

Patient-Centered Outcomes Research Institute

Financial Report
September 30, 2020

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Patient-Centered Outcomes Research Institute

Management's Discussion and Analysis

About Patient-Centered Outcomes Research Institute (PCORI)

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

PCORI is a 501(c)(1) tax-exempt, nonprofit corporation, governed by a multi-stakeholder Board of Governors, made up of 19 to 21 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; between three and five members representing private payers and purchasers; three members representing pharmaceutical, device and diagnostic manufacturers or developers; one member representing quality improvement or independent health services researchers; and two members representing the federal government or the states (including at least one member representing a federal health program or agency). The Act also provides that the Directors of the Agency for Healthcare Research and Quality (AHRQ) and the National Institutes of Health (NIH), or their designees, be members of the Board.

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

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

Financial Highlights

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

The law reauthorizing PCORI (Further Consolidated Appropriations Act, 2020) (Pub. L. 116-94 (2019), Div. N, Section 104 (Extension of appropriations to the Patient-Centered Outcomes Research Trust Fund; extension of certain health insurance fees) ("reauthorization law") extended the term of the PCOR Trust Fund to September 30, 2029 and addressed funding for the PCOR Trust Fund, which includes federal mandatory appropriations to the PCOR Trust Fund for 10 years through September 30, 2029. The reauthorization law specifies the dollar amounts of federal mandatory appropriations to be allocated to the PCOR Trust Fund for each fiscal year from FY2020 to FY2029, which range from \$275.5 million to \$399 million. These federal mandatory appropriation dollar amounts less the annual 20% distribution to AHRS and HHS are specified in the reauthorization law and thus are not part of, or subject to, the federal annual appropriations process.

Patient-Centered Outcomes Research Institute

Management's Discussion and Analysis

The federal appropriations per year are as follows:

2020	\$ 275,500,000
2021	285,000,000
2022	293,500,000
2023	311,500,000
2024	320,000,000
2025	338,000,000
2026	355,500,000
2027	363,500,000
2028	381,000,000
2029	399,000,000

The reauthorization law extended the term of the PCOR Fee for specified health insurance policies and plan sponsors of applicable self-insured health plans for 10 years to 2029. There were no changes in the reauthorization law that would impact the calculation of the PCOR Fee, the payment of the PCOR Fee to the Internal Revenue Service (IRS), or the transfer of the collected PCOR Fee by the IRS into the PCOR Trust Fund. PCORI does not establish, collect, or otherwise administer the PCOR Fee. Under the authorizing law, the amount of the PCOR Fee is equal to the average number of lives covered during the policy year or plan year multiplied by the applicable dollar amount for the year. The applicable dollar amount is adjusted yearly to reflect inflation in National Health Expenditures, as determined by the Secretary of Health and Human Services. PCORI does not make projections for the amount of the PCOR Fee to be collected by the IRS. Economic factors may influence the total PCOR Fee that is collected by the IRS. PCORI continues to rely on governmental projections relating to the PCOR Fee for budgeting purposes.

The reauthorization law did not include an extension of the transfers to the PCOR Trust Fund from the Federal Hospital Insurance Trust Fund or the Federal Supplementary Medical Insurance Trust Fund beyond fiscal year 2019. Thus, the PCOR Trust Fund no longer receives funds from these sources.

PCORI prepares annual financial statements in accordance with U.S. generally accepted accounting principles (U.S. 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 2020 and FY 2019:

Financial Data	FY 2020	FY 2019	Increase/ (Decrease)	Percentage Difference
Statement of financial position:				
Assets	\$ 1,460,831,185	\$ 1,376,285,798	\$ 84,545,387	6%
Liabilities	76,505,557	86,885,031	(10,379,474)	-12%
Net assets	<u>\$ 1,384,325,628</u>	<u>\$ 1,289,400,767</u>	<u>\$ 94,924,861</u>	<u>7%</u>
Statement of activities:				
Revenue and support	\$ 455,047,029	\$ 615,205,771	\$ (160,158,742)	-26%
Expenses	360,946,398	390,494,397	(29,547,999)	-8%
Realized and unrealized gain on short-term investments, net	824,230	2,904,912	(2,080,682)	-72%
Change in net assets	<u>\$ 94,924,861</u>	<u>\$ 227,616,286</u>	<u>\$ (132,691,425)</u>	<u>-58%</u>

Patient-Centered Outcomes Research Institute

Management's Discussion and Analysis

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, 2020, were \$1.4 billion. Specifically, PCORI's total assets of \$1.5 billion included \$1.1 billion in investments and \$392 million in cash and cash equivalents. Total liabilities of \$76.5 million represent accounts payable, accrued expenses and deferred rent.

