

Patient-Centered Outcomes Research Institute

Financial Report
September 30, 2013

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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 September 30, 2013 and December 31, 2012, the related statements of activities, cash flows and functional expenses for the nine-month period ended September 30, 2013, and the year ended December 31, 2012, 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, 2013, and December 31, 2012, and the changes in its net assets and its cash flows for the nine-month period ended September 30, 2013, and the year ended December 31, 2012, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Management's Discussion and Analysis, on pages 3 – 8, is presented for purposes of additional analysis and is not required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated March 10, 2014, and 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 those reports 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. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PCORI's internal control over financial reporting and compliance.



McLean, Virginia
March 10, 2014

Patient-Centered Outcomes Research Institute

Management's Discussion And Analysis

About PCORI

The Patient-Centered Outcomes Research Institute (PCORI or the 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 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 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 17-member Methodology Committee 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 three committees with specific areas of focus—Communications, Outreach and Engagement; Finance, Audit, and Administration; and Program Development—and special committees on Scientific Publications and Conflict of Interest. Board Chair Eugene Washington, MD, MS, stepped down from his position at the Board's September 23, 2013, three years to the day that the Comptroller General appointed the Board. The Comptroller General replaced Dr. Washington as Chair with Board member Grayson Norquist, MD, MSPH, and reappointed Steven Lipstein, MA, as Vice Chair. At the end of the fiscal year, a replacement for Dr. Washington as a clinician member of the Board was pending. In addition, Richard Kronick, PhD, replaced Carolyn Clancy, MD, in the Board position reserved for the director of the AHRQ.

Important Financial Reporting Update

Historically, PCORI has reported its financial position, the results of operations, and its cash flows on a calendar year basis. In calendar year 2013, the Board voted to change the financial reporting period for the corporation to a fiscal year that begins on October 1 and ends on September 30 of each year and, accordingly, the fiscal year 2013 in these financial statements is a short year. The fiscal year 2013 started on January 1, 2013, and ended on September 30, 2013. This nine-month fiscal year is presented in comparison to the full calendar year financial statements for January 1, 2012, through December 31, 2012, for illustration purposes only.

Patient-Centered Outcomes Research Institute

Management's Discussion And Analysis

Current Activities

Organizational Structure and Focus

PCORI's focus in fiscal year 2013 was on solidifying and enhancing the infrastructure, policies, and processes that are needed for the effective functioning of a new research institute; rapidly growing a broad-based portfolio of patient-centered comparative effectiveness research; and expanding the community of engaged stakeholders essential to the conduct, refinement, and eventual dissemination of the results of that work, while ensuring that all of its activities followed the foundational and organizational mandates of its establishing legislation.

To more effectively guide these efforts in coming years, staff spent much of the fiscal year ended September 30, 2013, refining and finalizing PCORI's strategic plan for Board review and laying out three strategic goals and the steps necessary to achieve them:

- Substantially increase the quantity, quality, and timeliness of useful, reliable evidence to improve healthcare decision making;
- Speed the implementation and use of findings from patient-centered outcomes research; and
- Influence clinical and healthcare research funded by others to be more patient-centered.

PCORI had a staff of 79 as of the end of the fiscal year, including full-time directors for five of its six scientific program areas and directors of patient and stakeholder engagement, engagement research, communications, contracts management, finance, human resources and information technology. The Chief Scientific Officer position was filled. It also established and filled a new senior position, Chief Officer for Engagement, hired a dedicated Chief Operating Officer, and brought on a General Counsel. Staffing levels increased substantially from calendar year 2012 as a direct response to the increased program support volume and a deliberate move to reduce reliance on consultants.

Growing a Robust Research Portfolio

In fiscal year 2013, PCORI's Board approved 122 research awards, totaling more than \$202 million, under the Institute's five Broad National Priorities for Research. There were two cycles of funding under the first four priorities, Assessment of Prevention, Diagnosis, and Treatment Options; Improving Healthcare Systems; Communication and Dissemination Research; and Addressing Disparities. The initial round of funding under the fifth priority, Accelerating Patient-Centered Outcomes Research and Methodological Research, was awarded under a different schedule; later cycles will align with the other four. PCORI received a total of 1,018 applications for funding under its five priority areas; applications submitted under the "Assessment of Prevention, Diagnosis and Treatment Options" priority accounted for 30% of all proposals received.

