

FINANCIAL STATEMENTS



DZI FOUNDATION

**FOR THE YEARS ENDED
JUNE 30, 2019 AND 2018**

dZi FOUNDATION

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CPAs & ADVISORS

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 statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Gelman Rosenberg & Freedman". The signature is written in a cursive, flowing style.

October 22, 2019

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dZi FOUNDATION

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2019 AND 2018

ASSETS

	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 385,143	\$ 297,740
Investments	1,173,040	1,033,445
Contributions and grants receivable, net of allowance of \$25,000 and \$20,000 in 2019 and 2018, respectively	194,040	345,110
Prepaid expenses and other assets	<u>9,093</u>	<u>3,239</u>
Total current assets	<u>1,761,316</u>	<u>1,679,534</u>
FIXED ASSETS		
Equipment	14,771	14,771
Vehicles	<u>61,135</u>	<u>61,135</u>
	75,906	75,906
Less: Accumulated depreciation and amortization	<u>(74,120)</u>	<u>(54,376)</u>
Net fixed assets	<u>1,786</u>	<u>21,530</u>
NONCURRENT ASSETS		
Contributions and grants receivable, net of current portion and net present value discount	<u>86,552</u>	<u>134,783</u>
TOTAL ASSETS	<u>\$ 1,849,654</u>	<u>\$ 1,835,847</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ <u>64,260</u>	\$ <u>44,975</u>
NET ASSETS		
Without donor restrictions:		
Undesignated	1,002,860	1,213,322
Board designated - funds in reserve	<u>162,000</u>	<u>162,000</u>
Total without donor restrictions	1,164,860	1,375,322
With donor restrictions	<u>620,534</u>	<u>415,550</u>
Total net assets	<u>1,785,394</u>	<u>1,790,872</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,849,654</u>	<u>\$ 1,835,847</u>

dZi FOUNDATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions and grants	\$ 582,276	\$ 764,193	\$ 1,346,469
Investment income	25,466	-	25,466
In-kind contributions	83,484	-	83,484
Net assets released from donor restrictions	<u>559,209</u>	<u>(559,209)</u>	<u>-</u>
Total support and revenue	<u>1,250,435</u>	<u>204,984</u>	<u>1,455,419</u>
EXPENSES			
Program Services	<u>1,054,578</u>	<u>-</u>	<u>1,054,578</u>
Supporting Services:			
Management and General	213,116	-	213,116
Fundraising	<u>193,203</u>	<u>-</u>	<u>193,203</u>
Total supporting services	<u>406,319</u>	<u>-</u>	<u>406,319</u>
Total expenses	<u>1,460,897</u>	<u>-</u>	<u>1,460,897</u>
Changes in net assets	(210,462)	204,984	(5,478)
Net assets at beginning of year	<u>1,375,322</u>	<u>415,550</u>	<u>1,790,872</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,164,860</u>	<u>\$ 620,534</u>	<u>\$ 1,785,394</u>

2018		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 611,137	\$ 1,080,717	\$ 1,691,854
10,318	-	10,318
152,542	-	152,542
<u>990,054</u>	<u>(990,054)</u>	<u>-</u>
<u>1,764,051</u>	<u>90,663</u>	<u>1,854,714</u>
<u>1,251,737</u>	<u>-</u>	<u>1,251,737</u>
223,436	-	223,436
<u>224,044</u>	<u>-</u>	<u>224,044</u>
<u>447,480</u>	<u>-</u>	<u>447,480</u>
<u>1,699,217</u>	<u>-</u>	<u>1,699,217</u>
64,834	90,663	155,497
<u>1,310,488</u>	<u>324,887</u>	<u>1,635,375</u>
<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, 2019

	Program Services	Supporting Services		Total Expenses
		Management and General	Fundraising	
Salaries and payroll taxes	\$ 45,875	\$ 112,452	\$ 122,936	\$ 281,263
Benefits	7,289	17,867	19,532	44,688
Office supplies and operating costs	33,803	1,937	2,046	37,786
Occupancy costs	11,502	4,152	5,602	21,256
Travel	35,760	-	7,893	43,653
Meetings	17,639	733	733	19,105
Technical support	1,827	648	648	3,123
Professional fees	3,966	22,670	-	26,636
Fundraising consultant	-	-	10,500	10,500
Board meetings	1,246	1,210	1,210	3,666
Office equipment and software	9,243	3,035	2,063	14,341
Professional development	4,125	1,441	1,441	7,007
Insurance	3,065	1,287	1,287	5,639
Depreciation and amortization	-	19,744	-	19,744
Bank and credit card fees	2,773	1,127	1,127	5,027
Postage and delivery	4,024	537	805	5,366
Media production	25,324	3,246	4,870	33,440
Dues and subscriptions	732	169	169	1,070
Promotion and support	20,000	-	-	20,000
Donated skilled labor and materials	82,884	-	600	83,484
Local salaries and related benefits	212,671	-	-	212,671
Community infrastructure projects	351,635	-	-	351,635
Community trainings	17,825	-	-	17,825
Agricultural materials and trainings	117,445	-	-	117,445
Events	1,455	-	5,823	7,278
Marketing	19,588	2,612	3,918	26,118
Homes for at-risk girls	15,077	-	-	15,077
Bad debt expense	-	18,249	-	18,249
Other project support	7,805	-	-	7,805
TOTAL	\$ 1,054,578	\$ 213,116	\$ 193,203	\$ 1,460,897
	72%	15%	13%	100%

