



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

Basic Financial Statements

As of and For the Years Ended June 30, 2022 and 2021

(With Independent Auditors' Report Thereon)

OHIO AUDITOR OF STATE
KEITH FABER



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Board of Directors
Transportation Research Center Inc.
2040 Blankenship Hall
901 Woody Hayes Drive
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We have reviewed the *Independent Auditors' Report* of the Transportation Research Center Inc., Franklin County, prepared by KPMG LLP, for the audit period July 1, 2021 through June 30, 2022. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads 'Keith Faber'.

Keith Faber
Auditor of State
Columbus, Ohio

January 03, 2023

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TRANSPORTATION RESEARCH CENTER INC.

June 30, 2022 and 2021

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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

Opinion

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 year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise TRC Inc.'s basic financial statements 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, 2022, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in note 2(k) to the financial statements, in 2022, TRC Inc. adopted Governmental Accounting Standards Board Statement No. 87, *Leases* (GASB 87). Our opinion is not modified with respect to this matter.

Other Matters

The financial statements of TRC Inc. as of and for the year ended June 30, 2021 were audited by other auditors, who expressed an unmodified opinion on those statements on October 19, 2021.

As part of our audit of the 2022 financial statements, we also audited the adjustments described in Note 2(k) that were applied to restate the 2021 financial statements for the adoption of GASB 87. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2021 financial statements of TRC Inc. other than with respect to the adjustments, and, accordingly, we do not express an opinion or any other form of assurance on the 2021 financial statements as a whole.

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 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 audit 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 December 20, 2022 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
December 20, 2022

TRANSPORTATION RESEARCH CENTER INC.

Management's Discussion and Analysis (Unaudited)

For Fiscal Year Ended June 30, 2022 and 2021

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, 2022, with comparative information for the fiscal year ended June 30, 2021.

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.

TRANSPORTATION RESEARCH CENTER INC.

Management's Discussion and Analysis (Unaudited)

For Fiscal Year Ended June 30, 2022 and 2021

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, and as a result, does pay unrelated business tax on that income.

Key Financial Highlights

Significant financial events during fiscal year 2022 were:

- Operating revenues increased 30.6% to \$53,393,751 driven higher by increase in testing volume related to realization of ongoing business development efforts.
- TRC Inc.'s results from operations increased by 22.9% from a net operating loss of \$3,780,309 in 2021 to net operating loss of \$2,913,795 in 2022, driven primarily by an increase in revenue while fixed expenses, specifically depreciation, increased at a slower rate.
- General and administrative expense increased 20.5%, to \$26,209,337 driven primarily by an increase in healthcare related fringe expense.
- Decreases in the fair value of investments held in the university's Long-Term Investment Pool resulted in an unrealized capital loss of \$299,220, due to market changes.
- Total net position decreased \$2,770,871, to \$35,087,790 at June 30, 2022.

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, 2022 and June 30, 2021; the Statements of Revenues, Expenses and Other Changes in Net Position for fiscal years ended June 30, 2022 and 2021; and the Statements of Cash Flows for fiscal years ended June 30, 2022 and 2021.

The Statements of Net Position reflect TRC Inc.'s assets, liabilities and net position. The Statements of Revenues, Expenses and Other 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's Discussion and Analysis (Unaudited)
For Fiscal Year Ended June 30, 2022 and 2021

Summary Statements of Net Position

The major components of the Statements of Net Position at June 30, 2022 and June 30, 2021 are reflected below:

	<u>2022</u>	<u>2021</u>	<u>Changes</u>
Assets:			
Current assets	\$ 19,397,776	17,697,100	9.61 %
Other noncurrent assets	5,161,650	5,472,058	(5.67)
Net property and equipment	<u>52,532,131</u>	<u>53,216,985</u>	<u>(1.29)</u>
Total assets and deferred outflows	<u>\$ 77,091,557</u>	<u>76,386,143</u>	<u>0.92 %</u>
Liabilities:			
Current liabilities	\$ 9,805,706	6,484,987	51.21 %
Noncurrent liabilities	<u>25,508,961</u>	<u>24,871,342</u>	<u>2.56</u>
Total liabilities	35,314,667	31,356,329	12.62
Deferred inflows of resources – leases	6,689,100	7,171,153	(6.72)
Net investment in capital assets	22,919,348	26,844,839	(14.62)
Unrestricted net position	<u>12,168,442</u>	<u>11,013,822</u>	<u>10.48</u>
Total liabilities, deferred inflow and net position	<u>\$ 77,091,557</u>	<u>76,386,143</u>	<u>0.92 %</u>

Current Assets

Total current assets increased \$1,700,676, or 9.6%, to \$19,397,776 at June 30, 2022. Cash increased by \$248,411, or 8.0%, to \$3,341,665 at June 30, 2022.

