

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

Independent Auditor's Reports, Financial Statements
and Supplementary Information

For the Year Ended June 30, 2010

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

JUNE 30, 2010

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities and 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, 2010, which collectively comprise CIRM's basic financial statements as listed in the table of contents. These financial statements are the responsibility of CIRM's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010, and the respective changes in 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2010, 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* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Maclean Hui & O'Connell LLP

Certified Public Accountants

Sacramento, California
October 15, 2010

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, 2010. We encourage readers to consider the information presented here in conjunction with the Financial Statements that follow this discussion.

Financial Highlights

The net assets of CIRM at June 30, 2010 were \$425,807,268 compared to the end of the prior fiscal year balance of \$294,677,818. Of that amount, \$112,096, net of accumulated depreciation, was invested in capital assets of CIRM and unrestricted net assets was \$425,695,172. See discussion below in Government-Wide Financial Analysis regarding the investment of CIRM grants.

- CIRM's cash and investments balance at June 30, 2010 is \$427,621,888, an increase of \$59,278,203 from the balance at June 30, 2009.
- For fiscal year ended June 30, 2010 CIRM had program revenues of \$890, which represents a decrease of \$70 from the prior year. Additionally, general revenues were \$275,717,525 for fiscal year 2010 representing a decrease of \$234,306,823 from the prior year. Expenses for fiscal year 2010 were \$144,588,965, which represents a \$6,097,272 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 are comprised of 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 assets* presents information on all of CIRM's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of CIRM is improving or deteriorating.

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

Government-Wide Financial Statements (Continued)

The *statement of activities* presents information showing how CIRM's net assets changed during the most recent fiscal year. All changes in net assets 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 balances provide a column detailing the differences (adjustments) between the governmental funds 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 assets may serve over time as a useful indicator of CIRM's financial position. At June 30, 2010, CIRM's net assets were \$425,807,268, an increase of \$131,129,450 over prior year net assets of \$294,677,818.

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

Government-Wide Financial Analysis (Continued)

At June 30, 2010, \$425,695,172 of CIRM's net assets are unrestricted. The remaining net assets of \$112,096, reflect its investment in capital assets net of accumulated depreciation.

For the year ended June 30, 2010, net assets increased by \$131,129,450 primarily due to revenues exceeding expenses. 2010 revenues decreased by \$234,306,893, primarily due to a decrease in investment earnings of \$3,586,827, and a decrease in Proposition 71 revenue, General Obligation bonds (GO bonds) in the amount of \$230,725,348. In addition, 2010 expenses decreased by \$6,097,272 from 2009, primarily due the net effect of an increase in research grant expense of \$16,772,456, an increase in operational expenses of \$1,519,896, and a decrease in interest expense in the amount of \$24,389,624.

The recipients of CIRM's research grants are required to use the granted funds to construct or acquire research facilities or to actually 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 Assets
(Amounts Expressed in Thousands)

	June 30,	
	2010	2009
Current and other assets	\$ 435,667	\$ 370,100
Capital assets	112	33
Total assets	<u>435,779</u>	<u>370,133</u>
Long-term liabilities	437	73,662
Other liabilities	9,535	1,793
Total liabilities	<u>9,972</u>	<u>75,455</u>
Net assets		
Invested in capital assets	112	33
Unrestricted	425,695	294,645
Total net assets	<u>\$ 425,807</u>	<u>\$ 294,678</u>

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

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

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

	Year Ended June 30, 2010	2009 *
Revenues:		
Program revenues:		
Operating grants and Contributions	\$ 1	\$ 1
General revenues:		
Proposition 71 revenue (GO bonds)	274,275	505,000
Investment earnings	1,437	5,024
Other	6	-
Total revenues	<u>275,719</u>	<u>510,025</u>
Expenses:		
State operations	10,580	9,060
Research grants	131,889	115,117
Debt Service:		
Interest	2,120	26,509
Total expenses	<u>144,589</u>	<u>150,686</u>
Increase in net assets	131,129	359,339
Net assets (deficit), beginning of year	294,678	(64,661)
Net assets, end of year	<u>\$ 425,807</u>	<u>\$ 294,678</u>

*Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

For fund financial statement see pages 8 and 9. For fund budget to actual comparison see page 10.

