



COOL EFFECT, INC.

COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017
WITH INDEPENDENT AUDITORS' REPORT THEREON

COOL EFFECT

(A Delaware Not-For-Profit Corporation)
June 30, 2018 and 2017

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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 statements of financial position as of June 30, 2018 and the related combined statements of activities and changes in net assets, cash flows and functional expenses for the year then ended, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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, 2018 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

We have previously audited Cool Effect, Inc.'s June 30, 2017 combined financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 28, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Danville, California
August 13, 2018

Regalia & Associates

COOL EFFECT, INC.

Combined Statements of Financial Position
June 30, 2018 and 2017

ASSETS

	2018	2017
Current assets:		
Cash and cash equivalents	\$ 325,993	\$ 71,530
Investments	3,924,336	2,218,550
Accounts receivable	460	3,830
Prepaid Expenses	-	26,900
Inventory	10,056	-
Total current assets	<u>4,260,845</u>	<u>2,320,810</u>
Other assets	316	316
Property and equipment, net	16,606	24,137
Intangible assets, net	<u>3,190,814</u>	<u>2,974,253</u>
	<u>\$ 7,468,581</u>	<u>\$ 5,319,516</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued liabilities	\$ 642,121	\$ 675,173
Total current liabilities	<u>642,121</u>	<u>675,173</u>
Net assets:		
Unrestricted	6,826,460	4,644,343
Total net assets	<u>6,826,460</u>	<u>4,644,343</u>
	<u>\$ -7,468,581</u>	<u>\$ 5,319,516</u>

COOL EFFECT, INC.

Combined Statements of Activities and Changes in Net Assets For the Years Ended June 30, 2018 and 2017

Changes in unrestricted net assets:

	2018	2017
Revenue and support:		
Contributed income	\$ 11,664,754	\$ 10,407,450
In-kind contributions	15,600	15,600
Investment income	334,883	4,685
Unrealized gains from investments	146,427	662
Total revenue and support	12,161,664	10,428,397
Expenses:		
Program expenses	9,567,929	8,609,332
Fundraising	125,232	84,962
General and administrative	286,386	192,238
Total expenses	9,979,547	8,886,532
Increase in net assets	2,182,117	1,541,865
Net assets at beginning of year	4,644,343	3,102,478
Net assets at end of year	\$ 6,826,460	\$ 4,644,343

COOL EFFECT, INC.

Combined Statements of Cash Flows For the Years Ended June 30, 2018 and 2017

	2018	2017
<i>Operating activities:</i>		
Increase in net assets	\$ 2,182,117	\$ 1,541,865
Adjustments to reconcile to cash provided by (used for) operating activities:		
Depreciation	7,530	7,286
Amortization	1,769,795	1,006,695
Unrealized gains on investments	(146,427)	(662)
Stock donations	(7,809,724)	-
Reinvested interest and gains from sale of investments	(334,883)	-
Changes in:		
Accounts receivable	3,370	(3,759)
Inventory	(10,056)	
Prepaid expenses	26,900	(26,900)
Accounts payable and accrued liabilities	(33,052)	76,769
Cash provided by (used for) operating activities	(4,344,430)	2,601,294
<i>Investing activities:</i>		
Acquisition of investments	(8,095,597)	(301,948)
Disposition of investments	14,680,845	-
Acquisition of property and equipment	(1,986,355)	(2,245,624)
Cash provided by (used for) investing activities	4,598,893	(2,547,572)
Net increase in cash and cash equivalents	254,463	53,722
Cash and cash equivalents at beginning of year	71,530	17,808
Cash and cash equivalents at end of year	\$ 325,993	\$ 71,530
<i>Additional cash flow information:</i>		
State registration taxes paid	\$ 150	150
Interest and finance charges paid	\$ -	-

See accompanying auditors' report and notes to combined financial statements.

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COOL EFFECT, INC.

