579,430	7,257,321	(6,984,539)	48,852,212
			Lease assets (note 8)		6,315,339
			Total capital assets	$	55,167,551

(6) Deferred Compensation Plan

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

All amounts of compensation deferred under the Plan, all property and rights purchased with these amounts and all income attributable to those amounts, property or rights (until paid or made available to the employee or other beneficiary) are solely the property and rights of the Ohio Public. Employees Deferred Compensation Program (“OPEDC”). TRC Inc. has not recorded any deferred compensation assets or liabilities in the financial statements.

(7) Net Position

TRC Inc.’s Code of Regulations specify that TRC Inc. shall, within 120 days of the end of TRC Inc.’s fiscal year, transfer any accumulated surplus in excess of its January 27, 1988 fund balance, less $911,466, or $6,677,225, or such lesser amount authorized by the Board, to the endowment portfolio of The Ohio State University to form a fund, the income from which is to be used as determined by the Board of Trustees of The Ohio State University for the support and encouragement of research in automotive, vehicular and related forms of transportation, and for the development of improved highway facilities for vehicular traffic.

(Continued)

Upon such transfer, those funds shall no longer be available to pay for any of TRC Inc.'s obligations. If net position funds fall below $6,677,225, no transfer may take place.

In the past, the TRC Inc. Board has typically authorized an amount to be transferred equating to the fiscal year's excess of revenues over expenses less any unrealized change in the fair value of investments. During the years ended June 30, 2023 and 2022, at the Board's direction, no funds were transferred.

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

At June 30, 2023 and 2022, the net position was comprised of the following:

		2023	2022
Net investment in capital assets	$	26,263,116	22,658,667
Unrestricted net position		10,499,605	12,194,327
Total net position	$	36,762,721	34,852,994

Unrestricted net position includes net accumulated gains in investments of $870,245 at June 30, 2023 and $767,460 at June 30, 2022.

(8) Leases

TRC Inc. as Lessee

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

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

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

Lease asset activity for the year ended June 30, 2022 is summarized as follows:

	2022		
	Beginning balance	Additions	Ending balance
Lease assets:			
Real estate	$ 19,397,927	—	19,397,927
Equipment	801,489	172,489	973,978
Total lease assets	20,199,416	172,489	20,371,905
Less accumulated amortization – lease assets:			
Real estate	1,439,612	1,691,641	3,131,253
Equipment	182,694	249,216	431,910
Total accumulated amortization	1,622,306	1,940,857	3,563,163
Total lease assets, net	$ 18,577,110	(1,768,368)	16,808,742
Less deferred inflows netted against lease assets for lease-leaseback			10,493,403
Total lease assets, net, as presented on Statement of Net Position			$ 6,315,339

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

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

Lease liability activity for the year ended June 30, 2022 is summarized as follows:

	2022				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Gross lease liabilities	$ 20,376,597	857,396	584,283	20,649,710	—
Less lease receivables netted against liabilities for lease-leaseback				10,924,420	—
Lease liabilities, net, as presented in the statement of net position				$ 9,725,290	—

	Principal	Interest	Total
Year ending June 30:			
2024	$ 88,933	956,378	1,045,311
2025	652,367	949,678	1,602,045
2026	2,184,950	877,574	3,062,524
2027	2,523,846	777,146	3,300,992
2028	3,388,806	639,838	4,028,644
2029–2033	12,750,565	990,265	13,740,830
	$ 21,589,467	5,190,879	26,780,346

TRC Inc. as Lessor

TRC Inc. is lessor for various noncancellable leases of real estate. Lease-related revenues recognized for the years ended June 30, 2023 and 2022 are as follows:

		2023	2022
Lease revenue	$	3,278,297	2,437,206
Interest revenue		834,690	829,607
	$	4,112,987	3,266,813

Lease-Leaseback Transaction

On December 21, 2017, after a 30-year business relationship, TRC Inc. entered into a master lease agreement with Honda of America Manufacturing (the "HAM Lease") for portions of the TRC Inc. real property and related improvements, effective January 1, 2018. The initial term of the HAM Lease is for approximately 14 years and three months, ending March 31, 2032. At the end of the initial term, at the option of HAM and TRC Inc., the lease will renew for one 15-year renewal term. TRC Inc. pays rent to HAM, retains all revenues related to facilities usage and is responsible for maintenance and repairs to the leased facilities. The HAM lease also provides for exclusive use of certain facilities by Honda R&D of America, which pays TRC Inc. a monthly base use rate and other charges, and provides standard terms for subleases of space to HAM and its affiliates.

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

Gross lease liabilities and receivables related to the lease-leaseback arrangement with HAM at June 30, 2023 and June 30, 2022 are summarized as follows:

		2023	2022
Gross liabilities	$	17,287,234	16,963,789
Gross receivables		10,437,418	10,924,420
Net liability under lease-leaseback	$	6,849,816	6,039,369

(9) Long-Term Notes Payable

In July 2016, TRC Inc. entered into a Memorandum of Understanding with OSU to provide an $8,000,000 line of credit for infrastructure improvements. The annual interest rate for the loan is 4.75% and has a 15-year term. Monthly interest-only payments were made for the first five years of the 15-year term with principal payments beginning in July 2021.

