

The Ohio State University
OSU Global Gateways, LLC
Financial Statements
December 31, 2011 and 2010



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 *Report of Independent Auditors* of the OSU Global Gateways, LLC, Franklin County, prepared by Pricewaterhouse Coopers LLP, for the audit period January 1, 2011 through December 31, 2011. 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 19, 2012

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**The Ohio State University
OSU Global Gateways, LLC
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December 31, 2011 and 2010**

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Report of Independent Auditors

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

In our opinion, the accompanying statements of net assets and the related statements of revenues, expenses and changes in net assets and statements of cash flows present fairly, in all material respects, the financial position of OSU Global Gateways, LLC (the "Global Gateways"), which is a part of The Ohio State University, at December 31, 2011 and December 31, 2010, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Global Gateways' management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of Global Gateways present only the financial position, changes in financial position, and cash flows of that portion of the financial reporting entity of The Ohio State University that is attributable to the transactions of Global Gateway. They do not purport to, and do not, present fairly the financial position of The Ohio State University at December 31, 2011 and December 31, 2010, and the changes in its financial position or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis on pages 3 through 5 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 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2012 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 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.

PricewaterhouseCoopers LLP

June 29, 2012

OSU Global Gateways, LLC

Management's Discussion and Analysis

Fiscal Year Ending December 31, 2011

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 Gateway") for the year ended December 31, 2011, with comparative information 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 Global Gateway

The OSU Global Gateway 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 Gateway 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 Gateway 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. The second Global Gateway opened in March 2012 in Mumbai, India. Future offices are anticipated for Brazil, Turkey, Poland, the United Kingdom, and a location in 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, but future gateways will be supported by revenue generated through programs and services offered by each gateway office.

About the Financial Statements

Global 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 Statements of Net Assets, Statements of Revenues, Expenses and Other Changes in Net Assets, Statements of Cash Flows and Notes to the Financial Statements.

Financial Highlights

Calendar year 2011 represents the second year of operations for Global Gateway. The financial activity during the year consists solely of funds transferred from the university to Global Gateway to cover expenses associated with the continuing operations of the Shanghai gateway office.

The following sections provide additional details on Global Gateway's 2011 financial results and a look ahead at significant economic conditions that are expected to affect Global Gateway in the future.

OSU Global Gateways, LLC
Management's Discussion and Analysis
Fiscal Year Ending December 31, 2011

Statements of Net Assets

	2011	2010
Cash	\$ 23,295	\$ 23,330
Total current assets	<u>23,295</u>	<u>23,330</u>
Total assets	<u>\$ 23,295</u>	<u>\$ 23,330</u>
Liabilities and Net Assets		
Unrestricted	\$ 23,295	\$ 23,330
Total net assets	<u>\$ 23,295</u>	<u>\$ 23,330</u>

Total **current assets** decreased \$35, to \$23,295 at December 31, 2011, primarily due to a deficit of funds received from The Ohio State University relative to expenses incurred during the year. The Statements of Cash Flows, which are discussed in more detail below, provide additional details on sources and uses of Global Gateway cash.

Statements of Revenues, Expenses and Changes in Net Assets

	2011	2010
Operating revenues	\$ -	\$ -
Total operating revenue	-	-
Operating expenses		
Transfers to Chinese affiliates for local office expenses	<u>319,035</u>	<u>176,685</u>
Total operating expenses	319,035	176,685
Operating loss	(319,035)	(176,685)
Nonoperating revenues and expenses		
Gifts	-	15
Subsidy from The Ohio State University	<u>319,000</u>	<u>200,000</u>
Increase (decrease) in net assets	(35)	23,330
Net assets - beginning of year	<u>23,330</u>	-
Net assets - end of year	<u>\$ 23,295</u>	<u>\$ 23,330</u>

Total operating expenses of Global Gateway increased \$142,350, to \$319,035 at December 31, 2011. 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. The increase in expenses is the result of the Shanghai office being open for a full year as opposed to a partial year in calendar year 2010. Global Gateway also incurred \$200,035 in expenses for the China Gateway in connection with the WFOE (Wholly Foreign Owned Enterprise) application process.

Total non-operating revenues of Global Gateway increased \$118,985, to \$319,000 at December 31, 2011. Non-operating revenues include support from the university through its Office of International Affairs.

OSU Global Gateways, LLC
Management's Discussion and Analysis
Fiscal Year Ending December 31, 2011

Total net assets (equity) of Global Gateway decreased \$35, to \$23,295 at December 31, 2011. 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 Gateway expenses. Operating revenues, however, *exclude* certain significant revenue streams that Global Gateway relies upon to fund current operations, including direct support from the University and current-use gifts.

Statements of Cash Flows

	2011	2010
Cash provided by (used in)		
Operating activities	\$ (319,035)	\$ (176,685)
Noncapital financing activities	319,000	200,015
Capital and related financing activities	-	-
Investing activities	-	-
Net increase (decrease) in cash	<u>(35)</u>	<u>23,330</u>
Cash and cash equivalents - beginning of year	<u>23,330</u>	<u>-</u>
Cash and cash equivalents - end of year	<u>\$ 23,295</u>	<u>\$ 23,330</u>

Total Global Gateway **cash** decreased \$35, to \$23,295 at December 31, 2011. Operating activities include all expenses related to the continued operation of the Global Gateway office in Shanghai, China. 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 second year of operation. Previously operating as a Foreign Representative Office in China, the China Gateway is now operating as a Wholly Foreign Owned Enterprise (WFOE). This allows the company to provide consulting services, arranging conferences and meetings, and will allow the Gateway office to generate revenue. By obtaining this status, the China Gateway office programming will now include training programs for businesses and government institutions.

