



FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

OPEN APPAREL REGISTRY, Inc.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Open Apparel Registry, Inc.

Opinion

We have audited the financial statements of Open Apparel Registry, Inc. (the Organization), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Marcum LLP

Washington, DC
March 31, 2022

OPEN APPAREL REGISTRY, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2021

| | |
|---|----------------------------|
| Assets | |
| Cash | \$ 350,297 |
| Grants and contributions receivable | 694,675 |
| Prepaid expenses | 16,394 |
| Property and equipment, net | <u>1,252,887</u> |
| Total Assets | <u>\$ 2,314,253</u> |
| Liabilities and Net Assets | |
| Liabilities | |
| Accounts payable and accrued expenses | \$ 80,237 |
| Deferred revenue | <u>31,621</u> |
| Total Liabilities | <u>111,858</u> |
| Net Assets | |
| Without donor restrictions | 1,238,232 |
| With donor restrictions | <u>964,163</u> |
| Total Net Assets | <u>2,202,395</u> |
| Total Liabilities and Net Assets | <u>\$ 2,314,253</u> |

The accompanying notes are an integral part of these financial statements.

OPEN APPAREL REGISTRY, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2021

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|---------------------|
| Revenue and Support | | | |
| Grants and contributions | \$ -- | \$ 1,182,742 | \$ 1,182,742 |
| In-kind contributions | 1,416,328 | -- | 1,416,328 |
| Program service revenue and other income | 51,042 | -- | 51,042 |
| Net assets released from restrictions: | | | |
| Satisfaction of purpose restrictions | <u>853,438</u> | <u>(853,438)</u> | <u>--</u> |
| Total Revenue and Support | <u>2,320,808</u> | <u>329,304</u> | <u>2,650,112</u> |
| Expenses and Losses | | | |
| Program services: | | | |
| OAR program | <u>879,845</u> | <u>--</u> | <u>879,845</u> |
| Supporting services: | | | |
| Management and general | 200,152 | -- | 200,152 |
| Fundraising | <u>10,386</u> | <u>--</u> | <u>10,386</u> |
| Total Supporting Services | <u>210,538</u> | <u>--</u> | <u>210,538</u> |
| Total Expenses | <u>1,090,383</u> | <u>--</u> | <u>1,090,383</u> |
| Losses | | | |
| Loss on foreign currency exchange | <u>5,273</u> | <u>--</u> | <u>5,273</u> |
| Change in Net Assets | 1,225,152 | 329,304 | 1,554,456 |
| Net Assets, Beginning of Year | <u>13,080</u> | <u>634,859</u> | <u>647,939</u> |
| Net Assets, End of Year | <u>\$ 1,238,232</u> | <u>\$ 964,163</u> | <u>\$ 2,202,395</u> |

The accompanying notes are an integral part of these financial statements.

OPEN APPAREL REGISTRY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2021

| | Supporting Services | | | |
|--------------------------------------|---------------------|---------------------------|------------------|---------------------|
| | OAR Program | Management and General | Fundraising | Total |
| Donated professional fees | \$ 182,878 | \$ 128,100 | \$ -- | \$ 310,978 |
| Consultants and professional fees | 261,915 | 25,060 | 4,854 | 291,829 |
| Depreciation and amortization | 211,140 | 242 | 72 | 211,454 |
| Salaries and benefits | 144,244 | 18,297 | 5,414 | 167,955 |
| Contractors | 38,338 | -- | 46 | 38,384 |
| Accounting services | -- | 20,594 | -- | 20,594 |
| Software and subscriptions | 16,141 | 2,088 | -- | 18,229 |
| Advertising and marketing | 15,113 | 1,375 | -- | 16,488 |
| Office supplies | 5,124 | 1,233 | -- | 6,357 |
| Meals and travel | 3,692 | -- | -- | 3,692 |
| Taxes and licenses | -- | 2,525 | -- | 2,525 |
| Rent | 1,260 | -- | -- | 1,260 |
| Bank fees | -- | 638 | -- | 638 |
| Total | \$ 879,845 | \$ 200,152 | \$ 10,386 | \$ 1,090,383 |

The accompanying notes are an integral part of these financial statements.

OPEN APPAREL REGISTRY, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2021

| | |
|---|--------------------------|
| Cash Flows From Operating Activities | |
| Change in Net Assets | \$ 1,554,456 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Donated property and equipment | (1,105,350) |
| Depreciation and amortization | 211,454 |
| Changes in assets and liabilities: | |
| Grants and contributions receivable | (59,816) |
| Prepaid expenses | (16,394) |
| Accounts payable and accrued expenses | 80,237 |
| Deferred revenue | <u>7,871</u> |
| Net Cash Provided By Operating Activities | <u>672,458</u> |
| Cash Flows From Investing Activities | |
| Purchases of property and equipment | <u>(358,991)</u> |
| Net Cash Used in Investing Activities | <u>(358,991)</u> |
| Net Increase in Cash | 313,467 |
| Cash, Beginning of Year | <u>36,830</u> |
| Cash, End of Year | <u><u>\$ 350,297</u></u> |
| Supplemental Disclosure of Cash Flow Information | |
| Non-Cash Investing and Financing Activity | |
| Donated property and equipment | <u>\$ 1,105,350</u> |

The accompanying notes are an integral part of these financial statements.

