

# **Patient-Centered Outcomes Research Institute**

Financial Report  
December 31, 2012

## Contents

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<b>Independent Auditor's Report</b>	1 – 2
<b>Management's Discussion And Analysis</b>	3 – 8
<b>Financial Statements</b>	
Statements Of Financial Position	9
Statements Of Activities	10
Statements Of Cash Flows	11
Statements Of Functional Expenses	12 – 13
<b>Notes To Financial Statements</b>	14 – 18

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## **Independent Auditor's Report**

To the Audit Committee  
Patient-Centered Outcomes Research Institute  
Washington, D.C.

### **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 December 31, 2012 and 2011, and the related statements of activities, cash flows and functional expenses for the years then ended and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 December 31, 2012 and 2011, 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 Matters**

Management's Discussion and Analysis, on pages 3 – 8, is presented to supplement the basic financial statements and is not a part of the basic financial statements. We have applied certain limited procedures to the supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2013 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 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 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.



Vienna, Virginia  
March 12, 2013

## Patient-Centered Outcomes Research Institute

### Management's Discussion And Analysis

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#### About PCORI

The Patient-Centered Outcomes Research Institute (PCORI) was authorized by federal law (42 U.S.C. 1301 et seq.) in 2010 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.” 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) non-profit corporation, governed by a 21-member multi-stakeholder Board of Governors, including 19 members appointed by the Comptroller General of the United States and the Directors of the Agency for Healthcare Research and Quality (AHRQ) and National Institutes of Health (NIH). 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).

In addition to its Board, PCORI's work is guided by a 17-member Methodology Committee charged with developing and advancing the science and methodologies of comparative clinical effectiveness research. 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, comparative clinical effectiveness research, biostatistics, genomics, and research methodologies.

PCORI's Board is guided by three committees with particular areas of focus – Communications, Outreach and Engagement; Finance, Audit and Administration; and Program Development – and special committees on Scientific Publications and Conflicts of Interest. To assist in its work, the Methodology Committee established working groups on Patient-Centeredness, Research Prioritization, Research Methods, and Report Assimilation. These were dissolved following the delivery of the Methodology Committee's draft Report and Standards to PCORI's Board, as required by law, in May 2012.

#### Current Activities

##### **Organizational Structure and Focus**

PCORI focused in 2012 on solidifying and enhancing the infrastructure, policies, and procedures needed for the effective functioning of a new research institute; carrying out foundational and organizational tasks mandated by PCORI's establishing legislation; starting to build a broad-based portfolio of patient-centered comparative effectiveness research; and continuing to develop the community of engaged stakeholders essential to the conduct, refinement, and eventual dissemination of the results of that work. The institute had a staff of 47 as of the end of the year, including full-time or acting directors for four of its five scientific program areas and directors of patient and stakeholder engagement, engagement research, communications, contract management, finance, human resources and information technology.

##### **Engagement as a Path to Rigorous Research**

PCORI's focus on engagement has been a core commitment and guiding principle virtually since the institute's creation and is memorialized in the mission statement adopted by the Board in July 2011:

***“PCORI helps people make informed healthcare decisions – and improves healthcare delivery and outcomes – by producing and promoting high-integrity, evidence-based information that comes from research guided by patients, caregivers, and the broader healthcare community.”***

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

### **Management's Discussion And Analysis**

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In 2012, PCORI used live convening and a range of online tools to gain a broad array of stakeholder input to guide its work, attracting thousands of patients, caregivers, researchers, clinicians, advocacy groups, and other stakeholders. Open bimonthly Board meetings featured public comment periods and were webcast. Methodology Committee members met with patients, caregivers, and dozens of clinical, research, and patient advocacy organizations in the course of its work. More than a dozen workshops, roundtables, and other gatherings facilitated PCORI's ongoing dialogue with stakeholders as it pursued its work, including as it developed and refined its National Priorities for Research and Research Agenda and Methodology Standards, promoted development of a patient-centered research community, and advanced its process for identifying research specific topics for study through online solicitation of research questions.

