

# **Patient-Centered Outcomes Research Institute**

Financial Report  
September 30, 2019

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## **Patient-Centered Outcomes Research Institute**

### **Management's Discussion and Analysis**

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#### **About Patient-Centered Outcomes Research Institute (PCORI)**

The Patient-Centered Outcomes Research Institute was authorized in 2010 by the Patient Protection and Affordable Care Act (42 U.S.C. 1301 et seq.) (Act) to “assist patients, clinicians, purchasers, and policy-makers in making informed health decisions by advancing the quality and relevance of evidence concerning the manner in which diseases, disorders, and other health conditions can effectively and appropriately be prevented, diagnosed, treated, monitored, and managed through research and evidence synthesis.” It does this by supporting comparative clinical effectiveness research (CER) projects designed to answer questions most important to patients. PCORI is also charged with disseminating the results of that research, focusing on “health outcomes, clinical effectiveness, and appropriateness of the medical treatments, services, and items” studied.

PCORI is a 501(c)(1) tax-exempt, nonprofit corporation, governed by a 21-member multi-stakeholder Board of Governors, including 19 members appointed by the Comptroller General of the United States. By law, the Comptroller General must appoint three members representing patients and healthcare consumers; seven members representing physicians and providers; three members representing private payers; three members representing pharmaceutical, device and diagnostic manufacturers or developers; one member representing quality improvement or independent health services researchers; and two members representing the federal government or the states (including at least one member representing a federal health program or agency). The Act also provides that the Directors of the Agency for Healthcare Research and Quality (AHRQ) and the National Institutes of Health (NIH), or their designees, be members of the Board.

In addition to its Board, PCORI's work is guided by a Methodology Committee composed of up to 17 members, who are charged with developing and advancing the science and methodologies of CER. Members of the Methodology Committee, also appointed by the Comptroller General, are experts in their fields of endeavor, including but not limited to health services research, clinical research, CER, biostatistics, genomics and research methodologies.

PCORI's Board is guided by five committees with specific areas of focus: Engagement, Dissemination, and Implementation; the Research Transformation; Science Oversight; Finance and Administration; and Governance. The Governance Committee also serves to fill as the Audit Committee role.

#### **Financial Highlights**

In fiscal year ended September 30, 2010, \$1.26 billion was appropriated for the Patient-Centered Outcome Research Trust Fund (PCORTF): \$10 million for fiscal year 2010, \$50 million for fiscal year 2011 and \$150 million a year for each of the eight years, 2012 through 2019. These amounts, less the annual 20% distribution to AHRQ and HHS beginning in 2011, are available to PCORI without further appropriation.

PCORI prepares annual financial statements in accordance with U.S. generally accepted accounting principles (GAAP), as issued by the Financial Accounting Standards Board (FASB). These statements are audited by independent auditors to ensure their integrity and reliability in assessing performance. The financial statements and notes are presented on a comparative basis.

## Patient-Centered Outcomes Research Institute

### Management's Discussion and Analysis

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The following table highlights key components of PCORI's financial statements during FY 2019:

Financial Data	FY 2019	FY 2018	Increase/ (Decrease)	Percentage Difference
Statement of financial position:				
Assets	\$ 1,376,285,798	\$ 1,151,077,182	\$ 225,208,616	20%
Liabilities	86,885,031	89,292,701	(2,407,670)	-3%
Net assets	<u>\$ 1,289,400,767</u>	<u>\$ 1,061,784,481</u>	<u>\$ 227,616,286</u>	<u>21%</u>
Statement of activities:				
Revenue and support	\$ 615,205,771	\$ 506,485,458	\$ 108,720,313	21%
Expenses	390,494,397	384,523,987	5,970,410	2%
Realized and unrealized gain (loss) on short-term investments, net	2,904,912	(502,360)	3,407,272	678%
Change in net assets	<u>\$ 227,616,286</u>	<u>\$ 121,459,111</u>	<u>\$ 106,157,175</u>	<u>87%</u>

Below is a brief description of the nature of each required financial statement and its relevance. Certain significant balances or conditions are explained to elaborate on the impact of PCORI's operations. Readers are encouraged to gain a deeper understanding by reviewing PCORI's financial statements and the notes to the accompanying financial statements.

**Statements of financial position:** As disclosed in the accompanying statements of financial position and summarized in the table above, PCORI's net assets at September 30, 2019, were \$1.3 billion. Specifically, PCORI's total assets of \$1.4 billion included \$36.1 million of funds held in trust, \$1.3 billion in investments and \$28.8 million in cash. Total liabilities of \$86.9 million represent accounts payable, accrued expenses and deferred rent.

