Financial statements of

Royal College of Dental Surgeons of Ontario

December 31, 2017

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Deloitte.

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Independent Auditor's Report

To the Members of the Council of the
Royal College of Dental Surgeons of Ontario

We have audited the accompanying financial statements of the Royal College of Dental Surgeons of Ontario, which comprise the statement of financial position as at December 31, 2017, the statements of operations, changes in fund balances, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements present fairly, in all material respects, the financial position of the Royal College of Dental Surgeons of Ontario as at December 31, 2017 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for Not-for-Profit Organizations.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
June 14, 2018

Royal College of Dental Surgeons of Ontario
Statement of financial position
as at December 31, 2017

	2017	2016
	$	$
Assets		
Cash	**2,179,479**	3,429,310
Short-term investments (Note 3)	**14,530,039**	10,164,190
Accounts receivable	**765,200**	2,248,021
Prepaid expenses	**451,655**	159,131
	17,926,373	16,000,652
Long-term investments (Note 3)	**49,568,974**	51,095,733
Pension plan asset (Note 6)	**2,826,300**	2,460,500
Capital assets (Note 4)	**7,338,193**	7,468,721
	77,659,840	77,025,606
Liabilities		
Accounts payable and accrued liabilities	**1,535,016**	968,652
Deferred revenue	**22,403,512**	21,798,665
	23,938,528	22,767,317
Accrued claims liability (Note 5)	**14,085,489**	14,099,226
Pension plan liability (Note 6)	**1,933,000**	2,162,000
	39,957,017	39,028,543
Fund balances		
Invested in capital assets	**7,338,193**	7,468,721
Internally restricted (Note 7)	**28,438,000**	24,400,000
Unrestricted	**1,926,630**	6,128,342
	37,702,823	37,997,063
	77,659,840	77,025,606

Approved on behalf of the Members of Council

R.M. Yarascavitch ______ Dr. Ronald Yarascavitch, President

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

Royal College of Dental Surgeons of Ontario

Statement of operations
year ended December 31, 2017

	2017	2016
		(Note 14)
	$	$
Revenue		
Registration and annual fees	**24,203,446**	23,457,700
Investment Income	**1,429,567**	1,457,906
Professional conduct recoveries	**361,600**	102,700
Professional liability program recoveries (Note 8)	**226,552**	240,332
Other income	**269,034**	199,475
	26,490,199	25,458,113
Expenses		
Staffing costs	**13,184,547**	11,857,923
Professional liability program provision (Note 5)	**2,946,608**	3,747,903
Consulting and professional fees	**2,659,374**	2,299,208
Administration	**1,653,801**	1,417,139
Amortization and write offs	**1,638,381**	1,020,050
Operations and facilities	**1,356,777**	1,412,594
Telecommunications and technology	**1,141,286**	728,822
Council and committees	**1,102,134**	864,208
Faculty payments and fees	**483,819**	438,649
Insurance and brokerage	**353,812**	573,059
	26,520,539	24,359,555
(Deficiency) excess of revenue over expenses	**(30,340)**	1,098,558

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

Royal College of Dental Surgeons of Ontario

Statement of changes in fund balances
year ended December 31, 2017

	Invested in capital assets	Internally restricted (Note 7)	Unrestricted	2017 Total	2016 Total
	$	$	$	$	$
Fund balances, beginning of year	**7,468,721**	**24,400,000**	**6,128,342**	**37,997,063**	36,656,007
(Deficiency) excess of revenue over expenses	**(1,638,381)**	**-**	**1,608,041**	**(30,340)**	1,098,556
Additions to capital assets	**1,507,853**	**-**	**(1,507,853)**	**-**	-
Interfund transfers	**-**	**4,038,000**	**(4,038,000)**	**-**	-
Remeasurement and other items (Note 6)	**-**	**-**	**(263,900)**	**(263,900)**	242,500
Fund balances, end of year	**7,338,193**	**28,438,000**	**1,926,630**	**37,702,823**	37,997,063

