

**EJ WATER COOPERATIVE, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**YEARS ENDED SEPTEMBER 30, 2023 AND 2022**

EJ WATER COOPERATIVE, INC.

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
FOR THE YEARS ENDED SEPTEMBER 30, 2023 and 2022

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
EJ Water Cooperative, Inc.

### **Report on the Audit of the Consolidated Financial Statements**

#### ***Opinion***

We have audited the accompanying consolidated financial statements of EJ Water Cooperative, Inc. (an Illinois corporation), which comprise the consolidated balance sheets as of September 30, 2023 and 2022, and the related consolidated statements of income, members' equity, and cash flows for the years then ended, and the disclosures to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of EJ Water Cooperative, Inc. as of September 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of EJ Water Cooperative, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Consolidated Financial Statements***

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about EJ Water Cooperative, Inc.'s ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

#### ***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing

standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of EJ Water Cooperative, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about EJ Water Cooperative, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidated statements of operating expenses and the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidated statements of operating expenses and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2024, on our consideration of EJ Water Cooperative, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of EJ Water Cooperative, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering EJ Water Cooperative, Inc.'s internal control over financial reporting and compliance.

*Kemper CPA Group LLP*

KEMPER CPA GROUP LLP  
Certified Public Accountants and Consultants

May 21, 2024

EJ WATER COOPERATIVE, INC.  
CONSOLIDATED BALANCE SHEETS  
SEPTEMBER 30, 2023 AND 2022

	2023	2022
<b>Assets</b>		
Property and equipment, net	\$ 125,151,111	\$ 120,026,989
<b>Other assets</b>		
Restricted cash and cash equivalents	1,934,429	1,696,076
Lease receivable	-	174,321
Utility cooperative capital retainages	233,832	233,832
CoBank E stock	381,510	283,690
Easements	3,317,368	3,186,532
Total other assets	5,867,139	5,574,451
<b>Current assets</b>		
Cash and cash equivalents	2,576,065	2,630,785
Accounts receivable, less allowance of \$2,000	1,284,911	1,082,805
Accrued water revenue	459,086	419,094
Other receivables	8,182	6,614
Inventory	646,147	505,992
Prepaid expenses	85,612	77,096
Total current assets	5,060,003	4,722,386
Total assets	\$ 136,078,253	\$ 130,323,826
<b>Liabilities and members' equity</b>		
Members' equity	\$ 56,815,438	\$ 54,689,250
<b>Long-term liabilities</b>		
Lease payable	157,172	174,321
Construction payables to be refinanced	233,059	17,166
Interim construction debt	4,250,711	8,830,557
Long term liabilities, less current portion	71,196,718	63,433,021
Total long-term liabilities	75,837,660	72,455,065
<b>Current liabilities</b>		
Accounts payable - trade	518,200	424,863
Accounts payable - construction	111,025	291,107
Payroll liabilities	16,631	17,536
Deferred revenue	107,871	119,780
Accrued wages	102,455	108,447
Accrued compensated absences	77,816	93,034
Customer deposits	47,205	40,900
Accrued interest expense	204,615	134,702
Other accrued expenses	56,858	33,883
Line of credit	179,116	143,181
Current portion of long-term liabilities	2,003,363	1,772,078
Total current liabilities	3,425,155	3,179,511
Total liabilities	79,262,815	75,634,576
Total liabilities and members' equity	\$ 136,078,253	\$ 130,323,826

The footnotes are an integral part of the financial statements.

EJ WATER COOPERATIVE, INC.  
CONSOLIDATED STATEMENTS OF INCOME AND MEMBERS' EQUITY  
FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	2023	2022
Revenues:		
Water sales	\$ 11,858,573	\$ 10,493,634
Sewer sales	318,961	164,221
User fees and penalties	394,873	425,369
Contract and construction services	1,386,765	1,136,274
Material sales	245,540	310,065
Gain on sale or disposal of fixed assets	199,591	-
Total revenues	14,404,303	12,529,563
Cost and expenses:		
Operating expenses	13,361,970	12,186,199
Loss on sale or disposal of fixed assets	-	2,232
Total cost and expenses	13,361,970	12,188,431
Income from operations	1,042,333	341,132
Other income and expenses:		
Contributions received:		
Illinois CDBG programs	-	155,269
Contributed long-lived assets	2,256,410	1,200,000
Rural Development grants	517,900	-
Interest income	47,014	49,811
Miscellaneous income	309,456	289,947
Interest expense	(2,091,589)	(1,871,474)
Rental property income	44,664	87,954
Rental property expense	-	(4,190)
Income (loss) from Illinois Fiber Connect investment	-	275,802
Realized gain (loss) on Illinois Fiber Connect investment	-	(833,318)
Total other income and expenses	1,083,855	(650,199)
Net income (loss)	2,126,188	(309,067)
Members' equity, beginning of year	54,689,250	54,998,317
Members' equity, end of year	\$ 56,815,438	\$ 54,689,250