One of the signature initiatives launched under PCORI's fifth research priority during fiscal year 2013 was a plan to enhance the nation's capacity to conduct CER efficiently by creating a large, highly representative electronic data infrastructure for conducting clinical outcomes research. In April 2013, PCORI shared its vision for this National Patient-Centered Clinical Research Network through funding announcements for up to \$68 million to support the two components of this network, healthcare system-based Clinical Data Research Networks (CDRNs) and patient organization-led Patient-Powered Research Networks (PPRNs). PCORI invited a total of 89 applicants, out of 168 who submitted Letters of Intent, to submit full proposals; awards will be announced, and the liabilities will be recorded in the fiscal year ending in September 2014. A \$9 million contract for a Coordinating Center to provide technical and logistical support to the networks was awarded to a multi-institution consortium led by the Harvard Pilgrim Health Care Institute through a competitive Request for Proposal (RFP) process.

Patient-Centered Outcomes Research Institute

Management's Discussion And Analysis

In addition to seeking investigator-initiated proposals under PCORI's Broad National Research Priorities, PCORI also moved ahead with calls for proposals to study high-impact topics identified through input from patients and other healthcare stakeholders. The first of these, *Treatment Options for African Americans and Hispanics/Latinos with Uncontrolled Asthma*, was issued during the summer, with up to \$17 million available. Seventy-five applications were received, with awards to be announced in December 2014. Calls for proposals on two other topics, *Preventing Injuries from Falls in the Elderly* and *Treatment Options for Uterine Fibroids*, were issued in collaboration with the National Institute on Aging and the Agency for Healthcare Research and Quality, with funding commitments of up to \$30 million and up to \$20 million, respectively. Additional targeted topics were under consideration.

Additional Programmatic Activities Supported in Fiscal Year 2013

In addition to research funding, PCORI awarded a series of programmatic activities through contracts that were competed and evaluated using a Request for Proposal (RFP) process. Those contracts included:

- Scientific Survey Services
- PCORI/CER Roadmap for State Policymakers
- National Patient-Centered Clinical Research Network Coordinating Center
- Comprehensive PCORI Training Curriculum Development Project
- Pipeline to Proposal Award Administration

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

- Comprehensive Website Redesign and E-mail Communications System
- Customer Relationship Management (CRM) System
- Grants Management System

Continuing to Strengthen the Methodological Standards

PCORI's Science staff worked with members of the Institute's Methodology Committee during the year to complete the revision of the draft Methodology Report that was originally released for public comment in 2012. PCORI's Board adopted a series of Methodology Standards, as required by PCORI's authorizing statute, in late 2012. The revised Methodology Report, which was to put the standards in context and include a framework for a translation table also required by law, is scheduled for release in November 2013.

Enhancing Engagement as a Path to Rigorous Research

PCORI's formula for ensuring funding of the most relevant research possible is based on a commitment to bring together all healthcare stakeholders to guide research priorities, with patients at the center. This focus on engagement as a path to rigorous, useful research has been a core principle since PCORI's creation and is memorialized in its mission statement:

"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."

There are many examples of how PCORI sought to act on this commitment during the year. It involved scores of stakeholders, including researchers, patients, clinicians, payers, policy makers, and others, in its unique research proposal review process, applying a range of criteria including the requirement that applicants involve patients and other stakeholders as meaningful partners in their research projects. It held the inaugural meetings of its first four multi-stakeholder advisory panels, which help PCORI refine and prioritize specific research questions, provide input on other questions relevant to the Institute's mission and work, and model robust patient and stakeholder engagement efforts. It relied on public input as it continued the process of revising its report on methodological standards in research. And it convened stakeholders in dozens of larger-scale workshops and roundtables and hundreds more in smaller meetings to solicit feedback and guidance regularly on its programmatic initiatives.

