Yukon Development Corporation

2014
Annual Report

YUKON DEVELOPMENT
CORPORATION

Chair's Message

Yukon Development Corporation (YDC) Board of Directors had a busy 2014. A governance review was completed and several initiatives to strengthen the Board's governance structure were undertaken thanks to the hard work of the board and YDC staff members.

The corporation continued to implement the Hydropower Planning Directive and completed a workplan for Next Generation Hydro in May, 2014. The corporation is progressing forward with technical papers that will review future energy needs 20 to 50 years from now, and how those needs may be met through the development of hydro together with other renewables. YDC began engaging with all Yukoners and First Nations on the progress of technical work developed through the Next Generation Hydro project.

YDC continues to work with its subsidiary, Yukon Energy Corporation, to ensure the production of cost effective and reliable energy to meet Yukon's needs for now and the future

Joanne Fairlie, Chair

Message from the A/President & Chief Executive Officer

Yukon Development Corporation's (YDC) 2014 annual report was prepared under the Board's direction and represents a balanced and accurate summary of the Corporation's performance for the calendar and fiscal year ended December 31, 2014.

2014 was an exciting year for Yukon Development Corporation. The corporation moved into new office space with new projects.

YDC hired two contractors to provide technical and engagement support for the Next Generation Hydro Project. This initiative is progressing and we look forward to the completion of the technical papers early in 2016.

YDC is in the initial stages of working with its subsidiary to update the Stewart to Keno City Transmission Line.

A new Protocol between YDC and Yukon government was developed. In addition to the Next Generation Hydro project, priorities for 2015 will be a new five year Strategic Plan; a review and update of the YDC Governance Manual and completion of updating YDC Bylaws.

George Ross, A/President & CEO

YDC Audit Committee

Collin Young (Chair)
Joanne Fairlie
Dan Reams
John Wierda

YDC Governance Committee

Jackie Bazett (Chair)
Paul Birckel
Joanne Fairlie
Michael Lauer

Senior Management and Officers

Greg Komaromi, President and Chief Executive Officer (Retired May 2015)

Lisa Jarvis, Corporate Secretary

Blaine Anderson, Chief Financial Officer

Yukon Development Corporation

Consolidated Financial Statements

December 31, 2014

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the Yukon Development Corporation

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of the Yukon Development Corporation, which comprise the consolidated balance sheet as at 31 December 2014, and the consolidated statement of operations, comprehensive income and retained earnings and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Yukon Development Corporation

Consolidated Financial Statements

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Yukon Development Corporation

Consolidated Statement of Operations, Comprehensive Income and Retained Earnings

For the year ended December 31, (in thousands of dollars)	**2014**	2013
Revenue		
Sales of power (note 20)	$ 39,355	$ 38,571
Government of Yukon (note 1)	5,844	6,065
Allowance for funds used during construction	1,183	923
Amortization of capital assistance from Government of Yukon	506	377
Other income	275	280
Interest income	51	-
	47,214	46,216
Expenses		
Administration (note 21)	11,589	10,706
Operations and maintenance (note 22)	10,056	9,983
Amortization of property, plant and equipment	6,481	6,298
Interest on long-term debt	6,306	6,188
Amortization of deferred charges	2,210	2,689
Amortization of intangible assets	568	1,813
Provision for uninsured losses (note 9)	226	226
	37,436	37,903
Net income before other items	**9,778**	8,313
Interim electrical rebate program (note 1)	**(3,070)**	(3,046)
Unrealized gain (loss) on interest rate swaps (note 28)	**(520)**	786
Net income	**6,188**	6,053
Other comprehensive income	**-**	-
Comprehensive income	**6,188**	6,053
Retained earnings, beginning of year	**127,970**	121,917
Retained earnings, end of year	**$ 134,158**	$ 127,970

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

1. Nature of operations

Yukon Development Corporation (the "Corporation") was originally established under the *Yukon Development Corporation Act* to participate with the private sector in the economic development of the Yukon, to make strategic investments to the benefit of the territory and to acquire and operate the assets of Northern Canada Power Commission in the Yukon. In 1993, the Corporation's mandate was changed to restrict its new initiatives to energy-related activities designed to promote the economic development of the Yukon.

