Cool Effect, Inc.

Combined
Financial Statements

For the Year Ended
June 30, 2021
With Independent Auditors' Report Thereon

(A California Not-for-Profit Corporation)

Contents

Cool Effect, Inc.
100 Drakes Landing, Suite 260
Greenbrae, California 94904
E-Mail: info@cooleffect.org
Web Site Address: www.cooleffect.org

C E R T I F I E D P U B L I C A C C O U N T A N T S
103 TOWN & COUNTRY DRIVE, SUITE K, DANVILLE, CALIFORNIA 94526
DOUGLAS REGALIA, CPA
LISA PARKER, CPA [inactive]
JEANNINE REGALIA, CPA
LISA CLOVEN, CPA
JENNY SO, CPA
JENNIFER JENSEN
SHANNON MORELLI, CPA
DANA CHAVARRIA, CPA
TRICIA WILSON
VALERIE REGALIA, CPA
WENDY THOMAS, CPA
SUSAN REGALIA, CPA
RACHEL BERGER, CPA
JESSICA HULING, CPA
WEB: WWW.MRCPA.COM
OFFICE: 925.314.0390

INDEPENDENT AUDITORS' REPORT

Management Committee
Cool Effect, Inc.

We have audited the accompanying combined financial statements of Cool Effect, Inc. (a California nonprofit organization) which comprise the combined statement of financial position as of June 30, 2021 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 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.

Auditors' 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 auditors' 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 financial position of Cool Effect, Inc. as of June 30, 2021, 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's June 30, 2020 combined financial statements, and we expressed an unmodified audit opinion on those audited combined financial statements in our report dated January 28, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021 is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Regalia & Associates

Danville, California
February 1, 2022

Combined Statements of Financial Position
June 30, 2021 and 2020

ASSETS

		2021		2020
Current assets:				
Cash and cash equivalents	$	**2,339,420**	$	1,275,696
Accounts receivable		**-**		316
Investments		**2,220,500**		1,354,710
Prepaid Expenses		**58,820**		-
Inventory		**1,822,414**		842,111
Total current assets		**6,441,154**		3,472,833
Noncurrent assets:				
Property and equipment, net		**7,815**		18,582
Intangible assets, net		**561,821**		1,204,826
Total noncurrent assets		**569,636**		1,223,408
	$	**7,010,790**	$	4,696,241

LIABILITIES AND NET ASSETS

		2021		2020
Current liabilities:				
Accounts payable and accrued liabilities	$	**1,112,451**	$	847,005
Unearned revenue		**80,000**		-
Total current liabilities		**1,192,451**		847,005
Net assets:				
Without donor restrictions		**5,788,409**		3,849,236
With donor restrictions		**29,930**		-
Total net assets		**5,818,339**		3,849,236
	$	**7,010,790**	$	4,696,241

Combined Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2021
(With Comparative Results For the Year Ended June 30, 2020)

	Net Assets			
	Without Donor Restrictions	With Donor Restrictions	Total 2021	Total 2020
Changes in net assets:				
Revenue and support:				
Contributed income	$ 2,038,653	$ 1,960,000	**$ 3,998,653**	$ 2,550,000
In-kind contributions	79,365	-	**79,365**	52,945
Program revenues	6,485,629	-	**6,485,629**	6,756,074
Investment income	144,852	-	**144,852**	131,878
Unrealized gains from investments	479,589	-	**479,589**	137,127
Other income	-	-	**-**	1,129
Net assets released from restrictions	1,930,070	(1,930,070)	**-**	-
Total revenue and support	11,158,158	29,930	**11,188,088**	9,629,153
Expenses:				
Programs:				
Carbon reduction project support	6,795,819	-	**6,795,819**	6,162,834
Other program expenses	2,138,567	-	**2,138,567**	3,919,357
Fundraising	-	-	**-**	-
General and administrative	284,599	-	**284,599**	207,994
Total expenses	9,218,985	-	**9,218,985**	10,290,185
Increase (decrease) in net assets	1,939,173	29,930	**1,969,103**	(661,032)
Net assets at beginning of year	3,849,236	-	**3,849,236**	4,510,268
Net assets at end of year	$ 5,788,409	$ 29,930	**$ 5,818,339**	$ 3,849,236