Patient-Centered Outcomes Research Institute

Management's Discussion And Analysis

As part of PCORI's effort to strengthen the link between engagement and research, it launched the Eugene Washington PCORI Engagement Awards, an initiative designed to grow a national community of patients, clinicians, researchers, and other healthcare stakeholders who will advance PCORI. The program will offer targeted funding to dozens of groups of patients, clinicians, and other front-line caregivers, as well as others across the healthcare community who are interested in supporting the expansion of PCORI and the implementation of its results. The first step in this initiative was a series of Pipeline to Proposal Awards to help patients and other non-researchers start to form groups capable of partnering with clinicians, researchers, and other stakeholders. A round of pilot awardees solicited through an RFP process will be announced in December 2013.

A similar initiative was the PCORI Challenge, a competition to find innovative ways to connect patients and researchers as partners in efforts to advance PCOR. PCORI sponsored the Challenge as an opportunity for innovators to help advance the goal of ensuring that patients, caregivers, clinicians, and others from across the healthcare community are actively engaged in all aspects of the research process. The Challenge awarded prizes for both concepts and for more fully developed prototypes of "matching" tools that could effectively help patients and researchers interested in collaborating to find one another and work together. Two winners and eight runners-up shared \$150,000 in prize money.

Improving PCORI's Review Process

PCORI's process for reviewing research proposals, involving teams of scientists, patients, and other healthcare stakeholders, is one of the Institute's most visible examples of its focus on meaningful engagement as a path to rigorous and relevant research.

PCORI implemented a number of refinements to this merit review process during the year, many in response to ongoing participant feedback. These included enhanced training materials to guide reviewers more effectively through the process; streamlining review criteria from eight to five to aid applicants and better define the criteria to make the evaluation of applications more straightforward; revising the requirements for written critiques by streamlining the way reviewers provide the information; and improving communication with all who indicate an interest in reviewing.

In addition, PCORI sought to improve the overall structure of the review process, moving to the use of standing panelists to evaluate applications. The new process was intended to help ensure a consistent, thorough, and rigorous review process and help reviewers develop a sense of community; gain experience, confidence, and efficiency in reviewing applications; and plan their time commitments better. However, even with this shift, PCORI plans to continue to welcome applicants for additional reviewers—scientists, patients, and other stakeholders, including payers, employers, industry and health system representatives, clinicians, and policy makers—to serve on an ad hoc basis.

A Continuing Focus on Communication and Outreach

PCORI relied on an active and growing portfolio of outreach and communications tools and tactics to advance its programmatic goals. It convened several thousand stakeholders through more than 40 workshops, roundtables, and open Board meetings, with thousands more joining through webcasts, webinars, and teleconferences. Staff held additional smaller meetings with some 42 different stakeholder groups. PCORI staff, meanwhile, accepted more than 130 invitations to deliver talks at major professional association and other stakeholder group meetings, providing background on PCORI's mission and scientific and engagement activities to tens of thousands of additional individuals.

PCORI grew its online and social media presence dramatically during the 2013 fiscal year. The www.pcori.org website recorded a total of 476,324 visits by 218,982 unique visitors and nearly 1.7 million page views from January 1 through September 30, 2013 — substantially more than in all of calendar year 2012. PCORI also more than doubled the size of its opt-in e-mail list to 10,160 (and could reach another 15,000 people through selective alerts to applicants), and saw its Twitter following more than triple to 2,848. A major website redesign project launched during the year is expected to be completed in early 2014.

Patient-Centered Outcomes Research Institute

Management's Discussion And Analysis

Finally, PCORI began to assemble a framework to promote dissemination and implementation of its research findings, starting with the initial results of its Pilot Projects Program, all of which are expected to be available by the end of calendar year 2014. After convening several dozen stakeholder experts to provide input on critical dissemination questions to be addressed, PCORI issued an RFP for a consultant to craft a Dissemination and Implementation blueprint. The blueprint project is slated for completion by the end of the 2014 calendar year.

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 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.