EJ WATER COOPERATIVE, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	2023	2022
Operating activities		
Net income (loss)	\$ 2,126,188	\$ (309,067)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation/amortization	4,614,835	4,382,264
Contributed long-lived assets	(2,256,410)	(1,200,000)
(Gain) loss on sale or disposal of fixed assets	(199,591)	2,232
(Increase) decrease in accounts receivable	(202,106)	(98,276)
(Increase) decrease in accrued water revenue	(39,992)	(53,948)
(Increase) decrease in other receivables	(1,568)	321,025
(Increase) decrease in lease receivables	14,731	-
(Increase) decrease in inventory	(140,155)	(92,344)
(Increase) decrease in prepaid expenses	(8,516)	(21,184)
(Increase) decrease in utility cooperative capital retainages	-	(20,913)
(Increase) decrease in CoBank E stock	(97,820)	(90,625)
(Increase) decrease in Illinois Fiber Connect	-	555,868
Increase (decrease) in payables	(86,745)	193,918
Increase (decrease) in lease payables	(17,149)	-
Increase (decrease) in deferred revenue	(11,909)	48,971
Increase (decrease) in accrued expenses	28,516	2,718
Increase (decrease) in customer deposits	6,305	8,750
Net cash provided by operating activities	3,728,614	3,629,389
Investing activities:		
Proceeds from the sale of property and equipment	480,095	51,174
Cash payments for the purchase of property and equipment	(2,709,547)	(1,529,178)
Cash payments for the purchase of easements	(130,836)	(136,484)
Net cash used by investing activities	(2,360,288)	(1,614,488)
Financing activities:		
Construction payables to be refinanced, net	-	(623,742)
Retainage payables to be refinanced, net	-	(120,893)
Net borrowings (repayments) of lines of credit	35,935	143,181
Proceeds from interim construction debt	1,617,905	1,844,561
Principal payments on interim construction debt	(1,140,951)	(1,520,246)
Proceeds from the issuance of permanent debt	92,036	-
Principal payments on permanent debt	(1,789,618)	(1,996,560)
Net cash used by financing activities	(1,184,693)	(2,273,699)
Net increase (decrease) in cash and cash equivalents	183,633	(258,798)
Cash and cash equivalents as of beginning of year	4,326,861	4,585,659
Cash and cash equivalents as of end of year	\$ 4,510,494	\$ 4,326,861
Cash and cash equivalents per the balance sheet:		
Cash and cash equivalents (current assets)	\$ 2,576,065	\$ 2,630,785
Restricted cash and cash equivalents (other assets)	1,934,429	1,696,076
	\$ 4,510,494	\$ 4,326,861
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest, net of capitalized interest	\$ 2,021,676	\$ 1,890,675
Noncash investing activities:		
Contributed property and equipment	\$ 2,256,410	\$ 1,200,000
Property and equipment acquired with permanent debt	\$ 3,630,664	\$ 65,900
Property and equipment acquired with interim debt	\$ 1,005,100	\$ 4,616,500
Property and equipment acquired with lease receivable forgiveness	\$ 159,590	\$ -
Property and equipment acquired with construction payables	\$ 215,893	\$ -
Property and equipment acquired with traded assets	\$ 100,000	\$ 55,000
Capitalized accrued interest	\$ 42,257	\$ -
Noncash financing activities:		
Lease receivable financed by lease payable	\$ -	\$ 144,300
Permanent debt assumed on property and equipment acquisitions	\$ 3,630,664	\$ 65,900
Interim debt assumed on property and equipment acquisitions	\$ 1,005,100	\$ 4,616,500
Lease receivable forgiven on property and equipment acquisitions	\$ 159,590	\$ -
Construction payables assumed on property and equipment acquisitions	\$ 215,893	\$ -
Permanent debt assumed for interim debt repayments	\$ 6,061,900	\$ -
Principal payments on interim debt using permanent debt proceeds	\$ (6,061,900)	\$ -



