

OSU China Gateway, LLC
Financial Statements as of and for the Year Ended
December 31, 2010 and Independent Auditors'
Report



Dave Yost • Auditor of State

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

We have reviewed the *Report of Independent Auditors* of the OSU China Gateway LLC, Franklin County, prepared by Pricewaterhouse Coopers LLP, for the audit period January 1, 2010 through December 31, 2010. 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 China Gateway LLC is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

April 4, 2012

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Report of Independent Auditors

To the Board of Trustees of
OSU China Gateway, LLC
Columbus, OH:

In our opinion, the accompanying statement of net assets and the related statement of revenues, expenses and changes in net assets, and statement of cash flows present fairly, in all material respects, the financial position of OSU China Gateway, LLC ("China Gateway"), which is a part of The Ohio State University, at December 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of China Gateway are intended to present the financial position, changes in financial position, and cash flows of only that portion of the financial reporting entity of The Ohio State University that is attributable to the transactions of China Gateway. They do not purport to, and do not, present fairly the financial position of The Ohio State University as of December 31, 2010, the changes in its financial position, or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis on pages 2 through 6 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2012 on our consideration of China Gateway's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in black ink that reads "PricewaterhouseCoopers". The signature is written in a cursive, flowing style.

January 31, 2012

OSU China Gateway LLC

Management's Discussion and Analysis

Fiscal Year Ending December 31, 2010

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and activities of OSU China Gateway LLC (China Gateway) for the year ended December 31, 2010. We encourage you to read this MD&A section in conjunction with the audited financial statements and footnotes appearing in this report.

About China Gateway

The OSU Global Gateways is an initiative to establish a physical presence for the 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 first Global Gateway opened in February 2010 in Shanghai, China with future offices anticipated for India, Brazil, Turkey, Poland, the United Kingdom, and a location in sub-Saharan Africa. The first office has been funded centrally by the university, but future gateways will be supported by revenue generated through programs and services offered by each gateway office.

About the Financial Statements

China Gateway 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 a Statement of Net Assets, a Statement of Revenues, Expenses and Other Changes in Net Assets, a Statement of Cash Flows and Notes to the Financial Statements.

Financial Highlights

Calendar year 2010 represents the first year of operations for China Gateway. The financial activity during the year consists solely of funds transferred from the university to China Gateway to cover expenses associated with the start up of the Shanghai gateway office.

The following sections provide additional details on China Gateway's 2010 financial results and a look ahead at significant economic conditions that are expected to affect China Gateway in the future.

OSU China Gateway LLC
Management's Discussion and Analysis
Fiscal Year Ending December 31, 2010

Statements of Net Assets

Statements of Net Assets	<u>2010</u>
Cash and cash equivalents	\$ 23,330
Total current assets	<u>23,330</u>
TOTAL ASSETS	\$ <u><u>23,330</u></u>
LIABILITIES AND NET ASSETS	
Unrestricted	\$ <u>23,330</u>
TOTAL NET ASSETS	\$ <u><u>23,330</u></u>

Total **current assets** increased \$23,330, to \$23,330 at December 31, 2010, primarily due to a surplus of funds received from The Ohio State University over expenses incurred during the year. The Statement of Cash Flows, which is discussed in more detail below, provides additional details on sources and uses of China Gateway cash.

OSU China Gateway LLC
Management's Discussion and Analysis
Fiscal Year Ending December 31, 2010

Statement of Revenues, Expenses and Changes in Net Assets

Statement of Revenues, Expenses and Changes in Net Assets	2010
OPERATING REVENUES:	
	\$ <u> </u>
Total operating revenues	-
OPERATING EXPENSES:	
Transfers to Chinese affiliate for local office expenses	176,685
	<u> </u>
Total operating expenses	176,685
OPERATING LOSS	(176,685)
NON-OPERATING REVENUES AND EXPENSES:	
Gifts	15
Subsidy from The Ohio State University	200,000
	<u> </u>
INCREASE (DECREASE) IN NET ASSETS	23,330
NET ASSETS -- Beginning of Year	<u> </u> -
NET ASSETS -- End of Year	<u>\$ <u> 23,330</u></u>

Total operating expenses of China Gateway increased \$176,685, to \$176,685 at December 31, 2010. 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 office.

