

**CALIFORNIA INSTITUTE FOR
REGENERATIVE MEDICINE
(A Component Unit of the State of California)**

Independent Auditor's Reports, Management's
Discussion and Analysis, Basic Financial
Statements and Supplementary Information

For the Year Ended June 30, 2020



Certified
Public
Accountants

CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE
(A Component Unit of the State of California)
For The Year Ended June 30, 2020

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Independent Auditor's Report

To the Members of the
Independent Citizens Oversight Committee of the
California Institute for Regenerative Medicine
Oakland, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the California Institute for Regenerative Medicine (CIRM), a component unit of the State of California, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise CIRM's basic financial statements as listed in the table of contents.

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 opinions on these financial statements based on our audit. We conducted our audit 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of CIRM as of June 30, 2020, and the respective changes in the financial position and the required budgetary comparison for the Stem Cell Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise CIRM's basic financial statements. The Dolby Grant schedule of revenues, expenditures and available resources (Schedule) on page 21 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2020, on our consideration of CIRM'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 CIRM'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 CIRM's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Sacramento, California
November 16, 2020

CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE
(A Component Unit of the State of California)

Management's Discussion and Analysis (Unaudited)

Management of the California Institute for Regenerative Medicine (CIRM) is pleased to provide this overview and analysis of the financial activities of CIRM for the year ended June 30, 2020. We encourage readers to consider the information presented here in conjunction with the financial statements that follow this discussion.

Financial Highlights

The net position of CIRM as of June 30, 2020, was \$107,514,261 compared to the end of the prior fiscal year balance of \$109,231,276. Of that amount, \$8,136, net of accumulated depreciation, was invested in capital assets of CIRM and unrestricted net position was \$107,506,125. See discussion below in Government-Wide Financial Analysis regarding the investment of CIRM grants.

- CIRM's cash and investments balance as of June 30, 2020, was \$69,740,345 a decrease of \$5,013,032 from the balance on June 30, 2019.
- For the year ended June 30, 2020, CIRM had total revenues of \$151,269,140, representing a decrease of \$40,433,207 from the prior year. Expenses for fiscal year (FY) 2020 were \$152,986,154, which represents a \$54,376,223 decrease from the prior year.
- All financial assets of CIRM continue to be devoted to providing funds for medical research and facilities, and the operations of CIRM.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to CIRM's basic financial statements, which comprise the following components, in addition to management's discussion and analysis: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the basic financial statements. The government-wide and fund financial statements are presented in a combined format as listed in the table of contents. Items in the adjustment column of each respective financial statement are discussed in Note 3.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of CIRM's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of CIRM's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of CIRM is improving or deteriorating.

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Management's Discussion and Analysis (Unaudited)(Continued)

Government-Wide Financial Statements (Continued)

The *statement of activities* presents information showing how CIRM's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated leave).

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. CIRM uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. CIRM reports one governmental-type fund, the Stem Cell Fund (Fund).

Governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating CIRM's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental fund with similar information presented for governmental activities. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a column detailing the differences (adjustments) between the governmental fund and governmental activities. These adjustments are discussed in further detail in Note 3 to the basic financial statements.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on the pages as listed in the table of contents of this report.

Government-Wide Financial Analysis

The government-wide financial statements provide long-term and short-term information about CIRM's overall financial condition. This analysis addresses the financial statements of CIRM as a whole.

As noted earlier, net position may serve over time as a useful indicator of CIRM's financial position. As of June 30, 2020, CIRM's net position was \$107,514,261, a decrease of \$1,717,015 from prior year net position of \$109,231,276.

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Management's Discussion and Analysis (Unaudited)(Continued)

Government-Wide Financial Analysis (Continued)

As of June 30, 2020, \$107,506,125 of CIRM's net position was unrestricted. The remaining net position of \$8,136 reflects its investment in capital assets net of accumulated depreciation.