EJ WATER COOPERATIVE, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2023 and 2022

Note 1: Nature of Activities and Summary of Accounting Policies

**Nature of Operations**

EJ Water Cooperative, Inc. was incorporated in the state of Illinois on June 21, 1989, and is dedicated to providing water to rural homes in Effingham, Jasper, Clark, Clay, Cumberland, Edwards, Richland, Sangamon, Shelby, Fayette, Crawford, Christian, Montgomery, and Bond counties. The Cooperative currently serves approximately 14,000 customers and provides water to fourteen community water suppliers that have their own distribution systems. The Cooperative also provides contract billing, reporting, accounting, and mapping services to local governments and nonprofit organizations.

The consolidated financial statements include accounts of a wholly owned subsidiary, EJ Wastewater Cooperative, LLC. EJ Wastewater Cooperative, LLC provides wastewater services to residential, commercial and industrial customers in Effingham, Cumberland, Macon, and Montgomery counties.

**Basis of Accounting**

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**Revenue Recognition**

Income from water sales is recognized when the water is delivered to the customer. Wastewater treatment sales are based on water usage and are recognized when water is delivered to the customer.

Income from contract billing, reporting, accounting, and mapping services is recognized at a point in time when services are completed.

Grant income is recognized when qualifying expenditures are made.

The tap on fee for water service is \$1,000 (\$500 in promotional locations) and is payable in two installments. The first installment of \$150 is due upon becoming a member and the second installment of \$850 is due when construction starts on the project which will supply water to the member. The fee is raised to \$2,000 for a member joining after construction on the phase is complete.

The tap on fee for sewer service is \$500 for villages and towns, and \$5,500 for the Prairie Ace subdivision. Fees are payable upon becoming a member.

EJ WATER COOPERATIVE, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2023 and 2022

Note 1: Nature of Activities and Summary of Accounting Policies (Continued)

**Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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**

For purposes of the consolidated statements of cash flows, the Cooperative considers all highly liquid investments with an initial maturity of one year or less and amounts receivable from credit card companies to be cash equivalents. Credit card receivables are short term, highly liquid in nature, and typically convert to cash within three days of the sales transaction. As of September 30, 2023 and 2022, cash equivalents consisted of certificates of deposit and credit card receivables.

**Accounts Receivable and Credit Policies**

Accounts receivable are uncollateralized customer obligations due under normal trade terms requiring payment within 15 days from the invoice date. Unpaid accounts receivable with invoice dates over 15 days old are considered delinquent and are assessed a late payment charge (10% of the past due amount).

Accounts receivable are stated at amounts billed to the customer plus any accrued and unpaid late payment charges. Payments of accounts receivable are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices. The carrying amount of accounts receivable is reduced by an allowance that reflects management's best estimate of the amounts that will not be collected. Management regularly reviews all accounts receivable balances that are past due and based on an assessment of current creditworthiness estimates the portion of the balance that will not be collected. The balance of receivables as of October 1, 2021 were as follows:

	<u>October 01, 2021</u>
Lease receivable	\$ 190,945
Accounts receivable, less allowance of \$2,000	\$ 984,529
Other receivables	\$ 327,639

EJ WATER COOPERATIVE, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2023 and 2022

Note 1: Nature of Activities and Summary of Accounting Policies (Continued)

**Allowance for Doubtful Accounts**

It is Cooperative policy to maintain an allowance for doubtful accounts based on management's judgment of expected loss. Accounts are charged to the allowance account after all collection attempts have failed and the account is considered uncollectible. The balance of allowance for doubtful accounts as of October 1, 2021 was \$2,000.

**Inventory**

Inventory is valued at the lower of cost or net realizable value, with cost being determined by the first-in, first-out method.

**Property and Equipment**

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Expenses for maintenance and repairs are charged against operations, renewals and betterments that materially extend the life of assets are capitalized. The Cooperative uses a threshold of \$5,000 to capitalize property and equipment, lesser amounts are expensed. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, ranging from three years for software, five to ten years for equipment, forty to fifty years for buildings, and fifteen to fifty years for water system components.

Self-constructed assets are included in property and equipment. Capitalized costs include direct material, labor, fixed and variable overhead. These self-constructed assets are depreciated under the same terms as purchased and donated assets.

