

Financial Statements
Opera House Arts
October 31, 2019

Table of Contents

Opera House Arts

October 31, 2019

Independent Accountant's Review Report	1
Statement of Financial Position.....	2
Statement of Activities.....	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements.....	6



INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors of
Opera House Arts
Stonington, ME

I have reviewed the accompanying financial statements of Opera House Arts (a nonprofit organization), which comprise the statement of financial position as of October 31, 2019 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

My responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require me to perform procedures to obtain limited assurance as a basis for reporting whether I am aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. I believe that the results of my procedures provide a reasonable basis for my conclusion.

Accountant's Conclusion

Based on my review, I am not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Cheryl L. Boulet, CPA

Blue Hill, ME
June 3, 2020

Statement of Financial Position

Opera House Arts

As of October 31, 2019

Assets

Current Assets

Cash and cash equivalents	\$	16,139
Accounts receivable, net of \$10,000 allowance for doubtful accounts		6,390
Pledges receivable		34,863
Inventory		6,882
Prepaid expenses		14,451
Total Current Assets		<u>78,725</u>

Property and equipment, net 1,752,230

Other Assets

Cash restricted for the perpetual endowment		2,200
Beneficial interest in assets held by others		155,005
Total Other Assets		<u>157,205</u>

Total Assets \$ 1,988,160

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$	9,316
Accrued expenses		25,414
Fiscal agent payable		6,573
Sales tax payable		108
Current portion of long-term debt		4,959
Total Current Liabilities		<u>46,370</u>

Long-Term Liabilities

Long-term debt, less current portion		<u>95,922</u>
Total Liabilities		<u>142,292</u>

Net Assets

Without donor restrictions:

Undesignated		(3,449)
Board designated		37,647
Net investment in property and equipment		1,651,349
Without Donor Restrictions		<u>1,685,547</u>

With donor restrictions 160,321

Total Net Assets 1,845,868

Total Liabilities and Net Assets \$ 1,988,160

See accompanying independent accountant's review report and notes to financial statements.

Statement of Activities

Opera House Arts

For the Year Ended October 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total All Funds</u>
Support and Revenues			
Support:			
Contributions	\$ 475,727	\$ 121,609	\$ 597,336
Grant income	-	8,858	8,858
In-kind contributions	22,915	-	22,915
Total support	<u>498,642</u>	<u>130,467</u>	<u>629,109</u>
Revenues:			
Merchandise sales	29,710	-	29,710
Program fees	169,716	-	169,716
Events	143,100	-	143,100
Miscellaneous	2,548	-	2,548
Interest and dividend income	225	231	456
Total revenues	<u>345,299</u>	<u>231</u>	<u>345,530</u>
Net assets released from restrictions	<u>62,071</u>	<u>(62,071)</u>	<u>-</u>
Total Support and Revenues	<u>906,012</u>	<u>68,627</u>	<u>974,639</u>
Expenses and Losses			
Program services	669,126	-	669,126
Management and general	142,721	-	142,721
Fundraising	145,487	-	145,487
Total Expenses	<u>957,334</u>	<u>-</u>	<u>957,334</u>
Net realized and unrealized gains on investments	766	879	1,645
Gain on sale of equipment	250	-	250
Loss on receivables	(4,092)	-	(4,092)
Increase (Decrease) in Net Assets	<u>(54,398)</u>	<u>69,506</u>	<u>15,108</u>
Net assets at beginning of year	<u>1,739,945</u>	<u>90,815</u>	<u>1,830,760</u>
Net Assets at End of Year	<u>\$ 1,685,547</u>	<u>\$ 160,321</u>	<u>\$ 1,845,868</u>

See accompanying independent accountant's review report and notes to financial statements.

