

The Ohio State University
OSU Global Gateways, LLC
Financial Statements
December 31, 2012 and 2011



Dave Yost • Auditor of State

Board of Trustees
OSU Global Gateways, LLC
2040 Blankenship Hall
901 Woody Hayes Drive
Columbus, Ohio 43210

We have reviewed the Independent Auditor's *Report* of the OSU Global Gateways, LLC, Franklin County, prepared by Pricewaterhouse Coopers LLP, for the audit period January 1, 2012 through December 31, 2012. 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 5, 2013

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**The Ohio State University
OSU Global Gateways, LLC
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December 31, 2012 and 2011**

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Independent Auditor's Report

To the Board of Trustees of
OSU Global Gateways, LLC
Columbus, OH

Report on the Financial Statements

We have audited the accompanying financial statements of OSU Global Gateways, LLC (the "Global Gateways"), a component unit of The Ohio State University, which comprise the statements of net position as of December 31, 2012 and December 31, 2011, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Global Gateways as of December 31, 2012 and December 31, 2011, 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 Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented 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 the 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 our report dated May 31, 2013 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.

PricewaterhouseCoopers LLP

Columbus, O
May 31, 2013

The Ohio State University OSU Global Gateways, LLC Management's Discussion and Analysis Fiscal Year Ending December 31, 2012

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, 2012, with comparative information for the years ended December 31, 2011 and 2010. 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 in strategic locations around the globe. These offices will integrate the international dimensions within every facet of the institution and each location will capitalize 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.

Global Gateways officially changed its name from OSU China Gateway, LLC to OSU Global Gateways, LLC in June 2011, prior to opening a second gateway in India. The Global Gateways entity will act 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. Future offices are anticipated for Brazil (expected to open in 2014), Turkey, Europe and sub-Saharan Africa. 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.

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, 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 2012 represents the third 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 gateway office and the opening of the Mumbai gateway office.

The following sections provide additional details on Global Gateways' 2012 financial results and a look ahead at significant economic conditions that are expected to affect Global Gateways in the future.

**The Ohio State University
OSU Global Gateways, LLC
Management's Discussion and Analysis
Fiscal Year Ending December 31, 2012**

Statements of Net Position

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash	\$ 303,264	\$ 23,295	\$ 23,330
Total current assets	303,264	23,295	23,330
TOTAL ASSETS	\$ 303,264	\$ 23,295	\$ 23,330
Liabilities and Net Position			
Unrestricted	\$ 303,264	\$ 23,295	\$ 23,330
TOTAL NET POSITION	\$ 303,264	\$ 23,295	\$ 23,330

Total current assets increased \$279,969, to \$303,264 at December 31, 2012, primarily due to a transfer from the university of operating funds for the China Gateway to Global Gateways near the end of the accounting year. The corresponding outflow of funds to the Chinese affiliate occurred in January, 2013. The Statements of Cash Flows, which are discussed in more detail below, provide additional details on sources and uses of Global Gateways cash.

Statements of Revenues, Expenses and Changes in Net Position

	<u>2012</u>	<u>2011</u>	<u>2010</u>
OPERATING REVENUES:	\$ -	\$ -	\$ -
Total operating revenues	-	-	-
OPERATING EXPENSES:			
Transfers to Chinese affiliate for local office expenses	2,631	319,035	176,685
Transfers to Indian affiliate for local office expenses	100,000	-	-
Setup expenses paid for benefit of Indian affiliate	20,082	-	-
Total operating expenses	122,713	319,035	176,685
OPERATING LOSS	(122,713)	(319,035)	(176,685)
NON-OPERATING REVENUES AND EXPENSES:			
Gifts	-	-	15
Subsidy from The Ohio State University	402,682	319,000	200,000
INCREASE (DECREASE) IN NET POSITION	279,969	(35)	23,330
NET POSITION - Beginning of Year	23,295	23,330	-
NET POSITION - End of Year	\$ 303,264	\$ 23,295	\$ 23,330

Total operating expenses of Global Gateways decreased \$196,322, to \$122,713 at December 31, 2012. 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 Shanghai and Mumbai offices. The calendar year 2011 expenses included one-time expenses of \$200,035 in connection with the WFOE (Wholly Foreign Owned Enterprise) application process for the China Gateway.