**Advertising**

The Cooperative expenses advertising costs as they are incurred. Advertising expenses for the years ending September 30, 2023 and 2022 were \$61,452 and \$91,504, respectively.

**Deferred Revenue**

Deferred revenue represents unearned grant funding or prepayments on customer accounts.

**Income Tax Status**

The Cooperative is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code.

EJ WATER COOPERATIVE, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2023 and 2022

Note 1: Nature of Activities and Summary of Accounting Policies (Continued)

**Date of Management's Review**

Management has evaluated subsequent events through May 21, 2024, the date which the consolidated financial statements were available to be issued.

Note 2: Cash and Cash Equivalents

The Cooperative maintains its cash and cash equivalents at various financial institutions. The bank balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each financial institution. The various financial institutions may also pledge securities held by their trust department to collateralize these deposits. As of September 30, 2023, \$4,083,056 of the Cooperative's bank balance was exposed to custodial credit risk as follows:

Collateral held by pledging bank's trust department not in the Cooperative's name	\$ <u>4,083,056</u>
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Note 3: Restricted Assets

The Cooperative had \$92,036 and \$927 of Rural Development Loan Proceeds in excess of project expenditures for the fiscal years ended September 30, 2023 and 2022, respectively. These balances are reported as restricted cash and cash equivalents on the consolidated balance sheets.

Under the terms of lending agreements, the Cooperative is required to maintain a separate bank account for debt reserve. The amount maintained in the required accounts was \$2,960,528 and \$2,971,810 at September 30, 2023 and 2022, respectively. The required amount to be reserved in the debt service accounts was \$1,842,393 and \$1,695,149 at September 30, 2023 and 2022, respectively. These balances are reported as restricted cash and cash equivalents. The overfunded debt reserve in the amounts of \$1,118,135 and \$1,276,661 at September 30, 2023 and 2022, respectively, are included in cash and cash equivalents.

The following is the reserve obligation schedule as of September 30, 2023:

<u>RD Loan #</u>	<u>Date Started</u>	<u>Monthly Deposit Requirement</u>	<u>Fully Funded Amount</u>	<u>Debt Reserve Restrictions 09/30/2023</u>
1	7/1/2017	\$ 113	\$ 13,560	\$ 8,475
2	4/1/2014	253	30,360	28,842
3	7/1/2015	276	33,120	27,324
4	1/1/2019	612	73,440	34,884

EJ WATER COOPERATIVE, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2023 and 2022

Note 3: Restricted Assets (Continued)

<u>RD Loan #</u>	<u>Date Started</u>	<u>Monthly Deposit Requirement</u>	<u>Fully Funded Amount</u>	<u>Debt Reserve Restrictions 09/30/2023</u>
5	7/1/2011	576	69,120	69,120
6	3/1/2004	535	64,200	64,200
7	1/1/2019	59	7,080	3,363
8	1/1/2019	629	75,432	35,853
8	10/22/2019	511	61,248	24,017
9	6/9/2016	87	10,440	7,656
10	1/1/2019	82	9,816	4,674
11	8/16/2021	288	34,524	7,200
12	8/16/2021	672	80,640	16,800
13	10/22/2019	162	19,440	7,614
13	8/16/2021	908	108,960	22,700
15	8/16/2021	210	25,200	5,250
16	5/21/2022	1,492	179,040	23,872
17	8/16/2021	86	10,328	2,150
18	8/16/2021	113	13,600	2,825
19	5/21/2022	221	26,508	3,536
19	5/1/2017	131	15,720	10,087
20	5/21/2022	44	5,280	704
21	3/1/2002	272	32,640	32,640
21	8/23/2023	946	113,520	946
23	10/22/2021	370	44,400	8,510
24	7/1/2017	218	26,160	16,350
24	10/22/2020	414	49,680	14,490
25	10/22/2021	47	5,640	1,081
26	10/22/2020	1,143	137,160	40,005
27	6/1/2011	142	17,040	17,040
30	8/23/2023	175	21,000	175
51	5/1/2017	114	13,740	8,778
53	5/1/2014	181	21,720	20,453
55	5/1/2014	212	25,440	23,956
57	8/1/2011	496	59,520	59,520
59	8/1/2012	142	17,040	17,040
61	4/1/2012	105	12,600	12,600
63	12/1/2011	295	35,400	35,400
65	4/1/2013	70	8,400	8,400
66	6/1/2015	274	32,880	27,400

