

# **Patient-Centered Outcomes Research Institute**

Financial Report  
September 30, 2014

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## Independent Auditor's Report

To the Audit and Conflict of Interest Sub-Committee of the Governance  
Committee of the Board of Governors  
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, 2014 and 2013, the related statements of activities, cash flows and functional expenses for years then ended, and the related notes to the financial statements.

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

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PCORI as of September 30, 2014 and 2013, 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 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 – 9, 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 3, 2015 and March 10, 2014, 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.



Gaithersburg, Maryland  
March 3, 2015

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

PCORI is a 501(c)(1) 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. In September 2014, three new committee members were appointed: Cynthia Girman, DrPh, Sally Morton, PhD, and Neil R. Powe, MD, MPH, MBA. They replaced three of four departing committee members: Sherine Gabriel, MD, MSc, Sharon-Lise Normand, PhD, Alfred Berg, MD, MPH, and John Ioannidis, MD, DSc. At the end of the fiscal year, a fourth replacement was pending.

PCORI's Board is guided by five committees with specific areas of focus—Engagement, Dissemination, and Implementation; Research Transformation; Science Oversight; Finance and Administration; and Governance. The Governance Committee is comprised of two subcommittees: Audit and Conflict of Interest and Executive Evaluation and Compensation. In February 2014, Alicia Fernandez, MD was appointed to the Board to fill the seat made vacant when former Board Chair, Eugene Washington, MD, MS stepped down at the end of his term. Barbara J. McNeil, MD, PhD was appointed to the Board on September 30, 2014. Dr. McNeil was selected to replace outgoing Board member Arnold Epstein, MD who became ineligible to continue on the Board after joining the U.S. Department of Health and Human Services as the new Deputy Assistant Secretary and head of the Office of Health Policy in the Office of the Assistant Secretary for Planning and Evaluation.

#### **Important Financial Reporting Update**

In calendar year 2013, the Board of Governors 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. The audited financial statements for the calendar year 2012 and the nine-month fiscal year January 1, through September 30, 2013, were presented for illustration purposes only in the audit report dated March 10, 2014. During FY 2014, management engaged an independent audit of the financial records at September 30, 2012 so that the beginning balances for FY 2013, October 1, 2012, could be substantiated and the comparative financial statements for FY 2013 and FY 2014 could be presented herein.

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

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

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#### **CURRENT ACTIVITIES**

##### **Driving PCORI's Mission**

In November 2013, the Board of Governors approved PCORI's strategic plan as an overall framework for all of PCORI's activities. The plan focuses on funding and conducting highly relevant research that is likely to change practice and improve patient outcomes; on disseminating and promoting the implementation of the results of this research; and on influencing how clinical research is done by others, so that a greater proportion of all clinical research is useful to patients and other healthcare decision makers. The strategic framework that underlies the plan has three goals:

- Substantially increase the quantity, quality, and timeliness of useful, trustworthy information available to support health decisions;
- Speed the implementation and use of patient-centered outcomes research (PCOR) evidence; and
- Influence clinical and healthcare research funded by others to be more patient-centered.

To reach these goals, PCORI organized its work at both the staff and governance levels into five mutually reinforcing strategic imperatives: Engagement, Methods, Research, Dissemination, and Infrastructure.

##### **Engagement**

PCORI's engagement strategies include developing a skilled community of patients, caregivers, and stakeholders from across the entire healthcare enterprise and involving them meaningfully in every aspect of research. These strategies serve PCORI's goals by seeking to increase the usefulness and trustworthiness of the information produced, facilitating its dissemination and uptake, and exposing more researchers and other stakeholders to the model of patient-centered research. Engagement is intended to increase the chances that the right research questions are asked, that the design and conduct of the research we fund provides information needed by the end-users, and that study findings are interpreted appropriately and communicated effectively.

FY 2014 was a year in which PCORI solidified its Engagement activities as a path to rigorous, patient-centered comparative clinical effectiveness research through a number of ongoing and new initiatives.

