Transportation Research Center Inc.

(A component unit of The Ohio State University)
Financial Statements
As of and for the Years Ended June 30, 2017 and 2016
and Report of Independent Auditors

Dave Yost • Auditor of State

Board of Directors
Transportation Research Center Inc.
2040 Blankenship Hall
Columbus, Ohio 43210

We have reviewed the *Report of Independent Auditors* of the Transportation Research Center Inc., Franklin County, prepared by PricewaterhouseCoopers LLP, for the audit period July 1, 2016 through June 30, 2017. 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.

Dave Yost

Dave Yost
Auditor of State

March 7, 2018

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Report of Independent Auditors

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

We have audited the accompanying financial statements of Transportation Research Center Inc. ("TRC"), a component unit of The Ohio State University, appearing on pages 10 to 27, which comprise the statements of net position as of June 30, 2017 and June 30, 2016, and the related statements of revenues, expenses, and other changes in net position and of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise TRC's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TRC as of June 30, 2017 and June 30, 2016, and the changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matter

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2018 on our consideration of the TRC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the TRC's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

January 30, 2018

This Management Discussion and Analysis provides an overview of the financial position and activities of Transportation Research Center Inc. (TRC Inc.) for the fiscal year ended June 30, 2017, with comparative information for the fiscal years ended June 30, 2016 and June 30, 2015.

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

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

TRC Inc. is governed by a seven-member board chaired by the Dean of the College of Engineering at The Ohio State University. The Ex-Officio Directors on the TRC Inc. Board of Directors represent The Ohio State University and its interest within TRC Inc. The Ex-Officio Directors on the TRC Inc. Board of Directors are the persons who hold the following positions at The Ohio State University: the Senior Vice President for Research of the University; the Dean of the College of Engineering of the University; the Senior Vice President for Business and Finance and Chief Financial Officer; and, the President & Chief Executive Officer of Transportation Research Center Inc., held in the interim by Mr. Brett A. Roubinek. TRC Inc. is a discretely presented component unit in the financial statements of The Ohio State University.

TRC Inc.'s management team was reorganized in the final quarter of the fiscal year ended June 30, 2017 and the first quarter of the fiscal year starting July 1, 2017. During this period, the positions of Vice President of Research/Chief Technical Officer and Chief Marketing Officer were eliminated as were several Director level positions. As part of the reorganization, two new roles were created: Executive Vice President, Services and Chief Operating Officer.

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

Key Financial Highlights

Significant financial events during fiscal year 2017 were:

- Research and testing revenues increased 1% to $39,596,508 while owner's maintenance and repair revenue increased by 12% to $5,918,252 as the result of several property owner directed improvement projects.

- Operating margins decreased 1% from 2016 as purchases of low margin material and supplies for NHTSA continued through 2017.

- General and administrative expense increased by 11% driven by expense associated with continued management transition and higher marketing, consultant and travel expenses related to new business prospects in China as well as efforts to influence key lawmakers in Washington D.C. on the future of mobility and testing.

- Overall improvement in the market value of investments resulted in an unrealized capital gain of $338,434.

- Net losses before other changes in net position, excluding the increase in the fair value of investments, of $598,407.

Financial Statement Overview

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

Presented in the financial statements are the Statements of Net Position at June 30, 2017 and June 30, 2016; the Statements of Revenues, Expenses and Changes in Net Position for fiscal years ended June 30, 2017 and 2016; and the Statements of Cash Flows for fiscal years ended June 30, 2017 and 2016.

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

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

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

Summary Statements of Net Position

The major components of the Statements of Net Position at June 30, 2017, June 30, 2016 and June 30, 2015 are reflected below:

	2017	2016	Changes	2015
Assets				
Current assets	$ 14,661,890	$ 12,699,021	15.5%	$ 12,967,954
Net property and equipment	9,340,964	1,250,637	646.9%	515,777
Deferred Outflow Related to Pension	155,105	124,099	25.0%	39,949
Total assets and deferred outflows	$ 24,157,959	$ 14,073,757	71.7%	$ 13,523,680
Liabilities				
Current liabilities	$ 7,766,794	$ 3,441,156	125.7%	$ 2,970,355
Net Pension Liability	382,408	365,998	4.5%	295,980
Long term notes payable	6,000,000	-	100.0%	-
Total liabilities	14,149,202	3,807,154	271.6%	3,266,335
Deferred Inflow Related to Pension	9,587	7,460	28.5%	5,200
Net Position	9,999,170	10,259,143	-2.5%	10,252,145
Total liabilities, deferred inflow and net position	$ 24,157,959	$ 14,073,757	71.7%	$ 13,523,680

Current Assets

Current assets increased $1,962,869 or 15.5% in fiscal year 2017 to $14,661,890. The significant changes in current assets were in cash and cash equivalents and receivables from HAM.

Cash and cash equivalents increased by $1,410,359, or 150%, in fiscal year 2017 to $2,347,811. The increase in cash was due to a positive cash flow from capital and related financing activities, which is attributed to the proceeds from long-term debt exceeding capital expenditures during the year.

