

Rowan Water, Inc.
Basic Financial Statements
For the Years Ended December 31, 2020 and 2019



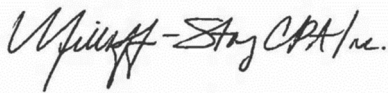
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Rowan Water, Inc.
Table of Contents
For the Years Ended December 31, 2020 and 2019

<u>Title</u>	<u>Page</u>
Independent Accountant’s Compilation Report	1
Statements of Financial Position	3
Statements of Activities	5
Statements of Functional Expenses	6
Statements of Cash Flows	8
Notes to the Financial Statements	9

Independent Accountant's Compilation Report

Management is responsible for the accompanying financial statements of Rowan Water, Inc. (a not-for-profit organization), which comprise the statement of financial position as of December 31, 2020 and 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 in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements, nor were we required to perform any procedures to verify the accuracy or the completeness of the information provided by management. We do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.



Millhuff-Stang, CPA, Inc.
Chillicothe, Ohio

March 31, 2021

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Rowan Water, Inc.
Statements of Financial Position
As of December 31, 2020 and December 31, 2019

	2020	2019
Assets:		
Current Assets		
Cash and cash equivalents	\$470,964	\$472,475
Accounts receivable customers (net of allowances for uncollectibles of \$44,118 and \$17,025, respectively)	377,833	280,034
Inventory	171,240	129,951
Total current assets	1,020,037	882,460
Other Assets		
Restricted cash	303,130	335,943
Utility deposits	1,045	1,045
Total other assets	304,175	336,988
Property, Plant and Equipment		
Land and land rights	220,715	220,715
Building	899,538	899,538
Pumping plant	1,338,729	1,338,729
Transmission and distribution lines	18,564,848	17,805,159
Office furniture, fixtures and equipment	64,369	64,369
Machinery and equipment	806,339	705,456
	21,894,538	21,033,966
Less: accumulated depreciation	(10,243,237)	(10,444,804)
Property, plant and equipment (net)	11,651,301	10,589,162
Total assets	\$12,975,513	\$11,808,610

(continued)

See accompanying notes to the financial statements.
See independent accountant's compilation report.

Rowan Water, Inc.
Statements of Financial Position (Continued)
As of December 31, 2020 and December 31, 2019

	2020	2019
Liabilities and Net Assets:		
Current Liabilities		
Accounts payable	\$230,853	\$258,804
Accrued interest payable	95,617	98,811
Other accrued expenses	110,104	120,240
Customer deposits	117,640	101,910
Current portion of capital lease	26,099	15,085
Current portion of long-term debt	174,753	150,378
Total current liabilities	755,066	745,228
Long-Term Debt		
Capital lease, less current portion	72,314	45,255
Notes payable, less current portion	6,010,703	4,963,456
Total liabilities	6,838,083	5,753,939
Net Assets		
With donor restrictions	17,067	0
Without donor restrictions	6,120,363	6,054,671
Total net assets	6,137,430	6,054,671
Total liabilities and net assets	\$12,975,513	\$11,808,610

See accompanying notes to the financial statements.
See independent accountant's compilation report.

Rowan Water, Inc.
Statements of Activities
For the Year Ended December 31, 2020
(With Summarized Information For the Year Ended December 31, 2019)

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenues, gains and other support:				
Water sales	\$3,100,581	\$0	\$3,100,581	\$2,889,030
Federal grants in aid of construction	0	500,000	500,000	70,702
Membership fees	675	0	675	1,265
Interest income	57,210	0	57,210	10,521
Gain on sale of assets	(267,102)	0	(267,102)	8,750
Miscellaneous	168,699	0	168,699	184,512
Support provided by expiring purpose restrictions	482,933	(482,933)	0	0
	3,542,996	17,067	3,560,063	3,164,780
Total revenues, gains and other support				
Expenses:				
Program services				
Supply operations	1,283,767	0	1,283,767	1,332,616
Transmission and distribution	1,440,246	0	1,440,246	1,517,657
	2,724,013	0	2,724,013	2,850,273
Total program expenses				
Supporting services				
Administration and general	753,291	0	753,291	776,285
	3,477,304	0	3,477,304	3,626,558
Total expenses				
Change in net assets	65,692	17,067	82,759	(461,778)
Net assets, beginning of year	6,054,671	0	6,054,671	6,516,449
Net assets, end of year	\$6,120,363	\$17,067	\$6,137,430	\$6,054,671

See accompanying notes to the financial statements.
See independent accountant's compilation report.