PCORI introduced the Engagement Rubric (originally called the Patient and Family Engagement Rubric), in the Winter 2014 cycle to provide guidance to researchers on how to meaningfully engage patients and other stakeholders throughout the entire research process including dissemination and implementation of relevant evidence. To operationalize the Engagement Rubric, the role of the Engagement Officer was initiated in March. New to the world of patient-centered healthcare and research, this role is a bridge between PCORI's Science and Engagement program staff. The Engagement Officer role is woven through the research continuum helping to determine engagement milestones and monitor the engagement activity during the research including the development of plans for dissemination of study findings. Engagement applied from a study's start to finish not only advances relevant science but also helps speed the progression of findings into practice.

Further strengthening the bridge between Science and Engagement, funding mechanisms were also created to offer partnership development, capacity building, and training opportunities to ensure successful participation of all stakeholders in PCOR.

## Patient-Centered Outcomes Research Institute

### Management's Discussion and Analysis

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The Pipeline to Proposal Award Program, introduced in 2014, is a tiered, micro contract funding initiative to facilitate the submission of high-quality research proposals by providing support for partnership development and capacity building of PCOR partners. In addition to the Pipeline to Proposal Award Program, the Eugene Washington Engagement Awards Program provides a platform to expand the role of all stakeholders in research. It encourages active integration of patients, caregivers, clinicians, and other healthcare stakeholders as integral members of the research process. During the fiscal year, PCORI accepted applications and funded awards in the following categories:

- **Knowledge Awards:** These projects build knowledge about how consumers of healthcare information view patient-centered outcomes research and comparative effectiveness research, how they make use of PCOR/CER findings, and what evidence they need to reach health and healthcare decisions.
- **Training and Development Awards:** These projects build capacity for healthcare community engagement in PCOR/CER by funding awards that promote training, the creation of methods to connect patients and other stakeholders with the research community, and facilitate engagement in PCOR/CER.
- **Dissemination Awards:** These projects support activities that develop channels for dissemination and implementation of PCOR/CER evidence.

The PCORI Ambassador Program was also formalized in 2014. The initiative will equip, train and mobilize patients, organizations, and other stakeholders to share PCORI's vision, mission, and PCOR principles with their respective communities, participate as full partners in research, and to help assure the sharing and uptake of information generated from PCORI-funded projects.

PCORI engagement strategies include developing a skilled community of patients and other stakeholders from across the entire healthcare enterprise and involving them meaningfully in every aspect of our work—from the development of our research priorities to the dissemination of research findings. These strategies aim to increase the usefulness and trustworthiness of the information we produce, facilitating its dissemination and uptake.

### Building on PCORI's Methodology Standards

Good methods are essential to producing high-quality PCOR and the PCORI Methodology Committee has developed guidelines for PCORI and for the broad community of researchers who conduct PCOR. The PCORI Methodology Standards were created to ensure that PCORI research is highly rigorous. The first component is a clinical prioritization process and research translation framework that helps make PCORI's research agenda transparent and accessible to stakeholders. The second component is a set of standards that provide specific guidance for the design and conduct of individual PCOR projects. The PCORI Methodology Standards underwent extensive public review and revision based on public comment and in November 2013, PCORI released a substantially revised Methodology Report which put the previously released standards into broader context. With the release of the revised report, the Methodology Committee began work on a plan to broadly disseminate the report and the standards that all research programs must adhere to, the best practices in planning, design, and conduct of every individual research project funded by the institute, and oversight by program staff, monitoring project adherence to the standards.

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

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

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#### **Managing the Research Portfolio**

PCORI awards funding for research through PCORI Funding Announcements (PFAs), broad calls for projects under the five National Priorities for Research and the Research Agenda as well as targeted announcements on specific high-priority topics and additional special funding opportunities. In FY 2014, PCORI's Board of Governors approved 163 research awards totaling more than \$348 million. There were three broad cycles and three targeted announcements funded in addition to the \$94 million invested in Phase I funding for PCORnet, PCORI's effort to develop a national patient-centered clinical research network. This large, highly representative electronic-data infrastructure is designed to improve the nation's capacity to conduct CER and other types of outcomes studies through collaboration between health system-based and patient organization-based research networks. Including FY 2014 awards, PCORI has funded 360 research awards, \$671 million in 39 states, from inception through September 30, 2014.

