DEVELOPMENT GATEWAY, INC.

AUDIT REPORT

FINANCIAL AND FEDERAL AWARD COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2016

DEVELOPMENT GATEWAY, INC.

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CONSOLIDATED FINANCIAL STATEMENTS

DEVELOPMENT GATEWAY, INC.
AND AFFILIATE

FOR THE YEARS ENDED
JUNE 30, 2016 AND 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Development Gateway, Inc. and Affiliate
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Development Gateway, Inc. and Affiliate, collectively "the Organizations", which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organizations as of June 30, 2016 and 2015, and the consolidated changes in their net assets and their consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Consolidating Schedule of Financial Position on page I-19 and the Consolidating Schedule of Activities and Change in Net Assets on page I-20 are presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The Schedule of Development Gateway, Inc.'s Expenditures of Federal Awards on pages I-(21 - 22), as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance),* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2016 on our consideration of Development Gateway, Inc.'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 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 Development Gateway, Inc.'s internal control over financial reporting and compliance.

Gelman Rosenberg & Freedman

December 20, 2016

DEVELOPMENT GATEWAY, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2016 AND 2015

ASSETS

	2016	2015
CURRENT ASSETS		
Cash and cash equivalents (Note 3)	$ 1,535,637	$ 1,808,833
Grants and contracts receivable, net of allowance for doubtful accounts of $0 and $9,007 in 2016 and 2015, respectively	883,729	785,425
Accounts receivable	371,962	75,109
Prepaid expenses and other assets	90,932	66,658
Total current assets	2,882,260	2,736,025
FIXED ASSETS		
Furniture (Note 3)	119,430	119,430
Computers and related equipment	45,821	45,821
	165,251	165,251
Less: Accumulated depreciation	(96,838)	(72,952)
Net fixed assets	68,413	92,299
TOTAL ASSETS	$ 2,950,673	$ 2,828,324

LIABILITIES AND NET ASSETS

	2016	2015
CURRENT LIABILITIES		
Office furniture loan (Note 3)	$ -	$ 24,358
Accounts payable and accrued liabilities (Note 4)	382,880	337,439
Deferred contract revenue	507,633	873,997
Deferred rental income (Note 2)	5,607	23,282
Deferred rent liability, current portion (Note 2)	2,164	-
Total current liabilities	898,284	1,259,076
NONCURRENT LIABILITIES		
Letter of credit loan (Note 3)	71,000	71,000
Deferred rent liability (Note 2)	359,957	354,253
Total noncurrent liabilities	430,957	425,253
Total liabilities	1,329,241	1,684,329
NET ASSETS		
Unrestricted	1,621,432	1,143,995
TOTAL LIABILITIES AND NET ASSETS	$ 2,950,673	$ 2,828,324

See accompanying notes to consolidated financial statements.

DEVELOPMENT GATEWAY, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	Unrestricted	
	2016	**2015**
SUPPORT AND REVENUE		
Grants:		
Grant Funded Programs	$ 122,664	$ 197,712
Zunia	2,783	13,566
Contracts:		
Aid Management Program	1,491,980	1,718,276
dgMarket	410,990	468,571
AidData Research, including in-kind contributions of $1,331,064 in 2016 and $879,817 in 2015 (Notes 1 and 6)	2,470,761	2,917,098
Client Research Projects	2,999,492	986,701
Rental income (Note 2)	331,917	337,218
Currency (loss) gain	(6,693)	44,425
Other income	8,180	7,121
Total support and revenue	7,832,074	6,690,688
EXPENSES		
Program Services:		
Grants:		
Grant Funded Programs	132,846	73,728
Zunia	15,596	21,275
Contracts:		
Aid Management Program	788,700	1,124,489
dgMarket	351,878	412,905
AidData Research, including in-kind contributions of $1,331,064 in 2016 and $879,817 in 2015 (Notes 1 and 6)	2,123,116	2,524,787
Client Research Projects	2,197,145	686,420
Total program services	5,609,281	4,843,604
Supporting Services:		
Management and General	1,839,539	1,505,660
Fundraising	305,817	281,750
Total supporting services	2,145,356	1,787,410
Total expenses	7,754,637	6,631,014
Changes in net assets before other item	77,437	59,674
OTHER ITEM		
Assignment of AidData (Note 6)	400,000	-
Changes in net assets	477,437	59,674
Unrestricted net assets at beginning of year	1,143,995	1,084,321
UNRESTRICTED NET ASSETS AT END OF YEAR	**$ 1,621,432**	**$ 1,143,995**

See accompanying notes to consolidated financial statements.

