

INDEPENDENT AUDITORS' REPORT

To the Members of the Dystrophic Epidermolysis Bullosa Research Association of Canada (DEBRA Canada)

We have audited the financial statements of the Dystrophic Epidermolysis Bullosa Research Association of Canada (DEBRA Canada) (the Association), which comprise the statement of financial position as at December 31, 2018, and the statements of operations and changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of DEBRA Canada as at December 31, 2018, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not for profit organizations.

Basis for Qualified Opinion

In common with many not for profit organizations, DEBRA Canada derives revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of DEBRA Canada. Therefore, we were not able to determine whether any adjustments might be necessary to donations revenue, excess of revenues over expenditures, and cash flows from operations for the years ended December 31, 2018 and 2017, current assets as at December 31, 2018 and 2017, and net assets as at January 1 and December 31 for both the 2018 and 2017 years. Our audit opinion on the financial statements for the year ended December 31, 2017 was modified accordingly because of the possible effects of this limitation in scope.

We conducted our audit in accordance with Canadian generally accepted auditing standards. 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 independent of DEBRA Canada in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not for profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing DEBRA Canada's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate DEBRA Canada or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing DEBRA Canada's financial reporting process.

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 a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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.
- 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 DEBRA Canada's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on DEBRA Canada's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause DEBRA Canada to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

HAMILTON, ONTARIO

June 27, 2019

HGK PARTNERS LLP Chartered Professional Accountants Licensed Public Accountants

HYX Partners LLP

Statement of Financial Position As at December 31, 2018

	201	8	2017
ASSETS Current Cash Investments (Note 2) Accounts receivable (Note 3) Accrued interest receivable	1	5,575 \$ 5,242 7,505 180 8,502 \$	507,963 - 8,644 - 516,607
LIABILITIES Current Accounts payable and accrued liabilities Deferred revenue (Note 4)	7	3,369 \$ 1,449	11,274 71,449 82,723
NET ASSETS Unrestricted net assets		3,684 8,502 \$	433,884 516,607

Approved by: De Power, Treasurer

(See Accompanying Notes)

(DEBRA CANADA)
Statement of Operations and Changes in Net Assets
Year Ended December 31, 2018

	2018	2017
Revenue		
Ambassador program	s -	\$ 49,211
Donations (Note 5)	242,960	
Fundraising agencies	37,655	
Other income	8,076	
Special events	125,957	
	414,648	323,473
Expenditures		
Advertising and promotion	22,340	21,272
Ambassador program	_	49,211
Bank charges	894	
Contract administration	36,504	38,278
Dues and fees	13,876	5,341
Grants	45,090	63,124
Medical assistance fund	92,756	101,201
Office and general	17,539	
Professional fees	5,093	4,885
Special events and fundraising	17,422	12,002
Travel and meetings	36,742	
	288,256	322,700
Excess revenue over expenditures before other income	126,392	773
Other income		
Interest income	3,408	2,723
EXCESS REVENUE OVER EXPENDITURES	129,800	3,496
Unrestricted net assets, beginning of year	433,884	430,388
Unrestricted net assets, end of year	\$ 563,684	\$ 433,884

Statement of Cash Flows Year Ended December 31, 2018

	2018	2017
OPERATING ACTIVITIES Excess revenue over expenditures Items not requiring a cash outlay: Gift in kind Accrued interest	\$ 129,800 (5,066 (180	(i) - 24
(Increase) decrease in accounts receivable (Increase) decrease in prepaid expenses Increase (decrease) in accounts payable and accrued liabilities Increase (decrease) in deferred revenue Net cash provided by (used for) operating activities	(8,861 - 2,095 - (6,766 117,788	(1,123) 400 7,045 (56,711) (50,389)
INVESTING ACTIVITIES Purchase of investments Redemption of investments Net cash provided by (used for) investing activities	(10,176	10,000
Increase (decrease) in cash	107,612	(36,869)
Cash, beginning of year	507,963	544,832
Cash, end of year	\$ 615,575	\$ 507,963

Notes to Financial Statements Year Ended December 31, 2018

DESCRIPTION OF THE ORGANIZATION

The Dystrophic Epidermolysis Bullosa Research Association of Canada (DEBRA Canada) (the Association) is a non-share capital corporation with letters patent issued under Part II of the Canada Corporations Act. As a result of its charitable status, the Association is exempt from the payment of income taxes under one or more provisions of the Income Tax Act (Canada).