To see that the projects PCORI funds will have optimal impact and applicability in patient care, program staff exercises active and intensive portfolio planning, management, and evaluation of every aspect of the research agenda and mix of research projects across the organization including ensuring that PCORI funding is not duplicative of support that other funders might provide our awardees. The care taken in developing and managing the research portfolio is intended to improve the science of PCOR and the value of the information it produces.

One aspect of portfolio planning that is particularly relevant to influencing how research is conducted outside of PCORI is co-funding and the use of collaborative arrangements with federal agencies and other organizations that fund health research, such as the Agency for Healthcare Research and Quality (AHRQ) and the National Institutes of Health (NIH).

#### **Additional Programmatic Activities Supported in Fiscal Year 2014**

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

- Scientific Survey Services
- PCOR/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/Contracts Management System

#### **Building a Framework for Dissemination and Implementation**

PCORI's primary strategy for disseminating PCOR and supporting its use includes engaging patients and stakeholders in the research process from the very beginning; funding research to improve the effectiveness of communication and dissemination of research findings; and facilitating the usability, accessibility, and availability of information through best practices for the development of communication and dissemination materials and activities. In 2014, PCORI began developing a framework and toolkit for Dissemination and Implementation and engaging a broad range of stakeholders who helped shape the documents as well as provided input in how to most effectively see the results of the research funded by PCORI get to the audiences that need the information and in a format that is most useful to them. In the late summer and early fall of 2015, the pilot projects and the first round of PCORI funded primary research projects will be completed. Dissemination activities will follow on from the completed projects.

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

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

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#### **Beginning to Design a Framework for Peer Review**

PCORI began developing a process for peer-reviewing primary research and making research findings publicly available in a form and format useful to patients, clinicians, and others during FY 2014. This process is part of PCORI's broad dissemination and implementation plan to put knowledge gained from patient-centered outcomes research into practice. Input from patients and the entire health care community is a vital part of developing this process and in September 2014, PCORI launched a 54-day public comment period on PCORI's draft Proposal for Peer Review of Primary Research and Public Release of Research Findings. The draft proposal outlines PCORI's plan to conduct peer review of the primary research it funds and a process for making the findings publicly available.

#### **Determining Success and Monitoring Progress**

PCORI has set three goals; increasing information, speeding implementation, and influencing research. PCORI believes it will have succeeded in increasing information when it has produced a substantial body of usable answers to critical, patient-centered, comparative health questions. PCORI hopes to demonstrate that a substantial proportion of usable findings have been implemented within five years of publication; the benchmark for success in speeding implementation, and ultimately, when PCORI funding is complemented by increases in funding for PCOR from other sources, PCORI will have successfully demonstrated the ability to reach the needed magnitudes of scale to have influence over research.

In FY 2014, PCORI emphasized a commitment to work as a learning organization and it fully established the evaluation function. The PCORI Evaluation Group is a consultative task force that includes Board of Governors and Methodology Committee members as well as external experts. This group helped develop the Evaluation Framework and plans, review ongoing evaluation activities, analyze early results, and disseminate the evaluation work. The Board of Governors' Dashboard and related materials, which are presented to and discussed with the Board of Governors in public, evolved substantially over the course of the year and now, in most instances, show progress against targets and over time.

PCORI also developed and launched Evaluation webpages, which organize, make accessible to the public, and seek feedback on all of the evaluation work. These webpages include materials from PCORI Evaluation Group meetings; our Evaluation Framework; Dashboard materials; results of our portfolio analyses, surveys, and other evaluation activities; and evaluation presentations and publications.