Combined Statements of Cash Flows

For the Years Ended June 30, 2021 and 2020

	2021	2020
Operating activities:		
Increase (decrease) in net assets	**$ 1,969,103**	$ (661,032)
Adjustments to reconcile to cash provided by (used for) operating activities:		
Depreciation	**13,556**	10,231
Amortization	**881,719**	1,568,976
Unrealized gains on investments	**(479,589)**	(137,127)
Stock donations	**(50,686)**	-
Reinvested interest and gains from sale of investments	**(144,852)**	(131,878)
Changes in:		
Accounts receivable	**316**	414
Inventory	**(980,303)**	(639,370)
Prepaid expenses	**(58,820)**	-
Accounts payable and accrued liabilities	**265,446**	177,755
Unearned revenue	**80,000**	-
Cash provided by operating activities	**1,495,890**	187,969
Investing activities:		
Acquisition of investments	**(435,473)**	(512,132)
Disposition of investments	**244,810**	997,892
Acquisition of property and equipment	**(241,503)**	(481,462)
Cash provided by (used for) investing activities	**(432,166)**	4,298
Net increase in cash and cash equivalents	**1,063,724**	192,267
Cash and cash equivalents at beginning of year	**1,275,696**	1,083,429
Cash and cash equivalents at end of year	**$ 2,339,420**	$ 1,275,696
Additional cash flow information:		
State registration taxes paid	**$ 150**	$ 150
Interest and finance charges paid	**$ -**	$ -

Combined Statement of Functional Expenses
For the Year Ended June 30, 2021
(With Comparative Results For the Year Ended June 30, 2020)

	Program Services	Fund-raising	General and Admin-istrative	Total 2021	Total 2020
Advertising and promotion	$ 392,467	$ -	$ -	**$ 392,467**	$ 1,476,864
Bank charges and fees	-	-	30,773	**30,773**	29,637
Carbon reduction project support	6,795,819	-	-	**6,795,819**	6,162,834
Depreciation and amortization	895,276	-	-	**895,276**	1,579,207
Insurance	-	-	832	**832**	1,073
Information technologies	141,570	-	-	**141,570**	139,815
Legal and accounting	-	-	21,700	**21,700**	27,364
Miscellaneous	-	-	18,000	**18,000**	14,875
Occupancy	-	-	80,200	**80,200**	56,070
Office and supplies	-	-	17,995	**17,995**	33,269
Outside consulting services	-	-	112,940	**112,940**	113,578
Salaries, wages and payroll taxes	709,254	-	-	**709,254**	646,285
Travel and meetings	-	-	2,159	**2,159**	9,314
Totals	$ 8,934,386	$ -	$ 284,599	**$ 9,218,985**	$ 10,290,185

Notes to Combined Financial Statements
June 30, 2021

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's mission is to reduce carbon emissions by supporting projects across the globe that reduce CO2. Cool effect educates the public on the effects of climate change and solicits donations to support carbon reduction projects, empowering individuals and businesses to take action in the fight against climate change. 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

Combination – 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 Cool Effect and Global Offset Research, LLC have been eliminated in these combined financial statements.

Basis of Presentation – The combined financial statements of Cool Effect have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("US GAAP").

Measure of Operations – The combined statements of activities reflect all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to Cool Effect's ongoing operations which include a variety of programmatic activities. Nonoperating activities are limited to resources that generate return from interest-bearing deposits and other activities considered to be of a more unusual or nonrecurring nature.

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.