Trade accounts receivable, net of allowance for doubtful accounts, increased \$1,931,413, or 25.6%, to \$9,477,831 at June 30, 2022. The increase in trade accounts receivable was the result of increased revenue. On average, TRC Inc. receivables were outstanding for 58 days in fiscal year 2022, compared to 59 days in fiscal year 2021.

Investments decreased by \$299,220, or 6.1%, to \$4,609,247 at June 30, 2022. The decrease resulted from a decrease in the fair market value of the underlying investments of TRC Inc.'s equity interest in the investment pool maintained and managed by The Ohio State University's Office of Investments. The Long Term Investment Pool (LTIP) held at the university had a return of 0.98%.

TRANSPORTATION RESEARCH CENTER INC.
Management's Discussion and Analysis (Unaudited)
For Fiscal Year Ended June 30, 2022 and 2021

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 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Market value of endowment fund	\$ 4,609,247	4,908,467
Book value of endowment fund	<u>3,841,787</u>	<u>3,841,787</u>
Net accumulated gain	<u>\$ 767,460</u>	<u>1,066,680</u>
Current year (loss) gain	\$ (299,220)	1,064,444

Net Property and Equipment

During fiscal year 2022, assets placed into service relative to the SMARTCenter was \$4,731,999. Additionally, \$1,122,425 spent on facility maintenance and upgrade projects including network infrastructure, building customizations and facility improvements. Depreciation and amortization on assets that were placed in service in fiscal year 2021 and 2022 relative to the SMARTCenter project has resulted in overall net property and equipment value decreasing from fiscal year 2021 and 2022.

The remaining book values of each of the individual remaining capital assets are less than \$100,000 individually and generally are assets used to maintain and secure the 4,500-acre facility, assist in the driver training program, or are vehicles used for travel purposes. Most of these capital assets are fully depreciated.

Current Liabilities

Total current liabilities increased \$3,320,719 to \$9,805,706 at June 30, 2022. The increase in current liabilities primarily reflects an increase in short term financing used to expand the SMARTCenter.

Accounts payable decreased \$380,887 to \$1,992,699 at June 30, 2022. The decrease was primarily driven from a decrease in accounts payable days from 22 in fiscal year 2021 to 14 in fiscal year 2022.

The current portion of long-term debt increased \$2,891,824 to \$3,353,951 at June 30, 2022. The increase in the current portion is the result of principal payments relative to the loan discussed in paragraph four of footnote nine in the accompanying notes to the financial statements.

Noncurrent Liabilities

Long term notes payable decreased \$189,752 to \$18,679,772 at June 30, 2022. The decrease relates to loans provided by the University which were used towards 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. Long term lease liability increased \$827,371 to \$6,829,189 due to the addition of new leases in fiscal year 2022 as well as an increase in accrued interest due to favorable payment terms compared to current interest expense on the property leases.

TRANSPORTATION RESEARCH CENTER INC.
Management's Discussion and Analysis (Unaudited)
For Fiscal Year Ended June 30, 2022 and 2021

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, 2022 and 2021 are reflected below:

	<u>2022</u>	<u>2021</u>	<u>Changes</u>
Operating revenues	\$ 53,393,751	40,885,586	30.59 %
Operating expenses	<u>56,307,546</u>	<u>44,665,895</u>	<u>(26.06)</u>
Operating loss	(2,913,795)	(3,780,309)	22.92
Net nonoperating expense	(739,356)	(676,255)	(9.33)
Net change in value of equity interest in investment pool	<u>(299,220)</u>	<u>1,064,444</u>	<u>(128.11)</u>
Excess expenses over revenue	(3,952,371)	(3,392,120)	16.52
Capital grant	<u>1,181,500</u>	<u>663,000</u>	<u>78.21</u>
Change in net position	(2,770,871)	(2,729,120)	(1.53)
Beginning net position	<u>37,858,661</u>	<u>40,587,781</u>	<u>(6.72)</u>
Ending net position	<u>\$ 35,087,790</u>	<u>37,858,661</u>	<u>(7.32)%</u>

Operating Revenues

The sources of revenue that TRC Inc. earned during fiscal year 2022 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 \$12,508,165, or 30.6%, in fiscal year 2022 to \$53,393,751 driven higher by increase in testing volume relative to ongoing business development efforts.