Among the most visible examples of this commitment to engagement in research were the requirements outlined in PCORI's funding announcements, including that applicants involve patients and other stakeholders as meaningful partners in their research projects. As part of its effort to support this focus, a PCORI Challenge initiative was launched late in the year, using a "crowdsourcing" model to seek proposals for creating a "matching service" designed to connect researchers and patients as prospective research partners.

Supporting outreach and communications about these events, PCORI substantially grew its online and social media presence throughout the year. PCORI's web site recorded a total of 376,881 visits by 178,631 unique visitors and nearly 1.5 million page views. At year's end, PCORI nearly quadrupled the size of its e-mail list to about 7,600 and saw its Twitter following increase nearly ten-fold. These audiences received regular updates from PCORI about events, funding opportunities and chances to provide meaningful input. In addition to assisting the Science team in its topic generation and research prioritization work as noted above, PCORI's web site also served as a tool to solicit applicants for the growing pool of scientific and stakeholder reviewers needed to assess funding proposals.

#### **Definition of Patient-Centered Outcomes Research (PCOR) Adopted**

In March, the Board adopted a revised draft of a document defining "patient-centered outcomes research (PCOR)," something not widely agreed to within professional circles at the time PCORI was established. Such a definition was one of PCORI's foundational tasks, designed to help clarify its focus and scope of work. A draft definition was developed through a year-long iterative and transparent process that included a public comment period that generated feedback from nearly 120 organizations and 450 individuals. Additional public input was sought through six focus groups involving patients, caregivers, and the general public.

#### **Pilot Projects Program Issues 50 Awards**

In April, the Board approved a slate of 50 PCORI Pilot Projects awards, funding \$31 million in research, in 24 states and the District of Columbia, over two years. PCORI developed the program to support projects in eight areas of interest that would support the creation of new methods and data collection to advance patient-centered outcomes research. Following a public input period to assess the program's eight proposed focus areas, PCORI issued a request for applications promoting observational methodologies, systematic reviews, mixed methods and qualitative methodologies, simulations, small pragmatic pilot trials, and survey methods. This request generated nearly 1,400 letters of intent and nearly 850 applications. Merit reviews took place in the first quarter of 2012, and a selection committee comprised of Board members prepared the recommended slate of projects for Board consideration.

#### **National Priorities for Research and Research Agenda Adopted**

In May, the Board adopted the institute's legally mandated research roadmap, its National Priorities for Research, and Research Agenda. A draft version, development of which began in August 2011, had been released for a 53-day public comment in January, 2012. It was revised based on an analysis of the approximately 450 comments received during the comment period through a broad range of outreach and promotional efforts, including a national dialogue that attracted some 800 people to both the live event in Washington, D.C., and a simultaneous webcast, numerous small-group meetings with stakeholders, extensive online outreach, and digital advertising.

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

### **Management's Discussion And Analysis**

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The priorities and agenda, which are the basis for PCORI's calls for research funding, include the following areas: Assessment of Prevention, Diagnosis, and Treatment Options; Improving Healthcare Systems; Communication and Dissemination Research; Addressing Disparities; and Accelerating Patient-Centered Outcomes Research and Methodological Research. They were written to be intentionally broad and do not name specific conditions or treatments that PCORI will examine. This approach recognized that there are many important research questions to be answered and focusing on a narrow set of conditions at the start of PCORI's research funding would exclude certain patients at a very early stage in PCORI's work. However, even as the Priorities and Agenda were being finalized, PCORI was mapping out a process for moving toward identifying specific topics for funding, following a complementary two-path process that included both researcher-initiated proposals and patient/stakeholder-initiated proposals. As part of this effort, PCORI initiated a process for developing a set of multi-stakeholder Advisory Panels to assist in developing future funding announcements.