OPEN APPAREL REGISTRY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF ORGANIZATION

The Open Apparel Registry, Inc. (the Organization or OAR) exists to improve human rights and environmental conditions in and around factories and facilities by opening up supply chain data as a free, public good. When everyone working in global supply chains enjoys equal access to quality, open-licensed data, it leads to more sustainable and equitable outcomes for the most vulnerable communities affected by the apparel sector.

Data in the Open Apparel Registry is contributed and used by organizations all over the world, including civil society organizations campaigning for improved conditions for workers and academic researchers analyzing future risk to the industry from rising sea levels.

The power of the OAR's approach lies in transforming messy, inconsistent data into structured datasets, made freely available to all stakeholders under an open data license. When everyone working in global supply chains enjoys equal access to quality data, opportunities rapidly open up to shift the industry onto a more sustainable and equitable path.

The Organization was formed December 18, 2019 and is in the process of registering under Section 501(c)(3) of the Internal Revenue Code as of December 31, 2021.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America (GAAP).

Grants and Contributions Receivable

Grants and contributions receivable consist of unconditional promises to give to the Organization. Unconditional promises to give are recorded at their present net realizable value. For those due in more than one year, fair value is estimated by discounting estimated future cash flows at rates approximating the current rate for risk-free returns. Management determines the allowance for doubtful pledges by reviewing all outstanding pledges for possible uncollectibility. Grants and contributions are charged to the allowance account when deemed uncollectible.

OPEN APPAREL REGISTRY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY AND EQUIPMENT

The Organization capitalizes acquisitions of property and equipment with a cost or value in excess of \$2,500 and with an estimated useful life beyond one year. Purchased assets are recorded at cost or, if donated, at estimated fair value or appraised value at the date of donation. Depreciation and amortization is calculated using the straight-line method based upon the following estimated useful lives:

| | |
|----------|---------|
| Website | 3 years |
| Software | 5 years |

Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. The cost and accumulated depreciation and amortization of assets sold or retired are removed from the respective accounts and any gain or loss is reflected in the statement of activities.

IMPAIRMENT OF LONG-LIVES ASSETS

The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying value of an asset, an impairment loss is recognized for the difference. The Organization did not record an impairment loss during the year ended December 31, 2021.

CLASSIFICATION OF NET ASSETS

The Organization's net assets are reported as follows:

- Net assets without donor restrictions represent the portion of expendable funds that are available for any purpose in performing the primary objectives of the Organization at the discretion of the Organization's management and the Board of Directors (the Board).
- Net assets with donor restrictions represent funds that are specifically restricted by donors for use in various programs and/or for a specific period of time. These donor restrictions can be temporary in nature in that they will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity. As of December 31, 2021, the Organization had no net assets with donor restrictions that are required to be maintained in perpetuity.

OPEN APPAREL REGISTRY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION

Unconditional contributions are reported as revenue in the year in which payments are received and/or unconditional promises to give are made. The Organization reports unconditional gifts of cash and other assets as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Revenue recognized under these awards for which payments have not been received is included in grants and contributions receivable in the accompanying statement of financial position. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. Funds received under these awards whose conditions have not been met are reflected as refundable advances in the accompanying statement of financial position.

Program service fees primarily consist of subscription fees and are recognized as revenue as performance obligations are satisfied. Subscription fees are recognized over the period of the subscription agreement as the customer has access to and consumes the benefits from the provided service over the subscription period and the Organization has enforceable right to payment. Funds received for performance obligations not met as of December 31, 2021 have been recorded as deferred revenue on the accompanying statement of financial position. The Organization's deferred revenue is short-term in nature and are recognized as revenue in the following year when performance obligations are met.

DONATED GOODS AND SERVICES

In-kind contributions for services are recognized as both support and revenue and expenses in the accompanying statement of activities at the estimated fair value as provided by the donor at the date of donation. In-kind contributions for donated software is recognized as both support and revenue, and property and equipment, in the accompanying statement of activities and statement of financial position, respectively. Donated software is valued at the donor's estimated fair value based on the donor's internal costs to develop the software.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of functional expenses. Expenses directly attributed to a specific functional area of the Organization are reported as expenses of those functional areas, while shared costs, such as depreciation, has been allocated among the various functional areas based on the proportion of salary expense incurred for the related department.

OPEN APPAREL REGISTRY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - GRANTS AND CONTRIBUTIONS RECEIVABLE

As of December 31, 2021, grants and contributions receivable is considered fully collectible and are due to be received within one year.