Statements of activities: In fiscal year 2020, revenue and support totaled \$455 million, of which \$220 million came from appropriations, \$213 million from PCOR fees and \$22 million from interest earned on the investment portfolio.

For the fiscal year ended September 30, 2020, the revenue of \$213 million includes estimated PCOR fees deposited into the PCORTF. Management is in possession of certain federal agency-generated estimates that could be used for estimating the total realizable fiscal year 2020 PCOR fee net revenue on an accrual basis; however, accounting standards dictate that estimates should be based on historical experience and other assumptions that are considered reasonable under given circumstances. Management is of the opinion that, given the complexity of the fee calculations, without historical perspective, estimates cannot be consistently estimated. To that end, PCOR fee revenue is recognized as revenue as it is received until such a time as there is more historical perspective on which to evaluate the reliability of the estimates.

Expense levels decreased between FY 2020 and FY 2019. The decrease from \$390.5 million to \$360.9 million is driven primarily by research expenses. While PCORI is continuing to make funding commitments associated with its award programs, PCORI has also started to close out completed projects.

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.



RSM US LLP

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Patient-Centered Outcomes Research Institute (PCORI), which comprise the statements of financial position as of September 30, 2020 and 2019, the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PCORI as of September 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2021, on our consideration of PCORI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of PCORI's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PCORI's internal control over financial reporting and compliance.

RSM US LLP

Washington, D.C.
February 9, 2021

Patient-Centered Outcomes Research Institute

Statements of Financial Position
September 30, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents	\$ 391,913,530	\$ 28,794,629
Short-term investments (Note 2)	1,053,902,326	1,297,555,320
Amounts held by PCOR Trust Fund (Note 4)	31,132	36,089,979
Prepaid expenses	2,795,265	2,063,304
Deposits and other assets	6,819,457	5,860,380
Property and equipment, net (Note 5)	5,369,475	5,922,186
	<u>5,369,475</u>	<u>5,922,186</u>
Total assets	<u>\$ 1,460,831,185</u>	<u>\$ 1,376,285,798</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 74,879,394	\$ 85,052,832
Deferred rent and tenant improvement allowance	1,626,163	1,832,199
Total liabilities	<u>76,505,557</u>	<u>86,885,031</u>
Commitments and contingencies (Notes 6, 7, and 9)		
Net assets:		
Without donor restrictions	<u>1,384,325,628</u>	<u>1,289,400,767</u>
Total liabilities and net assets	<u>\$ 1,460,831,185</u>	<u>\$ 1,376,285,798</u>

See notes to financial statements.

Patient-Centered Outcomes Research Institute

Statements of Activities

Years Ended September 30, 2020 and 2019

	2020	2019
Revenue and support (Note 4):		
Federal appropriations	\$ 220,400,000	\$ 120,000,000
Patient-centered outcomes research fee	212,924,346	344,888,615
Transfers from the Federal Hospital Insurance (FHI) and the Federal Supplementary Medical Insurance (FSMI) Trust Funds	-	116,446,400
Interest income	21,722,683	33,870,756
Total revenue and support	455,047,029	615,205,771
Expenses:		
Program services:		
Research	232,866,698	242,934,288
PCORnet Infrastructure	42,716,943	59,226,183
Engagement	30,417,048	34,583,368
Dissemination	16,937,495	11,242,853
	322,938,184	347,986,692
Program support	15,322,058	19,277,970
Administrative expenses:		
Administrative – general	21,966,758	22,489,003
Administrative – board	719,398	740,732
	22,686,156	23,229,735
Total expenses	360,946,398	390,494,397
Change in net assets before realized and unrealized gain on short-term investments	94,100,631	224,711,374
Realized and unrealized gain on short-term investments, net	824,230	2,904,912
Change in net assets	94,924,861	227,616,286
Net assets without donor restrictions:		
Beginning	1,289,400,767	1,061,784,481
Ending	\$ 1,384,325,628	\$ 1,289,400,767

See notes to financial statements.