Investments increased by $338,434, or 9%, in fiscal year 2017 to $4,008,118. 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's equity interest in the investment pool for fiscal years 2017, 2016 and 2015 are as follows:

	2017	2016	2015
Market value of endowment fund	$ 4,008,118	$ 3,669,684	$ 3,976,002
Book value of endowment fund	3,841,787	3,841,787	3,841,787
Net unrealized gain (loss)	$ 166,331	$ (172,103)	$ 134,215
Unrealized gain (loss) - current period	$ 338,434	$ (306,318)	$ (98,481)

Research and testing operating revenue made on account remained flat with a slight, 1% increase of $435,472 in fiscal year 2017. Trade accounts receivable decreased $37,658, or less than 1%, in fiscal year 2017 to $6,451,943. Average receivables were outstanding for 59 days in fiscal year 2017, as compared to 60 days in fiscal year 2016. The valuation of allowance for doubtful accounts fell by $3,967 in fiscal year 2017 to $34,033 on June 30, 2017.

Net Property and Equipment

Net property and equipment increased $8,090,326 in fiscal year 2017 to $9,340,964. The increase was due to capital additions including: a conference center, new customer workbays, a track safety and control system, a new ERP system and initial work on the SMART (Smart Mobility Advanced Research & Testing) Center.

During fiscal year 2017, TRC Inc. expended $9,544,370 on capital additions. The largest acquisition, at $3,235,708, was on the new SMART Center. Additionally, $2,918,971 was spent on a new conference center. Further, there was $1,282,146 spent on a new customer workbay building, $797,337 was spent on a new ERP system and $401,535 was spent on safety and security upgrades.

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

Current Liabilities

Current liabilities increased $4,325,638 in fiscal year 2017 to $7,766,794. The significant increases in current liabilities were in accounts payable and accounts payable HAM.

Accounts payable increased $4,498,645 to $5,329,982 in fiscal year 2017. The increase in accounts payable was due primarily to invoices for the capital asset additions. The work was performed in fiscal year 2017 but not paid for until fiscal year 2018.

Accounts payable HAM increased by $782,153 to $1,470,326 in fiscal year 2017. The increase was due to implementation of the new ERP system. As a result of the new system, there was a delay in retrieving and analyzing the information needed to pay Honda at the end of fiscal year 2017.

Noncurrent Liabilities

GASB Statement No.68*, Accounting and Financial Reporting for Pensions,* requires employers participating in cost-sharing multi-employer retirement plans to recognize a share of the retirement plans' unfunded pension liabilities. The net pension liability recognized by TRC increased $16,410, to $382,408 at June 30, 2017.

Long term notes payable increased by $6,000,000 in fiscal year 2017. The increase was caused by a loan provided by the University. Proceeds of the loan were used for work on the conference center, new customer workbay and safety and security upgrades.

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, 2017, 2016 and 2015 are reflected below:

	2017	2016	Changes	2015
Operating revenues	$ 45,514,761	$ 44,448,939	2.4%	$ 37,350,764
Operating expenses	46,222,716	44,293,887	4.4%	35,741,382
Operating income	(707,955)	155,052	-556.6%	1,609,382
Net nonoperating revenue	109,548	158,264	-30.8%	136,155
Net change in value of equity interest in investment pool	338,434	(306,318)	-210.5%	(98,481)
Excess revenue over expenses	(259,973)	6,998	-3814.9%	1,647,056
Transfer to Transporation Research Fund	-	-	0.0%	(1,530,007)
Change in net position	(259,973)	6,998	-3814.9%	117,049
Beginning net position	10,259,143	10,252,145	0.1%	10,398,238
Cumulative effect of change in accounting principle	-	-	0.0%	(263,142)
Ending net position	$ 9,999,170	$ 10,259,143	-2.5%	$ 10,252,145

Operating Revenues

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

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

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

Operating revenues for fiscal years 2017, 2016 and 2015 are summarized below:

	FY 2017	FY 2016	Changes	FY 2015
Research and testing agreement revenue	$ 39,596,508	$ 39,161,036	1.1%	$ 32,675,611
Owner's maintenance and repair revenue	5,918,253	5,287,903	11.9%	4,675,153
Total operating revenue	$ 45,514,761	$ 44,448,939	2.4%	$ 37,350,764

Research and testing revenue increased by $435,472 or 1.1%, in fiscal year 2017 to $39,596,508.

Owner’s maintenance and repair revenue increased by $630,350, or 11.9%, in fiscal year 2017 to $5,915,253. The major components of this revenue are maintenance and capital improvements made to the facility that the facility owner funds each year. Since most of the capital improvements and maintenance items are sold to the facility owner at TRC Inc. cost, increase or decrease in revenue on this line item does not have a major impact upon total operating income.

Operating Expenses

Major components of operating expense in fiscal years 2017, 2016 and 2015 were:

	2017	2016	Changes	2015
Direct expense	$ 27,264,767	$ 27,133,740	0.5%	$ 21,710,775
General and administrative expense	18,707,678	16,917,876	10.6%	13,787,619
Depreciation expense	250,271	242,271	3.3%	242,988
Total operating expense	$ 46,222,716	$ 44,293,887	4.4%	$ 35,741,382

Direct expense increased by $131,027, or 0.5%, in fiscal year 2017 to $27,264,767.