Statement of Functional Expenses

Opera House Arts

For the Year Ended October 31, 2019

	Program Services	Management and General	Fundraising	Total
Cost of merchandise	\$ 18,843	\$ -	\$ -	\$ 18,843
Wages & salaries	277,721	50,824	93,820	422,365
Employee benefits	30,601	2,111	3,898	36,610
Payroll taxes	25,222	4,281	7,902	37,405
Professional fees	-	33,290	-	33,290
Licenses, permits & taxes	-	1,432	-	1,432
Marketing & development	-	-	9,010	9,010
Events	-	-	26,733	26,733
Program expenses	173,737	-	-	173,737
Travel, meals & lodging	26,013	4,677	-	30,690
Office expenses	-	21,975	-	21,975
Interest expense	-	4,644	-	4,644
Banking and processing fees	-	6,402	-	6,402
Insurance	2,115	10,756	715	13,586
Miscellaneous	3,483	2,329	3,409	9,221
Occupancy	47,242	-	-	47,242
Bad debt	10,000	-	-	10,000
Depreciation expense	54,149	-	-	54,149
	<u>\$ 669,126</u>	<u>\$ 142,721</u>	<u>\$ 145,487</u>	<u>\$ 957,334</u>

See accompanying independent accountant's review report and notes to financial statements.

Statement of Cash Flows

Opera House Arts

For the Year Ended October 31, 2019

Cash Flows From Operating Activities

Increase in net assets	\$ 15,108
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Contributions restricted for endowment	(89,704)
Depreciation	54,149
Donated equipment	(22,080)
Gain on disposal of equipment	(250)
Net realized and unrealized (gains) losses on investments	(1,645)
(Increase) decrease in operating assets	
Accounts receivable	5,855
Pledges receivable	33,702
Inventory	152
Prepaid expenses	(11,382)
Bond deposit	13,368
Increase (decrease) in operating liabilities	
Accounts payable	4,665
Accrued expenses	9,315
Fiscal agent payable	1,664
Sales tax payable	(440)

Net cash provided by operating activities 12,477

Cash Flows From Investing Activities

Distributions of assets held by others	3,390
Purchase of equipment	(5,700)
Purchase of investments	(100,455)
Sale of investments	1,858

Net cash used by investing activities (100,907)

Cash Flows From Financing Activities

Contributions restricted for endowment	89,704
Principal payments on long-term debt	(14,514)

Net cash provided by financing activities 75,190

Net decrease in cash (13,240)

Cash at beginning of year 31,579

Cash at end of year \$ 18,339

Supplemental Disclosures:

Donated equipment	\$ 22,080
Interest paid during the year	\$ 4,644

See accompanying independent accountant's review report and notes to financial statements.

Notes to Financial Statements

Opera House Arts

Note A - Summary of Significant Accounting Policies

Nature of Activities

Opera House Arts of Stonington, Maine (OHA) advances the public interest in and understanding of the performing and visual arts; exposes the public to the works of established and emerging artists through live performances, film, readings, concerts, and similar activities; provides regional and national artists with a forum to expose their work to the public; and offers workshops, classes, seminars, and similar activities to the public.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Basis of Presentation

OHA reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions.

Net Assets with Donor Restrictions - Net assets that are subject to donor-imposed time and/or purpose restrictions. These net assets generally result from gifts of cash or other assets that are received with donor stipulations that limit the use of the donated assets, either temporarily or permanently.

Support

Contributions received are recorded as increases in net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions. When restrictions expire (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. In the absence of donor restrictions to the contrary, restrictions on contributions of property or equipment or on assets restricted to acquiring property or equipment expire when the property or equipment is placed in service.

Pledges Receivable

OHA recognizes unconditional promises to give in accordance with donor restrictions in the period the commitment for support is obtained. Conditional promises to give are recorded when the required conditions have been met. Unconditional promises to give that are expected to be collected within one year are recorded as pledges receivable at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows.

Notes to Financial Statements

Opera House Arts

Note A - Summary of Significant Accounting Policies – Continued

Accounts Receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. Based on management's assessment of the credit history of customers having outstanding balances and current relationships with them, it has calculated an allowance for doubtful accounts of \$10,000 as of October 31, 2019.