**Statements of activities:** In fiscal year 2019, revenue and support totaled \$615.2 million, of which \$120 million came from appropriations, \$116.4 million from the Federal Hospital Insurance (FHI) and Federal Supplementary Medical Insurance (FSMI) Trust Funds, and \$344.9 million from PCOR fees and \$33.9 million from interest earned on the PCORTF investment portfolio.

For the fiscal year ended September 30, 2019, the revenue of \$615.2 million includes estimated PCOR fees deposited into the PCORTF less an allowance for doubtful collection. Management is in possession of certain federal agency-generated estimates that could be used for estimating the total realizable fiscal year 2019 PCOR fee net revenue on an accrual basis; however, accounting standards dictate that estimates should be based on historical experience and other assumptions that are considered reasonable under given circumstances. Management is of the opinion that, given the complexity of the fee calculations, without historical perspective, estimates cannot be consistently estimated. To that end, PCOR fee revenue is recognized as revenue as it is received less an allowance until such a time as there is more historical perspective on which to evaluate the reliability of the estimates.

Expense levels increased between FY 2019 and FY 2018. The increase from \$384.5 million to \$390.5 million is driven primarily by research expenses. While PCORI is continuing to make funding commitments associated with its award programs, PCORI has also started to close out completed projects.

## **Patient-Centered Outcomes Research Institute**

### **Management's Discussion and Analysis**

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#### **Request for Information**

This financial report is designed to provide a general overview of PCORI's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the attention of the Finance Department, Patient-Centered Outcomes Research Institute, 1828 L Street, NW, Suite 900, Washington, D.C. 20036, or [Finance@pcori.org](mailto:Finance@pcori.org). Additional information regarding PCORI's operations can be found at [www.pcori.org](http://www.pcori.org).

## Independent Auditor's Report

Governance Committee of the Board of Governors  
Patient-Centered Outcomes Research Institute

### Report on the Financial Statements

We have audited the accompanying financial statements of Patient-Centered Outcomes Research Institute (PCORI), which comprise the statements of financial position as of September 30, 2019 and 2018, the related statements of activities, cash flows and functional expenses for 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 PCORI as of September 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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2020, on our consideration of PCORI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PCORI's internal control over financial reporting and compliance.

*RSM US LLP*

Washington, D.C.  
March 2, 2020

**Patient-Centered Outcomes Research Institute**

**Statements of Financial Position  
September 30, 2019 and 2018**

	2019	2018
<b>Assets</b>		
Cash	\$ 28,794,629	\$ 24,551,015
Short-term investments (Note 2)	1,297,555,320	1,080,096,430
Amounts held by PCOR Trust Fund (Note 4)	36,089,979	32,524,684
Prepaid expenses	2,063,304	1,787,733
Deposits and other assets	5,860,380	4,490,937
Property and equipment, net (Note 5)	5,922,186	7,626,383
	<u>5,922,186</u>	<u>7,626,383</u>
<b>Total assets</b>	<b><u>\$ 1,376,285,798</u></b>	<b><u>\$ 1,151,077,182</u></b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 85,052,832	\$ 87,278,601
Deferred rent and tenant improvement allowance	1,832,199	2,014,100
<b>Total liabilities</b>	<b><u>86,885,031</u></b>	<b><u>89,292,701</u></b>
Commitments and contingencies (Notes 6, 7, 9 and 10)		
Net assets:		
Without donor restrictions	<u>1,289,400,767</u>	1,061,784,481
<b>Total liabilities and net assets</b>	<b><u>\$ 1,376,285,798</u></b>	<b><u>\$ 1,151,077,182</u></b>

See notes to financial statements.

