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

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

For the Year Ended June 30, 2014

MGO Certified Public Accountants.

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

JUNE 30, 2014

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Certified Public Accountants.

Sacramento
3000 S Street, Suite 300
Sacramento, CA 95816
916.928.4600

Walnut Creek

Oakland

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Newport Beach

San Diego

Seattle

INDEPENDENT AUDITOR'S REPORT

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

Report to 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, 2014, 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 misstatements 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, 2014, and the respective changes in the financial position thereof and the budgetary comparison for the Stem Cell Fund for the year then ended in conformity 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 on pages 4 through 8 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 supplementary information on page 23 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary 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 supplementary information has been subjected to the auditing procedures applied in 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 supplementary information 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 October 13, 2014 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 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 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
October 13, 2014

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

Management's Discussion and Analysis (Unaudited)

The 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, 2014. 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, 2014 was $152,364,668 compared to the end of the prior fiscal year balance of $109,032,806. Of that amount, $196,344, net of accumulated depreciation, was invested in capital assets of CIRM and unrestricted net position was $152,168,324. See discussion below in Government-Wide Financial Analysis regarding the investment of CIRM grants.

- CIRM's cash and investments balance as of June 30, 2014 was $108,361,619, an increase of $25,285,208 from the balance on June 30, 2013.

- For fiscal year ended June 30, 2014, CIRM had general revenues of $237,279,908, representing an increase of $6,430,534 from the prior year. Expenses for fiscal year 2014 were $193,948,046, which represents a $17,610,461 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 the Institute.

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 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.

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.

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 Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in government-wide and fund financial statements. The notes to the 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, 2014, CIRM's net position was $152,364,668 an increase of $43,331,862 from prior year net position of $109,032,806.

Government-Wide Financial Analysis (Continued)

As of June 30, 2014, $152,168,324 of CIRM's net position was unrestricted. The remaining net position of $196,344 reflects its investment in capital assets net of accumulated depreciation.

For the fiscal year ended June 30, 2014, net position increased by $43,331,862. In the fiscal year ended June 30, 2014 revenues increased due to the combination of an increase in Proposition 71 revenue of $235,000,000 (net of Commercial Paper (CP) in the amount of $155,000,000 and General Obligation (GO) bond proceeds in the amount of $80,000,000 for fiscal year ended June 30, 2014, less CP of $229,000,000 for fiscal year ended June 30, 2013), a decrease in investment earnings of $52,306, and an increase in interest revenue of $482,840. In addition, 2014 expenses decreased by $17,610,461 from 2013, primarily due to a decrease in operational expense of $1,405,439 and a decrease in award expense of $16,205,023.The decrease in award expense is due to timing of grant awards and scheduled payments per the grant award terms.

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	
	2014	2013
Current and other assets	$ 153,814	$ 110,998
Capital assets	196	173
Total assets	154,010	111,171
Current and other liabilities	931	1,392
Long-term liabilities	715	746
	1,646	2,138
Net position		
Net investment in capital assets	196	173
Unrestricted	152,168	108,860
	$ 152,364	$ 109,033

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

	June 30 2014	June 30 2013
Revenues:		
Proposition 71 revenue (GO bonds)	$ 80,000	$ -
Proposition 71 revenue (CP)	155,000	229,000
Interest on loans	2,100	1,617
Investment earnings	180	232
Total revenues	237,280	230,849
Expenses:		
State Operations	13,074	14,479
Research Grants	180,875	197,079
Total expenses	193,949	211,558
Change in net position	43,331	19,291
Net position, beginning of year	109,033	89,742
Net position, end of year	$ 152,364	$ 109,033

For fund financial statement 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 (the 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 Fund's net resources available for spending for program purposes at the end of the fiscal year.

As of the fiscal end of the June 30, 2014, the Fund reported ending fund balance of $107,589,451 compared to the June 30, 2013, ending fund balance of $81,786,309. 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 $257,444,080. Actual expenditures were less than budgeted projections by $48,067,196 in the categories of research grants, salaries and operating expenses. During the 2013/14 Fiscal Year, the State Treasurer issued $235,000,000 in commercial paper and GO bond funding under the California Stem Cell Research and Cures Act of 2004.

Capital Assets and Debt Administration

Capital Assets

CIRM's investment in capital assets increased from $172,334 to $196,344 at June 30, 2014 (net of accumulated depreciation). Capital asset activity during the current fiscal year was due to an acquisition of $90,822 and depreciation expense of $65,837. See discussion above in Government-Wide Financial Analysis regarding the investment of CIRM grants.