For the year ended June 30, 2020, net position decreased by \$1,717,014. For the year ended June 30, 2020, total revenues decreased due to reduced Proposition 71 Bond Proceeds (GO Bonds) and Commercial Paper (CP) receipts in the amount of \$124,000,000 (a decrease of \$64,500,000 from FY 2018/19,) which offset an increase in investment earnings of \$10,834,132. In addition, expenses as of June 30, 2020, decreased by \$54,376,223 from June 30, 2019, due to a decrease in grant award expense of \$53,792,191 and a decrease in operations expense of \$584,032. The decrease in award expense is due to the reduced number of new grant awards, as well as the payment schedule in accordance with the milestone-based terms and conditions.

The recipients of CIRM's grants are required to use the granted funds to construct or acquire research facilities or to perform research. Expenditures of that type may be reported by the grant recipients as investments in capital assets of the grant recipients. CIRM will work with its grantees to ensure proper reporting of these capital expenditures. Grants made by CIRM are treated as expenses of CIRM rather than investments in capital assets of CIRM even though (i) the recipients of the grants may be required to use the granted funds in a manner that is treated as investments in capital assets of the grant recipients and (ii) as a condition of each grant, CIRM obtains certain rights to use, control or benefit from the discoveries or information developed by the grant recipients.

Condensed Government Wide Statement of Net Position
(Amounts Expressed in Thousands)

| | June 30 | |
|----------------------------------|-----------|-----------|
| | 2020 | 2019 |
| Current and other assets | \$111,649 | \$113,539 |
| Capital assets | 8 | 9 |
| Total Assets | 111,657 | 113,548 |
| Current and other liabilities | 809 | 762 |
| Long-term liabilities | 3,334 | 3,555 |
| Total liabilities | 4,143 | 4,317 |
| Net position | | |
| Net investment in capital assets | 8 | 9 |
| Unrestricted | 107,506 | 109,222 |
| Total net position | \$107,514 | \$109,231 |

CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE
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Management's Discussion and Analysis (Unaudited)(Continued)

Condensed Government Wide Statement of Activities
(Amounts Expressed in Thousands)

| | June 30 | |
|-----------------------------------|-----------|-----------|
| | 2020 | 2019 |
| Revenues: | | |
| Proposition 71 revenue (GO bonds) | \$64,000 | \$94,000 |
| Proposition 71 revenue (CP) | 60,000 | 94,500 |
| Interest on loans | 1,871 | 1,871 |
| Proceeds from loan repayment | 13,233 | - |
| Investment earnings | 12,165 | 1,331 |
| Total revenues | 151,269 | 191,702 |
| Expenses: | | |
| State operations | 13,599 | 14,183 |
| Research grants | 139,387 | 193,179 |
| Total expenses | 152,986 | 207,362 |
| Change in net position | 1,717 | 15,660 |
| Net position, beginning of year | 109,231 | 124,891 |
| Net position, end of year | \$107,514 | \$109,231 |

For fund financial statements see pages 9 and 10. For fund budget to actual comparison see page 11.

Financial Analysis of CIRM's Stem Cell Fund

The focus of the Stem Cell Fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Fund's financing requirements. In particular, fund balance may serve as a useful measure of the Fund's net resources available for spending for program purposes at the end of the fiscal year.

As of the year ended June 30, 2020, the Fund reported ending fund balance of \$70,816,909 compared to the June 30, 2019, ending fund balance of \$74,625,443. The Fund's major source of revenue is Proposition 71 revenue (Commercial Paper and GO Bonds). The Fund's major expenditures are research grants and state operations.

Stem Cell Fund Budgetary Highlights

The Stem Cell Fund budget projected total expenditures of \$265,614,489. Actual expenditures were less than budgeted projections by \$112,408,318 in the categories of research grants, salaries and operating expenditures. Stem Cell Fund Actual includes expenditures for the current and prior year budgeted appropriations. During the FY 2019/20, the State Treasurer issued \$124,000,000 in Bond Proceeds and Commercial Paper funding under the California Stem Cell Research and Cures Act of 2004.

