

OSU Global Gateways, LLC

Financial Statements

**As of and for the Years Ended December 31, 2017 and 2016
and Report of Independent Auditors**



Dave Yost • Auditor of State

Board Members
OSU Global Gateways, LLC
2040 Blankenship Hall
901 Woody Hayes Drive
Columbus, Ohio 43210-0416

We have reviewed the *Independent Auditor's Report* of the OSU Global Gateways, LLC, Franklin County, prepared by PricewaterhouseCoopers LLP, for the audit period January 1, 2017 through December 31, 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 OSU Global Gateways, LLC is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

July 17, 2018

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December 31, 2017 and 2016

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Report of Independent Auditors

To the management of OSU Global Gateways, LLC:

We have audited the accompanying financial statements of the business-type activities of OSU Global Gateways, LLC (the "Global Gateways"), a component unit of The Ohio State University, appearing on pages 11-16, which comprise the statements of net position as of December 31, 2017 and 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 the Global Gateways' 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 the business-type activities of OSU Global Gateways, LLC as of December 31, 2017 and 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.



Other Matter

The accompanying management's discussion and analysis on pages 3 through 10 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 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 a report dated June 25, 2018 on our consideration of Global Gateways' 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 Global Gateways' internal control over financial reporting and compliance and other matters.

PricewaterhouseCoopers LLP

June 25, 2018

OSU Global Gateways, LLC

Management's Discussion and Analysis (Unaudited)

For the Year Ended December 31, 2017

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and activities of OSU Global Gateways, LLC ("Global Gateways") for the year ended December 31, 2017, with comparative information for the years ended December 31, 2016 and 2015. We encourage you to read this MD&A section in conjunction with the audited financial statements and footnotes appearing in this report.

About Global Gateways

The OSU Global Gateways represents an initiative to establish a physical presence for The Ohio State University (the "university") in strategic locations around the globe. These offices integrate the international dimensions within every facet of the institution, and each location capitalizes on the strengths of Ohio State's connections across the globe through study abroad programs, international students, faculty teaching and research, university partnerships, alumni and Ohio businesses. The Global Gateways entity acts as the funding channel for all gateway offices established through this initiative.

The first Global Gateway opened in February 2010 in Shanghai, China, and the second Global Gateway opened in March 2012 in Mumbai, India. A third Global Gateway opened in September 2014 in São Paulo, Brazil. Future sites in Turkey, sub-Saharan Africa and Europe are also being considered as part of the long-term strategic vision of Global Gateways. The first office in China was funded centrally by the university, and the India Gateway office was funded through university contributions at college or departmental levels. Future gateways will be supported by revenue generated through programs and services offered by each gateway office.

iAGRI – Tanzania, LLC (iAGRI) was established in 2011 as a separate entity affiliated with OSU Global Gateways, LLC. iAGRI engages in sponsored research activities in Tanzania. Its funding is in the form of research grants managed by the Office of Sponsored Programs, a unit of the university's Office of Research.

Ohio State Global One Health Initiative, LLC (GOHI) was established in 2017 as a separate entity affiliated with OSU Global Gateways, LLC. GOHI has a physical presence in Ethiopia and engages primarily in sponsored research activities throughout eastern Africa. The majority of funding for GOHI is in the form of research grants managed by the Office of Sponsored Programs, a unit of the university's Office of Research.

About the Financial Statements

Global Gateways presents its financial reports in a "business type activity" format, in accordance with Governmental Accounting Standards Board Statement No. 34,

OSU Global Gateways, LLC
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments and GASB Statement No. 35, Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities – an amendment of GASB Statement No. 34. In addition to this MD&A section, the financial report includes Statements of Net Position, Statements of Revenues, Expenses and Other Changes in Net Position, Statements of Cash Flows and Notes to the Financial Statements.

Financial Highlights

Calendar year 2017 represents the eighth year of operations for Global Gateways. The financial activity during the year consists of funds transferred from the University to Global Gateways to cover expenses associated with the continuing operations of the Shanghai, Mumbai and São Paulo gateway offices.

The following sections provide additional details on Global Gateways' 2017 financial results and a look ahead at significant economic conditions that are expected to affect Global Gateways in the future.