**Patient-Centered Outcomes Research Institute**

**Statements of Activities**

**Years Ended September 30, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
Revenue and support (Note 4):		
Federal appropriations	\$ 120,000,000	\$ 120,000,000
Patient-Centered Outcomes Research Fee	344,888,615	255,381,185
Transfers from the Federal Hospital Insurance (FHI) and the Federal Supplementary Medical Insurance (FSMI) Trust Funds	116,446,400	115,526,400
Interest income	33,870,756	15,577,873
<b>Total revenue and support</b>	<b>615,205,771</b>	<b>506,485,458</b>
Expenses:		
Program services:		
Research	242,934,288	236,053,674
PCORnet Infrastructure	59,226,183	70,384,976
Engagement	34,583,368	31,740,996
Dissemination	11,242,853	7,305,875
	<b>347,986,692</b>	<b>345,485,521</b>
Program support	19,277,970	17,152,029
Administrative expenses:		
Administrative – general	22,489,003	21,288,931
Administrative – board	740,732	597,506
	<b>23,229,735</b>	<b>21,886,437</b>
<b>Total expenses</b>	<b>390,494,397</b>	<b>384,523,987</b>
<b>Change in net assets before realized and     unrealized gain (loss) on short-term investments</b>	<b>224,711,374</b>	<b>121,961,471</b>
Realized and unrealized gain (loss) on short-term investments, net	2,904,912	(502,360)
<b>Change in net assets</b>	<b>227,616,286</b>	<b>121,459,111</b>
Net assets:		
Beginning	1,061,784,481	940,325,370
Ending	<b>\$ 1,289,400,767</b>	<b>\$ 1,061,784,481</b>

See notes to financial statements.

**Patient-Centered Outcomes Research Institute**

**Statements of Cash Flows**

**Years Ended September 30, 2019 and 2018**

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 227,616,286	\$ 121,459,111
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,852,834	4,799,751
Deferred rent	(181,901)	941,955
Realized and unrealized (gain) loss on short-term investments, net	(2,904,912)	502,360
Changes in assets and liabilities:		
(Increase) decrease in:		
Amounts held by PCOR Trust Fund	(3,565,295)	454,549
Prepaid expenses	(275,571)	(102,185)
Deposits and other assets	(1,369,443)	(3,716,846)
(Decrease) increase in:		
Accounts payable and accrued expenses	(2,225,769)	(4,384,929)
<b>Net cash provided by operating activities</b>	<b>221,946,229</b>	<b>119,953,766</b>
Cash flows from investing activities:		
Purchases of property and equipment	(3,148,637)	(3,176,964)
Maturities of short-term investments	1,300,018,020	1,192,233,190
Purchase of short-term investments	(1,514,571,998)	(1,315,000,000)
<b>Net cash used in investing activities</b>	<b>(217,702,615)</b>	<b>(125,943,774)</b>
<b>Net increase (decrease) in cash</b>	<b>4,243,614</b>	<b>(5,990,008)</b>
Cash:		
Beginning	24,551,015	30,541,023
Ending	<b>\$ 28,794,629</b>	<b>\$ 24,551,015</b>

See notes to financial statements.

## Patient-Centered Outcomes Research Institute

### Statement of Functional Expenses Year Ended September 30, 2019

	Program Services				Program Support	Administrative Expenses			Total	
	Research	PCORnet Infrastructure	Engagement	Dissemination	Total Program Services	Total Program Support	Administrative – General	Administrative – Board		Total Administrative Expenses
Research awards	\$ 226,339,121	\$ 57,375,791	\$ 21,936,710	\$ 586,608	\$ 306,238,230	\$ -	\$ -	\$ -	\$ -	\$ 306,238,230
Salaries and wages	8,894,220	892,486	3,768,886	776,541	14,332,133	7,270,887	8,487,712	-	8,487,712	30,090,732
Professional services	1,185,271	302,142	5,234,263	9,370,463	16,092,139	3,687,740	4,366,062	-	4,366,062	24,145,941
Employee benefits/payroll										
taxes	2,251,989	238,790	923,744	208,864	3,623,387	1,884,008	2,188,309	-	2,188,309	7,695,704
Depreciation and amortization	1,434,401	143,934	607,821	125,235	2,311,391	1,172,601	1,368,842	-	1,368,842	4,852,834
Travel	297,549	57,964	380,708	42	736,263	1,374,470	151,538	144,664	296,202	2,406,935
Rent, parking, other										
occupancy	921,276	93,263	391,651	79,842	1,486,032	760,147	877,784	-	877,784	3,123,963
Temporary help	10,813	-	94,070	-	104,883	50,420	1,313,886	-	1,313,886	1,469,189
Conferences, conventions, meetings	194,204	12,931	692,356	1,206	900,697	1,670,393	169,280	131,562	300,842	2,871,932
Legal fees	-	-	-	-	-	-	897,865	-	897,865	897,865
Reviewer services	119,400	-	29,500	-	148,900	252,839	5,797	-	5,797	407,536
Accounting fees	-	-	-	-	-	-	96,915	-	96,915	96,915
Board/committee compensation	178,662	-	-	-	178,662	-	-	461,501	461,501	640,163
Telephone and communications	14,300	1,580	9,400	1,120	26,400	15,440	298,382	-	298,382	340,222
Supplies	1,133	-	167	-	1,300	2,161	171,643	-	171,643	175,104
Information technology	1,060,385	106,385	449,257	92,565	1,708,592	900,987	1,011,749	-	1,011,749	3,621,328
Other expenses	(396)	-	-	-	(396)	253	335,260	-	335,260	335,117
Insurance – non-employee related	-	-	-	-	-	-	334,013	-	334,013	334,013
Equipment rental and maintenance	-	-	-	-	-	2,571	210,187	-	210,187	212,758
Books, subscriptions, references	28,677	380	60,148	-	89,205	205,311	190,454	-	190,454	484,970
Bank/payroll fees	-	-	-	-	-	-	2,703	-	2,703	2,703
Postage and shipping	3,283	537	4,687	367	8,874	27,742	10,622	3,005	13,627	50,243
	<b>\$ 242,934,288</b>	<b>\$ 59,226,183</b>	<b>\$ 34,583,368</b>	<b>\$ 11,242,853</b>	<b>\$ 347,986,692</b>	<b>\$ 19,277,970</b>	<b>\$ 22,489,003</b>	<b>\$ 740,732</b>	<b>\$ 23,229,735</b>	<b>\$ 390,494,397</b>