#### **Developing PCORI's First Methodology Report**

The Methodology Committee completed work on its draft report and standards for patient-centered comparative effectiveness research, which, along with a translation table and set of research recommendations, are required tools for guiding the Board in overseeing PCORI's research agenda. Four working groups on Patient-Centeredness, Research Priorities, Research Methods, and Report Assimilation were established to assist the Committee which also relied on input from leading methodologists from around the country and a set of expert background reports to produce the draft report and standards. These were delivered to the Board, as required by law, in May 2012, and opened to public comment for 54 days. After receiving more than 1,200 comments from 124 individuals and organizations, the standards were revised and adopted by the Board at its September meeting in Boston; the Committee also presented the Board with a set of research recommendations. A revised version of the draft report will be delivered to the Board in the spring of 2013.

#### **Primary Research Funding Launched and Initial Awards Approved**

PCORI launched its first round of primary research funding calls in May, issuing PCORI Funding Announcements (PFAs) associated with the first four of its National Priorities for Research. A PFA based on the fifth priority was issued in November, with applications due Jan. 15, 2013; additional PFAs under this priority are expected to be released later in 2013.

PCORI received 483 applications under the first cycle of this initial round of funding; proposals for "Assessment of Prevention, Diagnosis and Treatment Options" were most common, accounting for 44% of all applications received (40% of PFA funding is dedicated to this priority area). After a two-stage review involving some 105 scientists, patients and other stakeholders, PCORI's Board, on December 18, approved a slate of 25 projects in 17 states totaling nearly \$40.7 million in funding over three years. A second funding cycle under the first four National Priorities for Research opened in September; 434 applications were received by the mid-December deadline.

Recognizing the need to speed the release of funding announcements to support patient-centered studies on specific research issues, PCORI moved in 2012 to augment its ongoing broad PFA process with a process of selecting specific high-impact research topics for potential funding calls. PCORI's Board approved three such topics from a potential slate of 11 -- uterine fibroids, fall prevention in the elderly and treatment of severe asthma in African-Americans and Hispanics/Latinos. PCORI staff will identify two additional topics in early 2013 to be considered for additional targeted announcements. Multi-stakeholder working groups will then help staff consider whether to proceed with funding announcements, which would be targeted for release in the spring of 2013.

## Patient-Centered Outcomes Research Institute

### Management's Discussion And Analysis

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#### Additional Research Supported in 2012

In addition to funding through its Pilot Projects Program and PFAs, PCORI awarded a series of research contracts through a competitive RFP process. Those contracts included:

- Pilot Projects Monitoring Services.
- Results Analysis Services.
- Survey Research Services.
- Review of Guidance Documents for Selected Methods in Patient Centered Outcomes Research.

PCORI issued other RFPs during the year for operational services, including:

- Travel Management Services.
- Executive Search Services.
- Conference and Event Management Support Services.

Technical and cost evaluation criteria are developed for each RFP solicitation and the weighted importance of the evaluation criterion is published in a Request for Proposal (RFP) that is posted on PCORI's website in the Funding Announcements section (<http://www.pcori.org/funding-opportunities/>) and in the About Us/ Operations and Finance section (<http://www.pcori.org/about/operations-and-finance/>). A notification is distributed via the PCORI mailing list and/or other vehicles as appropriate to the specific request. Submitted proposals are assessed in a careful process that includes:

- The solicitation requires compliance with the PCORI Conflict of Interest Policy and the completion of a disclosure form.
- A PCORI Evaluation Team of procurement specialists and subject matter experts is convened and each technical proposal is reviewed for merit by at least three reviewers who have been assessed for conflict of interest with the institution and personnel identified in all proposals under consideration.
- The cost proposals for the highest scoring technical proposals are reviewed for reasonableness and accuracy.
- A Selection Committee of senior management identifies the potential contractor based on "best value," the combined technical and cost proposal scoring, and a verbal offer of award is made pending data collection, due diligence, and acceptance.
- The verbal offer is followed by a Best and Final Offer negotiation and a contract is executed.
- Unsuccessful applicants will be communicated with advising them of their status. If requested, unsuccessful applicants will be given a formal debriefing.