Patient-Centered Outcomes Research Institute

Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 94,924,861	\$ 227,616,286
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,488,373	4,852,834
Deferred rent	(206,036)	(181,901)
Realized and unrealized gain on short-term investments, net	(824,230)	(2,904,912)
Changes in assets and liabilities:		
(Increase) decrease in:		
Amounts held by PCOR Trust Fund	36,058,847	(3,565,295)
Prepaid expenses	(731,961)	(275,571)
Deposits and other assets	(959,077)	(1,369,443)
Decrease in:		
Accounts payable and accrued expenses	(10,173,438)	(2,225,769)
Net cash provided by operating activities	121,577,339	221,946,229
Cash flows from investing activities:		
Purchases of property and equipment	(2,935,662)	(3,148,637)
Maturities of short-term investments	1,323,576,210	1,300,018,020
Purchases of short-term investments	(1,079,098,986)	(1,514,571,998)
Net cash provided by (used in) investing activities	241,541,562	(217,702,615)
Net increase in cash and cash equivalents	363,118,901	4,243,614
Cash and cash equivalents:		
Beginning	28,794,629	24,551,015
Ending	\$ 391,913,530	\$ 28,794,629

See notes to financial statements.

Patient-Centered Outcomes Research Institute

Statement of Functional Expenses Year Ended September 30, 2020

	Program Services				Program Support	Administrative Expenses			Total	
	Research	PCORnet Infrastructure	Engagement	Dissemination	Total Program Services	Total Program Support	Administrative – General	Administrative – Board		Total Administrative Expenses
Research awards	\$ 218,809,886	\$ 40,308,044	\$ 19,966,210	\$ 1,568,585	\$ 280,652,725	\$ -	\$ -	\$ -	\$ -	\$ 280,652,725
Salaries and wages	7,741,096	907,354	4,174,894	872,968	13,696,312	7,199,782	8,970,558	-	8,970,558	29,866,652
Professional services	935,936	833,611	2,895,892	13,892,970	18,558,409	2,565,032	4,013,119	52,967	4,066,086	25,189,527
Employee benefits/payroll taxes	2,077,280	254,722	1,089,309	246,501	3,667,812	2,009,100	2,637,802	-	2,637,802	8,314,714
Depreciation and amortization	904,147	105,977	487,620	101,961	1,599,705	840,922	1,047,746	-	1,047,746	3,488,373
Travel	99,470	24,542	187,822	-	311,834	193,502	59,869	69,893	129,762	635,098
Rent, parking, other occupancy	750,808	87,910	415,690	84,579	1,338,987	697,561	874,331	-	874,331	2,910,879
Temporary help	2,321	-	99,532	-	101,853	41,055	1,094,851	-	1,094,851	1,237,759
Conferences, conventions, meetings	46,092	50,559	337,666	-	434,317	125,241	76,971	160,985	237,956	797,514
Legal fees	-	-	-	-	-	-	543,602	-	543,602	543,602
Reviewer services	93,250	-	35,500	31,000	159,750	205,650	(5,797)	-	(5,797)	359,603
Accounting fees	-	-	-	-	-	-	83,800	-	83,800	83,800
Board/committee compensation	169,390	-	-	-	169,390	-	-	434,984	434,984	604,374
Telephone and communications	18,120	2,500	12,580	3,280	36,480	25,323	260,045	-	260,045	321,848
Supplies	862	-	308	-	1,170	604	122,313	159	122,472	124,246
Information technology	1,203,071	140,994	652,679	135,651	2,132,395	1,155,384	1,393,938	-	1,393,938	4,681,717
Other expenses	-	-	-	-	-	5,104	88,201	-	88,201	93,305
Insurance – non-employee related	-	-	-	-	-	-	337,720	-	337,720	337,720
Equipment rental and maintenance	-	-	-	-	-	-	165,746	-	165,746	165,746
Books, subscriptions, references	13,547	-	58,575	-	72,122	233,294	170,705	-	170,705	476,121
Bank/payroll fees	-	-	-	-	-	-	14,298	-	14,298	14,298
Postage and shipping	1,422	730	2,771	-	4,923	24,504	16,940	410	17,350	46,777
	<u>\$ 232,866,698</u>	<u>\$ 42,716,943</u>	<u>\$ 30,417,048</u>	<u>\$ 16,937,495</u>	<u>\$ 322,938,184</u>	<u>\$ 15,322,058</u>	<u>\$ 21,966,758</u>	<u>\$ 719,398</u>	<u>\$ 22,686,156</u>	<u>\$ 360,946,398</u>

See notes to financial statements.