See notes to financial statements.

## Patient-Centered Outcomes Research Institute

### Statement of Functional Expenses Year Ended September 30, 2018

	Program Services				Total Program Services	Program Support	Administrative Expenses			Total
	Research	PCORnet Infrastructure	Engagement	Dissemination		Total Program Support	Administrative – General	Administrative – Board	Total Administrative Expenses	
Research awards	\$ 217,631,427	\$ 68,659,814	\$ 20,187,159	\$ 410,957	\$ 306,889,357	\$ -	\$ (4,370)	\$ -	\$ (4,370)	\$ 306,884,987
Salaries and wages	8,672,760	849,820	3,679,427	795,078	13,997,085	7,339,183	7,918,927	-	7,918,927	29,255,195
Professional services	3,535,477	93,985	4,293,759	5,595,840	13,519,061	2,608,038	4,404,619	4,875	4,409,494	20,536,593
Employee benefits/payroll taxes	2,219,185	232,882	941,256	212,296	3,605,619	1,926,784	2,080,617	-	2,080,617	7,613,020
Depreciation and amortization	1,415,398	138,691	600,484	129,757	2,284,330	1,197,758	1,317,663	-	1,317,663	4,799,751
Travel	329,311	99,338	484,026	-	912,675	992,349	119,603	84,667	204,270	2,109,294
Rent, parking, other occupancy	739,588	74,844	325,463	67,544	1,207,439	623,898	691,077	11,713	702,790	2,534,127
Temporary help	56,263	-	96,164	-	152,427	159,712	1,455,267	-	1,455,267	1,767,406
Conferences, conventions, meetings	174,855	137,418	593,038	4,155	909,466	965,252	131,877	218,686	350,563	2,225,281
Legal fees	-	-	-	-	-	-	745,915	-	745,915	745,915
Reviewer services	128,700	-	31,200	-	159,900	234,075	-	-	-	393,975
Accounting fees	-	-	-	-	-	-	83,800	-	83,800	83,800
Board/committee compensation	129,270	-	-	-	129,270	-	-	274,057	274,057	403,327
Telephone and communications	8,616	520	5,600	480	15,216	8,240	339,579	1,894	341,473	364,929
Supplies	1,071	-	4,129	-	5,200	2,402	155,850	22	155,872	163,474
Information technology	973,074	95,349	438,452	89,207	1,596,082	836,694	905,881	-	905,881	3,338,657
Other expenses	396	-	(335)	-	61	-	350,619	-	350,619	350,680
Insurance – non-employee related	-	-	-	-	-	-	317,439	-	317,439	317,439
Equipment rental and maintenance	-	-	-	-	-	-	202,097	-	202,097	202,097
Books, subscriptions, references	36,014	-	53,972	550	90,536	243,807	56,999	-	56,999	391,342
Bank/payroll fees	-	-	-	-	-	-	5,890	-	5,890	5,890
Postage and shipping	2,269	2,315	7,202	11	11,797	13,837	9,582	1,592	11,174	36,808
	<u>\$ 236,053,674</u>	<u>\$ 70,384,976</u>	<u>\$ 31,740,996</u>	<u>\$ 7,305,875</u>	<u>\$ 345,485,521</u>	<u>\$ 17,152,029</u>	<u>\$ 21,288,931</u>	<u>\$ 597,506</u>	<u>\$ 21,886,437</u>	<u>\$ 384,523,987</u>

See notes to financial statements.