DEVELOPMENT GATEWAY, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	Program Services				
	Grant Funded Programs	Zunia	Aid Management Program	dgMarket	AidData Research
Salaries and related benefits (Note 4)	$ 19,276	$ 2,669	$ 206,171	$ 6,308	$ 289,886
Printing and production	-	-	1,567	-	49
Professional fees	-	-	-	-	80
Occupancy (Note 2)	-	-	1,505	-	-
Accounting and audit	-	-	6,043	-	-
Insurance	-	-	-	-	-
Depreciation	-	-	-	-	-
Telephone	-	12	818	4,652	2,190
Travel and entertainment	26,513	1	109,521	-	103,625
Consulting fees	87,057	12,826	459,888	315,907	385,005
Postage and delivery	-	-	788	99	65
Supplies	-	-	-	-	-
Subscriptions and publications	-	-	-	-	-
Meetings and conventions	-	-	1,950	-	-
Advertising and promotion	-	-	-	9,112	-
Bank fees	-	-	221	15,746	-
Equipment	-	88	228	-	11,152
Bad debt (recovery)	-	-	-	-	-
Grants	-	-	-	54	-
In-kind software licenses (Note 1)	-	-	-	-	1,331,064
TOTAL	$ 132,846	$ 15,596	$ 788,700	$ 351,878	$ 2,123,116

		Supporting Services			
Client Research Projects	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
$ 680,784	$ 1,205,094	$ 769,216	$ 204,939	$ 974,155	$ 2,179,249
2,168	3,784	2,457	719	3,176	6,960
803	883	42,564	-	42,564	43,447
-	1,505	496,649	-	496,649	498,154
-	6,043	137,319	-	137,319	143,362
-	-	44,461	-	44,461	44,461
-	-	23,886	-	23,886	23,886
1,416	9,088	66,127	832	66,959	76,047
196,805	436,465	35,808	32,363	68,171	504,636
1,277,753	2,538,436	125,964	66,040	192,004	2,730,440
316	1,268	340	1,129	1,469	2,737
9,091	9,091	29,536	-	29,536	38,627
1,102	1,102	211	-	211	1,313
14,246	16,196	3,813	-	3,813	20,009
1,998	11,110	1,060	-	1,060	12,170
364	16,331	28,686	-	28,686	45,017
10,299	21,767	32,116	(205)	31,911	53,678
-	-	(674)	-	(674)	(674)
-	54	-	-	-	54
-	1,331,064	-	-	-	1,331,064
$ 2,197,145	$ 5,609,281	$ 1,839,539	$ 305,817	$ 2,145,356	$ 7,754,637

See accompanying notes to consolidated financial statements.

DEVELOPMENT GATEWAY, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015

	Program Services				
	Grant Funded Programs	Zunia	Aid Management Program	dgMarket	AidData Research
Salaries and related benefits (Note 4)	$ 28,715	$ 6,847	$ 292,429	$ 9,107	$ 556,340
Printing and production	-	-	157	-	3,597
Professional fees	-	-	6,212	-	16,052
Occupancy (Note 2)	-	-	1,320	-	10,953
Accounting and audit	-	-	-	-	-
Insurance	-	-	-	-	-
Depreciation	-	-	-	-	-
Telephone	-	108	534	1,371	2,503
Travel and entertainment	11,764	-	160,389	55	159,373
Consulting fees	33,249	14,320	600,133	361,990	748,669
Postage and delivery	-	-	1,574	65	85
Supplies	-	-	-	-	-
Subscriptions and publications	-	-	-	-	-
Meetings and conventions	-	-	9,136	-	774
Advertising and promotion	-	-	-	16,983	-
Bank fees	-	-	3,417	19,663	660
Interest expense	-	-	-	-	-
Equipment	-	-	49,188	3,671	145,964
Bad debt (recovery)	-	-	-	-	-
In-kind software licenses (Note 1)	-	-	-	-	879,817
TOTAL	$ 73,728	$ 21,275	$ 1,124,489	$ 412,905	$ 2,524,787