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Management's Discussion and Analysis (Unaudited)(Continued)

Proposition 71 Revenues and Research Grant Expenditures

Currently, CIRM anticipates that the budget for new awards will be depleted during the FY 2019/20. CIRM management have developed a transition plan that provides funds for operational activities that support management of the active portfolios and disbursement of grant payments through FY 2023.

Contacting CIRM's Financial Management

This financial report is designed to provide a general overview of CIRM's finances, and to demonstrate CIRM's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact the California Institute for Regenerative Medicine, 1999 Harrison Street, Suite 1650, Oakland, California 94612.

CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE
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Statement of Net Position and Governmental Fund Balance Sheet
June 30, 2020

| | Stem Cell Fund | Adjustments (Note 3) | Statement of Net Position |
|---|-------------------|-------------------------|------------------------------|
| Assets | | | |
| Cash and investments | \$ 69,740,345 | \$ - | \$ 69,740,345 |
| Accounts receivable | 1,717,204 | - | 1,717,204 |
| Prepaid expenses | 4,443 | - | 4,443 |
| Due from other State funds | 163,866 | - | 163,866 |
| Loans receivable | 22,999,933 | - | 22,999,933 |
| Interest receivable | 17,023,559 | - | 17,023,559 |
| Capital assets being depreciated, net | - | 8,136 | 8,136 |
| Total assets | 111,649,350 | 8,136 | 111,657,486 |
| Liabilities | | | |
| Accounts payable | 640,139 | - | 640,139 |
| Due to other State funds | 168,810 | - | 168,810 |
| Long term liabilities | | | |
| Due in more than one year | - | 3,334,276 | 3,334,276 |
| Total liabilities | 808,949 | 3,334,276 | 4,143,225 |
| Deferred inflows of resources | | | |
| Unavailable loans and interest receivable | 40,023,492 | (40,023,492) | - |
| Total deferred inflows of resources | 40,023,492 | (40,023,492) | - |
| Total liabilities and deferred inflows of resources | 40,832,441 | (36,689,216) | 4,143,225 |
| Fund balance/net position: | | | |
| Fund balance | | | |
| Nonspendable | 4,443 | (4,443) | - |
| Committed | 70,812,466 | (70,812,466) | - |
| Total fund balance | 70,816,909 | (70,816,909) | - |
| Total liabilities and deferred inflows and fund balance | \$ 111,649,350 | | |
| Net position | | | |
| Net investment in capital assets | | 8,136 | 8,136 |
| Unrestricted | | 107,506,125 | 107,506,125 |
| Total | | \$ 107,514,261 | \$ 107,514,261 |

See accompanying notes to the financial statements

CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE

(A Component Unit of the State of California)

Statement of Activities and Statement of Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2020

| | <u>Stem Cell Fund</u> | <u>Adjustments (Note 3)</u> | <u>Statement of Activities</u> |
|--|---------------------------|---------------------------------|------------------------------------|
| Revenues: | | | |
| Proposition 71 revenue (GO bonds) | \$ 64,000,000 | \$ - | \$ 64,000,000 |
| Proposition 71 revenue (CP) | 60,000,000 | - | 60,000,000 |
| Interest on loans | - | 1,871,502 | 1,871,502 |
| Proceeds from loan repayment | 13,232,660 | - | 13,232,660 |
| Investment earnings | <u>12,164,978</u> | <u>-</u> | <u>12,164,978</u> |
| Total revenues | <u>149,397,638</u> | <u>1,871,502</u> | <u>151,269,140</u> |
| Expenditures/expenses: | | | |
| Current: | | | |
| State operations | 13,819,369 | (220,017) | 13,599,352 |
| Research grants | <u>139,386,802</u> | <u>-</u> | <u>139,386,802</u> |
| Total expenditures/expenses | <u>153,206,171</u> | <u>(220,017)</u> | <u>152,986,154</u> |
| Deficiency of revenues over expenditures | (3,808,533) | 3,808,533 | - |
| Change in net position | - | (1,717,014) | (1,717,014) |
| Fund balance/net position, beginning of year | <u>74,625,443</u> | <u>34,605,833</u> | <u>109,231,276</u> |
| Fund balance/net position, end of year | <u>\$ 70,816,910</u> | <u>\$ 32,888,819</u> | <u>\$ 107,514,262</u> |