## Patient-Centered Outcomes Research Institute

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies

**Nature of activities:** The Patient-Centered Outcomes Research Institute (PCORI) was authorized in 2010 by the Patient Protection and Affordable Care Act (42 U.S.C. 1301 et seq.) (Act) to “assist patients, clinicians, purchasers, and policy-makers in making informed health decisions by advancing the quality and relevance of evidence concerning the manner in which diseases, disorders and other health conditions can effectively and appropriately be prevented, diagnosed, treated, monitored, and managed through research and evidence synthesis.” It does this by supporting comparative clinical effectiveness research (CER) projects designed to answer questions most important to patients. PCORI also is charged with disseminating the results of that research, focusing on “health outcomes, clinical effectiveness, and appropriateness of the medical treatments, services, and items” studied.

PCORI is a 501(c)(1) nonprofit corporation, governed by a 21-member multistakeholder Board of Governors (the Board), including 19 members appointed by the Comptroller General of the United States. By law, the Comptroller General must appoint three members representing patients and healthcare consumers; seven members representing physicians and providers; three members representing private payers; three members representing pharmaceutical, device and diagnostic manufacturers or developers; one member representing quality improvement or independent health services researchers; and two members representing the federal government or the states (including at least one member representing a federal health program or agency). The Act also provides that the Directors of the Agency for Healthcare Research and Quality (AHRQ) and the National Institutes of Health (NIH), or their designees, be members of the Board.

In accordance with the enabling legislation, Congress established the Patient-Centered Outcomes Research Trust Fund (PCORTF). In the fiscal year ended September 30, 2010, \$1.26 billion was appropriated for the PCORTF; this funding was available through September 30, 2019, without further appropriation. Annual appropriations were deposited in November into the PCORTF as follows: \$10 million in fiscal year 2010, \$50 million in fiscal year 2011 and \$150 million a year in each of the eight-fiscal years, 2012 through 2019. These amounts, less the annual 20% distribution to AHRQ and the U.S. Department of Health and Human Services (HHS) beginning in fiscal year 2011, plus interest income, were available to PCORI as needed.

The Secretary of the Treasury (the Secretary) also provides for transfers to the PCORTF from the Federal Hospital Insurance (FHI) Trust Fund and the Federal Supplementary Medical Insurance (FSMI) Trust Fund in proportion to the total expenditures during such fiscal year that are made under Social Security Act Title XVIII: Health Insurance for the Aged from the respective trust fund. In calendar year 2012, the PCORTF received an amount equal to \$1 multiplied by the average number of individuals entitled to benefits under part A or enrolled under part B of title XVIII during the year ended September 30, 2013. For each fiscal year ending September 30 thereafter, 2014 through 2019, the PCORTF received an amount equal to \$2 multiplied by the average number of individuals entitled to benefits under part A, or part B, of title XVIII during such fiscal year. For fiscal years beginning after September 30, 2014, these amounts were adjusted for increases in healthcare spending. The increase was the product of the sum of such dollar amount for the previous fiscal year plus an amount equal to the product of such dollar amount for the previous fiscal year, multiplied by the percentage increase in the projected per capita of National Health Expenditures, as most recently published by the Secretary before the beginning of the fiscal year.

In the year ended September 30, 2013, the PCORTF began receiving the funding from the fees that were imposed on certain health insurance and self-insured health plans. The fees were also adjusted for increases in healthcare spending. The increase is a product of the sum of such dollar amount for the previous fiscal year plus an amount equal to the product of such dollar amount for the previous fiscal year, multiplied by the percentage increase in the projected per capital of National Health Expenditures as most recently published by the Secretary before the beginning of the fiscal year.

## Patient-Centered Outcomes Research Institute

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

A summary of PCORI's significant accounting policies follows:

**Basis of accounting:** The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

**Basis of presentation:** PCORI follows the accounting requirements of Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification). As required by the Not-for-Profit Entities Topic of the Codification, PCORI is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions, as applicable. PCORI had no net assets with donor restrictions at September 30, 2019 and 2018.

**Short-term investments:** Short-term investments with readily determinable fair values are reflected at fair value. Interest income is included in the accompanying statements of activities. Unrealized gains and losses on investments are excluded from interest income and are presented separately in the statements of activities.