#### Financial Highlights

\$1.26 billion was appropriated for Patient-Centered Outcome Research Trust Fund (PCORTF) in 2010; \$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 statement 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**

The following table highlights key components of PCORI’s financial statements during FY 2012:

<b>Financial Data</b>	<b>FY 2012</b>	<b>FY 2011</b>	<b>Increase/ (Decrease)</b>	<b>Percentage Difference</b>
<b>Statement of Financial Position</b>				
Assets	\$ 302,753,342	\$ 163,484,540	\$ 139,268,802	85%
Liabilities	3,385,156	2,513,990	871,166	35%
Net Assets	<u>\$ 299,368,186</u>	<u>\$ 160,970,550</u>	<u>\$ 138,397,636</u>	<u>86%</u>
<b>Statement of Activities</b>				
Revenue	\$ 161,644,461	\$ 120,024,106	\$ 41,620,355	35%
Expenses	23,246,825	8,611,907	14,634,918	170%
Change in Net Assets	<u>\$ 138,397,636</u>	<u>\$ 111,412,199</u>	<u>\$ 26,985,437</u>	<u>24%</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 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 increased \$138,397,636 as a result of PCORI’s funding from US Government appropriations and transfers from the Federal Hospital Insurance (FHI) and the Federal Supplementary Medical Insurance (FSMI) Trust Funds less expenses of program and administrative supporting services. Specifically, PCORI’s total assets of \$302,753,342 include \$281,615,236 of funds held in Trust and \$17,373,135 in cash. Total liabilities of \$3,385,156 represent outstanding obligations and deferred rent and tenant improvement allowance.

Statements of Activities: In FY 2012, revenue and support totaled \$161,644,461 of which \$120,000,000 came from appropriations, \$41,596,000 from the Federal Hospital Insurance and Federal Supplementary Medical Insurance trust funds and \$48,461 from interest. The program activities of \$15,172,537 are comprised of the program services of the Methodology Committee and the Communications, Engagement, and the Research Management departments. Expenses for support activities were \$8,074,288. The combination of the revenue minus expenses yielded an excess of revenue over expenses totaling \$138,397,636.

Statements of Functional Expenses: The \$14,130,143 increase in program services between FY 2012 and FY2011 is primarily due to increased spending related to the preparation and release of the Methodology Report and the cost of expanded department activity in support of communication, engagement, and extramural research. In addition, the increase of \$504,775 in administrative and other support services includes costs associated with building out infrastructure, permanent staffing, and the development of contracting capacity.

## Patient-Centered Outcomes Research Institute

### Management's Discussion And Analysis

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#### Future Events

The long-term goals for PCORI have been defined as:

- Engaging patients and stakeholders so that they can participate in the PCORI research enterprise in a meaningful way;
- Advancing rigorous PCOR methods as the methodology standards become adopted as best practices across the country;
- Funding PCOR so that PCORI impacts decision-making, practice, and patient-outcomes;
- Communicating and disseminating PCOR findings;
- Developing a sustainable infrastructure for conducting PCOR.

The activities that are required to accomplish these goals are funded at the department level in calendar year 2013 and beyond and they include a shift towards permanent staffing, a significant investment in infrastructure, and the development of capacity for growth, internal controls, and compliance.

#### 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, DC, 20036. Additional information regarding PCORI's operations can be found at [www.pcori.org](http://www.pcori.org).

**Patient-Centered Outcomes Research Institute**

**Statements Of Financial Position  
December 31, 2012 And 2011**

<b>Assets</b>	<b>2012</b>	<b>2011</b>
Cash	\$ 17,373,135	\$ 4,483,112
Amounts Held By PCOR Trust Fund (Note 2)	281,615,236	158,078,971
Prepaid Expenses	587,108	54,835
Deposits And Other Assets	521,698	708,469
Property And Equipment, net (Note 3)	2,656,165	159,153
	<u>\$ 302,753,342</u>	<u>\$ 163,484,540</u>
 <b>Liabilities And Net Assets</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 2,382,607	\$ 2,513,990
Deferred rent and tenant improvement allowance	1,002,549	-
<b>Total liabilities</b>	<u>3,385,156</u>	<u>2,513,990</u>
Commitments And Contingencies (Notes 4 And 5)		
Net Assets		
Unrestricted	299,368,186	160,970,550
	<u>\$ 302,753,342</u>	<u>\$ 163,484,540</u>

See Notes To Financial Statements.

