



COOL EFFECT, INC.

COMBINED FINANCIAL STATEMENTS

FOR THE PERIOD SEPTEMBER 15, 2015
(DATE OF INCEPTION)
THROUGH JUNE 30, 2016

WITH INDEPENDENT AUDITORS' REPORT THEREON

COOL EFFECT

(A Delaware Not-For-Profit Corporation)
June 30, 2016

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Cool Effect
919 Sir Francis Drake Blvd., Suite 201
Kentfield, California 94904
E-Mail: info@cooleffect.org
Web Site: www.cooleffect.org

REGALIA & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Board of Directors Cool Effect, Inc.

We have audited the accompanying combined financial statements of Cool Effect, Inc. (a nonprofit organization) which comprise the combined statement of financial position as of June 30, 2016 and the combined related statements of activities and changes in net assets, cash flows and functional expenses for the period September 15, 2015 (date of inception) through June 30, 2016, and the related notes to the combined financial statements.

Management's Responsibility for the Combined financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Cool Effect, Inc. as of June 30, 2016, and the results of its operations and its cash flows for the period September 15, 2015 (date of inception) through June 30, 2016 in accordance with accounting principles generally accepted in the United States of America.

Danville, California
July 27, 2016

Regalia & Associates

COOL EFFECT, INC.

Combined Statement of Financial Position June 30, 2016

ASSETS

Current assets:

Cash and cash equivalents	\$ 17,808
Investments	1,915,940
Accounts receivable	71

Total current assets	1,933,819
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Other assets	316
Property and equipment, net	28,508
Intangible assets, net	1,738,239
	<u>\$ 3,700,882</u>

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable and accrued liabilities	\$ 598,404
Total current liabilities	<u>598,404</u>

Net assets:

Unrestricted	<u>3,102,478</u>
Total net assets	<u>3,102,478</u>
	<u>\$ 3,700,882</u>

COOL EFFECT, INC.

**Combined Statement of Activities and Changes in Net Assets
For the Period September 15, 2015 (Date of Inception) Through June 30, 2016**

Changes in unrestricted net assets:

Revenue and support:	
Contributed income	6,111,840
In-kind contributions	1,285,038
Investment income	8,316
Unrealized losses from investments	(291,995)
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Total revenue and support	7,113,199
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Expenses:	
Program expenses	3,924,962
Fundraising	24,208
General and administrative	61,551
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Total expenses	4,010,721
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Increase in net assets	3,102,478
Net assets at beginning of year	-
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Net assets at end of year	3,102,478
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COOL EFFECT, INC.

Combined Statement of Cash Flows For the Period September 15, 2015 (Date of Inception) Through June 30, 2016

Operating activities:

Increase in net assets	\$ 3,102,478
Adjustments to reconcile to cash provided by (used for) operating activities:	
Depreciation	3,204
Amortization	177,761
Unrealized losses on investments	291,995
Changes in:	
Accounts receivable	(71)
Other assets	(316)
Accounts payable and accrued liabilities	598,404
Cash provided by operating activities	<u>4,173,455</u>

Investing activities:

Acquisition of investments	(2,207,935)
Acquisition of property and equipment	(209,473)
Cash used for investing activities	<u>(2,417,408)</u>
Net increase in cash and cash equivalents	1,756,047
Cash and cash equivalents at beginning of year	<u>-</u>
Cash and cash equivalents at end of year	<u>\$ 1,756,047</u>

Additional cash flow information:

State registration taxes paid	<u>\$ -</u>
Interest and finance charges paid	<u>\$ -</u>

COOL EFFECT, INC.

Combined Statement of Functional Expenses
For the Period September 15, 2015 (Date of Inception) Through June 30, 2016

	Program	Fund-	General & Admin-	Total
	Services	raising	istrative	2016
Advertising and promotion	\$ 1,700,022	\$ -	\$ -	\$ 1,700,022
Bank charges and fees	-	-	1,012	1,012
Cost of carbon reduction programs	23,093	-	-	23,093
Depreciation and amortization	153,820	9,048	18,097	180,965
Insurance	921	54	108	1,083
Legal and accounting	-	-	11,454	11,454
Marketing and outreach	1,396,727	-	-	1,396,727
Miscellaneous	-	-	668	668
Occupancy	6,630	390	780	7,800
Outside consulting services	59,716			59,716
Public relations	333,857	-	-	333,857
Salaries, wages and payroll taxes	209,290	12,311	24,622	246,223
Telephone/equipment/utilities	2,718	160	320	3,198
Travel and meetings	18,187	1,070	2,139	21,396
Website registration and maintenance	19,981	1,175	2,351	23,507
Totals	\$ 3,924,962	\$ 24,208	\$ 61,551	\$ 4,010,721

**Notes to Combined Financial Statements
June 30, 2016**

1. Organization

Cool Effect is a non-profit organization incorporated in Delaware with its operations headquartered in Kentfield, California. Cool Effect was founded in 2015 with this mission: To help cool the earth by supporting verified carbon reducing projects across the globe through crowd funding.

Cool Effect supports technologies that reduce CO₂ and works to accelerate the most impactful planet-saving projects through cumulative actions by individuals and organizations. Cool Effect performs a deep analysis on both the science and the business structure of projects that claim to remove carbon from the atmosphere. All projects under consideration must first be approved by third-party standard-keeping organizations such as the Gold Standard, Verified Carbon Standard, and Climate Action Reserve, among others.

Cool Effect then undertakes an extensive review process using its team of scientists to ensure the project meets very tough standards. At that same time, Cool Effect also reviews project management to assess whether donations are going where they should and that the project will operate well into the future.