		Supporting Services			
Client Research Projects	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
$ 255,832	$ 1,149,270	$ 485,679	$ 194,658	$ 680,337	$ 1,829,607
-	3,754	15,214	808	16,022	19,776
-	22,264	18,399	1,031	19,430	41,694
-	12,273	472,090	-	472,090	484,363
-	-	147,992	-	147,992	147,992
-	-	35,811	-	35,811	35,811
-	-	22,068	-	22,068	22,068
5,655	10,171	59,797	-	59,797	69,968
28,989	360,570	25,829	25,091	50,920	411,490
389,533	2,147,894	163,069	50,991	214,060	2,361,954
506	2,230	1,128	1,274	2,402	4,632
4,484	4,484	4,274	7	4,281	8,765
62	62	-	234	234	296
709	10,619	624	35	659	11,278
600	17,583	150	848	998	18,581
35	23,775	25,395	50	25,445	49,220
-	-	421	-	421	421
15	198,838	104,918	6,723	111,641	310,479
-	-	(77,198)	-	(77,198)	(77,198)
-	879,817	-	-	-	879,817
$ 686,420	**$ 4,843,604**	**$ 1,505,660**	**$ 281,750**	**$ 1,787,410**	**$ 6,631,014**

DEVELOPMENT GATEWAY, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 477,437	$ 59,674
Adjustments to reconcile changes in net assets to net cash (used) provided by operating activities:		
Depreciation	23,886	22,068
Change in allowance for doubtful accounts	(9,007)	(104,822)
(Increase) decrease in:		
Grants and contracts receivable	(89,297)	877,985
Accounts receivable	(296,853)	(11,887)
Prepaid expenses and other assets	(24,274)	(37,776)
Increase (decrease) in:		
Accounts payable and accrued liabilities	45,441	(11,883)
Deferred contract revenue	(366,364)	63,977
Accrued severance liability	-	(67,292)
Deferred rental income	(17,675)	23,282
Deferred rent liability	7,868	252,076
Net cash (used) provided by operating activities	(248,838)	1,065,402
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	-	(18,378)
Net cash used by investing activities	-	(18,378)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from office furniture loan	-	18,177
Repayment of office equipment loan	(24,358)	(65,443)
Repayments on liquidity loan	-	(47,595)
Net cash used by financing activities	(24,358)	(94,861)
Net (decrease) increase in cash and cash equivalents	(273,196)	952,163
Cash and cash equivalents at beginning of year	1,808,833	856,670
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 1,535,637**	**$ 1,808,833**
SUPPLEMENTAL INFORMATION		
Interest Paid	**$ 1,002**	**$ 421**

See accompanying notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Development Gateway, Inc. (referred to as DG) is a not-for-profit organization based in Washington, D.C. whose mission is to reduce poverty and enable change in developing nations through information technology.

DG provides all stakeholders of the development process (partner countries, development partners, civil society organizations, and private sector firms) with the information and knowledge they need to participate effectively in the process; this is accomplished via the following products and services:

1) the Aid Management Program (AMP) and AidData for aid effectiveness, greater transparency and better governance;

2) dgMarket, an online public procurement listing system;

3) Zunia for online knowledge sharing and collaboration by development practitioners worldwide; and

4) Client Research Projects (CRP) Activities: over the past several years, DG has focused on research and innovation under three pillars; the *first* is to improve the functionality and capabilities of existing tools and programs, the *second* is to create innovative tools and programs to facilitate the effective and transparent use of resources for current and future clients; and the *third* is to do applied research on the use of data for decision making at all levels. Under the first pillar, DG has improved AMP's capabilities and user experience; new versions of AMP are released regularly to include improvements and innovations such as: a sleek new user interface; a new public portal; the capability of importing data using the International Aid Transparency Initiative (IATI) standard; an advanced GIS module; and new Dashboards. DG has also modified dgMarket (www.dgmarket.com) to offer a more comprehensive solution (online bid management) and Development Gateway has revamped ZUNIA (www.zunia.org), the knowledge exchange platform. Under the second pillar, a group consisting of the College of William & Mary, Brigham Young University, the University of Texas at Austin, Development Gateway, and Esri formed the “AidData Development Center” and were awarded a five-year grant by USAID in response to a tender (RFP) geared towards the formation of a Higher Education Solutions Network (HESN). The intent of the network is to leverage the power of US universities and technology to support USAID’s Research and Innovation efforts abroad. Under the third pillar, DG has been conducting applied research funded by the Bill and Melinda Gates Foundation (The Results Data Initiative) that analyzes the use of results data by all levels of decision makers with a view to facilitate evidence based decision-making and adaptive management.