General and administrative expenses increased $1,789,802 over last year. The increase is primarily driven by an increase in salaries and wages and fringe benefits of $1,570,660.

Nonoperating Revenues and Expenses

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

Net Change in Value of Equity Interest in Investment Pool

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

Net Income before Other Changes in Net Position

Excess revenue over expense decreased by $266,971 in fiscal year 2017 to $(259,973). The change is primarily driven by increases in general and administrative expenses.

Summary Statements of Cash Flows

TRC cash and cash equivalents increased $1,410,359 in 2017. Net cash flows provided by operating activities decreased $8,772. The decrease is primarily due to an increase in cash paid to employees and for fringe benefits. Net cash flows provided by capital and related financing activities increased $2,463,071, primarily due to proceeds from long term notes payable in fiscal year 2017. Total cash provided by investing activities increased $155,047 in fiscal year 2017 due to interest received from the investment pool with OSU. In prior years the interest was reinvested but in fiscal year 2017 it was paid to TRC, Inc.

Cash flows for fiscal years 2017, 2016 and 2015 were follows:

	2017	2016	2015
Cash flows from operating activities	$ (235,325)	$ (226,553)	$ 589,151
Cash flows from noncapital financing activities	-	-	(1,530,007)
Cash flows from capital and related financing activities	1,492,117	(970,954)	(329,732)
Cash flows from investing activities	153,567	(1,480)	(16,596)
Net increase (decrease) in cash	$ 1,410,359	$ (1,198,987)	$ (1,287,184)

Transportation Research Center Inc.
Statements of Net Position
June 30, 2017 and 2016

	2017	2016
Assets		
Current assets		
Cash and cash equivalents	$ 2,347,811	$ 937,452
Investments	4,008,118	3,669,684
Trade accounts receivable, net of allowance for doubtful accounts of $34,034 and $38,000	6,451,943	6,489,601
Receivable from HAM (Note 6)	1,122,212	653,468
Interest Receivable	162,126	153,567
Supplies and prepaid expenses	569,680	795,249
Total current assets	14,661,890	12,699,021
Noncurrent assets		
Property and equipment	16,765,439	8,596,065
Less: Accumulated depreciation	(7,424,475)	(7,345,428)
Property and equipment, net	9,340,964	1,250,637
Deferred outflows related to pension	155,105	124,099
Total assets and deferred outflows	$ 24,157,959	$ 14,073,757
Liabilities		
Current Liabilities		
Trade accounts payable	$ 5,329,982	$ 831,337
Accounts payable to HAM (Note 6)	1,470,326	688,173
Accrued payroll and related expenses	929,875	1,450,519
Advance payments for goods and services	36,611	471,127
Total Current Liabilities	7,766,794	3,441,156
Long-term liabilities		
Long-term note payable	6,000,000	-
Net pension liability	382,408	365,998
Total long-term liabilities	6,382,408	365,998
Total liabilities	14,149,202	3,807,154
Deferred inflows relasted to pension	9,587	7,460
Net Position		
Investment in property and equipment, net of related debt	1,468,228	1,250,637
Unrestricted net position	8,530,942	9,008,506
Total net position	9,999,170	10,259,143
Total liabilities, deferred inflows and net position	$ 24,157,959	$ 14,073,757

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

Transportation Research Center Inc.

Statements of Revenues, Expenses and Other Changes in Net Position
Years Ended June 30, 2017 and 2016

	2017	2016
Operating revenues		
Research and testing	$ 39,596,508	$ 39,161,036
Owner's maintenance and repair	5,918,253	5,287,903
Total operating revenues	45,514,761	44,448,939
Operating expenses		
Direct	27,264,767	27,133,740
General and administrative	18,707,678	16,917,876
Depreciation	250,271	242,271
Total operating expenses	46,222,716	44,293,887
Net operating (loss) income	(707,955)	155,052
Nonoperating income (expense)		
Net change in value of equity interest in investment pool	338,434	(306,318)
Gain on sale of assets	8,062	6,177
Interest income	162,126	152,087
Interest expense	(60,640)	-
Net nonoperating income (expense)	447,982	(148,054)
Net (loss) income before other changes in net position	(259,973)	6,998
Net position, beginning of the year	10,259,143	10,252,145
Net position, end of year	$ 9,999,170	$ 10,259,143

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

Transportation Research Center Inc.