See accompanying notes to the financial statements

CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE
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Stem Cell Fund Statement of Expenditures - Budget and Actual
For the Year Ended June 30, 2020

| | <u>Original/ Final Budget</u> | <u>Stem Cell Fund Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--------------------|---------------------------------------|--------------------------------------|---|
| Expenditures: | | | |
| Current: | | | |
| State operations* | \$ 15,614,489 | \$ 13,819,369 | \$ 1,795,120 |
| Research grants | <u>250,000,000</u> | <u>139,386,802</u> | <u>110,613,198</u> |
| Total expenditures | <u>\$ 265,614,489</u> | <u>\$ 153,206,171</u> | <u>\$ 112,408,318</u> |

* This figure represents actual Stem Cell Fund administrative overhead expenditures, excluding legal costs, which are included in research grants.

Refer to Health and Safety Code Sections 125290.70(a)(1)(C), 125290.70(a)(2), and 125292.10(u).

CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE
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Notes To The Basic Financial Statements
For The Year Ended June 30, 2020

NOTE 1 – THE FINANCIAL REPORTING ENTITY

The California Institute for Regenerative Medicine (CIRM) is an agency of the State of California (State) that was established with the passage of Proposition 71, creating the California Stem Cell Research and Cures Act (the Act). The statewide ballot measure, which provided \$3 billion in funding for stem cell research at universities, research institutions, and companies in California was approved by California voters on November 2, 2004, and called for the establishment of a new state agency to make grants and provide loans for stem cell research, research facilities and other vital research opportunities. In July 2012, CIRM began to receive revenues from the sale of commercial paper issued by the State to fund CIRM research awards and operations. Proposition 71 authorizes the State to issue interim debt such as commercial paper. During the year ended June 30, 2020, CIRM received a total of \$124,000,000 in Proposition 71 funding, which consisted of bond proceeds and commercial paper revenue.

CIRM was established to support stem cell research for the development of regenerative medical treatments and cures and meets the criteria set forth in accounting principles generally accepted in the United States of America (GAAP) as a blended component unit of the State. Although the governing board for CIRM is separate from the State, CIRM is fiscally dependent on the State to provide funding for its operations and the financial burden from general obligation bonds and commercial paper issued is that of the State.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF ACCOUNTING/FUND FINANCIAL STATEMENTS

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the activities of CIRM. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Separate financial statements are provided for CIRM's operating fund, the Stem Cell Fund, a governmental fund. The Stem Cell Fund's financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are considered to be available if they are collected within 12 months of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

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Notes To The Basic Financial Statements (Continued)
For The Year Ended June 30, 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. ACCOUNTING PRINCIPLES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the accounts are maintained by CIRM in accordance with the principles of fund accounting under standards issued by the Governmental Accounting Standards Board (GASB). Fund accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established in accordance with their nature and purpose. The operations of the fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflow of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures.

C. CASH AND INVESTMENTS

Cash and investments are reported at amortized cost, which approximates fair value. CIRM maintains its resources in the Surplus Money Investment Fund (SMIF) and operating accounts, which are part of the State Treasurer's pooled investment program. The resources of the SMIF are invested through the Treasurer's Pooled Money Investment Account (PMIA). Investments of the PMIA are restricted by State statutes and regulatory oversight is provided by the Pooled Money Investment Board. Investment income is distributed to the Stem Cell Fund quarterly based on the Fund's relative participation during the quarter. As of June 30, 2020, the weighted average to maturity of the PMIA investments was approximately 191 days. Neither the SMIF nor PMIA are rated by credit rating agencies. Additional information regarding investment risks, including interest rate risk, credit risk and foreign-currency risk of the PMIA can be found in the State's financial statements.