EJ WATER COOPERATIVE, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2023 and 2022

Note 3: Restricted Assets (Continued)

<u>RD Loan #</u>	<u>Date Started</u>	<u>Monthly Deposit Requirement</u>	<u>Fully Funded Amount</u>	<u>Debt Reserve Restrictions 09/30/2023</u>
67	6/9/2016	136	16,320	11,968
68	6/9/2016	1,275	153,000	112,200
70	6/14/2014	182	21,840	20,384
78	12/1/2012	114	13,608	13,680
80	7/1/2015	87	10,440	8,613
82	1/1/2019	92	11,040	5,244
83	4/1/2014	46	5,520	5,244
84	7/1/2017	305	36,600	22,875
86	10/1/2012	86	10,320	10,320
91-01	5/1/2023	156	18,720	780
91-02	5/1/2023	31	3,720	155
Bank Loan #1	9/30/2015	-	-	150,000
Bank Loan #2	7/20/2020	-	-	725,000
				<u>\$ 1,842,393</u>

Under the terms of Rural Development lending agreements, the Cooperative is required to reserve and disburse an annualized amount of funds sufficient to adequately maintain its short-lived assets. These funds are generated by operational accounts only. For fiscal years 2023 and 2022, the requirement was \$494,940 and \$494,940, respectively. The actual funds reserved and disbursed for fiscal years 2023 and 2022 were \$1,288,661 and \$1,402,241, respectively.

Note 4: Investments

The Cooperative has investments in equity securities of CoBank that are accounted for using the cost method. The equity security represents assigned patronage capital that is only redeemable by action of CoBank. The aggregate cost of the CoBank investment totaled \$381,510 and \$283,690 at September 30, 2023 and 2022, respectively.

EJ WATER COOPERATIVE, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2023 and 2022

Note 5: Property, Plant, and Equipment

Property, plant, and equipment consist of the following:

	2023	2022
Nondepreciable:		
Land	\$ 1,708,778	\$ 1,667,792
Construction In Process	4,320,277	4,537,043
Depreciable:		
Improvements	178,010	138,341
Buildings	1,468,670	1,450,000
Vehicles & Equipment	3,707,759	3,788,485
Software	809,418	681,641
Water Plant	20,246,019	20,115,609
Water Tower	3,961,847	4,519,332
Distribution System	132,063,327	124,347,336
Waste Water System	4,932,693	3,331,186
Wells	1,903,778	1,868,528
Total Assets	175,300,576	166,445,293
Accumulated Depreciation/Amortization	(50,149,465)	(46,418,304)
Property, Plant, and Equipment, Net	\$ 125,151,111	\$ 120,026,989

Depreciation expense was \$4,614,835 and \$4,382,264 for the years ended September 30, 2023 and 2022, respectively.

The Cooperative capitalizes certain costs into its distribution system consisting primarily of water and sewer mains and meters. During the fiscal years ending September 30, 2023 and 2022, \$383,848 and \$492,335 of costs were capitalized, respectively. The source of funds for this came from tap on fees and water revenue. These amounts are a reduction in available cash flow for operations and maintenance, debt service and reserve payments.

EJ WATER COOPERATIVE, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2023 and 2022

Note 6: Long-Term Debt

Long-term debt at September 30, 2023 and 2022 consists of the following:

	2023	2022
Loans payable to financial institutions, maturity dates ranging from 2025 to 2045, interest rates ranging from 3.700% to 8.320%	\$ 23,277,349	\$ 24,138,727
Loans payable to Rural Development, maturity dates ranging from 2040 to 2060, interest rates ranging from 1.125% to 3.750%	49,922,732	41,066,372
	73,200,081	65,205,099
Less: current portion of long-term debt	(2,003,363)	(1,772,078)
	\$ 71,196,718	\$ 63,433,021

Maturities of long-term debt are as follows:

Year Ending September 30	Principal	Interest	Total
2024	\$ 2,003,363	\$ 1,867,144	\$ 3,870,507
2025	2,069,705	1,733,846	3,803,551
2026	2,089,757	1,675,154	3,764,911
2027	2,148,532	1,616,168	3,764,700
2028	2,207,460	1,557,029	3,764,489
2029-2033	11,693,445	6,798,216	18,491,661
2034-2038	11,951,211	5,215,620	17,166,831
2039-2043	13,425,393	3,517,575	16,942,968
2044-2048	10,336,516	1,856,802	12,193,318
2049-2053	7,669,332	1,012,968	8,682,300
2054-2058	5,573,431	381,982	5,955,413
2059-2063	2,031,936	49,755	2,081,691
	\$ 73,200,081	\$ 27,282,259	\$ 100,482,340

