

FINANCIAL STATEMENTS



FOR THE YEAR ENDED JUNE 30, 2018

dZi FOUNDATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
dZi Foundation
Ridgway, Colorado

We have audited the accompanying financial statements of the dZi Foundation (dZi), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of dZi as of June 30, 2018, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



December 28, 2018

4550 MONTGOMERY AVENUE · SUITE 650 NORTH · BETHESDA, MARYLAND 20814
(301) 951-9090 · FAX (301) 951-3570 · WWW.GRFCPA.COM

dZi FOUNDATION
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2018

ASSETS

CURRENT ASSETS

| | |
|---|------------------|
| Cash and equivalents | \$ 297,740 |
| Investments | 1,033,445 |
| Contributions and grants receivable, net of allowance of \$20,000 | 345,110 |
| Prepaid expenses and other assets | <u>3,239</u> |
| Total current assets | <u>1,679,534</u> |

FIXED ASSETS

| | |
|---|-----------------|
| Equipment | 14,771 |
| Vehicles | <u>61,135</u> |
| | 75,906 |
| Less: Accumulated depreciation and amortization | <u>(54,376)</u> |
| Net fixed assets | <u>21,530</u> |

NONCURRENT ASSETS

| | |
|--|----------------------------|
| Contributions and grants receivable, net of current portion and net present value discount | <u>134,783</u> |
| Total noncurrent assets | <u>134,783</u> |
| TOTAL ASSETS | <u>\$ 1,835,847</u> |

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

| | |
|--|------------------|
| Accounts payable and accrued liabilities | \$ <u>44,975</u> |
| Total liabilities | <u>44,975</u> |

NET ASSETS

| | |
|---|----------------------------|
| Unrestricted: | |
| Undesignated | 1,213,322 |
| Board designated - funds in reserve | <u>162,000</u> |
| Total unrestricted | 1,375,322 |
| Temporarily restricted | <u>415,550</u> |
| Total net assets | <u>1,790,872</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 1,835,847</u> |

dZi FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2018

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---|----------------------------|-----------------------------------|----------------------------|
| SUPPORT AND REVENUE | | | |
| Contributions and grants | \$ 611,137 | \$ 1,080,717 | \$ 1,691,854 |
| Investment income | 10,318 | - | 10,318 |
| In-kind contributions | 152,542 | - | 152,542 |
| Net assets released from donor restrictions | <u>990,054</u> | <u>(990,054)</u> | <u>-</u> |
| Total support and revenue | <u>1,764,051</u> | <u>90,663</u> | <u>1,854,714</u> |
| EXPENSES | | | |
| Program Services | <u>1,251,737</u> | <u>-</u> | <u>1,251,737</u> |
| Supporting Services: | | | |
| Management and General | 223,436 | - | 223,436 |
| Fundraising | <u>224,044</u> | <u>-</u> | <u>224,044</u> |
| Total supporting services | <u>447,480</u> | <u>-</u> | <u>447,480</u> |
| Total expenses | <u>1,699,217</u> | <u>-</u> | <u>1,699,217</u> |
| Changes in net assets | 64,834 | 90,663 | 155,497 |
| Net assets at beginning of year | <u>1,310,488</u> | <u>324,887</u> | <u>1,635,375</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 1,375,322</u> | <u>\$ 415,550</u> | <u>\$ 1,790,872</u> |