DG used to provide grants for innovative information and communication technologies projects and programs, principally within the context of the Country Gateways Program. Grants to County Gateways have been discontinued and a number of Country Gateways have become self-sustaining social enterprises. DG also works with a network of associated research and training centers in several developing countries, where ideas can be exchanged and programs tested.

Development Gateway International (referred to as DGI) was established in Belgium in 2007, to further extend the intentions of DG and pursue collaborative opportunities with organizations and aid agencies in Europe. Based in Brussels, this office works primarily with European donors.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Organization (continued) -

DGI's objective is to work with European stakeholders to provide web-based platforms to make aid and development efforts more effective around the world. DGI plans to build relations with European stakeholders and participate in the international dialogue on development effectiveness. DGI recognizes that open source software, open standards and common systems offer scope for more affordable and sustainable solutions for developing countries. DGI will focus on areas where small investments in proven technologies and open source software can yield large returns.

On April 18, 2016, the Board of Directors of DGI commenced an investigation related to the possible future dissolution (and closure of the Brussels office), however, as of December 20, 2016, a formal vote to dissolve the corporation was not concluded.

Basis of presentation -

The accompanying consolidated financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958-810, *Not-for-Profit Entities, Consolidation.*

Consolidated financial statements -

The accompanying consolidated financial statements reflect the activity of DG and DGI, collectively "the Organizations". The financial statements of the two organizations have been consolidated, as DG exercises significant influence with respect to DGI and both are under common control. All significant intercompany transactions have been eliminated in consolidation.

Cash and cash equivalents -

The Organizations consider all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of $250,000. At times during the year, the Organizations maintain cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

The Organizations maintain bank accounts in foreign countries which are largely uninsured. Total cash and cash equivalents held overseas was $19,107 and $77,209 as of June 30, 2016 and 2015, respectively.

Functional currency -

The Organizations incur transactions in U.S. Dollars, European Euros and CFA Francs (XOF). All amounts reported in the Statement of Financial Position have been translated to U.S. Dollars using published exchange rates in effect at June 30, 2016 and 2015. All amounts reported in the accompanying Consolidated Statements of Activities and Changes in Net Assets have been translated to U.S. Dollars using an average exchange rate calculated during the month incurred.

Receivables -

Receivables are recorded at their net realizable value, which approximates fair value. The allowance for doubtful accounts is determined based upon an annual review of account balances, including the age of the balance and the historical experience with the customer/donor. As of June 30, 2016, there was no allowance for doubtful accounts as management was of the opinion that all receivables are deemed fully collectible.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Fixed assets -

Fixed assets in excess of $3,000 are capitalized and stated at cost. Furniture, computers, and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to seven years. The cost of maintenance and repairs is recorded as expenses are incurred.

Assets acquired with Federal funds, to be used exclusively for program purposes, are expensed at the time of acquisition and charged against the respective Federal award. As the U.S. Government maintains a first-lien position on all equipment purchased with Federal funds (until the time of ultimate disposition), those assets are not treated as capital assets for financial reporting purposes.

Income taxes -

DG is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code; additionally, DG is not a private foundation. DGI is a non-taxable organization governed under the laws of Belgium. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements.

Uncertain tax positions -

For the years ended June 30, 2016 and 2015, the Organizations have documented their consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and have determined that no material uncertain tax positions qualify for either recognition or disclosure in the consolidated financial statements.