**Property and equipment:** Property and equipment at September 30, 2019 and 2018, consisted of leasehold improvements, software, furniture, website, fixtures and equipment. Purchases of property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives of four to eight years. It is the policy of PCORI to capitalize property and equipment purchases greater than \$5,000. PCORI amortizes leasehold improvement costs over the remaining term of PCORI's lease, or the useful life of the improvement, whichever is shorter.

**Valuation of long-lived assets:** Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be retired are reportable at the lower of the carrying amount or fair value, less disposal costs.

**Deferred rent:** PCORI has various lease agreements for rental spaces in Washington, D.C. Under the terms of certain lease agreements, PCORI occupied office space for one to four months of free rent. The free months' rent and escalating annual rent increases, in addition to a tenant improvement allowance, are being recognized on a straight-line basis over the life of the lease agreement and are reflected as deferred rent and tenant improvement allowance in the accompanying statements of financial position.

**Revenue recognition:** Congress appropriated \$1.26 billion for the PCORTF at the time of establishment. These federal appropriations are deemed to be earned and are recognized as revenue in the periods designated by Congress. The Act explicitly identified specific amounts and a period of attribution by fiscal year, beginning in October 2010 and ending in September 2019.

## Patient-Centered Outcomes Research Institute

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

In accordance with the legislation, beginning in fiscal year 2012, the Secretary of the Treasury provided for transfer to the PCORTF from the FHI Trust Fund and the FSMI Trust Fund in proportion to the total expenditures during such fiscal year that were made under title XVIII from the respective trust fund. The transfer amounts are provided by the Center for Medicare and Medicaid Services (CMS) Budget and they are updated annually based on the published Mid-Session Review of the President's Budget. The estimated transfers are subject to a true-up when the final calculations become available. The transfers are deemed to be earned and are recognized as revenue on a cash basis in the period received or adjusted.

Patient-Centered Outcomes Research (PCOR) fee revenue received is based on federal agency-generated estimates, which are true-up the following year based on Internal Revenue Service (IRS) reconciliation of actual PCOR fee collections. Accounting standards dictate that estimates should be based on historical experience and other assumptions that are considered reasonable under given circumstances. Management is in possession of certain federal agency-generated estimates that could be used for estimating the total realizable fiscal year PCOR fee. In prior years, the PCOR fees were budgeted at 10% under the government projections for planning purposes to guard against overcommitting resources in the event actual revenue is much lower than the projection.

**Program awards:** PCORI uses contracts as its only means to fund program awards. Expenses are recorded at the time the deliverable has been met or when the cost has been incurred. As of September 30, 2019 and 2018, program awards totaling approximately \$2.35 billion and \$2.07 billion have been entered into, respectively.

**Tax status:** PCORI, a nonprofit organization incorporated in the District of Columbia and authorized by the Patient Protection and Affordable Care Act, is exempt from income taxes under Section 501(c)(1) of the Internal Revenue Code (IRC) and the applicable income tax regulations of the District of Columbia.

PCORI follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, PCORI may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. Management evaluated PCORI's tax positions and concluded that PCORI has not taken any uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

**Functional allocation of expenses:** The costs of providing various programs and activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present expenses by function and natural classification. Expenses directly attributed to a specific functional area of PCORI are reported as expenses of those functional areas while shared costs that benefit multiple functional areas have been allocated among the various functional areas based on direct employee salaries charged on each functional area.

**Financial and credit risk:** The PCORTF was funded through congressional appropriation in fiscal year 2010 for the fiscal years 2010 through 2019. PCORI, HHS and AHRQ are the only organizations that have access to the assets of the PCORTF.

## Patient-Centered Outcomes Research Institute

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Use of estimates:** The preparation of financial statements requires management to make estimates and assumptions in conformity with generally accepted accounting principles in the United States of America (GAAP) that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Audit requirements:** PCORI is subject to financial and governmental oversight in accordance with its enabling legislation. PCORI is required to provide for the conduct of an annual financial audit through a private entity with experience in conducting financial audits. The Comptroller General of the United States is required to review the financial audit annually; the processes established by PCORI not less frequently than every five years; the dissemination/training activities and the data networks of PCORI not less frequently than every five years; the overall effectiveness of activities and the dissemination, training and capacity-building activities conducted by PCORI not less frequently than every five years; and the adequacy and use of the funding for PCORI and the activities conducted no later than eight years after the date of enactment. GAO reviews were conducted and published in 2015 and 2018.