Rowan Water, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2020

	Program Services			Supporting Services	
	Supply Operations	Transmission & Distribution	Total	Administration & General	Total Expenses
Salaries-employees	\$0	\$305,905	\$305,905	\$195,579	\$501,484
Board member fees	0	0	0	26,586	26,586
Employee retirement and benefits	0	181,252	181,252	115,883	297,135
Payroll tax expense	0	25,823	25,823	16,509	42,332
Purchased water	1,283,767	0	1,283,767	0	1,283,767
Purchased power	0	120,954	120,954	0	120,954
Materials and supplies	0	78,994	78,994	14,547	93,541
Contractual services-accounting	0	0	0	19,615	19,615
Contractual services-legal	0	0	0	0	0
Contractual services-water	0	13,466	13,466	0	13,466
Contractual services-other	0	88,119	88,119	0	88,119
Transportation expenses	0	31,074	31,074	0	31,074
Insurance	0	0	0	42,329	42,329
Bad debt expense	0	0	0	9,431	9,431
Miscellaneous expenses	0	29,908	29,908	103,016	132,924
Interest expense	0	0	0	198,270	198,270
Depreciation expense	0	564,751	564,751	11,526	576,277
	<u>\$1,283,767</u>	<u>\$1,440,246</u>	<u>\$2,724,013</u>	<u>\$753,291</u>	<u>\$3,477,304</u>

See accompanying notes to the financial statements.
See independent accountant's compilation report.

Rowan Water, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2019

	Program Services			Supporting Services	
	Supply Operations	Transmission & Distribution	Total	Administration & General	Total Expenses
Salaries-employees	\$0	\$309,407	\$309,407	\$197,817	\$507,224
Board member fees	0	0	0	25,473	25,473
Employee retirement and benefits	0	197,636	197,636	126,357	323,993
Payroll tax expense	0	25,843	25,843	16,522	42,365
Purchased water	1,332,616	0	1,332,616	0	1,332,616
Purchased power	0	125,860	125,860	0	125,860
Materials and supplies	0	220,979	220,979	16,070	237,049
Contractual services-accounting	0	0	0	17,094	17,094
Contractual services-legal	0	2,000	2,000	0	2,000
Contractual services-water	0	19,955	19,955	0	19,955
Contractual services-other	0	27,409	27,409	0	27,409
Transportation expenses	0	61,346	61,346	0	61,346
Insurance	0	0	0	54,300	54,300
Bad debt expense	0	0	0	19,489	19,489
Miscellaneous expenses	0	19,394	19,394	91,280	110,674
Interest expense	0	0	0	199,297	199,297
Depreciation expense	0	507,828	507,828	12,586	520,414
	<u>\$1,332,616</u>	<u>\$1,517,657</u>	<u>\$2,850,273</u>	<u>\$776,285</u>	<u>\$3,626,558</u>

See accompanying notes to the financial statements.
See independent accountant's compilation report.

Rowan Water, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2020 and December 31, 2019

	2020	2019
Cash flows from operating activities		
Cash received from customers	\$3,009,081	\$2,892,242
Cash received from other receipts	168,699	184,512
Cash payments for personal services	(877,673)	(927,947)
Cash payments for contractual services, supplies and materials	(1,762,105)	(1,727,606)
Cash payments for other expenses	(132,924)	(110,674)
Net cash provided by operating activities	405,078	310,527
Cash flows from investing activities		
Purchases of plant and equipment	(1,905,518)	(139,741)
Interest income received	57,210	10,521
Net cash used in investing activities	(1,848,308)	(129,220)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	1,222,000	0
Principal payments on long-term debt	(112,305)	(144,279)
Interest paid on long-term debt	(201,464)	(202,355)
Capital contributions - membership fees	675	1,265
Capital contributions - federal grants in aid of construction	500,000	70,702
Net cash provided (used) by financing activities	1,408,906	(274,667)
Net change in cash and cash equivalents	(34,324)	(93,360)
Cash and cash equivalents, beginning of year	808,418	901,778
Cash and cash equivalents, end of year	\$774,094	\$808,418
 Noncash Transactions		
Trade-in allowance on excavator purchase	\$0	\$28,550
Inception of capital lease for vehicle purchases	55,069	60,340
Trade-in allowance on vehicle purchases	53,000	40,000
Total noncash transactions	\$108,069	\$128,890

See accompanying notes to the financial statements.
See independent accountant's compilation report.