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

Royal College of Dental Surgeons of Ontario

Statement of cash flows
year ended December 31, 2017

	2017	2016
	$	$
Operating activities		
(Deficiency) excess of revenue over expenses	**(30,340)**	1,098,556
Items not affecting cash		
Amortization of bond premiums	**133,840**	144,726
Amortization and write off of capital assets	**1,638,381**	1,020,050
Pension plan expense (Note 6)	**190,600**	283,100
Unrealized gains on long-term investments (Note 3)	**(2,020)**	-
	1,930,461	2,546,432
Changes in non-cash working capital balances		
Accrued interest on long-term investments	**9,019**	7,750
Accounts receivable	**1,482,821**	66,575
Prepaid expenses	**(292,524)**	432,912
Accounts payable and accrued liabilities	**566,364**	(54,912)
Deferred revenue	**604,847**	726,343
Accrued claims liability	**(13,737)**	1,697,449
Short-term investments	**(4,365,849)**	2,815,002
	(78,598)	8,237,551
Financing activity		
Contributions to pension plan	**(1,049,300)**	(905,000)
Investing activities		
Additions to capital assets	**(1,507,853)**	(1,110,068)
Purchase of investments	**(5,664,080)**	(11,440,188)
Proceeds from disposal of investments	**7,050,000**	6,463,183
	(121,933)	(6,087,073)
Net cash (outflow) inflow	**(1,249,831)**	1,245,478
Cash, beginning of year	**3,429,310**	2,183,832
Cash, end of year	**2,179,479**	3,429,310

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

1. General

Founded in 1868, the Royal College of Dental Surgeons of Ontario (the “College”) was constituted under the Dentistry Act, 1991 and Regulated Health Professions Act, 1991 as a Not-for-Profit Corporation without share capital. The purpose of the College is to regulate the practice of dentistry and govern its members in the Province of Ontario.

As a Not-for-Profit Corporation, the College is exempt from income taxes under the Income Tax Act.

2. Significant accounting policies

Financial statement presentation

These financial statements have been prepared in accordance with Canadian accounting standards for Not-for-Profit Organizations, using the deferral method of reporting restricted contributions.

Revenue recognition

Members of the College pay a registration fee upon joining the College. Registration fees are included in revenue upon receipt.

Members (individuals) are billed for annual fees each October. These fees relate to the following fiscal year and accordingly amounts received or receivable are shown as deferred revenue at year-end.

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value when the College becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments are measured at amortized cost, except for exchange traded funds which are measured at fair value.

Capital assets

Capital assets are recorded at cost and are amortized on the straight-line basis over their estimated useful lives as follows:

Building	20 years
Capital improvements	5 years
Computer equipment, software and development	3 years
Furniture, office equipment and fixtures	5 years

Pension plans

The cost of the College’s deferred benefit pension plans are determined periodically by independent Actuaries using the projected benefit method pro-rated on service. The College uses the most recently completed actuarial valuation prepared for funding purposes for measuring its pension plan asset and liability. A funding valuation is prepared in accordance with pension legislation and regulations, generally to determine required cash contributions to the plan.

The College recognizes:

a) The pension plan obligation, net of the fair value of any plan assets, adjusted for any valuation in the statement of financial position;

b) The cost of the plan for the year in the statement of operations; and

c) Re-measurements and other items in the statement of changes in fund balances.

Based on an actuarial assessment, the asset base of the pension plan may have to be topped up and the amount could be material. The most recent actuarial valuation was performed as at January 1, 2017 and the results were projected to December 31, 2017.

The cost of the College’s defined contribution pension plan is recorded as an expense as payments are made.

2. Significant accounting policies (continued)

Management estimates

The preparation of the College's financial statements in accordance 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, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Accounts containing significant estimates include accounts payable, accrued claims liability and the pension plan obligation.

3. Investments

The College's short-term investments consist of bankers' acceptances with maturity dates of 90 days or less from the year-end date.

The College's long-term investments consist of fixed income and equity investments.

Fixed income

Fixed income investments consist of federal bonds, provincial bonds, and guaranteed investment certificates bearing interest at rates ranging from 0.6% to 4.65% (2016 - 0.6% to 5.15%), and maturing between fiscal years ending 2018 to 2026 (2016 – 2017 to 2025). The carrying value of these fixed income investments includes accrued interest of $182,651 (2016 - $191,670) and unamortized bond premium of $490,023 (2016 - $483,742) for a total unamortized cost of $49,892,129 (2016 - $51,124,134). Fixed income investments totaling $8,929,031 (2016 - $7,240,594) mature within the next fiscal year.