**Patient-Centered Outcomes Research Institute**

**Statements Of Activities**

**Years Ended December 31, 2012 And 2011**

	<b>2012</b>	2011
Revenue and support:		
Federal appropriations (Note 2)	<b>\$ 120,000,000</b>	\$ 120,000,000
Transfers from the Federal Hospital Insurance (FHI) and the Federal Supplementary Medical Insurance (FSMI) trust funds (Note 2)	<b>41,596,000</b>	-
Interest income	<b>48,461</b>	24,106
<b>Total revenue and support</b>	<b>161,644,461</b>	120,024,106
Expenses:		
Program services:		
Research	<b>8,115,435</b>	1,180,910
Communications, outreach, and engagement	<b>6,060,954</b>	1,848,077
Methodology	<b>4,392,868</b>	1,410,127
	<b>18,569,257</b>	4,439,114
Supporting services:		
Administrative – general	<b>3,095,366</b>	3,166,048
Administrative – board	<b>1,582,202</b>	1,006,745
	<b>4,677,568</b>	4,172,793
<b>Total expenses</b>	<b>23,246,825</b>	8,611,907
<b>Change in net assets</b>	<b>138,397,636</b>	111,412,199
Net assets:		
Beginning	<b>160,970,550</b>	49,558,351
Ending	<b>\$ 299,368,186</b>	\$ 160,970,550

See Notes To Financial Statements.

**Patient-Centered Outcomes Research Institute**

**Statements Of Cash Flows**  
**Years Ended December 31, 2012 And 2011**

	2012	2011
Cash Flows From Operating Activities		
Change in net assets	\$ 138,397,636	\$ 111,412,199
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	348,109	-
Deferred rent	167,322	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Amounts held by PCOR Trust Fund	(123,536,265)	(108,440,106)
Prepaid expenses	(532,273)	(54,835)
Deposits and other assets	186,771	(708,469)
Increase (decrease) in:		
Accounts payable and accrued expenses	(131,383)	2,187,620
<b>Net cash provided by operating activities</b>	<b>14,899,917</b>	<b>4,396,409</b>
Cash Flow From Investing Activities		
Purchases of property and equipment	(2,845,121)	(148,122)
Reimbursement of leasehold improvements by landlord	835,227	-
<b>Net cash used in investing activities</b>	<b>(2,009,894)</b>	<b>(148,122)</b>
<b>Net increase in cash</b>	<b>12,890,023</b>	<b>4,248,287</b>
Cash:		
Beginning	4,483,112	234,825
Ending	<b>\$ 17,373,135</b>	<b>\$ 4,483,112</b>
Supplemental Schedule Of Noncash Investing Activities		
Property and equipment included in accounts payable and accrued expenses	<b>\$ 10,180</b>	<b>\$ 11,031</b>

See Notes To Financial Statements.