Statements of Cash Flows

Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Cash received from customers and HAM	$ 44,649,159	$ 43,549,461
Cash paid to suppliers	(9,341,142)	(9,803,497)
Cash paid for taxes	(450,000)	(600,000)
Cash paid to HAM	(9,613,495)	(10,920,473)
Cash paid to employees	(19,780,842)	(17,023,997)
Cash paid for fringe benefits and payroll taxes	(5,699,005)	(5,428,047)
Net cash used in operating activities	(235,325)	(226,553)
Cash flows from capital and related financing activities		
Proceeds from sale of property and equipment	-	6,177
Additions to property and equipment	(4,447,243)	(977,131)
Proceeds from long-term notes payable	6,000,000	-
Cash paid for interest	(60,640)	-
Net cash provided by (used in) capital and related financing activities	1,492,117	(970,954)
Cash flows from investing activities		
Interest income	153,567	(1,480)
Net cash provided by (used in) investing activities	153,567	(1,480)
Net increase (decrease) in cash and cash equivalents	1,410,359	(1,198,987)
Cash and cash equivalents		
Beginning of period	937,452	2,136,439
End of period	$ 2,347,811	$ 937,452
Reconciliation of operating (loss) income to net cash used in operating activities		
Operating (loss) income	$ (707,955)	$ 155,052
Adjustments to reconcile operating (loss) income to net cash used in operating activities:		
Depreciation	250,270	242,271
Provision for bad debt expense	(3,966)	(48,500)
Changes in assets and liabilites		
Trade accounts receivable	41,624	(1,257,575)
Receivable from HAM for property maintenance	(468,744)	96,619
Supplies and prepaid expenses	225,569	126,651
Deferred outflows - pension	(31,006)	(84,150)
Trade accounts payable	613,353	(116,479)
Accounts payable to HAM for property maintenance	782,153	72,583
Accrued payroll and related expenses	(520,644)	253,220
Advance payments for goods and services	(434,516)	261,477
Net position liability	16,410	70,018
Deferred inflows - pension	2,127	2,260
Net cash used in operating activities	$ (235,325)	$ (226,553)
Supplemental cash flow information		
Net change in value of equity interest in investment pool	$ 338,434	$ (306,318)
Interest Receivable	$ 162,126	$ 153,567
Non-cash investing and financing activities		
Purchase of property and equipment included in accounts payable	$ 3,885,292	$ -

The accompanying notes are an integral part of these 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"), with The Ohio State University Affiliates, Inc. ("OSU") as the sole member of TRC. TRC is organized exclusively for educational, charitable, and scientific purposes within the meaning of Section 501(c)(3) and Section 509(a)(3) of the Internal Revenue Code by conducting and supporting humanistic, scientific and engineering research and development activities solely and exclusively to the conduct of, or providing assistance in connection with the conduct of, research in automotive, vehicular and related forms of transportation, and for the development of improved highway facilities for vehicular traffic. TRC is considered a component unit of OSU. Therefore, TRC's financial statements are consolidated with OSU's for purposes for complying with OSU's reporting requirements.

Basis of Presentation

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

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

Net Investment in Capital Assets

Property and equipment, net of accumulated depreciation, 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 and invested for the purpose of generating present and future income, which may either be expended or added to the principal.

Expendable

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

Unrestricted

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

It is TRC's policy to apply restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. TRC did not have a restricted net position at either June 30, 2017 or June 30, 2016.

2. Summary of Significant Accounting Policies

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

Basis of Accounting

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

Estimates

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

Revenue Recognition

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

TRC derives a substantial portion of research and testing revenue from a limited number of commercial enterprises and governmental agencies. For the years ended June 30, 2017 and 2016, the revenue from the four highest volume commercial enterprises and one government agency was $33,230,376 and $31,939,066, respectively.

Included in accounts receivables are $1,020,130 and $1,123,736 of unbilled accounts receivable at June 30, 2017 and 2016, respectively. Unbilled accounts receivable represent revenue earned in excess of amounts billed.

Cash and Cash Equivalents

TRC considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Cash is held in one bank at June 30, 2017 and 2016.

Investment Policy

All investments consist of TRC's equity interest in The Ohio State University Long Term Investment Pool (the "Investment Pool"). The university's Office of Financial Services commingles the funds with other university-related organizations and allocates to TRC its equity share of the Investment Pool, the value of which is based on the underlying fair value of the individual investments within the university's Investment Pool. Earned investment income is allocated to each organization based on its share of the total funds invested at the beginning of each year. The net change in the value of TRC's equity interest in the Investment Pool during the years ended June 30, 2017 and 2016 is an increase of $338,434 and a decrease of $306,318, respectively. These amounts take into account all changes in fair value of the underlying investments in the university's Investment Pool (including purchases and sales) that occurred during each respective year.

The calculation of realized gain or loss is independent of the calculation of the net increase in fair value of the underlying investments in the university's Investment Pool. As of June 30, 2017, there is a cumulative unrealized gain on investments of $166,331. As of June 30, 2016, there is a cumulative unrealized loss on investments of $172,103. Investment income from endowment investments is unrestricted by the donors, and as such becomes a part of unrestricted net position.

Property and Equipment

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

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

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

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

Compensated Absences

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

Operating and Non-Operating Activities

TRC 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, substantially all TRC expenses are considered operating expenses. Certain TRC revenue streams are recorded as non-operating revenues, as defined by GASB Statement No. 35, 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.

Related Party Transactions

Payments are made to OSU as reimbursement for various expenses incurred by OSU on TRC's behalf. Such payments totaled approximately $577,776 and $888,558 for the years ended June 30, 2017 and 2016, respectively, and are recorded as General and Administrative Expenses on the Statement of Revenues, Expenses and Other Changes in Net Position.