Equity investments

Equity investments consist of shares in exchange traded funds:

	2017		2016	
	Market value	**Cost**	Market value	Cost
	$	**$**	$	$
Exchange traded funds	**245,000**	**242,980**	-	-

The composition of the College's investment portfolio is as follows:

	2017	2016
	$	$
Short-term investments		
Bankers' acceptances	**14,530,039**	10,164,190
Long-term investments		
Fixed income	**49,323,974**	51,095,733
Exchange traded funds	**245,000**	-
	49,568,974	51,095,733
	64,099,013	61,259,923

3. Investments (continued)

Investment income

The College's investment income for the year is comprised of the following:

	2017	2016
	$	$
Interest income	**1,427,547**	1,457,906
Unrealized gains on equity investments	**2,020**	-
	1,429,567	1,457,906

4. Capital assets

			2017	2016
	Cost	**Accumulated amortization**	**Net book value**	Net book value
	$	**$**	**$**	$
Land	**4,320,183**	**-**	**4,320,183**	4,320,183
Building and capital improvements	**4,183,351**	**2,551,919**	**1,631,432**	1,815,571
Computer equipment, software and development	**2,551,005**	**1,418,373**	**1,132,632**	1,233,055
Furniture, office equipment, and fixtures	**757,753**	**503,807**	**253,946**	99,912
	11,812,292	**4,474,099**	**7,338,193**	7,468,721

5. Accrued claims liability

The Professional Liability Program was established by the College to provide a first level of defense and management of professional liability claims against dentists. In 2017, dentists were each covered for a maximum liability of $2,000,000 (2016 - $2,000,000) for each validated claim. The College is liable for up to $2,000,000 (2016 - $2,000,000) of a validated claim, subject to a maximum aggregate loss limit of $15,000,000 (2016 - $10,000,000). Management expensed an amount of $2,946,608 (2016 - $3,747,903) based on its estimate of the ultimate exposure for the current claim year.

Management makes use of actuarial analysis in order to form such estimates. Unutilized loss limits of previous years are recorded as revenue. For total claims in a year in excess of $15,000,000, the College has obtained insurance. The individual member is responsible for any amounts in excess of $2,000,000 on any claim. The dentists are liable to the College for a deductible portion on each validated claim of $2,000 on any one occurrence, including defense costs, increasing to $5,000 for a second claim, $10,000 for a third claim and $20,000 for the fourth and subsequent claims in an 84 month period. These assessments are recorded when the file is closed. Members may request that the Professional Liability Committee of the College reduce the assessment in exchange for agreement to take remedial training in the specific area of dentistry on which the claim was based. The College is additionally liable for all loss adjustment expenses, which are expensed as incurred, related to claims arising since January 1, 1977. Final settlement of claims is subject to satisfactory resolution between the insurance company and the College. The accrued claims liability represents the accumulation of estimated unpaid losses of the College for all years with outstanding claims.

The accrued claims liability is estimated actuarially taking into account factors such as maximum aggregate loss limits for the specific claim year, overall performance and loss experience and anticipated inflationary trends. The estimates are subject to variability and this variability can have a material impact. The possibility of variability arises because all factors affecting the ultimate liability for loss and loss adjustment have not taken place and cannot be evaluated with absolute certainty.

6. Pension plan asset and liability

The College maintains a combined defined benefit and supplementary pension plan, for certain employees. The pension plans provide pension benefits based on length of service and final average earnings. The College measures its defined benefit obligations and the fair value of plan assets for accounting purposes as at December 31 each year. The most recently completed actuarial valuation of the pension plans for valuation purposes, was as of December 31, 2015. The College measures its obligation as at January 1 of each year. The most recent actuarial valuation prepared was as of January 1, 2017.

A reconciliation of the College's accrued benefit obligation to the accrued benefit asset (liability) is as follows:

			2017
	Defined benefit plan	**Supplementary plan**	**Total**
	$	**$**	**$**
Accrued benefit obligation	**(8,968,500)**	**(4,799,400)**	**(13,767,900)**
Fair value of plan assets	**11,794,800**	**2,866,400**	**14,661,200**
Funded status - plan deficit and accrued benefit asset (liability)	**2,826,300**	**(1,933,000)**	**893,300**

			2016
	Defined benefit plan	Supplementary plan	Total
	$	$	$
Accrued benefit obligation	(8,664,600)	(4,757,100)	(13,421,700)
Fair value of plan assets	11,125,100	2,595,100	13,720,200
Funded status - plan deficit and accrued benefit asset (liability)	2,460,500	(2,162,000)	298,500

Changes in actuarial assumptions used in estimating pension obligations and the value of plan assets may result in annual gains or losses. In 2017 losses of $263,900 (2016 - gains of $242,500) are reported as re-measurements in the statement of net assets.