Rowan Water, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019

Note 1 – Description of the Organization

Rowan Water, Inc. (the Company) was established in 1968 to serve customers outside the city limits of Morehead, Kentucky. The Company started with a couple hundred customers and has now grown to over 7,300 customers. The Company serves Rowan, Carter, Elliot, Morgan and Fleming Counties. Rowan Water also sells water to Olive Hill and Fleming Water. The Company is a non-profit corporation with no political affiliation. The Company has 11 employees. The Company has over 700 miles of water line in the ground to maintain. The Company has 11 tanks and 11 pump stations.

Note 2 – Summary of Significant Accounting Policies

The Company prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for-profit entities. The significant accounting and reporting policies used by the Company are described subsequently to enhance the usefulness and understandability of the financial statements.

Basis of Accounting

The Company prepares its financial statements using the accrual basis of accounting and accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Actual results could differ from those estimates.

Net Assets

The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net assets without donor restrictions – Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting for the nature of the Company, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net assets with donor restrictions – Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the Company must continue to use the resources in accordance with the donor's instructions.

An organization's unspent contributions are included in this class if the donor limited their use, as are its donor-restricted endowment funds and its beneficial interest in a perpetual charitable trust held by a bank trustee.

Rowan Water, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as net assets with donor restrictions until the specified asset is placed in service by the Company, unless the donor provides more specific directions about the period of its use.

Net assets with donor restrictions are further discussed in note 5.

Classification of Transactions

All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the donor specified the use of the related resources for a particular purpose or in a future period. All expenses and net losses other than losses on endowment investments are reported as decreases in net assets without donor restrictions. Net gains on endowment investments increase net assets with donor restrictions, and net losses on endowment investments reduce that net asset class.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers unrestricted cash and all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Restricted Cash and Cash Equivalents

The Company is required to disclose limits on certain assets due to external restrictions or contractual requirements. The Company reports restricted cash balances of \$286,063 and \$335,943 at December 31, 2020 and 2019, respectively, which represents cash reserves required by debt covenants. The Company also reports a restricted cash balance of \$17,067 at December 31, 2020, which represents unspent grant proceeds received from the United States Department of Agriculture.

Accounts Receivable

Accounts receivable are primarily amounts owed on December billings, including delinquencies from previous months. This balance has been reported net of an allowance for uncollectible accounts, estimated based on past experience.

Inventory

Inventory is stated at the lower of cost or market using the first-in, first-out (FIFO) method.

Plant, Property, and Equipment

Utility plant is stated at original cost, net of contributions, which is the cost when first dedicated to public service. Such costs include applicable supervisory and overhead costs. All other fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Company maintains a capitalization threshold of five thousand dollars for all items added to the utility plant with an estimated useful life of three or more years.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to the utility plant. The company capitalizes labor on certain capitalized assets constructed by the Company. The amounts capitalized for 2020 and 2019 are \$40,500 and \$5,943, respectively.

Rowan Water, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019

Provisions for depreciation have been made on the basis of estimated lives of assets, using the straight-line method. Depreciable lives for the various assets are as follows:

Building	45 Years
Pumping plant	10-25 Years
Transmission and distribution	10-50 Years
Furniture and fixtures	5-10 Years
Equipment	3-7 Years

Interest incurred during construction periods on funds used to finance construction of capital assets is capitalized as part of the cost of those assets. Interest capitalized in 2020 and 2019 was \$0.

Grant Revenue

Federal grants in aid of construction consist of federal grants for the construction of water mains to serve customers. The Company capitalizes the costs of such mains. The review could result in the disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, the Company's management believes that costs ultimately disallowed, if any, would not materially affect the financial position of the organization.

Expense Recognition and Allocation

The cost of providing the Company's programs and activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Company.

Income Tax Status

The Company is exempt from Federal income taxes under Section 501(c)(12) of the Internal Revenue Code of 1954; accordingly, the accompanying financial statements include no provision for such taxes.

