PSI®

Patient Services, Inc.

Consolidated Financial Statements

December 31, 2016 and 2015

Keiter
Your Opportunity Advisors

4401 Dominion Boulevard
Glen Allen, Virginia 23060
Tel: 804.747.0000
www.keitercpa.com

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, 2016 and 2015, 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.

Certified Public
Accountants & Consultants
4401 Dominion Boulevard
Glen Allen, VA 23060
T:804.747.0000 F:804.747.3632

www.keitercpa.com

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, 2016 and 2015, 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 28, 2017
Glen Allen, Virginia

PATIENT SERVICES, INC.
AND SUBSIDIARY

Consolidated Statements of Financial Position
December 31, 2016 and 2015

ASSETS	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	$ 55,126,550	$ 48,611,052
Contract fees receivable, net	39,760,462	61,347,141
Other prepaid expenses	349,317	82,796
Total current assets	95,236,329	110,040,989
PROPERTY AND EQUIPMENT		
Land	291,100	291,100
Buildings	2,612,430	2,497,671
Vehicle	68,098	67,373
Furniture and equipment	1,663,871	1,653,574
	4,635,499	4,509,718
Less accumulated depreciation	2,279,126	2,125,339
Total property and equipment	2,356,373	2,384,379
OTHER ASSETS		
Life insurance annuity	1,134,166	1,068,933
Investments	4,982,483	5,059,746
Deposits	2,000	2,000
Total other assets	6,118,649	6,130,679
Total assets	$ 103,711,351	$ 118,556,047

See accompanying notes to consolidated financial statements.

PATIENT SERVICES, INC.
AND SUBSIDIARY

Consolidated Statements of Financial Position, Continued
December 31, 2016 and 2015

LIABILITIES AND NET ASSETS	2016	2015
CURRENT LIABILITIES		
Accounts payable	$ 377,924	$ 332,237
Accrued expenses	599,861	806,591
Total current liabilities	977,785	1,138,828
NET ASSETS		
Unrestricted net assets	15,274,184	13,777,656
Temporarily restricted net assets	87,459,382	103,639,563
Total net assets	102,733,566	117,417,219
Total liabilities and net assets	$ 103,711,351	$ 118,556,047

See accompanying notes to consolidated financial statements.

PATIENT SERVICES, INC.
AND SUBSIDIARY

Consolidated Statements of Activities
Years Ended December 31, 2016 and 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT						
Contributions	$ 10,727,187	$ 83,362,964	$ 94,090,151	$ 10,777,064	$116,237,515	$127,014,579
Fees for contracted services	84,911	823,747	908,658	97,327	922,573	1,019,900
Interest income	171,954	-	171,954	214,557	-	214,557
Miscellaneous income	60,436	-	60,436	172,110	-	172,110
Gain on investments	212,340	-	212,340	-	-	-
	11,256,828	84,186,711	95,443,539	11,261,058	117,160,088	128,421,146
Net assets released from restrictions	100,222,142	(100,222,142)	-	97,596,263	(97,596,263)	-
Total revenues and other support	111,478,970	(16,035,431)	95,443,539	108,857,321	19,563,825	128,421,146
EXPENSES AND LOSSES						
Program services	103,470,939	-	103,470,939	101,416,741	-	101,416,741
Fund-raising	1,076,379	-	1,076,379	1,303,363	-	1,303,363
Management and general	5,408,678	-	5,408,678	4,419,898	-	4,419,898
Total functional expenses	109,955,996	-	109,955,996	107,140,002	-	107,140,002
Lease termination fee	-	-	-	160,579	-	160,579
Uncollectible pledge expense	16,083	144,750	160,833	31,974	359,514	391,488
Loss on investments	-	-	-	328,158	-	328,158
Loss on disposal of equipment	10,362	-	10,362	51,617	-	51,617
Total expenses and losses	109,982,441	144,750	110,127,191	107,712,330	359,514	108,071,844
Change in net assets	1,496,529	(16,180,181)	(14,683,652)	1,144,991	19,204,311	20,349,302
NET ASSETS						
Beginning of year	13,777,656	103,639,563	117,417,219	12,632,665	84,435,252	97,067,917
Ending	$ 15,274,184	$ 87,459,382	$102,733,566	$ 13,777,656	$103,639,563	$117,417,219

See accompanying notes to consolidated financial statements.