The following table highlights key components of PCORI's financial statements during FY 2013:

	9 Months Ended September 30, 2013	12 Months Ended December 31, 2012
Statement of Financial Position		
Assets	\$ 345,432,368	\$ 302,753,342
Liabilities	7,806,399	3,385,156
Net Assets	<u>\$ 337,625,969</u>	<u>\$ 299,368,186</u>
Statement of Activities		
Revenue	\$ 79,224,143	\$ 161,644,461
Expenses	40,966,360	23,246,825
Change in Net Assets	<u>\$ 38,257,783</u>	<u>\$ 138,397,636</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, 2013, were \$337.6 million. Specifically, PCORI's total assets of \$344.5 million included \$286.7 million of funds held in trust and \$25.1 million in cash. Total liabilities of \$6.9 million represent outstanding obligations, deferred rent, and the tenant improvement allowance.

Patient-Centered Outcomes Research Institute

Management's Discussion And Analysis

Statements of Activities: In the fiscal year ended September 30, 2013, revenue totaled \$79.2 million, of which \$79.1 million represents the receipt of PCOR fees that were due to the Internal Revenue Service for the first time on July 31, 2013, and \$0.1 million is from interest earned on the PCORTF investment portfolio.

Please note: The fiscal year ended September 30, 2013, revenue of \$79.1 million is based on actual receipts deposited into the PCORTF for the PCOR fees on or before September 30, 2013. Management is in possession of certain federal agency-generated estimates that could be used for estimating the total realizable fiscal year 2013 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 relied upon, so PCOR fee revenue will be taken into revenue as it is received, at least until such a time as management believes that it has confidence in an estimating protocol.

In addition to the reporting of cash-basis PCOR fees in the nine-month period for the fiscal year ended September 30, 2013, there are no revenues recognized for the appropriated funds or the transfers from the Centers for Medicare and Medicaid Services (CMS), the Federal Hospital Insurance (HI), and the Federal Supplemental Medical Insurance (SMI) trust funds in these financial statements for the short year ended September 30, 2013, financial statements. These monies will be taken into revenue in the fiscal year ending 2014; they will be deposited into the PCORTF in November 2013 and will be appropriately recognized into revenue in the fiscal year ending September 30, 2014.

There is a marked difference between expense levels during calendar year 2012 and the nine-month period ended September 30, 2013. The increase from \$23.2 million for a calendar year to \$41 million in the short nine-month fiscal year 2013 is driven primarily by the increase in research expenditures; \$13 million of the \$18 million increase was spent on extramural and internal research projects that have a life cycle of less than two to five years. In correlation, there was an increase of \$4.3 million in salaries, wages, and benefits resulting from the focus on enhancing the organizational structure, building infrastructure, and acquiring talent.

In addition to the actual expense on extramural and intramural research expense, 36% of the \$41 million in expenses was spent on program support activities which are related to the efforts of the Methodology Committee in standardizing the methodology protocols; outreach from the Communications and Engagement departments in developing a voice for PCORI; and post-award contracts management and administration. The management and general expense of \$13.3 million remains high (32%) but not outside the expected levels, given that fiscal year 2013 was a period of investment in systems and infrastructure build out that will not be sustained throughout the life of PCORI at the current levels.

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. Additional information regarding PCORI's operations can be found at www.pcori.org.

Patient-Centered Outcomes Research Institute

Statements Of Financial Position

September 30, 2013 And December 31, 2012

Assets	2013	2012
Cash	\$ 25,063,381	\$ 17,373,135
Amounts Held By PCOR Trust Fund (Note 2)	286,660,865	281,615,236
Prepaid Expenses	29,794,339	587,108
Deposits And Other Assets	611,427	521,698
Property And Equipment, net (Note 3)	3,302,356	2,656,165
	\$ 345,432,368	\$ 302,753,342
Liabilities And Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 6,658,910	\$ 2,382,607
Deferred rent and tenant improvement allowance	1,147,489	1,002,549
Total liabilities	7,806,399	3,385,156
Commitments And Contingencies (Notes 4, 5 and 7)		
Net Assets		
Unrestricted	337,625,969	299,368,186
	\$ 345,432,368	\$ 302,753,342

See Notes To Financial Statements.