Additional information on CIRM's capital assets can be found in Note 4 of this report.

Long-term Liabilities

As of June 30, 2014, CIRM recognized a long-term obligation of $714,584 for unused compensated leave. This is a decrease of $31,554 from the prior year ended June 30, 2013. Additional information on CIRM's long-term liabilities can be found in Note 5 of this report.

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, 210 King Street, Third Floor, San Francisco, California 94107.

CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE
(A Component Unit of the State of California)
STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET
JUNE 30, 2014

	Stem Cell Fund	Adjustments (Note 3)	Statement of Net Position
Assets			
Cash and investments	$ 108,361,619	$ -	$ 108,361,619
Accounts receivable	50,333	-	50,333
Prepaid expenses	50,140	-	50,140
Due from other State funds	58,771	-	58,771
Loans receivable	39,200,474	-	39,200,474
Interest receivable	6,092,983	-	6,092,983
Capital assets being depreciated, net	-	196,344	196,344
Total assets	$ 153,814,320	196,344	154,010,664
Liabilities			
Accounts payable	$ 858,010	-	858,010
Due to other State funds	73,402	-	73,402
Long term liabilities			
Due in more than one year	-	714,584	714,584
Total liabilities	931,412	714,584	1,645,996
Deferred inflows of resources			
Deferred loans and interest receivable	45,293,457	(45,293,457)	-
Total liabilities and deferred inflows of resources	46,224,869	(44,578,873)	1,645,996
Fund balance/net position:			
Fund balance			
Nonspendable	50,140	(50,140)	-
Committed	107,539,311	(107,539,311)	-
Total fund balance	107,589,451	(107,589,451)	-
Total liabilities and deferred inflows and fund balance	$ 153,814,320		
Net position			
Net investment in capital assets		196,344	196,344
Unrestricted		152,168,324	152,168,324
Total		$ 152,364,668	$ 152,364,668

CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE
(A Component Unit of the State of California)
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2014

	Stem Cell Fund	Adjustments (Note 3)	Statement of Activities
Revenues:			
General revenues:			
Proposition 71	$ 235,000,000	$ -	$ 235,000,000
Interest on loans	-	2,099,882	2,099,882
Investment earnings	180,026	-	180,026
Total revenues	235,180,026	2,099,882	237,279,908
Expenditures/expenses:			
Current:			
State operations	13,129,162	(55,564)	13,073,598
Research grants	196,247,722	(15,373,274)	180,874,448
Total expenditures/expenses	209,376,884	(15,428,838)	193,948,046
Excess of revenues over expenditures	25,803,142	(25,803,142)	-
Change in net position	-	43,331,862	43,331,862
Fund balance/net position, beginning of year	81,786,309	27,246,497	109,032,806
Fund balance/net position, end of year	$ 107,589,451	$ 44,775,217	$ 152,364,668

CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE
(A Component Unit of the State of California)
STEM CELL FUND STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014

	Original/ Final Budget	Stem Cell Fund Actual	Variance with Final Budget Positive (Negative)
Expenditures:			
Current:			
State operations*	$ 15,102,165	$ 13,129,162	$ 1,973,003
Research grants	242,341,915	196,247,722	46,094,193
Total expenditures	$ 257,444,080	$ 209,376,884	$ 48,067,196

* This figure represents actual Stem Cell Fund administrative overhead expenses, net of legal costs. See 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.

NOTE 1 – THE FINANCIAL REPORTING ENTITY

The California Institute for Regenerative Medicine (CIRM) is an agency of the State of California 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, 2014, CIRM received a total of $235,000,000 in Proposition 71 funding, which consisted of $155,000,000 in commercial paper revenue and $80,000,000 in bond proceeds.

CIRM was established to support stem cell research for the development of regenerative medical treatments and cures.

Due to the financial and operational relationship between CIRM and the State of California (State), CIRM meets the definition of a component unit 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.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CIRM is 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, liabilities, 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, 2014, the weighted average to maturity of the PMIA investments was approximately 232 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, 2014, $108,137,000 was invested in SMIF and $224,619 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 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, 2020, the last day of the 10-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, and $10,000 during 2014 for a total loan disbursement of $22,939,933.

