

The Ohio State University
OSU Global Gateways, LLC
Financial Statements
December 31, 2013 and 2012



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, 2013 through December 31, 2013. 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

June 16, 2014

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**The Ohio State University
OSU Global Gateways, LLC
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December 31, 2013 and 2012**

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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 the business-type activities of OSU Global Gateways, LLC (the "Global Gateways"), a component unit of The Ohio State University, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Global Gateways' basic financial statements as listed in the table of contents.

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 the auditor's 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, the auditor considers 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 Global Gateways as of December 31, 2013 and December 31, 2012, 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

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 7 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 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 our report dated June 2, 2014 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.

Prüferunterzeichner Cooper LLP

Columbus, OH
June 2, 2014

OSU Global Gateways, LLC

Management's Discussion and Analysis

Fiscal Year Ending December 31, 2013

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, 2013, with comparative information for the years ended December 31, 2012 and 2011. 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. 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. A third Global Gateway is expected to open in September 2014 in São Paulo, Brazil. Future sites in Turkey, sub-Saharan Africa and Europe are also being considered. 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.

OSU Global Gateways, LLC
Management's Discussion and Analysis
Fiscal Year Ending December 31, 2013

Financial Highlights

Calendar year 2013 represents the fourth 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' 2013 financial results and a look ahead at significant economic conditions that are expected to affect Global Gateways in the future.

Statements of Net Position

Statements of Net Position	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cash	\$ 3,277	\$ 303,264	\$ 23,295
Total current assets	<u>3,277</u>	<u>303,264</u>	<u>23,295</u>
TOTAL ASSETS	<u>\$ 3,277</u>	<u>\$ 303,264</u>	<u>\$ 23,295</u>
LIABILITIES AND NET POSITION			
Unrestricted	<u>\$ 3,277</u>	<u>\$ 303,264</u>	<u>\$ 23,295</u>
TOTAL NET POSITION	<u>\$ 3,277</u>	<u>\$ 303,264</u>	<u>\$ 23,295</u>

Total **current assets** decreased \$299,987, to \$3,277 at December 31, 2013, primarily due to the timing associated with a transfer of operating funds from the university for the China Gateway. The university transferred \$280,000 to Global Gateways at the end of the 2012 calendar year, and the corresponding outflow of \$299,987 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.

OSU Global Gateways, LLC
Management's Discussion and Analysis
Fiscal Year Ending December 31, 2013

Statements of Revenues, Expenses and Changes in Net Position

Statements of Revenues, Expenses and Changes in Net Position	<u>2013</u>	<u>2012</u>	<u>2011</u>
OPERATING REVENUES:	\$ -	\$ -	\$ -
Total operating revenues	-	-	-
OPERATING EXPENSES:			
Transfers to Chinese affiliate for local office expenses	362,856	2,631	319,035
Transfers to Indian affiliate for local office expenses	-	100,000	-
Setup expenses paid for benefit of Indian affiliate	9,812	20,082	-
Total operating expenses	372,668	122,713	319,035
OPERATING LOSS	(372,668)	(122,713)	(319,035)
NON-OPERATING REVENUES AND EXPENSES:			
Subsidy from The Ohio State University	72,681	402,682	319,000
INCREASE (DECREASE) IN NET POSITION	(299,987)	279,969	(35)
NET POSITION -- Beginning of Year	303,264	23,295	23,330
NET POSITION -- End of Year	<u>\$ 3,277</u>	<u>\$ 303,264</u>	<u>\$ 23,295</u>

Total operating expenses of Global Gateways increased \$249,955, to \$372,668 at December 31, 2013. 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 2013 calendar year expenses included expenses of \$299,987 in connection with the WFOE (Wholly Foreign Owned Enterprise) application process for the China Gateway.

Total non-operating revenues of Global Gateways decreased \$330,001, to \$72,681 at December 31, 2013. Non-operating revenues include support from the university through its Office of International Affairs.

Total net position (equity) of Global Gateways decreased \$299,987 to \$3,277 at December 31, 2013. 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,

OSU Global Gateways, LLC
Management's Discussion and Analysis
Fiscal Year Ending December 31, 2013

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

Statements of Cash Flows	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cash Provided by (Used in):			
Operating activities	\$ (372,668)	\$ (122,713)	\$ (319,035)
Noncapital financing activities	72,681	402,682	319,000
Capital and related financing activities	-	-	-
Investing activities	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Net Increase (Decrease) in Cash	(299,987)	279,969	(35)
Cash - Beginning of Year	<u>303,264</u>	<u>23,295</u>	<u>23,330</u>
Cash - End of Year	<u>\$ 3,277</u>	<u>\$ 303,264</u>	<u>\$ 23,295</u>

Total Global Gateways **cash** decreased \$299,987 to \$3,277 at December 31, 2013. The decrease is due to the timing associated with a transfer of operating funds from the university for the China Gateway. The university transferred \$280,000 to Global Gateways at the end of the 2012 calendar year, but the corresponding outflow of \$299,987 to the Chinese affiliate did not occur until January, 2013. 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 fourth year of operation. The China Gateway is operating as a Wholly Foreign Owned Enterprise (WFOE) for the third year, after previously 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 developing training programs to be offered for businesses and government institutions at Ohio State.