At June 30, 2020, \$69,166,000 was invested in SMIF and \$574,345 was held in the operating accounts of the State Treasury.

D. LOANS RECEIVABLE

During the fiscal year ended June 30, 2010, CIRM awarded a \$19,999,933 research loan, to be disbursed over a four-year period. During the year ended June 30, 2013, the loan award was amended and increased by \$3,000,000, for a revised loan award of \$22,999,933. The loan was amended to extend the term through February 11, 2022. The applicable interest rate for this loan is 8.25%, calculated as simple interest, from the date of each loan disbursement. Repayment of the loan principal and accrued interest is due February 11, 2022, the last day of the 12-year loan period. CIRM disbursed \$4,993,627 on this loan during the year ended June 30, 2010, \$7,568,869 during the year ended June 30, 2011, \$6,999,704 during the year ended June 30, 2012, \$3,367,733 during the year ended June 30, 2013, \$10,000 during the year ended June 30, 2014, and \$60,000 during the year ended June 30, 2015, for a total loan disbursement of \$22,999,933.

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Notes To The Basic Financial Statements (Continued)
For The Year Ended June 30, 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For the existing loan, various contingencies could affect the amount and schedule for repayment. A total of \$17,023,559 of interest receivable associated with loans has been recorded as of June 30, 2020. The loan and interest receivable balance has been offset by deferred inflows of resources in the Stem Cell Fund as it does not represent available financial resources.

E. CAPITAL ASSETS AND DEPRECIATION

In accordance with the State's capitalization policy, capital assets are defined as assets with a useful life of at least one year and a unit acquisition cost of at least \$5,000. Capital assets are reported at historical cost. Equipment is depreciated using the straight-line method over an estimated useful life of 5 years. For the year ended June 30, 2020, there were no acquisitions and depreciation expense totaled \$509, for an ending capital asset balance, net of accumulated depreciation, of \$8,136. The year-end balance consisted entirely of equipment.

F. COMPENSATED LEAVE

The statement of net position includes unused compensated leave of \$1,015,136, which represents vested unpaid vacation and annual leave. Unused sick leave balances are not accrued as they do not vest to employees. Unused compensated leave is not considered a fund liability as it will not be paid with current financial resources.

G. CLASSIFICATION OF NET POSITION AND FUND BALANCE

The difference between assets and liabilities and deferred inflows of resources is reported as “fund balance” in the Stem Cell Fund balance sheet and as “net position” in the government-wide statement of net position. The following describes the categories of net position and fund balances:

Net investment in capital assets – represents capital assets, net of accumulated depreciation.

The remaining balance of net position is reported as unrestricted net position.

To be in conformance with generally accepted accounting principles, CIRM reports fund balance consistent with the GASB Statement No. 54, *Fund Balance Reporting and Governmental Type Definitions*. GASB Statement No. 54 establishes criteria for segregating fund balances into specifically defined classifications and clarifies definitions for governmental funds. GASB Statement No. 54 requires that the fund balances be classified into categories based upon the type of restrictions imposed on the use of the funds. CIRM evaluated its fund balance at June 30, 2020, and classified the balance into the following categories:

Nonspendable:

This category includes elements of the fund balance that cannot be spent because they are (1) not in spendable form, such as prepaid expenses. or (2) legally or contractually required to be maintained intact.

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For The Year Ended June 30, 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. CLASSIFICATION OF NET POSITION AND FUND BALANCE (CONTINUED)

Committed:

Two criteria determine the Committed fund balance:

- Use of funds is constrained by limits imposed by the government’s highest level of decision making (for CIRM, this is the Independent Citizens Oversight Committee (ICOC)).
- Removal or modification of use of funds can be accomplished only by formal action of the ICOC which established the constraints.