Note 3 – Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2020 are:

Financial assets:	
Cash	\$774,094
Accounts receivable	377,833
Utility deposits	1,045
Total financial assets	<u>1,152,972</u>
Less contractually-required funds:	
Cash restricted for debt covenants	286,063
Cash restricted for capital grants	17,067
Total restricted assets	<u>303,130</u>
Amount available for general expenditures within one year	<u>\$849,842</u>

Rowan Water, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2019 are:

Financial assets:	
Cash	\$808,418
Accounts receivable	280,034
Utility deposits	<u>1,045</u>
Total financial assets	1,089,497
Less contractually-required funds:	
Cash restricted for debt covenants	<u>335,943</u>
Amount available for general expenditures within one year	<u>\$753,554</u>

The above tables reflect donor-restricted and contractually-restricted funds as unavailable because the Company is required to separately hold these funds to be used for specific construction projects or for the set-aside of debt reserves. As part of the Company's liquidity management plan, the Company holds all unrestricted cash in demand deposit accounts.

Note 4 – Bank Deposits

The Company maintains bank accounts at US Bank and Morehead Community Federal Credit Union. Accounts at these institutions are insured up to \$250,000 per bank. As of December 31, 2020 and 2019, the Company's bank balances were \$794,556 and \$810,031, respectively, of which \$469,197 and \$464,952, respectively, was insured by the banks. The remaining balances were not insured.

Note 5 – Net Assets With Donor Restrictions

At December 31, 2020, net assets with donor restrictions are available for the following purpose:

Purpose restrictions, available for spending:	
Capital grants	<u>\$17,067</u>
Total net assets with donor restrictions	<u>\$17,067</u>

At December 31, 2019, the Company held no net assets with donor restrictions.

Note 6 – Group Concentration of Credit Risk

The Company is located in Morehead, Kentucky. Its service area includes portions of several counties surrounding the City. The Company requires a deposit from its members when services are provided to rental property. Such deposits are applied to unpaid bills in the event of default.

Note 7 – Commitments

Under its wholesale water agreement, the Company is committed to purchase its water from another local utility. The rates paid for such purchases are subject to review and revision. The Company has also entered into a long-term water resale contract with a local water district whereby the Company is committed to provide water, as provided in the contract, to the district over the next 25 years.

Rowan Water, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019

Note 8 – Long-Term Debt and Capital Lease Obligations

Long-Term Debt

Long-term debt at December 31, 2020 and 2019 consisted of:

	2020	2019
5% secured promissory note dated July 19, 1991, due to USDA, Rural Development 40 years from the date of this note with annual installments of \$76,959, including interest, until maturity.	\$637,969	\$680,883
5% secured promissory note dated September 15, 1992, due to USDA, Rural Development 40 years from the date of this note with annual installments of \$22,886, including interest, until maturity.	202,691	214,836
4.5% secured promissory note to USDA, Rural Development dated May 13, 1998, due 40 years from the date of this note with payments of \$68,155, including interest, maturing May 2038.	827,587	857,169
4.5% secured promissory note dated May 9, 2001, due to USDA, Rural Development 40 years from the date of this note with annual installments of \$10,322 including interest, until maturity.	259,348	267,216
4.5% secured promissory note to USDA, Rural Development dated January 27, 2004, due 40 years from the date of this note with annual installments of \$17,953, including interest, maturing January 2044.	381,339	390,105
4.5% secured promissory note to USDA, Rural Development dated January 27, 2004, due 40 years from the date of this note with annual installments of \$6,400, including interest, maturing January 2044.	168,739	172,620
4.125% secured promissory note dated October 24, 2007, due to USDA, Rural Development 40 years from the date of this note with annual installments of \$31,076, including interest, until maturity.	507,769	517,946
2.75% secured promissory note to USDA, Rural Development dated July 11, 2012, due 40 years from the date of this note with annual installments of \$18,596, including interest, maturing July 2052.	839,733	855,994
2.75% secured promissory note to USDA, Rural Development dated July 11, 2012, due 40 years from the date of this note with annual installments of \$2,641, including interest, maturing July 2052.	90,197	91,944
2.625% secured promissory note to USDA, Rural Development dated September 15, 2017, due 40 years from the date of this note with annual installments of \$44,993, including interest, maturing September 2057.	1,048,084	1,065,123
2.25% secured promissory note to USDA, Rural Development dated January 30, 2020, due 40 years from the date of this note with annual installments of \$45,948, including interest, maturing December 2061.	1,222,000	0
Total	6,185,456	5,113,834
Less: principal payments due within one year classified as current liability	(174,753)	(150,378)
	\$6,010,703	\$4,963,456

