



**FortisBC Inc.**

**An indirect subsidiary of Fortis Inc.**

**Interim Consolidated Financial Statements  
For the three months ended March 31, 2015 and 2014  
(Unaudited)**

**Prepared in accordance with United States Generally Accepted Accounting Principles**

**FortisBC Inc.**  
**Consolidated Balance Sheets (US GAAP) (Unaudited)**  
**As at**  
(in millions of Canadian dollars)

<b>ASSETS</b>	<b>March 31, 2015</b>	December 31, 2014
<b>Current assets</b>		
Cash and cash equivalents	\$ 1.4	\$ 1.2
Accounts receivable (note 10)	44.6	50.1
Materials and supplies	0.5	0.5
Prepaid expenses	4.0	0.9
Other assets	0.2	0.3
Regulatory assets	7.8	7.2
Income taxes receivable	0.3	-
Deferred income taxes	1.9	3.1
	<b>60.7</b>	63.3
<b>Property, plant and equipment</b>	<b>1,425.6</b>	1,419.2
<b>Intangible assets</b>	<b>52.9</b>	52.7
<b>Regulatory assets</b>	<b>289.0</b>	280.8
<b>Other assets</b>	<b>9.1</b>	9.2
<b>Goodwill</b>	<b>234.8</b>	234.8
	<b>\$ 2,072.1</b>	\$ 2,060.0
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>Current liabilities</b>		
Credit facilities (note 5)	\$ 23.2	\$ 31.9
Accounts payable and other current liabilities (note 10)	60.5	58.5
Income taxes payable	-	2.6
Current portion of long-term debt	25.0	-
Current portion of capital lease obligations	0.5	0.5
Regulatory liabilities	3.5	9.2
Deferred income taxes	2.7	2.5
	<b>115.4</b>	105.2
<b>Long-term debt</b>	<b>660.0</b>	685.0
<b>Capital lease obligations</b>	<b>316.1</b>	308.6
<b>Regulatory liabilities</b>	<b>20.2</b>	17.9
<b>Other liabilities</b>	<b>2.2</b>	2.2
<b>Pension and other post-employment benefits</b>	<b>62.6</b>	63.5
<b>Deferred income taxes</b>	<b>130.4</b>	129.8
	<b>1,306.9</b>	1,312.2
<b>Shareholder's equity</b>		
Common shares <sup>(a)</sup>	219.2	219.2
Additional paid-in capital	321.8	321.8
Retained earnings	224.2	206.8
	<b>765.2</b>	747.8
	<b>\$ 2,072.1</b>	\$ 2,060.0

<sup>(a)</sup> Par value of \$100 each; 500 million authorized common shares; 2.2 million issued and outstanding at March 31, 2015 and December 31, 2014.

**Contingencies** (notes 11)

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

**FortisBC Inc.**  
**Consolidated Statements of Earnings (US GAAP) (Unaudited)**  
**For the three months ended March 31**  
(in millions of Canadian dollars)

	<b>2015</b>	2014
<b>Revenues</b> (note 10)		
Electricity revenue	<b>\$ 87.2</b>	\$ 91.5
Other revenue	<b>5.1</b>	-
	<b>92.3</b>	91.5
<b>Expenses</b>		
Power purchase costs	<b>24.9</b>	27.1
Operating costs (note 10)	<b>19.0</b>	19.1
Depreciation and amortization	<b>14.4</b>	14.3
	<b>58.3</b>	60.5
<b>Operating income</b>	<b>34.0</b>	31.0
Other income	<b>0.1</b>	0.2
Finance charges (note 6 and 10)	<b>9.9</b>	9.7
<b>Earnings before income taxes</b>	<b>24.2</b>	21.5
Income taxes	<b>2.3</b>	4.2
<b>Net earnings</b>	<b>\$ 21.9</b>	\$ 17.3

**FortisBC Inc.**  
**Consolidated Statements of Changes in Equity (US GAAP) (Unaudited)**  
**For the three months ended March 31**  
(in millions of Canadian dollars)

	<b>Common Shares</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Total</b>
As at December 31, 2013	\$ 219.2	\$ 321.8	\$ 189.7	\$ 730.7
Net earnings	-	-	17.3	17.3
Dividend on common shares	-	-	(7.0)	(7.0)
As at March 31, 2014	219.2	321.8	200.0	741.0
As at December 31, 2014	<b>\$ 219.2</b>	<b>\$ 321.8</b>	<b>\$ 206.8</b>	<b>\$ 747.8</b>
Net earnings	-	-	<b>21.9</b>	<b>21.9</b>
Dividend on common shares	-	-	<b>(4.5)</b>	<b>(4.5)</b>
<b>As at March 31, 2015</b>	<b>\$ 219.2</b>	<b>\$ 321.8</b>	<b>\$ 224.2</b>	<b>\$ 765.2</b>

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

**FortisBC Inc.**  
**Consolidated Statements of Cash Flows (US GAAP) (Unaudited)**  
**For the three months ended March 31**  
(in millions of Canadian dollars)

	<b>2015</b>	2014
<b>Cash flows provided by (used for)</b>		
<b>Operating activities</b>		
Net earnings	\$ 21.9	\$ 17.3
Adjustments for non-cash items		
Depreciation and amortization	14.5	14.4
Other	(0.1)	-
Change in long-term regulatory assets and liabilities	(1.5)	3.7
Change in other assets and other liabilities	-	1.1
Change in non-cash working capital (note 8)	8.9	4.1
	<b>43.7</b>	40.6
<b>Investing activities</b>		
Property, plant and equipment (note 8)	(30.5)	(14.8)
Intangible assets (note 8)	(1.7)	(0.4)
Contributions in aid of construction	1.8	2.5
Change in other assets and other liabilities	0.1	0.1
	<b>(30.3)</b>	(12.6)
<b>Financing activities</b>		
Net repayment of credit facilities and demand notes	(8.7)	(21.1)
Dividend on common shares	(4.5)	(7.0)
	<b>(13.2)</b>	(28.1)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>0.2</b>	(0.1)
Cash and cash equivalents at beginning of period	1.2	0.5
<b>Cash and cash equivalents at end of period</b>	<b>\$ 1.4</b>	\$ 0.4

Supplementary Information to Consolidated Statements of Cash Flows (note 8).

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

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**FortisBC Inc.****Notes to the Interim Consolidated Financial Statements (US GAAP) (Unaudited)  
For the three months ended March 31, 2015 and 2014**

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**1. DESCRIPTION OF THE BUSINESS**

FortisBC Inc. ("FBC" or the "Corporation") is a wholly-owned subsidiary of FortisBC Pacific Holdings Inc. ("FortisBC Pacific"), which is an indirect wholly-owned subsidiary of Fortis Inc. ("Fortis"), a Canadian public company.

FBC is an integrated, regulated electric utility operating in the southern interior of British Columbia ("BC"), serving approximately 166,600 customers directly and indirectly. The Corporation's regulated business includes four hydroelectric generating plants with an aggregate capacity of 225 megawatts ("MW"), approximately 7,200 kilometers of transmission and distribution power lines, and a peak demand of 746 MW. Included in FBC's non-regulated assets is a 16 MW run-of-river hydroelectric power plant near Lillooet, BC.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Basis of Presentation**

These interim consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States ("US GAAP") for interim financial statements. As a result, these interim consolidated financial statements do not include all of the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Corporation's 2014 annual audited consolidated financial statements prepared in accordance with US GAAP. In management's opinion, the interim consolidated financial statements include all adjustments, consisting solely of normal recurring adjustments, necessary to present fairly such information.

The accounting policies and methods of application used in the preparation of these interim consolidated financial statements are consistent with the accounting policies used in FBC's year-end audited consolidated financial statements as at December 31, 2014.

The interim consolidated financial statements include the accounts of the Corporation and its wholly-owned partnership and subsidiaries, Walden Power Partnership ("WPP"), ESI Power-Walden Corporation Ltd. and West Kootenay Power Ltd. All material inter-company transactions and balances have been eliminated upon consolidation.

An evaluation of subsequent events through May 1, 2015, the date these interim consolidated financial statements were available to be issued, was completed to determine whether any circumstances warranted recognition and disclosure of events or transactions in the interim consolidated financial statements as at March 31, 2015. Subsequent events have been appropriately disclosed in these interim consolidated financial statements.

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

**Future Accounting Pronouncements****Revenue from Contracts with Customers**

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*. The amendments in this update create Accounting Standard Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the codification. This standard completes a joint effort by FASB and the International Accounting Standards Board to improve financial reporting by creating common revenue recognition guidance for US GAAP and International Financial Reporting Standards that clarifies the principles for recognizing revenue and that can be applied consistently across various transactions, industries and capital markets. This standard is effective for annual and interim periods beginning on or after December 15, 2016 and is to be applied on a full retrospective or modified retrospective basis. Early adoption is not permitted. In April 2015, FASB issued an Exposure Draft of a proposed ASU that would delay by one year the effective date of the revenue recognition standard and allow early adoption as of the original effective date. The Corporation is in the process of identifying contracts with customers and performance obligations in the contracts and the effect this will have on its consolidated financial statements.

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**FortisBC Inc.**  
**Notes to the Interim Consolidated Financial Statements (US GAAP) (Unaudited)**  
**For the three months ended March 31, 2015 and 2014**

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## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### ***Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern***

In August 2014, FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The amendments in this update are intended to provide guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and provide related disclosures. This update is effective for annual and interim periods beginning on or after December 15, 2016. Early adoption is permitted. FBC does not expect that the adoption of this update will have a material impact on its consolidated financial statements.

### ***Simplifying the Presentation of Debt Issuance Costs***

In April 2015, FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. The amendments in this update will require that debt issuance costs be presented on the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. This update is effective for annual and interim periods beginning on or after December 15, 2015 and should be applied on a retrospective basis. Early adoption is permitted. The adoption of this update is expected to result in the reclassification of debt issuance costs from long-term other assets to long-term debt on the Corporation's consolidated balance sheet. As at March 31, 2015, debt issuance costs included in long-term other assets were approximately \$6.2 million (December 31, 2014 - \$6.3 million).

## **3. REGULATORY MATTERS**

### **Multi-year Performance Based Ratemaking Plan for 2014 to 2019 ("2014 PBR Application")**

In July 2013, FBC filed its 2014 PBR Application with the British Columbia Utilities Commission ("BCUC"). Pursuant to an Evidentiary Update filed in October 2013, the application assumed a forecast average rate base of approximately \$1,192 million for 2014. In September 2014, the BCUC issued its PBR Decision on FBC's 2014 PBR Application. As part of the PBR Decision the term of the PBR was extended to 2019. The approved PBR Plan incorporates an incentive mechanism for improving operating and capital expenditure efficiencies. Operation and maintenance expenses and base capital expenditures during the PBR period are subject to an incentive formula reflecting incremental costs for inflation and half of customer growth, less a fixed productivity adjustment factor of 1.03 per cent each year. The PBR Plan also includes a 50/50 sharing of variances ("Earnings Sharing Mechanism") from the formula-driven operation and maintenance expenses and capital expenditures over the PBR period, and a number of service quality measures designed to ensure FBC maintains service levels. It also sets out the requirements for an annual review process which will provide a forum for discussion between FBC and interested parties regarding its current performance and future activities.

The BCUC's PBR Decision resulted in a 2014 average rate base of approximately \$1,204 million and a 2014 rate increase of approximately 3.3 per cent. Effective January 1, 2015, the BCUC has provided approval for an approximate 3.5 per cent interim refundable rate increase.

In February 2015, FBC filed for approval of its 2015 rates under the PBR Decision. This filing assumes a forecast average rate base of approximately \$1,267 million and requests approval of a customer rate increase of approximately 4.6 per cent over 2014 rates as determined under the PBR Plan formula approach for operation and maintenance costs and capital costs. A decision on the final rate increase is expected in the second quarter of 2015.

### **Allowed Return on Equity ("ROE") and Capital Structure**

The 2015 and 2014 ROE and common equity component of capital structure for FBC is 9.15 per cent and 40 per cent, respectively.

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#### 4. SEASONALITY OF OPERATIONS

Interim results fluctuate due to the seasonal demands for electricity, the movements of electricity prices and the timing and recognition of regulatory decisions. FBC's operations generally produce higher net earnings in the first quarter of the fiscal year due to increased customer load as a result of cooler weather, while certain expenses such as depreciation, interest and operating expenses remain more evenly distributed throughout the fiscal year. As a result of the seasonality, interim net earnings are not indicative of net earnings on an annual basis.

In the second quarter of 2015, the Corporation will begin purchasing capacity under the Waneta Expansion Capacity Agreement ("WECA") and selling residual capacity under the Residual Capacity Agreement ("RCA") and the Capacity and Energy Purchase and Sale Agreement ("CEPSA") which could result in future quarterly interim net earnings that differ from historical quarterly net earnings. However, future interim quarterly net earnings affected by the WECA, RCA and CEPSA are not indicative of net earnings on an annual basis as both power purchase and capacity sale contracts are recognized in customer rates.

#### 5. CREDIT FACILITIES AND DEBENTURES

##### Credit Facilities

As at March 31, 2015, the Corporation had bank credit facilities of \$160 million, comprised of a \$150 million operating credit facility and a \$10 million demand overdraft facility. The operating credit facility was comprised of a \$100 million three-year revolving facility and a \$50 million, 364-day revolving facility. In April 2015 the operating credit facility was amended such that the entire \$150 million now matures on May 2, 2018.

The following summary outlines the Corporation's bank credit facilities:

(\$ millions)	March 31, 2015	December 31, 2014
Operating credit facility	150.0	150.0
Demand overdraft facility	10.0	10.0
Draws on operating credit facility	(16.0)	(25.0)
Draws on overdraft facility	(7.2)	(6.9)
Credit facilities available	136.8	128.1

##### Debentures

In July 2013, the Corporation filed a short form base shelf prospectus to establish a Medium Term Note Debenture ("MTN Debentures") Program and entered into a Dealers Agreement with certain affiliates of a group of Canadian Chartered Banks. Upon filing the shelf prospectus, the Corporation may from time to time during the 25 month life of the shelf prospectus, issue MTN Debentures in an aggregate principal amount of up to \$300 million. The establishment of the MTN Debenture Program has been approved by the BCUC.

As of March 31, 2015, \$100 million remains available under the MTN Debenture Program.

#### 6. FINANCE CHARGES

Finance charges for the three months ended March 31 were as follows:

(\$ millions)	2015	2014
Interest on long-term debt	9.3	9.2
Interest on short-term debt	0.2	0.5
Amortization of deferred financing costs	0.1	0.1
Capitalized interest	0.3	(0.1)
	9.9	9.7

**FortisBC Inc.**
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For the three months ended March 31, 2015 and 2014**
**7. EMPLOYEE FUTURE BENEFITS**

The Corporation is a sponsor of pension plans for eligible employees. The plans include registered defined benefit pension plans, supplemental unfunded arrangements, and defined contribution plans. The Corporation also provides post-employment benefits ("OPEB") other than pensions for certain of its retired employees.

The net benefit cost for the three months ended March 31 was as follows:

(\$ millions)	Defined Benefit Pension Plans		OPEB Plans	
	2015	2014	2015	2014
Service costs	<b>1.2</b>	1.1	<b>0.3</b>	0.4
Interest costs	<b>2.0</b>	2.1	<b>0.3</b>	0.4
Expected return on plan assets	<b>(2.6)</b>	(2.4)	-	-
Amortization of actuarial loss	<b>0.7</b>	0.6	-	-
Amortization of past service costs	<b>(0.3)</b>	(0.2)	-	-
Actuarially determined net benefit cost	<b>1.0</b>	1.2	<b>0.6</b>	0.8
Regulatory adjustment	-	0.9	<b>0.4</b>	0.2
Net benefit cost	<b>1.0</b>	2.1	<b>1.0</b>	1.0

The Corporation's cost related to the defined contribution arrangement is based upon a percentage of employee earnings. The Corporation's net benefit cost related to this arrangement for the three months ended March 31, 2015 was \$0.5 million (March 31, 2014 - \$0.4 million).

**8. SUPPLEMENTARY INFORMATION TO CONSOLIDATED STATEMENTS OF CASH FLOWS**

The supplementary information to the consolidated statements of cash flows for the three months ended March 31 was as follows:

**Significant Non-Cash Transactions**

(\$ millions)	2015	2014
Capital accruals	<b>(9.6)</b>	0.4
Deferred income tax liability	<b>1.9</b>	1.8
Brilliant Power Purchase Agreement lease costs regulatory asset	<b>(8.3)</b>	(8.1)

**Change in Non-Cash Working Capital**

(\$ millions)	2015	2014
Accounts receivable	<b>5.5</b>	(4.2)
Prepaid expenses	<b>(3.1)</b>	(2.2)
Current regulatory assets and liabilities	<b>(2.2)</b>	(2.2)
Materials and supplies	-	0.1
Accounts payable and other current liabilities	<b>2.0</b>	14.3
Income taxes receivable and payable	<b>(2.9)</b>	(1.3)
	<b>(0.7)</b>	4.5
Change in non-cash working capital attributable to:		
Operating activities	<b>8.9</b>	4.1
Investing activities included in property, plant and equipment and intangible assets	<b>(9.6)</b>	0.4
	<b>(0.7)</b>	4.5

The non-cash investing activities balances as at March 31 were as follows:

(\$ millions)	2015	2014
Additions to property, plant and equipment and intangible assets included in current liabilities	<b>11.5</b>	6.8

**FortisBC Inc.**  
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**For the three months ended March 31, 2015 and 2014**

## 9. FAIR VALUE MEASUREMENT

Fair value is the price at which a market participant could sell an asset or transfer a liability to an unrelated party. A fair value measurement is required to reflect the assumptions that market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model. A fair value hierarchy exists that prioritizes the inputs used to measure fair value. The Corporation is required to record all derivative instruments at fair value except those which would qualify for the normal purchase and normal sales exception, including certain of the Corporation's power purchase contracts.

The three levels of the fair value hierarchy are defined as follows:

- Level 1: Fair value determined using unadjusted quoted prices in active markets.
- Level 2: Fair value determined using pricing inputs that are observable.
- Level 3: Fair value determined using unobservable inputs only when relevant observable inputs are not available.

The fair values of the Corporation's financial instruments reflect a point-in-time estimate based on current and relevant market information about the instruments as at the balance sheet dates. The estimates cannot be determined with precision as they involve uncertainties and matters of judgment and, therefore, may not be relevant in predicting the Corporation's future net earnings or cash flows.

The carrying values of cash and cash equivalents, accounts receivable, energy management loans, accounts payable and credit facilities on the consolidated balance sheets of the Corporation approximate their fair values.

The following table summarizes the fair value measurements of the Corporation's long-term debt as of March 31, 2015 and December 31, 2014, all of which is Level 2 of the fair value hierarchy and recorded on the consolidated balance sheets at its carrying value:

(\$ millions)	March 31, 2015		December 31, 2014	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt, including current portion <sup>1</sup>	<b>685.0</b>	<b>880.5</b>	685.0	834.2

<sup>1</sup> Includes secured and unsecured debentures for which the carrying value is measured at cost.

The fair value of long-term debt is estimated using quoted market prices when available. When quoted market prices are not available, the fair value is determined by discounting the future cash flows of the specific debt instrument at an estimated yield to maturity equivalent to benchmark government bonds or treasury bills, with similar terms to maturity, plus a market credit risk premium equal to that of issuers of similar credit quality. Since the Corporation does not intend to settle the long-term debt prior to maturity, the fair value estimate does not represent an actual liability and, therefore, does not include exchange or settlement costs.

**FortisBC Inc.**  
**Notes to the Interim Consolidated Financial Statements (US GAAP) (Unaudited)**  
**For the three months ended March 31, 2015 and 2014**

### 10. RELATED PARTY TRANSACTIONS

In the normal course of business, the Corporation transacts with its parent, ultimate parent and other related companies under common control to provide or receive services and materials. The following transactions were measured at the exchange amount unless otherwise indicated.

#### Related Party Recoveries

The amounts charged to the Corporation's parent and other related parties under common control for the three months ended March 31 were as follows:

(\$ millions)	2015	2014
Electricity revenue recovered from FortisBC Energy Inc. ("FEI") (a)	0.1	0.2
Operating costs and other revenue charged to FortisBC Pacific (b)	2.4	1.7
Operating costs charged to FEI (c)	1.0	1.3
Operating costs charged to FortisBC Holdings Inc. ("FHI") (d)	0.1	0.2
	<b>3.6</b>	<b>3.4</b>

(a) The Corporation charged FEI for electricity sold.

(b) The Corporation charged its parent, FortisBC Pacific, for management services, labour and materials.

(c) The Corporation charged FEI for management services.

(d) The Corporation charged FHI for management services.

#### Related Party Costs

The amounts charged by the Corporation's ultimate parent and other related parties under common control for the three months ended March 31 were as follows:

(\$ millions)	2015	2014
Operating costs charged by Fortis (a)	0.6	0.6
Operating costs charged by FEI (b)	0.8	0.8
Finance charges charged by Fortis (c)	-	0.2
	<b>1.4</b>	<b>1.6</b>

(a) The Corporation was charged by its ultimate parent, Fortis, for the fair value of stock-based compensation granted by Fortis and for corporate management services.

(b) The Corporation was charged by FEI for office rent and management services.

(c) The Corporation was charged by Fortis for interest on demand notes.

#### Balance Sheet Amounts

The amounts due from related parties, which are included in accounts receivable on the consolidated balance sheets, and the amounts due to related parties, which are included in accounts payable and other current liabilities on the consolidated balance sheets, are as follows:

(\$ millions)	March 31, 2015		December 31, 2014	
	Amount Due From	Amount Due To	Amount Due From	Amount Due To
Fortis	-	0.1	-	-
FortisBC Pacific	0.9	-	0.5	-
FEI	0.8	0.2	1.1	0.2
FHI	-	-	0.1	0.1
	<b>1.7</b>	<b>0.3</b>	<b>1.7</b>	<b>0.3</b>

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**FortisBC Inc.**  
**Notes to the Interim Consolidated Financial Statements (US GAAP) (Unaudited)**  
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**11. CONTINGENCIES**

The Province of BC filed a claim in the BC Supreme Court on June 8, 2012 claiming on its behalf, and on behalf of approximately 17 homeowners, damages suffered as a result of a landslide caused by a dam failure in Oliver, BC in 2010. The Province alleges in its claim that the dam failure was caused by the defendants, including FBC, through the use of a road on top of the dam. The Province estimates its damages, and the damages of the homeowners on whose behalf it is claiming, to be approximately \$15 million. FBC has not been served, however has retained counsel and has notified its insurers. The outcome cannot be reasonably determined or estimated at this time and, accordingly, no amount has been accrued in the financial statements.