PATIENT SERVICES
INCORPORATED

Consolidated Financial Statements

December 31, 2017 and 2016

Keiter
Your Opportunity Advisors

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PATIENT SERVICES, INC.
AND SUBSIDIARY

Table of Contents

Keiter
Your Opportunity Advisors

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of
Patient Services, Inc.
Midlothian, Virginia

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Patient Services, Inc. and its subsidiary (collectively, the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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; 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. 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.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Patient Services, Inc. and its subsidiary as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Keiter

March 29, 2018
Glen Allen, Virginia

PATIENT SERVICES, INC.
AND SUBSIDIARY

Consolidated Statements of Financial Position
December 31, 2017 and 2016

ASSETS	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	$ 45,422,058	$ 55,126,550
Contract fees receivable, net	62,254,962	39,760,462
Prepaid expenses	2,870,885	349,317
Total current assets	110,547,905	95,236,329
PROPERTY AND EQUIPMENT		
Land	291,100	291,100
Buildings	2,612,430	2,612,430
Vehicle	68,098	68,098
Furniture and equipment	635,964	1,663,871
	3,607,592	4,635,499
Less accumulated depreciation	1,381,186	2,279,126
Total property and equipment	2,226,406	2,356,373
OTHER ASSETS		
Life insurance annuity	1,278,542	1,134,166
Investments	5,517,413	4,982,483
Deposits	2,000	2,000
Total other assets	6,797,955	6,118,649
Total assets	$ 119,572,266	$ 103,711,351

See accompanying notes to consolidated financial statements.

PATIENT SERVICES, INC.
AND SUBSIDIARY

Consolidated Statements of Financial Position, Continued
December 31, 2017 and 2016

LIABILITIES AND NET ASSETS	2017	2016
CURRENT LIABILITIES		
Accounts payable	$ 174,728	$ 377,924
Accrued expenses	927,634	599,861
Total current liabilities	1,102,362	977,785
NET ASSETS		
Unrestricted net assets	14,622,222	15,274,184
Temporarily restricted net assets	103,847,682	87,459,382
Total net assets	118,469,904	102,733,566
Total liabilities and net assets	$119,572,266	$103,711,351

See accompanying notes to consolidated financial statements.

PATIENT SERVICES, INC.
AND SUBSIDIARY

Consolidated Statements of Activities
Years Ended December 31, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT						
Contributions	$ 9,390,757	$108,981,044	$118,371,801	$10,812,098	$ 84,186,711	$ 94,998,809
Interest income	131,059	-	131,059	171,954	-	171,954
Miscellaneous income	75,134	-	75,134	60,436	-	60,436
Gain on investments and life insurance annuity	553,199	-	553,199	212,340	-	212,340
	10,150,149	108,981,044	119,131,193	11,256,828	84,186,711	95,443,539
Net assets released from restrictions	92,592,744	(92,592,744)	-	100,222,142	(100,222,142)	-
Total revenues and other support	102,742,893	16,388,300	119,131,193	111,478,970	(16,035,431)	95,443,539
EXPENSES AND LOSSES						
Program services	95,135,999	-	95,135,999	103,470,939	-	103,470,939
Fund-raising	942,116	-	942,116	1,076,379	-	1,076,379
Management and general	7,291,740	-	7,291,740	5,408,678	-	5,408,678
Total functional expenses	103,369,855	-	103,369,855	109,955,996	-	109,955,996
Uncollectible pledge expense	25,000	-	25,000	16,083	144,750	160,833
Loss on disposal of equipment	-	-	-	10,362	-	10,362
Total expenses and losses	103,394,855	-	103,394,855	109,982,441	144,750	110,127,191
Change in net assets	(651,962)	16,388,300	15,736,338	1,496,529	(16,180,181)	(14,683,652)
NET ASSETS						
Beginning of year	15,274,184	87,459,382	102,733,566	13,777,655	103,639,563	117,417,218
End of year	$14,622,222	$103,847,682	$118,469,904	$15,274,184	$ 87,459,382	$102,733,566

See accompanying notes to consolidated financial statements.