Receivables and Credit Policies – Cool Effect determined that no allowance for doubtful uncollectible accounts receivable is needed based on historical experience, an assessment of economic conditions, and a review of subsequent collections. It is the policy of the organization to periodically assess receivables to determine proper carrying value.

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

Concentrations of credit risk – Financial instruments that potentially subject Cool Effect to concentrations of credit risk consist principally of cash and cash equivalents and deposits. Cool Effect maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. Cool Effect manages deposit concentration risk by placing cash and money market accounts with financial institutions believed to be creditworthy. To date, Cool Effect has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and grants receivable considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from reputable organizations and foundations supportive of Cool Effect's mission.

Inventories – Inventories are carried at lower of cost or market using the first-in first-out method and consist of carbon credits. Carbon credits purchased for sale are capitalized as a component cost of inventory in accordance with *ASC 330.10.30, Inventory*.

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, 2021 and 2020. 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 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.

Reclassifications – Certain reclassifications have been made to the 2020 financial statements in order to conform to the presentation used in 2021.

Contributions Receivable – Cool Effect records receivables that are expected to be collected within one year at net realizable value. When material, receivables expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts (when applicable) will be included in contribution revenue in the combined statement of activities. The allowance for uncollectible receivables is based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Receivables are written off when deemed uncollectible.

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

Fair value measurements – Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. US GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions.

The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). Cool Effect groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1
Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

Level 2
Other observable inputs, either directly or indirectly, including:
- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset/liability; and,
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3
Unobservable inputs that cannot be corroborated by observable market data.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing model of the asset and does not necessarily correspond to our assessment of the quality, risk or liquidity profile of the asset or liability.

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.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Comparative Financial Information - The accompanying financial statements include certain prior-year summarized comparative information in total but not by functional category. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the audited financial statements for the year ended June 30, 2020, from which the summarized information was derived.

In-Kind Contributions - In-kind contributions are reflected at the fair value of the contribution received in accordance with *ASC 958.605.30-11*. The contributions of services, equipment, and other materials are recognized if they (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Functional Allocation of Expenses - The costs of providing program and other activities have been summarized on a functional basis in the statements of activities in accordance with the requirements of *ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities,* which requires Cool Effect to report expenses by their natural classification. Every natural expense must be broken out into individual functional categories on an analysis of expenses by their nature and function. Accordingly, certain costs have been allocated among services and supporting services benefited. Such allocations are determined by management on an equitable basis. A majority of expenses (salaries, wages, and payroll taxes, professional services) have been allocated based on time and effort using Cool Effect's payroll allocations. Other common expenses which benefit all areas have been allocated in accordance with specific services received from vendors and/or other equitable and measurable methods.

Contributions Made – Cool Effect recognizes grants as expenses at the time recipients are entitled to receive them. Generally, this occurs when the board of directors approves a specific grant, or when management, pursuant to grant-authorization policies established by the board of directors, approves a grant. Unconditional grants approved but not yet disbursed are reported as grants payable in the statement of financial position. Conditional grants approved but contingent upon fulfillment of certain specified conditions by the grantee are not recorded until the conditions have been met. Revocable grants are recorded when grants are distributed to the grantee.

Net Assets - Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Thus, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions
Net assets without donor restrictions represent funds which are available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has the ability to designate, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment, and it has not opted to do so as of June 30, 2021 and 2020.

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

Net Assets With Donor Restrictions
Net assets with donor restrictions represent funds which are subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions can be perpetual in nature, where the donor stipulates that such resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue and Revenue Recognition - Revenue is recognized in accordance with authoritative guidance, including *ASU 2018-08, Not-for-Profit Entities (Topic 605) and ASU No. 2014-09, Revenue from contracts with Customers (Topic 606).*

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. A transfer of funds with a conditional promise to contribute is accounted for as a refundable advance until the conditions have been substantially met. Certain payments received include both elements of contributed income and earned income (such as special events), and management evaluates such transactions to determine the proper revenue rules to apply and to bifurcate the revenue components. When applicable, revenue earned under a contractual arrangement (an “exchange transaction”) is recognized when earned and therefore measured as services are provided in accordance with Topic 606.

Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized.

Income Taxes – Cool Effect is organized as California nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as organizations described in IRC Section 501(c)(3), qualify for the charitable contribution deduction under IRC Sections 170(b)(1)(A)(vi) and (viii), and has been determined not to be private foundations under IRC Sections 509(a)(1) and (3), respectively. Cool Effect is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. Cool Effect is not required to file an Exempt Organization Business Income Tax Return (Form 990-T) because it had no unrelated business taxable income for the years ended June 30, 2021 and 2020.

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.

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

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.

If or when Cool Effect receives unrelated business income (such as sublease income) requiring the organization to file separate tax returns under federal and state statutes. Under such conditions, Cool Effect calculates, accrues, and remits the applicable tax liability.

Recent and Relevant Accounting Pronouncements – The following pronouncements represent relevant current accounting guidance applicable to nonprofit organizations:

In August 2016, the FASB issued *ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities.* The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Cool Effect has adjusted the presentation of these statements accordingly.

In August 2014, the FASB issued *ASU 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40) Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which requires an organization's management to evaluate whether there are conditions and events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable). As of February 1, 2022 (the date of the Independent Auditors' Report), management has made this evaluation and has determined that Cool Effect has the ability to continue as a going concern.

In February 2016, the FASB issued *ASU 2016-02, Leases (Topic 842) Accounting for Leases*, which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by *ASU No. 2018-01*, *ASU No. 2018-10*, and *ASU No. 2018-11*. This standard establishes a right-of-use model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the statements of financial position for all leases with a term longer than 12 months. Leases are required to be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the statements of activities and changes in net assets.

In May 2014, the FASB completed its Revenue Recognition project by issuing *ASU 2014-09, Revenue from Contracts with Customers (Topic 606).* This guidance establishes the principles to report useful information to users of financial statements about the nature, timing, and uncertainty of revenue from contracts with customers. The guidance (1) Removes inconsistencies and weaknesses in existing revenue requirements, (2) Provides a more robust framework for addressing revenue issues, (3) Improves comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets, (4) Provides more useful information to users of financial statements through improved disclosure requirements, and (5) Simplifies the preparation of financial statements by reducing the number of requirements to which an organization must refer.

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

In June 2018, the FASB issued *ASU 2018-08, Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The FASB issued this update to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this Update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. Accordingly, Cool Effect has incorporated these clarifying standards within the audited financial statements.

In November 2016, the FASB issued *ASU 2016-18, Restricted Cash*. This guidance requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the statements of financial position, the new guidance requires a reconciliation of the totals in the statement of cash flows to the related captions in the statements of financial position.

In September 17, 2020, the FASB issued *Accounting Standards Update (ASU) 2020-07; Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets.* The Update increases transparency around contributed nonfinancial assets (also known as “gifts-in-kind”) received by non-profit organizations, including transparency on how those assets are used and how they are valued. The Update requires that an organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. It also requires that an organization disclose:

1. A disaggregation of the amount of contributed nonfinancial assets recognized within the statement of activities by category that depicts the type of contributed nonfinancial assets.
2. For each category of nonfinancial assets recognized:

- Qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period. If utilized, a description of the programs or other activities in which those assets were used
- The organization’s policy (if any) about monetizing rather than utilizing contributed nonfinancial assets
- A description of any donor-imposed restrictions associated with the contributed nonfinancial assets
- A description of the valuation techniques and inputs used to arrive at a fair value measure in accordance with requirements in *Topic 820, Fair Value Measurement*, at initial recognition
- The principal market (or most advantageous market) used to arrive at a fair value measure if it is a market in which the recipient not-for-profit is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets.