Patient-Centered Outcomes Research Institute

Statement of Functional Expenses Year Ended September 30, 2019

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

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

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

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

Patient-Centered Outcomes Research Institute

Notes to Financial Statements

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

On December 20, 2019, the “Further Consolidated Appropriations Act, 2020,” added new CER requirements and reauthorized funding for the PCORTF through September 30, 2029. Under this reauthorizing legislation, Congress removed the transfers from the FHI and FSMI Trust Fund to the PCORTF, effectively eliminating this funding stream moving forward. Instead, Congress increased the direct federal appropriations and specifically identified the dollar amount of federal mandatory appropriations to be allocated to the PCORTF for each fiscal year from 2020 to 2029 (roughly \$3.3 billion in total). The annual appropriations are as follows: \$275.5 million in fiscal year 2020, \$285 million in fiscal year 2021, \$293.5 million in fiscal year 2022, \$311.5 million in fiscal year 2023, \$320 million in fiscal year 2024, \$338 million in fiscal year 2025, \$355.5 million in fiscal year 2026, \$363.5 million in fiscal year 2027, \$381 million in fiscal year 2028, and \$399 million in fiscal year 2029. The \$275.5 million for fiscal year 2020 less the annual 20% distribution to AHRQ and HHS, plus interest income, was available to PCORI as needed. The future amounts, less the annual 20% distribution to AHRQ and HHS, plus interest income, will be available to PCORI as needed. The provisions providing for the PCOR fee on private health insurers and self-insured and employer-sponsored health plans are extended through September 30, 2029.

A summary of PCORI’s significant accounting policies follows:

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

Basis of presentation: PCORI follows the accounting requirements of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification). As required by the Not-for-Profit Entities Topic of the Codification, PCORI is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor-imposed restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. PCORI reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. PCORI had no net assets with donor restrictions at September 30, 2020 and 2019.

Cash and cash equivalents: PCORI considers cash on hand, deposits in banks and highly liquid instruments purchased with original maturities of three months or less, to be cash and cash equivalents. PCORI held \$365,327,849 and \$0 of cash equivalents at September 30, 2020, and 2019, respectively.

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

Patient-Centered Outcomes Research Institute

Notes to Financial Statements

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

Property and equipment: Property and equipment at September 30, 2020 and 2019, consisted of leasehold improvements, software, furniture, website, fixtures and equipment. Purchases of property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives of three to eight years. It is the policy of PCORI to capitalize property and equipment purchases greater than \$5,000. PCORI amortizes leasehold improvement costs over the remaining term of PCORI's lease, or the useful life of the improvement, whichever is shorter.

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

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

Revenue recognition: Congress appropriated \$1.26 billion for the PCORTF at the time of establishment. These federal appropriations are deemed to be earned and are recognized as revenue in the periods designated by Congress. As appropriations are subject to potential changes in legislation, PCORI considers future appropriations as intentions to give and not as unconditional promises to give. The Act explicitly identified specific amounts and a period of attribution by fiscal year, beginning in October 2010 and ending in September 2019. In December 2019, Congress passed legislation that reauthorized funding for PCORTF for an additional ten years until September 2029 in the amount of \$3.3 billion.

In accordance with the legislation, beginning in fiscal year 2012 and ending in fiscal year 2019, 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 were provided by the Centers for Medicare and Medicaid Services (CMS). The transfers were deemed to be earned and were recognized as revenue on a cash basis in the period received or adjusted. The reauthorization law does not extend the original statutory provision for transfers from the FHI Trust Fund and FSMI Trust Fund; however, the amount of federal appropriations has increased to nearly compensate for the transfers.