PATIENT SERVICES, INC.
AND SUBSIDIARY

Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 15,736,338	$ (14,683,652)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	133,053	159,401
Loss on disposal of equipment	-	10,362
Gain on life insurance annuity	(144,376)	(65,233)
Gain on investments	(408,823)	(147,107)
Changes in operating assets and liabilities:		
Contract fees receivable	(22,494,500)	21,586,679
Prepaid expenses	(2,521,568)	(266,521)
Accounts payable	(203,196)	45,687
Accrued expenses	327,773	(206,730)
Net cash (used in) provided by operating activities	(9,575,299)	6,432,886
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(3,086)	(193,155)
Purchase of investments	(5,106,525)	(420,439)
Proceeds from sale of investments	4,980,418	644,809
Proceeds from sale of property and equipment	-	51,397
Net cash (used in) provided by investing activities	(129,193)	82,612
Net (decrease) increase in cash and cash equivalents	(9,704,492)	6,515,498
CASH AND CASH EQUIVALENTS		
Beginning of year	55,126,550	48,611,052
End of year	$ 45,422,058	$ 55,126,550
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash paid for interest	$ -	$ 15

See accompanying notes to consolidated financial statements.

PATIENT SERVICES, INC.
AND SUBSIDIARY

Consolidated Statements of Functional Expenses
Years Ended December 31, 2017 and 2016

	2017				2016			
	Program Services	Fund - Raising	Management and General	Total	Program Services	Fund - Raising	Management and General	Total
DIRECT EXPENSES								
Direct payment assistance	$ 92,592,745	$ -	$ -	$ 92,592,745	$100,222,142	$ -	$ -	$100,222,142
INDIRECT EXPENSES								
Advertising	199	-	-	199	-	-	-	-
Amortization	-	-	-	-	-	-	14,891	14,891
Bank fees	-	-	4	4	24,082	1,227	6,109	31,418
Computer network	53	2,753	90,163	92,969	66,182	8,156	77,415	151,753
Conferences and travel	5,154	176,941	210,200	392,295	17,033	149,693	194,253	360,979
Continuing education	8,249	3,751	3,574	15,574	7,430	3,670	2,293	13,393
Depreciation	131,591	-	1,462	133,053	109,622	5,584	29,304	144,510
Dues and subscriptions	1,676	7,411	50,228	59,315	1,088	2,655	46,081	49,824
Gala expenses	-	-	95,974	95,974	-	106,767	-	106,767
Gifts and incentives	244	849	37,961	39,054	12,417	899	27,622	40,938
Insurance	45,714	-	409	46,123	15,559	793	5,381	21,733
Interest expense	-	-	-	-	-	-	15	15
Legal and accounting	75,063	-	2,091,040	2,166,103	69,824	3,557	1,263,934	1,337,315
Meals	308	15,869	86,128	102,305	1,051	12,348	72,980	86,379
Occupancy	194,153	-	1,500	195,653	51,696	16,962	84,555	153,213
Office expense	136,681	32,442	25,569	194,692	107,279	29,947	35,614	172,840
Patient representation	48,670	-	-	48,670	57,949	-	-	57,949
Public relations	-	27,284	459,385	486,669	-	2,590	168,192	170,782
Registration fees	3,080	-	-	3,080	8,758	446	2,220	11,424
Salaries and benefits	1,430,320	659,236	2,854,938	4,944,494	1,964,909	623,480	2,317,777	4,906,166
Subcontractors	251,687	10,570	1,274,007	1,536,264	598,119	92,419	989,693	1,680,231
Taxes and licenses	8,321	-	-	8,321	10,501	535	9,001	20,037
Telecommunications	202,091	5,010	9,198	216,299	125,298	14,651	61,348	201,297
Total indirect expenses	2,543,254	942,116	7,291,740	10,777,110	3,248,797	1,076,379	5,408,678	9,733,854
	$ 95,135,999	$ 942,116	$7,291,740	$103,369,855	$103,470,939	$ 1,076,379	$ 5,408,678	$109,955,996

See accompanying notes to consolidated financial statements.