Newly Issued Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard, which is the companion to Statement 74, establishes new reporting requirements for employers participating in OPEB plans. Similar to Statement 68, it will require employers in cost-sharing, multi-employer plans to record a liability (and related deferrals) for the employer's pro-rata share of net OPEB liabilities. It also expands disclosure and supplementary reporting requirements for employers participating in OPEB plans. The standard is effective for periods beginning after June 15, 2017.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations.* This standard establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The deferred outflow is recognized as expense over the life of the related asset. The determination of when the liability is incurred is based on the existence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Internal obligating events include the occurrence of contamination, placing into use a tangible capital asset that is required to be retired, abandoning a tangible capital asset before use begins, or acquiring a tangible capital asset that has an existing asset retirement obligation. This standard is effective for periods beginning after June 15, 2018.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This standard establishes criteria for identifying and reporting fiduciary activities of all state and local governments. The focus of the criteria generally is whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. Governments with activities meeting the criteria are required to present these activities in a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to this requirement is provided for a business-type activity that expects to hold assets in a custodial fund for three months or less. This standard is effective for periods beginning after December 15, 2018.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. This standard addresses a variety of practice issues identified during implementation and application of certain GASB Statements. It provides guidance on blending of component units (confirming limited applicability of blended presentation for BTAs), accounting for goodwill acquired prior to the issuance of GASB 69, accounting for real estate held for investment by insurance entities, clarification of circumstances in which money-market investments may be valued at amortized cost, and various technical fixes related to the implementation of the new OPEB standards. This standard is effective for periods beginning after June 15, 2017.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. This standard provides guidance on in-substance defeasance of debt, in which a government uses its existing resources (not the proceeds of refunding debt) to establish an irrevocable trust for the sole purpose of extinguishing debt. The accounting, reporting and disclosures for defeasance transactions, including reporting of gains and losses, generally will be consistent, regardless of the source of the funds used to decrease the debt. This standard is effective for periods beginning after June 15, 2017.

In June 2017, the GASB issued 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 will record an intangible right-of-use asset and corresponding lease liability. Lessors will record a lease receivable and a corresponding deferred inflow of resources. The standard provides an exception for short-term leases with a maximum possible term of 12 months or less. This standard is effective for periods beginning after December 15, 2019.

TRC management is currently assessing the impact that implementation of GASB Statements 75, 83, 84, 85, 86 and 87 will have on TRC's financial statements.

3. Income Taxes

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

TRC is subject to unrelated business income tax for the leasing of certain TRC employees. Unrelated income tax expense in 2017 is estimated to be approximately $298,884 and was $433,177 for 2016.

4. Cash, Cash Equivalents and Investments

Cash, cash equivalents, and investments at June 30, 2017 and 2016 were as follows:

	2017	2016
Cash on hand	$ 600	$ 600
Cash in bank	2,347,211	936,852
Investment in OSU's long term investment pool	4,008,118	3,669,684
Total	$ 6,355,929	$ 4,607,136

At June 30, 2017 and 2016, the bank statement balances of cash in banks were $2,806,402 and $1,375,812, respectively. Of the bank statement balances, $2,806,402 and $1,375,812, respectively, represented overnight sweep investments which are not covered by the FDIC.

TRC'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's mission.

Annual distributions to named funds in the Investment Pool are computed using the share method of accounting for pooled investments. For the year ended June 30, 2017, 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. For the year ended June 30, 2016, the annual distribution per share was 4.25% 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 university's Investment Pool June 30, 2017 and 2016, respectively. The value of TRC's equity interest in the university's Investment Pool was $4,008,118 and $3,669,684 at June 30, 2017 and 2016, respectively. There were no realized gains or losses during the years ended June 30, 2017 and 2016. Total net unrealized gain (loss) for the year ended June 30, 2017 and 2016 were $338,434 and $(306,318), respectively. TRC may redeem its shares in the university Investment Pool at its discretion.

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

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

5. Property and Equipment

The property and equipment balance at June 30, 2017 consists of the following:

	Balance June 30, 2016	Additions	Disposals/ Transfers	Balance June 30, 2017
Capital assets				
Building/leasehold Improvements	$ 3,228,423	$ -	$ -	$ 3,228,423
Vehicles and equipment	4,872,048	427,399	(176,125)	5,123,322
Construction-in-progress	409,462	8,319,634	(1,198,871)	7,530,225
Software	-	797,337	-	797,337
Other	86,132	-	-	86,132
Total capital assets	8,596,065	9,544,370	(1,374,996)	16,765,439
Less accumulated depreciation				
Building/leasehold Improvements	3,051,148	55,796	-	3,106,944
Equipment	4,208,148	181,185	(171,223)	4,218,110
Software	-	13,289	-	13,289
Other	86,132	-	-	86,132
Total accumulated depreciation	7,345,428	250,270	(171,223)	7,424,475
Property and equipment, net	$ 1,250,637	$ 9,294,100	$ (1,203,773)	$ 9,340,964

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

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

6. Management Agreement

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

For the years ended June 30, 2017 and 2016 the amounts of transactions with HAM are as follows:

	2017	2016
Owner revenues	$ 6,126,235	$ 7,291,952
Owner expenses	5,918,253	5,287,903

At June 30, 2017 and 2016, there was a receivable from HAM for owner expenses of $1,122,212 and $653,468, respectively. In addition, at June 30, 2017 and 2016, there was a payable to HAM for owner revenues earned of $1,470,326 and $688,173, respectively.