Operating Expenses

Major components of operating expense in fiscal years 2022 and 2021 and were:

	<u>2022</u>	<u>2021</u>	<u>Changes</u>
Direct expense	\$ 23,102,080	16,969,483	36.14 %
General and administrative expense	26,209,337	21,750,980	20.50
Depreciation expense	<u>6,996,129</u>	<u>5,945,432</u>	<u>17.67</u>
Total operating expense	<u>\$ 56,307,546</u>	<u>44,665,895</u>	<u>26.06 %</u>

TRANSPORTATION RESEARCH CENTER INC.

Management's Discussion and Analysis (Unaudited)

For Fiscal Year Ended June 30, 2022 and 2021

Direct expense increased by \$6,132,597, or 36.1% in fiscal year 2022, to \$23,102,080. The increase is a result of increased direct labor expense and material and equipment purchased for and to be used by key customers in research and testing.

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

In fiscal year 2022 and 2021, fixed assets related to the SMARTCenter were placed in service of \$4,731,999 and \$10,339,491, respectively, with years of service ranging from 5 to 30 years. Depreciation expense has increased accordingly.

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 for leased assets.

Interest expense relates to interest paid on the loan from the University as well as unrelated parties, other expense relates to a tax penalty as well as interest 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 \$1,181,500 was received in fiscal year 2022 and is related to the SMARTCenter construction and subsequent expansion.

Summary Statements of Cash Flows

TRC Inc. cash increased \$248,411 in 2022. Net cash flows from capital and related financing activities increased \$714,791 primarily related to transactions related to leasing activities and proceeds from capital notes offset by a decrease in capital grants received in fiscal year 2022. Total cash flow from investing activities decreased \$519,221 and is related to interest that has not yet been received from the investment pool with OSU.

TRANSPORTATION RESEARCH CENTER INC.
Management's Discussion and Analysis (Unaudited)
For Fiscal Year Ended June 30, 2022 and 2021

Summary cash flows for fiscal years 2022 and 2021 were follows:

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities	\$ 597,588	(777,053)
Cash flows from capital and related financing activities	(349,177)	(1,063,968)
Cash flows from investing activities	<u>—</u>	<u>519,221</u>
Net (decrease) increase in cash	<u>\$ 248,411</u>	<u>(1,321,800)</u>

Future Outlook

One year ago, TRC Inc. discussed how new emerging technologies in the mobility industry would revolutionize the expectations of Proving Ground Operations. As that year has passed and we again look to the future, that promise of evolution within the industry is now realized and the promise is bright. The vision of an electric or hydrogen powered car is no longer merely aspirational, nor is it the singular goal. An alternative-fueled car is merely the baseline - vehicles such as postal trucks, semi-trucks, buses or delivery vehicles are all among the things being produced by new technologies. As these vehicles become realities, it has been TRC Inc. who has walked alongside these manufacturers to get their technologies into the public sector.

TRC Inc. is also evolving going forward to meet the requirements of our stakeholders. In the coming year, TRC Inc. will improve its infrastructure and service offerings in order to continue to develop new relationships as well as maintaining and growing the current meaningful partnerships we have. The future outlook for TRC Inc. is promising as we continue to evolve our service offerings to meet the requirements of our stakeholders.

TRANSPORTATION RESEARCH CENTER INC.