In July of 2017, TRC Inc. entered in a Memorandum of Understanding with OSU to provide a $3,264,652 loan to fund SMARTCenter construction site costs. The annual interest rate for the loan was 5.25% and had a 20-year term. In June of 2018, TRC Inc. entered into a Memorandum of Understanding (Addendum 1) that increased the capacity of this loan to $12,500,000. During the year ended June 30, 2023, TRC Inc. made draws of $110,197 under this loan. At June 30, 2023, TRC Inc. no longer had any additional capacity under this loan. The annual interest rate was modified to 4.75% and has a 30-year term. Monthly interest-only payments will be made during the first five years of the 30-year term.

In May 2018, TRC Inc. closed on a loan with Ohio Development Service Agency in the amount of $5,000,000 to reimburse funds spent to build the new conference center, customer work bay and traffic control system. The proceeds of this loan were used to repay a portion of the outstanding borrowings on the OSU line of credit. The annual interest rate for the loan is 1% and has 15-year term. As of June 30, 2023, TRC Inc. has complied with all covenants set forth within the arrangement.

In May 2021, TRC Inc. entered into a Memorandum of Understanding with OSU to provide a $3,000,000 line of credit for expansion of the SMARTCenter facility. The annual interest rate for the loan is 2.50% and has a 13-month term. Monthly interest-only payments occur upon the first borrowing. In July 2022, TRC Inc. entered into a Memorandum of Understanding with OSU to increase this line of credit to $3,325,000 and extend the term to June 30, 2024. As of June 30, 2023, TRC Inc. had $3,325,000 in available capacity under this loan.

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

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

Debt activity for the year ended June 30, 2022 is as follows:

	Beginning balance	Additions	Repayments	Ending balance	Current portion
OSU loans	$ 15,113,802	3,161,000	140,553	18,134,249	3,032,378
JobsOhio – infrastructure loan	4,217,849	—	318,375	3,899,474	321,573
Total debt	$ 19,331,651	3,161,000	458,928	22,033,723	3,353,951

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

2024	$	324,818
2025		328,080
2026		331,374
2027		334,702
2028		338,063
2029–2033		1,920,864
	$	3,577,901

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

2024	$	421,725
2025		439,729
2026		461,077
2027		483,461
2028		506,932
2029–2048		12,899,145
	$	15,212,069

(10) Risk Management

During the course of the year, TRC Inc. is subjected to certain types of risks in the performance of its normal functions. These risks include risks that TRC Inc. might be subjected to by its employees in the performance of their normal duties as well as litigation arising in the normal course of business. TRC Inc. manages these types of risks through commercial insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Employees' Retirement Savings Plan and Trust

TRC Inc. maintains the Employees' Retirement Savings Plan and Trust (the "Plan"). The Plan is intended to comply with Section 401(a) of the Internal Revenue Code. All employees are eligible to participate in the Plan. Employer contributions to the Plan are determined solely at the discretion of TRC Inc.'s board of directors. For the years ended June 30, 2023 and 2022, TRC Inc. expended $697,965 and $637,159, 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.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Transportation Research Center Inc. ("TRC Inc."), a component unit of The Ohio State University, which comprise the statement of net position as of June 30, 2023, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 27,2023.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2023-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

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

TRC Inc.'s Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on TRC Inc.'s response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. TRC Inc.'s response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

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

KPMG LLP

Columbus, Ohio
October 27,2023

TRANSPORTATION RESEARCH CENTER INC.

Schedule of Financial Statement Findings

June 30, 2023 and 2022

Finding 2023-001: Lease Component Inputs

Criteria

GASB 87 paragraph 40 requires entities to recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term based on inputs within the lease documents.

Conditions Found

In the current year, management identified that prior year lessor lease inputs were incorrect resulting in an immaterial error in the fiscal year 2022 financial statements. It was identified that management had improperly applied incorrect inputs to ten lessor leases of which nine were net lease/leaseback leases resulting in changes to the lease receivable, deferred inflows of resources, net leased assets, and net lease liabilities as well as lease revenue, general and administrative expense, amortization expense, and interest income with corresponding changes in net assets. Managements process in the prior year implementation did not include the proper review control over the lease calculations. Management's review did not operate at a level of precision to detect incorrect inputs to the lease software at TRC Inc's discrete component level, thereby causing the output of leases to be incorrect. Managements process was not designed effectively and resulted in a revision of the 2022 financial statements for certain immaterial corrections related to lease accounting, including lease receivable, property and equipment, lease liability, and deferred inflows of resources by $1,320,271, $2,635,420, $2,896,101, and $1,294,386, respectively.

Cause

TRC Inc. did not have an appropriately designed management review control to verify the inputs used in the lease calculations and the continuing accounting requirements.

Effect or potential effect

Incorrect inputs to leases could cause a material misstatement in lease assets and liabilities as a lessee and lessor on the statements of net position, changes in net position, cash flows and disclosures as prescribed in GASB 87.

Recommendation

TRC Inc. should strengthen its policies and review controls around leases and lease populations to ensure the appropriate recognition and measurement of leases on the statements of net position, changes in net position, cash flows and disclosures.

Views of TRC Inc. Officials

We will review and enhance our control processes for reviewing leases and lease inputs to the lease software to include a higher level of precision to verify that lease outputs from the software at the TRC Inc. discrete component level are accurate.

OHIO AUDITOR OF STATE
KEITH FABER

THE OHIO STATE UNIVERSITY TRANSPORTATION RESEARCH CENTER, INC.

FRANKLIN COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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

Certified for Release 12/19/2023

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