

**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, 2022



Certified
Public
Accountants

CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE
(A Component Unit of the State of California)
For The Year Ended June 30, 2022

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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 Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and the stem cell 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, 2022, and the related notes to the financial statements, which collectively comprise CIRM's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the stem cell fund of CIRM, as of June 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of CIRM and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about CIRM's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 CIRM's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about CIRM's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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.

Supplementary 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 changes in available resources, the Stem Cell Fund combining balance sheet, and the Stem Cell Fund combining statement of revenues, expenditures and changes in fund balance (supplementary information) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information 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. The 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 GAAS. In our opinion, the supplementary information if 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 4, 2022, 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.

Macias Gini & O'Connell LLP

Sacramento, California
November 4, 2022

CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE
(A Component Unit of the State of California)
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2022

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, 2022. We encourage readers to consider the information presented here in conjunction with the financial statements that follow this discussion.

Financial Highlights

All financial assets of CIRM continue to be committed to providing funds for medical research and facilities, and the operations of CIRM.

- The net position of CIRM as of June 30, 2022, was \$206,588,337 compared to the end of the prior fiscal year balance of \$297,584,273.
- CIRM's cash and investments balance as of June 30, 2022, was \$169,176,758. A decrease of \$92,211,756 from the balance on June 30, 2021.
- For the year ended June 30, 2022, CIRM had total revenues of \$46,723,067, of which \$30,576,214 was related to Proposition 71 and \$15,635,855 related to Stem Cell Licensing Revenue and Royalties Fund, representing a decrease of \$251,852,260 from the prior year. Total expenses for fiscal year (FY) 2022 were \$137,719,003, of which \$66,659,576 were related to Proposition 71 and \$71,059,427 to Proposition 14, representing a \$29,213,687 increase from the prior year.

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)
For the Year Ended June 30, 2022

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), which is a special revenue 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, the combined net position may serve over time as a useful indicator of CIRM's financial position. As of June 30, 2022, CIRM's net position was \$206,588,337. As of June 30, 2021, \$206,545,196 of CIRM's net position was unrestricted. The remaining net position of \$43,141 reflects its investment in capital assets net of accumulated depreciation.

Net position decreased by \$90,995,936 from prior year net position of \$297,584,273.

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Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2022

Government-Wide Financial Analysis (Continued)

For the year ended June 30, 2022, total revenues decreased \$251,852,261, which is primarily attributed to the reduction in Proposition 71 and 14 Bond Proceeds (GO Bonds) and Commercial Paper (CP) from the prior year of \$294,695,000, due to the timing of the prior year bond issuances, the proceeds were available to fund fiscal year (FY) 2022 research grants. This decrease was offset by an increase in Stem Cell Licensing Revenue and Royalties revenue of \$15,631,299. Investment earnings decreased \$2,507,715. Expenses increased \$29,213,687, due primarily to an increase in Proposition 14 grant awards of \$54,199,108 and an overall increase in operations expense of \$5,880,157. The expense increases in Proposition 14 grants and overall operations were offset by a decrease in Proposition 71 grant award expense from June 30, 2021 of \$30,865,578. The decreases in Proposition 71 grant award expenses is due to the reduced number of new grant awards, as well as the payment schedule for existing grants in accordance with the milestone-based terms and conditions nearing completion, which will coincide with the full use of funding authorized under Proposition 71. Proposition 14 grant award expenses reflect \$55,699,108 in new grants awarded during FY2022. Operations expenses began transitioning from the use of the designated operations funding under Proposition 71 to the operations expenses funding under Proposition 14 during the fiscal year, as such Proposition 71 operations expense shows a decrease from FY2021 of \$9,149,902 and Proposition 14 operations expense shows an increase of \$14,936,149.

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 works 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,	
	2022	2021
Current and other assets	\$213,882	\$302,400
Capital assets	43	-
Total Assets	213,925	302,490
Current and other liabilities	3,392	1,318
Long-term liabilities	3,945	3,498
Total liabilities	7,337	4,816
Net position		
Net investment in capital assets	43	-
Unrestricted	206,545	297,584
Total net position	\$206,588	\$297,584

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Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2022

Government-Wide Financial Analysis (Continued)

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

	June 30,	
	2022	2021
Revenues:		
GO bond revenue	\$ -	\$ 284,695
CP revenue	29,700	10,000
Licensing and royalty revenue	15,631	3
Interest on loans	701	679
Investment earnings	691	3,198
Total revenues	46,723	298,575
Expenses:		
State operations	19,041	13,161
Research grants	118,678	95,344
Total expenses	137,719	108,505
Change in net position	(90,996)	190,070
Net position, beginning of year	297,584	107,514
Net position, end of year	\$ 206,588	\$ 297,584

For the Fund's financial statements refer to pages 9 and 10. For the Fund's budget to actual comparison refer to page 11.