In-kind contributions and expenses -

In-kind contributions and expenses are recorded at fair value if they create or enhance a nonfinancial asset or require specialized skills that the provider possesses and that normally have to be purchased. The estimated fair value of these donations is reflected in the accompanying Consolidated Statements of Activities and Changes in Net Assets. For the years ended June 30, 2016 and 2015, the Organizations received donated short-term (less than one year) licenses for use of software in the amount of $1,331,064 and $879,817, respectively, that benefited the AidData Research program.

Net asset classification -

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of the Organizations.

- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of the Organizations and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statements of Activities and Changes in Net Assets as net assets released from restrictions. There was no temporarily restricted net asset activity during the year or as of June 30, 2016 and 2015.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Revenue recognition -

The Organizations receive funding under grants and contracts from the U.S. and foreign governments, international organizations and other grantors for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants are considered exchange transactions and are recorded as unrestricted income to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements.

Contracts are recorded as unrestricted revenue as reimbursable costs are incurred or on a percentage of completion of project milestones (if a fixed price agreement). Contract funding received in advance of incurring the related expenses is recorded as deferred revenue in the accompanying Consolidated Statements of Financial Position.

Use of estimates -

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying Consolidated Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassification -

Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported changes in net assets.

2. COMMITMENTS

DG rents office space (located at 1110 Vermont Avenue, NW, Washington, D.C.) under a lease which commenced on April 1, 2014 and is set to expire on July 31, 2024. The lease agreement was signed in conjunction with another tenant (referred to as "co-tenant"), and accordingly, DG is only responsible for 50% of the terms, as set forth in the agreement. Furthermore, as part of the agreement, the tenants received nine (9) free months of rent for part of the leased space and twelve (12) months for another part of the leased space.

Accounting principles generally accepted in the United States of America require that the total rent commitment should be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is recorded as a deferred rent liability on the accompanying Consolidated Statements of Financial Position. As of June 30, 2016 and 2015, the deferred rent liability aggregated $362,121 and $354,253, respectively.

2. COMMITMENTS (Continued)

DG is responsible for half (50%) of the following future minimum payments which are required under the lease:

Year Ending June 30,	
2017	$ 821,743
2018	842,315
2019	866,478
2020	897,400
2021	919,830
Thereafter	2,983,912
	$ 7,331,678

Occupancy expense (including related costs), as recognized in the Consolidated Statements of Activities and Changes in Net Assets, for the years ended June 30, 2016 and 2015 totaled $498,154 and $484,363, respectively.

The master lease agreement (with the landlord) is structured with an "Office Sharing" clause, which allows for up to 75% of the space to be licensed for use to other occupants. Accordingly, DG has 48 licensing agreements in place which commenced on April 1, 2014 and expire on March 1, 2017. Total income under licensing agreements during the years ended June 30, 2016 and 2015 aggregated $331,917 and $337,218, respectively, and is reported as "rental income" in the accompanying Consolidated Statements of Activities and Changes in Net Assets. As of June 30, 2016 and 2015, licensing fees received in advance amounted to $5,607 and $23,282, respectively, and is reported as "deferred rental income" in the accompanying Consolidated Statements of Financial Position. Future minimum licensing revenue for year ended June 30, 2017, is expected to aggregate $651,787 (of which 50%, or $325,894, will be recognized as income).

The Organizations also lease office space in Belgium (DGI) and Kenya (DG) under short-term agreements which can be terminated by providing 30-days notice (therefore, any future lease payments are not included in the table above).

3. OFFICE FURNITURE AND LETTER OF CREDIT

Upon signing the lease agreement (as discussed in Note 2), the landlord required a security deposit of $194,316 due in the form of a letter of credit. The Organizations were responsible for $123,316 and the co-tenant was responsible for the remaining $71,000. The entire letter of credit was established by the Organizations and is held in cash and cash equivalents in the accompanying Consolidated Statements of Financial Position.

At the end of Year 2 (June 30, 2017) and Year 3 (June 30, 2018) of the lease, the Organizations and the co-tenant will receive one third of their initial contributions to the letter of credit $41,105 and $23,667, respectively; accordingly, the balance will become $129,544 and $64,772 after Year 2 and Year 3, respectively. The co-tenant’s initial contribution to the letter of credit ($71,000) will be reduced to $47,333 at the end of Year 2 and $23,667 from Year 4 to the end of the lease, and that amount will be due by the Organizations to the co-tenant (at the end of the lease).