Note 7: Interest Capitalized

The Cooperative follows the policy of capitalizing interest as a component of the cost of property and equipment constructed for its own use. In 2023, total interest incurred was \$2,329,237, of which \$237,648 was capitalized and \$2,091,589 was charged to operations. In 2022, total interest incurred was \$1,921,391, of which \$49,917 was capitalized and \$1,871,474 was charged to operations.



EJ WATER COOPERATIVE, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2023 and 2022

Note 8: Concentrations of Credit Risk

The Cooperative grants credit to utility customers on a monthly basis. All of these customers are located in the same geographic area of central Illinois.

Note 9: Long-Term Construction Contracts and Interim Construction Debt

The Cooperative records liabilities for long-term construction contracts as other long-term liabilities. Amounts due on current invoices are shown as “construction payables to be refinanced,” and amounts due on retainages on the completed portions of a contract are shown as “retainages payable to be refinanced.” The Cooperative will payoff long-term construction contracts with proceeds from established Rural Development direct loan programs.

The Cooperative also utilizes interim construction debt/financing at commercial banks as part of the Rural Development projects. The interim financing will be refinanced from established Rural Development direct loan programs as the projects are completed. Corresponding interest rates range from 3.70% to 8.32% and due dates range from 2025 to 2045 (see note 6).

Note 10: Lines of Credit

The Cooperative maintains a line of credit with Dieterich Bank at 4.70% that matures May 30, 2024. At September 30, 2023, the outstanding balance was \$179,116 of the total available amount of \$400,000. The line of credit is collateralized by certificates of deposit.

The Cooperative maintains lines of credit with CoBank at 7.55% that mature May 31, 2024. At September 30, 2023, the outstanding balance was \$4,250,711 of the total available amount of \$5,000,000. The line of credit is secured by all equity that the Cooperative may now own or acquire or be allocated in CoBank. This line of credit is considered interim construction debt (see note 9).

Note 11: Capital Lease Commitments

The Cooperative entered into an agreement to lease water meters from CoBank on September 24, 2021. This lease has been accounted for as a capital lease due to the transfer of equipment to the Cooperative at the end of the agreement.

EJ WATER COOPERATIVE, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2023 and 2022

Note 11: Capital Lease Commitments (Continued)

The following is a schedule of the Cooperative's future minimum lease payments:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 17,665	\$ 4,430	\$ 22,095
2025	18,197	3,898	22,095
2026	18,745	3,350	22,095
2027	19,310	2,785	22,095
2028	19,891	2,204	22,095
2029-2031	63,364	2,943	66,307
	<u>\$ 157,172</u>	<u>\$ 19,610</u>	<u>\$ 176,782</u>

Note 12: Compensated Absences

The Cooperative maintains policies governing vacation, sick, and personal time covering qualified employees. Up to five days of vacation may be carried over from year to year.

The Cooperative has accrued all compensated absences it is liable for as of September 30, 2023 and 2022.

Note 13: Retirement Plan

The Cooperative has a 401(k) employee benefit plan. The plan covers substantially all employees who have completed at least one year of service and met minimum age requirements. The Cooperative's annual discretionary contribution totaled \$230,832 and \$214,417 for the years ended September 30, 2023 and 2022, respectively.

Note 14: Post-Employment Health Care Benefits

COBRA Benefits – Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Cooperative provides health care benefits to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium and, if applicable, a 2% administration fee, is paid in full by the insured each month. This program is offered for a duration of 18 months after termination date and is subject to extension. There is no associated cost to the Cooperative under this program.