Patient-Centered Outcomes Research Institute

Statement Of Functional Expenses  
Year Ended December 31, 2012

	Program Services				Supporting Services			Total
	Research	Communications, Outreach, And Engagement	Methodology	Total Program Services	Administrative – General	Administrative – Board	Total Supporting Services	
Directors' compensation	\$ -	\$ -	\$ 353,068	\$ 353,068	\$ -	\$ 489,170	\$ 489,170	\$ 842,238
Salaries and wages – other	810,153	1,254,579	354,539	2,419,271	936,594	183,186	1,119,780	3,539,051
Other professional services	4,721,873	2,973,291	1,591,230	9,286,394	440,213	129,856	570,069	9,856,463
Contracts	-	-	1,677,905	1,677,905	-	-	-	1,677,905
Employee benefits/payroll taxes	322,272	505,049	97,960	925,281	365,081	50,615	415,696	1,340,977
Contracting capacity resources	978,564	-	-	978,564	-	-	-	978,564
Conferences, conventions, meetings	55,281	322,737	161,531	539,549	38,769	384,733	423,502	963,051
Rent, parking, other occupancy	229,110	345,456	-	574,566	270,606	-	270,606	845,172
Travel	274,220	82,064	107,868	464,152	59,096	196,964	256,060	720,212
Temporary help	103,916	165,690	-	269,606	112,388	-	112,388	381,994
Information technology	157,864	126,087	-	283,951	90,440	-	90,440	374,391
Depreciation and amortization	72,745	109,686	-	182,431	165,678	-	165,678	348,109
Legal fees	10,424	7,499	-	17,923	240,890	47,690	288,580	306,503
Accounting fees	-	-	-	-	223,955	-	223,955	223,955
Research	187,468	-	-	187,468	-	-	-	187,468
Telephone and communications	30,699	52,699	2,283	85,681	32,033	30,023	62,056	147,737
Supplies	35,296	53,642	7,242	96,180	36,631	9,317	45,948	142,128
Reviewer services	84,700	-	-	84,700	-	-	-	84,700
Printing and copying	6,275	5,580	5,979	17,834	15,523	39,330	54,853	72,687
Management fees	26,047	17,671	4,282	48,000	14,821	-	14,821	62,821
Advertising	-	25,065	25,305	50,370	-	-	-	50,370
Postage and shipping	2,031	823	3,138	5,992	10,519	20,168	30,687	36,679
Insurance – non-employee related	-	-	-	-	29,892	-	29,892	29,892
Books, subscriptions, references	4,577	10,441	538	15,556	3,453	1,150	4,603	20,159
Equipment rental and maintenance	1,920	2,895	-	4,815	2,076	-	2,076	6,891
Bank/payroll fees	-	-	-	-	5,617	-	5,617	5,617
Other expenses	-	-	-	-	1,091	-	1,091	1,091
	<b>\$ 8,115,435</b>	<b>\$ 6,060,954</b>	<b>\$ 4,392,868</b>	<b>\$ 18,569,257</b>	<b>\$ 3,095,366</b>	<b>\$ 1,582,202</b>	<b>\$ 4,677,568</b>	<b>\$ 23,246,825</b>

See Notes To Financial Statements.