Furthermore, in 2014 and 2015, both entities purchased office furniture for the office space, under a two and one year leasing agreement, respectively, with option to purchase for a nominal amount at the end of the lease period. Lease payments and the costs of the furnishings are split equally between the Organizations and the co-tenant.

3. OFFICE FURNITURE AND LETTER OF CREDIT (Continued)

As of June 30, 2016, the office furniture loan has been completely settled. As of June 30, 2015, office furniture loan balance aggregated $24,358. For the year ended June 30, 2016 and 2015, interest expense on the loan totaled $1,002 and $421, respectively.

4. RETIREMENT PLAN

The Organizations maintain a 403(b)(7) defined contribution retirement plan (the "Plan") for all full-time employees. Under the terms of the Plan, the Organizations contribute the equivalent of 4% of the employee's annual compensation to each employee retirement account. Employees are enrolled in the Plan at the time of hire and are immediately vested 100% in employer contributions made to their account. Employees may also elect to have a portion of their compensation contributed to the Plan on a pre-tax basis.

During the year ended June 30, 2016 and 2015, contributions to the Plan totaled $69,691 and $59,942, respectively, and were included in salaries and related benefits expense in the accompanying Consolidated Statements of Functional Expenses. As of June 30, 2016 and 2015, $16,124 and $13,164, respectively, of such expenses were accrued and included in accounts payable and accrued liabilities in the accompanying Consolidated Statements of Financial Position.

5. CONTINGENCY

DG receives awards from various agencies of the United States Government. For all fiscal years through June 30, 2015, such awards were subject to audit under the provisions of OMB Circular A-133. Beginning in the fiscal year ended June 30, 2016, such awards were subject to audit under the provisions of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The ultimate determination of amounts received under the United States Government awards is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits. Audits in accordance with the applicable provisions have been completed for all required fiscal years through 2016. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

6. AidDATA TRADEMARK ASSIGNMENT

Since 2009, DG and The College of William & Mary ("WM") jointly owned all rights, title and interest, including joint copyright, in and to the software created, produced or developed, including computer programs in machine readable code and source code form, database, and related documentation and materials and the AidData name and trademarks, together with all registrations and applications and all associated goodwill, collectively referred to as "Marks".

On December 2, 2015, an agreement of termination and transfer of Marks was executed between DG and WM, in which WM became the exclusive owner of the Marks. WM agreed to compensate DG for a total of $400,000, payable in five equal annual installments of $80,000 (beginning in fiscal year 2016). The trademark assignment was reported as "Other Item" in the accompanying Consolidated Statements of Activities and Changes in Net Assets. As of June 30, 2016, a balance of $320,000 was due from WM, and accordingly such amount is included in accounts receivable in the accompanying Consolidated Statements of Financial Position.

7. SUBSEQUENT EVENTS

In preparing these consolidated financial statements, the Organizations have evaluated events and transactions for potential recognition or disclosure through December 20, 2016, the date the consolidated financial statements were issued.

On August 24, 2016, as authorized by the Board of Directors, the Organizations entered into an agreement (a Term Sheet) with a potential buyer to purchase and transfer dgMarket assets including, but limited to, software source code, operation manuals, dgMarket database, and dgMarket working capital. The Term Sheet stipulates within 60 days from the date of the agreement ("exclusivity period"), the Organizations shall not directly or indirectly, through any representative or otherwise, solicit or entertain offers from, negotiate with or in any manner encourage, discuss, accept or consider any proposal of any other person relating to this agreement in whole or in part, whether through direct purchase, merger, joint venture, consolidation or other business combination until the agreement terminates or expires. As consideration for the exclusivity period, the Organizations received $15,000 during fiscal year 2017. As of December 20, 2016, the sale has not been finalized and accordingly, no amounts have been recorded in the accompanying consolidated financial statements related to this transaction.