Statements of Net Position

	<u>2017</u>	<u>2016</u>	<u>2015</u>
ASSETS			
Current Assets			
Cash	\$ 8,899	\$ 8,540	\$ 8,540
Accounts receivable - university	2,591	-	-
	<hr/>	<hr/>	<hr/>
Total current assets	11,490	8,540	8,540
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 11,490</u>	<u>\$ 8,540</u>	<u>\$ 8,540</u>
LIABILITIES AND NET POSITION			
Current Liabilities			
Accrued expenses	\$ 2,591	\$ -	\$ -
	<hr/>	<hr/>	<hr/>
Total current liabilities	2,591	-	-
Unrestricted	<hr/>	<hr/>	<hr/>
Total net position	8,899	8,540	8,540
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 11,490</u>	<u>\$ 8,540</u>	<u>\$ 8,540</u>

Total **current assets** increased \$2,951, to \$11,490 at December 31, 2017. This increase results from the recognition of accounts receivable from the university equal to the accrual of outstanding invoices as of December 31, 2017 that are

OSU Global Gateways, LLC
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

related to the formation of Ohio State Global One Health Initiative, LLC. The Statements of Cash Flows, which are discussed in more detail below, provide additional details on sources and uses of Global Gateways cash.

Total **current liabilities** increased \$2,591, to \$2,591 at December 31, 2017. This increase results from the accrual of outstanding invoices as of December 31, 2017 related to the formation of Ohio State Global One Health Initiative, LLC.

Statements of Revenues, Expenses and Changes in Net Position

	<u>2017</u>	<u>2016</u>	<u>2015</u>
OPERATING REVENUES:	\$ -	\$ -	\$ -
	<hr/>	<hr/>	<hr/>
Total operating revenues	-	-	-
OPERATING EXPENSES:			
Operating expenses of Chinese affiliate	436,660	397,645	402,290
Operating expenses of Indian affiliate	255,559	116,447	35,562
Operating expenses of Brazilian affiliate	309,776	208,730	-
Setup expenses paid for benefit of Brazilian affiliate	-	-	57,378
Setup expenses of Ohio State Global One Health Initiative, LLC	2,591	-	-
	<hr/>	<hr/>	<hr/>
Total operating expenses	1,004,586	722,822	495,230
OPERATING LOSS	(1,004,586)	(722,822)	(495,230)
NON-OPERATING REVENUES AND EXPENSES:			
Subsidy from The Ohio State University	1,004,945	722,822	495,230
	<hr/>	<hr/>	<hr/>
INCREASE (DECREASE) IN NET POSITION	359	-	-
NET POSITION -- Beginning of Year	8,540	8,540	8,540
	<hr/>	<hr/>	<hr/>
NET POSITION -- End of Year	<u>\$ 8,899</u>	<u>\$ 8,540</u>	<u>\$ 8,540</u>

Total operating expenses of Global Gateways increased \$281,764, to \$1,004,586 at December 31, 2017. Operating expenses include, but are not limited to, rental of office space, utilities, supplies, purchased services, equipment and personnel expenses for employees assigned to the gateway offices.

The operating expenses of the China Gateway increased \$39,015, to \$436,660. This is primarily due to an increase in salary related expenses due to staff changes and the hiring of two new team members.

The operating expenses of the India Gateway increased \$139,112, to \$255,559. This is primarily due to the resumption of quarterly expense reimbursements after the spenddown of previously advanced amounts in 2016. The director of the India Gateway also received a lump-sum payout following his resignation during 2017.

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The operating expenses of the Brazil Gateway increased \$101,046, to \$309,776, primarily due to an additional contribution of \$90,000 in capital required by the local governing authorities and increased travel expenses.

The operating expenses of the Ohio State Global One Health Initiative, LLC increased \$2,591, to \$2,591, due to legal expenses related to the formation of the new entity.

Total non-operating revenues of Global Gateways increased \$282,123, to \$1,004,945 at December 31, 2017. Non-operating revenues consist of support from the university through its Office of International Affairs.

Total net position (equity) of Global Gateways increased \$359, to \$8,899 at December 31, 2017. It should be noted that the required subtotal for net operating income or loss will generally reflect a "loss", primarily due to the way operating and non-operating items are defined under GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating expenses include virtually all Global Gateways expenses. Operating revenues, however, *exclude* certain significant revenue streams that Global Gateways relies upon to fund current operations, including direct support from the university and current-use gifts.