**Patient-Centered Outcomes Research Institute**

**Statement Of Functional Expenses  
Year Ended December 31, 2011**

	Program Services				Supporting Services			Total
	Research	Communications, Outreach, And Engagement	Methodology	Total Program Services	Administrative – General	Administrative – Board	Total Supporting Services	
Directors' compensation	\$ -	\$ -	\$ 291,432	\$ 291,432	\$ -	\$ 452,878	\$ 452,878	\$ 744,310
Salaries and wages – other	65,239	82,521	61,870	209,630	69,128	-	69,128	278,758
Other professional services	359,824	1,067,103	665,380	2,092,307	1,008,159	-	1,008,159	3,100,466
Management fees	682,794	479,979	130,967	1,293,740	479,331	-	479,331	1,773,071
Contracting capacity resources	-	-	-	-	986,500	-	986,500	986,500
Conferences, conventions, meetings	3,736	-	160,640	164,376	-	429,754	429,754	594,130
Travel	10,553	11,933	67,883	90,369	68,298	116,665	184,963	275,332
Legal fees	47,715	47,715	-	95,430	138,562	-	138,562	233,992
Employee benefits/payroll taxes	9,763	12,350	14,693	36,806	114,824	-	114,824	151,630
Rent, parking, other occupancy	-	-	-	-	145,082	-	145,082	145,082
Advertising	-	77,980	-	77,980	-	-	-	77,980
Focus groups	-	62,649	-	62,649	-	-	-	62,649
Accounting fees	-	-	-	-	55,705	-	55,705	55,705
Information technology	-	-	-	-	33,559	-	33,559	33,559
Insurance – non-employee related	-	-	-	-	14,725	833	15,558	15,558
Interim researchers	-	-	15,475	15,475	-	-	-	15,475
Equipment rental and maintenance	-	-	-	-	15,274	-	15,274	15,274
Telephone and telecommunications	1,199	1,587	1,720	4,506	5,956	4,375	10,331	14,837
Supplies	-	19	-	19	13,547	929	14,476	14,495
Books, subscriptions, references	87	3,850	67	4,004	5,591	-	5,591	9,595
Other expenses	-	-	-	-	5,164	-	5,164	5,164
Printing and copying	-	314	-	314	3,848	799	4,647	4,961
Bank/payroll fees	-	-	-	-	2,031	-	2,031	2,031
Postage and shipping	-	77	-	77	764	512	1,276	1,353
	<u>\$ 1,180,910</u>	<u>\$ 1,848,077</u>	<u>\$ 1,410,127</u>	<u>\$ 4,439,114</u>	<u>\$ 3,166,048</u>	<u>\$ 1,006,745</u>	<u>\$ 4,172,793</u>	<u>\$ 8,611,907</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

The Patient-Centered Outcomes Research Institute (PCORI) was authorized by federal law (42 U.S.C. 1301 et seq.) in 2010 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.” 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) non-profit corporation, governed by a 21-member multi-stakeholder Board of Governors, including 19 members appointed by the Comptroller General of the United States and the Directors of the Agency for Healthcare Research and Quality (AHRQ) and National Institutes of Health (NIH). 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).

In accordance with the enabling legislation, Congress has established the Patient-Centered Outcomes Research Trust Fund (PCORTF). \$1.26 billion was appropriated for Patient-Center Outcome Research Trust Fund (PCORTF) in 2010; \$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 appropriations were \$120 million and \$120 million for fiscal years 2012 and 2011, respectively (See Note 2).

The Secretary of the Treasury 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 title XVIII from the respective trust fund. In FY 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 such fiscal year. For each calendar year thereafter, 2013 through 2018, the PCORTF will receive 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 calendar year 2014 and thereafter, these amounts will be adjusted for increases in healthcare spending. The increase will be 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.

The transfer amounts in FY 2012 are based on the published Mid-Session Review of the President's Budget.

In calendar year 2013 and beyond, the PCORTF will begin receiving the funding from the fees that will be imposed on certain health insurance and self-insured health plans. These fees will also be adjusted for increases in healthcare spending. The increase will be 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.

## 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) Account Standards Codification (the Codification). As required by the Non-Profit Entities Topic of the Codification, PCORI is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. PCORI had no temporarily restricted or permanently restricted net assets at December 31, 2012 and 2011.

Property and equipment: Property and equipment at December 31, 2012, consisted of leasehold improvements, furniture and fixtures, and software. 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 \$500. PCORI amortizes leasehold improvement costs over the term of PCORI's lease, or the useful life of the improvement, whichever is shorter.

Revenue recognition: The PCORTF received its funding for 2010 through 2019 through an appropriation from Congress at the time of establishment. Federal appropriations are deemed to be earned and are recorded as revenue in the period designated by Congress. The government fiscal year ends on September 30. In accordance with the legislation, beginning in calendar year 2012, the Secretary of the Treasury provided 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 title XVIII from the respective trust fund. The transfer amounts are based on estimate and they are subject to a true-up when the final calculations become available. The transfers are deemed to be earned and are recorded as revenue on a cash basis in the period received or adjusted.

Research awards: PCORI uses contracts as its only means of procurement for program services. Expenses are recorded at the time of the event, when the deliverable has been met or the cost has been incurred.