Patient-Centered Outcomes Research Institute

Statements Of Activities

**For The Nine-Month Period Ended September 30, 2013, And
The Year Ended December 31, 2012**

	2013	2012
Revenue and support:		
Federal appropriations (Note 2)	\$ -	\$ 120,000,000
Patient-Centered Outcomes Research Fee (Note 2)	79,133,587	-
Transfers from the Federal Hospital Insurance (FHI) and the Federal Supplementary Medical Insurance (FSMI) trust funds (Note 2)	-	41,596,000
Interest income	90,556	48,461
Total revenue and support	79,224,143	161,644,461
Expenses:		
Program services:		
Research	13,183,770	8,115,435
Contract management	6,761,092	-
Science	4,284,479	-
Communications, outreach, and engagement	2,301,606	6,060,954
Methodology	1,100,103	4,392,868
Dissemination	21,615	-
	27,652,665	18,569,257
Supporting services:		
Administrative – board	1,116,932	1,582,202
Administrative – general	12,196,763	3,095,366
	13,313,695	4,677,568
Total expenses	40,966,360	23,246,825
	38,257,783	138,397,636
Net assets:		
Beginning	299,368,186	160,970,550
Ending	\$ 337,625,969	\$ 299,368,186

See Notes To Financial Statements.

Patient-Centered Outcomes Research Institute

Statements Of Cash Flows

**For The Nine-Month Period Ended September 30, 2013, And
The Year Ended December 31, 2012**

	2013	2012
Cash Flows From Operating Activities		
Change in net assets	\$ 38,257,783	\$ 138,397,636
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	669,937	348,109
Deferred rent	58,420	167,322
Loss on disposal of property and equipment	9,552	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Amounts held by PCOR Trust Fund	(5,045,629)	(123,536,265)
Prepaid expenses	(29,207,231)	(532,273)
Deposits and other assets	(89,729)	186,771
Increase (decrease) in:		
Accounts payable and accrued expenses	4,276,303	(131,383)
Net cash provided by operating activities	8,929,406	14,899,917
Cash Flow From Investing Activities		
Purchases of property and equipment	(1,325,680)	(2,845,121)
Reimbursement of leasehold improvements by landlord	86,520	835,227
Net cash used in investing activities	(1,239,160)	(2,009,894)
Net increase in cash	7,690,246	12,890,023
Cash		
Beginning	17,373,135	4,483,112
Ending	\$ 25,063,381	\$ 17,373,135
Supplemental Schedule Of Noncash Investing Activities		
Property and equipment included in accounts payable and accrued expenses	\$ -	\$ 10,180

See Notes To Financial Statements.

Patient-Centered Outcomes Research Institute

Statement Of Functional Expenses
For The Nine-Month Period Ended September 30, 2013

