ROYAL COLLEGE OF DENTAL SURGEONS OF ONTARIO

Financial Statements

December 31, 2020

ROYAL COLLEGE OF DENTAL SURGEONS OF ONTARIO

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December 31, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Council of the
ROYAL COLLEGE OF DENTAL SURGEONS OF ONTARIO

Opinion

We have audited the financial statements of the Royal College of Dental Surgeons of Ontario (the "College"), which comprise the statement of financial position as at December 31, 2020, and the statements of operations, changes in fund balances, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the College as at December 31, 2020, 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.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the College 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 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 the College'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 the College or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the College's financial reporting process.

Auditor's 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 auditor's 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 the College'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 doubt on the College's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 the College 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.

TORONTO, Ontario
May 20, 2021

Licensed Public Accountants

ROYAL COLLEGE OF DENTAL SURGEONS OF ONTARIO

Statement of Financial Position

As at December 31	**2020**	2019
Assets		
Cash	**$ 11,740,046**	$ 2,827,846
Short term investments (note 3)	**18,123**	20,762,467
Accounts receivable (note 4)	**19,972,784**	1,043,294
Prepaid expenses	**720,438**	700,462
	32,451,391	25,334,069
Long term investments (note 3)	**39,511,044**	45,620,908
Capital assets (note 5)	**9,937,088**	8,472,218
Pension plan asset (note 8)	**3,272,200**	2,398,880
	$ 85,171,723	$ 81,826,075
Liabilities		
Accounts payable and accrued liabilities	**$ 2,972,181**	$ 2,884,063
Deferred revenue	**27,978,668**	27,149,370
	30,950,849	30,033,433
Accrued claims liability (note 6)	**20,823,615**	18,986,132
Post-retirement benefit plan liability (note 7)	**3,980,800**	3,541,100
Pension plan liability (note 8)	**1,170,300**	1,194,000
	56,925,564	53,754,665
Fund balances		
Internally restricted (note 9)	**25,030,370**	27,217,663
Unrestricted	**3,215,789**	853,747
	28,246,159	28,071,410
	$ 85,171,723	$ 81,826,075

Commitments (note 11)

Contingency (note 12)

Approved on behalf of the Members of Council

S Venditti

Dr. Sandy Venditti, 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	2020	2019
Revenue		
Registration and annual fees	**$ 29,551,882**	$ 27,731,883
Investment income (note 3)	**1,618,489**	1,920,891
Professional conduct recoveries	**174,100**	558,750
Professional liability program recoveries	**72,757**	203,000
Other income	**37,080**	593,822
	31,454,308	31,008,346
Expenses		
Staffing costs	**16,993,610**	16,327,665
Professional liability program provision (note 6)	**5,955,426**	5,456,552
Consulting and professional fees	**2,864,541**	2,744,391
Telecommunications and technology	**1,412,036**	1,258,878
Amortization and write offs	**1,044,821**	1,088,313
Council and committees	**984,995**	1,051,305
Operations and facilities	**705,519**	941,054
Administration	**580,013**	1,586,504
Insurance and brokerage	**556,788**	518,595
Faculty payments and fees	**404,010**	452,497
	31,501,759	31,425,754
Excess of expenses over revenue	**$ (47,451)**	$ (417,408)

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	**Internally Restricted** (note 9)	**Unrestricted**	**2020 Total**	2019 Total
Balance, beginning of year	**$ 27,217,663**	**$ 853,747**	**$ 28,071,410**	$ 28,359,518
Excess of expenses over revenue for the year	**-**	**(47,451)**	**(47,451)**	(417,408)
Inter-fund transfers	**(2,187,293)**	**2,187,293**	**-**	-
Remeasurements and other items:				
Post-retirement benefit plan (note 7)	**-**	**(365,400)**	**(365,400)**	98,600
Pension plans (note 8)	**-**	**587,600**	**587,600**	30,700
Balance, end of year	**$ 25,030,370**	**$ 3,215,789**	**$ 28,246,159**	$ 28,071,410