Statements of Cash Flows

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cash Provided by (Used in):			
Operating activities	\$ (1,001,995)	\$ (722,822)	\$ (495,230)
Noncapital financing activities	1,002,354	722,822	495,230
Capital and related financing activities	-	-	-
Investing activities	-	-	-
Net Increase (Decrease) in Cash	<u>359</u>	<u>-</u>	<u>-</u>
Cash - Beginning of Year	<u>8,540</u>	<u>8,540</u>	<u>8,540</u>
Cash - End of Year	<u>\$ 8,899</u>	<u>\$ 8,540</u>	<u>\$ 8,540</u>

Total cash increased \$359, to \$8,899 at December 31, 2017. Operating activities include all expenses related to the continued operation of the three gateway offices. Non-capital financing activities include direct operating support from the university.

OSU Global Gateways, LLC

Management's Discussion and Analysis (Unaudited)

For the Year Ended December 31, 2017

Economic Factors That Will Affect the Future

China Gateway

The China Gateway has now completed its seventh year of operation as a Wholly Foreign Owned Enterprise (WFOE). The WFOE designation allows the company to provide consulting services, arrange conferences and meetings, and allows the Gateway office to generate revenue in country. By obtaining this status, the China Gateway office programming now includes partnering with training and educational institute and develop programs to be offered for businesses, universities, hospitals and government institutions, and coordinating pre-departure orientations for incoming Ohio State students.

With increased activity to market the programs and services provided by the Gateway, and to bring Ohio State faculty and students to China, we are hopeful that the operating budget of the China Gateway will increase in future years. In addition, the office provides services that include career services, workforce development, research, and consultation.

GDP growth in China inched up in 2017, with drivers of activity continuing to shift away from largely state-led investment. Growth continued to be credit-intensive. Tighter regulations led to a significant slowdown of house price growth in Tier 1 and 2 cities.

Growth in China is projected to slow from 6.8 percent in 2017 to 6.4 percent in 2018, and 6.2 percent on average in 2019-20, as rebalancing proceeds and credit growth decelerates. Policy support is expected to diminish, as monetary policy remains tight and fiscal policy becomes less accommodative.

This outlook is predicated on continue reforms, reaffirmed by China's 19th Party Congress, which are expected to lead to further reduction in excess capacity, gradual unwinding of financial sector vulnerabilities, and shift of growth drivers from capital accumulation to total factor productivity (TFP).

Geopolitical tensions in the Korean peninsula increased substantially in 2017. A rise in this and other geopolitical risks, especially those involving large economies, could negatively affect confidence and lead to bouts of risk aversion and financial stress across the region. The materialization of such risks could have very serious effects on regional activity.

Productivity gains are becoming the main engine of improvements in living standards as capital-deepening-led growth has run its course. This calls for fostering innovation and entrepreneurship. Lower barriers to entry have spurred entrepreneurial activity, but the exit mechanism for unviable firms should also be

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streamlined. Policy emphasis is shifting towards supply-side reforms that seek to ensure sustainable development. Reallocation of labor from agriculture to industry and services has been a major driver of inclusive productivity growth and is likely to continue in the future.

Currency risk is not a significant concern for the China Gateway now due to the USD rising in value against the Chinese Yuan.

India Gateway

The India Gateway has completed its fifth year of operation as a Private Limited Company (PLC). Similar to the China Gateway, we are hopeful that the operating budget of the India Gateway will increase in future years. The India Gateway currently offers programs in operational excellence, sustainable supply chain operations optimization, health sciences research collaboration, health worker technical training, facilitation of capacity-building initiatives, coordination of proposal writing for grants, providing visa assistance and processing, and conference planning and execution. This office also provides services that include career services, workforce development, research, and consultation.

The India Gateway is also currently engaged in talks with a number of Indian corporations about collaborations that would bring funding in the form of revenues, as well as bilateral partnership funding to the university from American and Indian government initiatives. The India Gateway is also an advisor in planning the smart cities initiatives for India.

Growth outlooks for India remain to be positive, as the International Monetary Fund (IMF) forecasts India to be the fastest growing major economy in 2018. GDP growth is projected to increase to 7.3 percent in 2018-19, and to 7.5 percent in 2019-2020.

Indian GDP grew 6.7% in FY 2017-18, below previous projections but the IMF. The IMF has signaled the GDP output slowdown has bottomed out, staging a modest recovery with pickup of investment in FY 2017/18. The slowdown in growth rate can be attributed to temporary disruptions of implementing historic financial reforms in 2016 and 2017. Disruptions to consumption and commerce from cash shortages (in a predominately cash-based economy) caused by demonization of two currency denominations with the Currency Exchange Initiative slowed growth. Additionally, transition costs and disruptions to manufacturing slowed impacted projections while India began implementation the new National Goods and Services Tax in 2017.