During the fiscal year ended June 30, 2013, CIRM awarded a research loan in the amount of $19,782,136 and disbursed $877,267 in 2013 and $7,757,746 in 2014 for a total loan disbursement of $8,635,013. This loan is to be disbursed over a three and a half year period. Repayment of the loan principal and accrued interest is due February 5, 2018, the last day of the five-year loan period. The applicable interest rate for this loan is LIBOR plus 2%, calculated from the date of each disbursement.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

During the fiscal year ended June 30, 2013, CIRM awarded an additional research loan in the amount of $19,309,403. CIRM disbursed $20,000 during the year ended June 30, 2013, and $7,605,528 during the year ended June 30, 2014, for a total loan disbursement of $7,625,528 as of June 30, 2014. This loan is to be disbursed over a four-year period. Repayment of the loan principal and accrued interest is due April 9, 2023, the last day of the ten-year loan period. The applicable interest rate for this loan is LIBOR plus 2%, calculated form the date of each disbursement.

For the three existing loans, various contingencies could affect the amount and schedule for repayment. A total of $6,092,983 of interest receivable associated with loans has been recorded as of June 30, 2014. The interest receivable balance has been offset by deferred inflow 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, 2014, there were acquisitions of $90,822 and depreciation expense of $65,837, for an ending capital asset balance, net of accumulated depreciation, of $196,344. The year-end balance consisted entirely of equipment.

F. *COMPENSATED LEAVE*

The statement of net position includes unused compensated leave of $714,584, 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. *CLASSIFICATION OF NET POSITION AND FUND BALANCE*

The difference between assets and liabilities 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 Government Accounting Standards Board (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, 2014 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:

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 CIRM that 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 $1,973,003 in state operations represents savings in salaries and operating expenses. The budgetary saving in the amount of $46,094,193 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 the reported amounts of assets and liabilities at the reporting date and revenues and expenses during the reporting period. 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, 2014, the differences included the following:

Fund balance	$ 107,589,451
Capital assets used in the governmental activities are not financial resources, and therefore are not reported in the governmental funds.	
Capital assets	390,442
Less: accumulated depreciation	(194,098)
	196,344
Certain long-term assets are not available to pay for current period expenditures and, therefore, are deferred inflows of resources in the fund.— deferred loans and interest receivable	45,293,457
Long-term liabilities are not due and payable in the current period, and therefore are not reported in the fund.	
Accrued unused compensated leave	(714,584)
Net position	$ 152,364,668

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	$ 25,803,142
Governmental 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.	
Loss on Disposal	(975)
Depreciation expense	(65,837)
Additions to capital assets	90,822
Disbursements of loan proceeds are reported in governmental funds as expenditures, as these represent the use of current financial resources. However, in the governmental-wide statements, such amounts are not reported as expenses, but instead, are recorded as long-term receivables.	15,373,274
Revenue in the statement of activities recognized as revenue for amounts that are deferred in the governmental fund, as amounts do not represent current financial resources	2,099,882
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	31,554
Change in net position	$ 43,331,862

NOTE 4 – CAPITAL ASSETS

Information on changes in capital assets is presented below:

	Balance June 1, 2013	Additions	Reductions	Balance June 30, 2014
Capital Assets:				
Equipment	$ 364,608	$ 90,822	$ (64,988)	$ 390,442
Accumulated Depreciation:	$ (192,274)	$ (65,837)	$ 64,013	$ (194,098)
Total Capital assets, net	$ 172,334	$ 24,985	$ (975)	$ 196,344

CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE
(A Component Unit of the State of California)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014

NOTE 5 – LONG TERM LIABILITIES

Unused Compensated leave – As of June 30, 2014, unused compensated leave was $714,584, which represents vested unpaid vacation and annual leave.

Changes in long-term liabilities are summarized below:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Due Within One Year	Due in more than One Year
Unused Compensated Leave	$ 746,138	$ 820,547	$ 852,101	$ 714,584	$ -	$ 714,584

NOTE 6 – OFFICE LEASE

Effective November 2005, CIRM took occupancy of office space in San Francisco, California for use as its headquarters. The San Francisco office space was acquired in response to a competitive bidding process. As a result of that process CIRM received approximately 19,500 square feet of premium office space free of charge through October 2015. In addition to the office space, a substantial amount of other incentives were included in the proposal. The fair value of the office space and other incentives totaled $1,200,000 for the year ended June 30, 2014, which is not recorded in the financial statements.