Total non-operating revenues of Global Gateways increased \$83,682, to \$402,682 at December 31, 2012. Non-operating revenues include support from the university through its Office of International Affairs.

**The Ohio State University
OSU Global Gateways, LLC
Management's Discussion and Analysis
Fiscal Year Ending December 31, 2012**

Total net position (equity) of Global Gateways increased \$279,969 to \$303,264 at December 31, 2012. 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>2012</u>	<u>2011</u>	<u>2010</u>
Cash Provided by (Used in):			
Operating activities	\$ (122,713)	\$ (319,035)	\$ (176,685)
Noncapital financing activities	402,682	319,000	200,015
Capital and related financing activities	-	-	-
Investing activities	-	-	-
Net Increase (Decrease) in Cash	<u>279,969</u>	<u>(35)</u>	<u>23,330</u>
Cash - Beginning of Year	<u>23,295</u>	<u>23,330</u>	<u>-</u>
Cash - End of Year	\$ 303,264	\$ 23,295	\$ 23,330

Total Global Gateways **cash** increased \$279,969 to \$303,264 at December 31, 2012. Operating activities include all expenses related to the continued operation of the Global Gateways offices in Shanghai, China and Mumbai, India. Non-capital financing activities include direct operating support from the university.

Economic Factors That Will Affect the Future

The China Gateway has now completed its third year of operation. The China Gateway is operating as a Wholly Foreign Owned Enterprise (WFOE) for the second year, after previously being designated as a Foreign Representative Office (FRO). 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 training programs for businesses and government institutions.

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. The China Gateway plans to offer programs in public health, pharmaceutical sciences, technology services, and administrator and business training. In addition, the office provides services that include career services, workforce development, research, and consultation.

The China Gateway must continue to monitor the global activity in the euro area and the fiscal response necessary during current recessions in various regions of the world. The China Gateway must also closely monitor currency risk. With the current and projected future trend of the Chinese RMB rising in value against the US dollar, the China Gateway's spending power is decreasing as our domestic budget remains static. With the expansion of programs and offerings in China, more revenue will be earned in the local currency to alleviate some of this currency risk. However, the China Gateway office would be very susceptible to risk if the current peg of the Chinese Yuan to the dollar were lifted.

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OSU Global Gateways, LLC
Management's Discussion and Analysis
Fiscal Year Ending December 31, 2012**

The India Gateway has just completed its first 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 sustainable supply chain practices and is 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. Additionally, the India Gateway plans to offer programs in nursing and medicine as well as supporting faculty collaborations in the health sciences fields. This office also provides services that include career services, workforce development, research, and consultation.

The India Gateway must continue to monitor the cues from the global markets, such as currency movements and interest rates in the U.S., rest of Asia, and Europe, to manage currency risk. Important reforms pushed by the Indian government are expected to encourage capital inflows and support the Indian Rupee. Indeed, most banks expect the Rupee to rise in value against the US dollar in 2013, resulting in a decrease in the India Gateway's spending power as its domestic budget remains static. Also, in the short term, with the extended administrative period required for compliance with regulations for the private limited company, and the postponement in capacity building, e.g. hiring of staff, less local revenue is expected to be earned in 2013, with a more complete rollout of programs and services expected in 2014. We expect this circumstance to increase the potential impact of currency risk in the coming year.