NOTE 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Patient Services, Inc. ("PSI" or "the Organization") is a national non-profit organization based in Midlothian, Virginia. The Organization provides financial support to patients and families effected by Adenosine Deaminase Deficiency in Severe Combined Immunodeficiency, Alpha 1 Antitrypsin Deficiency, Breakthrough Cancer Pain and Opioid Tolerant Therapies, Breast Cancer Screening, Chronic Myelogenous Leukemia, Chronic Inflammatory Demyelinating Polyneuropathy, Circadian Rhythm Disorders, Complement Mediated Diseases, Corneal Crystal Accumulation in Cystinosis, Cystic Fibrosis (with Pseudomonas), Fabry Disease, Gastrointestinal Stromal Tumors, Gaucher's Disease, Hemophilia, Hereditary Angioedema (C1 Inhibitor Deficiencies), Hypoparathyroidism, Idiopathic Pulmonary Fibrosis, Inhibitors in Hemophilia, Kidney Stones, Metastatic Melanoma, Metastatic Renal Cell Carcinoma, MPS 1, Pompe Disease, Primary Immune Deficiency, Pleural Effusions & Malignant Ascites, Pseudobulbar Affect (PBA), von Willebrand Disease, Congenital Muscular Dystrophy (CMD), and Pulmonary Hypertension.

PSI formed Accesia, Inc ("Accesia"), as a wholly-owned taxable subsidiary, with its primary office located in Virginia. Accesia was established as a Virginia stock corporation on April 25, 2012. Its purpose is to provide certain services to third parties in connection with the administration of patient assistant programs. Accesia is structured to comply, and operates in compliance with, relevant provisions of the Social Security Act, including the maintenance of an "ethical wall" between PSI and Accesia designed to ensure PSI's independence in the operation of its patient assistance programs. During 2015, the Board of Directors decided to suspend operations of Accesia. As of December 31, 2017, Accesia operations remain suspended.

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of PSI and Accesia (collectively, the "Organization"). All significant intercompany accounts and transactions have been eliminated in consolidation.

Financial Statement Presentation: PSI's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), under the accrual basis of accounting. The accrual basis of accounting records revenue in the period in which earned rather than when received and records expenses in the period in which incurred rather than when paid. The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

NOTE 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Financial Statement Presentation, Continued: As of December 31, 2017 and 2016, total temporarily restricted net assets of $103,847,682 and $87,459,382, respectively, are restricted by donors for program purposes in the amount of $97,863,882 and $82,943,040, respectively, and restricted by time for administrative purposes in the amount of $5,983,800 and $4,516,342, respectively. The Organization did not have any permanently restricted net assets as of December 31, 2017 and 2016.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restriction.

Cash and Cash Equivalents: For purposes of reporting cash flows, the Organization considers demand deposits and all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Investments: Investments are reported at fair value in the consolidated statements of financial position. Donated stocks and other securities are recorded at fair value as of the date received. Interest, dividends, realized and unrealized gains and losses are reflected in the consolidated statements of activities.

Use of Estimates: The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, the actual results could differ from those estimates. Any adjustments applied to estimated amounts are recognized in the year in which such adjustments are determined.

Promises to Give: Contributions are promises to give to the Organization that are, in substance, unconditional. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires or is otherwise satisfied, temporarily restricted net assets are reclassified to unrestricted net assets.

NOTE 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Property and Equipment: Property and equipment are recorded at cost if purchased or fair value if contributed. Depreciation is computed using an accelerated method for furniture and equipment and the straight-line method for buildings and improvements over estimated useful lives as follows:

Furniture and equipment	5 – 15 years
Buildings	7 – 39 years
Vehicle	5 years

New acquisitions of property and equipment having a cost of less than $2,500, or which are not expected to last for more than a year, are expensed in the year of acquisition. Depreciation expense was $133,053 and $144,510 for 2017 and 2016, respectively.

In accordance with GAAP, management reviews the recorded value of the property for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

Contract Fees: Fees for contracted services are recorded in the year the grant is made. Contract fees receivable consist primarily of amounts due from the contributing drug companies. Receivables are recorded at the net realizable value, which approximates their fair value. Management reviews receivables on a regular basis and accounts are written-off once deemed uncollectible.