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		**2020**		2019
Operating activities				
Excess of expenses over revenue for the year	**$**	**(47,451)**	$	(417,408)
Item not affecting cash				
Amortization of bond premiums, net		**65,460**		84,525
Amortization and write off of capital assets		**1,044,821**		1,088,313
Pension plan expense		**234,200**		192,300
Post-retirement benefit plan expense		**145,100**		200,100
Change in unrealized gain on long term investments		**(371,172)**		(448,661)
		1,070,958		699,169
Changes in non-cash working capital balances:				
Short term investments		**20,744,344**		(2,812,540)
Accrued interest on long-term investments		**(26,995)**		(9,296)
Accounts receivable		**(18,929,490)**		(272,033)
Prepaid expenses		**(19,976)**		(461,963)
Accounts payable and accrued liabilities		**88,118**		1,276,077
Deferred revenue		**829,298**		1,869,328
Accrued claims liability		**1,837,483**		624,717
		5,593,740		913,459
Financing activities				
Contributions to pension plan		**(543,600)**		(537,800)
Contributions to post-retirement benefit plan		**(70,800)**		(63,500)
		(614,400)		(601,300)
Investing activities				
Proceeds from sale of investments, net		**6,442,551**		1,099,490
Additions to capital assets		**(2,509,691)**		(1,177,061)
		3,932,860		(77,571)
Net cash inflow		**8,912,200**		234,588
Cash, beginning of year		**2,827,846**		2,593,258
Cash, end of year	**$**	**11,740,046**	$	2,827,846

1 Organization

The Royal College of Dental Surgeons of Ontario (the "College") was founded in 1868 and 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 (Canada).

2 Significant accounting policies

These financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations.

a) 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 included in long term investments which are measured at fair value.

b) 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

The above rates are reviewed annually to ensure they are appropriate. Any changes are adjusted for on a prospective basis. If there is an indication that the assets may be impaired, an impairment test is performed that compares carrying amount to net recoverable amount.

c) 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:

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

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

iii) Remeasurements 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, 2020 and the results were projected to December 31, 2020.

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

2 Significant accounting policies (continued)

d) Revenue recognition

i) Registration and annual fees

The College's principal source of revenue is registration and annual fees which are recognized as revenue in the period to which these fees relate. Annual fees received or receivable in the current year, applicable to a subsequent year are recorded as deferred revenue in the statement of financial position and will be accounted for in revenue in the year to which they pertain.

ii) Investment income

Investment income consists of interest and dividends earned and unrealized gains and losses on exchange traded funds. The income is recognized as earned.

iii) Professional conduct recoveries

Revenues are recognized in the year in which the files have been settled and costs have been awarded or when monitoring services are rendered.

iv) Professional liability program recoveries

Recoveries are recognized in the year in which the files are closed and costs have been incurred on the file in excess of the minimum applicable deductible.

v) Other income

All other income, consisting of late payment penalty fees, course registration fees and other miscellaneous income are recognized as revenue when services are provided or as earned.

e) Management estimates

The preparation of the College's 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 at the date of the financial statements and the reported amounts of revenues and expenses during the year.

Key areas where management has made difficult, complex or subjective judgments, often as a result of matters that are uncertain, include, among others, accounts receivable valuation, useful lives for amortization of capital assets, accounts payable and accrued liabilities, accrued claims liability, post-retirement benefit plan liability and the pension plan obligation. Actual results could differ from these and other estimates, the impact of which would be recorded in future periods. Estimates and underlying assumptions are reviewed on an ongoing basis.

3 Investments

As at December 31	**2020**	2019
Short term investments		
Cash and bankers' acceptances	**$ 18,123**	$ 20,762,467
Long term investments		
Fixed income	**33,726,648**	41,894,100
Exchange traded funds	**5,784,396**	3,726,808
	39,511,044	45,620,908
	$ 39,529,167	$ 66,383,375

3 Investments (continued)

The College's short term investments consist of cash held in an investment account and bankers' acceptances with maturity dates of six months or less from the year end date.