	Program Services							Supporting Services			Total
	Research	Methodology	Contract Management	Communications, Outreach, And Engagement	Dissemination	Science	Total Program Services	Administrative – Board	Administrative – General	Total Supporting Services	
Research	\$ 12,763,674	\$ 183,970	\$ 65,000	\$ -	\$ -	\$ -	\$ 13,012,644	\$ -	\$ -	\$ -	\$ 13,012,644
Other professional services	220,802	396,372	4,414,009	202,405	-	1,050,754	6,284,342	315,381	4,225,795	4,541,176	10,825,518
Salaries and wages – other	-	-	619,712	1,164,588	-	2,771,889	4,556,189	-	2,386,662	2,386,662	6,942,851
Employee benefits/payroll taxes	-	(10,022)	13,217	53,842	-	102,988	160,025	3,148	2,065,791	2,068,939	2,228,964
Conferences, conventions, meetings	-	293,445	636,230	402,984	1,832	148,582	1,483,073	269,889	8,565	278,454	1,761,527
Travel	31	21,307	500,238	362,816	6,143	103,378	993,913	152,143	112,832	264,975	1,258,888
Rent, parking, other occupancy	-	-	1,175	-	-	-	1,175	-	796,223	796,223	797,398
Depreciation and amortization	-	-	-	-	-	-	-	-	669,937	669,937	669,937
Information technology	-	-	-	1,323	-	-	1,323	-	603,170	603,170	604,493
Reviewer services	-	-	396,502	26,550	-	92,075	515,127	-	-	-	515,127
Board/Committee compensation	-	174,425	-	-	-	-	174,425	335,728	-	335,728	510,153
Temporary help	-	-	-	2,085	-	-	2,085	-	493,921	493,921	496,006
Contracting capacity resources	199,263	-	33,440	-	-	-	232,703	-	-	-	232,703
Legal fees	-	113	73,690	-	-	2,500	76,303	11,149	126,802	137,951	214,254
Telephone and communications	-	859	1,289	5,870	13,583	47	21,648	3,577	161,226	164,803	186,451
Supplies	-	4,527	1,568	1,072	-	433	7,600	1,040	153,770	154,810	162,410
Accounting fees	-	-	-	-	-	-	-	-	153,468	153,468	153,468
Memberships	-	25,000	1,795	12,905	-	5,469	45,169	-	59,254	59,254	104,423
Printing and copying	-	8,045	2,783	8,063	-	35	18,926	12,472	46,274	58,746	77,672
Advertising	-	-	-	40,000	-	-	40,000	-	16,623	16,623	56,623
Books, subscriptions, references	-	-	-	12,076	57	6,142	18,275	4,101	23,487	27,588	45,863
Equipment rental and maintenance	-	-	-	-	-	-	-	-	43,049	43,049	43,049
Insurance – non-employee related	-	-	-	507	-	-	507	-	38,213	38,213	38,720
Postage and shipping	-	2,062	444	4,520	-	-	7,026	8,304	2,599	10,903	17,929
Bank/payroll fees	-	-	-	-	-	187	187	-	9,084	9,084	9,271
Other expenses	-	-	-	-	-	-	-	-	18	18	18
	\$ 13,183,770	\$ 1,100,103	\$ 6,761,092	\$ 2,301,606	\$ 21,615	\$ 4,284,479	\$ 27,652,665	\$ 1,116,932	\$ 12,196,763	\$ 13,313,695	\$ 40,966,360

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 – Board	Administrative – General	Total Supporting Services		
Other professional services	\$ 4,721,873	\$ 2,973,291	\$ 1,591,230	\$ 9,286,394	\$ 129,856	\$ 440,213	\$ 570,069	\$ 9,856,463	
Salaries and wages – other	810,153	1,254,579	354,539	2,419,271	183,186	936,594	1,119,780	3,539,051	
Contracts	-	-	1,677,905	1,677,905	-	-	-	1,677,905	
Employee benefits/payroll taxes	322,272	505,049	97,960	925,281	50,615	365,081	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	384,733	38,769	423,502	963,051	
Rent, parking, other occupancy	229,110	345,456	-	574,566	-	270,606	270,606	845,172	
Board/Committee compensation	-	-	353,068	353,068	489,170	-	489,170	842,238	
Travel	274,220	82,064	107,868	464,152	196,964	59,096	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	47,690	240,890	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	30,023	32,033	62,056	147,737	
Supplies	35,296	53,642	7,242	96,180	9,317	36,631	45,948	142,128	
Reviewer services	84,700	-	-	84,700	-	-	-	84,700	
Printing and copying	6,275	5,580	5,979	17,834	39,330	15,523	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	20,168	10,519	30,687	36,679	
Insurance – non-employee related	-	-	-	-	-	29,892	29,892	29,892	
Books, subscriptions, references	4,577	10,441	538	15,556	1,150	3,453	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	
	<u>\$ 8,115,435</u>	<u>\$ 6,060,954</u>	<u>\$ 4,392,868</u>	<u>\$ 18,569,257</u>	<u>\$ 1,582,202</u>	<u>\$ 3,095,366</u>	<u>\$ 4,677,568</u>	<u>\$ 23,246,825</u>	

See Notes To Financial Statements.

Patient-Centered Outcomes Research Institute

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies

Nature of activities: 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 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, 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 is available through September 30, 2019, without further appropriation. Annual appropriations are 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 HHS beginning in fiscal year 2011, plus interest income, are available to PCORI as needed.

The Secretary of the Treasury also provides for transfers to the PCORTF from the Federal Hospital Insurance (HI) Trust Fund and the Federal Supplementary Medical Insurance (SMI) Trust Fund in proportion to the total expenditures during such fiscal year that are made under title XVIII 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 fiscal year ended September 30, 2013. For each fiscal year ending September 30 hereafter, 2014 through 2019, 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 fiscal years beginning after September 30, 2014, 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.