Functional Allocation of Expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes: PSI is exempt from paying income taxes under Internal Revenue Code Section 501(c)(3) and is an organization that is not a private foundation under Section 509(A)(1). No income tax was paid during the years ended December 31, 2017 or December 31, 2016. Accesia was formed as a C corporation during 2012. Due to its lack of activity during 2017 and 2016, no provision or liability for income taxes has been included in the accompanying consolidated financial statements.

Management has evaluated the effect of accounting guidance surrounding uncertain income tax positions and concluded that the Organization and its subsidiary has no significant financial statement exposure to uncertain tax positions at December 31, 2017 or 2016. The Organization is not currently under audit by any tax jurisdiction.

NOTE 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Advertising: Advertising costs are expensed as incurred and are included in functional expenses in the accompanying consolidated statements of activities. Advertising expense for the year ended December 31, 2017 was $199***.*** There was no advertising expense for the year ended December 31, 2016.

Reclassifications: Certain prior year balances have been reclassified to conform with the current year presentation.

Subsequent Events: Management has evaluated subsequent events through March 29, 2018, the date the consolidated financial statements were available for issuance, and has determined that no additional disclosure is necessary.

NOTE 2. FAIR VALUE MEASUREMENTS OF ASSETS

The Organization has adopted Financial Accounting Standards Board ("FASB") guidance on fair value measurements. The provisions of the guidance provide a framework for measuring fair value under GAAP and defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This guidance requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. This guidance also establishes a fair value hierarchy which prioritizes the valuation inputs into three broad levels. Based on the underlying inputs, each fair value measurement in its entirety is reported in one of three levels.

The Organization's assets recorded at fair value on a recurring basis are categorized based on the priority of the inputs used to measure fair value. The inputs used in measuring fair value are categorized into three levels, as follows:

- **Level 1**: Inputs that are based upon quoted prices for identical instruments traded in active markets.

- **Level 2**: Inputs that are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar investments in markets that are not active, or models based on valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the investment**.**

NOTE 2. FAIR VALUE MEASUREMENTS OF ASSETS, CONTINUED

- **Level 3**: Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flows models, and similar techniques

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs. Following is a description of the valuation methodologies used for assets measured at fair value.

Stocks and bonds – Valued at the closing price as reported on the active market on which stocks or bonds are traded.

Money market funds - Valued at the net asset value of shares held by PSI at year end.

Annuity contracts - Valued based on summation of values assigned to underlying investments in equity and fixed income securities, most of which are traded on an active market.

The following table summarizes the valuation of the Organization's financial assets measured at fair value on a recurring basis at December 31, 2017, based on the level of input utilized to measure fair value:

Assets	Level 1	Level 3	Total
Investments:			
Stocks	$ 3,310,448	$ -	$ 3,310,448
Bonds	2,206,965	-	2,206,965
Annuity contracts	-	1,278,542	1,278,542
Total assets at fair value	$ 5,517,413	$ 1,278,542	$ 6,795,955

There were no assets or liabilities measured using Level 2 criteria at December 31, 2017.

NOTE 2. FAIR VALUE MEASUREMENTS OF ASSETS, CONTINUED

The following table summarizes the valuation of the Organization's financial assets measured at fair value on a recurring basis at December 31, 2016, based on the level of input utilized to measure fair value:

Assets	Level 1	Level 3	Total
Investments:			
Money market funds	$ 4,982,483	$ -	$ 4,982,483
Annuity contracts	-	1,134,166	1,134,166
Total assets at fair value	$ 4,982,483	$ 1,134,166	$ 6,116,649

There were no assets or liabilities measured using Level 2 criteria at December 31, 2016.

Inputs used to estimate the value of level 3 assets (annuity contracts) include third-party pricing sources. The value is reflective of surrender charges and interest adjustments as specified in the annuity contract. At December 31, 2017 and 2016, there were no unfunded commitments or redemption restrictions on the Organization's level 3 assets.