The Corporation's wholly-owned subsidiary, Yukon Energy Corporation (the "Utility") was incorporated under the Yukon *Business Corporations Act*. The Utility generates, transmits, distributes and sells electrical energy in the Yukon and is subject to overall regulation by the Yukon Utilities Board (YUB) and specific regulation by the Yukon Territory Water Board. Both of these boards are independent from the Utility.

The Corporation and the Utility are not subject to income taxes.

Rate regulation

The operations of the Utility are regulated by the YUB pursuant to the *Public Utilities Act (Yukon).* There is no minimum requirement for the Utility to appear before the YUB to review rates. However, the Utility is not permitted to charge any rate for the supply of power that is not approved by an Order of the YUB. The Utility is subject to a cost of service regulatory mechanism under which the YUB establishes the revenues required (i) to recover the forecast operating costs, including depreciation and amortization, of providing the regulated service, and (ii) to provide a fair and reasonable return on utility investment or rate base. As actual operating conditions may vary from forecast, actual returns achieved can differ from approved returns.

The regulatory hearing process used to establish or change rates typically begins when the Utility files a General Rate Application (GRA) for its proposed electricity rate changes over the next one or two forecast years. The YUB must ensure that its decision, which fixes electricity rates, complies with appropriate principals of rate making, all relevant legislation including the *Public Utilities Act* and directives issued by the Yukon Government through Orders-In-Council that specify how the interests of the customer and Utility are to be balanced.

The YUB typically follows a two-stage decision process. In the first stage, the total costs that the Utility will incur to provide electricity to its customers over the immediate future are reviewed and approved. The approval of these costs determines the total revenues the Utility is allowed to collect from its customers. It is the responsibility of the YUB to examine the legitimacy of three classes of costs:

- the costs to the Utility to run its operations and maintain its equipment (personnel and materials);
- the cost associated with the amortization of all capital equipment; and
- the return on rate base (the costs related to borrowing that portion of the rate base which is financed with debt, plus the costs to provide a reasonable rate of return on that portion of the rate base which is financed with equity).

The YUB assesses the prudency of costs added to rate base, which includes an allowance for funds used during construction (AFUDC) charged to capital projects. The YUB also reviews the appropriateness of asset depreciation rates, which are periodically updated by the Utility through depreciation studies.

In the second stage, the YUB approves how the revenue will be raised. This stage essentially determines the electricity rates for the various customer classes in the Yukon: residential, government, commercial and industrial. This process is guided mainly by requirements of Yukon Government Order-in Council 1995/90 and can include a cost-of-service study which allocates the overall Utility's cost of service to the various customer classes on the basis of appropriate costing principles.

3. Significant accounting policies - continued

The consolidated financial statements reflect the rate regulated accounting policies adopted by the Utility which differ from the accounting policies otherwise expected using GAAP. In particular, the timing of the Utility's recognition of certain assets, liabilities, revenues and expenses as a result of regulation differ from that of a non-regulated enterprise.

The impact on the consolidated financial statements of accounting for rate regulated operations are further described in note 4. The significant accounting policies have been classified accordingly in the notes below:

Rate regulated accounting policies adopted by the Utility

Allowance for funds used during construction
The cost of the Utility's property, plant and equipment and deferred charges includes an allowance for funds used during construction (AFUDC) as allowed by the regulator. The calculation of the estimate is based on the Utility's weighted average cost of debt. The AFUDC rate estimate was 4.01% for 2014 (2013 - 4.00%).

Property, plant and equipment
The gain or loss on the disposal or retirement of property, plant and equipment, with the exception of land and vehicles, is deferred and amortized over the remaining expected useful lives of the assets.

Deferred uninsured losses
The Utility maintains a regulatory account for recording uninsured losses. An annual provision is approved by the YUB and collected through customer rates. Variances between the approved annual provision and actual costs incurred are deferred until the following GRA or until a specific application is made to the YUB requesting recovery from or refund to customers.