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 end of the June 30 2010, fiscal year, the Fund reported ending fund balance of \$421,138,519 compared to the June 30, 2009 ending fund balance of \$323,964,153. The Fund's major sources of revenue are investment earnings and Proposition 71 revenue (GO bonds). The Fund's major expenditures are research grants, interest expense, and state operations.

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

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

Stem Cell Fund Budgetary Highlights

The Stem Cell Fund budget projected total expenditures of \$167,945,283. Actual expenditures were less than budgeted projections by \$20,470,138 in the categories of research grants, salaries and travel costs. In October 2009 and March 2010, the State Treasurer issued \$273,545,000 in bonds under the California Stem Cell Research and Cures Act of 2004. In addition to CIRM's cash reserves, funds from these new bonds were used for repayment of the Treasurer's Pooled Money Investment Account (PMIA) loan balance.

During the year, CIRM awarded its first loan and disbursed \$4,993,627 of the \$19,999,933 loan award.

Capital Assets and Debt Administration

Capital Assets

CIRM's investment in capital assets was \$112,096 at June 30, 2010 (net of accumulated depreciation). Capital asset activity during the current fiscal year was due to capital asset additions in the amount of \$106,673 and depreciation expense of \$27,494. 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 2 of this report.

Long-term Liabilities

During the year ended June 30, 2010, CIRM paid all accrued capitalized interest of \$28,949,185, the outstanding PMIA loan balance of \$44,342,959 and recognized a long-term obligation of \$436,974 for unused compensated leave. Additional information on CIRM's long-term liabilities can be found in Note 4 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 ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
JUNE 30, 2010

	Stem Cell Fund	Adjustments (Note 3)	Statement of Net Assets
Assets			
Cash and investments	\$ 427,621,888	\$ -	\$ 427,621,888
Accounts receivable	2,401,865	-	2,401,865
Prepaid expenses	23,000	-	23,000
Due from other State funds	626,668	-	626,668
Loans receivable	4,993,627	-	4,993,627
Capital assets being depreciated, net	-	112,096	112,096
Total assets	<u>\$ 435,667,048</u>	<u>112,096</u>	<u>435,779,144</u>
Liabilities			
Accounts payable	\$ 2,733,123	-	2,733,123
Due to other State funds	6,801,779	-	6,801,779
Deferred revenue	4,993,627	(4,993,627)	-
Long term liabilities			
Due in more than one year	-	436,974	436,974
Total liabilities	<u>14,528,529</u>	<u>(4,556,653)</u>	<u>9,971,876</u>
Fund balance/net assets:			
Fund balance			
Unreserved	421,138,519	(421,138,519)	-
Total liabilities and fund balance	<u>\$ 435,667,048</u>		
Net assets			
Invested in capital assets		112,096	112,096
Unrestricted		425,695,172	425,695,172
Total		<u>\$ 425,807,268</u>	<u>\$ 425,807,268</u>

See accompanying notes to the financial statements.

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, 2010

	Stem Cell Fund	Adjustments (Note 3)	Statement of Activities
Revenues:			
Program revenues:			
Operating grants and contributions			
Private donor grants	\$ 890	\$ -	\$ 890
General revenues:			
Proposition 71 revenue (GO bonds)	274,274,652	-	274,274,652
Investment earnings	1,436,840	-	1,436,840
Other	6,033	-	6,033
Total revenues	<u>275,718,415</u>	<u>-</u>	<u>275,718,415</u>
Expenditures/expenses:			
Current:			
State operations	10,592,395	(12,272)	10,580,123
Research grants	136,882,750	(4,993,627)	131,889,123
Debt service:			
Capitalized interest	28,949,185	(28,949,185)	-
Interest	2,119,719	-	2,119,719
Total expenditures/expenses	<u>178,544,049</u>	<u>(33,955,084)</u>	<u>144,588,965</u>
Excess of revenues over expenditures	97,174,366	(97,174,366)	-
Change in net assets	-	131,129,450	131,129,450
Fund balance/net assets, beginning of year	<u>323,964,153</u>	<u>(29,286,335)</u>	<u>294,677,818</u>
Fund balance/net assets, end of year	<u><u>\$ 421,138,519</u></u>	<u><u>\$ 4,668,749</u></u>	<u><u>\$ 425,807,268</u></u>