With increased activity to market the programs and services and to bring Ohio State faculty to China, we are hopeful that the operating budget of the China gateway will increase in future years and achieve the goal of self-sustainment within five years of opening. The China Gateway plans to offer programs in medical imaging, public health, food safety, and business. In addition, the office will aim to provide services that include career, 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 Chinese RMB rising in value against the US dollar, the 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. However, the China Gateway office would be very susceptible to risk if the current peg of the Chinese Yuan to the dollar were lifted.

**The Ohio State University
OSU Global Gateways, LLC
Statements of Net Assets
As of December 31, 2011 and 2010**

	2011	2010
Assets		
Current assets		
Cash	\$ 23,295	\$ 23,330
Total current assets	<u>23,295</u>	<u>23,330</u>
Total assets	<u>\$ 23,295</u>	<u>\$ 23,330</u>
Liabilities and Net Assets		
Net assets		
Unrestricted	\$ 23,295	\$ 23,330
Total net assets	<u>23,295</u>	<u>23,330</u>
Total liabilities and net assets	<u>\$ 23,295</u>	<u>\$ 23,330</u>

The accompanying notes are an integral part of these financial statements

The Ohio State University
OSU Global Gateways, LLC
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended December 31, 2011 and 2010

	2011	2010
Operating revenues	\$ -	\$ -
Total operating revenue	-	-
Operating expenses		
Transfer to Chinese affiliate for local office expenses	319,035	176,685
Total operating expenses	319,035	176,685
Operating loss	(319,035)	(176,685)
Non-operating revenues and expenses		
Gifts	-	15
Subsidy from The Ohio State University	319,000	200,000
Increase (decrease) in net assets	(35)	23,330
Net assets - beginning of year	23,330	-
Net assets - end of year	\$ 23,295	\$ 23,330

The accompanying notes are an integral part of these financial statements

**The Ohio State University
OSU Global Gateways, LLC
Statements Cash Flows
For the Years Ended December 31, 2011 and 2010**

	2011	2010
Cash Flows from Operating Activities		
Transfers to Chinese affiliate for Gateway operating expenses	\$ (319,035)	\$ (176,685)
Net cash provided (used) by operating activities	<u>(319,035)</u>	<u>(176,685)</u>
Cash Flows from Noncapital Financing Activities		
Subsidy from The Ohio State University	319,000	200,000
Gifts	-	15
Net cash provided (used) by noncapital financing activities	<u>319,000</u>	<u>200,015</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	(35)	23,330
Cash and Cash Equivalents - Beginning of Year	<u>23,330</u>	<u>-</u>
Cash and Cash Equivalents - End of Year	<u>\$ 23,295</u>	<u>\$ 23,330</u>
Reconciliation of Net Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Operating loss	\$ (319,035)	\$ (176,685)
Adjustments to reconcile net operating loss to net cash provided (used) by operating activities:	-	-
Changes in assets and liabilities:	<u>-</u>	<u>-</u>
Net cash provided (used) by operating activities	<u>\$ (319,035)</u>	<u>\$ (176,685)</u>

The accompanying notes are an integral part of these financial statements

**The Ohio State University
OSU Global Gateways, LLC
Notes to the Financial Statements
For the Years Ended December 31, 2011 and 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Entity

OSU Global Gateways, LLC (Global 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

Global 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. Global 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 Global Gateway the option of electing to apply FASB pronouncements issued after November 30, 1989. Global 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 Global Gateway.

Expendable – Net assets whose use by Global Gateway 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 assets whose use by Global 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 Global Gateway's policy to apply restricted resources first when an expense is incurred for which both restricted and unrestricted net assets are available.

Basis of Accounting

The financial statements of Global 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 Global Gateway 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
For the Years Ended December 31, 2011 and 2010**

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 Global 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.

Operating and Non-Operating Revenues and Expenses

Global Gateway defines operating activities, for purposes of reporting on the Statements of Revenues, Expenses, and Other Changes in Net Assets, 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 Gateway expenses are considered to be operating expenses. During calendar year 2011, Global Gateway also transferred \$200,035 to the China Gateway as part of the Wholly Foreign Owned Enterprise (“WFOE”) licensing process.

Name Change

Global Gateway legally changed its name from OSU China Gateway, LLC to OSU Global Gateways, LLC in June 2011 to reflect its expanding worldwide presence. A second gateway office in Mumbai, India was opened in March 2012, but fiscal activity for the India gateway will not be reflected in Global Gateway’s financial statements until calendar year 2012.

2. CASH AND INVESTMENTS

The cash balance as of December 31, 2011 consists of funds transferred from the university to Global Gateway’s stand-alone bank account.

3. UNIVERSITY SUPPORT

The operations of Global 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 Global Gateway office in Shanghai, China. The university’s direct support amounted to \$319,000 and \$200,000 for the years ended December 31, 2011 and 2010, respectively.



**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 Global Gateways, LLC
Columbus, OH:

We have audited the financial statements of OSU Global Gateways, LLC ("Global Gateways") as of and for the year ended December 31, 2011, and have issued our report thereon dated June 29, 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 Global Gateways' 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 Global Gateways' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Global Gateways' 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 Global Gateways' 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 Global Gateways' 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.

PricewaterhouseCoopers LLP

June 29, 2012



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, 2012