#### **Financial Highlights**

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

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

## Patient-Centered Outcomes Research Institute

### Management's Discussion and Analysis

The following table highlights key components of PCORI's financial statements during FY 2014:

Financial Data	FY 2014	FY 2013	Increase/(Decrease)	Percentage Difference
<b>Statement of Financial Position</b>				
Assets	\$ 646,762,631	\$ 345,432,368	\$ 301,330,263	87%
Liabilities	45,109,150	7,806,399	37,302,751	478%
Net Assets	<u>\$ 601,653,481</u>	<u>\$ 337,625,969</u>	<u>\$ 264,027,512</u>	<u>78%</u>
<b>Statement of Activities</b>				
Revenue	\$ 425,889,688	\$ 240,837,570	\$ 185,052,118	77%
Expenses	161,862,176	48,575,961	113,286,215	233%
Change in Net Assets	<u>\$ 264,027,512</u>	<u>\$ 192,261,609</u>	<u>\$ 71,765,903</u>	<u>37%</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, 2014, were \$601.7 million. Specifically, PCORI's total assets of \$646.8 million included \$619.0 million of funds held in trust and \$7.4 million in cash. Total liabilities of \$45.1 million represent accounts payable, accrued expenses, and deferred rent.

**Statements of Activities:** In FY 2014, revenue and support totaled \$425.9 million, of which \$120 million came from appropriations, \$85.6 million from the Federal Hospital Insurance (FHI) and Federal Supplementary Medical Insurance (FSMI) trust funds, \$220.1 million from PCOR fees, and \$0.2 million is from interest earned on the PCORTF investment portfolio.

**Please note:** For the fiscal year ending September 30, 2014, the revenue of \$425.9 million includes revenues in FY 2014 includes estimated PCOR fees actually deposited into the PCORTF on September 30, 2014 less an allowance for doubtful collection. Management is in possession of certain federal agency-generated estimates that could be used for estimating the total realizable fiscal year 2014 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 less an allowance, at least until such a time as management believes that it has confidence in an estimating protocol.

Expense levels increased between FY 2014 and FY 2013. The increase from \$48.6 million to \$161.9 million is driven primarily by the growing research portfolio; \$118.2 million was spent on extramural and internal research projects that have a life cycle ranging from three to five years. With the expansion of the research portfolio, there was an increase of \$7.4 million in salaries, wages, and benefits resulting from the focus on building infrastructure and acquiring staff to manage the growing portfolio.

## Patient-Centered Outcomes Research Institute

### Management's Discussion and Analysis

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#### Request for Information

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

**Patient-Centered Outcomes Research Institute**

**Statements of Financial Position  
September 30, 2014 and 2013**

	2014	2013
<b>Assets</b>		
Cash	\$ 7,434,184	\$ 25,063,381
Amounts Held by PCOR Trust Fund (Note 2)	619,000,553	286,660,865
Prepaid Expenses	13,058,189	29,794,339
Deposits and Other Assets	1,311,904	611,427
Property and Equipment, Net (Note 3)	5,957,801	3,302,356
	<u>\$ 646,762,631</u>	<u>\$ 345,432,368</u>
 <b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 43,309,186	\$ 6,658,910
Deferred rent and tenant improvement allowance	1,799,964	1,147,489
<b>Total liabilities</b>	<u>45,109,150</u>	<u>7,806,399</u>
 Commitments and Contingencies (Notes 4, 5, 6, 7 and 8)		
 Net Assets		
Unrestricted	<u>601,653,481</u>	<u>337,625,969</u>
	<u>\$ 646,762,631</u>	<u>\$ 345,432,368</u>

See Notes to Financial Statements.