In-Kind Contributions

Amounts are reported in the financial statements for voluntary donations of services when those services create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills and which would be typically purchased if not provided by donation. Donated tangible assets are recorded at fair value at the date of the gift.

Estimates

The preparation of financial statements on the accrual basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

OHA considers all highly liquid investments and debt instruments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents for purposes of the statement of cash flows exclude any cash and cash equivalents included in the endowment funds.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in net assets without donor restrictions if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Inventory

Inventory is valued at cost and consists of food and other items held for sale.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Expenses are charged to each program based on direct expenditures incurred and by allocation among the programs and supporting services benefited according to bases determined by management.

Income Taxes

OHA qualifies as an organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. OHA has also received income tax exempt status in the State of Maine

Notes to Financial Statements

Opera House Arts

Note A – Summary of Significant Accounting Policies - Continued

and files a Form 990 tax return in the U.S. federal jurisdiction. With few exceptions, OHA is no longer subject to U.S. federal or Maine income tax examinations by tax authorities for years before 2016 due to statute of limitations. Management of OHA believes it has no material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax benefit.

Property and Equipment

Property and equipment with a cost or value greater than \$2,500 are recorded at cost when purchased or at the approximate fair value at the date of donation. Depreciation is provided on the straight-line method over the estimated useful lives as follows:

	<u>Years</u>
Furniture, fixtures and equipment	5-10
Real property	40

Expenditures for repairs and maintenance are expensed when incurred and betterments are capitalized. Assets sold or otherwise disposed of are removed from the accounts, along with the related depreciation allowances, and any gain or loss is recognized. Depreciation expense for the year ended October 31, 2019 was \$54,149.

Beneficial Interest in Assets Held by Maine Community Foundation

OHA is an income beneficiary of assets held by Maine Community Foundation (MCF) as a result of making nonreciprocal transfers of assets to MCF and specifying itself as the beneficiary. As such, OHA may receive distributions from these assets each year. However, the Board of Directors of MCF (Board) shall have the power to modify, consistent with State law, including seeking approval of the appropriate court or Attorney General, where applicable, any restriction or condition on the distribution of funds to OHA if, in the sole judgment of the Board, (without the necessity of the approval of any participating trustee, custodian, or agent), such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community.

The estimated fair market value of OHA's beneficial interest in the assets held by MCF is recognized in the statement of financial position.

Advertising

Advertising costs are expensed by OHA when incurred. Advertising expense for the year ended October 31, 2019 was \$22,206.

New Accounting Pronouncement

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. OHA adopted the provisions of this new standard during the year ended October 31, 2019. In addition to changes in

Notes to Financial Statements

Opera House Arts

Note A - Summary of Significant Accounting Policies - Continued

terminology used to describe categories of net assets throughout the financial statements, a new disclosure was added regarding liquidity and the availability of resources (Note H).

Subsequent Events

OHA has evaluated subsequent events through June 3, 2020, the date the financial statements were available to be issued.

Note B - Property and Equipment

Property and equipment consisted of the following as of October 31, 2019:

Land		\$ 381,954
Furniture & fixtures		244,324
Buildings & improvements		1,657,847
Vehicle		<u>17,611</u>
	Total Property & Equipment	2,301,736
Less: Accumulated depreciation		<u>(549,506)</u>
	Property & Equipment, net	<u>\$ 1,752,230</u>

Note C - Investments

OHA's investments are carried at fair value. The fair value of OHA's beneficial interest in Maine Community Foundation (MCF) assets is based on a valuation provided by MCF. The following schedule summarizes the fair value of OHA's investments as of October 31, 2019:

Beneficial interest in MCF assets		<u>\$ 155,005</u>
Investment return is summarized as follows:		
Interest and dividend income		\$ 451
Investment fees		(1,015)
Net realized and unrealized gains		<u>1,645</u>
	Investment return	<u>\$ 1,081</u>
Interest earned on cash and cash equivalents		<u>5</u>
		<u>\$ 1,086</u>

Notes to Financial Statements

Opera House Arts

Note D - Fair Value Measurement

Generally accepted accounting principles in the United States (GAAP) define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date and in the principal or most advantageous market for that asset or liability. GAAP specifies a hierarchy of inputs to valuation techniques, which categorizes inputs to fair value measurement that reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs). The following summarizes the fair value hierarchy:

Level 1 Inputs - Unadjusted quoted market prices for identical assets and liabilities in an active market. An active market is one in which transactions for the assets or liabilities occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Inputs - Inputs other than the quoted prices in active markets that are observable either directly or indirectly.