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

i) Fixed income investments

Fixed income investments consist of federal and provincial bonds and guaranteed investment certificates bearing interest rates ranging from 1.91% to 4.61% (2019 - 2.03% to 4.61%), maturing between fiscal years ending 2021 to 2026 (2019 - 2020 to 2026). The carrying value of these fixed income investments includes accrued interest of $120,730 (2019 - $147,725) and amortized bond premiums, net of discounts of $434,942 (2019 - $535,872) for a total unamortized cost of $34,040,861 (2019 - $42,282,247). Fixed income investments totaling $12,045,779 (2019 - $8,241,386) mature within the next fiscal year.

ii) Equity investments

As at December 31	**2020**		2019	
	Market Value	**Cost**	Market Value	Cost
Exchange traded funds	**$ 5,784,396**	**$ 5,160,875**	$ 3,726,808	$ 3,474,460

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

Year ended December 31	**2020**	2019
Interest and dividend income	**$ 1,247,317**	$ 1,472,230
Change in unrealized gain on equity investments	**371,172**	448,661
	$ 1,618,489	$ 1,920,891

4 Accounts receivable

Members were granted an extended period of time to pay their 2021 annual dues as a result of the pandemic. Under normal circumstances, annual fees are due December 31. The extension ensured members would not be penalized with the late fee until February 28, 2021.

5 Capital assets

As at December 31		**2020**		2019
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Land	**$ 4,320,183**	**$ -**	$ 4,320,183	$ -
Building and capital improvements	**4,827,404**	**3,252,764**	4,661,848	2,983,291
Computer software and development	**4,592,658**	**874,279**	2,898,832	891,041
Computer equipment	**885,866**	**719,808**	799,528	587,693
Furniture, office equipment and fixtures	**937,314**	**779,486**	937,314	683,462
	$ 15,563,425	**$ 5,626,337**	$ 13,617,705	$ 5,145,487
Net book value		**$ 9,937,088**		$ 8,472,218

Included in computer software and development is $129,121 (2019 - $102,658) of costs related to projects not complete or in use as at December 31, 2020. Accordingly, no amortization has been taken in the current year on these software and development costs.

6 Accrued claims liability

The Professional Liability Program was established by the College to provide a first level of defence and management of professional liability claims against dentists. The accrued claims liability represents the accumulation of estimated unpaid losses of the College for all years with outstanding claims. Management expensed an amount of $5,955,426 (2019 - $5,456,552) based on its estimate of the ultimate exposure for the current claim year.

In 2020, dentists were each protected for a maximum indemnity of $2,000,000 (2019 - $2,000,000) for each validated claim. The College is liable up to $2,000,000 (2019 - $2,000,000) of a validated claim, subject to a maximum aggregate loss limit of $10,000,000 (2019 - $10,000,000).

Management makes use of actuarial analysis in order to form such estimates. The accrued claims liability takes 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. Differences in the estimate of the accrued claims liabilities are accounted for as claims are settled.

For total claims in a year in excess of $10,000,000 (2019 - $10,000,000), 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 claim of $2,000 on any one occurrence, including defence 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.

7 Post-retirement benefit plan

The College provides, for eligible employees, a plan that includes lifetime benefits for dental, extended health, vision and life insurance subject to certain limits as defined in the plan.

The remeasurements and other items for 2020 amounted to a loss of $365,400 (2019 - gain of $98,600) which is reported in the statement of changes in fund balances. The expense for the year related to the plan is $145,100 (2019 - $200,100). The College's contributions to the plan amounted to $70,800 (2019 - $63,500).

As at December 31, 2020, the College's obligation for the post-retirement benefit plan is unfunded and is calculated as $3,980,800 (2019 - $3,541,100). The discount rate used in measuring the College's obligation was 3.15% (2019 - 3.95%).

8 Pension plan asset and liability

The College maintains a combined defined benefit and supplementary pension plan, for eligible 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 January 1, 2020.