Financial Analysis of CIRM's Combined Stem Cell Funds

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, 2022, the Fund reported ending fund balance of \$187,490,653 compared to the June 30, 2021 ending fund balance of \$260,449,363. The combined Fund's major source of revenue in FY2022 was Stem Cell Licensing and Royalty revenue and Commercial Paper revenue for Proposition 71. The Fund's expenditures are research grants and state operations.

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Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2022

Stem Cell Fund Budgetary Highlights

The Stem Cell Fund budget projected a combined total expenditures of \$382,999,000. Actual expenditures were less than budgeted projections by \$245,615,007 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 FY2022, the State Treasurer issued \$29,700,000 in Commercial Paper funding.

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, P.O. Box 980790, West Sacramento, CA. 95798-0790.

CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE
(A Component Unit of the State of California)
Statement of Net Position and Governmental Fund Balance Sheet
June 30, 2022

	Stem Cell Fund	Adjustments (Note 3)	Statement of Net Position
Assets			
Cash and investments	\$ 169,176,758	\$ -	\$ 169,176,758
Accounts receivable	2,651,686	-	2,651,686
Prepaid expenses	13,885	-	13,885
Due from other State funds	636,624	-	636,624
Loans receivable	22,999,933	-	22,999,933
Interest receivable	18,403,554	-	18,403,554
Capital assets being depreciated, net	-	43,141	43,141
	\$ 213,882,440	43,141	\$ 213,925,581
Liabilities			
Accounts payable	\$ 3,182,201	-	\$ 3,182,201
Due to other State funds	209,653	-	209,653
Long-term Liabilities			
Due in more than one year	-	3,945,390	3,945,390
Total liabilities	3,391,854	3,945,390	7,337,244
Deferred inflows of resources			
Unavailable loans receivable	22,999,933	(22,999,933)	-
	26,391,787	(19,054,543)	7,337,244
Fund balance/net position:			
Fund balance			
Nonspendable	13,885	(13,885)	-
Committed	187,476,768	(187,476,768)	-
Total fund balance	187,490,653	(187,490,653)	-
Total liabilities, deferred inflows, and fund balance	\$ 213,882,440		
Net position			
Net investment in capital assets		43,141	43,141
Unrestricted		206,545,196	206,545,196
Total		\$ 206,588,337	\$ 206,588,337

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, 2022

	<u>Stem Cell Fund</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Activities</u>
Revenues:			
Commercial paper revenue	\$ 29,700,000	\$ -	\$ 29,700,000
Licensing and royalty revenue	15,631,299	-	15,631,299
Interest on loans	18,403,554	(17,702,216)	701,338
Investment earnings	690,430	-	690,430
Total revenues	<u>64,425,283</u>	<u>(17,702,216)</u>	<u>46,723,067</u>
Expenditures/expenses:			
Current:			
State operations	18,706,463	335,010	19,041,473
Research grants	118,677,530	-	118,677,530
Total expenditures/expenses	<u>137,383,993</u>	<u>335,010</u>	<u>137,719,003</u>
Excess (deficiency) of revenues over (under) expenditures	(72,958,710)	72,958,710	-
Change in net position	-	(90,995,936)	(90,995,936)
Fund balance/net position, beginning of year	<u>260,449,363</u>	<u>37,134,911</u>	<u>297,584,273</u>
Fund balance/net position, end of year	<u>\$ 187,490,653</u>	<u>\$ 19,097,685</u>	<u>\$ 206,588,337</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, 2022

	<u>Original/ Final Budget</u>	<u>Stem Cell Fund Actual</u>	<u>Variance with Final Budget</u>
Expenditures:			
Current:			
State operations*	\$ 22,999,000	\$ 18,706,463	\$ 4,292,537
Research grants	<u>360,000,000</u>	<u>118,677,530</u>	<u>241,322,470</u>
Total expenditures	<u>\$ 382,999,000</u>	<u>\$ 137,383,993</u>	<u>\$ 245,615,007</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).

See accompanying notes to the financial statements.

CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE
(A Component Unit of the State of California)
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

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, the California Stem Cell Research and Cures Act (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. The Act authorized the State to issue general obligation bonds (bonds) and commercial paper to fund CIRM. In July 2012, the State began to issue commercial paper in addition to bonds. CIRM began to receive revenues from the sale of commercial paper and bonds issued by the State to fund CIRM research awards and operations. Proposition 71 authorized the State to issue interim debt such as commercial paper. During the year ended June 30, 2022, CIRM received a total of \$29,700,000 in Proposition 71 funding, which consisted entirely of commercial paper revenue. On November 3, 2020, voters approved the statewide ballot measure Proposition 14. The passage of Proposition 14, further extended CIRM's mission by establishing the California Stem Cell Research and Cures Act of 2020, providing an additional \$5.5 billion in funding. During the year ended June 30, 2022, CIRM began to expend the \$180,635,000 in Proposition 14 bond proceeds received in the prior year, and as a result no bond proceeds were received in the current year.

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 for repayment of the 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 CIRM's 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 special revenue 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.

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, 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. ACCOUNTING PRINCIPLES

The accompanying financial statements have been prepared in accordance with GAAP 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, 2022, the weighted average to maturity of the PMIA investments was approximately 311 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, 2022, \$168,525,763 was invested in SMIF and \$650,995 was held in the operating accounts of the State Treasury.

D. LOANS RECEIVABLE

During the 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. 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. On July 1, 2020, the loan was amended to extend the term through February 11, 2026, and the interest rate was lowered to 3% annually on the total outstanding balance, calculated as simple interest. The applicable interest rate prior to the fiscal year 2020-21 on the loan was 8.25%, calculated as simple interest, from the date of each loan disbursement.

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, 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. LOANS RECEIVABLE (CONTINUED)

A total of \$18,403,554 of interest receivable associated with loans has been recorded as of June 30, 2022. The loan receivable balance has been offset by deferred inflows of resources in the Stem Cell Fund, as the amount does not represent available financial resources. Subsequent to year end, on September 27, 2022, the loan was repaid in full along with accrued interest of \$18,569,910 as of the repayment date and a premium of \$4,599,987. As the interest receivable payment was received in CIRM's period of availability it has been recognized as revenue in the Stem Cell Fund for FY2022, and is no longer considered unavailable. As such the unavailable revenue represents only the loan repayment proceeds which will be recognized in FY2023, when the transaction was completed.

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. CIRM's capital assets consist entirely of equipment.

F. COMPENSATED LEAVE

The statement of net position includes unused compensated leave of \$1,626,251 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. POSTEMPLOYMENT BENEFITS

Eligible employees of CIRM participate in the State's miscellaneous agent multiple-employer defined benefit pension plan which provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The pension plan is administered by the California Public Employees' Retirement System (CalPERS). In addition, the State also provides eligible retirees post-retirement health care benefits, such as medical, dental, vision and life insurance through its other-postemployment benefits (OPEB) plan. As a special revenue fund and bond-funded agency of the State, the State Controller's Office does not allocate CIRM a proportionate share of the State's net pension and OPEB liabilities, and related deferred outflows of resources and deferred inflows of resources for reporting in its annual stand-alone financial report. Further information regarding these plans is available in the State's Annual Comprehensive Financial Report. The report can be found online at www.sco.ca.gov.

H. CLASSIFICATION OF NET POSITION AND FUND BALANCE

The difference between assets, 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.

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, 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

CIRM reports fund balance consistent with 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, 2022, 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 items, inventories and long-term receivables for which the payment of proceeds are not restricted or committed with respect to the nature of the specific expenditures of that fund or (2) legally or contractually required to be maintained intact.

Committed:

Committed fund balance represents amounts that can only be used for the specific purposes pursuant to constraints 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. 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.

I. 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 Annual Comprehensive 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, 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. BUDGETARY CONTROL

The State prepares an annual budget, which is prepared primarily on the modified accrual basis of accounting for governmental funds. Estimated revenues are included in the recommended budget, but revenues are not 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 \$4,292,537 in state operations represents savings in salaries and operating expenditures. Budgetary savings in the amount of \$241,322,470 represents savings in research grant payments and direct legal salaries and operating expenditures.

K. USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

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, 2022, the differences included the following:

Fund balance	\$ 187,490,653
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the Fund.	
Capital assets	68,501
Less: accumulated depreciation	<u>(25,360)</u>
	43,141
Certain long-term assets are not available to pay for current period Expenditures, and therefore, are reported as deferred inflows of resources in the Fund — unavailable loans receivable	
	22,999,933
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the Fund.	
Accrued unused compensated leave	(1,626,251)
Payable to State General Fund – SB84 Pension Advance	<u>(2,319,139)</u>
Total long-term liabilities	(3,945,390)
Net position	\$ <u>206,588,337</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, 2022

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

The net change in fund balance for the Stem Cell 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 statement of revenues, expenditures and changes in fund balance. The differences are described below:

Net change in fund balance	\$ (72,958,710)
Revenue in the statement of activities was previously recognized for amounts that are deferred in the Fund, as amounts do not represent current financial resources.	(17,702,216)
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.	4,794
The Fund reports purchases of equipment as expenditures, however, in the statement of activities the amount is reported as capital assets.	(47,935)
Certain expenses reported in the statement of activities do not require the use of current available financial resources, and therefore, are not reported as expenditures in the Fund:	
Change in unused compensated leave	<u>378,151</u>
Change in net position	\$ <u>(90,995,936)</u>

NOTE 4 – CAPITAL ASSETS

For the year ended June 30, 2022, there were new acquisitions of information technology hardware (equipment) totaling \$47,935 and disposals totaling \$312,456 of fully depreciated assets. Depreciation expense totaled \$4,794, for an ending capital asset balance, net of accumulated depreciation, of \$43,141. The year-end balance consisted entirely of equipment. Information on changes in capital assets is presented below:

	Balance July 1, 2021	Additions	Reductions	Balance June 30, 2022
Capital Assets				
Equipment	\$ 333,022	\$ 47,935	\$ (312,456)	\$ 68,501
Accumulated Depreciation	(333,022)	(4,794)	312,456	(25,360)
Total Capital Assets, Net	\$ -	\$ 43,141	\$ -	\$ 43,141

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, 2022

NOTE 5 – LONG-TERM LIABILITIES

As of June 30, 2022, long-term liabilities consisted of unused compensated leave, which represents vested unpaid vacation and annual leave and SB84 Pension advance due to the State general fund. SB84 was a bill passed by the State legislature to provide a one time supplemental funding to the State’s public employees’ retirement fund (PERF) during FY2017-18. CIRM, as a department that participates in the State’s Miscellaneous Plan, was assessed a portion of the total supplemental funding made by the general fund under SB84 and is due to be repaid in 2030.

Changes in unused compensated leave are summarized below:

	Balance July 1, 2021	Additions	Reductions	Balance June 30, 2022	Due Within One Year	Due in More Than One Year
Compensated Leave SB84 Pension Advance	\$ 1,248,100	\$ 642,121	\$ (263,970)	\$ 1,626,251	\$ -	\$ 1,626,251
Total long- term liabilities	<u>2,319,139</u>	<u>-</u>	<u>-</u>	<u>2,319,139</u>	<u>-</u>	<u>2,319,139</u>
	<u>\$ 3,567,239</u>	<u>\$ 642,121</u>	<u>\$ (623,970)</u>	<u>\$ 3,945,390</u>	<u>\$ -</u>	<u>\$ 3,945,390</u>

NOTE 6 – OFFICE LEASE

CIRM has one lease, for office space, that meets the criteria for a right-to-use lease asset and lease liability under GASB Statement No. 87, *Leases* (GASB 87). The previous lease for office space in Oakland, California expired on March 31, 2021, and CIRM entered into a one year extension through March 31, 2022. The term of the lease extension at July 1, 2021, was less than 12 months and met the definition of a short-term lease under GASB 87, as such CIRM has not reported a right-to-use lease asset and lease liability for fiscal year 2021-22. Total final costs for the lease were \$625,947 through March 31, 2022. CIRM entered into a new lease for office space at 601 Gateway Boulevard in South San Francisco on January 4, 2022. The lease term is cancelable by CIRM until certain pre-occupancy performance obligations of the lessor are completed and CIRM is provided a certificate of occupancy. CIRM’s obligations under the lease commence upon receipt of the certificate of occupancy and are effective through May 31, 2030. As of June 30, 2022, CIRM had not received a certificate of occupancy from the lessor and had no obligations to make or accrue payments under the lease terms. CIRM will assess the lease for the criteria to be recognized as a right-to-use lease asset and lease liability for fiscal year 2022-23.