dZi FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

| | Program Services | Supporting Services | | Total Expenses |
|--------------------------------------|---------------------|---------------------------|-------------------|---------------------|
| | | Management and General | Fundraising | |
| Salaries and payroll taxes | \$ 48,020 | \$ 145,937 | \$ 115,066 | \$ 309,023 |
| Benefits | 37,344 | 2,667 | 4,659 | 44,670 |
| Office supplies and operating costs | 17,023 | 3,140 | 2,475 | 22,638 |
| Occupancy costs | 9,815 | 5,458 | 4,303 | 19,576 |
| Travel | 26,326 | 9,215 | 9,765 | 45,306 |
| Meetings | 13,799 | 826 | 652 | 15,277 |
| Technical support | 1,012 | 1,322 | 1,043 | 3,377 |
| Professional fees | 2,357 | 3,957 | 3,119 | 9,433 |
| Fundraising consultant | - | - | 3,000 | 3,000 |
| Board meetings | 696 | 2,116 | 1,668 | 4,480 |
| Office equipment and software | 5,086 | 2,224 | 1,754 | 9,064 |
| Professional development | 4,292 | 7,220 | 5,692 | 17,204 |
| Insurance | 1,158 | 3,113 | 2,455 | 6,726 |
| Depreciation and amortization | 3,436 | 10,443 | 8,234 | 22,113 |
| Bank and credit card fees | 1,458 | 2,991 | 2,358 | 6,807 |
| Postage and delivery | 649 | 1,973 | 1,555 | 4,177 |
| Media production | 4,488 | 11,101 | 15,260 | 30,849 |
| Dues and subscriptions | 567 | 385 | 304 | 1,256 |
| Promotion and support | - | - | 20,000 | 20,000 |
| Donated professional fees | 478 | 1,452 | 1,145 | 3,075 |
| Donated skilled labor and materials | 149,467 | - | - | 149,467 |
| Local salaries and related benefits | 191,162 | - | - | 191,162 |
| Community infrastructure projects | 590,374 | - | - | 590,374 |
| Fundraising events | - | - | 13,311 | 13,311 |
| Marketing | 2,598 | 7,896 | 6,226 | 16,720 |
| Community trainings | 7,073 | - | - | 7,073 |
| Agricultural materials and trainings | 96,034 | - | - | 96,034 |
| Homes for at-risk girls | 20,025 | - | - | 20,025 |
| Recovery of uncollectible pledges | (1,000) | - | - | (1,000) |
| Other project support | 18,000 | - | - | 18,000 |
| TOTAL | \$ 1,251,737 | \$ 223,436 | \$ 224,044 | \$ 1,699,217 |
| | 74% | 13% | 13% | 100% |

dZi FOUNDATION

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|------------------|
| Change in net assets | \$ 155,497 |
| Adjustments to reconcile change in net assets to net cash used by operating activities: | |
| Depreciation and amortization | 22,113 |
| Unrealized gain on investments | (2,448) |
| Realized gain on sales of investments | (5,410) |
| Recovery of uncollectible pledges | (1,000) |
| Decrease (increase) in: | |
| Contributions and grants receivable | (336,593) |
| Prepaid expenses and other assets | (1,604) |
| Increase in: | |
| Accounts payable and accrued liabilities | <u>8,136</u> |
| Net cash used by operating activities | <u>(161,309)</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---|--------------------------|
| Purchase of investments | (2,050,997) |
| Proceeds from sale of investments | <u>1,025,410</u> |
| Net cash used by investing activities | <u>(1,025,587)</u> |
| Net decrease in cash and cash equivalents | (1,186,896) |
| Cash and cash equivalents at beginning of year | <u>1,484,636</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 297,740</u> |

dZi FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The dZi Foundation (dZi) is a Colorado non-profit corporation formed to help increase the prosperity of underserved communities and individuals in remote regions of Nepal through implementing a variety of integrated community development projects. The projects target a cluster of extremely remote communities in Eastern Nepal and employ a long-term approach that emphasizes community participation and skill development; these projects are mainly generated by the communities themselves and cross many sectors including education, civic infrastructure, water and sanitation, and agricultural improvements.

Basis of presentation -

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

Cash and cash equivalents -

dZi considers 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, dZi maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

dZi had \$58,061 of cash and cash equivalents on hand and in financial institutions (in Nepal) as of June 30, 2018; funds held in Nepal are uninsured.