Growth is expected to gradually rise with recent strong private consumption, coupled with numerous structural reforms (including Make in India initiative) that

OSU Global Gateways, LLC

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aim to raise productivity, incentivize private investment in concert remove internal barriers to trade, increase efficiency, improve tax compliance, broaden the tax base and raise potential national output. These conditions seem to have offset short term disruptions from implementation of the tax code, a key 2017 concern.

Continued policy reform and implementation in will determine long term internal risk in India. While diminished, lingering restraints from the government's 2016 Currency Exchange Initiative will continue to impact small businesses and rural regional economies, where reliance on primarily cash-based markets and limited electronic payment infrastructure amplifies short term disruptions from demonetization. Digital and mobile payments sector lags (only 6% of merchants accept digital payment) in India and efforts toward digitalization of payment infrastructure is important to capitalize on growth and limit business accessibility. Pushing for implementation of reforms like the Digital India Program to increase financial inclusion will be impactful for business transactions.

Risk remains in the agricultural, health of the banking system where increasing amounts of bad and non-performing loans require lending practice reforms, a long concern in India. Overall default rates have increased in 2018 and the risk of loan defaults by firms in the weakening telecom, sugar and health sectors is likely to increase as well. Private banking shares have declined, as recent underreporting of hidden bad loans have increased instability in the sector in early 2018. The IMF identifies corporate debt overhangs and associated banking sector credit quality concerns have negatively impacted investment in India. Additionally, setbacks to reforms to resolve corporate and financial sector balance sheet deterioration and increased liability related to infrastructure projects, from debt write-offs for farmers, could impact fiscal consolidation efforts and weigh on market confidence.

Currency risk is not a concern of the Indian Gateway, as the Indian Rupee (INR) valuation against the Dollar has slowed since 2017, trading at INR67.87, near its 2016 record low of INR68.89 per dollar, down 2.6% in 2018. INR forecasts have been cut in 2018 as the currency, now Asia's second worst performing currency, which weakened against the Pound and the Dollar in 2018 increasing purchasing power for the LLC. It is important to note the U.S. Treasury ruled to add the INR to its monitoring list for currency manipulation in April of 2018, which could result in less currency intervention in months ahead.

Brazil Gateway

The Brazil Gateway is in its fourth year of operation. The Brazil Gateway is operating as a Limitada (LTDA), equivalent to a Limited Liability Company (LLC) in the United States. The Brazil Gateway provides support to the University in the key areas of students, research/faculty, alumni and partnerships.

OSU Global Gateways, LLC

Management's Discussion and Analysis (Unaudited)

For the Year Ended December 31, 2017

GDP grew 1.0% in 2017 and should accelerate gradually going forward. GDP growth forecasts are 2.1% in 2018 and 3.0% in 2019. Political and fiscal developments will shape the future economic performance and sustainability of the economic recovery.

Brazil has also been challenged with political crisis, including a large-scale corruption scandal (Lava Jato), the impeachment of President Dilma Rouseff and the low popularity of interim President Michael Temer's legal reforms, especially the ones related to labor, employment and social security laws. The pro-business perceptions of interim President Michael Temer had an initial positive impact on investor confidence and the Brazilian Real (BRL) has strengthened slightly since impeachment. The Brazilian Real (BRL) is currently (as of May 2017) trading around 3.65 per US Dollar (USD) compared to 3.25 a year ago, 3.40 two years ago, and 2.2 three years ago. The combined political and economic crises have seen major cuts to Brazilian higher education funding and programming, most notably the Brazilian Science Mobility Program (BSMP) also known as "Science Without Borders." Funding for research and scholarships has also seen significant reductions. That being noted, the Brazilian government is currently launching its revamped strategic initiative for funding higher education internationalization, CAPES PrInt, and Ohio State is listed as a partner institution on five proposals with leading universities, representing a significant funding opportunity for the University to support its strategic engagement with Brazil through faculty research collaborations, graduate students, and academic exchanges.

Brazil has political elections in October 2018. In anticipation of the election the BRL has been devaluing. Brazil Gateway budgetary funds are based in dollars and a weakened Brazilian Real tends to improve our purchasing power in the country. Though some currency exchange rate trends may be positive, fluctuations can also be adverse and potentially create discrepancies between budgeted spending and actual in-country spending.