Deferred charges
Deferred charges are recorded at cost and include an AFUDC component as allowed by the YUB.

All deferred charges are amortized to earnings on a straight-line basis over terms approved by the YUB.

Cost of feasibility studies and infrastructure planning which did not result in a capital project are amortized over terms ranging between five and ten years.

IFRS costs are associated with the accounting conversion from Canadian Generally Accepted Accounting Principles to International Financial Reporting Standards.

Deferred customer service costs are amortized over twelve years.

The deferred hearing cost account is used to record the deferral of costs associated with preparation and defense of applications to the YUB. These costs are amortized over terms ranging between ten to forty five years.

Deferred Vegetation management costs are brushing costs in excess of an annual amount approved by the YUB.

Future removal and site restoration costs
The Utility maintains a provision for the future removal of property, plant and equipment and the costs of site restoration related to those assets. As Per YUB Order 2005-12 no additional provisions are currently permitted.

This account provides for the costs of demolishing, dismantling, tearing down, or otherwise disposing of an asset and any site restoration costs, net of actual recoveries. This account is not used when the costs relate to an asset retirement obligation.

3. Significant accounting policies - continued

Asset retirement obligations
On an annual basis the Utility identifies legal obligations associated with the retirement of tangible long-lived assets. Where a reasonable estimate of the fair value of these obligations can be determined, the total retirement costs are to be recorded as a liability at fair value, with a corresponding increase to property, plant and equipment.

The Utility has determined that it has tangible long lived assets with associated future legal obligations for retirement. As the Utility anticipates using the assets for an indefinite period, the date of removal of these assets cannot be reasonably determined, and therefore an asset retirement obligation has not been recorded. When the timing and amount of the retirement can be reasonably estimated, an asset retirement obligation and the corresponding increase in property, plant and equipment asset will be recognized.

Direct financing leases
Investments in direct finance leases are carried at the lower of cost and net realizable value.

Contributions in aid of construction
Certain property, plant and equipment additions are made with the assistance of cash contributions from customers or government. These contributions are deferred upon receipt and are amortized to income on the same basis as the assets to which they relate. Amortization of contributions from customers and the Government of Canada is netted on the statement of operations against amortization expense while amortization of capital assistance from the Yukon Government is disclosed separately under Amortization of contributions from the Government of Yukon.

Deferred licensing costs
Costs related to obtaining water license renewals are deferred and amortized to earnings on a straight line basis over the term of the license. The Utility operates its hydro generation facilities under three separate water licenses, with terms ranging from 17 to 25 years. Diesel generation air emission permits have a term of three years. These costs are treated as intangible assets and are measured at initial cost and amortized over the life of the license.

Employee pension plan
The Utility sponsors an employee defined benefit pension plan which provides benefits based on the length of service and average salaries for the five highest paid consecutive years of service. Employees joining the Utility after January 1, 2002 are not eligible to participate in the defined pension plan. Effective January 1, 2011, the Utility also sponsors an executive defined benefit pension plan and supplemental executive retirement plan. The Utility contributes amounts to the pension plans as recommended by an independent actuary.

The cost of pension benefits is actuarially determined using the projected benefits method, prorated on service, and reflects management's best estimates of investment returns, wage and salary increases, and age at retirement. Pension costs include the adjustments resulting from plan enhancements, actuarial gains and losses, and changes in assumptions which are amortized over the expected average remaining service period of active employees. The excess of the net unrecognized actuarial gains and losses over 10% of the greater of the accrued benefit obligation and the fair value of the plan assets is amortized on a straight line basis over the expected average remaining service period of active employees, which is currently 8 years for the employee plan (2013 - 8 years) and 2 years for the executive plan (2013 - 3 years). The transitional asset (liability) arising when these policies are first applied is amortized over the average remaining service period of active employees when the amendment is recognized, which is 18 years for the employee plan and 5 years for the executive plan. The expected return on plan assets is based on the fair value of these assets.

3. Significant accounting policies - continued

Measurement uncertainty
The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. The most significant estimates include those for revenue, accounts receivable, property, plant and equipment, asset retirement obligations, employee pension obligations and rate regulated assets and liabilities. Actual results could differ by a significant amount from these estimates.