PATIENT SERVICES, INC.
AND SUBSIDIARY

Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (14,683,652)	$ 20,349,302
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	159,401	245,564
Loss on disposal of equipment	10,362	51,617
(Gain) loss on life insurance annuity	(65,233)	44,567
(Gain) loss on investments	(147,107)	283,592
Changes in operating assets and liabilities:		
Contract fees receivable	21,586,679	(7,593,273)
Other prepaid expenses	(266,521)	(23,807)
Deposits	-	41,524
Accounts payable	45,687	115,501
Accrued expenses	(206,730)	(82,493)
Net cash provided by operations	6,432,886	13,432,094
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(193,155)	(126,979)
Proceeds from sale of equipment	51,397	30,000
Proceeds (purchase) of investments, net	224,370	(160,335)
Net cash provided by (used in) investing activities	82,612	(257,314)
Net increase in cash and cash equivalents	6,515,498	13,174,780
CASH AND CASH EQUIVALENTS		
Beginning	48,611,052	35,436,272
Ending	$ 55,126,550	$ 48,611,052
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash paid for interest	$ 15	$ 123

See accompanying notes to consolidated financial statements.

PATIENT SERVICES, INC.
AND SUBSIDIARY

Consolidated Statements of Functional Expenses
Years Ended December 31, 2016 and 2015

	2016				2015			
	Program Services	Fund - Raising	Management and General	Total	Program Services	Fund - Raising	Management and General	Total
DIRECT EXPENSES								
Direct payment assistance	$ 100,222,142	$ -	$ -	$ 100,222,142	$ 97,596,263	$ -	$ -	$ 97,596,263
INDIRECT EXPENSES								
Advertising	-	-	-	-	-	5	719	724
Amortization	-	-	14,891	14,891	-	-	-	-
Bank fees	24,082	1,227	6,109	31,418	13,098	702	2,794	16,594
Computer network	66,182	8,156	77,415	151,753	92,061	12,144	124,176	228,381
Conferences and travel	17,033	149,693	194,253	360,979	16,008	196,300	183,584	395,892
Continuing education	7,430	3,670	2,293	13,393	2,419	3,600	2,255	8,274
Depreciation	109,622	5,584	29,304	144,510	106,146	5,691	133,727	245,564
Dues and subscriptions	1,088	2,655	46,081	49,824	1,036	2,172	50,246	53,454
Gala expenses	-	106,767	-	106,767	-	127,654	-	127,654
Gifts and incentives	12,417	899	27,622	40,938	12,999	1,152	16,255	30,406
Insurance	15,559	793	5,381	21,733	39,117	2,097	11,315	52,529
Interest expense	-	-	15	15	-	-	123	123
Legal and accounting	69,824	3,557	1,263,934	1,337,315	66,321	3,556	250,043	319,920
Meals	1,051	12,348	72,980	86,379	1,418	16,714	72,782	90,914
Occupancy	51,696	16,962	84,555	153,213	95,956	21,967	199,495	317,418
Office expense	107,279	29,947	35,614	172,840	131,649	31,353	43,640	206,642
Patient representation	57,949	-	-	57,949	43,319	-	-	43,319
Public relations	-	2,590	168,192	170,782	-	14,018	87,905	101,923
Registration fees	8,758	446	2,220	11,424	5,392	289	1,083	6,764
Salaries and benefits	1,964,909	623,480	2,317,777	4,906,166	2,340,640	733,054	2,295,239	5,368,933
Subcontractors	598,119	92,419	989,693	1,680,231	699,747	112,839	880,307	1,692,893
Taxes and licenses	10,501	535	9,001	20,037	11,288	605	8,237	20,130
Telecommunications	125,298	14,651	61,348	201,297	141,864	17,451	55,973	215,288
Total indirect expenses	3,248,797	1,076,379	5,408,678	9,733,854	3,820,478	1,303,363	4,419,898	9,543,739
	$ 103,470,939	$ 1,076,379	$ 5,408,678	$ 109,955,996	$101,416,741	$ 1,303,363	$ 4,419,898	$107,140,002

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), Homozygous Familial Hypercholesterolemia, 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), Toxoplasmosis, and von Willebrand Disease.