Combined Statement of Functional Expenses
For the Year Ended June 30, 2018
(With Comparative Results For the Year Ended June 30, 2017)

	Program	Fund-	General & Admin-	Total	Total
	Services	raising	istrative	2018	2017
Advertising and promotion	\$ 20,480	\$ -	\$ -	\$ 20,480	\$ 1,826,401
Bank charges and fees	-	-	7,238	7,238	4,166
Cost of carbon reduction programs	1,691,946	-	-	1,691,946	371,094
Depreciation and amortization	1,510,726	88,866	177,733	1,777,325	1,013,981
Insurance	4,086	240	481	4,807	3,102
Legal and accounting	-	-	25,006	25,006	16,578
Marketing and outreach	5,039,411	-	-	5,039,411	4,094,955
Miscellaneous	-	-	3,675	3,675	1,571
Occupancy	13,260	780	1,560	15,600	15,600
Office and supplies	1,578	93	186	1,857	405
Outside consulting services	61,868	-	-	61,868	38,347
Public relations	625,172	-	-	625,172	823,535
Salaries, wages and payroll taxes	512,298	30,135	60,271	602,704	544,133
Telephone/equipment/utilities	5,944	350	699	6,993	5,460
Travel and meetings	10,305	606	1,212	12,123	67,315
Sweepstakes and awards	95	-	-	95	10,647
Website registration and maintenance	70,760	4,162	8,325	83,247	49,242
Totals	\$ 9,567,929	\$ 125,232	\$ 286,386	\$ 9,979,547	\$ 8,886,532

COOL EFFECT, INC.

Notes to Combined Financial Statements June 30, 2018 and 2017

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, 2018 and 2017. Cool Effect follows the pro-

Notes to Combined Financial Statements

2. Summary of Significant Accounting Policies *(continued)**Revenue Recognition*

visions of ASC 958.205 and 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.

Cash and Cash Equivalents

Cash and cash equivalents include savings, cash deposits and money market accounts with maturity dates of three months or less. Cool Effect may occasionally be the recipient of donated securities. Investments or securities received by gift are recorded at market value at the date of contribution in accordance with ASC 958.320, *Investments*. Cool Effect converts such securities to liquid assets, and any realized gains or losses are separately stated on the statements of activities and changes in net assets. Cool Effect maintains its cash balances in highly capitalized financial institutions, which at times may exceed federally insured limits.

Investments

Cool Effect follows the provisions of ASC 958.320, *Investments – Debt and Equity Securities for Not-for-Profit Entities*, [and as updated by the provisions of *Accounting Standards Update (ASU) 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRSs*] and has estimated the fair value of its investments using available market information and other valuation methodologies. Accordingly, the estimates presented are not necessarily indicative of the amounts that Cool Effect could realize in a current market exchange. The use of different assumptions and/or estimation methods may have a material effect on the estimated fair value amounts. The estimates are based on pertinent information available to management as of June 30, 2018 and 2017. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, current estimates of fair value may differ significantly from the statements presented.

Investments include Blackrock Treasury Trust funds, and equity securities. Purchased investments are initially stated at cost. Investments received by gift are recorded at market value at the date of contribution. Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included on the statements of activities and changes in net assets. In accordance with ASC 958.320, the recorded amounts of all investments are adjusted annually to reflect current market values.

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.

Notes to Combined Financial Statements

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, 2018 and 2017, 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.

3. Cash and Cash Equivalents

Cash and cash equivalents of \$325,993 and \$71,530 at June 30, 2018 and 2017, respectively, include all funds in checking and web-centric accounts with maturity dates of 90 days or less.

4. Accounts Receivable

Accounts receivable of \$460 and \$3,830 at June 30, 2018 and 2017, respectively, represent amounts principally due from individuals. Cool Effect uses the direct write-off method with regards to receivables deemed uncollectible. There were no bad debts recognized during the years ended June 30, 2018 and 2017. Management has evaluated the receivables as of June 30, 2018 and determined that no allowance for uncollectible amounts is necessary based on the financial strength of the individuals involved.

COOL EFFECT, INC.