**The Ohio State University
OSU Global Gateways, LLC
Statements of Net Position
As of December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
ASSETS:		
Current Assets:		
Cash	\$ 303,264	\$ 23,295
Total current assets	303,264	23,295
Noncurrent assets:		
Total noncurrent assets	-	-
Total Assets	<u>\$ 303,264</u>	<u>\$ 23,295</u>
NET POSITION		
Unrestricted	303,264	23,295
Total Net Position	<u>303,264</u>	<u>23,295</u>
Total Liabilities and Net Position	<u>\$ 303,264</u>	<u>\$ 23,295</u>

The accompanying notes are an integral part of this financial statement

The Ohio State University
OSU Global Gateways, LLC
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenues		
Total Operating Revenue	\$ -	\$ -
Operating Expenses		
Transfer to Chinese affiliate for local office expenses	2,631	319,035
Transfer to Indian affiliate for local office expenses	120,082	-
Total Operating Expense	<u>122,713</u>	<u>319,035</u>
Total Operating Income (Loss)	<u>(122,713)</u>	<u>(319,035)</u>
Nonoperating Revenues (Expense):		
Subsidy from The Ohio State University	<u>402,682</u>	<u>319,000</u>
Increase in Net Position	279,969	(35)
Net Position, Beginning of Year	<u>23,295</u>	<u>23,330</u>
Net Position, End of Year	<u>\$ 303,264</u>	<u>\$ 23,295</u>

The accompanying notes are an integral part of this financial statement

The Ohio State University
OSU Global Gateways, LLC
Statements of Cash Flows
For the Years Ended December 31, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities:		
Transfer to Chinese affiliate for local office expense	\$ (2,631)	\$ (319,035)
Transfer to Indian affiliate for local office expense	(100,000)	-
Setup expenses paid for benefit of Indian affiliate	<u>(20,082)</u>	<u>-</u>
Net cash used by operating activities	(122,713)	(319,035)
Cash Flows from Noncapital Financing Activities		
Subsidy from The Ohio State University	<u>402,682</u>	<u>319,000</u>
Net cash provided by noncapital financing activities	<u>402,682</u>	<u>319,000</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 (Decrease) in Cash	279,969	(35)
Cash - Beginning of Year	<u>23,295</u>	<u>23,330</u>
Cash - End of June	<u>\$ 303,264</u>	<u>\$ 23,295</u>
Reconciliation of Net Operating Loss to Net Cash Provided (Used) by Operating Activities		
Operating loss	\$ (122,713)	\$ (319,035)
Adjustments to reconcile net operating loss to net cash used by operating activities:		
Changes in assets and liabilities:		
Net cash used by operating activities	<u>\$ (122,713)</u>	<u>\$ (319,035)</u>

The accompanying notes are an integral part of this financial statement

The Ohio State University
OSU Global Gateways, LLC
Notes to the Financial Statements
As of the Years Ended December 31, 2012 and 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Entity

OSU Global Gateways, LLC (Global Gateways) is a component unit of The Ohio State University (university) financial reporting entity. The financial statements of the university 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, including GASB Statements No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, and No. 63, Financial Reporting and Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, which are effective for years beginning after December 15, 2011. 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:

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

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 whereby all revenues are recorded when earned and all expenses are recorded when they are considered to be a legal or contractual obligation to pay.

Cash

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

**The Ohio State University
OSU Global Gateways, LLC
Notes to the Financial Statements
As of the Years Ended December 31, 2012 and 2011**

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. During calendar year 2011, Global Gateways also transferred \$200,035 to the China Gateway as part of the Wholly Foreign Owned Enterprise (WFOE) licensing process.

Name Change

Global Gateways legally changed its name from OSU China Gateway, LLC to OSU Global Gateways, LLC in June 2011 to reflect its expanding worldwide presence.

2. CASH AND INVESTMENTS

The cash balance as of December 31, 2012 is \$303,264 and consists of funds transferred from the university to Global Gateways' stand-alone bank account. The bank balance and carrying amount are equal and \$303,264 is covered by federal deposit insurance.

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 Global Gateway offices in Shanghai, China and Mumbai, India. The university's direct support amounted to \$402,682 and \$319,000 for the years ended December 31, 2012 and 2011, respectively.



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

To the Board of Trustees of
OSU Global Gateways, LLC
Columbus, OH

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 OSU Global Gateways, LLC ("Global Gateways"), which comprise the statement of net position as of December 31, 2012, and the related statement of revenues, expenses and 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 May 31, 2013.

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 opinion 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.

Princeton University

Columbus, O
May 31, 2013



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 18, 2013**