Level 3 Inputs – Inputs based on prices or valuation techniques that are both unobservable and significant to the overall fair value measurements.

GAAP requires the use of observable market data, when available, in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

The following table sets forth by level, within the fair value hierarchy, OHA's financial assets and liabilities that were accounted for at fair value on a recurring basis as of October 31, 2019.

Fair Value Measurement at October 31, 2019

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Beneficial interest in Maine				-
Community Foundation assets	<u>-</u>	<u>-</u>	<u>155,005</u>	<u>155,005</u>
	Total			
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 155,005</u>	<u>\$ 155,005</u>
Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The fair value of OHA's beneficial interest in Maine Community Foundation (MCF) assets has been measured on a recurring basis using a valuation provided by MCF (Level 3 inputs).

Notes to Financial Statements

Opera House Arts

Note D - Fair Value Measurement – Continued

The following table summarizes the changes in assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs):

	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)
Balance at November 1, 2018	\$ 57,258
Contributions	\$ 100,004
Investment income, net	1,133
Expenditures	<u>(3,390)</u>
Balance at October 31, 2019	<u>\$ 155,005</u>

Note E - Pledges Receivable

Unconditional promises to give are included in the financial statements as pledges receivable and revenue of the appropriate net asset category. Pledges due in more than one year are recorded after discounting to the present value of the future cash flows.

Proceeds from the unconditional promises to give are expected to be received in the following periods:

In one year or less	<u>\$ 34,863</u>
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As of October 31, 2019, OHA had received a conditional promise to give with a balance of \$30,000, payable in installments of \$15,000 per year over the next two years, conditioned upon certain programming. This conditional pledge will not be recognized as an asset or as revenue until the conditions are substantially met.

Note F - Net Assets with Donor Restrictions

Net assets with donor restrictions as of October 31, 2019 are available for the following purposes:

Scholarship funds	\$ 29,854
Education	3,500
Strategic planning	2,400
For future periods	34,863
Perpetual endowment	<u>89,704</u>
	<u>\$ 160,321</u>

Notes to Financial Statements

Opera House Arts

Note G - Endowment

The Organization's endowment includes both donor-restricted and board-designated endowment funds to support OHA and its programs. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Donor-restricted endowments are classified as net assets with donor restrictions and board-designated endowments are classified as net assets without donor restrictions.

The donor-restricted endowment funds are subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA). In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund;
2. The purpose of the Organization's donor-restricted endowment funds;
3. General economic conditions;
4. The possible effects of inflation and deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the Organization; and
7. The investment policies of the Organization.

Return Objective and Risk Parameters

OHA transfers its endowment funds to the Maine Community Foundation (MCF) and relies on MCF's investment policies for endowment assets that attempt to provide a predictable stream of funding for its programs while seeking to maintain the purchasing power of the endowment assets. The MCF invests the board-designated and donor-restricted endowment assets to provide a reasonable, prudent balance between risk and return. OHA expects its endowment funds, over time, to produce an average rate of more than 5% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the MCF relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The MCF targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Board of Opera House Arts determines its spending policy on a year-to-year basis, depending on the facts and circumstances of that year.