Contributions and grants receivable -

Contributions and grants receivable represent uncollected amounts due from donors, in accordance with commitments made to dZi as of the Statement of Financial Position date. Contributions and grants receivable approximate 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 donor.

Fixed assets -

Fixed assets in excess of \$2,000 are capitalized and stated at cost. Fixed assets are depreciated and amortized on a straight-line basis over the estimated useful lives of the related assets, generally three to five years. The cost of maintenance and repairs is recorded as expenses are incurred.

Income taxes -

dZi is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. dZi is not a private foundation.

Uncertain tax positions -

As of June 30, 2018, dZi has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the accompanying financial statements.

dZi FOUNDATION

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

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 dZi and include both internally designated and undesignated resources. As of June 30, 2018, the Board of Directors has set aside an operating reserve aggregating \$162,000 to be utilized in the future at their discretion.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of dZi and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions.

Contributions and grants -

Unrestricted and temporarily restricted contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions; such funds in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

Use of estimates -

The preparation of the 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 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 Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Risks and uncertainties -

dZi invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks.

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

dZi FOUNDATION

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

Fair value measurement -

dZi adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. dZi accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

2. INVESTMENTS

Investments consisted of the following at June 30, 2018:

| | <u>Fair Value</u> |
|--------------------------|----------------------------|
| Certificates of deposit | \$ 683,525 |
| U.S. Treasury bills | <u>349,920</u> |
| TOTAL INVESTMENTS | <u>\$ 1,033,445</u> |

Included in investment income are the following at June 30, 2018:

| | |
|---------------------------------------|-------------------------|
| Interest and dividends | \$ 2,460 |
| Unrealized gain on investments | 2,448 |
| Realized gain on sales of investments | <u>5,410</u> |
| TOTAL INVESTMENT INCOME | <u>\$ 10,318</u> |

3. CONTRIBUTIONS AND GRANTS RECEIVABLE

Contributions and grants receivable reflect commitments made to dZi by individuals and other donors. As of June 30, 2018, dZi had received commitments for support of which \$507,538 had not been received. Payments payments expected to be collected more than one year from the Statement of Financial Position date are recorded at their net present value of the estimated cash flows, using a discount rate of 5%.

Following is a summary of contributions and grants receivable as of June 30, 2018:

| | |
|--|--------------------------|
| Less than one year | \$ 365,110 |
| One to five years | <u>142,428</u> |
| | 507,538 |
| Less: Allowance for doubtful amounts (current) | (20,000) |
| Less: Current portion | (345,110) |
| Less: Present value discount (5%) | <u>(7,645)</u> |
| TOTAL NONCURRENT PORTION | <u>\$ 134,783</u> |

dZi FOUNDATION

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2018:

| | |
|--|--------------------------|
| Nepal projects | \$ 115,917 |
| Girls Homes | 3,750 |
| Time restricted | <u>295,883</u> |
| TOTAL TEMPORARILY RESTRICTED NET ASSETS | <u>\$ 415,550</u> |

The following temporarily restricted net assets were released from donor restrictions by incurring expenses (or through the passage of time) which satisfied the restricted purposes specified by the donors:

| | |
|--|--------------------------|
| Nepal projects | \$ 801,532 |
| Girls Homes | 2,750 |
| Passage of time | <u>185,772</u> |
| TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS | <u>\$ 990,054</u> |

5. IN-KIND CONTRIBUTIONS

In-kind contributions are recorded at fair value as of the date of the gift. During the year ended June 30, 2018, dZi was the beneficiary of donated goods and services which allowed dZi to provide greater resources toward its various programs.

Nepal community project work, also referred to as "Local contribution," is defined as the total monetary value of all volunteered labor and materials that community members directly invest in dZi projects. The value of a day's labor, as well as that of all local materials, is valued by community members at current going rates in that community at the time of the project. dZi field staff quantify, track and verify these values for each individual project.

dZi also receives contributions from other sources for which the value cannot reasonably be determined. Accordingly, the value of those contributions has not been recorded in the accompanying financial statements.