**Patient-Centered Outcomes Research Institute**

**Statements of Activities**

**For the Years Ended September 30, 2014 and 2013**

	2014	2013
Revenue and Support (Note 2)		
Federal appropriations	\$ 120,000,000	\$ 120,000,000
Patient-Centered Outcomes Research Fee	220,114,698	79,133,587
Transfers from the Federal Hospital Insurance (FHI) and the Federal Supplementary Medical Insurance (FSMI) trust funds	85,573,600	41,596,000
Interest income	201,390	107,983
<b>Total revenue and support</b>	<b>425,889,688</b>	<b>240,837,570</b>
Expenses		
Program services:		
Research	118,264,324	13,200,111
Contract management	6,926,202	6,459,361
Engagement, outreach, communication program development, science	18,717,862	14,179,921
Methodology	1,187,026	1,582,865
	<b>145,095,414</b>	<b>35,422,258</b>
Supporting services:		
Administrative – general	15,943,471	11,610,860
Administrative – board	823,291	1,542,843
	<b>16,766,762</b>	<b>13,153,703</b>
<b>Total expenses</b>	<b>161,862,176</b>	<b>48,575,961</b>
<b>Change in net assets</b>	<b>264,027,512</b>	<b>192,261,609</b>
Net Assets		
Beginning	<b>337,625,969</b>	145,364,360
Ending	<b>\$ 601,653,481</b>	<b>\$ 337,625,969</b>

See Notes to Financial Statements.

**Patient-Centered Outcomes Research Institute**

**Statements of Cash Flows**

**For the Years Ended September 30, 2014 and 2013**

	2014	2013
Cash Flows From Operating Activities		
Change in net assets	\$ 264,027,512	\$ 192,261,609
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	1,575,135	807,176
Deferred rent	652,475	131,855
Loss on disposal of property and equipment	-	9,552
Changes in assets and liabilities:		
(Increase) decrease in:		
Amounts held by PCOR Trust Fund	(332,339,688)	(286,659,056)
Prepaid expenses	16,736,150	(29,682,493)
Deposits and other assets	(700,477)	43,980
Increase in:		
Accounts payable and accrued expenses	36,650,276	4,416,319
<b>Net cash used in operating activities</b>	<b>(13,398,617)</b>	<b>(118,671,058)</b>
Cash Flow From Investing Activities		
Purchases of property and equipment	(4,230,580)	(1,602,177)
<b>Net cash used in investing activities</b>	<b>(4,230,580)</b>	<b>(1,602,177)</b>
<b>Net decrease in cash</b>	<b>(17,629,197)</b>	<b>(120,273,235)</b>
Cash		
Beginning	25,063,381	145,336,616
Ending	<b>\$ 7,434,184</b>	<b>\$ 25,063,381</b>

See Notes to Financial Statements.

Patient-Centered Outcomes Research Institute

Statement of Functional Expenses  
For the Year Ended September 30, 2014

	Program Services						Supporting Services			Total
	Research	Methodology	Contract Management	Communications, Outreach, and Engagement	Science	Total Program Services	Administrative – Board	Administrative – General	Total Supporting Services	
Research	\$ 118,264,324	\$ -	\$ -	\$ -	\$ -	\$ 118,264,324	\$ -	\$ 24	\$ 24	\$ 118,264,348
Salaries and wages - other	-	-	1,152,346	2,433,220	6,827,550	10,413,116	-	3,681,601	3,681,601	14,094,717
Other professional services	-	101,971	2,522,768	829,786	3,935,369	7,389,894	146,175	5,456,465	5,602,640	12,992,534
Employee benefits/payroll taxes	-	-	115,314	245,695	737,647	1,098,656	55	2,969,755	2,969,810	4,068,466
Travel	-	159,907	1,002,289	267,613	764,030	2,193,839	171,058	434,627	605,685	2,799,524
Conferences, conventions, meetings	-	736,566	864,747	148,663	117,631	1,867,607	162,922	168,747	331,669	2,199,276
Depreciation and amortization	-	-	128,779	271,921	763,003	1,163,703	-	411,432	411,432	1,575,135
Rent, parking, other occupancy	-	-	119,037	251,351	705,285	1,075,673	-	380,310	380,310	1,455,983
Temporary Help	-	-	134,065	5,239	11,361	150,665	-	743,242	743,242	893,907
Reviewer services	-	394	796,569	760	14,609	812,332	-	-	-	812,332
Telephone and communications	-	1,357	65,289	52,158	48,947	167,751	45,523	319,626	365,149	532,900
Board/Committee compensation	-	184,846	-	-	-	184,846	287,256	-	287,256	472,102
Legal fees	-	-	-	-	51,432	51,432	6,975	371,320	378,295	429,727
Accounting fees	-	-	-	-	-	-	-	269,278	269,278	269,278
Supplies	-	43	5,945	1,663	23,445	31,096	213	236,191	236,404	267,500
Equipment rental and maintenance	-	-	4,158	31	1,354	5,543	-	145,564	145,564	151,107
Advertising	-	-	-	85,225	10	85,235.00	32	53,445	53,477	138,712
Other expenses	-	-	-	25,680	45,493	71,173	-	63,317	63,317	134,490
Insurance - non-employee related	-	-	-	-	-	-	-	125,851	125,851	125,851
Books, subscriptions, references	-	-	803	33,232	13,750	47,785	-	52,325	52,325	100,110
Printing and copying	-	403	6,348	58	1,008	7,817	759	28,098	28,857	36,674
Postage and shipping	-	1,539	7,745	2,862	781	12,927	2,323	10,118	12,441	25,368
Bank/payroll fees	-	-	-	-	-	-	-	22,135	22,135	22,135
	\$ 118,264,324	\$ 1,187,026	\$ 6,926,202	\$ 4,655,157	\$ 14,062,705	\$ 145,095,414	\$ 823,291	\$ 15,943,471	\$ 16,766,762	\$ 161,862,176