**Recent accounting pronouncements:** In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of activities. The new standard is effective for PCORI for the fiscal year beginning October 1, 2021. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. PCORI is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides additional guidance on characterizing grants and similar contracts with resource providers as either exchange transactions or contributions, as well as distinguishing between conditional contributions and unconditional contributions. The updated standard will be effective for PCORI for annual reporting periods beginning after October 1, 2019 where PCORI is a resource recipient and October 1, 2020 where PCORI is a resource provider. PCORI is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

#### Note 2. Fair Value Measurements

The Fair Value Measurement topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification) defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a 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). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

**Level 1:** Quoted market prices in active markets for identical assets or liabilities

**Level 2:** Observable market-based inputs or unobservable inputs corroborated by market data

**Level 3:** Unobservable inputs that are not corroborated by market data

## Patient-Centered Outcomes Research Institute

### Notes to Financial Statements

#### Note 2. Fair Value Measurements (Continued)

The table below presents the balances of assets at September 30, 2019, measured at fair value on a recurring basis by level within the hierarchy:

	Total	Level 1	Level 2	Level 3
U.S. treasury bills	\$ 109,951,380	\$ -	\$ 109,951,380	\$ -
U.S. treasury notes	1,187,603,940	-	1,187,603,940	-
Total	<u>\$ 1,297,555,320</u>	<u>\$ -</u>	<u>\$ 1,297,555,320</u>	<u>\$ -</u>

The table below presents the balances of assets at September 30, 2018, measured at fair value on a recurring basis by level within the hierarchy:

	Total	Level 1	Level 2	Level 3
U.S. treasury bills	\$ 659,864,335	\$ -	\$ 659,864,335	\$ -
U.S. treasury notes	420,232,095	-	420,232,095	-
Total	<u>\$ 1,080,096,430</u>	<u>\$ -</u>	<u>\$ 1,080,096,430</u>	<u>\$ -</u>

The U.S. treasury bills and U.S. treasury notes above are classified as Level 2 due to the underlying assets having observable market based inputs for similar, but not identical, assets.

#### Note 3. Liquidity

PCORI regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to preserve the principal and return on investment of its funds. PCORI's financial assets available within one year of the statements of financial position date to meet cash needs for general expenditures at September 30, 2019 and 2018, are as follows:

	2019	2018
Cash	\$ 28,794,629	\$ 24,551,015
Short-term investments	1,297,555,320	1,080,096,430
Accounts receivable, net	141,098	1,179,443
Amounts held by PCOR Trust Fund	36,089,979	32,524,684
	<u>\$ 1,362,581,026</u>	<u>\$ 1,138,351,572</u>

PCORI has various sources of liquidity at its disposal including cash and cash equivalents, U.S. treasury bills, U.S. treasury notes and amounts held by PCOR Trust Fund. See Notes 2 and 4 for information about amounts held by PCORI in U.S. treasury bills, U.S. treasury notes and amounts held by PCOR Trust Fund available to PCORI, respectively.

## Patient-Centered Outcomes Research Institute

### Notes to Financial Statements

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#### Note 4. Amounts Held by PCOR Trust Fund

Amounts held by PCORTF available to PCORI at September 30, 2019 and 2018, and activity in the Trust Fund for the years then ended, are as follows:

	2019	2018
Beginning balance	\$ 32,524,684	\$ 32,979,233
Federal appropriations:		
Government fiscal year appropriation	120,000,000	120,000,000
Transfers from FSMI and FHI	116,446,400	115,526,400
Patient-Centered Outcomes Research Fee	344,888,615	255,381,185
Interest earned	757,621	368,227
Draws by PCORI	(578,527,341)	(491,730,361)
	<u>\$ 36,089,979</u>	<u>\$ 32,524,684</u>

Amounts held by PCORTF are placed in market-based overnight Treasury securities. These are Treasury securities whose interest rates or prices are determined based on the interest rates or prices of Treasury-related financial instruments issued or trading in the market, rather than on the interest rates or prices of outstanding marketable Treasury securities. This type of security is bought and redeemed at par, and pays interest on maturity. The fair value of this type of security is par.

#### Note 5. Property and Equipment

Property and equipment and accumulated depreciation at September 30, 2019 and 2018, are as follows:

	2019	2018
Leasehold improvements	\$ 5,693,361	\$ 7,048,712
Software development	17,661,251	15,347,424
Website	834,093	593,725
Furniture, fixtures and equipment	3,913,070	3,933,221
	<u>28,101,775</u>	<u>26,923,082</u>
Less accumulated depreciation	(22,179,589)	(19,296,699)
	<u>\$ 5,922,186</u>	<u>\$ 7,626,383</u>

## Patient-Centered Outcomes Research Institute

### Notes to Financial Statements

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#### Note 6. Leases

PCORI has three non-cancelable operating leases for office spaces in Washington, D.C. that expire on December 31, 2018 and December 31, 2024 (two leases), respectively.