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, 2022

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, 2022. The State Controller's Office provided expedited claim schedule processing, California leave accounting system (CLAS) services and EFT services, and the Department of Human Resources (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, CalPERS collected benefit fund replacement and the Public Utilities Commission provides payroll services. Amounts paid for these services for the year ended June 30, 2022, are summarized below:

State Controller's Office	\$ 8,640
CalHR	1,412
Department of General Services	407,638
Department of Justice	825
Department of Technology	2,256
CalPERS	42,263
Public Utilities Commission	<u>66,000</u>
Total	<u>\$ 529,034</u>

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SUPPLEMENTARY INFORMATION

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, 2022

	Dolby Grant
Revenues:	
Investment earnings	\$ 1,205
Expenditures:	
Current:	
State operations	-
Excess of revenues over expenditures	1,205
Available resources, beginning of year	333,357
Available resources, end of year	\$ 334,562

CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE
(A Component Unit of the State of California)
Stem Cell Fund Combining Balance Sheet
June 30, 2022

	Stem Cell Fund of 2004	Stem Cell Fund of 2020	Stem Cell Licensing Revenue and Royalties Fund	Total Stem Cell Fund
Assets				
Cash and investments	\$ 42,261,688	\$ 111,280,246	\$ 15,634,824	\$ 169,176,758
Accounts receivable	1,997,771	653,915	-	2,651,686
Prepaid expenses	-	13,885	-	13,885
Due from other State funds	415,305	216,763	4,556	636,624
Loans receivable	22,999,933	-	-	22,999,933
Interest receivable	18,403,554	-	-	18,403,554
Total assets	<u>\$ 86,078,251</u>	<u>\$ 112,164,809</u>	<u>\$ 15,639,380</u>	<u>\$ 213,882,440</u>
Liabilities				
Accounts payable	\$ 175,416	\$ 3,006,785	\$ -	\$ 3,182,201
Due to other State funds	-	209,653	-	209,653
Total liabilities	<u>175,416</u>	<u>3,216,438</u>	<u>-</u>	<u>3,391,854</u>
Deferred inflows of resources				
Unavailable loans receivable	<u>22,999,933</u>	<u>-</u>	<u>-</u>	<u>22,999,933</u>
Total liabilities and deferred inflows of resources	<u>23,175,349</u>	<u>3,216,438</u>	<u>-</u>	<u>26,391,787</u>
Fund balance				
Nonspendable	-	13,885	-	13,885
Committed	<u>62,902,902</u>	<u>108,934,486</u>	<u>15,639,380</u>	<u>187,476,768</u>
Total fund balance	<u>62,902,902</u>	<u>108,948,371</u>	<u>15,639,380</u>	<u>187,490,653</u>
Total liabilities, deferred inflows, and fund balance	<u>\$ 86,078,251</u>	<u>\$ 112,164,809</u>	<u>\$ 15,639,380</u>	<u>\$ 213,882,440</u>

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

Stem Cell Fund Combining Schedule of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2022

	Stem Cell Fund of 2004	Stem Cell Fund of 2020	Stem Cell Licensing Revenue and Royalties Fund	Total Stem Cell Fund
Revenues:				
Commercial paper revenue	\$ 29,700,000	\$ -	\$ -	\$ 29,700,000
Licensing and royalty revenue	-	-	15,631,299	15,631,299
Interest on loans	18,403,554	-	-	18,403,554
Investment earnings	174,876	510,998	4,556	690,430
Total revenues	<u>48,278,430</u>	<u>510,998</u>	<u>15,635,855</u>	<u>64,425,283</u>
Expenditures:				
Current:				
State operations	3,681,154	15,025,309	-	18,706,463
Research grants	62,978,422	55,699,108	-	118,677,530
Total expenditures	<u>66,659,576</u>	<u>70,724,417</u>	<u>-</u>	<u>137,383,993</u>
Excess (deficiency) of revenues over (under) expenditures	(18,381,146)	(70,213,419)	15,635,855	(72,958,710)
Fund balance, beginning of year	<u>81,284,048</u>	<u>179,161,790</u>	<u>3,525</u>	<u>260,449,363</u>
Fund balance, end of year	<u>\$ 62,902,902</u>	<u>\$ 108,948,371</u>	<u>\$ 15,639,380</u>	<u>\$ 187,490,653</u>

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OTHER REPORT



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 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 (*Government Auditing Standards*), the financial statements of the governmental activities and the stem cell 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, 2022, and the related notes to the financial statements, which collectively comprise CIRM's basic financial statements, and have issued our report thereon dated November 4, 2022.

Report on 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 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 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 or significant deficiencies may exist that were not identified.

Report on 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.

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 4, 2022