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

2020	**Defined benefit plan**	**Supplementary plan**	**Total**
Accrued benefit obligation	**$ (10,547,100)**	**$ (4,639,300)**	**$ (15,186,400)**
Fair value of plan assets	**13,819,300**	**3,469,000**	**17,288,300**
Funded status - plan deficit and accrued benefit asset (liability)	**$ 3,272,200**	**$ (1,170,300)**	**$ 2,101,900**

2019	Defined benefit plan	Supplementary plan	Total
Accrued benefit obligation	$ (10,679,220)	$ (4,783,700)	$ (15,462,920)
Fair value of plan assets	13,078,100	3,589,700	16,667,800
Funded status - plan deficit and accrued benefit asset (liability)	$ 2,398,880	$ (1,194,000)	$ 1,204,880

Changes in actuarial assumptions used in estimating pension obligations and the value of plan assets may result in annual gains or losses. In 2020, gains of $587,600 (2019 - gains of $30,700) are reported as remeasurements in the statement of changes in fund balances.

The expense for the year related to the College's pension obligation was $234,200 (2019 - $192,300).

The employer contributions to the pension plans amounted to $399,500 (2019 - $357,800) for the defined benefit plan and $144,100 (2019 - $180,000) for the supplementary plan.

8 Pension plan asset and liability (continued)

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

	2020		2019	
	Defined benefit plan	**Supplementary plan**	Defined benefit plan	Supplementary plan
	%	**%**	%	%
Discount rate	**4.90**	**2.45**	5.25	2.63
Rate of compensation increase	**2.25**	**2.25**	3.00	3.00

The College maintains a defined contribution plan for certain employees. During the year, the College contributed $820,264 (2019 - $637,952) which has been expensed through the statement of operations.

9 Internally restricted fund balances

The Council of the College has internally restricted funds to be used for specific purposes. These funds are not available for unrestricted purposes without approval of the Council.

As at December 31	**2020**	2019
Professional liability reserve fund	**$ 24,400,000**	$ 24,400,000
CRM reserve fund	**630,370**	2,817,663
	$ 25,030,370	$ 27,217,663

i) Professional liability reserve fund

The professional liability reserve fund was established to fund the liability for future claims.

ii) CRM reserve fund

The CRM (customer relationship management software) reserve fund was established in 2017 to prepare for future capital expenditures and provide for the future funding of this investment.

10 Credit facility

The College has available a standby letter of credit in the amount of $1,508,500 (2019 - $1,149,000) for the supplementary pension plan. As at December 31, 2020, no amount has been drawn against this facility (2019 - Nil).

11 Commitments

The College has operating leases expiring at dates up to 2024 on office equipment requiring minimum annual lease payments for each of the next four fiscal years as follows:

2021	$ 100,302
2022	100,302
2023	96,644
2024	61,544
	$ 358,792

12 Contingency

The College is a defendant in a legal action, the outcome of which is 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 the action.

13 Guarantees

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

i) The College indemnifies all directors for various items, including but not limited to, all costs to settle lawsuits 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 lawsuits or actions. The amount of any potential future payment, if any, cannot be reasonably estimated.

ii) In the normal course of operations, 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 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.

14 Financial instrument risk

The College is exposed to various risks through its financial instruments. The following analysis provides a measure of the College's risk exposure at the statement of financial position date.

General objectives, policies and processes

Council has overall responsibility for the determination of the College's risk management objectives and policies.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The College is exposed to credit risk through its cash balances with banks, accounts receivable and investments.

Accounts receivable are unsecured. This risk is mitigated by the College's requirement for members to pay their fees in order to renew their annual license to practice. The College also has collection policies in place.

Credit risk associated with cash and investments is minimized by ensuring that these assets are invested in financial obligations of major financial institutions or government bodies.

Liquidity risk

Liquidity risk is the risk that the College will not be able to meet a demand for cash or fund its obligations as they come due. The College meets its liquidity requirements and mitigates this risk by monitoring cash activities and expected outflows and holding assets that can be readily converted into cash, so as to meet all cash outflow obligations as they fall due.

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 is comprised of currency risk, interest rate risk and equity risk. The College is not exposed to currency risk.

Interest rate risk

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate due to changes in market interest rates. The exposure of the College to interest rate risk arises from its interest bearing investments and cash. The primary objective of the College with respect to its fixed income investments ensures the security of principal amounts invested, provides for a high degree of liquidity, and achieves a satisfactory investment return giving consideration to risk.

Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The College is exposed to this risk to the extent of the exchange traded funds held.

Changes in risk

There have been no significant changes in risk exposures from the prior year.