Statements of Net Position

June 30, 2022 and 2021

Assets	2022	2021
Current assets:		
Cash	\$ 3,341,665	3,093,254
Investments	4,609,247	4,908,467
Accounts receivable, net of allowance for doubtful accounts of \$166,144 and \$166,144	9,477,831	7,546,418
Grant receivable	—	94,500
Interest receivable	178,005	—
Lease receivable	1,741,895	1,822,780
Supplies and prepaid expenses	49,133	231,681
Total current assets	19,397,776	17,697,100
Noncurrent assets:		
Lease receivable	5,161,650	5,472,058
Capital assets	76,446,185	70,134,910
Less accumulated depreciation and amortization	(23,914,054)	(16,917,925)
Capital assets, net	52,532,131	53,216,985
Total assets	\$ 77,091,557	76,386,143
Liabilities		
Current liabilities:		
Accounts payable	\$ 1,992,699	2,373,586
Accrued payroll and related expenses	2,046,968	2,052,180
Advance payments for goods and services	2,412,088	1,597,094
Note payable	3,353,951	462,127
Total current liabilities	9,805,706	6,484,987
Noncurrent liabilities:		
Note payable	18,679,772	18,869,524
Lease liability (including accrued interest of \$640,611 and \$319,131)	6,829,189	6,001,818
Total noncurrent liabilities	25,508,961	24,871,342
Total liabilities	35,314,667	31,356,329
Deferred inflow of resources – leases	6,689,100	7,171,153
Net Position		
Net investment in capital assets	22,919,348	26,844,839
Unrestricted net position	12,168,442	11,013,822
Total net position	35,087,790	37,858,661
Total liabilities, deferred inflow of resources, and net position	\$ 77,091,557	76,386,143

See accompanying notes to financial statements.

TRANSPORTATION RESEARCH CENTER INC.

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2022 and 2021

	2022	2021
Operating revenues:		
Research and testing	\$ 51,223,951	39,019,511
Lease	2,169,800	1,866,075
Total operating revenues	53,393,751	40,885,586
Operating expenses:		
Direct	23,102,080	16,969,483
General and administrative	26,209,337	21,750,980
Depreciation and amortization	6,996,129	5,945,432
Total operating expenses	56,307,546	44,665,895
Net operating loss	(2,913,795)	(3,780,309)
Nonoperating revenues (expenses):		
Investment (loss) income	(299,220)	1,064,444
Other expense	(56,833)	(326,619)
Interest income	1,120,174	1,152,219
Interest expense	(1,802,697)	(1,501,855)
Nonoperating (expenses) revenues, net	(1,038,576)	388,189
Net loss before other changes in net position	(3,952,371)	(3,392,120)
Other changes in net position:		
Capital grant	1,181,500	663,000
Total other changes in net position	1,181,500	663,000
Change in net position	(2,770,871)	(2,729,120)
Net position – beginning of year:		
Beginning of year, as previously reported	37,858,661	37,453,986
Cumulative effect of accounting change	—	3,133,795
Beginning of year, as restated (note 2k)	37,858,661	40,587,781
End of year, as restated (note 2k)	\$ 35,087,790	37,858,661

See accompanying notes to financial statements.

TRANSPORTATION RESEARCH CENTER INC.

Statements of Cash Flows

Years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Cash received from customers	\$ 50,446,514	37,615,014
Cash paid to suppliers	(18,182,563)	(12,640,108)
Cash paid for taxes	(180,000)	(135,000)
Cash paid to employees	(20,293,835)	(20,515,831)
Cash paid for fringe benefits and payroll taxes	(11,192,528)	(5,101,128)
Net cash provided by (used in) operating activities	<u>597,588</u>	<u>(777,053)</u>
Cash flows from capital and related financing activities:		
Purchases of property and equipment	(5,421,000)	(5,413,381)
Proceeds from capital grants	1,276,000	1,798,560
Cash paid on capital notes	(458,928)	(236,701)
Proceeds from capital notes	3,161,000	1,798,560
Cash received on leases	1,822,437	1,307,807
Cash received for interest	942,168	975,409
Cash paid for interest	(1,670,854)	(1,294,222)
Net cash used in capital and related financing activities	<u>(349,177)</u>	<u>(1,063,968)</u>
Cash flows from investing activities:		
Interest income	—	519,221
Net cash provided by investing activities	<u>—</u>	<u>519,221</u>
Net increase (decrease) in cash and cash equivalents	248,411	(1,321,800)
Cash:		
Beginning of the year	<u>3,093,254</u>	<u>4,415,054</u>
End of the year	<u>\$ 3,341,665</u>	<u>3,093,254</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (2,913,795)	(3,780,309)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	6,996,129	5,945,432
Provision for bad debt expense	—	158,841
Amortization of deferred inflows	(2,169,800)	(1,866,075)
Changes in assets and liabilities:		
Trade accounts receivable	(1,930,913)	(1,906,829)
Supplies and prepaid expenses	182,548	17,357
Trade accounts payable	(376,363)	167,572
Accrued payroll and related expenses	(5,212)	(15,372)
Advance payments for goods and services	814,994	502,330
Net cash provided by (used in) operating activities	<u>\$ 597,588</u>	<u>(777,053)</u>
Supplemental cash flow information:		
Net change in value of equity interest in investment pool	\$ (299,220)	1,064,444
Interest receivable	178,005	—
Noncash investing and financing activities:		
Purchase of property and equipment included in accounts payable	749,871	811,726

See accompanying notes to financial statements.