Tax status: PCORI, a non-profit organization incorporated in the District of Columbia and formed under 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, except for unrelated business income. No provision for income taxes was required for the years ended December 31, 2012 and 2011, as PCORI had no unrelated business income.

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.

## Patient-Centered Outcomes Research Institute

### Notes To Financial Statements

#### Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

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

Financial and credit risk: PCORTF was funded through Congressional appropriation in 2010, for the years 2010 through 2019. PCORI is the only organization that has the authority to draw from the PCORTF.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions 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 received funding in calendar year 2012 from direct appropriation and transfers from the Federal Hospital Insurance (FHI) Trust Fund and the Federal Supplementary Medical Insurance (FSMI) Trust Fund. As such, PCORI is subject to financial reporting and compliance and other matters audits in accordance with Government Auditing Standards.

Subsequent events: PCORI evaluated subsequent events through March 12, 2013, which is the date the financial statements were available to be issued.

#### Note 2. Amounts Held By PCOR Trust Fund

Amounts held by PCOR Trust Fund at December 31, 2012 and 2011, are as follows:

	2012	2011
Beginning balance	\$ 158,078,971	\$ 49,638,865
Federal appropriations:		
Government Fiscal Year 2012 Appropriation	-	150,000,000
Government Fiscal Year 2013 Appropriation	150,000,000	-
Less AHRQ and HHS share 20% of appropriation as mandated by statute	(30,000,000)	(30,000,000)
Transfers from FSMI, November 2012	27,265,000	-
Less AHRQ and HHS share 20% of appropriation as mandated by statute	(5,453,000)	-
Transfers from FHI, November 2012	24,730,000	-
Less AHRQ and HHS share 20% of appropriation as mandated by statute	(4,946,000)	-
Interest earned	48,461	24,106
Less draws by PCORI	(38,108,196)	(11,584,000)
	<u>\$ 281,615,236</u>	<u>\$ 158,078,971</u>

By law PCORI is prohibited from making investments. Amounts held by PCOR Trust Fund 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 market value of this type of security is par.

## Patient-Centered Outcomes Research Institute

### Notes To Financial Statements

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#### Note 3. Property And Equipment

Property and equipment and accumulated depreciation at December 31, 2012 and 2011, are as follows:

	2012	2011
Leasehold improvements	\$ 1,660,616	\$ 159,153
Software development	568,984	-
Furniture, fixtures, and equipment	774,674	-
	<u>3,004,274</u>	159,153
Less accumulated depreciation	(348,109)	-
	<u>\$ 2,656,165</u>	<u>\$ 159,153</u>

PCORI took possession and began construction on permanent office space in December, 2011. Occupancy of the leased premises began in March, 2012.

#### Note 4. Leases

During 2011, PCORI entered into a non-cancelable operating lease for office space in Washington, D.C., expiring on October 31, 2019. The lease was amended in March 2012 to include more space. Per the terms of the lease, the landlord will abate half of the rent for six months during the first three years of the lease. The landlord also contributed \$835,227 to be used towards tenant improvements.

Future minimum rental payments applicable to the lease at December 31, 2012, are as follows:

Years Ending December 31,	
2013	\$ 707,952
2014	803,701
2015	823,773
2016	844,337
2017	865,401
2018 – 2020	1,948,740
	<u>\$ 5,993,904</u>

PCORI has operating leases for several of its copiers. Future minimum rental payments are as follows:

Years Ending December 31,	
2013	\$ 8,160
2014	8,160
2015	6,120
	<u>\$ 22,440</u>

## Patient-Centered Outcomes Research Institute

### Notes To Financial Statements

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#### **Note 5. Financial Risks And Uncertainties**

The PCORTF is funded by appropriation of the U.S. Government through September 30, 2019; however, on March 1, 2013, the sequestration as required by the Budget Control Act of 2011 (BCA) and pursuant to section 251A 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 funding to the PCORTF. Because of the uncertainty in estimating the total revenues from all sources from the Federal government in FY2013 at this time, the actual impact on the availability of funding to PCORI is unknown.