See Notes to Financial Statements.

Patient-Centered Outcomes Research Institute

Statement of Functional Expenses  
For the Year Ended September 30, 2013

	Program Services					Supporting Services					Total
	Research	Methodology	Contract Management	Communications, Outreach, and Engagement	Science	Total Program Services	Administrative – Board	Administrative – General	Total Supporting Services		
Other professional services	\$ -	\$ 891,228	\$ 4,335,112	\$ 1,704,255	\$ 3,406,180	\$ 10,336,775	\$ 383,304	\$ 4,228,002	\$ 4,611,306	\$ 14,948,081	
Research	13,200,111	-	-	-	-	13,200,111	-	-	-	13,200,111	
Salaries and wages – other	-	-	615,430	1,771,935	3,410,418	5,797,783	-	3,022,470	3,022,470	8,820,253	
Employee benefits/payroll taxes	-	-	(49,994)	328,556	292,086	570,648	-	2,017,544	2,017,544	2,588,192	
Conferences, conventions, meetings	-	329,144	579,054	718,779	147,869	1,774,846	383,969	(30,884)	353,085	2,127,931	
Travel	-	38,863	500,238	419,251	373,997	1,332,349	202,817	103,420	306,237	1,638,586	
Rent, parking, other occupancy	-	-	1,175	345,456	229,110	575,741	-	356,094	356,094	931,835	
Depreciation and amortization	-	-	-	109,686	72,745	182,431	-	624,745	624,745	807,176	
Board/Committee compensation	-	248,685	-	-	-	248,685	489,076	25,000	514,076	762,761	
Reviewer services	-	-	396,702	26,550	176,575	599,827	-	-	-	599,827	
Temporary help	-	-	-	158,771	103,916	262,687	-	332,192	332,192	594,879	
Legal fees	-	113	73,690	-	5,425	79,228	12,454	201,344	213,798	293,026	
Accounting fees	-	-	-	-	-	-	-	258,169	258,169	258,169	
Telephone and communications	-	1,970	1,289	71,756	30,715	105,730	18,281	109,330	127,611	233,341	
Supplies	-	10,228	1,568	54,513	35,729	102,038	9,297	99,305	108,602	210,640	
Other expenses	-	25,000	1,870	12,905	5,469	45,244	-	82,934	82,934	128,178	
Advertising	-	25,305	-	65,065	-	90,370	-	16,623	16,623	106,993	
Printing and copying	-	9,658	2,783	13,643	6,060	32,144	25,237	42,596	67,833	99,977	
Books, subscriptions, references	-	538	-	18,653	10,719	29,910	4,451	16,345	20,796	50,706	
Equipment rental and maintenance	-	-	-	2,895	1,920	4,815	-	45,125	45,125	49,940	
Insurance – non-employee related	-	-	-	507	-	507	-	46,776	46,776	47,283	
Contracting capacity resources	-	-	-	-	40,665	40,665	-	-	-	40,665	
Postage and shipping	-	2,133	444	4,929	2,031	9,537	13,957	3,778	17,735	27,272	
Bank/payroll fees	-	-	-	-	187	187	-	9,952	9,952	10,139	
	\$ 13,200,111	\$ 1,582,865	\$ 6,459,361	\$ 5,828,105	\$ 8,351,816	\$ 35,422,258	\$ 1,542,843	\$ 11,610,860	\$ 13,153,703	\$ 48,575,961	