The Organization has received a conditional grant totaling \$2,440,227 as of December 31, 2021. The Organization records revenue and support on the conditional grant as the conditions are met. The Organization had recognized \$500,000 of revenue and support relating to the conditional grant in previous years, and recognized an additional \$778,000 during the year ended December 31, 2021. As of December 31, 2021, the Organization has yet to recognize revenue of approximately \$1,162,000 related to this conditional grant, as the conditions have not been met. This amount will be recognized over the span of the agreement through 2026.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2021 consisted of the following:

| | |
|--------------------------------|----------------------------|
| Software | \$ 1,424,336 |
| Website | <u>40,005</u> |
| | 1,464,341 |
| Less: Accumulated Depreciation | <u>(211,454)</u> |
| Total | <u>\$ 1,252,887</u> |

Depreciation expense was \$211,454 for the year ended December 31, 2021.

OPEN APPAREL REGISTRY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 4 - COMMITMENTS AND CONTINGENCIES

FINANCIAL INSTRUMENTS AND CREDIT RISKS

The Organization maintains its cash and cash equivalents with certain commercial financial institutions, which aggregate balance, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit of \$250,000 per depositor per institution. As of December 31, 2021, the Organization exceeded the maximum limit insured by FDIC by approximately \$100,000. From time to time, in order to maintain a level that fulfills the Organization's monthly cash requirements, the Organization's cash may exceed the maximum limit insured by FDIC. The Organization monitors the creditworthiness of these institutions and has not experienced any credit losses on its cash.

CONCENTRATION OF RISK

For the year ended December 31, 2021, approximately 91% of the total revenue and support recognized by the Organization, excluding donated goods and services, came from two donors.

RISK AND UNCERTAINTY

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses across the country for non-essential services. While the disruption is currently expected to be temporary, there is considerable uncertainty about the duration of closings. The Organization has been able to continue operations; however, at this point, the extent to which COVID-19 will impact the Organization's financial condition or results of operations is uncertain and being evaluated by management and the Board.

NOTE 5 - NET ASSETS

NET ASSETS WITHOUT DONOR RESTRICTIONS

As of December 31, 2021, the Organization's net assets without donor restrictions totaled \$1,238,232.

NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2021, may be expended for the following purposes:

| | |
|--|--------------------------|
| OAR core implementation | \$ 580,864 |
| Supply chain data transparency project | 339,293 |
| Expansion pilot | <u>44,006</u> |
| Total | <u>\$ 964,163</u> |

OPEN APPAREL REGISTRY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 6 - DONATED GOODS AND SERVICES

The Organization received a total of \$310,978 in donated professional fees, composed of \$263,710 related primarily to start-up costs, \$16,800 related to marketing, and \$30,468 related to technical assistance during the year ended December 31, 2021. These services are recorded at their estimated fair value as of the date of the donation. The Organization also received a software platform, funded by a core funder, totaling \$1,105,350 during the year ending December 31, 2021. The donated goods and services are included in in-kind contributions in the accompanying statement of activities.

NOTE 7 - INCOME TAXES

The Organization has applied to be exempt under Section 501(c)(3) of the IRC from the payment of taxes on income other than net unrelated business income. As the Organization's management expects its pending exemption application to be approved, and as the Organization had no net unrelated business income, no provision for income taxes was made for the year ended December 31, 2021.

The Organization has adopted the authoritative guidance relating to accounting for uncertainty in income taxes included in FASB Accounting Standards Codification Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Organization evaluated its uncertainty in income taxes for the year ended December 31, 2021, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of December 31, 2021, the statute of limitations remained open with the U.S. federal jurisdiction or the various state and local jurisdictions in which the Organization files tax returns, however, there are currently no tax examinations pending or in progress. It is the Organization's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in interest or income tax expense.

NOTE 8 - LIQUIDITY AND FINANCIAL RESOURCES

The Organization's financial assets available within one year of the statement of financial position date for general expenditures were as follows:

| | |
|--|-------------------------|
| Cash | \$ 350,297 |
| Grants and contributions receivable | <u>694,675</u> |
| Total Financial Assets | 1,044,972 |
| Less: | |
| Net assets with donor restrictions | <u>(964,163)</u> |
| Financial Assets Available to Meet General Expenditures Within One Year | <u>\$ 80,809</u> |

OPEN APPAREL REGISTRY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 8 - LIQUIDITY AND FINANCIAL RESOURCES (CONTINUED)

The Organization has various sources of liquidity at its disposal, including cash, which is available for general expenditures, liabilities and other obligations as they come due. Management is focused on sustaining the financial liquidity of the Organization throughout the year. This is done through monitoring and reviewing the Organization's cash flow needs on a regular basis. As a result, management is aware of the cyclical nature of the Organization's cash flow related to the Organization's various funding sources and is therefore able to ensure that there is cash available to meet current liquidity needs.

NOTE 9 - SUBSEQUENT EVENTS

The Organization has evaluated all subsequent events through March 31, 2022, the date these financial statements were available to be issued. No events requiring recognition or disclosure in the financial statements have been identified.