Total non-operating revenues of China Gateway increased \$200,015, to \$200,015 at December 31, 2010. Non-operating revenues include support from the university through its Office of International Affairs.

Total net assets (equity) of China Gateway increased \$23,330, to \$23,330 at December 31, 2010. 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 China Gateway expenses. Operating revenues, however, *exclude* certain significant revenue streams that China Gateway relies

OSU China Gateway LLC
Management's Discussion and Analysis
Fiscal Year Ending December 31, 2010

upon to fund current operations, including direct support from the University and current-use gifts.

Statement of Cash Flows

Statement of Cash Flows	<u>2010</u>
Cash Provided by (Used in):	
Operating activities	\$ (176,685)
Noncapital financing activities	200,015
Capital and related financing activities	-
Investing activities	-
	<hr/>
Net Increase (Decrease) in Cash	23,330
Cash and Cash Equivalents - Beginning of Year	<hr/> -
Cash and Cash Equivalents - End of Year	\$ <u><u>23,330</u></u>

Total China Gateway **cash and cash equivalents** increased \$23,330, to \$23,330 at December 31, 2010. Operating activities include all expenses related to the establishment and operation of the China Gateway office in Shanghai, China. Non-capital financing activities include direct operating support from the university.

Economic Factors That Will Affect the Future

China Gateway has now completed its first year of operation, and the ramp-up phase is well underway. Operating under a “Foreign Representative Office” status in China, the China Gateway office has been able to act as a liaison for Ohio State, but has not been able to generate any form of revenue for future operations. With a recent application for a commercial license in China, China Gateway will be re-categorized (if approved) as a “Wholly Foreign Owned Enterprise (WFOE)” in 2011 and will be able to generate revenue by offering programs and services in China. These programs will take the form of training programs for businesses and government institutions.

With increased activity to market the programs and services and to bring Ohio State faculty to China, the operating budget of the China Gateway will increase in future years. This investment in the operation is vital to achieve the goal of being a self-sustaining entity within five years of opening. One area that China Gateway must closely monitor over the next two years will be currency risk. With

OSU China Gateway LLC
Management's Discussion and Analysis
Fiscal Year Ending December 31, 2010

the Chinese RMB rising in value against the US Dollar, China Gateway's spending power is decreasing as operating funds are currently being sent over in US Dollars. With the expansion of offerings in China, more revenue will be earned in the local currency to alleviate some of this currency risk.

**The Ohio State University
OSU China Gateway LLC
Statement of Net Assets
As of December 31, 2010**

	2010
ASSETS	
CURRENT ASSETS:	
Cash	\$ 23,330
Total current assets	23,330
TOTAL ASSETS	\$ 23,330
LIABILITIES AND NET ASSETS	
NET ASSETS:	
Unrestricted	23,330
TOTAL NET ASSETS	23,330
TOTAL LIABILITIES AND NET ASSETS	\$ 23,330

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

**The Ohio State University
 OSU China Gateway LLC
 Statement of Revenues, Expenses and Changes in Net Assets
 As of December 31, 2010**

	<u>2010</u>
OPERATING REVENUES:	
	\$ 0
Total operating revenues	0
OPERATING EXPENSES:	
Transfer to Chinese affiliate for local office expenses	<u>176,685</u>
Total operating expenses	<u>176,685</u>
OPERATING LOSS	(176,685)
NON-OPERATING REVENUES AND EXPENSES:	
Gifts	15
Subsidy from The Ohio State University	<u>200,000</u>
INCREASE (DECREASE) IN NET ASSETS	23,330
NET ASSETS -- Beginning of Year	<u>0</u>
NET ASSETS -- End of Year	\$ <u><u>23,330</u></u>