See Notes to Financial Statements.

## Patient-Centered Outcomes Research Institute

### Notes to Financial Statements

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

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

PCORI is a 501(c)(1) nonprofit corporation, governed by a 21-member multistakeholder Board of Governors, 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 ending 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 (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 calendar year 2012, the PCORTF received an amount equal to \$1 multiplied by the average number of individuals entitled to benefits under part A or enrolled under part B of title XVIII during the year ending September 30, 2013. For each fiscal year ending September 30 thereafter, 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.

In the year ending 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 is a product of the sum of such dollar amount for the previous fiscal year plus an amount equal to the product of such dollar amount for the previous fiscal year, multiplied by the percentage increase in the projected per capital of National Health Expenditures as most recently published by the Secretary before the beginning of the fiscal year.

## Patient-Centered Outcomes Research Institute

### Notes to Financial Statements

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

A summary of PCORI's significant accounting policies follows:

**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 September 30, 2013 financial report presented audited financial statements covering the 12-month period ended December 31, 2012, and the 9-month period ending September 30, 2013. This September 30, 2014 financial report presents audited financial statements on a comparative basis for the 12-month periods ended September 30, 2014 and 2013. As such, the opening balances for the 2013 financial statements presented in this September 30, 2014 financial report (as of October 1, 2012) are different than those presented in the September 30, 2013 financial report (as of January 1, 2013).

**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, as applicable. PCORI had no temporarily restricted or permanently restricted net assets at September 30, 2014 and 2013.

**Property and equipment:** Property and equipment at September 30, 2014 and 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.

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

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

## Patient-Centered Outcomes Research Institute

### Notes to Financial Statements

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

In accordance with the legislation, beginning in fiscal year 2012, the Secretary of the Treasury provided for transfer to the PCORTF from the FHI Trust Fund and the FSMI Trust Fund in proportion to the total expenditures during such fiscal year that were made under title XVIII from the respective trust fund. The transfer amounts are provided by the 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.

Patient-centered outcomes research (PCOR) fee revenue received is based on federal agency-generated estimates which are true-up the following year based on IRS reconciliation of actual PCOR fee collections. Accounting standards dictate that estimates should be based on historical experience and other assumptions that are considered reasonable under given circumstances. Management is of the opinion that, given the complexity of the fee calculations, without historical perspective, estimates cannot be relied upon. To that end, PCOR fee revenue, is taken into revenue as it is received less an allowance until such a time as there is more historical perspective on which to evaluate the reliability of the estimates.

**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, 2014 and 2013, research awards totaling \$671 million and \$181 million have been entered into, respectively. Prepayments on awards totaling \$12,583,724 and \$29,794,339 are included in prepaid expenses in the statements of financial position at September 30, 2014 and 2013, respectively.

**Tax status:** PCORI, a nonprofit organization incorporated in the District of Columbia and authorized by the Patient Protection and Affordable Care Act, is exempt from income taxes under Section 501(c)(1) of the Internal Revenue Code (IRC) and the applicable income tax regulations of the District of Columbia, except to the extent that unrelated business income is generated. No provision for income taxes was required for the years ended September 30, 2014 and 2013, 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.