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
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
Bad debt expense (recovery)	(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

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (5,478)	\$ 155,497
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	19,744	22,113
Unrealized gain on investments	(5,625)	(2,448)
Realized gain on sales of investments	-	(5,410)
Bad debt expense (recovery)	13,249	(1,000)
Change in allowance for uncollectible pledges	5,000	
Decrease (increase) in:		
Contributions and grants receivable	181,052	(336,593)
Prepaid expenses and other assets	(5,854)	(1,604)
Increase in:		
Accounts payable and accrued liabilities	<u>19,285</u>	<u>8,136</u>
Net cash provided (used) by operating activities	<u>221,373</u>	<u>(161,309)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(1,667,970)	(2,050,997)
Proceeds from sale of investments	<u>1,534,000</u>	<u>1,025,410</u>
Net cash used by investing activities	<u>(133,970)</u>	<u>(1,025,587)</u>
Net increase (decrease) in cash and cash equivalents	87,403	(1,186,896)
Cash and cash equivalents at beginning of year	<u>297,740</u>	<u>1,484,636</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 385,143</u>	<u>\$ 297,740</u>
SCHEDULE OF NONCASH INVESTING AND FINANCING TRANSACTIONS		
Donated Securities	<u>\$ 60,502</u>	<u>\$ -</u>

dZi FOUNDATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 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 Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The ASU was adopted during the year ended June 30, 2019 and applied retrospectively.

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 \$176,638 of cash and cash equivalents on hand and in financial institutions (in Nepal) as of June 30, 2019; 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, 2019, 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, 2019 AND 2018

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

Net asset classification -

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions are recorded as "net assets without donor restrictions". Assets restricted solely through the actions of the Board are referred to as Board Designated and are also reported as net assets without donor restrictions.
- **Net Assets With Donor Restrictions** - Contributions restricted by donors (or certain grantors) are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in "net assets with donor restrictions", depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities and Changes in Net Assets as net assets released from donor restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue without donor restrictions when the assets are placed in service.

Contributions and grants -

Contributions and grants are recorded as revenue in the year notification is received from the donor. Contributions and grants with donor restrictions are recognized as "without donor restrictions" 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 net assets with donor restrictions in the accompanying financial statements. Grant funding received in advance of incurring the related expenses is recorded as "net assets with donor restrictions".

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 Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses directly attributed to a specific functional area of dZi are reported as direct expenses to the programmatic area and those expenses that benefit more than one function are allocated on a basis of estimated time and effort or other reasonable basis.

dZi FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

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

Risks and uncertainties -

dZi invests in various investment securities. Investment securities are exposed to various risks such as interest rate, 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.

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.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. The reclassifications are primarily due to the adoption of ASU 2016-14, as discussed above, which requires two classifications of net assets from the previously presented three classes. Net assets previously classified as of June 30, 2018 as unrestricted net assets in the amount of \$1,375,322 are now classified as "net assets without donor restrictions". Net assets previously classified as temporarily restricted net assets in the amount of \$415,550 are now classified as "net assets with donor restrictions".

2. INVESTMENTS

Investments consisted of the following at June 30, 2019 and 2018:

	2019		2018	
	Cost	Fair Value	Cost	Fair Value
Certificates of deposit	\$ 150,000	\$ 150,179	\$ 350,000	\$ 349,920
U.S. Treasury bills	1,014,967	1,022,861	680,997	683,525
TOTAL INVESTMENTS	\$ 1,164,967	\$ 1,173,040	\$ 1,030,997	\$ 1,033,445

Included in investment income are the following at June 30, 2019:

	2019	2018
Interest and dividends	\$ 19,841	\$ 2,460
Realized gain on sales of investments	-	5,410
Unrealized gain on investments	5,625	2,448
TOTAL INVESTMENT INCOME	\$ 25,466	\$ 10,318

dZi FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

3. CONTRIBUTIONS AND GRANTS RECEIVABLE

Contributions and grants receivable reflect commitments made to dZi by individuals and other donors; as of June 30, 2019 and 2018, dZi had received commitments for support from donors in which \$309,918 and \$507,538, respectively, had not been received.