See accompanying notes to the financial statements.

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, 2010

	*Original/ Final Budget	*Stem Cell Fund Actual	Variance with Final Budget Positive (Negative)
Expenditures/expenses:			
Current:			
State operations**	\$ 11,012,831	\$ 10,592,395	\$ 420,436
Research grants	<u>156,932,452</u>	<u>136,882,750</u>	<u>20,049,702</u>
Total expenditures/expenses	<u><u>\$ 167,945,283</u></u>	<u><u>\$ 147,475,145</u></u>	<u><u>\$ 20,470,138</u></u>

* The budgetary basis of accounting does not include debt service expenditures and such expenditures are not included in the budget and actual columns of this schedule.

** 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.

CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE
(A Component Unit of the State of California)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

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 California universities and research institutions, 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. During the year ended June 30, 2010, CIRM received a total of \$274,274,652 in Proposition 71 revenue, which consisted of General Obligation (GO) bond sales of \$273,545,000 and a \$729,652 premium, as a part of the \$3 billion approved funding for stem cell research.

CIRM was established to support stem cell research for the development of life-saving 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 assets 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.

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, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. ACCOUNTING PRINCIPLES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the accounts are maintained by CIRM in accordance with the principles of fund accounting under standards issued by the Governmental Accounting Standards Board (GASB). Fund accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established in accordance with their nature and purpose. The operations of the fund are accounted for with a separate set of self-balancing accounts that comprise its assets, 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, 2010, the weighted average maturity of the PMIA was approximately 203 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, 2010, \$427,381,000 was invested in SMIF and \$240,888 was held in the operating accounts of the State Treasury.

D. LOAN RECEIVABLE

CIRM awarded a \$19,999,933 research loan and disbursed \$4,993,627 during the year ended June 30, 2010. Although this loan is expected to be repaid in full, the balance has been offset by deferred revenue 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, 2010, there were capital asset additions of \$106,673 and depreciation expense totaling \$27,494, for an ending capital asset balance, net of accumulated depreciation, of \$112,096. The year-end balance consisted entirely of equipment.

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, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. *COMPENSATED LEAVE*

The statement of net assets includes unused compensated leave of \$436,974, which represent 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 fund liabilities as it will not be paid with current financial resources.

G. *CLASSIFICATION OF NET ASSETS AND FUND BALANCE*

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

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

The remaining balances are reported as unrestricted net assets and unreserved fund balance.

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 \$420,436 in state operations represents savings in salaries and operating expenses. The budgetary saving in the amount of \$20,049,702 represents a decrease in grant research payments and savings in direct legal salaries and operating expenses.

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, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2010

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

The fund balance of the Stem Cell Fund differs from net assets of governmental activities primarily because of the long-term economic resources focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheet. At June 30, 2010, the differences included the following:

Fund balance	\$ 421,138,519
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Capital assets used in the governmental activities are not financial resources, and therefore are not reported in the governmental funds.

Capital assets	183,042
Less: accumulated depreciation	(70,946)
	112,096

Certain long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	4,993,627
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Long-term liabilities are not due and payable in the current period, and therefore are not reported in the fund.

Accrued unused compensated leave	(436,974)
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Net assets	<u>\$ 425,807,268</u>
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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, 2010

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

The net change in fund balance for governmental fund differs from the change in net assets 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	\$ 97,174,366
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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.