The expense for the year related to the College's pension obligation was $190,600 (2016 - $283,100).

The employer contributions to the pension plans amounted to $243,800 (2016 - $336,700) for the defined benefit plan and $805,500 (2016 - $568,300) for the supplementary plan.

The significant actuarial assumptions adopted in measuring the College's accrued benefit obligation are as follows:

		2017		2016
	Defined benefit plan	**Supplementary plan**	Defined benefit plan	Supplementary plan
	%	**%**	%	%
Discount rate	**5.25**	**2.63**	5.25	2.63
Rate of compensation increase	**3.50**	**3.50**	3.50	3.50

6. Pension plan asset and liability (continued)

The College maintains a defined contribution plan for certain employees. During the year the College contributed $508,046 (2016 - $473,283) which has been expensed through the statement of operations.

7. Internally restricted fund balances

The College has no net assets with external restrictions. Certain net assets have been internally restricted as follows and have been included in the internally restricted fund balance on the statement of financial position:

Professional Liability Reserve Fund

The Professional Liability Reserve Fund was established to secure the liability for future claims in accordance with industry standards. Appropriations to this fund are made from the unrestricted fund balance. This internally restricted fund balance is $24,400,000 (2016 - $24,400,000).

Funds restricted for CRM

The CRM Reserve Fund was established in November 2017 to prepare for future capital expenditures and provide for the future liability of this investment. This internally restricted fund balance is $4,038,000 (2016 - $nil).

8. Professional liability program recoveries

The professional liability program recoveries balance is comprised mainly of the member assessments on closed files, referred to in Note 5. Other recoveries, when experienced, would also be included in this balance. Such recoveries could include costs awarded to the professional liability program on a matter that went to litigation, or amounts expensed in prior years to cover the cost of that claim year which is no longer required.

9. Credit facility

The College has a credit facility with a Canadian chartered bank of up to $500,000, which is secured by a collateral security pursuant to a General Security Agreement. $Nil has been drawn from this facility as at year-end (2016 - $Nil).

10. Commitments

The College has operating leases expiring at dates up to 2021 on office equipment requiring minimum annual lease payments as follows:

	$
2018	133,414
2019	133,414
2020	58,766
2021	12,684
	338,278

11. Contingencies

In the ordinary course of business the College is a defendant in various legal actions, the outcomes of which are not determinable at this time. Settlements, if any, will be accounted for in the period when these amounts can be reasonably determined and to the extent that the amounts are not recoverable from insurers. The College is vigorously defending these actions.

12. Guarantees

In the normal course of business, the College enters into agreements that meet the definition of a guarantee. The College's primary guarantees subject to disclosure requirements are as follows:

a) The College indemnifies all directors for various items, including but not limited to, all costs to settle suits or actions due to services provided to the College, subject to certain restrictions. The College has purchased liability insurance to mitigate the cost of any potential future suits or actions. The amount of any potential future payment cannot be reasonably estimated.

b) In the normal course of business, the College has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the College to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the College from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the College has not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in these financial statements with respect to these agreements.

13. Financial instrument risk

The College is exposed to the following risks related to its financial assets and liabilities:

a) Credit risk

The College is subject to credit risk through its trade receivables and investments. Credit risk arises from the potential that a counterparty will fail to perform its obligations. Credit risk with respect to the trade receivables is limited due to the nature of the College activities which consist of providing Membership services in exchange for practice licenses. Credit risk with respect to investments is limited due to the types of instruments held, which are described in Note 3.

b) 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 College is exposed to this risk through its investments, as this balance bears interest at varying rates and are subject to change due to, without limitation, such factors as interest rates and general economic conditions.

c) Price risk

Price risk is the risk that changes in the prices of the College's investments will affect the College's income or value of its investments. The College is exposed to this risk through its equity investments, as their value will fluctuate as a result of changes in market conditions, whether those changes are specific to an individual investment or factors affecting all securities traded in the market. To mitigate the impact of price risk, the College invests in a diversified portfolio of investments that include both equity and fixed income investments.

14. Comparative figures

Certain of prior year's figures have been reclassified to conform to the current year's presentation.