The Association is dedicated to providing national support for families affected by Epidermolysis Bullosa (EB) in Canada and to heightening Canadians' awareness of this challenging disease.

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared in accordance with Canadian accounting standards for not for profit organizations and include the following significant accounting policies:

(a) Financial Instruments

(i) Measurement of Financial Instruments

The Association initially measures its financial assets and liabilities at fair value, except for certain non-arm's length transactions that are measured at the carrying amount or exchange amount as appropriate, and their subsequent measurement is dependent on their classification as designated by the Association. The Association subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market and guaranteed investment certificates, which are measured at fair value. Financial assets measured at amortized cost include cash, accounts receivable and accrued interest receivable. Financial liabilities measured at amortized cost include accounts payable and accrued liabilities. Financial assets measured at fair value include investments. Changes in fair value are recognized in excess revenue over expenditures.

(ii) Impairment

Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of a write down is recognized in excess revenue over expenditures. A previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in excess revenue over expenditures.

(iii) Transaction Costs

The Association recognizes its transaction costs in excess revenue over expenditures in the period incurred. However, financial instruments that will not be subsequently measured at fair value are adjusted by the transaction costs that are directly attributable to their origination, issuance or assumption.

Notes to Financial Statements Year Ended December 31, 2018

1. SIGNIFICANT ACCOUNTING POLICIES

(b) Investments

Investments consist of a guaranteed investment certificate and Canadian equity. Investments are initially recognized and subsequently measured at fair value using quoted market prices. Investment purchase and sale transactions are accounted for on the settlement date. Investment revenue includes interest income, realized and unrealized gains and losses.

(c) Donated Services

The work of the Association is dependent on the voluntary services of members of the community. Due to the difficulty of determining the fair value to the Association, the value of these volunteer services is not provided for in these financial statements.

(d) Revenue Recognition

The Association follows the deferral method of accounting for contributions that include donations and grants. Externally restricted contributions are recognized as revenue in the year in which the related expenditures are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Ambassador program, special events, fundraising agencies and other income are recognized when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Interest income is recognized when earned.

(e) Use of Estimates

The preparation of financial statements in conformity with Canadian accounting standards for not for profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in the period in which they become known.

Notes to Financial Statements Year Ended December 31, 2018

2. INVESTMENTS

	2018	2017
Canadian equity	\$ 5,066	\$ -
Guaranteed investment certificate, 1.90%, matures		
January 26, 2019	10,176	_
	\$ 15,242	\$ -

The average effective rate of interest was 1.76% (2017 - Nil%).

3. ACCOUNTS RECEIVABLE

Included in accounts receivable as at December 31, 2018 are government rebates receivable of \$17,505 (2017 - \$7,605) related to Harmonized Sales Tax.

4. DEFERRED REVENUE

Deferred revenue represents unspent donations and grants, externally restricted for projects and operating funding, received in the prior and current years that are related to the subsequent year's activities. Changes in the deferred revenue balances are as follows:

	<u>2018</u>		2017	
Deferred revenue, beginning of year Recognized as revenue during the year	s	71,449	\$	128,160 (56,711)
Balance, end of year	\$	71,449	\$	71,449

5. DONATIONS

Donation revenue was recognized from the following major sources:

	2018	2017
Business and employee groups	\$ - \$	43,719
Foundations	3,033	17,468
Individual donors	239,927	40,072
	\$ 242,960 \$	101,259

Notes to Financial Statements Year Ended December 31, 2018

6. FINANCIAL INSTRUMENTS

The Association is exposed to various risks through its financial instruments. The following analysis provides a measure of the Association's risk exposure and concentrations at December 31, 2018.

(a) Credit Risk

Credit risk is the possibility that other parties may default on their financial obligations. The Association's cash balance is in excess of federally insured limits, however they are maintained with a financial institution of reputable credit and therefore bear minimal credit risk.

(b) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Association is exposed to interest rate risk.

(c) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Association is exposed to interest rate risk on its fixed interest financial instruments as disclosed in *Note 2*. Fixed rate investments subject the Association to a fair value risk. The Association's guaranteed investment certificates mature in the very short term therefore, interest rate risk is considered minimal.

(d) Liquidity Risk

Liquidity risk is the risk that the Association will not be able to meet a demand for cash or fund its obligations as they come due. The Association has sufficient funds to settle current liabilities and has no debt obligations. The Association manages liquidity risk by monitoring cash flows from operations, anticipating investing and financing activities and holding an adequate cash balance.

There has been no change to the risk exposures noted above from the prior year.