Because of the change in the financial reporting period from a calendar year to a fiscal year ended September 30, 2013, there is no revenue recognized in the fiscal year.

In the fiscal year ended September 30, 2013, the PCORTF began receiving the funding from the fees that will be imposed on certain health insurance and self-insured health plans. The 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 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

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

A summary of PCORI's significant accounting policies follows:

Fiscal period: Historically, PCORI has reported its financial position, activities, and its cash flows on a calendar year basis. In calendar year 2013, the PCORI Board voted to change the financial reporting period for the corporation to a fiscal year that begins on October 1 and ends on September 30 of each year; accordingly, the fiscal year 2013 in these financial statements is a short year. The fiscal year 2013 started on January 1, 2013, and ended on September 30, 2013. This nine-month fiscal period is presented in comparison to the full calendar year financial statements for January 1, 2012, through December 31, 2012, for illustration purposes only.

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 September 30, 2013, or at December 31, 2012.

Property and equipment: Property and equipment at September 30, 2013, consisted of leasehold improvements, furniture, fixtures, equipment, and software. Purchases of personal 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.

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. At September 30, 2013, management believed that a pre-award contracts management software application had become impaired, and the carrying amount of the asset was reduced to reflect a new estimated life of one year. At December 31, 2012, management did not consider the value of any property or equipment to be impaired.

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 recorded as revenue in the period 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. Revenue is recognized on October 1 of each fiscal year; accordingly, in the nine-month period, January 1 through September 30, 2013, there are no appropriated funds recognized as revenue because of timing that was caused by the change to a fiscal year from a calendar year. The \$150 million in appropriation for the government fiscal year October 1, 2012, through September 30, 2013, was received by the PCORTF in calendar year 2012 and 80% of that funding was recognized by PCORI as revenue in the calendar year ended December 31, 2012.

Patient-Centered Outcomes Research Institute

Notes To Financial Statements

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 Federal Hospital Insurance (HI) Trust Fund and the Federal Supplementary Medical Insurance (SMI) 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 CMS Budget and they are re-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 recorded as revenue on a cash basis in the period received or adjusted. In the nine-month period, January 1 through September 30, 2013, there are no transfers from the CMS trust funds recognized as revenue because of timing that was caused by the change to a fiscal year from a calendar year. The CMS transfers for the government fiscal year October 1, 2012, through September 30, 2013, were received by the PCORTF in calendar year 2012, and 80% of that funding available to PCORI was recognized by PCORI as revenue in the calendar year ended December 31, 2012.

The fiscal year revenue of \$79.1 million is based on actual receipts deposited into the PCORTF for the Patient-Center Outcomes Research fees (PCOR fees) on or before September 30, 2013. Management is in possession of certain federal agency-generated estimates that could be used for estimating the total realizable fiscal year 2013 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, and without historical perspective, estimates cannot be relied upon, so PCOR fee revenue was taken into revenue as it was received, and this treatment will continue at least until such time as management believes that it has confidence in an estimating protocol.

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 when the cost has been incurred. As of September 30, 2013, research awards totaling \$150,984,972 have been entered into. Prepayments on awards totaling \$29,794,339 are included in prepaid expenses in the statement of financial position at September 30, 2013. The remaining contract commitment at September 30, 2013, beyond amounts paid are \$121,311,437.

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, except to the extent that unrelated business income is generated. No provision for income taxes was required for the nine-month period ended September 30, 2013, or for the calendar year ended December 31, 2012, as PCORI has no unrelated business income revenue.

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. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Patient-Centered Outcomes Research Institute

Notes To Financial Statements

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

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.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions in conformity with generally accepted accounting principles 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. The Institute 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 the Institute not less frequently than every five years; the dissemination/training activities and the data networks of the Institute not less frequently than every five years; the overall effectiveness of activities and the dissemination, training, and capacity-building activities conducted by the Institute not less frequently than every five years; and the adequacy and use of the funding for the Institute and the activities conducted no later than eight years after the date of enactment.