Funds with Deficiencies

From time to time, the fair value of assets associated with donor-restricted endowment funds may

Notes to Financial Statements

Opera House Arts

Note G - Endowment – Continued

fall below the level that donors require the Organization to retain as a fund of perpetual duration. The Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

Endowment value and classification as of October 31, 2019:

Board-designated endowment funds	\$ 37,647
Donor-restricted endowment funds	89,704
Total endowment	<u>\$ 127,351</u>

Changes in endowment net assets for the year-ended October 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, November 1, 2018	\$ 26,843	\$ -	\$ 26,843
Investment return, net	524	-	524
Contributions	12,500	89,704	102,204
Amounts appropriated for expenditure	<u>(2,220)</u>	<u>-</u>	<u>(2,220)</u>
Endowment net assets, October 31, 2019	<u>\$ 37,647</u>	<u>\$ 89,704</u>	<u>\$ 127,351</u>

Note H- Liquidity and Availability of Financial Assets

The Organization monitors its liquidity so that it is able to meet its operating needs and other commitments. The following reflects the Organization's financial assets as of October 31, 2019, reduced by amounts not available for general expenditure within one year. Amounts not available include amounts set aside for board-designated endowment funds. These board designations could be drawn upon at the board's approval.

Notes to Financial Statements

Opera House Arts

Note H- Liquidity and Availability of Financial Assets – Continued

The table below presents liquid financial assets available for general expenditures at October 31, 2019:

Cash and cash equivalents	\$ 16,139
Accounts receivable, net	6,390
Pledges receivable	<u>34,863</u>
	57,392
Less funds held for others	(6,573)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 50,819</u>

Note I - Long-Term Debt

At October 31, 2019, the Organization had the following note payable:

Mortgage payable to Camden National Bank, monthly installments of \$775, interest rate of 4.36% until 2022, then interest rate variable based on Wall Street Journal Highest Prime Rate plus .25%, secured by all assets.

	<u>100,881</u>
Less: current maturities	<u>(4,959)</u>
Long-term debt, less current portion	<u>\$ 95,922</u>

Expected maturities of the principal of long-term debt at October 31, 2019, are as follows:

<u>Year Ending</u> <u>October 31,</u>	
2020	\$ 4,959
2021	5,180
2022	5,410
2023	5,651
2024	5,902
Thereafter	<u>73,779</u>
Total	<u>\$ 100,881</u>

Note J - Operating Lease

OHA leases a Toshiba copier under an operating lease agreement. The agreement expires in 2023. Lease expense for the year ended October 31, 2019 totaled \$3,376. Future minimum payments under this non-cancelable operating lease are as follows:

Notes to Financial Statements

Opera House Arts

Note J - Operating Lease - Continued

Year ending October 31:		
2020	\$	3,775
2021		3,775
2022		3,775
2023		<u>2,205</u>
Total	\$	<u>13,530</u>

OHA leases the Burnt Cove Church Community Center under an operating lease agreement that expires on May 31, 2022. Lease expense for the year ended October 31, 2019 totaled \$1. Future minimum rental payments under this non-cancelable lease are \$1 per year. Additionally, OHA is financially responsible under the terms of the lease for the following expenses associated with the premises: utilities; services, including without limitation, snow removal, cleaning, and landscaping; property taxes or assessments; repairs of damage caused by the negligence or willful misconduct of OHA or its employees or agents; routine repairs and maintenance, the cost of which does not exceed \$575 in any single instance; a policy of general liability insurance; and, a policy of casualty insurance.

Note K - Line of Credit

OHA has a \$25,000 line of credit available from Camden National Bank. As of October 31, 2019, there was a balance of \$0 on this line of credit. OHA incurred a negligible amount in interest expense for carrying this facility in the year ending October 31, 2019.

Note L - Retirement Plan

OHA maintains a SIMPLE IRA plan whereby OHA matches eligible employee contributions up to between 1% and 3% of compensation depending upon the given year. Employee eligibility is determined based on earnings of at least \$5,000 for at least two prior years. OHA contributed \$1,986 on behalf of employees during the year ended October 31, 2019.

Note M – Subsequent Events

In response to COVID-19, OHA suspended all in-person public events in March 2020. As of June 2020, such events were expected to remain suspended through the rest of the usual summer season. Given the uncertainty of the situation, the duration of any ongoing disruption to operations and the related financial impact cannot be reasonably estimated at this time.