2. Summary of Significant Accounting Policies

Basis of Accounting

The combined financial statements of Cool Effect have been prepared on the accrual basis of accounting and reflect all significant receivables, payables, and other liabilities. The combined financial statements include the accounts of Cool Effect and Global Offset Research, LLC (a subsidiary created and controlled by Cool Effect). All significant balances and transactions between the two organizations have been eliminated.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) 958.205, *Presentation of Financial Statements of Not-for-Profit Entities*. Under ASC 958.205, Cool Effect is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Grants and Pledges Receivable

Grants and pledges receivable are recognized as unrestricted or temporarily restricted contributed revenue when the contractual obligation is received. Cool Effect had no grants or pledges receivable at June 30, 2016.

Revenue Recognition

Cool Effect records contributions in accordance with ASC 958.605, *Revenue Recognition of Not-for-Profit Entities*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. There were no temporarily or permanently restricted net assets at June 30, 2016. Cool Effect follows ASC 958.205 and

Notes to Combined Financial Statements**2. Summary of Significant Accounting Policies *(continued)****Revenue Recognition*

accounts for donor-restricted support as an increase in unrestricted or temporarily restricted net assets. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported on the combined statement of activities and changes in net assets as net assets released from restrictions.

Property and Equipment

Property and equipment purchased by Cool Effect are stated at cost. Property and equipment donated to Cool Effect are recorded at estimated fair value as of the date of the gift. The costs of additions and major improvements are capitalized, while maintenance and repairs are charged to expense as incurred. Property and equipment are depreciated over the estimated useful lives of the assets (between three and five years) utilizing the straight-line method.

Income Taxes

Combined financial statement presentation follows the recommendations of ASC 740, *Income Taxes*. Under ASC 740, Cool Effect is required to report information regarding its exposure to various tax positions taken by Cool Effect and requires a two-step process that separates recognition from measurement. The first step is determining whether a tax position has met the recognition threshold; the second step is measuring a tax position that meets the recognition threshold. Management believes that Cool Effect has adequately evaluated its current tax positions and has concluded that as of June 30, 2016, Cool Effect does not have any uncertain tax positions for which a reserve or an accrual for a tax liability would be necessary.

Cool Effect has received notification from the Internal Revenue Service and the State of California that it qualifies for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. The exemptions are subject to periodic review by the federal and state taxing authorities and management is confident that Cool Effect continues to satisfy all federal and state statutes in order to qualify for continued tax exemption status. Cool Effect may periodically receive unrelated business income (such as sublease rental income) requiring Cool Effect to file separate tax returns under federal and state statutes. Under such conditions, Cool Effect calculates and accrues the applicable taxes.

Use of Estimates

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reported period. Accordingly, actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing Cool Effect's various programs and other activities have been summarized on a functional basis in the combined statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

COOL EFFECT, INC.

Notes to Combined Financial Statements

3. Cash and Cash Equivalents

Cash and cash equivalents of \$17,808 at June 30, 2016, respectively, include all funds in checking and web-centric accounts with maturity dates of 90 days or less.

4. Investments

Investments of \$1,915,940 at June 30, 2016 consist of funds on deposit with U.S. Trust (Bank of America Private Wealth Management). Such funds are housed in an account titled "Blackrock Treasury Trust Fund." Investment income amounted to \$8,315 for the period September 15, 2015 (date of inception) through June 30, 2016.

5. Property and Equipment

Property and equipment consist of the following at June 30, 2016:

Furniture	\$ 1,278
Computer equipment	30,434
Less: accumulated depreciation	(3,204)
	<u>\$ 28,508</u>

Depreciation expense amounted to \$3,204 for the period September 15, 2015 (date of inception) through June 30, 2016.

6. Intangible Assets

Intangible assets consist of the following at June 30, 2016:

Website development	\$ 1,916,000
Less: accumulated amortization	(177,761)
	<u>\$ 1,738,239</u>

Amortization expense amounted to \$177,761 for the period September 15, 2015 (date of inception) through June 30, 2016.

7. Occupancy

Between January 1, 2016 and June 30, 2016, Cool Effect occupied office space under a pro-bono arrangement. Management estimated the value of the in-kind occupancy to be \$1,300 per month. The value of this in-kind contribution amounted to \$7,800 and was reflected as an in-kind contribution on the combined statement of activities and changes in net assets and occupancy expense on the combined statement of functional expenses.

Notes to Combined Financial Statements**8. Contributed Income**

Cool Effect recognizes donated services which create and enhance non-financial assets or that require specialized skills (such as professional services which would otherwise need to be purchased if not provided by donation). Total in-kind contributions amounted to \$1,285,038 for the period September 15, 2015 (date of inception) through June 30, 2016 and consisted of pro-bono rent (as noted in footnote 6), website development, advertising, marketing, and public relations.

9. Commitments and Contingencies

In the normal course of business there are outstanding various commitments and contingent liabilities, such as commitments to enter into contracts and future services, which are not reflected in the combined financial statements. Such commitments and contingencies also include risks associated with various economic and operating factors, which include (a) Grant restrictions and donor conditions which obligate Cool Effect to fulfill certain requirements as set forth in grant instruments, (b) Funding levels which vary based on factors beyond Cool Effect's control, such as generosity of donors and general economic conditions, (c) Employment and service agreements with key management and operating personnel, and (d) Financial risks associated with funds on deposit at bank and investment brokerage accounts. Management believes that such commitments, contingencies and risks will not have a material adverse effect on the combined financial statements. Certain of the grants and contracts (including current and prior costs) are subject to audit and final acceptance by the granting agencies.

10. Subsequent Events

In compliance with ASC 855, *Subsequent Events*, Cool Effect has evaluated subsequent events through July 27, 2016, the date the combined financial statements were available to be issued and, in the opinion of management, there are no subsequent events which need to be disclosed.