Patient-Centered Outcomes Research (PCOR) fee revenue received is based on federal agency-generated estimates, which are trued-up the following year based on Internal Revenue Service (IRS) reconciliation of actual PCOR fee collections. Accounting standards dictate that estimates should be based on historical experience and other assumptions that are considered reasonable under given circumstances. Management is in possession of certain federal agency-generated estimates that could be used for estimating the total realizable fiscal year PCOR fee.

Patient-Centered Outcomes Research Institute

Notes to Financial Statements

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

Program awards: PCORI uses contracts as its only means to fund program awards. Expenses are recorded at the time the deliverable has been met or when the cost has been incurred. As of September 30, 2020 and 2019, total cumulative program awards of approximately \$2.84 billion and \$2.35 billion have been entered into, respectively.

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

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

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

Financial and credit risk: The PCORTF was funded through congressional appropriation through fiscal year 2029. 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 in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Audit requirements: PCORI is subject to financial and governmental oversight in accordance with its enabling legislation. PCORI is required to provide for the conduct of an annual financial audit through a private entity with experience in conducting financial audits. The Comptroller General of the United States is required to review the financial audit annually; the processes established by PCORI not less frequently than every five years; the dissemination/training activities and the data networks of PCORI not less frequently than every five years; the overall effectiveness of activities and the dissemination, training and capacity-building activities conducted by PCORI not less frequently than every five years; and the adequacy and use of the funding for PCORI and the activities conducted no later than eight years after the date of enactment. GAO reviews were conducted and published in 2015, 2018, and 2020.

Patient-Centered Outcomes Research Institute

Notes to Financial Statements

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

Adopted accounting pronouncement: In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides additional guidance on characterizing grants and similar contracts with resource providers as either exchange transactions or contributions, as well as distinguishing between conditional contributions and unconditional contributions. PCORI adopted this standard as a resource recipient during the year ended September 30, 2020 using the modified prospective method, noting no change to recognition patterns in the financial statements.

Pending accounting pronouncements: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of activities. The new standard is effective for PCORI for the fiscal year beginning October 1, 2022. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. PCORI is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

ASU 2018-08 is effective for PCORI for the year ending September 30, 2021, where PCORI is a resource provider.

Note 2. Fair Value Measurements

The Fair Value Measurement topic of the FASB Codification defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

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

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

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

The table below presents the balances of assets at September 30, 2020, measured at fair value on a recurring basis by level within the hierarchy:

	Total	Level 1	Level 2	Level 3
Cash equivalents:				
Money market funds	\$ 365,327,849	\$ 365,327,849	\$ -	\$ -
Short-term investments:				
U.S. Treasury bills	232,774,776	-	232,774,776	-
U.S. Treasury notes	821,127,550	-	821,127,550	-
	<u>1,053,902,326</u>	<u>-</u>	<u>1,053,902,326</u>	<u>-</u>
Total assets at fair value	<u>\$ 1,419,230,175</u>	<u>\$ 365,327,849</u>	<u>\$ 1,053,902,326</u>	<u>\$ -</u>

Patient-Centered Outcomes Research Institute

Notes to Financial Statements

Note 2. Fair Value Measurements (Continued)

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

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

The money market funds are Level 1 instruments as they are actively traded with identical assets. The U.S. Treasury bills and U.S. Treasury notes above are classified as Level 2 due to the underlying assets having observable market based inputs for similar, but not identical, assets.

Note 3. Liquidity

PCORI regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to preserve the principal and return on investment of its funds. PCORI's financial assets available within one year of the statements of financial position date to meet cash needs for general expenditures at September 30, 2020 and 2019, are as follows:

	2020	2019
Cash and cash equivalents	\$ 391,913,530	\$ 28,794,629
Short-term investments	1,053,902,326	1,297,555,320
Coupon interest receivable	4,918,748	3,964,613
Accounts receivable, net	150,635	141,098
Amounts held by PCOR Trust Fund	31,132	36,089,979
	<u>\$ 1,450,916,371</u>	<u>\$ 1,366,545,639</u>

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

Note 4. Amounts Held by PCOR Trust Fund

Amounts held by PCORTF available to PCORI at September 30, 2020 and 2019, and activity in the Trust Fund for the years then ended, are as follows:

	2020	2019
Beginning balance	\$ 36,089,979	\$ 32,524,684
Federal appropriations:		
Government fiscal year appropriation	220,400,000	120,000,000
Transfers from FSMI and FHI	-	116,446,400
Patient-Centered Outcomes Research Fee	212,924,346	344,888,615
Interest earned	346,938	757,621
Draws by PCORI	(469,730,131)	(578,527,341)
	<u>\$ 31,132</u>	<u>\$ 36,089,979</u>

Patient-Centered Outcomes Research Institute

Notes to Financial Statements

Note 4. Amounts Held by PCOR Trust Fund (Continued)

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

Note 5. Property and Equipment

Property and equipment and accumulated depreciation at September 30, 2020 and 2019, are as follows:

	2020	2019
Leasehold improvements	\$ 6,078,901	\$ 5,693,361
Software development	19,933,730	17,661,251
Website	937,199	834,093
Furniture, fixtures and equipment	4,087,607	3,913,070
	<u>31,037,437</u>	<u>28,101,775</u>
Less accumulated depreciation and amortization	(25,667,962)	(22,179,589)
	<u>\$ 5,369,475</u>	<u>\$ 5,922,186</u>

Note 6. Leases

PCORI has two non-cancelable operating leases for office spaces in Washington, D.C. that expire December 31, 2024.

Future minimum rental payments applicable to the leases at September 30, 2020, are as follows:

Years ending September 30:	
2021	\$ 3,166,261
2022	3,233,558
2023	3,331,330
2024	3,415,962
2025	940,175
	<u>\$ 14,087,286</u>

Rent, parking, and other occupancy expense for the years ended September 30, 2020 and 2019, was \$2,910,879 and \$3,123,963, respectively.

Note 7. Financial Risks and Uncertainties

On March 1, 2013, the sequestration as required by the Budget Control Act of 2011 (BCA) and pursuant to section 215A of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended (BBEDCA), went into effect. The sequestration imposes a number of percentage-based federal spending reductions, including a reduction in available funding to the PCORTF for obligations. Funds in sequester at September 30, 2020 and 2019, were \$0 and \$45,131,897, respectively. These funds were released from sequester and made available to the PCORTF for obligations on November 14, 2019.

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

Patient-Centered Outcomes Research Institute

Notes to Financial Statements

Note 8. Retirement Plan

Effective January 1, 2012, PCORI established the Defined Contribution Retirement Plan of the Patient-Centered Outcomes Research Institute (the Plan). The Plan is intended to be a qualified plan under Section 401(a) of the IRC of 1986, as amended, and it is a plan as described in IRC Section 414(d) and Section 3(32) of the Employee Retirement Income Security Act of 1974 (ERISA), as amended. All full-time regular employees are eligible to participate in the Plan on the first day of the month following the date he or she becomes an eligible employee. PCORI matches employees' contributions up to 5% of the participant's eligible compensation. Additionally, PCORI makes a non-elective contribution of 5% of the participant's eligible compensation. Participants are fully vested after one year of continuous employment with PCORI. Contribution expenses totaled \$2,652,398 and \$2,516,171 for the years ended September 30, 2020 and 2019, respectively.

Note 9. Contingencies

From time to time, PCORI may be 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.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which PCORI operates. Management is continually monitoring the potential impact of the pandemic on PCORI. Management will review and adjust planned expenditures should it be determined the outbreak will significantly impact the financial position and activities of PCORI.

Note 10. Conditional Awards

PCORI has entered into conditional grant awards. At September 30, 2020, PCORI has approximately \$785.8 million of awarded, but not yet recognized grant expenses. Future recognition is contingent upon the recipients carrying out certain activities and incurring allowable expenditures stipulated by the grant or contract.

Note 11. Subsequent Events

PCORI evaluated subsequent events through February 9, 2021, which is the date the financial statements were available to be issued.



RSM US LLP

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Patient-Centered Outcomes Research Institute (PCORI), which comprise the statement of financial position as of September 30, 2020, 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 February 9, 2021.

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) as a basis for designing 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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

RSM US LLP

Washington, D.C.
February 9, 2021