TRANSPORTATION RESEARCH CENTER INC.

Notes to Financial Statements

June 30, 2022 and 2021

(1) Description of the Business

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

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

(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.

TRANSPORTATION RESEARCH CENTER INC.

Notes to Financial Statements

June 30, 2022 and 2021

(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, 2022 or 2021.

- 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.

TRANSPORTATION RESEARCH CENTER INC.

Notes to Financial Statements

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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, 2022 and 2021, the revenue from the three highest volume commercial enterprises and two government agencies was \$32,113,841 and \$23,361,418, respectively. These five customers make up \$4,301,157 and \$3,241,813 of TRC Inc.'s accounts receivable at June 30, 2022 and 2021, respectively.

TRC Inc.'s accounts receivable include \$805,825 and \$611,635 of unbilled accounts receivable at June 30, 2022 and 2021, 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, 2022 and 2021.

(f) Investments

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

(g) Capital assets

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

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

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

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

TRANSPORTATION RESEARCH CENTER INC.

Notes to Financial Statements

June 30, 2022 and 2021

(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 \$1,815,529 and \$865,470 for the years ended June 30, 2022 and 2021, 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 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.

In fiscal year 2022, TRC Inc. implemented GASB Statement No. 87, *Leases*. This standard establishes accounting and reporting for leases, based on the foundational principle that all leases are financings of the right to use an underlying asset for a period of time. Lessees record an intangible right-of-use asset and corresponding lease liability. Lessors record a lease receivable and a corresponding deferred inflow of resources. The standard provides an exception for short-term leases with a maximum possible

TRANSPORTATION RESEARCH CENTER INC.

Notes to Financial Statements

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term of 12 months or less. The effects of adopting Statement No. 87 in the TRC's financial statements for the year ended June 30, 2021 were as follows:

2021 Statement of net position	As previously reported	Statement No. 87	As restated
Current lease receivables	\$ —	1,822,780	1,822,780
Total current assets	15,874,320	1,822,780	17,697,100
Noncurrent lease receivable	—	5,472,058	5,472,058
Capital assets, net	48,579,430	4,637,555	53,216,985
Total assets	64,453,750	11,932,393	76,386,143
Current lease liabilities	4,470,114	(4,470,114)	—
Total current liabilities	10,955,101	(4,470,114)	6,484,987
Noncurrent lease liability	—	6,001,818	6,001,818
Total noncurrent liabilities	18,869,524	6,001,818	24,871,342
Total liabilities	29,824,625	1,531,704	31,356,329
Deferred inflow of resources – leases	—	7,171,153	7,171,153
Net investment in capital assets	28,436,052	(1,591,213)	26,844,839
Unrestricted net position	6,193,073	4,820,749	11,013,822
Total net position	34,629,125	3,229,536	37,858,661
Total liabilities, deferred inflow of resources, and net position	64,453,750	11,932,393	76,386,143
2021 Statement of revenues, expenses, and changes in net position	As previously reported	Statement No. 87	As restated
Research and testing	\$ 41,302,726	(2,283,215)	39,019,511
Leases	—	1,866,075	1,866,075
Total operating revenue	41,302,726	(417,140)	40,885,586
General and administrative	23,655,418	1,904,438	21,750,980
Depreciation and amortization	4,354,219	1,591,213	5,945,432
Total operating expenses	44,979,120	(313,225)	44,665,895
Net operating loss	(3,676,394)	(103,915)	(3,780,309)
Interest income	176,810	975,409	1,152,219
Interest expense	(726,102)	(775,753)	(1,501,855)
Nonoperating (expenses) revenues, net	188,533	199,656	388,189
Net loss before other changes in net position	(3,487,861)	95,741	(3,392,120)
Change in net position	(2,824,861)	95,741	(2,729,120)
Net position beginning of year	37,453,986	3,133,795	40,587,781
Net position end of year	34,629,125	3,229,536	37,858,661

TRANSPORTATION RESEARCH CENTER INC.