Purchase of capital assets	106,673
Depreciation expense	(27,494)

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.	4,993,627
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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	(66,907)
Change in capitalized interest payable	<u>28,949,185</u>

Change in net assets	<u>\$ 131,129,450</u>
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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, 2010

NOTE 4 – LONG TERM LIABILITIES

PMIA loan – A loan issued in the prior year, having a balance of \$44,342,959 and maintaining an interest rate of 1.612% was paid on October, 2009. Interest paid for the period ending June 30, 2010 totaled \$354,467.

Unused Compensated leave – At June 30, 2010, unused compensated leave was \$436,974, which represents vested unpaid vacation and annual leave.

Capitalized interest payable – Prior to December 31, 2009, CIRM was required to fund the interest expense payments associated with the General Obligation (GO) bonds issued by the State of California as a result of Proposition 71. As of June 30, 2010, prior year capitalized interest payable of \$28,949,185 and current year interest expense totaling \$1,910,172 was paid in full.

Changes in long-term liabilities are summarized below:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Due Within One Year	Due in more than One Year
Unused						
Compensated leave	\$ 370,067	\$ 66,907	\$ -	\$ 436,974	\$ -	\$ 436,974
PMIA loan	44,342,959	-	(44,342,959)	-	-	-
Capitalized						
interest payable	28,949,185	-	(28,949,185)	-	-	-
Total long-term						
liabilities	<u>\$ 73,662,211</u>	<u>\$ 66,907</u>	<u>\$ (73,292,144)</u>	<u>\$ 436,974</u>	<u>\$ -</u>	<u>\$ 436,974</u>

NOTE 5 – 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 part of the City of San Francisco's proposal, the City provides to CIRM approximately 20,000 square feet of premium office space free of charge for the next 10 years. 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 \$1,000,000 for the year ended June 30, 2010, which is not recorded in the financial statements.

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, 2010

NOTE 6 – 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, 2010. 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 Public Utilities Commission provided payroll services, and the Office of the State Chief Information Officer provided accounting system support. Amounts paid for these services for the year ended June 30, 2010 are summarized below:

State Controller's Office	\$ 9,395
Department of General Services	107,994
Department of Justice	9,757
Public Utilities Commission	60,000
Office of the State Chief Information Officer	<u>5,705</u>
Total	<u>\$ 192,851</u>

NOTE 7 – RETIREMENT SAVINGS PLAN

The State of California has established the Alternate Retirement Program (ARP), a retirement program for specified State of California employees hired on or after August 11, 2004. 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 five 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.

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 DPA administered Savings Plus Program 401(k) retirement savings account. Participants failure to designate an option will result in automatic enrollment in option 3.

CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010

NOTE 7 – RETIREMENT SAVINGS PLAN (CONTINUED)

In addition to the pension benefits provided by the State, 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 on or after attaining certain age and length of service requirements. The post-retirement health care benefits are funded by the State's General Fund on a pay-as-you-go basis. Refer to the State's Post-Employment Benefits Other than Pension disclosure in the June 30, 2010 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, 2010

	<u>Dolby Grant</u>
Revenues:	
Investment earnings	<u>\$ 21,198</u>
Expenditures:	
Current	
Operating	<u>129,368</u>
Excess of expenditures over revenues	(108,170)
Available resources, beginning of year	<u>3,324,871</u>
Available resources, end of year	<u><u>\$ 3,216,701</u></u>



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

**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***

We have audited the financial statements of the governmental activities and major fund of the California Institute for Regenerative Medicine (CIRM) as of and for the year ended June 30, 2010, which collectively comprise CIRM's basic financial statements and have issued our report thereon dated October 15, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered CIRM's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the CIRM's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CIRM's internal control over financial reporting.

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 misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CIRM's financial statements are free of 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*.

This report is intended solely for the information and use of the Independent Citizens Oversight Committee and management and is not intended to be and should not be used by anyone other than this specified party.

Maclean Mini & O'Connell LLP

Certified Public Accountants

Sacramento, California
October 15, 2010