Both commitments and modification or removal must occur prior to the end of the reporting period; that is, the fiscal year being reported upon. For CIRM, resources in this category would include funding that has been set aside for previously executed legally enforceable contracts but that has not yet been spent, including multi-year contracts, if such contracts have been approved by the ICOC and if funds are redirected, such redirection would require ICOC approval.

H. RISK MANAGEMENT

CIRM participates in the State’s self-insurance programs. The State is primarily self-insured against loss or liability. The State generally does not maintain reserves; losses are covered by appropriations in the year in which the payment occurs or it becomes fixed and determinable. Information regarding the State’s risk management programs is included in the State’s Comprehensive Annual Financial Report.

I. BUDGETARY CONTROL

The State prepares an annual budget, which is prepared on the modified accrual basis of accounting. Revenues are included in the annual budget bill adopted by the State Legislature. Under State law, the State cannot adopt a spending plan that exceeds estimated revenues. Under the State Constitution, money may be withdrawn from the Treasury only through a legal appropriation. The legal level of budgetary control is at the fund level. CIRM is not a part of the State’s annual budget, but instead is continuously appropriated. Budgetary savings in the amount of \$1,795,120 in state operations represents savings in salaries and operating expenditures. Budgetary savings in the amount of \$110,613,198 represents savings in grant research payments and direct legal salaries and operating expenses.

J. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

K. GRANT AWARD TO LOAN CONVERSION

During the fiscal year ended June 30, 2020, a conversion of previously awarded grant funds to a loan was processed. Repayment of the loan principal \$13,232,660 and accrued interest \$7,702,687 was received by CIRM during the reporting period.

CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE
(A Component Unit of the State of California)
Notes To The Basic Financial Statements (Continued)
For The Year Ended June 30, 2020

**NOTE 3 – RECONCILIATION OF GOVERNMENTAL FUND FINANCIAL STATEMENTS
AND GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The fund balance of the Stem Cell Fund differs from net position of governmental activities primarily because of the long-term economic resources focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheet. At June 30, 2020, the differences included the following:

| | | |
|---|--|------------------------------|
| Fund balance | | \$ 70,816,909 |
| Capital assets used in the governmental activities are not financial resources, and therefore are not reported in the Fund. | | |
| Capital assets | | 333,022 |
| Less: accumulated depreciation | | <u>(324,886)</u> |
| | | 8,136 |
| | | |
| Certain long-term assets are not available to pay for current period expenditures and, therefore, are deferred inflows of resources in the Fund — unavailable loans and interest receivable | | |
| | | 40,023,492 |
| | | |
| Long-term liabilities are not due and payable in the current period, and therefore are not reported in the Fund. | | |
| Accrued unused compensated leave | | (1,015,136) |
| Payable to State General Fund | | <u>(2,319,140)</u> |
| Total long-term liabilities | | (3,334,276) |
| Net position | | <u><u>\$ 107,514,261</u></u> |

CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE
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Notes To The Basic Financial Statements (Continued)
For The Year Ended June 30, 2020

**NOTE 3 – RECONCILIATION OF GOVERNMENTAL FUND FINANCIAL STATEMENTS
AND GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)**

The net change in fund balance for the governmental fund differs from the change in net position for governmental activities primarily because of the long-term economic resources focus of the statement of activities versus the current financial resources focus of the governmental fund. The differences are described below:

| | |
|--|------------------------------|
| Net change in fund balance | \$ (3,808,533) |
| The Fund does not report capital assets. In the statement of activities however, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. | |
| Depreciation expense | (509) |
| Revenue in the statement of activities was recognized for amounts that are deferred in the governmental fund, as amounts do not represent current financial resources | |
| | 1,871,502 |
| Certain expenses reported in the statement of activities do not require the use of current financial resources, and therefore are not reported as expenditures in the governmental fund: | |
| Change in unused compensated leave | 74,666 |
| Reduction of Senate Bill (SB) 84 long-term liability | <u>145,860</u> |
| Total expenditures adjustment | <u>220,526</u> |
| Change in net position | <u>\$ (1,717,014)</u> |