Notes to Financial Statements

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<u>2021 Statement of cash flows</u>	<u>As previously reported</u>	<u>Statement No. 87</u>	<u>As restated</u>
Cash received from customers	\$ 39,898,230	(2,283,216)	37,615,014
Cash paid to suppliers	(13,208,228)	568,120	(12,640,108)
Net cash provided by (used in) operating activities	938,043	(1,715,096)	(777,053)
Cash paid for interest	(726,102)	(568,120)	(1,294,222)
Cash received for interest	—	975,409	975,409
Cash received on leases	—	1,307,807	1,307,807
Net cash used in capital and related financing activities	(2,779,064)	1,715,096	(1,063,968)
Operating loss	(3,676,394)	(103,915)	(3,780,309)
Depreciation and amortization	4,354,219	1,591,213	5,945,432
Amortization of deferred inflows	—	(1,866,075)	(1,866,075)
Lease liability	1,336,319	(1,336,319)	—
Net cash provided by (used in) operating activities	938,043	(1,715,096)	(777,053)

(3) Income Taxes

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

(4) Cash and Investments

Cash and investments at June 30, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Cash on hand	\$ —	600
Cash in bank	3,341,665	3,089,250
Investment in OSU's long term investment pool	4,609,247	4,908,467
	<u>\$ 7,950,912</u>	<u>7,998,317</u>

At June 30, 2022 and 2021, the bank statement balances of cash in banks were \$4,009,180 and \$3,418,949, respectively. Of the bank statement balances, \$4,009,180 and \$3,418,949, respectively, represented overnight sweep investments which are not covered by FDIC.

TRC Inc.'s investments are maintained in the university's Investment Pool and, as such, all collateralization is held by the university. The Investment Pool consists of more than 5,000 named funds. Each named fund is assigned a number of shares, based on the value of the gifts, income-to-principal transfers, or transfers of operating funds to that named fund. The Investment Pool is invested in a diversified portfolio of equities

TRANSPORTATION RESEARCH CENTER INC.

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and fixed income securities, as well as a number of alternative investment funds, such as real estate limited partnerships, hedge funds, private equity funds, venture capital funds and natural resources funds. The Investment Pool is intended to provide the long-term growth necessary to preserve the value of these funds, adjusted for inflation, while making distributions to support TRC Inc.'s mission.

Annual distributions to named funds in the Investment Pool are computed using the share method of accounting for pooled investments. For the years ended June 30, 2022 and 2021, the annual distribution per share was 4.5% of the average fair value per share of the Investment Pool over the most recent seven-year period.

TRC Inc. held 649,2046 shares in the Investment Pool as of June 30, 2022 and 2021. The value of TRC Inc.'s equity interest in the Investment Pool was \$4,609,247 and \$4,908,467 at June 30, 2022 and 2021, respectively. There were no realized gains or losses during the years ended June 30, 2022 and 2021. Total net accumulated gain for the years ended June 30, 2022 and 2021 were \$767,460 and \$1,064,444 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 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) Capital Assets

Capital assets at June 30, 2022 consists of the following:

	<u>Balance</u> <u>June 30, 2021</u>	<u>Additions</u>	<u>Disposals/ transfers</u>	<u>Balance</u> <u>June 30, 2022</u>
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	<u>63,906,142</u>	<u>12,343,685</u>	<u>(6,984,539)</u>	<u>69,265,288</u>

TRANSPORTATION RESEARCH CENTER INC.

Notes to Financial Statements

June 30, 2022 and 2021

	Balance June 30, 2021	Additions	Disposals/ transfers	Balance June 30, 2022
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)		3,679,920
		Total capital assets	\$	52,532,132

Capital assets at June 30, 2021 consists of the following:

	Balance June 30, 2020	Additions	Disposals/ transfers	Balance June 30, 2021
Capital assets:				
Building/leasehold improvements	\$ 40,017,507	10,932,867	—	50,950,374
Vehicles and equipment	8,331,255	620,626	—	8,951,881
Construction-in-progress	10,207,193	4,137,582	(11,841,909)	2,502,866
Software	967,541	324,106	—	1,291,647
Other	209,374	—	—	209,374
Total capital assets	59,732,870	16,015,181	(11,841,909)	63,906,142
Less accumulated depreciation:				
Building/leasehold improvements	5,418,590	3,033,875	—	8,452,465
Vehicles and equipment	5,054,501	1,161,967	—	6,216,468
Software	344,237	150,740	—	494,977
Other	155,165	7,637	—	162,802
Total accumulated depreciation	10,972,493	4,354,219	—	15,326,712
Capital assets, net	\$ 48,760,377	11,660,962	(11,841,909)	48,579,430
		Lease assets (note 8)		4,637,555
		Total capital assets	\$	53,216,985

TRANSPORTATION RESEARCH CENTER INC.