TRC also earns research and testing revenues from Honda of America Manufacturing and affiliated entities outside of the Management Agreement. Sales were $18,080,894 and $18,308,151 for the years ended June 30, 2017 and 2016, respectively. Trade accounts receivable at June 30, 2017 and 2016 included $1,948,690 and $2,747,080, respectively, from HAM and affiliated entities related to these research and testing revenues.

7. Deferred Compensation Plan

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

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

8. Net Position

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

In the past, the TRC Board has typically authorized an amount to be transferred equating to the fiscal year's excess of revenues over expenses less any unrealized change in the fair value of investments. During the years ended June 30, 2017 and 2016, at the Board's direction, no funds were transferred.

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

At June 30, 2017 and 2016, the net position was comprised of the following:

	2017	2016
Investment in property and equipment, net of related debt	$ 1,468,228	$ 1,250,637
Unrestricted net position	$ 8,530,942	9,008,506
Total net position	$ 9,999,170	$ 10,259,143

Unrestricted net position includes a cumulative unrealized gain (loss) in investments at June 30, 2017 and 2016 of $166,331 and $(172,103), respectively.

9. Defined Benefit Pension Plan and Post-Employment Benefits

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

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

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

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

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

The collective net pension liabilities of the retirement systems and TRC's proportionate share of these net pension liabilities as of June 30, 2017 and 2016 are as follows:

	OPERS 2017	OPERS 2016
Net pension liability - all employers	$ 22,708,299,469	$ 17,321,260,626
Proportion of the net pension liability - TRC	0.002%	0.002%
Proportionate share of net pension liability	$ 382,408	$ 365,998

Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources as of June 30, 2017 and 2016:

	OPERS 2017	OPERS 2016
Deferred Outflows of Resources:		
Differences between expected and actual experience	$ 517	$ -
Changes in assumptions	60,655	-
Net difference between projected and actual earnings on pension plan investments	80,933	109,226
Employer contributions subsequent to the measurement date	13,000	14,873
Total	**$ 155,105**	**$ 124,099**
Deferred Inflows of Resources:		
Differences between expected and actual experience	$ 2,910	$ 7,460
Net difference between projected and actual earnings on pension plan investments	6,677	-
Total	**$ 9,587**	**$ 7,460**

Net deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense during the years ending June 30, 2017 as follows:

	OPERS
2018	$ 66,404
2019	55,596
2020	25,187
2021	(1,669)
Total	**$ 145,518**

Summary of Employer Pension Expense

Total pension expense recognized for the years ended June 30, 2017 and 2016 including employer contributions and accruals associated with recognition of net pension liability and related deferrals is presented below:

	2017	2016
Employer Contributions	$ 29,941	$ 31,652
GASB 68 Accruals	(12,469)	(11,871)
Total Pension Expense	**$ 17,472**	**$ 19,781**

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

The following table provides additional details on the pension benefit formulas, contribution requirements and significant assumptions used in the measurement of total pension liabilities for the retirement system.

	OPERS
Statutory Authority	Ohio Revised Code Chapter 145
Benefit Formula	Benefits are calculated on the basis of age, final average salary (FAS), and service credit. State and Local members in transition Groups A and B are eligible for retirement benefits at age 60 with 60 contributing months of service credit or at age 55 with 25 or more years of service credit. Group C for State and Local is eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service. For Groups A and B, the annual benefit is based on 2.2% of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. For Group C, the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of 35. FAS represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career. The base amount of a member's pension benefit is locked in upon receipt of the initial benefit payment for calculation of annual cost-of-living adjustment.
Cost-of-Living Adjustments	Once a benefit recipient retiring under the Traditional Pension Plan has received benefits for 12 months, an annual 3% cost-of-living adjustment is provided on the member's base benefit.
Contribution Rates	Employee and member contribution rates are established by the OPERS Board and limited by Chapter 145 of the Ohio Revised Code. For 2016, employer rates for the State and Local Divisions were 14% of covered payroll (and 18.1% for the Law Enforcement and Public Safety Divisions). Member rates for the State and Local Divisions were 10% of covered payroll (13% for Law Enforcement and 12% for Public Safety).
Measurement Date	December 31, 2016