Rowan Water, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019

Maturities of long-term debt are as follows:

2021	\$174,753
2022	182,267
2023	189,637
2024	197,322
2025	205,345
Thereafter	<u>5,236,132</u>
Total	<u>\$6,185,456</u>

Operating facilities, together with all revenue and service charges which may arise from operations of the Company, are pledged as security for the notes payable to USDA, Rural Development.

The notes payable agreements with the United States Department of Agriculture, Rural Development (USDA, RD) require that depreciation reserve accounts be established as follows:

- (A) For the notes dated July 19, 1991, and September 15, 1992, the Company is required to deposit \$835 a month, starting January 1, 1993, in a depreciation reserve account until the balance reaches \$100,200.
- (B) For the note dated May 13, 1998, the Company is required to deposit \$570 a month into a depreciation reserve account. The Company is required to make these deposits starting January 2000 until the balance reaches \$68,400.
- (C) For the notes dated January 27, 2004, the Company is required to deposit \$320 a month into a depreciation reserve account. The Company is required to make these deposits until the balance reaches \$38,400.
- (D) For the note dated October 24, 2007, the Company is required to deposit \$265 a month into a depreciation reserve account. The Company is required to make these deposits until the balance reaches \$31,800.
- (E) For the note dated May 9, 2001, the Company is required to deposit \$170 a month into a depreciation reserve account. The Company is required to make these deposits until the balance reaches \$20,400.
- (F) For the notes dated July 11, 2012, the Company is required to deposit \$410 a month into a depreciation reserve account. The Company is required to make these deposits until the balance reaches \$49,200.
- (G) For the note dated September 15, 2017, the Company is required to deposit \$385 a month into a depreciation reserve account. The Company is required to make these deposits until the balance reaches \$46,200.

The required balances of the depreciation reserve at December 31, 2020 and 2019 were \$293,340 and \$283,800, respectively. The amounts in the depreciation reserves at December 31, 2020 and 2019 were \$286,063 and \$335,943, respectively.

Capital Lease

In 2019, the Company entered into a capital lease for vehicles. The lease requires a monthly payment of \$2,851 through December 2023. The lease is secured by the vehicles which were recognized in the accounting records with an original purchase price of \$214,596. These vehicles carried an accumulated depreciation of \$28,013 at December 31, 2020.

Maturities of the capital lease are as follows:

2021	\$34,212
2022	34,212
2023	34,212
2024	14,484
2025	<u>11,988</u>
Total Payments	129,108
Amount Representing Interest	<u>(30,695)</u>
Capital Lease Obligation	<u>\$98,413</u>

Note 9 – Pension Plan

Pension benefits are provided for substantially all employees through an insurance company, under a defined contribution pension plan. The Company contributes 7% of each employee's gross salary to a Simple IRA. The Company's pension contributions for 2020 and 2019 were \$30,608 and \$32,181, respectively.

Note 10 – Membership Fees

The Company uses the membership fees account to record membership fees collected from new customers (members). Membership fees collected in 2020 and 2019 amounted to \$675 and \$1,265, respectively.

Note 11 – Tap-On Fees

The Company uses the tap-on fees account to record tap fees collected from new customers (members). Tap fees collected in 2020 and 2019 amounted to \$110,606 and \$58,958, respectively. These fees are included in miscellaneous revenue on the financial statements.

Note 12 – Accrued Sick Leave

Accrued sick leave balances at December 31, 2020 and 2019 were \$89,770 and \$99,979, respectively.

Note 13 – Subsequent Events

Management has performed an analysis for the activities and transactions subsequent to December 31, 2020 to determine the need for any adjustments or disclosures within the financial statements for the year ended. Management has performed their analysis through March 31, 2021, which is the date the financial statements were available to be issued.

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the continuing emergency measures will impact subsequent periods of the Company. In addition, the impact on the Company's future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.