3. Cash and Cash Equivalents

Cash and cash equivalents include all funds in banks (checking, savings, and certificates of deposit) at the time of purchase that have a maturity date of 90 days or less. The components of cash and cash equivalents are as follows at June 30:

		2021		2020
Checking accounts	**$**	**1,219,871**	$	128,005
Mutual Funds and Treasury Bills		**1,119,549**		1,147,691
Total cash and cash equivalents	**$**	**2,339,420**	$	1,275,696

Cool Effect attempts to limit its credit risk associated with cash equivalents by utilizing highly rated financial institutions. At June 30, 2021 and 2020, cash balances classified as mutual funds and treasury bills reside in noninterest-bearing accounts.

4. Accounts Receivable

Accounts receivable of $316 at June 30, 2020 represent amounts principally due from individuals. There are no accounts receivable at June 30, 2021. 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, 2021 and 2020.

5. Investments

Investments are stated at fair value, based primarily on quoted market prices for those or similar instruments. Cool Effect invests predominately in three types of equity securities: large cap, mid cap and emerging markets. These investments are domiciled with U.S. Trust (Bank of America Private Wealth Management). Cost and fair value of investments are summarized as follows at June 30:

	June 30, 2021				June 30, 2020			
		Cost		Fair Value		Cost		Fair Value
Capital One	$	932,378	**$**	**1,751,573**	$	659,435	$	1,161,705
Franklin Institute		154,744		**218,130**		41,661		45,540
Koret of California		285,139		**250,797**		285,139		147,465
Totals	$	1,372,261	**$**	**2,220,500**	$	986,235	$	1,354,710

During the years ended June 30, 2021 and 2020, earnings on investments were reinvested. Investment income consists of interest and dividends and amounted to $144,852 and $131,878 for the years ended June 30, 2021 and 2020, respectively. Included with these amounts are realized gains which amounted to $133,213 and $116,325 for the years ended June 30, 2021 and 2020, respectively. Unrealized gains amounted to $479,589 and $137,127 for the years ended June 30, 2021 and 2020, respectively.

6. Fair Value Measurements

Composition of assets utilizing fair value measurements at June 30, 2021 is as follows:

	Totals	Level 1	Level 2	Level 3
Equity Securities	$ 2,220,500	$ 2,220,500	$ -	$ -

Composition of assets utilizing fair value measurements at June 30, 2020 is as follows:

	Totals	Level 1	Level 2	Level 3
Equity securities	$ 1,354,710	$ 1,354,710	$ -	$ -
Accounts receivable	316	-	316	-
Totals	$ 1,355,026	$ 1,354,710	$ 316	$ -

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. There were no assets classified as Level 3 at June 30, 2021 and 2020.

7. Property and Equipment

Property and equipment consist of the following at June 30:

	2021	2020
Furniture	**$ 3,053**	$ 3,053
Computer equipment	**42,126**	39,336
Leasehold improvements	**11,847**	11,847
Less: accumulated depreciation	**(49,211)**	(35,654)
	$ 7,815	$ 18,582

Depreciation expense amounted to $13,557 and $10,231 for the years ended June 30, 2021 and 2020, respectively.

8. Inventory

Inventory of $1,822,414 and $842,111 at June 30, 2021 and 2020, respectively, consists of carbon credits purchased by Cool Effect and are stated at cost. When carbon credits are sold, Cool Effect reduces inventory at cost basis and transfers the book value to carbon reduction project support on the combined statement of functional expenses.

9. Intangible Assets

Intangible assets consist of the following at June 30:

	2021	2020
Website development	**$ 8,027,822**	$ 7,789,107
Less: accumulated amortization	**(7,466,000)**	(6,584,281)
	$ 561,822	$ 1,204,826

Amortization expense amounted to $881,719 and $1,568,976 for the years ended June 30, 2021 and 2020, respectively.

10. Liquidity

Cool Effect regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the safeguarding of its available funds. Cool Effect has various sources of liquidity at its disposal, including cash and equivalents, receivables, and other sources (including the future collection of grants and contributions receivable).