The following table presents additional information about level 3 assets measured at fair value on a recurring basis at December 31, 2017 and 2016:

	2017	2016
Beginning balance	$ 1,134,166	$ 1,068,933
Unrealized gain	144,376	65,233
Ending balance	$ 1,278,542	$ 1,134,166

NOTE 3. LEASES

The Organization has entered into various leases for office space and office equipment that originally ranged in duration from three to five years. Future minimum lease payments at December 31, 2017 were:

Year	Amount
2018	$ 45,593
2019	22,028
2020	12,863
2021	12,863
	$ 93,347

NOTE 4. FUND-RAISING EXPENDITURES

The Organization solicits funds from organizations and individuals within the chronic illness community. Contributions are solicited through attending conferences, direct contact, literature mailings and other methods. Fund-raising expenditures totaled $942,116 and $1,076,379 in 2017 and 2016, respectively.

NOTE 5. RETIREMENT PLAN

The Organization sponsors a qualified defined contribution plan under section 401(k) of the Internal Revenue Code, which covers eligible full-time employees after six months of continuous service. Voluntary contributions made by PSI are determined annually. Retirement expense for 2017 and 2016 was $111,305 and $235,579, respectively.

NOTE 6. CONCENTRATIONS

The Organization maintains several bank accounts at one bank located in the United States. The Federal Deposit Insurance Corporation (FDIC) provides insurance coverage for up to $250,000 for substantially all depository accounts. Cash at this institution totaling $45,422,058 and $55,126,550 exceeded federally insured limits as of December 31, 2017 and 2016, respectively. The Organization generally has amounts on deposit in excess of the insured limits.

The Organization maintains investments through one financial institution. The Securities Investor Protection Corporation (SIPC) insures deposits up to $500,000. The amount in excess of the SPIC limit totaled $5,017,413 as of December 31, 2017 and $4,482,483 as of December 31, 2016.

NOTE 6. CONCENTRATIONS, CONTINUED

For the year ended December 31, 2017, contributions from three donors comprised approximately 68% of total contributions. In addition, 85% of contract fees receivable are due from three donors as of December 31, 2017.

For the year ended December 31, 2016, contributions from three donors comprised approximately 69% of total contributions. In addition, 98% of contract fees receivable are due from two donors as of December 31, 2016.

NOTE 7. NEW ACCOUNTING GUIDANCE

Not-for-Profit Financial Statements: In August 2016, FASB issued ASU No. 2016-14, “Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities”, which both simplifies certain aspects of reporting required by not-for-profit organizations and increases disclosures with a goal to improve the usefulness of not-for-profit financial statements to the various stakeholders, including management, directors, lenders, and donors. Key changes include the following:

- Replaces the existing three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) with two new classes of net assets—net assets with donor restrictions and net assets without donor restrictions

- Changes the net asset classification of the underwater amounts of donor-restricted endowment funds to be shown as a component of *net assets with donor restrictions* and requires additional disclosures for underwater endowment funds

- Requires all not-for-profits to provide expenses by nature and function

- Requires expansive disclosures (both quantitative and qualitative) of information about liquidity and availability of resources

The amendments in this ASU are effective for fiscal years beginning after December 15, 2017 with early adoption permitted. The Organization has elected not to early adopt this ASU and intends to adopt it prior to the required transition date.

NOTE 7. NEW ACCOUNTING GUIDANCE, CONTINUED

Leases: In February 2016, the FASB issued new guidance over leases which requires that all leasing activity with initial terms in excess of twelve months be recognized on the balance sheet with a right of use asset and a lease liability. The standard will require entities to classify leases as either a finance or operating lease based upon the contractual terms. For finance leases, the right to use asset and lease liability will be calculated based upon the present value of the lease payments. The asset will then be amortized and the interest on the obligation will be recognized separately within the statement of operations. On the statement of cash flows, the principal portion of the finance lease payments will be classified as a financing activity. For operating leases, the right to use asset and lease liability will also be calculated based upon the present value of the lease payments. However, the cost of the lease will generally be allocated over the lease term on a straight-line basis and presented as a single expense on the statement of operations. On the statement of cash flows, all cash payments for operating leases will be classified as an operating activity. The new standard will be effective for periods beginning after December 15, 2019, and will require entities to use a modified retrospective approach to the earliest period presented. The Organization is currently evaluating the reporting and economic implications of the new standard.