Notes to Combined Financial Statements

5. Investments

Investments of \$3,924,336 and \$2,218,550 at June 30, 2018 and 2017 consist of funds on deposit with U.S. Trust (Bank of America Private Wealth Management). Such funds consist of investments in "Blackrock Treasury Trust Fund" and equity securities. During the years ended June 30, 2018 and 2017, earnings on investments were reinvested. Investment income consists of interest and dividends and amounted to \$21,442 and \$4,685 for the years ended June 30, 2018 and 2017, respectively. Unrealized gains amounted to \$146,427 and \$662 for the years ended June 30, 2018 and 2017, respectively. Realized gains amounted to \$313,442 for the year ended June 30, 2018. There were no realized gains for the year ended June 30, 2017. Investments consist of the following at June 30:

	2018	2017
Blackrock Treasury Trust Fund	\$ 750,756	\$ 1,218,550
Bank of America Temporary Overnight Deposit	-	1,000,000
Equity securities	3,173,580	-
	<u>\$ 3,924,336</u>	<u>\$ 2,218,550</u>

Funds classified as Blackrock Treasury Trust Fund earn interest at a variable rate of 1.70% per annum at June 30, 2018.

6. Fair Value Measurements

Composition of assets utilizing fair value measurements at June 30, 2018 is as follows:

	Totals	Level 1	Level 2	Level 3
Blackrock Treasury Trust Fund	\$ 750,756	\$ 750,756	\$ -	\$ -
Equity securities	3,173,580	3,173,580	-	-
Accounts receivable	460	-	460	-
Totals	<u>\$ 3,924,796</u>	<u>\$ 3,924,336</u>	<u>\$ 460</u>	<u>\$ -</u>

Composition of assets utilizing fair value measurements at June 30, 2017 is as follows:

	Totals	Level 1	Level 2	Level 3
Blackrock Treasury Trust Fund	\$ 1,218,550	\$ 1,218,550	\$ -	\$ -
Equity securities	1,000,000	1,000,000	-	-
Accounts receivable	3,830	-	3,830	-
Totals	<u>\$ 2,222,380</u>	<u>\$ 2,218,550</u>	<u>\$ 3,830</u>	<u>\$ -</u>

Fair value measurements establish a fair value hierarchy that prioritizes the input used to measure fair value. This hierarchy consists of three broad levels: (a) Level 1 measurement reflects the value of the investments at quoted prices in active markets for identical assets, generally without any adjustments, (b) Level 2 assets and liabilities are valued based on "observable inputs" other than quoted active market prices, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, and interest rates and yield curves, and (c) Level 3 assets and liabilities are valued based on "unobservable inputs," such as a company's own estimates and pricing models.

COOL EFFECT, INC.

Notes to Combined Financial Statements

7. Property and Equipment

Property and equipment consist of the following at June 30:

	2018	2017
Furniture	\$ 1,278	\$ 1,278
Computer equipment	33,349	33,349
Less: accumulated amortization	(18,021)	(10,490)
	<u>\$ 16,606</u>	<u>\$ 24,137</u>

Depreciation expense amounted to \$7,531 and \$7,286 for the years ended June 30, 2018 and 2017, respectively.

8. Intangible Assets

Intangible assets consist of the following at June 30:

	2018	2017
Website development	\$ 6,145,064	\$ 4,158,709
Less: accumulated amortization	(2,954,250)	(1,184,456)
	<u>\$ 3,190,814</u>	<u>\$ 2,974,253</u>

Amortization expense amounted to \$1,769,794 and \$1,006,695 for the years ended June 30, 2018 and 2017, respectively.

9. Occupancy

Cool Effect occupies 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 \$15,600 each year for the years ended June 30, 2018 and 2017.

10. In-Kind Contributions

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 \$15,600 each year for the years ended June 30, 2018 and 2017 consisting of pro-bono rent (as noted in footnote 8).

11. Concentration of Credit Risk

Cool Effect has one major vendor that accounted for approximately 83% and 94% of total operating expenses for the years ended June 30, 2018 and 2017, respectively.

Notes to Combined Financial Statements

12. 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.

13. Related Party Transactions

During the year ended June 30, 2018, Cool Effect received \$7,809,724 in contributions from the founders. During the year ended June 30, 2017, Cool Effect received \$10,000,000 in contributions from a foundation controlled by the founders.

14. Subsequent Events

In compliance with ASC 855, *Subsequent Events*, Cool Effect has evaluated subsequent events through August 13, 2018, 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.