For purposes of analyzing resources available to meet general expenditures over a 12-month period, Cool Effect considers all expenditures related to its ongoing activities in support of community initiatives to be general expenditures.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	2021	2020
Cash and cash equivalents	**$ 2,339,420**	$ 1,275,696
Investments	**2,220,500**	1,354,710
Accounts receivable	**-**	316
Total financial assets	**4,559,920**	2,630,722
Less: amounts not available to be used within one year		
Net assets with donor restrictions for programs	**(29,930)**	-
over the next year	**$ 4,529,990**	$ 2,630,722

As part of Cool Effect's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. Cool Effect's goal is generally to maintain financial assets to meet 90 days of operating expenses.

11. Related Party Transactions

During the year ended June 30, 2020, Cool Effect received $2,500,000 in contributions from the founders. There were no such contributions received during the year ended June 30, 2021.

12. In-Kind Contributions

Cool Effect occupies office space under a pro-bono arrangement. Management estimated the value of the in-kind occupancy to be $79,365 and $55,045 for the years ended June 30, 2021 and 2020, respectively, and such amounts are included with occupancy expense on the combined statement of functional expenses.

The values of these contributions met the criteria for recognition under *ASC 958.605.30-11 Revenue Recognition of Not-For-Profit Entities* and are reflected in the financial statements on the combined statement of activities and changes in net assets.

13. Net Assets

Net Assets Without Donor Restrictions
Net assets without donor restrictions of $5,788,409 and $3,849,236 at June 30, 2021 and 2020, respectively, represent the cumulative combined retained surpluses derived from Cool Effect's operating activities since the inception of the organization.

Net Assets With Donor Restrictions
Cool Effect recognizes support from net assets with donor restrictions when restrictions imposed by the donors have been satisfied or expired. Net assets with donor restrictions consist of $29,930 from Windward Fund.

During the year ended June 30, 2021, Cool Effect received donor restricted contributions of $1,960,000. Net assets released from restrictions amounted to $1,930,070 for the year ended June 30, 2021. Cool Effect had no activity involving net assets with donor restrictions as of June 30, 2020.

14. Contracts

Cool Effect is engaged with organizations to purchase carbon credits. As of June 30, 2021, the projects under these contracts are expected to be completed during 2022. The total commitments from these contracts are estimated to be $299,200 at June 30, 2021 but are not reflected on the combined statements of financial position. There were no such commitments at June 30, 2020.

15. Unearned revenue

Contract revenues are recognized upon completion of projects. Amounts received but not yet spent are treated as unearned revenue on the combined statements of financial position and will be reflected as earned revenue when the earnings cycle has been completed. Unearned revenue amounted to $80,000 at June 30, 2021. There was no unearned revenue at June 30, 2020.

16. Subsidiary

Effective June 28, 2021, Cool Effect terminated its wholly-owned subsidiary Global Offset Research and submitted final tax returns to officially close the entity. All of the Global Offset Research activities for the year ended June 30, 2021 have been included in these combined financial statements.

17. COVID-19

As a result of COVID-19 and its variants, the worldwide threat continues to (a) impact financial markets, (b) threaten revenue streams, and (c) impact private enterprises with which Cool Effect conducts business. Business continuity, including supply chains and consumer demand across a broad range of industries and countries, continues to present challenges. Management monitors and evaluates its options. These financial statements reflect certain economic ramifications which impacted the year ended June 30, 2021.

18. Commitments and Contingencies

In the normal course of business Cool Effect could be subject to certain commitments and contingencies which might not be fully reflected in the 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 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 financial statements.

19. Subsequent Events

In compliance with *ASC 855, Subsequent Events*, Cool Effect has evaluated subsequent events through February 1, 2022, the date the combined financial statements were available to be issued and, in the opinion of management, there are no subsequent events which are required to be disclosed.