Future minimum rental payments applicable to the leases at September 30, 2019, are as follows:

Years ending September 30:	
2020	\$ 3,132,313
2021	3,156,218
2021	3,223,231
2023	3,320,709
2024	3,403,749
Thereafter	936,860
	<u>\$ 17,173,080</u>

Rent expense for the years ended September 30, 2019 and 2018, was \$3,123,963 and \$2,534,127, respectively.

#### Note 7. Financial Risks and Uncertainties

On March 1, 2013, the sequestration as required by the Budget Control Act of 2011 (BCA) and pursuant to section 215A of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended (BBEDCA), went into effect. The sequestration imposes a number of percentage-based federal spending reductions, including a reduction in available funding to the PCORTF for obligations. Funds in sequester at September 30, 2019 and 2018, were \$45,131,897 and \$40,540,104, respectively. These funds were released from sequester and made available to the PCORTF for obligations on November 14, 2019 and October 1, 2018, respectively.

PCORI maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. PCORI has not experienced any losses in such accounts. PCORI believes it is not exposed to any significant financial risk on cash.

#### Note 8. Retirement Plan

Effective January 1, 2012, PCORI established the Defined Contribution Retirement Plan of the Patient-Centered Outcomes Research Institute (the Plan). The Plan is intended to be a qualified plan under Section 401(a) of the IRC of 1986, as amended, and it is a plan as described in IRC Section 414(d) and Section 3(32) of the Employee Retirement Income Security Act of 1974 (ERISA), as amended. All full-time regular employees are eligible to participate in the plan on the first day of the month following the date he or she becomes an eligible employee. PCORI matches employees' contributions up to 5% of the participant's eligible compensation. Additionally, PCORI makes a non-elective contribution of 5% of the participant's eligible compensation. Participants are fully vested after one year of continuous employment with PCORI. Contribution expenses totaled \$2,516,171 and \$2,635,385 for the years ended September 30, 2019 and 2018, respectively.

#### Note 9. Contingencies

PCORI is involved in various claims and disputes arising in the ordinary course of business. The ultimate disposition of these claims and disputes is not expected to have a material adverse effect on PCORI's financial statements.

## Patient-Centered Outcomes Research Institute

### Notes to Financial Statements

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#### **Note 10. Subsequent Events**

PCORI evaluated subsequent events through March 2, 2020, which is the date the financial statements were available to be issued.

On November 19, 2019, the Board of Governors of PCORI approved research awards totaling \$70 million. The contracts for these projects will be executed in fiscal year 2020. Contracted amounts may differ slightly from the Board approved amounts.

On September 27, 2019, the President signed the “Continuing Appropriations Act, 2020, and Health Extenders Act of 2019.” This bill contained a provision that extended the life of the PCORTF through November 21, 2019, although it did not provide any new funding for PCORI. The PCORTF was extended again on November 21, 2019, by the “Further Continuing Appropriations Act, 2020, and Further Health Extenders Act of 2019,” which extended the PCORTF through December 20, 2019, although again it did not provide new funding for the Trust Fund.

Then on December 20, 2019, President Trump signed the “Further Consolidated Appropriations Act, 2020,” which included a 10-year reauthorization of the PCORTF through September 30, 2029. Under this reauthorizing legislation, Congress removed the transfers from the Medicare Trust Fund to the PCORTF, effectively eliminating this funding stream moving forward. Instead, Congress increases the direct federal appropriations and specifically identifies the dollar amount of federal mandatory appropriations to be allocated to the PCORTF for each fiscal year from 2020 to 2029 (roughly \$3.3 billion total). The provisions providing for the PCOR fee on private health insurers and self-insured and employer-sponsored health plans are extended through September 30, 2029.

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based  
on an Audit of Financial Statements Performed in Accordance With *Government Auditing  
Standards***

**Independent Auditor's Report**

Governance Committee of the Board of Governors  
Patient-Centered Outcomes Research Institute

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Patient-Centered Outcomes Research Institute (PCORI), which comprise the statement of financial position as of September 30, 2019, the related statements of activities, cash flows and functional expenses for the year then ended and the related notes to the financial statements, and have issued our report thereon dated March 2, 2020.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether PCORI's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*RSM US LLP*

Washington, D.C.  
March 2, 2020