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, 2014. The State Controller's Office provided expedited claim schedule processing and California leave accounting system (CLAS) services, the Department of General Services provided accounting services, the Department of Justice provided legal support, the Office of the State Chief Information Officer provided accounting system support, and the Public Utilities Commission provides payroll services. Amounts paid for these services for the year ended June 30, 2014 are summarized below:

State Controller's Office	$ 6,639
Department of General Services	215,000
Department of Justice	4,080
Office of the State Chief Information Officer	16,149
Public Utilities Commission	60,000
Total	$ 301,868

NOTE 8 – RETIREMENT SAVINGS PLAN

The State of California has established the Alternate Retirement Program (ARP), a retirement program for specified State of California employees hired between August 11, 2004, and June 30, 2013. Under the ARP, employees do not earn retirement service credit with the California Public Employees' Retirement System of the State of California (CalPERS) during their first two years of employment with the State. Rather, they are automatically enrolled in a retirement savings program, in which an ARP account is automatically set up for each employee as a 401(a) plan-a type of retirement savings account governed by federal IRS rules. During this two-year period, approximately eight percent of each employee's paycheck is deducted each month (pre-tax) and deposited in the ARP account. At the end of the two-year period, the employee may elect to begin to earn retirement credit as a CalPERS member. There is no cost to CIRM for this plan.

At the 47th month of employment employees have a one-time opportunity to transfer the ARP money to CalPERS and receive retirement service credit. During this period the employee has a window to exercise a one-time opportunity that includes three elections to (1) elect to transfer the funds in the ARP account to CalPERS and receive CalPERS service credit for ARP covered employment at no extra cost, or (2) request a lump-sum distribution from the ARP account, which may subject the employee to additional taxes and penalties for early withdrawal, or (3) transfer the funds in the ARP account to a CalHR administered Savings Plus Program 401(k) retirement savings account. Participant's failure to designate an option will result in automatic enrollment in option 3.

Employees that become CalPERS eligible on or after July 1, 2013, are not subject to ARP.

NOTE 9 – 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 as an agent multiple-employer defined benefit retirement 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.

NOTE 9 – PENSION PLAN (CONTINUED)

Funding Policy

For the year ended June 30, 2014, the State had elected to contribute the full employer retirement contribution for State Miscellaneous Tier 1 and State Miscellaneous Tier 2 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 rates for July 2013 through June 2014 were 21.203% for State Miscellaneous Tier 1 and 21.355% for State Miscellaneous Tier 2. CIRM's contribution requirement for the year ended June 30, 2014, was $1,529,222. The employee contribution rates for State Miscellaneous Tier 1 is 8% of salary above $513 per month for employees covered by social security. State Miscellaneous Tier 2 employees do not contribute. 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. Additional information is reported at a statewide level in the State of California's Comprehensive Annual Financial Report.

The following table shows CIRM's required contributions (annual pension cost) and the percentage contributed for the past three fiscal years:

Period Ended	Annual Pension Cost (APC)	Percentage of APC Contributed
June 30, 2012	$ 937,523	100%
June 30, 2013	$ 1,240,235	100%
June 30, 2014	$ 1,529,222	100%

NOTE 10 – 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.

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

The post-retirement health care benefits are funded by the State's General Fund on a pay-as-you-go basis. No costs have been charged to CIRM by the State. Refer to the State's Post-Employment Benefits Other than Pension disclosure in the June 30, 2013, Comprehensive Annual Financial Reports for disclosure. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

SUPPLEMENTARY INFORMATION

CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE
(A Component Unit of the State of California)
DOLBY GRANT - SCHEDULE OF REVENUES, EXPENDITURES AND AVAILABLE RESOURCES
FOR THE YEAR ENDED JUNE 30, 2014

	Dolby Grant
Revenues:	
Investment earnings	$ 4,774
Expenditures:	
Current	
Operating	199,627
Excess of expenditures over revenues	(194,853)
Available resources, beginning of year	1,707,838
Available resources, end of year	$ 1,512,985

Certified Public Accountants.

Sacramento
3000 S Street, Suite 300
Sacramento, CA 95816
916.928.4600

Walnut Creek

Oakland

LA/Century City

Newport Beach

San Diego

Seattle

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 *GOVERNMENTAL AUDITING STANDARDS*

To the Members of the
Independent Citizens Oversight Committee of the
California Institute for Regenerative Medicine
San Francisco, 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) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise CIRM's basic financial statements and have issued our report thereon dated October 13, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the CIRM's internal control over financial reporting (internal control), to determine 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Macias Gini & O'Connell LLP

Sacramento, California
October 13, 2014.