The following donations have been included in contributions revenue and expense during the year ended June 30, 2018:

| | |
|------------------------------------|--------------------------|
| Nepal community project work | \$ 149,467 |
| Graphic design services | <u>3,075</u> |
| TOTAL IN-KIND CONTRIBUTIONS | <u>\$ 152,542</u> |

6. RETIREMENT PLANS

dZi provides retirement benefits to its full-time U.S. employees through a defined contribution plan, which started during 2011. This policy applies to all U.S.-based, salaried employees who meet the IRS minimum compensation requirements. dZi contributes 3% percent of gross wages. Contributions to the plan during the year ended June 30, 2018 totaled \$5,898.

dZi FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

6. RETIREMENT PLANS (Continued)

Employees who are classified as full time, permanent Nepal employees are covered by a government-sponsored retirement plan. Mandatory employee contributions are automatically deducted at the rate of 10% of their salary and placed into a trust established by the Nepal government. The government requires dZi to match the employees's contribution and place them in the aforementioned trust. Contributions to the plan during the year ended June 30, 2018 totaled \$11,525.

7. LEASE COMMITMENTS

dZi rents its principal office space in Ridgway, Colorado under a three-year operating lease agreement which is currently set to expire on April 30, 2020. Base rent is currently set at \$973 per month. Also, dZi leases office space in Nepal under a lease currently requiring a monthly payment of NR 80,000 (approximately \$735), with 5% annual increases through the lease expiration date of December 31, 2023.

Following is a schedule of future minimum lease payments required under the operating lease agreements:

| <u>Year Ending June 30,</u> | |
|-----------------------------|-------------------------|
| 2019 | \$ 21,039 |
| 2020 | 19,891 |
| 2021 | 10,670 |
| 2022 | 11,203 |
| 2023 | 11,763 |
| Thereafter | <u>6,025</u> |
| | <u>\$ 80,591</u> |

Occupancy expense (for all office spaces) during the year ended June 30, 2018 totaled \$19,576.

8. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, dZi has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market dZi has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

dZi FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

8. FAIR VALUE MEASUREMENT (Continued)

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at June 30, 2018.

- *Certificates of deposit* - Generally valued at original cost plus accrued interest, which approximates fair value.
- *U.S. Treasury bills* - Fair value is based upon current yields available on comparable securities of issuers with similar ratings, the security's terms and conditions, and interest rate and credit risk.

The table below summarizes, by level within the fair value hierarchy, dZi's investments as of June 30, 2018:

| | Level 1 | Level 2 | Level 3 | Total June 30, 2018 |
|-------------------------|----------------|---------------------|----------------|--------------------------------|
| Asset Class: | | | | |
| Certificates of deposit | \$ - | \$ 683,525 | \$ - | \$ 683,525 |
| U.S. Treasury bills | - | 349,920 | - | 349,920 |
| TOTAL | \$ - | \$ 1,033,445 | \$ - | \$ 1,033,445 |

9. NEW ACCOUNTING PRONOUNCEMENTS (NOT YET ADOPTED)

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional. The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous GAAP. The ASU recommends application on a modified prospective basis; however, retrospective application is permitted. dZi has not yet decided on a transition method. The ASU is effective for years beginning after December 15, 2018.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Statements of Activities and Changes in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of dZi's financial statements, it is not expected to alter dZi's reported activities.

dZi FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

9. NEW ACCOUNTING PRONOUNCEMENTS (NOT YET ADOPTED) (Continued)

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year; thus, the effective date is fiscal years beginning after December 15, 2018. Early adoption is permitted. dZi has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Statement of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for private entities for years beginning after December 15, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

dZi plans to adopt the new ASUs at the respective required implementation dates.

10. SUBSEQUENT EVENTS

In preparing these financial statements, dZi has evaluated events and transactions for potential recognition or disclosure through December 28, 2018, the date the financial statements were issued.