With increased activity to market the programs and services provided by the Gateway and bring Ohio State faculty and students to China, we are hopeful that

OSU Global Gateways, LLC
Management's Discussion and Analysis
Fiscal Year Ending December 31, 2013

the operating budget of the China Gateway will increase in future years. In addition, the office provides services which 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 tying the Chinese Yuan to the dollar were lifted.

The India Gateway has completed its second 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 to the India Gateway 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 2014, 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 initially, with a more complete rollout of programs and services expected in 2015. We expect this circumstance to increase the potential impact of currency risk in the coming year.

OSU Global Gateways, LLC
Statements of Net Position
As of December 31, 2013 and 2012

	2013	2012
ASSETS:		
Current Assets:		
Cash	\$ 3,277	\$ 303,264
Total current assets	3,277	303,264
Noncurrent Assets:		
Total noncurrent assets	-	-
Total Assets	\$ 3,277	\$ 303,264
NET POSITION:		
Unrestricted	\$ 3,277	\$ 303,264
Total Net Position	3,277	303,264
Total Liabilities and Net Position	\$ 3,277	\$ 303,264

The accompanying notes are an integral part of this financial statement.

OSU Global Gateways, LLC
Statements of Revenues, Expenses and Other Changes in Net Position
For the Years Ended December 31, 2013 and 2012

	2013	2012
Operating Revenues:		
Total Operating Revenue	\$ -	\$ -
Operating Expenses:		
Transfer to Chinese affiliate for local office expenses	362,856	2,631
Transfer to Indian affiliate for local office expenses	-	100,000
Setup expenses paid for benefit of Indian affiliate	9,812	20,082
Total Operating Expense	372,668	122,713
Net Operating Loss	(372,668)	(122,713)
Nonoperating Revenues:		
Subsidy from The Ohio State University	72,681	402,682
Increase (Decrease) in Net Position	(299,987)	279,969
Net Position, Beginning of Year	303,264	23,295
Net Position, End of Year	\$ 3,277	\$ 303,264

The accompanying notes are an integral part of this financial statement.

OSU Global Gateways, LLC
Statements of Cash Flows
For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities:		
Transfer to Chinese affiliate for local office expenses	\$ (362,856)	\$ (2,631)
Transfer to Indian affiliate for local office expenses	-	(100,000)
Setup expenses paid for benefit of Indian affiliate	<u>(9,812)</u>	<u>(20,082)</u>
Net cash used by operating activities	<u>(372,668)</u>	<u>(122,713)</u>
Cash Flows from Noncapital Financing Activities:		
Subsidy from The Ohio State University	<u>72,681</u>	<u>402,682</u>
Net cash provided by noncapital financing activities	<u>72,681</u>	<u>402,682</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	(299,987)	279,969
Cash - Beginning of Year	<u>303,264</u>	<u>23,295</u>
Cash - End of Year	<u>\$ 3,277</u>	<u>\$ 303,264</u>
Reconciliation of Net Operating Loss to Net Cash		
Provided (Used) by Operating Activities:		
Operating loss	\$ (372,668)	\$ (122,713)
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>\$ (372,668)</u>	<u>\$ (122,713)</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
For the Years Ended December 31, 2013 and 2012**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Entity

OSU Global Gateways, LLC (Global Gateways) is a part 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.

**THE OHIO STATE UNIVERSITY
OSU GLOBAL GATEWAYS, LLC
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2013 and 2012**

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.

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.

NOTE 2: CASH AND INVESTMENTS

The cash balance as of December 31, 2013 consists of funds transferred from the university to Global Gateways' stand-alone bank account. The bank balance and carrying amount are equal, and \$3,277 is covered by federal deposit insurance.

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 Global Gateway offices in Shanghai, China and Mumbai, India. The university's direct support amounted to \$72,681 and \$402,682 for the years ended December 31, 2013 and 2012, respectively.

NOTE 4: SUBSEQUENT EVENT

In April 2014, The Board of Trustees of The Ohio State University approved plans to open in September 2014 a third Global Gateway in São Paulo, Brazil. The Brazil Gateway formalizes the university's long standing engagement in Brazil, a relationship that began in 1964 with research and teaching collaborations with the Luiz de Queiroz College of Agriculture, a unit of the University of São Paulo.



Independent Auditor's Report

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 the business-type activities of OSU Global Gateways, LLC ("Global Gateways"), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Global Gateways' basic financial statements, and have issued our report thereon dated June 2, 2014.

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 Township Cooper LLP

Columbus, OH
June 2, 2014

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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
JUNE 26, 2014**