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

## Patient-Centered Outcomes Research Institute

### Notes to Financial Statements

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

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

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

**Subsequent events:** PCORI evaluated subsequent events through March 3, 2015, 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, 2014 and 2013, and activity in the Trust Fund for the years then ended, are as follows:

	2014	2013
Beginning balance	\$ 286,660,865	\$ 1,808
Federal appropriations:		
Government Fiscal Year Appropriation	150,000,000	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	57,870,000	27,265,000
Less AHRQ and HHS share 20% of appropriation as mandated by statute	(11,574,000)	(5,453,000)
Transfers from FHI, November	49,097,000	24,730,000
Less AHRQ and HHS share 20% of appropriation as mandated by statute	(9,819,400)	(4,946,000)
Patient-Centered Outcomes Research Fee	276,638,373	98,916,984
Less AHRQ and HHS share 20% of appropriation as mandated by statute	(56,523,675)	(19,783,397)
Interest earned	201,390	107,984
Other adjustment	-	486
Payments by PCORI	-	120,000,000
Draws by PCORI	(93,550,000)	(74,179,000)
	<u>\$ 619,000,553</u>	<u>\$ 286,660,865</u>

## Patient-Centered Outcomes Research Institute

### Notes to Financial Statements

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#### 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, 2014 and 2013, are as follows:

	2014	2013
Leasehold improvements	\$ 4,019,127	\$ 2,175,379
Software development	2,404,230	1,033,260
Furniture, fixtures, and equipment	2,127,625	1,111,763
	8,550,982	4,320,402
Less accumulated depreciation	(2,593,181)	(1,018,046)
	<u>\$ 5,957,801</u>	<u>\$ 3,302,356</u>

#### Note 4. Leases

PCORI has two noncancelable operating leases for office spaces in Washington, D.C. that expire on December 1, 2018 and February 29, 2020. During the years ended September 30, 2014 and 2013, leases were amended to include additional space. The landlords also contributed \$506,450 and \$86,520, respectively, to be used toward tenant improvements.

Future minimum rental payments applicable to the lease at September 30, 2014, are as follows:

#### Year Ending September 30,

2015	\$ 2,319,009
2016	2,462,749
2017	2,528,559
2018	2,596,338
2019	2,872,401
2020	1,149,921
	<u>\$ 13,928,977</u>

Rent expense for the years ended September 30, 2014 and 2013, was \$1,455,983 and \$931,835, respectively.

## Patient-Centered Outcomes Research Institute

### Notes to Financial Statements

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

On March 1, 2013, the sequestration as required by the Budget Control Act of 2011 (BCA) and pursuant to section 215A of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended (BBEDCA), went into effect. The sequestration imposes a number of percentage-based federal spending reductions, including a reduction in available funding to the PCORTF for obligations. Funds in sequester at September 30, 2014 and 2013, were \$31,865,399 and \$15,508,387 respectively. These funds were released from sequester and made available to the PCORTF for obligations on October 1, 2014 and 2013, respectively.

#### **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 expenses totaled \$1,279,976 and \$565,229 for the years ended September 30, 2014 and 2013, respectively.

#### **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 is not expected to have a material adverse effect on PCORI's financial statements.

#### **Note 8. Subsequent Events**

On September 30, 2014, PCORI announced 46 research projects totaling \$102 million. The contracts for these projects will be executed in FY 2015.

On December 8, 2014, PCORI approved providing up to \$50 million for up to four comparative clinical effectiveness research (CER) studies on the best ways to diagnose and treat hepatitis C virus infection.



**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 and Conflict of Interest Sub-Committee of the Governance  
Committee of the Board of Governors  
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, 2014, the related statements of activities, cash flows, and functional expenses for the year then ended and the related notes to the financial statements, and have issued our report thereon dated March 3, 2015.

**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 image shows a handwritten signature in black ink that reads "McGladrey LLP". The signature is written in a cursive, flowing style.

Gaithersburg, Maryland  
March 3, 2015