NOTE 4 – CAPITAL ASSETS

Information on changes in capital assets is presented below:

| | Balance July 1, 2019 | Additions | Reductions | Balance June 30, 2020 |
|---------------------------|-------------------------|-----------|------------|--------------------------|
| Capital Assets | | | | |
| Equipment: | \$ 333,022 | \$ - | \$ - | \$ 333,022 |
| Accumulated Depreciation: | (324,377) | (509) | - | (324,886) |
| Total Capital Assets, Net | \$ 8,646 | \$ (509) | \$ - | \$ 8,136 |

CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE
(A Component Unit of the State of California)
Notes To The Basic Financial Statements (Continued)
For The Year Ended June 30, 2020

NOTE 5 – LONG-TERM LIABILITIES

As of June 30, 2020, unused compensated leave was \$1,015,136 which represents vested unpaid vacation and annual leave.

Changes in Unused Compensated leave are summarized below:

| <u>Balance July 1, 2019</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance June 30, 2020</u> | <u>Due Within One Year</u> | <u>Due in more than One Year</u> |
|---------------------------------|------------------|-------------------|----------------------------------|--|--|
| \$ 1,089,802 | \$ 642,658 | \$ (717,324) | \$ 1,015,136 | \$ - | \$ 1,015,136 |

NOTE 6 – OFFICE LEASE

During the FY 15/16 CIRM entered into an operating lease for office space. Total costs for the lease was \$777,000 for the year ended June 30, 2020. Future minimum lease payments required by this lease agreement that has a remaining noncancelable lease term of one year or more as of June 30, 2020, are as follows:

| | <u>Years Ending:</u> |
|--|---------------------------|
| | 2021 |
| | \$ 842,825 |
| | 2022 |
| | <u>815,153</u> |
| Total future minimum lease payments required | <u><u>\$1,657,978</u></u> |

NOTE 7 – RELATED PARTY TRANSACTIONS

As a component unit of the State of California, other State agencies provided CIRM with various services during the year ended June 30, 2020. The State Controller's Office provided expedited claim schedule processing, California leave accounting system (CLAS) services and EFT services, and CalHR provided training services, the Department of General Services provided accounting services, the Department of Justice provided legal support, the Department of Technology provided accounting system support, and the Public Utilities Commission provides payroll services. Amounts paid for these services for the year ended June 30, 2020, are summarized below:

| | |
|--------------------------------|-------------------|
| State Controller's Office | \$ 2,737 |
| CalHR | 2,450 |
| Department of General Services | 387,931 |
| Department of Justice | 1,928 |
| Department of Technology | 3,060 |
| Public Utilities Commission | <u>66,000</u> |
| Total | <u>\$ 464,106</u> |

CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE
(A Component Unit of the State of California)
Notes To The Basic Financial Statements (Continued)
For The Year Ended June 30, 2020

NOTE 8– PENSION PLAN

Plan Description

Eligible employees of CIRM participate in the California Public Employee’s Retirement System (CalPERS), which is included in the State of California’s Comprehensive Annual Financial Report as a fiduciary component unit. CalPERS administers the Public Employees’ Retirement Fund (PERF). PERF is an agent multiple-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Department and agencies within the State of California, including CIRM, are in a cost-sharing arrangement in which all risks and costs are shared proportionately by participating State agencies. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for this plan. This report is available online at www.calpers.ca.gov.

The pension plan provides retirement benefits, survivor benefits, and death disability benefits based upon the employee’s years of credited service, age and final compensation. Vesting occurs after five or ten years of credited services depending on the benefit tier. Employees who retire at or after age 50 with five or more years of service are entitled to a retirement benefit payable monthly for the remainder of their lives. Benefit provisions and all other requirements are established by State statute.