Management's estimates and assumptions, especially those affecting the reported amounts of regulated assets and the Utility's ability to recover the cost of these assets through future rates, are subject to decisions of the YUB as described in note 4.

4. Financial statement effects of rate regulation

Diesel Contingency Fund and Energy Reconciliation Adjustment
As part of the 2012/13 GRA, the Utility filed for changes to the DCF and ERA provisions of the Wholesale Primary rate schedule. The YUB deferred a decision on these two issues pending further consultation with affected utilities and a separate proceeding to review the impacts of proposed changes. In January 2014, the Utility filed an application to revise the DCF and ERA with the YUB. A decision was delivered February 6, 2015. In accordance with YUB Order 2015-01, the Utility defers any excess revenues collected from rate payers when the cost of diesel fuel consumed in the period is less than the long-term average diesel requirement estimated for the actual annual generation load. These deferred revenues are recognized as revenue in the current period when the cost of diesel fuel consumed for the period is greater than the long-term average diesel requirement and the reason for the shortfall is a shortage of water in the hydro system. The YUB has set a cap of +/- $8 million, for the DCF. If the balance falls outside of this range, the Utility is to make an application to the YUB to dispense with the excess (note 17). In accordance with YUB Order 2015-01, the Utility has eliminated the ERA balances in accounts receivable and accounts payable. The YUB has requested the Utility to make another submission for the ERA in 2015.

Regulatory accounts
Certain items in these consolidated financial statements are accounted for differently than they would be in the absence of rate regulation.

Where regulatory decisions dictate, the Utility defers certain costs or revenues as assets or liabilities on the balance sheet and records them as expenses or revenues on the statement of operations as it collects or refunds amounts through future customer rates. Any adjustments to these deferred amounts are recognized in income in the period that the YUB renders a subsequent decision. Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods, which are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate-setting process.

4. Financial statement effects of rate regulation - continued

Deferred Customer Service Costs
These are costs associated with negotiating terms of service with a new industrial customer in 2008. In the absence of rate regulation, expenses in 2014 would have been $64,000 lower (2013 - $64,000 lower expenses).

Regulatory costs
These costs are associated with the YUB regulatory proceedings. The costs consist primarily of various rate and project review proceedings but also include resource plans, hearing costs from before 2012 and demand side management costs. The Utility is directed to defer and amortize the costs over terms at the discretion of the YUB. In the absence of rate regulation, expenses in 2014 would have been $323,000 higher (2013 - $228,000 lower expenses).

Dam safety review
The Utility has a program of conducting reviews of the safety of its dams in accordance with standards set by the Canadian Dam Association. External consultants are hired every five years with intermittent costs incurred in the interim periods. These costs are amortized over five years as approved by the Utility's 1991/92 General Rate Application and reconfirmed in YUB Order 2005-12 and YUB 2009-8. In the absence of rate regulation, expenses in 2014 would have been $24,000 lower (2013 - $24,000 lower expenses).

IFRS planning
These costs are associated with the accounting conversion from Canadian GAAP to IFRS. In the absence of rate regulation, expenses in 2014 would have been $113,000 lower (2013 - $128,000 lower expenses).

Vegetation management
These deferred costs are associated with annual brushing costs in excess of the maximum amount approved by the YUB. Amortization of these costs has not yet been approved. In the absence of rate regulation, expenses in 2014 would have been $917,000 higher (2013 - $Nil higher expenses).

(b) Deferred uninsured losses
The YUB has approved the use of a deferral account for uninsured damages and injuries as a means of self-insurance. The account is maintained through an annual provision approved the YUB. In order to eliminate the deficit rate payers owed as a result of uninsured losses, the Utility was directed by YUB Order 2013-01 to transfer the balance of $397,000 in the Faro mine dewatering deferral revenue account a at January 1, 2012 to Deferred uninsured losses and to amortize the remaining negative balance in the account of $180,000 over a five-year period. In addition, the Utility was directed by YUB Order 2013-01 to record an annual provision of $190,000 in 2012 and each subsequent year. In the absence of rate regulation, GAAP would require costs to be expensed as incurred and, therefore, expenses in 2014 would have been lower by $30,000 (2013 - $178,000 higher expenses). The period over which the provision will be recovered is dependent on the magnitude of future actual losses incurred and cannot be estimated.

(c) Deferred overhauls
Overhauls represent costs incurred to overhaul engines that are in operations. The Utility was directed by the YUB Order 2013-01 to defer all overhead costs incurred after 2011 in construction in progress until the Utility comes before the Board for a prudence review and the costs are approved to be capitalized. GAAP would require that major overhauls that extend the life of the asset to be capitalized and amortized over the remaining useful life of the asset while all other overhauls are expensed in the year incurred. Total deferred overhaul costs were $5,269,000 (2013 - $3,600,000). In the absence of rate regulation, amortization expense in 2014 would have been $598,000 higher (2013 - $229,000 higher).

December 31, 2014 (tabular amounts in thousands of dollars)

4. Financial statement effects of rate regulation - continued

Other items affected by rate regulation

It is the Utility's policy to charge to income, in the year of disposal, any gain or loss upon retirement or disposal of land or vehicles. As approved by the YUB, the gain or loss on all other property, plant and equipment is deferred and amortized over the expected life of the remaining pool of similar assets. In the absence of rate regulation, GAAP would require the gain or loss on the disposal or retirement of all property, plant and equipment to be included in income in the period of disposal or retirement.

The Utility's policy of maintaining a constant capital structure of 60% debt and 40% equity is reviewed by the YUB in assessing the amount the Utility is entitled to as a return on rate base. In the absence of rate regulation, the Utility would determine the appropriate capital structure solely based on decisions by the Board of Directors of the Utility, which may differ from the current policy.

All amounts maintained as regulatory assets and liabilities are expected to be recovered or settled over the periods noted above. However, there are risks and uncertainties associated with the recovery or settlement related to potential future decisions of the YUB which could result in material adjustments to these assets and liabilities.

5. Cash

The cash balance includes an amount of $Nil (2013 - $1,292,000) that is restricted for the payment of a contractor holdback.

6. Accounts receivable

	2014	2013
Wholesale energy sales	$ 3,842	$ 5,401
Retail energy sales	1,327	1,869
Other	2,860	1,011
	$ 8,029	$ 8,281

Included in Accounts Receivable Other is an amount equal to $Nil (2013 - $453,000) for additional ERA revenue receivable. In accordance with YUB Order 2015-01, this year the Utility has eliminated the ERA balances in accounts receivable and accounts payable. The YUB has directed the Utility to refile the ERA provisions in 2015. See note 4 for further explanation.

December 31, 2014 (tabular amounts in thousands of dollars)

10. Deferred charges and intangible assets

	Cost	Accumulated Amortization	**2014** Net Book Value	2013 Net Book Value
Intangible assets:				
Deferred licensing costs	$ 11,202	$ 6,539	$ 4,663	$ 4,715
Deferred charges:				
Feasibility studies and infrastructure planning	22,124	4,672	17,452	16,481
IFRS planning	566	339	227	340
Regulatory costs	6,045	3,000	3,045	2,722
Deferred customer service costs	769	390	379	443
Dam safety review	332	308	24	48
Vegetation management costs	917	-	917	-
Deferred financing costs	110	110	-	11
	$ 42,065	**$ 15,358**	**$ 26,707**	$ 24,760

11. Bank indebtedness

The Utility has access to a $17.5 million line of credit. The account accrues interest on withdrawals at prime minus 0.75% per annum. At December 31, 2014, the balance of the line of credit was $1,416,019 (2013 - $Nil).

12. Accounts payable and accrued liabilities

	2014	2013
Trade payables	$ 14,332	$ 11,486
Other	252	493
Employee compensation	1,122	358
	$ 15,706	$ 12,337

Included in Accounts Payable is an amount equal to $Nil (2013 - $453,000) for additional ERA revenues. In accordance with YUB Order 2015-01, this year the Utility has eliminated the ERA balances in accounts receivable and accounts payable. The YUB has directed the Utility to refile the ERA provisions in 2015. See note 3 for further explanation.

December 31, 2014 (tabular amounts in thousands of dollars)

16. Contributions in aid of construction

	Cost	Accumulated Amortization	**2014** Net Book Value	2013 Net Book Value
Contributions from Canada	$ 71,000	$ 3,048	$ 67,952	$ 68,943
Contributions from customers since 1998	24,003	7,581	16,422	16,996
Government of Yukon contributions	17,959	2,915	15,044	15,421
Pre - 1998 contributions	1,739	1,249	490	534
Deferred insurance proceeds	11,122	5,648	5,474	5,724
	$ 125,823	**$ 20,441**	**$ 105,382**	$ 107,618

The sources of contributions received prior to 1998 were not recorded separately.

17. Regulatory hearing reserve

	2014	2013
Balance, beginning of year	$ 106	$ -
Regulatory provision	550	550
Costs	(432)	(444)
Balance, end of year	**$ 224**	$ 106

The regulatory provision is included in amortization of deferred charges on the statement of operations, comprehensive income and retained earnings.

18. Diesel contingency fund

	2014	2013
Balance, beginning of year	$ 8,198	$ 4,628
Transfers (note 4)	1,342	3,518
Interest	87	52
Balance, end of year	**$ 9,627**	$ 8,198

Subsequent to year end, the YUB approved amendment to the DCF which included a fund limit of $8 million. In accordance with the rules established by the YUB, the Utility plans to implement a refund rider to return the excess funds to rate payers.

December 31, 2014 (tabular amounts in thousands of dollars)

19. Long-term debt - continued

Carmacks Stewart First Nation liability Long-term liability payable to several First Nations related to the construction of the Carmacks Stewart Transmission Line. These are non interest bearing repayable in varying instalments, due in 2028.		281		311
Total	**$**	**127,006**	$	128,031

The Corporation's long-term debt is summarized as follows:

		2014		2013
Total - balance forward	**$**	**127,006**	$	128,031
Less current portion		4,578		4,521
	$	**122,428**	$	123,510

Long-term debt repayment

Scheduled repayments for all long-term debt are as follows:

2015	$	4,578
2016		4,443
2017		2,812
2018		551
2019		560
Thereafter		114,062
	$	**127,006**

Fair value

Fair value at December 31, 2014 of $158 million (2013 - $139 million) for all long-term debt including current portions was estimated using discounted cash flows based on an estimate of the Corporation's current borrowing rate for similar borrowing arrangements.

Bond

The Corporation issued a bond in 2010 for the face value of $100 million. The interest rate is 5% and the bond matures June 29, 2040. There are no principal payments due until the bond matures and interest is payable semi annually. The bond was issued at a discount of $0.7 million which will be amortized over the period of the related debt using the effective interest rate. Transaction costs were $1.2 million and includes fees paid to agents and advisors and are presented as a reduction from the carrying value of the related debt and are amortized over the period of the related debt using the effective interest rate.

December 31, 2014 (tabular amounts in thousands of dollars)

23. Related party transactions

The Corporation is related in terms of common ownership to all Government of Yukon (YG) departments, agencies and Crown Corporations. Transactions with these entities are entered into in the normal course of operations. All transactions with the Utility are recorded at rates set out by the YUB.

The following table summarizes the related party transactions for the year:

	2014	2013
Construction financing from YG	$ 28,000	$ 12,000
Contributions from YG for Interim Electrical Rebate program	3,218	3,440
Account receivable YG	1,832	402
Contributions from YG for Bond interest expense	1,628	2,625
Contributions from YG for Next Generation Hydro expense	998	-
Account payable YG	813	23
Program cost reimbursement from YG	118	100

24. Pension costs and obligations

An actuarial valuation for funding purposes of the employee defined benefit plan was performed as of January 1, 2014. The next valuation for funding purposes will be conducted as of January 1, 2015. An actuarial valuation for funding purposes of the executive employee defined benefit plan and supplemental executive retirement plan was performed as of January 1, 2014. The next valuation for funding purposes will be conducted as of January 1, 2017. The pension costs and obligations were based on the data used in these funding valuations and have been projected to December 31, 2014 in accordance with generally accepted actuarial standards.