Notes to Financial Statements

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(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. 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, 2022 and 2021, 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).

TRANSPORTATION RESEARCH CENTER INC.

Notes to Financial Statements

June 30, 2022 and 2021

At June 30, 2022 and 2021, the net position was comprised of the following:

	2022	2021
Net investment in capital assets	\$ 22,919,348	26,844,839
Unrestricted net position	12,168,442	11,013,822
Total net position	\$ 35,087,790	37,858,661

Unrestricted net position includes net accumulated gains in investments of \$767,460 at June 30, 2022 and \$1,064,444 at June 30, 2021.

(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, 2022 is summarized as follows:

	2022		
	Beginning balance	Additions	Ending balance
Lease assets:			
Real estate	\$ 19,397,927	—	19,397,927
Equipment and other right-of-use assets	689,648	172,492	862,140
Total lease assets	20,087,575	172,492	20,260,067
Less accumulated amortization:			
Real estate	1,439,612	1,691,641	3,131,253
Equipment and other right-of-use assets	137,308	203,831	341,139
Total accumulated amortization	1,576,920	1,895,472	3,472,392
Total lease assets, net	\$ 18,510,655	(1,722,980)	16,787,675
Less: Deferred inflows netted against lease assets for lease-leaseback			13,107,755
Total lease assets, net			\$ 3,679,920

TRANSPORTATION RESEARCH CENTER INC.

Notes to Financial Statements

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Lease asset activity for the year ended June 30, 2021 is summarized as follows:

	2021		
	Beginning balance	Additions	Ending balance
Lease assets:			
Real estate	\$ 16,323,178	3,074,749	19,397,927
Equipment and other right-of-use assets	251,383	438,265	689,648
Total lease assets	<u>16,574,561</u>	<u>3,513,014</u>	<u>20,087,575</u>
Less accumulated amortization:			
Real estate	\$ —	1,439,612	1,439,612
Equipment and other right-of-use assets	—	137,308	137,308
Total accumulated amortization	<u>—</u>	<u>1,576,920</u>	<u>1,576,920</u>
Total lease assets, net	<u>\$ 16,574,561</u>	<u>1,936,094</u>	18,510,655
Less: Deferred inflows netted against lease assets for lease-leaseback			<u>13,873,099</u>
Total lease assets, net			<u>\$ 4,637,556</u>

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	\$ 20,324,562	857,396	553,060	20,628,897	—
Less: Lease receivables netted against liabilities for lease-leaseback				<u>13,799,707</u>	<u>—</u>
Lease liabilities, net, as presented in the Statement of Net Position				<u>\$ 6,829,190</u>	<u>—</u>

TRANSPORTATION RESEARCH CENTER INC.

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June 30, 2022 and 2021

Lease liability activity for the year ended June 30, 2021 is summarized as follows:

	2021				Current portion
	Beginning balance	Additions	Reductions	Ending balance	
Gross lease liabilities	\$ 16,574,561	4,213,793	463,792	20,324,562	—
Less: Lease receivables netted against liabilities for lease-leaseback				14,322,744	—
Lease liabilities, net, as presented in the Statement of Net Position				\$ 6,001,818	—

	Lease liabilities – gross		
	Principal	Interest	Total
Year ending June 30:			
2023	\$ (59,012)	918,739	859,727
2024	(10,854)	923,313	912,459
2025	532,829	921,011	1,453,840
2026	2,060,738	853,580	2,914,318
2027	2,390,549	758,036	3,148,585
2028-2032	15,714,647	1,597,832	17,312,479
	\$ 20,628,897	5,972,511	26,601,408

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, 2022 and 2021 are as follows:

	2022	2021
Lease revenue	\$ 2,169,800	1,866,075
Interest revenue	942,169	975,409
	\$ 3,111,969	2,841,484

TRANSPORTATION RESEARCH CENTER INC.