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, 2016, 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, 2016 and 2015, total temporarily restricted net assets of $87,459,382 and $103,639,563, respectively, are restricted by donors for program purposes in the amount of $82,943,040 and $97,638,432, respectively, and restricted by time for administrative purposes in the amount of $4,516,342 and $6,001,131, respectively. The Organization did not have any permanently restricted net assets as of December 31, 2016 and 2015.

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 $144,510 and $245,564 for 2016 and 2015, 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 Receivable: 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, 2016 or December 31, 2015. Accesia was formed as a C corporation during 2012. Due to its lack of activity during 2016 and 2015, 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, 2016 or 2015. 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 statement of activities. There was no advertising expense for the year ended December 31, 2016. Advertising expense for the year ended December 31, 2015 was $724***.***

Subsequent Events: Management has evaluated subsequent events through March 28, 2017, 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**.**

- **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

NOTE 2. FAIR VALUE MEASUREMENTS OF ASSETS, CONTINUED

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 to 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.

Government agencies - Values utilizing the market approach as determined by the fund manager or market process for similar instruments within public markets.

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, 2016, based on the level of input utilized to measure fair value:

	Level 1	Level 3	Total
Assets			
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.

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, 2015, based on the level of input utilized to measure fair value:

	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
Government agencies	$ -	$ 527,640	$ -	$ 527,640
Money market funds	4,532,106	-	-	4,532,106
	4,532,106	527,640	-	5,059,746
Annuity contracts	-	-	1,068,933	1,068,933
Total assets at fair value	$ 4,532,106	$ 527,640	$ 1,068,933	$ 6,128,679

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, 2016 and 2015, there were no unfunded commitments or redemption restrictions on the Organization's level 2 or 3 assets.

The following table presents additional information about level 3 assets measured at fair value on a recurring basis at December 31, 2016 and 2015:

	2016	2015
Beginning balance	$ 1,068,933	$ 1,113,500
Unrealized gain (loss)	65,233	(44,567)
Ending balance	$ 1,134,166	$ 1,068,933

NOTE 3. LEASES

The Organization has entered into various leases for office space, office equipment and a storage facility that originally ranged in duration from three to five years. Future minimum lease payments at December 31, 2016 were:

Year		Amount
2017	$	46,305
2018		45,593
2019		22,028
2020		12,863
2021		12,863
	$	139,652

During the year ended December 31, 2014, Accesia entered into a sub-lease agreement with Atara Biotherapeutics, Inc. after the sub-lease with Tobira Therapeutics, Inc. ended during July 2015. Total revenue under these agreements for 2015 totaled $80,944. Effective June 10, 2015, Accesia terminated their office space lease, and thus the sub-lease. Lease termination fees totaled $160,579 for the year ended December 31, 2015.

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 $1,076,379 and $1,303,363 in 2016 and 2015, 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 2016 and 2015 was $235,579 and $147,221, 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 $55,126,550 and $48,611,052 exceeded federally insured limits as of December 31, 2016 and 2015, respectively. The Organization generally has amounts on deposit in excess of the insured limits.

NOTE 6. CONCENTRATIONS, CONTINUED

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 $4,482,483 and $4,559,746 as of December 31, 2016 and 2015, respectively.

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.

For the year ended December 31, 2015, contributions from two donors comprised approximately 60% of total contributions. In addition, 94% of contract fees receivable are due from four donors as of December 31, 2015.

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.