A weakening Brazilian Real can potentially affect Brazilian students who are seeking to study in the USA because of a reduction of their purchasing power in dollars. Currently, the Brazil Gateway is not generating revenue in-country in local currency but continued inflation and weakening currency could influence the financial affordability and viability of such programs in the future.

OSU Global Gateways, LLC
Statements of Net Position
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets		
Cash	\$ 8,899	\$ 8,540
Accounts receivable - university	2,591	-
Total current assets	<u>11,490</u>	<u>8,540</u>
Total Assets	<u>\$ 11,490</u>	<u>\$ 8,540</u>
Liabilities		
Current Liabilities		
Accrued expenses	\$ 2,591	\$ -
Total current liabilities	<u>2,591</u>	<u>-</u>
Total Liabilities	<u>2,591</u>	<u>-</u>
Net Position		
Unrestricted	<u>8,899</u>	<u>8,540</u>
Total Net Position	<u>8,899</u>	<u>8,540</u>
Total Liabilities and Net Position	<u>\$ 11,490</u>	<u>\$ 8,540</u>

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

OSU Global Gateways, LLC
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2017 and December 31, 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Total Operating Revenue	<u>\$ -</u>	<u>\$ -</u>
Operating Expenses		
Operating expenses of Chinese affiliate	436,660	397,645
Operating expenses of Indian affiliate	255,559	116,447
Operating expenses of Brazilian affiliate	309,776	208,730
Setup expenses of Ohio State Global One Health Initiative, LLC	2,591	-
Total Operating Expense	<u>1,004,586</u>	<u>722,822</u>
Net Operating Loss	(1,004,586)	(722,822)
Non-operating Revenues (Expense)		
Subsidy from The Ohio State University	<u>1,004,945</u>	<u>722,822</u>
Net Non-operating Revenue	1,004,945	722,822
Increase in Net Position	359	-
Net Position, Beginning of Year	<u>8,540</u>	<u>8,540</u>
Net Position, End of Year	<u><u>\$ 8,899</u></u>	<u><u>\$ 8,540</u></u>

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

OSU Global Gateways, LLC
Statements of Cash Flows
For the Years Ended December 31, 2017 and December 31, 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Operating expenses of Chinese affiliate	\$ (436,660)	\$ (397,645)
Operating expenses of Indian affiliate	(255,559)	(116,447)
Operating expenses of Brazilian affiliate	<u>(309,776)</u>	<u>(208,730)</u>
Net cash used in operating activities	<u>(1,001,995)</u>	<u>(722,822)</u>
Cash Flows from Noncapital Financing Activities:		
Subsidy from The Ohio State University	<u>1,002,354</u>	<u>722,822</u>
Net cash provided by noncapital financing activities	<u>1,002,354</u>	<u>722,822</u>
Cash Flows from Capital Financing Activities:		
Net cash provided (used) by capital financing activities	<u>-</u>	<u>-</u>
Cash Flows from Investing Activities:		
Net cash provided (used) by investing activities	<u>-</u>	<u>-</u>
Net Increase in Cash	359	-
Cash - Beginning of Year	<u>8,540</u>	<u>8,540</u>
Cash - End of Year	<u>\$ 8,899</u>	<u>\$ 8,540</u>
Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities:		
Operating loss	\$ (1,004,586)	\$ (722,822)
Adjustments to reconcile net operating loss to net cash used by operating activities:		
Changes in assets and liabilities:		
Increase in accrued expenses	2,591	-
Net cash used by operating activities	<u>\$ (1,001,995)</u>	<u>\$ (722,822)</u>

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

OSU Global Gateways, LLC

Notes to Financial Statements

For the Years Ended December 31, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Entity

OSU Global Gateways, LLC (“Global Gateways”) is a limited liability corporation established by The Ohio State University (the “university”) to serve as a holding company for the following country specific organizations:

- OSU China Gateway – a Wholly Foreign Owned Enterprise with an office in Shanghai, China
- OSU India Gateway – a Private Limited Company with an office in Mumbai, India
- OSU Brazil Gateway – a Limitada, equivalent to a Limited Liability Company, with an office in Sao Paulo, Brazil
- iAGRI -Tanzania LLC – an Ohio limited liability company established to facilitate federally funded research programs in Tanzania
- Ohio State Global One Health LLC – an Ohio limited liability company established to facilitate federally funded research programs in Ethiopia