Notes to Financial Statements

June 30, 2022 and 2021

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, 2022 and June 30, 2021 are summarized as follows:

	2022	2021
Gross liabilities	\$ 16,963,789	16,642,309
Gross receivables	13,799,707	14,322,744
Net liability under lease-leaseback	\$ 3,164,082	2,319,565

(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, 2022, TRC Inc. made draws of \$276,000 under this loan. At June 30, 2022, TRC Inc.'s available capacity under this loan was \$110,197. The annual interest rate was modified to 4.75% and has a 30-year term. Monthly interest-only payments will be made during the first five years of the 30-year term.

In 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, 2022, TRC Inc. has complied with all covenants set forth within the arrangement.

TRANSPORTATION RESEARCH CENTER INC.

Notes to Financial Statements

June 30, 2022 and 2021

In May 2021, TRC Inc. entered into a Memorandum of Understanding with OSU to provide a \$3,000,000 line of credit for expansion of the SMARTCenter facility. The annual interest rate for the loan is 2.50% and has a 13-month term. Monthly interest-only payments occur upon the first borrowing. At June 30, 2022, TRC Inc. has made net draws totaling \$2,885,000 and has available borrowing capacity of \$115,000. 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 Jun 30, 2024. Subsequent to June 30, 2022, TRC Inc. has made principal payments totaling \$1,872,170.

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

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

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

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

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

2023	\$ 321,573
2024	324,818
2025	328,079
2026	331,374
2027	334,702
2028-2034	<u>2,258,928</u>
	<u>\$ 3,899,474</u>

TRANSPORTATION RESEARCH CENTER INC.

Notes to Financial Statements

June 30, 2022 and 2021

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

2023	\$	3,032,378
2024		419,369
2025		439,729
2026		461,077
2027		483,461
2028–2052		<u>13,298,235</u>
	\$	<u>18,134,249</u>

(10) Risk Management

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

(11) Employees' Retirement Savings Plan and Trust

TRC Inc. maintains the Employees' Retirement Savings Plan and Trust (the "Plan"). The Plan is intended to comply with Section 401(a) of the Internal Revenue Code. All employees are eligible to participate in the Plan. Employer contributions to the Plan are determined solely at the discretion of TRC Inc.'s board of directors. For the years ended June 30, 2022 and 2021, TRC Inc. expended \$637,159 and \$586,994, 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
Suite 500
191 West Nationwide Blvd.
Columbus, OH 43215-2568

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

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

We have audited, in accordance with 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, 2022, and the related statements of revenues, expenses, and other 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 December 20, 2022.

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 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 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 2022-001 that we considered 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 finding 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
December 20, 2022

TRANSPORTATION RESEARCH CENTER INC.

Schedule of Financial Statement Findings

For the year ended June 30, 2022

Finding 2022-001: Lease Accounting Transition Process

Criteria

GASB 87 paragraph 93 requires entities to recognize and measure leased assets and liabilities for lessors and lessees using the facts and circumstances that existed at the beginning of the earliest period restated and disclose the nature of the restatement and its effect.

Conditions Found

During our testing of the TRC's transition to GASB 87, *Leases*, we identified that management had improperly excluded a large lease from the lease receivable and deferred inflows from resources presented on the statement of net position as well as transition disclosures. We noted that management's process did not include the proper reconciliation of prior year leases under GASB 13/62 to leases that were included in management's transition to GASB 87. Management process was not designed effectively and resulted in \$5.2 million increase in the lease receivable and deferred inflows from resources – leases on the statement of net position as of June 30, 2022. Management corrected these misstatements in the 2022 statement of net position.

Cause

TRC did not have the appropriate processes in place to verify the completeness of the population of leases to properly implement the transition to GASB 87 in the statement of net position and disclosures.

Effect or potential effect

An Incomplete population of leases relating to the transition to GASB 87 could cause a material misstatement in lease assets and liabilities as a lessee and lessor on the statement of net position and disclosures as prescribed in GASB 87.

Recommendation

TRC should strengthen its policies and review controls around leases and lease population to ensure the appropriate recognition and measurement of leases on the statement of net position and disclosures.

Views of TRC Inc. Officials

We will review and enhance our control processes for reviewing leases and lease populations to include control processes around reconciliations of prior year lease to current year leases to verify the completeness of the lease population.

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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 1/17/2023

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov