

**FORTISALBERTA INC.**

**An indirect subsidiary of Fortis Inc.**

**Unaudited Condensed Interim Financial Statements  
For the three months ended March 31, 2021**

# FORTISALBERTA INC.

## CONDENSED INTERIM BALANCE SHEETS

### (UNAUDITED)

As at (all amounts in thousands of Canadian dollars)	March 31, 2021	December 31, 2020
<b>Assets</b>		
Current assets		
Restricted cash (note 11)	\$ —	\$ 611
Accounts receivable	166,666	167,427
Prepays and deposits	5,376	4,433
Income tax receivable	2,899	4,659
Regulatory assets (note 4)	52,285	37,030
<b>Total current assets</b>	<b>227,226</b>	<b>214,160</b>
Regulatory assets (note 4)	361,339	352,824
Property, plant and equipment, net	4,214,439	4,192,568
Intangible assets, net	93,645	93,198
Other assets	3,137	2,774
Goodwill	228,357	228,357
<b>Total Assets</b>	<b>\$ 5,128,143</b>	<b>\$ 5,083,881</b>
<b>Liabilities and Equity</b>		
Current liabilities		
Short-term borrowings	\$ 89,152	\$ 46,509
Accounts payable and other current liabilities	201,155	223,718
Regulatory liabilities (note 4)	28,932	32,354
<b>Total current liabilities</b>	<b>319,239</b>	<b>302,581</b>
Other liabilities	66,079	67,024
Regulatory liabilities (note 4)	455,577	449,750
Deferred income tax	357,916	349,419
Long-term debt	2,342,513	2,342,335
<b>Total Liabilities</b>	<b>3,541,324</b>	<b>3,511,109</b>
Commitments (note 9)		
<b>Equity</b>		
Share capital, no par value, unlimited authorized shares, 63 shares issued and outstanding (December 31, 2020 – 63)	173,848	173,848
Additional paid-in capital	774,896	774,896
Accumulated other comprehensive loss	(674)	(762)
Retained earnings	638,749	624,790
<b>Total Equity</b>	<b>1,586,819</b>	<b>1,572,772</b>
<b>Total Liabilities and Equity</b>	<b>\$ 5,128,143</b>	<b>\$ 5,083,881</b>

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

FORTISALBERTA INC.  
CONDENSED INTERIM STATEMENTS OF INCOME AND  
COMPREHENSIVE INCOME  
(UNAUDITED)

<b>Three Months Ended March 31</b> (all amounts in thousands of Canadian dollars)	<b>2021</b>	<b>2020</b>
<b>Revenues</b>		
Electric rate revenue	\$ 167,978	\$ 162,188
Alternative revenue	—	(466)
Other revenue (note 7)	6,047	4,538
<b>Total Revenues</b>	<b>174,025</b>	<b>166,260</b>
<b>Expenses</b>		
Cost of sales	54,694	52,077
Depreciation	53,039	51,879
Amortization	4,014	3,653
<b>Total Expenses</b>	<b>111,747</b>	<b>107,609</b>
Other income	953	784
Income before interest expense and income tax	63,231	59,435
Interest expense	26,157	26,083
Income before income tax	37,074	33,352
Income tax expense	1,865	1,873
<b>Net Income</b>	<b>\$ 35,209</b>	<b>\$ 31,479</b>
Other comprehensive income		
Unrealized post-employment benefits gains	88	85
<b>Comprehensive Income</b>	<b>\$ 35,297</b>	<b>\$ 31,564</b>

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**FORTISALBERTA INC.**  
**CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY**  
**(UNAUDITED)**

<b>Three Months Ended March 31</b> (all amounts in thousands of Canadian dollars)	<b>2021</b>	<b>2020</b>
<b>Share Capital</b>		
Balance, beginning and end of period	\$ 173,848	\$ 173,848
<b>Additional Paid-in Capital</b>		
Balance, beginning and end of period	\$ 774,896	\$ 764,896
<b>Accumulated Other Comprehensive Loss</b>		
Balance, beginning of period	\$ (762)	\$ (321)
Unrealized post-employment benefits gains	88	85
Balance, end of period	\$ (674)	\$ (236)
<b>Retained Earnings</b>		
Balance, beginning of period	\$ 624,790	\$ 571,987
Net income	35,209	31,479
Dividends	(21,250)	(20,000)
Balance, end of period	\$ 638,749	\$ 583,466
<b>Total Equity</b>	<b>\$ 1,586,819</b>	<b>\$ 1,521,974</b>

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

# FORTISALBERTA INC.

## CONDENSED INTERIM STATEMENTS OF CASH FLOWS

### (UNAUDITED)

Three Months Ended March 31 (all amounts in thousands of Canadian dollars)	2021	2020
<b>Operating Activities</b>		
Net income	\$ 35,209	\$ 31,479
Adjustments for non-cash items included in net income		
Depreciation	53,039	51,879
Amortization	4,280	3,901
Deferred income tax	105	42
Equity component of allowance for funds used during construction	(1,052)	(1,177)
Net gain on sale of property, plant and equipment	(59)	—
Change in long-term regulatory assets and liabilities	1,489	(26,310)
Change in other non-current operating assets and liabilities	(2,928)	18
Change in non-cash operating working capital (note 10)	(14,817)	(38,738)
Cash from operating activities	75,266	21,094
<b>Investing Activities</b>		
Additions to property, plant and equipment	(98,742)	(116,432)
Customer contributions for property, plant and equipment	6,141	8,035
Additions to intangible assets	(5,186)	(4,728)
Proceeds from disposition of property, plant and equipment	1,358	923
Net change in employee loans	(665)	(643)
Cash used in investing activities	(97,094)	(112,845)
<b>Financing Activities</b>		
Net change in bank indebtedness	(2,357)	1,855
Repayment of Fortis demand notes	—	(59,000)
Borrowings under bilateral credit facility	—	150,000
Payment of deferred financing fees	(176)	(101)
Borrowings under committed credit facility	246,000	528,000
Repayments under committed credit facility	(201,000)	(509,000)
Dividends	(21,250)	(20,000)
Cash from financing activities	21,217	91,754
Change in cash, cash equivalents and restricted cash	(611)	3
Cash, cash equivalents and restricted cash, beginning of period	611	607
Cash, cash equivalents and restricted cash, end of period	\$ —	\$ 610
<i>Supplemental cash flow information (note 10)</i>		

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

# NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

## 1. ENTITY DEFINITION AND NATURE OF OPERATIONS

FortisAlberta Inc. (the "Corporation" or "FortisAlberta") is a regulated electric distribution utility in the Province of Alberta. Its business is the ownership and operation of electric facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers. The Corporation does not own or operate generation or transmission assets and is not involved in the direct sale of electricity. It is intended that the Corporation remain a regulated electric utility for the foreseeable future, focusing on the delivery of safe, reliable and cost-effective electricity services to its customers in Alberta.

The Corporation is regulated by the Alberta Utilities Commission (the "AUC") pursuant to the *Alberta Utilities Commission Act* (the "AUCA"). The AUC's jurisdiction, pursuant to the *Electric Utilities Act* (the "EUA"), the *Public Utilities Act* (the "PUA"), the *Hydro and Electric Energy Act* (the "HEEA") and the AUCA, includes the approval of distribution tariffs for regulated distribution utilities such as the Corporation, including the rates and terms and conditions on which service is to be provided by those utilities.

The Corporation is an indirect, wholly-owned subsidiary of Fortis Inc. ("Fortis"). Fortis is a leader in the North American regulated electric and gas utility business serving customers in five Canadian provinces, nine US states and three Caribbean countries.

## 2. REGULATORY MATTERS

The Corporation is regulated by the AUC, pursuant to the EUA, the PUA, the HEEA and the AUCA. The AUC administers these acts and regulations covering such matters as revenue requirements, customer rates, construction of assets, operations and financing. The Corporation recognizes amounts to be recovered from, or refunded to, customers in those periods in which related applications are filed with, or decisions are received from, the AUC. The timing of recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using accounting principles generally accepted in the United States of America ("US GAAP") for entities not subject to rate regulation.

### **Performance-Based Regulation**

Effective January 1, 2018, the AUC approved a second performance-based regulation ("PBR") term, from 2018 to 2022. Under PBR, a formula incorporating an inflation factor and a productivity factor (I-X) (the "formula"), that estimates inflation (I) annually and assumes a set level of productivity improvements (X), is used to determine distribution rates on an annual basis. Each year this formula is applied to the preceding year's distribution rates.

The base distribution rates, subject to escalation by the formula, for the second PBR term are based on a notional 2017 revenue requirement approved by the AUC. The impact of changes to return on equity ("ROE"), cost of debt and capital structure during the PBR term apply only to the portion of rate base that is funded by revenue provided by mechanisms separate from going-in rates escalated by the formula. For 2021, the Corporation's ROE is approved at 8.50%, with a capital structure of 37% equity and 63% debt.

In the second PBR term, incremental capital funding to recover costs related to capital expenditures that are not recovered through distribution rates subject to escalation are funded primarily through a K-Bar mechanism. The K-Bar amount is established for each year of the PBR term based on the revenue requirement associated with a projected notional rate base. The projected level of annual capital additions is calculated using an AUC prescribed methodology, including both actuals and historical averages.

### 2021 Annual Rates Application

In December 2020, the AUC issued Decision 25843-D01-2020 approving the Corporation's 2021 rates and riders, effective on an interim basis for January 1, 2021, including an increase of approximately 0.9% to the distribution component of customer rates. The increase in the distribution component of customer rates reflects: (i) an I-X of 2.12%; (ii) a refund of \$1.5 million for the true-up of going-in rates; (iii) a refund of \$5.4 million for the true-up of the 2018, 2019 and 2020 K-Bar amounts; (iv) a 2021 K-Bar placeholder of \$76.8 million; (v) a net refund of \$14.6 million for the true-up of the 2018, 2019, and 2020 Alberta Electric System Operator ("AESO") contributions hybrid deferral; (vi) a placeholder refund of \$11.6 million for the 2021 AESO contributions hybrid deferral; (vii) a refund of \$1.2 million for the true-up of the Corporation's approved 2016 and 2017 K factor amounts; and (viii) a net refund of Y factor amounts of \$1.5 million.

### Utility Payment Deferral Program

On March 18, 2020, the Alberta government announced a program to help residential, farm and small commercial customers avoid additional financial hardship during the COVID-19 pandemic (the "Utility Payment Deferral Program" or the "Program"). Under the Program, those customers who were unable to pay their utility bill could defer payment for up to 90 days, with payment due within one year thereafter.

The 90-day term of the Utility Payment Deferral Program ended on June 18, 2020. Repayments of amounts deferred under the Program are in progress with \$0.2 million outstanding, as at March 31, 2021. As electricity retailers remit the transmission service component of customer repayments to the Corporation, the Corporation remits payment of corresponding amounts to the AESO. Customers have until June 18, 2021 to repay their deferred utility bills.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

These unaudited condensed interim financial statements have been prepared by management in accordance with US GAAP as codified in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). These unaudited condensed interim financial statements of the Corporation do not include all disclosures required under US GAAP for annual financial statements and should be read in conjunction with the audited annual financial statements and notes thereto for the year ended December 31, 2020. In management's opinion, these unaudited condensed interim financial statements reflect all normal recurring adjustments that are necessary to fairly present the Corporation's results of operations and financial position. Operating results for the three months ended March 31, 2021 are not necessarily indicative of the results expected for the full year ending December 31, 2021.

In December 2017, the Ontario Securities Commission approved the extension of the Corporation's exemptive relief to continue reporting under US GAAP rather than International Financial Reporting Standards ("IFRS") until the earlier of January 1, 2024 and the effective date prescribed by the International Accounting Standards Board for the mandatory application of a permanent standard within IFRS specific to entities with activities subject to rate regulation.

The preparation of the financial statements in accordance with US GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Certain estimates are necessary since the regulatory environment in which the Corporation operates often requires amounts to be recorded at estimated values until finalization and adjustments, if any, are determined pursuant to subsequent regulatory decisions or other regulatory proceedings.

Critical accounting estimates made by management include current and deferred income tax, contingent liabilities due to general litigation, depreciation, amortization, pension and other post-employment benefits ("OPEB"), goodwill impairment, accrued revenue, expense accruals, and regulatory assets and liabilities. Due to the inherent uncertainty in making such estimates, actual results reported in future periods could differ materially from those estimated. There were no material changes to the Corporation's critical accounting estimates for the three months ended March 31, 2021 as compared to March 31, 2020 and December 31, 2020.

### Changes in Accounting Policies

These unaudited condensed interim financial statements have been prepared following the same accounting policies as those used in preparing the Corporation's 2020 audited annual financial statements, except as follows.

#### Simplifying the Accounting for Income Taxes

Effective January 1, 2021, the Corporation adopted the applicable sections of Accounting Standards Update ("ASU") 2019-12, *Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes*, which provided amendments to reduce complexity in the accounting standard. The ASU was adopted using a prospective approach and did not have a significant effect on the recognition and measurement of the Corporation's current and deferred income taxes in the current period.

#### Future Accounting Pronouncements

The Corporation considers the applicability and impact of all ASUs issued by the FASB. The Corporation has assessed the ASUs issued and determined the ASUs to be either not applicable to the Corporation or not expected to have a material impact on the financial statements.

## 4. REGULATORY ASSETS AND LIABILITIES

Regulatory assets represent amounts that are expected to be recovered from customers in future periods. Regulatory liabilities represent amounts that are expected to be refunded to customers in future periods or the recovery of future costs in current rates. Based on existing or expected AUC decisions, the Corporation has recorded the following regulatory assets and liabilities.

	March 31, 2021	December 31, 2020
<b>Regulatory assets</b>		
Deferred income tax	\$ 360,401	\$ 352,009
AESO charges deferral	49,822	34,620
AESO supply transmission service deferral	2,145	2,145
Regulatory defined benefit pension deferrals	1,199	1,080
Y factor deferral	57	—
<b>Total regulatory assets</b>	<b>413,624</b>	<b>389,854</b>
<b>Less: current portion</b>	<b>52,285</b>	<b>37,030</b>
<b>Long-term regulatory assets</b>	<b>\$ 361,339</b>	<b>\$ 352,824</b>
	March 31, 2021	December 31, 2020
<b>Regulatory liabilities</b>		
Non-ARO provision	\$ 448,707	\$ 444,492
Incremental capital deferral	18,393	22,554
AESO charges deferral	12,769	9,612
Y factor deferral	1,232	1,207
A1 rider deferral	1,163	1,210
PBR rebasing deferral	1,160	1,547
K factor deferral	887	1,182
AESO supply transmission service deferral	198	300
<b>Total regulatory liabilities</b>	<b>484,509</b>	<b>482,104</b>
<b>Less: current portion</b>	<b>28,932</b>	<b>32,354</b>
<b>Long-term regulatory liabilities</b>	<b>\$ 455,577</b>	<b>\$ 449,750</b>

A detailed description of the nature of the Corporation's regulatory assets and liabilities was provided in Note 5 of the Corporation's 2020 audited annual financial statements.



## 5. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

### Components of Net Periodic Costs

Three months ended March 31	Defined Benefit Pension Plans		OPEB Plan	
	2021	2020	2021	2020
Service cost	\$ 108	\$ 149	\$ 235	\$ 203
Interest cost	298	361	80	89
Expected return on plan assets	(119)	(202)	—	—
Amortizations:				
Past service cost	—	—	153	171
Actuarial gain	—	—	(65)	(86)
Net benefit cost recognized	287	308	403	377
Regulatory adjustments	(119)	415	—	—
Net benefit cost recognized in financial statements	168	723	403	377
Defined contribution cost	3,335	2,829	—	—
<b>Total employee future benefit cost</b>	<b>\$ 3,503</b>	<b>\$ 3,552</b>	<b>\$ 403</b>	<b>\$ 377</b>

### Pension Plans and OPEB Contributions

The Corporation made total contributions to the defined benefit pension plans of \$0.1 million and contributions to the OPEB plan of \$0.1 million for the three months ended March 31, 2021. Minimum funding contributions of approximately \$0.6 million will be made to the defined benefit pension plans and \$0.7 million to the OPEB plan in 2021.

## 6. DEBT AND CAPITAL MANAGEMENT

As at March 31, 2021, the Corporation had an unsecured committed credit facility with an available amount of \$250.0 million maturing in August 2024. Drawings under the credit facility are available by way of prime loans, bankers' acceptances and letters of credit. Prime loans bear an interest rate of prime and bankers' acceptances are issued at the applicable bankers' acceptance discount rate plus a stamping fee of 1.0%. As at March 31, 2021, the Corporation had \$82.0 million drawn on the credit facility (December 31, 2020 - \$37.0 million) and \$0.4 million in letters of credit (December 31, 2020 - \$0.4 million).

## 7. OTHER REVENUE

### Contract Liability

In December 2020, the Corporation received an upfront payment of \$52.4 million from EPCOR Energy Alberta GP Inc. ("EPCOR") pursuant to the terms of the Customer Rights Agreement whereby EPCOR acts as the Corporation's default supplier to eligible customers under the regulated rate option. As at December 31, 2020, the initial upfront payment of \$52.4 million was recorded as a contract liability. Included in the initial upfront payment was a financing component of \$2.8 million, which was determined using the Corporation's incremental borrowing rate and is being recognized as interest expense in the statements of income and comprehensive income over the eight-year term of the Customer Rights Agreement.

	March 31, 2021	December 31, 2020
Current contract liability	\$ 6,272	\$ 6,251
Long-term contract liability	44,533	46,109
<b>Total contract liability</b>	<b>\$ 50,805</b>	<b>\$ 52,360</b>

For the three months ended March 31, 2021, \$1.7 million is included in other revenue in the condensed interim statements of income and comprehensive income.

For the three months ended March 31, 2021, \$0.2 million is included in interest expense in the condensed interim statements of income and comprehensive income.

## 8. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement is required to reflect the assumptions that market participants would use in pricing a financial asset or financial 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 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; and
- 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; therefore, they may not be relevant in predicting the Corporation's future earnings or cash flows.

The following table represents the fair value measurements of the Corporation's financial instruments:

Long-term debt	March 31, 2021	December 31, 2020
Fair value <sup>(1)</sup>	\$ 2,788,286	\$ 3,098,239
Carrying value <sup>(2)</sup>	2,358,731	2,358,721

<sup>(1)</sup> The fair value of the long-term debt is estimated using level 2 inputs. It is calculated using indicative prices provided by a third party for the same or similarly rated issues of debt with similar maturities. Since the Corporation does not intend to settle the long-term debt prior to maturity, the excess of the estimated fair value above the carrying value does not represent an actual liability.

<sup>(2)</sup> Carrying value is presented gross of debt issuance costs of \$16,218 (December 31, 2020 – \$16,386).

The carrying value of financial instruments included in current assets, long-term other assets, current liabilities and long-term other liabilities on the balance sheet approximate their fair value, which reflects the short-term maturity, normal trade credit terms and/or nature of these financial instruments.

### Credit Risk

The Corporation has a concentration of credit risk as a result of its distribution service billings being to a small group of retailers or other counterparties. Counterparty credit risk is the financial risk associated with the non-performance of contractual obligations by all counterparties. The Corporation extends credit to retailers in the normal course of business.

The Corporation assesses its retailer credit exposure and expected credit loss using historical information, forms of prudential and current economic conditions. In accordance with the Corporation's Terms and Conditions, the Corporation is required to minimize its credit exposure to retailer billings by obtaining an acceptable form of prudential, which includes a cash deposit, letter of credit, an investment grade credit rating from a major rating agency, or a financial guarantee from an entity with an investment grade credit rating. An acceptable form of prudential reduces the credit risk exposure of retailer billings. As at March 31, 2021, the Corporation's credit risk exposure was \$1.3 million based on historical retailer billings. Expected credit losses with other counterparties is evaluated using historical collection experience and internal counterparty-specific risk assessments.

During the three months ended March 31, 2021, one of the Corporation's retailers applied for, and was granted, creditor protection under the Company's Creditor Arrangement Act. The court order relating to the creditor protection of the retailer granted a stay of any adverse steps, such as termination of licenses, by provincial regulators. Accordingly, the stay and the financing associated with it is expected to allow the retailer to continue paying amounts to its contractual counterparties, primarily consisting of utilities, in the ordinary course. As a result of the Corporation's Terms and Conditions and its requirement to minimize its credit exposure to retailer billings by obtaining an acceptable form of prudential, the Corporation has assessed that there is sufficient prudential to cover the retailers' current outstanding invoices.

**Allowance for Credit Losses**

Accounts receivable are recorded net of an allowance for credit losses. The credit loss allowance for the three months ended March 31, 2021 considers current and forecasted economic conditions and is reflective of normal course operations.

The change in allowance for credit losses balance is as follows:

	March 31, 2021	December 31, 2020
Balance, beginning of year	\$ (766)	\$ (325)
Credit loss provision	(522)	(631)
Write-offs, net of recoveries	48	190
Balance, end of year	\$ (1,240)	\$ (766)

**9. COMMITMENTS**

A detailed description of the nature of the Corporation's commitments was provided in Note 19 of the Corporation's 2020 audited annual financial statements. There have been no material changes to the nature or amounts of these items.

**10. SUPPLEMENTAL CASH FLOW INFORMATION****Non-Cash Operating Working Capital**

Three months ended March 31	2021	2020
Accounts receivable	\$ 2,146	\$ 24,550
Prepays and deposits	(943)	(407)
Income tax receivable	1,760	330
Regulatory assets	(15,255)	19,122
Accounts payable and other current liabilities	897	(68,325)
Regulatory liabilities	(3,422)	(14,008)
	\$ (14,817)	\$ (38,738)

**Non-Cash Investing Activities**

As at March 31	2021	2020
Additions to property, plant and equipment and intangible assets included in current liabilities	\$ 56,662	\$ 64,574
Customer contributions for property, plant and equipment included in current assets	9,874	6,565

**Reconciliation of Cash, Cash Equivalents and Restricted Cash**

As at March 31	2021	2020
Cash and cash equivalents	\$ —	\$ —
Restricted cash	—	610
	\$ —	\$ 610

**11. WATERTON BATTERY ENERGY STORAGE PROJECT**

In 2019, the Corporation was awarded \$2.6 million in total funding from Alberta Innovates and Emissions Reduction Alberta for the Waterton Project in the Biotechnology, Electricity, and Sustainable Transportation challenge. In 2021, the Corporation was awarded \$0.5 million in additional funding from the Department of Natural Resources Renewable Energy and Smart Grid Deployment Programs. The Waterton Project will enable the Corporation to test the technology, economics and collective distribution grid benefits of solar power system, utility scale battery storage, smart inverter, SCADA (Supervisory Control and Data Acquisition) and grid operating systems. The contribution agreements outline project and funding milestones. As at December 31, 2020, a contribution of \$0.6 million had been received and recorded in restricted cash. During the three months ended March 31, 2021, significant project milestones were achieved, allowing the restriction on the contribution received to be removed and this amount is no longer recorded in restricted cash.