SUPPLEMENTAL INFORMATION

DEVELOPMENT GATEWAY, INC. AND AFFILIATE

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
AS OF JUNE 30, 2016

ASSETS

	DG	DGI	Eliminations	Total
CURRENT ASSETS				
Cash and cash equivalents	$ 1,516,530	$ 19,107	$ -	$ 1,535,637
Grants and contracts receivable	883,729	-	-	883,729
Accounts receivable	827,927	-	(455,965)	371,962
Prepaid expenses and other assets	90,073	859	-	90,932
Total current assets	3,318,259	19,966	(455,965)	2,882,260
FIXED ASSETS				
Furniture	119,430	-	-	119,430
Computers and related equipment	45,821	-	-	45,821
Less: Accumulated depreciation	(96,838)	-	-	(96,838)
Net fixed assets	68,413	-	-	68,413
TOTAL ASSETS	**$ 3,386,672**	**$ 19,966**	**$ (455,965)**	**$ 2,950,673**

LIABILITIES AND NET ASSETS (DEFICIT)

	DG	DGI	Eliminations	Total
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	$ 362,676	$ 476,169	$ (455,965)	$ 382,880
Deferred contract revenue	475,950	31,683	-	507,633
Deferred rental income	5,607	-	-	5,607
Deferred rent liability, current portion	2,164	-	-	2,164
Total current liabilities	846,397	507,852	(455,965)	898,284
NONCURRENT LIABILITIES				
Letter of credit loan	71,000	-	-	71,000
Deferred rent liability	359,957	-	-	359,957
Total noncurrent liabilities	430,957	-	-	430,957
Total liabilities	1,277,354	507,852	(455,965)	1,329,241
UNRESTRICTED NET ASSETS (DEFICIT)	2,109,318	(487,886)	-	1,621,432
TOTAL LIABILITIES AND NET ASSETS	**$ 3,386,672**	**$ 19,966**	**$ (455,965)**	**$ 2,950,673**

DEVELOPMENT GATEWAY, INC. AND AFFILIATE

CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2016

	DG	DGI	Eliminations	Total
SUPPORT AND REVENUE				
Grants:				
Grant Funded Programs	$ -	$ 122,664	$ -	$ 122,664
Zunia	2,783	-	-	2,783
Contracts:				
Aid Management Program	1,455,886	36,094	-	1,491,980
dgMarket	410,990	-	-	410,990
AidData Research, including in-kind contributions of $1,331,064	2,470,761	-	-	2,470,761
Client Research Projects	2,999,492	-	-	2,999,492
Rental income	331,917	-	-	331,917
Currency loss	(967)	(5,726)	-	(6,693)
Other income	8,117	63	-	8,180
Total support and revenue	7,678,979	153,095	-	7,832,074
EXPENSES				
Program Services:				
Grants:				
Grant Funded Programs	107,951	24,895	-	132,846
Zunia	15,596	-	-	15,596
Contracts:				
Aid Management Program	747,658	41,042	-	788,700
dgMarket	173,587	178,291	-	351,878
AidData Research, including in-kind contributions of $1,331,064	2,108,175	14,941	-	2,123,116
Client Research Projects	2,167,829	29,316	-	2,197,145
Total program services	5,320,796	288,485	-	5,609,281
Supporting Services:				
Management and General	1,755,753	83,786	-	1,839,539
Fundraising	291,874	13,943	-	305,817
Total supporting services	2,047,627	97,729	-	2,145,356
Total expenses	7,368,423	386,214	-	7,754,637
Changes in net assets before other item	310,556	(233,119)	-	77,437
OTHER ITEM				
Assignment of AidData	400,000	-	-	400,000
Changes in net assets	710,556	(233,119)	-	477,437
Unrestricted et assets (deficit) at beginning of year	1,398,762	(254,767)	-	1,143,995
UNRESTRICTED NET ASSETS (DEFICIT) AT END OF YEAR	**$ 2,109,318**	**$ (487,886)**	**$ -**	**$ 1,621,432**