<table>
<tr><th></th><th>OPERS</th></tr>
<tr><td>Actuarial Assumptions</td><td>Valuation Date: December 31, 2016
Actuarial Cost Method: Individual entry age
Investment Rate of Return: 7.5%
Inflation: 3.25%
Projected Salary Increases: 3.25% - 10.75%
Cost-of-Living Adjustments: 3.00% Simple – for those retiring after January 7, 2013, 3.00% Simple through 2018, then 2.15% Simple.</td></tr>
<tr><td>Mortality Rates</td><td>RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.</td></tr>
<tr><td>Date of Last Experience Study</td><td>December 31, 2015</td></tr>
<tr><td>Investment Return Assumptions</td><td>The long term expected rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation. The following table displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return:
<table>
<tr><th>Asset Class</th><th>Target Allocation</th><th>Long Term Expected Return*</th></tr>
<tr><td>Fixed Income</td><td>23.0%</td><td>2.75%</td></tr>
<tr><td>Domestic Equity</td><td>20.7%</td><td>6.34%</td></tr>
<tr><td>Real Estate</td><td>10.0%</td><td>4.75%</td></tr>
<tr><td>Private Equity</td><td>10.0%</td><td>8.97%</td></tr>
<tr><td>International Equity</td><td>18.3%</td><td>7.95%</td></tr>
<tr><td>Other Investments</td><td>18.0%</td><td>4.92%</td></tr>
<tr><td>Total</td><td>100.0%</td><td></td></tr>
</table>
* Returns presented as arithmetic means</td></tr>
</table>

	OPERS		
Discount Rate	The discount rate used to measure the total pension liability was 7.5% for both the Traditional Pension Plan and the Combined Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.		
Sensitivity of Net Pension Liability to Changes in Discount Rate	**1% Decrease (6.5%)**	**Current Rate (7.5%)**	**1% Increase (8.5%)**
	$ 585,750	$ 382,408	$ 213,032

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

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

Post-Retirement Health Care Benefits
OPERS currently provides post-employment health care benefits to retirees with ten or more years of qualifying service credit. These benefits are advance-funded on an actuarially determined basis and are financed through employer contributions and investment earnings. OPERS determines the amount, if any, of the associated health care costs that will be absorbed by OPERS. Under Ohio Revised Code (ORC), funding for medical costs paid from the funds of OPERS is included in the employer contribution rate. For calendar year 2016, OPERS allocated 2.0% of the employer contribution rate to fund the health care program for retirees.

10. Leases

As an agent for HAM, TRC leases various buildings to TRC's customers. Lease terms range with various renewal option features. The leases are accounted for as operating leases. At June 30, 2017, future minimum lease receipts are due as follows:

2018	$893,276
2019	256,080
Total	$1,149,356

TRC leases office space from HAM under agreements with terms expiring through July 31, 2024. These operating leases contain renewal options with an indefinite term. The lease amount is subject to annual adjustment based on the consumer price index. As of June 30, 2017, future minimum rental payments under operating leases with initial terms in excess of one year are summarized as follows:

2018	$1,038,360
2019	1,038,360
2020	1,038,360
2021	1,038,360
2022	1,038,360
2023-2025	2,163,250
Total	$7,355,050

Rental expense charged to operations was $1,038,360 and $1,031,386 during 2017 and 2016, respectively.

11. Long-term Notes Payable

In July 2016, TRC entered into a Memorandum of Understanding with OSU to provide an $8,000,000 line of credit for infrastructure improvements. Through June 30, 2017, TRC has made draws totaling $6,000,000. The annual interest rate for the loan is 4.75% and has a 15-year term. Monthly interest-only payments will be made during the construction period. The final amortization schedule will be determined upon completion of the construction draws.

Debt activity for the year ended June 30, 2017 is as follows:

	Beginning Balance	Additions	Repayments	Ending Balance	Current Portion
OSU Loan	$0	$6,000,000	$0	$6,000,000	$0

12. Risk Management

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

13. Employees' Retirement Savings Plan And Trust

TRC maintains the Employees' Retirement Savings Plan and Trust (the "Plan"). The Plan is intended to comply with Section 401(a) of the Internal Revenue Code. All employees are eligible to participate in the Plan. Employer contributions to the Plan are determined solely at the discretion of TRC's board of directors. For the years ended June 30, 2017 and 2016, TRC expended $462,002 and $459,319, 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.

14. Subsequent Events

On July 5, 2017, TRC entered into a Memorandum of Understanding with OSU to provide a $3,264,652 loan to construct Phase I of the SMART Center, a new vehicle testing facility. The annual interest rate for the loan is 5.25% and has a 20-year term. Monthly interest-only payments will be made through December 31, 2017, at which time TRC and OSU will revisit the loan terms. The final amortization schedule is to be determined upon resolution of the SMART Center Phase I funding plan targeted by March 31, 2018.

On December 21, 2017, TRC entered into a master lease agreement with HAM (the "HAM Lease") for portions of the TRC real property and related improvements, effective January 1, 2018. The Management Agreement between TRC and HAM has been terminated, effective December 31, 2017. 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, the lease will automatically renew for one 15-year renewal term. Under the HAM Lease, TRC will no longer pay HAM owner's revenues but will pay rent to HAM. TRC will also be responsible for maintenance and repairs to the leased facilities and will no longer receive reimbursement from HAM. In conjunction with the HAM Lease, TRC and OSU entered into a Memorandum of Understanding, whereby OSU has agreed to support the operational needs of TRC should TRC be unable to support its own operations.