EJ WATER COOPERATIVE, INC.  
CONSOLIDATED STATEMENTS OF OPERATING EXPENSES  
FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Operating expenses		
Advertising	\$ 61,452	\$ 91,504
Bad debt expense	5,836	2,343
Chemicals	641,671	467,301
Compensation	3,012,849	2,901,326
Cost of materials sold	139,238	192,550
Cost of water sold	823,835	739,300
Depreciation/Amortization	4,614,835	4,382,264
Dues	13,090	16,631
Employee benefits	230,832	214,417
Insurance	283,203	221,717
Meetings and other administration	127,773	96,709
Office supplies and postage	245,622	184,908
Operations and maintenance	892,560	834,721
Payroll taxes	237,253	226,668
Professional fees	707,527	492,072
Real estate taxes	5,669	8,642
Rent	323,514	279,478
Telephone	48,027	43,589
Training expenses	99,711	74,002
Uniforms	18,019	15,576
Utilities	491,889	388,074
Vehicle and mileage expenses	<u>337,565</u>	<u>312,407</u>
Total operating expenses	<u>\$ 13,361,970</u>	<u>\$ 12,186,199</u>



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of  
EJ Water Cooperative, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of EJ Water Cooperative, Inc. (an Illinois corporation), which comprise the consolidated balance sheet as of September 30, 2023, and the related consolidated statements of income, members' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 21, 2024.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered EJ Water Cooperative, Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of EJ Water Cooperative, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of EJ Water Cooperative, Inc.'s internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether EJ Water Cooperative, Inc.'s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cooperative's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Kemper CPA Group LLP*

KEMPER CPA GROUP LLP  
Certified Public Accountants and Consultants

May 21, 2024



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of  
EJ Water Cooperative, Inc.

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

We have audited EJ Water Cooperative, Inc.'s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on EJ Water Cooperative, Inc.'s major federal program for the year ended September 30, 2023. EJ Water Cooperative, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, EJ Water Cooperative, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2023.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of EJ Water Cooperative, Inc. and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of EJ Water Cooperative, Inc.'s compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to EJ Water Cooperative, Inc.'s federal program.

***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on EJ Water Cooperative, Inc.'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform

Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about EJ Water Cooperative, Inc.'s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding EJ Water Cooperative, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of EJ Water Cooperative, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of EJ Water Cooperative, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on Internal Control over Compliance**

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Kemper CPA Group LLP*

KEMPER CPA GROUP LLP  
Certified Public Accountants and Consultants

May 21, 2024



EJ WATER COOPERATIVE, INC.  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2023

Federal Grantor/Program or Cluster Title	Federal Assistance Listing Number	Federal Expenditures
United States Department of Agriculture:		
Water and Waste Disposal Systems for Rural Communities (Major Program)	10.760	\$ 4,658,786
Total United States Department of Agriculture		4,658,786
Total Expenditures of Federal Awards		\$ 4,658,786

EJ WATER COOPERATIVE, INC.  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
SEPTEMBER 30, 2023

Note 1: Summary of Significant Accounting Policies

The accompanying schedule of expenditures of federal awards is a summary of the activity of the Cooperative's federal award program presented on the accrual basis of accounting.

Note 2: Water and Waste Disposal Systems

\$3,144,649 of the federal awards represents direct loan proceeds for water and waste disposal systems evidenced by promissory notes with the United States of America or commercial banks acting through the Rural Development program within the United States Department of Agriculture. The Cooperative received an additional \$996,237 of direct loan proceeds utilized to refinance federal awards expended through interim financing.

\$517,900 of the federal awards represents grants from Rural Development.

Note 3: Indirect Cost Rate

The Cooperative has elected not to use the 10% de minimus indirect cost rate allowed under the Uniform Guidance.

EJ WATER COOPERATIVE, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
SEPTEMBER 30, 2023

A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on whether the consolidated financial statements of EJ Water Cooperative, Inc. were prepared in accordance with accounting principles generally accepted in the United States of America.
2. No significant deficiencies or material weaknesses in internal control were disclosed relating to the audit of the consolidated financial statements.
3. No instances of noncompliance were disclosed that are material to the consolidated financial statements.
4. No significant deficiencies or material weaknesses in internal control over major programs were disclosed by the audit.
5. The auditor's report on compliance for the major federal award program expresses an unmodified opinion.
6. There were no audit findings required to be reported in accordance with 2 CFR Section 200.516(a).
7. The program tested as a major program was: Federal Assistance Listing Number 10.760 – Water and Waste Disposal Systems for Rural Communities.
8. The threshold for distinguishing Type A and B programs was \$750,000.
9. EJ Water Cooperative, Inc. was determined to be a low-risk auditee.

B. Findings – Financial Statement Audits

Our testing did not identify any findings related to compliance or internal controls over financial reporting.

C. Findings and Questioned Costs for Federal Award Programs

Our tests did not reveal any findings or questioned costs relative to the major federal award program.