DEVELOPMENT GATEWAY, INC. AND AFFILIATE

SCHEDULE OF DEVELOPMENT GATEWAY, INC.'S EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor	Federal CFDA Number	Pass-Through Entity Identifying Number	Pass-Through Organization	Pass-Through to Subrecipients	Total Federal Expenditures
United States Agency for International Development - Foreign Assistance for Programs Overseas					
Where the Money Goes: Mapping Aid for Better Impact	98.001	74068-A	College of William and Mary	$ -	$ 815,039
MSTAR Real Time Data for Adaptive Programming Conceptual Framework	98.001	DI/15006	Institute Of Development Studies	-	9,423
Subtotal CFDA 98.001				**-**	**824,462**
Department of Defense - Basic Scientific Research					
Program on Complex Emergencies and Political Stability in Asia	12.431	UTA14-000976	University of Texas	-	16,729
TOTAL EXPENDITURES OF FEDERAL AWARDS				**$ -**	**$ 841,191**

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the Federal award activity of DG under programs of the Federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of DG, it is not intended to and does not present the financial position, changes in net assets or cash flows of DG.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. DG has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

DEVELOPMENT GATEWAY, INC. AND AFFILIATE

SCHEDULE OF DEVELOPMENT GATEWAY, INC.'S EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Note 3. Revenue Reconciliation

Included in support and revenue are the following components:

Assistance awards (under CFDA 98.001)	$	815,039
Other AidData Research contract revenue from private organizations		324,658
TOTAL AidDATA RESEARCH (Exclusive of In-kind Contributions)	**$**	**1,139,697**
Assistance awards (under CFDA 98.001 and 12.431)	$	26,152
Other Client Research Projects contract revenue from private organizations		2,973,340
TOTAL CLIENT RESEARCH PROJECTS	**$**	**2,999,492**

DEVELOPMENT GATEWAY, INC. AND AFFILIATE

SCHEDULE OF DEVELOPMENT GATEWAY, INC.'S FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

1). Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP on the accrual basis of accounting: **Unmodified**

2). Internal control over financial reporting:

- Material weakness(es) identified? ☐ **Yes** ☒ **No**
- Significant deficiency(ies) identified? ☐ **Yes** ☒ **None Reported**

3). Noncompliance material to financial statements noted? ☐ **Yes** ☒ **No**

Federal Awards

4). Internal control over major programs:

- Material weakness(es) identified? ☐ **Yes** ☒ **No**
- Significant deficiency(ies) identified? ☐ **Yes** ☒ **None Reported**

5). Type of auditor's report issued on compliance for major federal programs: **Unmodified**

6). Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ☐ **Yes** ☒ **No**

7). Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
98.001	United States Agency for International Development - Foreign Assistance for Programs Overseas

8). Dollar threshold used to distinguish between Type A and Type B programs: **$750,000**

9). Auditee qualified as a low-risk auditee? ☒ **Yes** ☐ **No**

DEVELOPMENT GATEWAY, INC. AND AFFILIATE

SCHEDULE OF DEVELOPMENT GATEWAY, INC.'S FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

Section II - Financial Statement Findings

There were no reportable findings.

Section III - Federal Award Findings and Questioned Costs (2 CFR 200.56(a))

There were no reportable findings.

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

Independent Auditor's Report

To the Board of Directors
Development Gateway, Inc. and Affiliate
Washington, D.C.

We have audited, in accordance with the 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 Development Gateway, Inc. and Affiliate (the Organizations) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Organizations' basic financial statements, and have issued our report thereon dated December 20, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organizations' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances, for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organizations' internal control. Accordingly, we do not express an opinion on the effectiveness of the Organizations' 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 Organizations' 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organizations' 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.

Gelman Rosenberg & Freedman

December 20, 2016

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL COMPLIANCE REQUIRED BY TITLE 2 U.S. CODE OF FEDERAL REGULATIONS (CFR) PART 200, UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS (UNIFORM GUIDANCE)

Independent Auditor's Report

To the Board of Directors
Development Gateway, Inc. and Affiliate
Washington, D.C.

Report on Compliance for Each Major Federal Program

We have audited the Development Gateway, Inc. and Affiliate's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organizations' major federal programs for the year ended June 30, 2016. OrganizationsOrganizations' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Development Gateway, Inc.'s Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organizations' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance).* Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organizations' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organizations' compliance.

Opinion on Each Major Federal Program

In our opinion, the Organizations complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

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Report on Internal Control Over Compliance

Management of the Organizations is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organizations' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organizations' internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Gelman Rosenberg & Freedman

December 20, 2016