On December 20, 2017 and related to execution of the HAM Lease, TRC entered into a Memorandum of Understanding with OSU to provide a $2,615,028 loan to be used for payment of funds due to HAM. The annual interest rate for the loan is 4.00% and has a 28-month term. Monthly principal and interest payments totaling $100,000 will be made from February 1, 2018 through May 1, 2020. TRC will remit loan payments through the university's College of Engineering. The College would be responsible for any shortfall should TRC not remit sufficient funds.

Subsequent events have been assessed through January 30, 2018, the date the financial statements were available to be issued.

Transportation Research Center Inc.

Required Supplementary Information on GASB 68 Pension Liabilities (Unaudited)
For Fiscal Years Ended June 30, 2017, 2016 and 2015

Schedule of Proportionate Share of the Net Pension Liability

	2017	2016	2015
TRC proportion of the collective net pension liability	0.002%	0.002%	0.002%
TRC proportionate share of the net pension liability	$ 382,408	$ 365,998	$ 295,980
TRC covered payroll	236,058	304,372	326,793
TRC proportionate share of the net pension liability as a percentage of its covered payroll	162%	120%	90.6%
Plan fiduciary net position as a percentage of the total pension liability	77.3%	81.2%	86.5%

Schedule of University Contributions

	2017	2016	2015
Contractually required contribution	$ 29,941	$ 31,652	$ 45,571
Contributions in relation to the contractually required contribution	29,941	31,652	45,571
Contribution deficiency (excess)	$ -	$ -	$ -
TRC covered payroll	$ 236,058	$ 304,372	$ 326,793
Contributions as a percentage of covered payroll	12.7%	10.4%	13.9%

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Transportation Research Center Inc. ("TRC"), a component unit of The Ohio State University, appearing on pages 10 to 27, which comprise the statement of net position as of June 30, 2017, and the related statements of revenues, expenses, and other changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 30, 2018.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described below to be a material weakness:

Oversight and Monitoring of Key System Implementation

Observation: Transportation Research Center, Inc., (TRC), a component unit of the University, experienced a number of significant changes over the course of the past year throughout many facets of the organization. Namely, TRC implemented a new Enterprise Resource Planning (ERP) system in the last quarter of fiscal 2017; experienced significant management turnover at both the executive level and within its accounting/finance function; and embarked on significant strategic initiatives, including new business opportunities and sizable contract negotiations, which have required the time and attention of executive management.

The challenges management faced with its ERP system conversion coupled with the nearly simultaneous turnover of most of its accounting/finance group resulted in a number of accounting adjustments and delays in the preparation of the financial statements. Examples include timely generation of accurate invoices; difficulty completing a timely month-end general ledger 'close' process and related account reconciliations; and difficulty extracting data from the system to generate supporting schedules used to substantiate account balances and prepare financial statements and disclosures.

Implication: TRC's business operations and relationships with customers could be negatively impacted by an inability to timely generate accurate invoices. In addition, management is ultimately responsible for the preparation and fair presentation in the financial statements of financial position, respective changes in net position, and cash flows in conformity with generally accepted accounting principles, including the appropriate selection and application of accounting policies. Both of the above depend upon the completeness and accuracy of data within the ERP, as well as an accounting/finance team who can perform timely account reconciliations and rigorous analysis and review of period end financial results.

Recommendation: In the near-term we recommend management focus on implementing controls to ensure the completeness and accuracy of financial data coming from the ERP. In addition, management should proactively look to fill the Controller and other accounting/finance positions currently open within TRC. Going forward, TRC should adhere to the University's project management framework, or similarly robust standards, when implementing new systems.

Management Response: TRC is working with a third-party consultant to analyze the current state of the system and implement the needed functionality. The University's Office of Business and Finance will monitor the effectiveness of the system implementation corrections and internal control implementation to ensure the completeness and accuracy of financial data. TRC's senior leadership team, in coordination with TRC's Board of Directors, is evaluating the finance department. In addition, TRC's board of directors is managing the executive search for a permanent Chief Financial Officer, who will in turn hire a Controller.

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. We consider the deficiency described below to be a significant deficiency:

Create and Post Capabilities related to Journal Entries

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

Implication: The existence of create and post ability of journal entries increases the risk of fictitious or erroneous entries. The ability to create and post such entries along with reviewing such entries and key reconciliations diminishes the effectiveness of compensating controls to mitigate this risk.

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

Management Response: TRC management agrees with the recommendation above to the extent that the Epicor software security can be designed to separate the “create and post” functions as they relate to Manual Journal Entries in the software’s finance module. To the extent that the software cannot separate these functions, TRC management will further define roles within the five-member team to isolate and document the create, review and post functions within the team while continuing the monthly look-back review process once the month end is closed.

Compliance and Other Matters

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

TRC’s Response to Findings

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

Purpose of this Report

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

PricewaterhouseCoopers LLP

January 30, 2018

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THE OHIO STATE UNIVERSITY TRANSPORTATION RESEARCH CENTER, INC.

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 20, 2018

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