The fair value of the plan assets is based on market values as reported by the plans' custodians as at December 31, 2014. The distribution of assets by major asset class is as follows: equities - 53.5% (2013 - 53.1%), fixed income securities - 36.0% (2013 - 36.1%); and real estate - 10.5% (2013 - 10.8%).

Information about the Utility's defined benefit plan as at December 31, in aggregate, is as follows:

	2014	2013
Accrued benefit obligation determined by actuarial valuation	$ 20,690	$ 17,953
Fair value of plan assets	14,672	13,284
Funded status - plan deficit	$ 6,018	$ 4,669
Unrecognized amounts:		
- Transitional asset (liability)	(13)	(73)
- Net accumulated actuarial losses	(5,020)	(3,436)
Accrued benefit liability	$ 985	$ 1,160
Less current portion	35	-
	$ 950	$ 1,160

26. Contingencies

Carmacks to Stewart Crossing Transmission Project
The Utility has been the subject of a legal claim for $3 million by the line construction contractor on the Carmacks to Stewart Crossing Transmission Line project which was completed in June 2011. Subsequent to year end, on March 11, 2015, the Utility entered into an agreement for $1.45 million to settle the Carmacks to Stewart Tansmission Project Claim with the contractor. The settlement includes $1.1 million in contract holdback that the Utility has previously recorded as a project cost. The remaining balance will be added to Property Plant and Equipment.

Aishihik Third Turbine Project
This project was commissioned into service in December 2011. On March 2, 2012, the general contractor filed a claim with the Supreme Court of Yukon for $4,000,000 plus interest and costs alleging the Utility has not paid for work performed. The Utility has informed the contractor of claims for incomplete contract scope, uncorrected deficiencies and other claims. The outcome of the claim is not determinable at this time and no amount has been recognized in the financial statements.

27. Environmental liabilities

The Utility's activities are subject to various federal and territorial laws and regulations governing the protection of the environment or to minimize any adverse impact thereon. The Utility conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations.

The Utility has conducted environmental assessments at all its diesel plant sites. At sites where environmental contamination was found and a legal obligation to remediate the site existed, the Utility has conducted a full remediation. As at December 31, 2014 no environmental liabilities, for which a legal obligation exists to remediate, has been identified by the Utility. The Utility will continue to use its Environmental Management System to monitor and assess previous and potential existing environmental liabilities on an ongoing basis.

28. Risk management and financial instruments

At December 31, 2014, the Corporation's financial instruments included cash, accounts receivable, short-term and long-term receivable, accounts payable and accrued liabilities, construction financing, long term debt and interest rate swaps.

The fair value of cash, accounts receivable, accounts payable and accrued liabilities and construction financing approximate their carrying value due to the immediate or short-term maturity of these financial instruments.

The long-term debt is accounted for at amortized cost using the effective interest rate method. The fair value of the long-term debt is estimated by discounting the future cash flows using current rates for debt instruments subject to similar risks and maturities as disclosed in note 19.

The Corporation has access to a $17.5 million line of credit. The account accrues interest on withdrawals at prime rate minus 0.25% per annum.

28. Risk management and financial instruments - continued

Interest rate swaps are financial contracts that derive their value from changes in an underlying variable. The interest rate swaps are designated as held for trading and are thus recognized at their fair value on the date the contract has been entered into with any subsequent unrealized gains and losses reported in net income during the period in which the fair value movement occurred. The fair value of the interest rate swaps is estimated using standard market valuation techniques and is provided to the Corporation by the financial institution that is the counterparty to the transactions. The Corporation did not engage in any other hedging transactions.

Interest rate risk
Interest rate risk is the risk that future cash flows or the fair value of a financial instrument will fluctuate due to changes in market interest rates. The future cash flows of the Corporation are not exposed to significant interest risk due to its long-term debt having fixed interest rates, with the exception of the Bankers' Acceptances from TD Bank whose variable rate has been converted to a fixed rate using interest rate swaps.

As at December 31, 2014, the Corporation had three interest rate swap agreements in place with notional principal amounts of $16 million, $11 million and $8 million. The agreements effectively change the Corporation's interest rate exposure on these notional amounts from floating rates to fixed rates of 2.92%, 2.69% and 4.82% respectively.

The fair value of the interest rate swap agreements at December 31, 2014 was a liability of $400,000. (2013 - $120,000 asset). The interest rate swap agreements cover the notional debt amounts until 2017 at the fixed interest rates noted above. Fair values for interest rate swaps are provided by the financial institution with whom the swaps are held. A 100 basis point increase/decrease in the interest rate assumption would have resulted in an increase/decrease in the interest swap agreements' fair value of $778,000 at December 31, 2014 (2013 - $940,000).

During the year the Corporation paid $6.331 million of interest. (2013 - $6.219 million)

Credit risk
Credit risk is the risk of failure of a debtor or counterparty to honour its contractual obligations resulting in financial loss to the Corporation. Financial assets, which potentially subject the Corporation to concentrations of credit risk consist principally of cash, accounts receivable and long-term receivable. The maximum credit risk at December 31, 2014 is the fair value of these assets which totals $12.153 million (2013 - $17.301 million).

The credit risk related to cash is minimized as these assets are held with a Canadian chartered bank.

Accounts receivable are considered for impairment when they are past due or when objective evidence is received that a customer will default. Management has assessed that the credit risk for accounts receivable is minimal since its primary customer which makes up 47.9% (2013 - 65.2%) of the accounts receivable at December 31, 2014, is a regulated utility which has a history of positive cash flow. Consistent with prior years there were no balances owing that are older than 90 days and thus the Corporation did not recognize an allowance for doubtful accounts. There is also no history of impairment.

In order to minimize the credit risk on the long-term receivable, management obtained the security of assets for the loan and reviews the recoverable amount at each balance sheet date to ensure that adequate impairment losses are made for unrecoverable amounts. Management has considered the customer's credit worthiness by analysis of the entity's financial statements as at December 31, 2014. Based on this analysis, management expected to collect the amount of the loan in its entirety.

December 31, 2014 (tabular amounts in thousands of dollars)

29. Capital management - continued

The Utility has a policy which defines its capital structure at a ratio of 60% debt and 40% equity. This policy has been reviewed and accepted by the YUB.

There were no changes in the Corporation's or the Utility's approach to capital management during the period.

The table below summarizes the Utility's total debt to total capitalization position:

(thousands of dollars)	**2014**	2013
Long-term debt due within one year	$ 5,456	$ 5,406
Long-term debt	125,955	125,906
Total debt	131,411	131,312
Add provision for decommissioning of industrial customer spur line	2,586	2,553
Total debt to include in the calculation	$ 133,997	$ 133,865
Share capital	$ 39,000	$ 39,000
Contributed surplus	14,600	14,600
Retained earnings	43,109	35,437
Total shareholder's equity	96,709	89,037
Total capitalization	$ 230,706	$ 222,902
Total debt to total capitalization	58 %	60 %

Due to the expectation of increased capital requirements in 2015, the Utility decided not to declare a dividend in 2014 to increase the December 31, 2014 total debt to total capitalization ratio to 60%.

30. Non-consolidated financial information

The nature and size of operations of the Corporation and its wholly-owned subsidiary, Yukon Energy Corporation differ substantially. Audited financial statements of the Yukon Energy Corporation for the year ended December 31, 2014 are also prepared.

31. Subsequent events

On May 1, 2015, the Corporation entered into an Agreement with the Kwanlin Dun First Nation (KDFN) which allows KDFN to invest in the Utility's LNG project, in the form of a loan. KDFN may invest up to 50% of the projected cost of LNG project, or $21.45 million, based on the total projected cost of $42.9 million for the LNG project. Annual principal repayments are four percent of the loan plus interest for the next twenty five years. The interest rate is a blended rate based on the cost of debt and the actual rate of return earned by the Utility.

32. Comparative figures

Certain 2013 figures, have been reclassified to conform with the current year's presentation.