Subsequent events: PCORI evaluated subsequent events through March 10, 2014, 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 available to PCORI at September 30, 2013, and December 31, 2012, are as follows:

	2013	2012
Beginning balance	\$ 281,615,236	\$ 158,078,971
Federal appropriations:		
Government Fiscal Year 2012 Appropriation	-	150,000,000
Less AHRQ and HHS share 20% of appropriation as mandated by statute	-	(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)
Patient-Centered Outcomes Research Fee	98,916,984	-
Less AHRQ and HHS share 20% of appropriation as mandated by statute	(19,783,397)	-
Interest earned	90,556	48,461
Other adjustment	486	-
Less draws by PCORI	(74,179,000)	(38,108,196)
	<u>\$ 286,660,865</u>	<u>\$ 281,615,236</u>

Patient-Centered Outcomes Research Institute

Notes To Financial Statements

Note 2. Amounts Held By PCOR Trust Fund (Continued)

Amounts held by the PCORTF are placed in market-based overnight Treasury securities. These are Treasury securities whose interest rates or prices of which 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.

Note 3. Property And Equipment

Property and equipment and accumulated depreciation at September 30, 2013, and December 31, 2012, are as follows:

	2013	2012
Leasehold improvements	\$ 2,175,379	\$ 1,660,616
Software development	1,033,260	568,984
Furniture, fixtures, and equipment	1,111,763	774,674
	<u>4,320,402</u>	<u>3,004,274</u>
Less accumulated depreciation	(1,018,046)	(348,109)
	<u>\$ 3,302,356</u>	<u>\$ 2,656,165</u>

Note 4. Leases

PCORI has a noncancelable operating lease for office space in Washington, D.C., that expires on October 31, 2019. During fiscal year 2013 and in March 2012, the lease was amended to include additional space. The landlord also contributed \$86,520 and \$835,227 for the nine-month period ended September 30, 2013, and the year ended December 31, 2012, respectively, to be used toward tenant improvements.

Future minimum rental payments applicable to the lease at September 30, 2013, are as follows:

Years Ending September 30,	
2014	\$ 1,079,787
2015	1,168,410
2016	1,195,852
2017	1,223,945
2018	1,252,744
2019 – 2020	1,822,409
	<u>\$ 7,743,147</u>

PCORI has operating leases for several of its copiers. The monthly payments average \$1,000 and do not exceed \$12,000 annually. The rent expense for the nine-month period ended September 30, 2013, and for the year ended December 31, 2012, was \$840,446 and \$852,063, respectively.

Patient-Centered Outcomes Research Institute

Notes To Financial Statements

Note 5. Financial Risks And Uncertainties

During the government's fiscal year 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 attributed to PCORI at September 30, 2013, were \$15,508,387. These funds were released from sequester and made available to the PCORTF for obligations on October 1, 2013.

Note 6. Retirement Plan

Effective January 1, 2012, PCORI established the Defined Contribution Retirement Plan of the Patient-Centered Outcomes Research Institute. The Plan is intended to be a qualified plan under section 401(a) of the Internal Revenue Code of 1986, as amended, and it is a governmental plan as described in Code 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 expense totaled \$565,229 for the nine-month period ended September 30, 2013, and \$248,746 for the year ended December 31, 2012.

Note 7. Commitments And Contingencies

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

Note 8. Subsequent Events

In October 2013, PCORI entered into two lease agreements for space corresponding to their existing leases. The first lease, for temporary space in the building, extends through March 2014, with no renewal possible, for total future payments related to rent expense of \$53,032. The second lease, which extends through 2020, is for additional office space in the building. Total future payments related to this lease total \$23,000.

In the fiscal year 2013, PCORI entered into an agreement with the National Institutes of Health (NIH) relating to the Fall Injuries Prevention Partnership. PCORI will pay \$3,000,000 in 2014 for the development stages of the program and up to \$30 million for future expansion of the program, as necessary.

Subsequent to September 30, 2013, PCORI awarded \$199.2 million in research contracts were entered into.



**Independent Auditor's 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***

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

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, 2013, the related statements of activities, cash flows, and functional expenses for the nine-month period ended September 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated March 10, 2014.

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.

The signature of McGladrey LLP is written in a cursive, handwritten style.

McLean, Virginia
March 10, 2014.