Funding Policy

For the year ended June 30, 2020, the State had elected to contribute the full employer retirement contribution for State Miscellaneous Tier 1 active members. CIRM is required to contribute the actuarially determined amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the PERF Board of Administration. The required employer contribution rate for FY 2019/20 was 30.82% for State Miscellaneous Tier 1. CIRM’s contribution requirement for the year ended June 30, 2020, was \$2,116,755. The employee contribution rate for State Miscellaneous Tier 1 is 8% of salary above \$513 per month for employees covered by social security. The contribution requirements of the plan members are established by State statute and collective bargaining and the employer contribution rates are established and may be amended by CalPERS. Per instruction from the State Controller’s Office, CIRM has not reported its proportionate share of the net pension liability in the financial statements or included other disclosures and required supplementary information related to pensions, as it was determined to be an obligation of the State’s general fund. Additional information is reported at a statewide level in the State of California’s Comprehensive Annual Financial Report.

CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE
(A Component Unit of the State of California)
Notes To The Basic Financial Statements (Continued)
For The Year Ended June 30, 2020

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS

The State also provides post-retirement health care benefits, in accordance with Section 22754(g) of the State Government Code, to all employees who retire from the State. The employer contribution for health premiums maintains the average 100/90 percent contribution formula established in the Government Code. Under this formula, the State averages the premiums of the four largest health benefit plans in order to calculate the maximum amount the State will contribute toward the retiree's health benefits. The State also contributes 90 percent of this average for the health benefits of each of the retiree's dependents. Employees vest for this benefit after serving 10 years with the State. With 10 years of service credit, employees are entitled to 50 percent of the State's full contribution. This rate increases by 5 percent per year and with 20 years of service, the employee is entitled to the full 100/90 formula.

The post-retirement health care benefits are part of the California Employers' Retiree Benefit Trust (CERBT) Fund is a Section 115 trust fund dedicated to prefunding Other Post-Employment Benefits (OPEB) for all eligible California public agencies. This is prefunding for future retiree benefits such as health, vision, dental, and life insurance. Employer and employee contributions to this trust fund allow California public agencies to finance future costs in large part from investment earnings provided by CalPERS.

NOTE 10 – SUBSEQUENT EVENT

On November 3, 2020 the voters of the State of California passed Proposition 14, the Stem Cell Research Institute Bond Initiative, which approved the State to issue \$5,500,000,000 in General Obligation Bonds for CIRM to continue stem cell research and make changes to CIRM's governance structure and programs. The ballot initiative requires CIRM to spend no more than 7.5 percent of the bond funds on operation costs. The remaining bond funds would be spent on grants to entities that conduct research, trials, and programs related to stem cells, as well as start-up costs for facilities. Some of the bond funds would be dedicated, including \$1.5 billion for research on therapies and treatments for brain and nervous system diseases, such as Alzheimer's, Parkinson's, and dementia. Upwards of 1.5 percent of the total funds would be spent on Community Care Centers of Excellence (CCCE), which would be sites that conduct human clinical trials, treatments, and cures. Upwards of 0.5 percent of the total funds would be spent on the Shared Labs Program (SLP), which are state-funded facilities dedicated to research on human embryonic stem cells.

CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE
(A Component Unit of the State of California)
Schedule of Revenues, Expenditures and Changes in Available Resources
For The Year Ended June 30, 2020

| | Dolby Grant |
|--|-------------|
| Revenues: | |
| Investment earnings | \$ 5,883 |
| Expenditures: | |
| Current | |
| Operating | - |
| Excess of revenues over expenditures | 5,883 |
| Available resources, beginning of year | 325,832 |
| Available resources, end of year | \$ 331,715 |



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 Members of the
Independent Citizens Oversight Committee of the
California Institute for Regenerative Medicine
Oakland, California

We have audited, 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, the financial statements of the governmental activities and the major fund of the California Institute for Regenerative Medicine (CIRM), a component unit of the State of California, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise CIRM's basic financial statements, and have issued our report thereon dated November 16, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CIRM'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CIRM's internal control. Accordingly, we do not express an opinion on the effectiveness of the CIRM'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 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 CIRM'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.

Macias Gini & O'Connell LLP

Sacramento, California
November 16, 2020