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, 2019 and 2018:

	2019	2018
Less than one year	\$ 219,040	\$ 365,110
One to five years	90,878	142,428
	309,918	507,538
Less: Allowance for doubtful amounts (current)	(25,000)	(20,000)
Less: Current portion	(194,040)	(345,110)
Less: Present value discount (5%)	(4,326)	(7,645)
TOTAL NONCURRENT PORTION, NET	\$ 86,552	\$ 134,783

4. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at June 30, 2019:

	2019	2018
Nepal projects	\$ 417,881	\$ 215,917
Girls Homes	10,000	3,750
Time restricted	192,653	195,883
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	\$ 620,534	\$ 415,550

The following 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:

	2019	2018
Nepal projects	\$ 512,059	\$ 801,532
Girls Homes	11,250	2,750
Passage of time	35,900	185,772
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	\$ 559,209	\$ 990,054

dZi FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

5. LIQUIDITY AND AVAILABILITY

Financial assets available for use for general expenditures within one year of the Statements of Financial Position date comprise the following:

	2019	2018
Cash and cash equivalents	\$ 385,143	\$ 297,740
Investments	1,173,040	1,033,445
Contributions and grants receivable	194,040	345,110
Subtotal financial assets available within one year	1,752,223	1,676,295
Less: Amounts unavailable for general expenditures within one year due to donor's restriction	(533,982)	(280,767)
Less: Board designated funds	(162,000)	(162,000)
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	\$ 1,056,241	\$ 1,233,528

dZi is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the dZi must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of dZi's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, dZi invests cash in excess of daily requirements in short-term investments. Occasionally, the board designates a portion of any operating surplus to its liquidity reserve, which was \$162,000 as of June 30, 2019. This is a fund established by the governing board that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities.

6. IN-KIND CONTRIBUTIONS

In-kind contributions are recorded at fair value as of the date of the gift. During the years ended June 30, 2019 and 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 years ended June 30, 2019 and 2018:

	2019	2018
Nepal community project work	\$ 82,884	\$ 149,467
Graphic design services	-	3,075
Other	600	-
TOTAL IN-KIND CONTRIBUTIONS	\$ 83,484	\$ 152,542

dZi FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

7. RETIREMENT PLANS

dZi contributes up to 3% of each employee's gross pay as a match to employee contributions in dZi's established IRA fund or a qualifying fund of their choosing. This policy applies to all U.S.-based, salaried employees who meet the IRS minimum compensation requirements. The continuation of this benefit is reviewed annually at the calendar year-end Board meeting, generally held in December. The Board's intent is for this policy to be in force indefinitely. However, the Board maintains the discretion to modify it (including eliminating it) at any time if and when deemed necessary.

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 years ended June 30, 2019 and 2018 totaled \$12,811 and \$11,525, respectively.

8. LEASE COMMITMENTS

dZi rents its principal office space in Ridgway, Colorado under an operating lease agreement which is currently set to expire on April 30, 2024. Base rent is currently set at \$973 per month, with 6% annual increases. Also, dZi leases office space in Nepal under a lease currently requiring a monthly payment of NR 90,000 (approximately \$826), 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:

Year Ending June 30,

2020	\$	26,954
2021		24,046
2022		23,703
2023		25,013
2024		<u>17,614</u>
	\$	<u>117,330</u>

Occupancy expense (for all office spaces) during the years ended June 30, 2019 and 2018 totaled \$21,256 and \$19,576, respectively.

9. 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.

dZi FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

9. FAIR VALUE MEASUREMENT (Continued)

Investments recorded in the Statements 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.

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, 2019 and 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, 2019:

	Level 1	Level 2	Level 3	Total June 30, 2019
Asset Class:				
Certificates of deposit	\$ -	\$ 150,179	\$ -	\$ 150,179
U.S. Treasury bills	-	1,022,861	-	1,022,861
TOTAL	\$ -	\$ 1,173,040	\$ -	\$ 1,173,040

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	\$ -	\$ 349,920	\$ -	\$ 349,920
U.S. Treasury bills	-	683,525	-	683,525
TOTAL	\$ -	\$ 1,033,445	\$ -	\$ 1,033,445

10. 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.

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

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 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 Statements 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.

11. SUBSEQUENT EVENTS

In preparing these financial statements, dZi has evaluated events and transactions for potential recognition or disclosure through October 22, 2019, the date the financial statements were issued.