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

**The Ohio State University
OSU China Gateway LLC
Statement of Cash Flows
As of December 31, 2010**

	<u>2010</u>
Cash Flows from Operating Activities:	
Transfers to Chinese affiliate for Gateway operating expenses	\$ (176,685)
Net cash provided (used) by operating activities	<u>(176,685)</u>
Cash Flows from Noncapital Financing Activities:	
Subsidy from The Ohio State University	200,000
Gifts	15
Net cash provided (used) by noncapital financing activities	<u>200,015</u>
Cash Flows from Capital Financing Activities:	
Net cash provided (used) by capital financing activities	<u>-</u>
Cash Flows from Investing Activities:	
Net cash provided (used) by investing activities	<u>-</u>
Net Increase (Decrease) in Cash	23,330
Cash - Beginning of Year	-
Cash - End of Year	<u>\$ 23,330</u>
Reconciliation of Net Operating Loss to Net Cash Provided (Used) by Operating Activities:	
Operating loss	\$ (176,685)
Adjustments to reconcile net operating loss to net cash provided (used) by operating activities:	-
Changes in assets and liabilities:	-
Net cash provided (used) by operating activities	<u>\$ (176,685)</u>

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

**THE OHIO STATE UNIVERSITY
OSU CHINA GATEWAY LLC
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2010**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Entity

OSU China Gateway LLC (China Gateway) 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

China Gateway complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. China Gateway reports as a special purpose government engaged solely in “business type activities” under GASB Statement No. 34. GASB Statement Nos. 20 and 34 provide China Gateway the option of electing to apply FASB pronouncements issued after November 30, 1989. China Gateway has elected not to apply those pronouncements.

GASB Statement No. 34 requires that resources be classified for accounting and reporting purposes into the following net assets 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 assets subject to externally imposed stipulations that they be maintained permanently by China Gateway.

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

Unrestricted: Net assets whose use by China Gateway is not subject to externally imposed stipulations. Unrestricted net assets 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 China Gateway’s policy to apply restricted resources first when an expense is incurred for which both restricted and unrestricted net assets are available.

**THE OHIO STATE UNIVERSITY
OSU CHINA GATEWAY LLC
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2010**

Basis of Accounting

The financial statements of China Gateway 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 China Gateway is maintained by the university in a separate bank account and is not commingled with the university's cash.

Net Assets

GASB Statement No. 34 reports equity as "net assets" rather than "fund balance." Net assets are classified according to external donor restrictions or availability of assets for satisfaction of China Gateway's obligations. Nonexpendable restricted net assets are gifts that have been received for endowment purposes, the corpus of which cannot be expended. Expendable restricted net assets represent funds that have been gifted for specific purposes.

NOTE 2: CASH AND INVESTMENTS

The cash balance as of December 31, 2010 consists of funds transferred from the university to China Gateway's standalone bank account.

NOTE 3: UNIVERSITY SUPPORT

The operations of China Gateway 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 China Gateway office in Shanghai, China. The university's direct support amounted to \$200,000 for the year ended December 31, 2010.



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

To the Board of Trustees of
OSU China Gateway, LLC
Columbus, OH:

We have audited the financial statements of OSU China Gateway, LLC ("China Gateway") as of and for the period ended December 31, 2010, and have issued our report thereon dated January 31, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered China Gateway's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of China Gateway's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of China Gateway's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether China Gateway's financial statements are free of 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*.



This report is intended solely for the information and use of China Gateway's management, the Board of Trustees, the Ohio Auditor of State and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Prattwaterhouse Coopers

January 31, 2012

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Dave Yost • Auditor of State

OSU CHINA GATEWAY, 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
APRIL 17, 2012**