The accompanying financial statements present the parent organization, OSU Global Gateways, LLC, as a stand-alone financial reporting entity. Global Gateways is not financially accountable for the three foreign Gateway entities, as the university maintains control and oversight over these entities. iAGRI – Tanzania LLC and Ohio State Global One Health LLC engage in sponsored research activities in Tanzania and Ethiopia, respectively. Their funding is in the form of the research grants managed by the university’s Office of Sponsored Programs. The China, India and Brazil Gateways, iAGRI and Ohio State Global One Health entities are not included in the Global Gateways financial statements. iARGI - Tanzania LLC and Ohio State Global One Health LLC are considered related organizations under GASB Statement No. 14.

Global Gateways is a part of the university financial reporting entity. The university is the sole member of OSU Global Gateways, LLC, and Global Gateways is presented as a blended component unit in the university’s financial statements, which contain more extensive disclosure of the significant accounting policies of the university as a whole.

Basis of Presentation

Global Gateways complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. Global Gateways reports as a special purpose government engaged solely in “business type activities” under GASB Statement No. 34.

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

OSU Global Gateways, LLC

Notes to Financial Statements

For the Years Ended December 31, 2017 and 2016

Restricted:

Nonexpendable – Net position subject to externally imposed stipulations that they be maintained permanently by Global Gateways.

Expendable – Net position whose use by Global Gateways is subject to externally imposed stipulations that can be fulfilled by actions of Global Gateway pursuant to those stipulations or that expire by the passage of time.

Unrestricted: Net position whose use by Global Gateways is not subject to externally imposed stipulations. Unrestricted net position 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 Global Gateways' policy to apply restricted resources first when an expense is incurred for which both restricted and unrestricted net position are available.

Basis of Accounting

The financial statements of Global Gateways have been prepared on the accrual basis. Subsidy revenue for Global Gateways is recognized on a cost-reimbursement basis.

Cash

Cash of Global Gateways is maintained by the university in a separate bank account and is not commingled with the university's cash.

Operating and Non-Operating Revenues and Expenses

Global Gateways defines operating activities, for purposes of reporting on the Statements 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 or services received. All other revenues, including transfers of cash from the university, are considered non-operating revenues. All Global Gateways expenses are considered to be operating expenses. University reimbursements of China Gateway expenses are subject to foreign currency risk as these expenses are paid in Chinese RMB. However, this risk is not considered to be material. The India and Brazil Gateway expenses are paid in U.S. dollars.

NOTE 2: CASH AND INVESTMENTS

The cash balances consist of funds transferred from the university to Global Gateways' stand-alone bank account. The bank balances and carrying amounts are equal, and all

OSU Global Gateways, LLC
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of the bank balance is covered by federal deposit insurance. Cash balances at December 31, 2017 and 2016 are \$8,899 and \$8,540, respectively.

NOTE 3: UNIVERSITY SUPPORT

The operations of Global Gateways are supported in full by the Office of International Affairs, an operating unit of the university. The university provides funding for the general operating costs of the three Global Gateway offices in Shanghai, China; Mumbai, India; and São Paulo, Brazil. The university's direct support amounted to \$1,004,586 and \$722,822 for the years ended December 31, 2017 and 2016, respectively. In addition, the staff in the Office of International Affairs provide administrative support to Global Gateways, and some domestic regulatory expenses are paid by the university on behalf of Global Gateways. The value of these services constitutes additional in-kind income to Global Gateways but is not reported in Global Gateways' financial statements.

NOTE 4: SUBSEQUENT EVENTS

Global Gateways has assessed the impact of subsequent events through June 25, 2018 and has concluded that there were no such events that require adjustment to the audited financial statements or disclosure in the notes to the audited financial statements.



**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 management of OSU Global Gateways, LLC:

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 the business-type activities of OSU Global Gateways, LLC (“Global Gateways”), a component unit of The Ohio State University, appearing on pages 11 to 16, which comprise the statement of net position as of December 31, 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 June 25, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Global Gateways’ internal control over financial reporting (“internal control”) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Global Gateways’ internal control. Accordingly, we do not express an opinion on the effectiveness of Global Gateways’ 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Global Gateways' 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*.

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

June 25, 2018



Dave Yost • Auditor of State

OSU GLOBAL GATEWAYS, LLC

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
JULY, 31 2018