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Comparative highlights

	2021	2020
Operating Revenues	**$ 72,918,433**	$ 66,796,424
Operating Expenses	**$ 64,888,403**	$ 64,378,052
Change in net position prior to distribution	**$ 5,870,553**	$ 1,031,502
Plant in service, at original cost	**$ 165,112,358**	$ 161,603,514
Construction work in progress	**$ 2,459,400**	$ 2,401,830
Accumulated depreciation	**$ 85,059,389**	$ 83,191,133
Gross additions to utility plant during year	**$ 5,161,513**	$ 6,515,144
Total Assets and Deferred Outflows	**$ 122,383,265**	$ 119,928,292
Gross Sales (Mcf)	**12,383,647**	12,881,684
Throughput (Mcf)	**15,121,730**	15,442,398
Customers (peak)	**30,891**	30,188
Degree days	**1,430**	1,361

OUR VISION
SERVE

OUR MISSION
Provide Energy and Opportunity for Growth through Servant Leadership

OUR VALUES

Integrity
Always doing the right thing, the right way, with or without an audience

Respect
The honor we freely give to others

Loyalty
Commitment proven by our faithfulness to serve

Honesty
Fearlessness in transparency and truth

Others
Putting those we serve and serve with ahead of ourselves

Our Business

Southeast Gas is a natural gas local distribution company owned by 14 cities in Alabama. The company, which was formed in 1952, serves residential, commercial and industrial customers in 36 communities and owns and operates 600 miles of transmission and 1,694 miles of distribution pipelines in 19 southeast Alabama counties.

Customer Care & Operations

Our customer care and operations segment provides billing assistance, service and installation work, line locations and general guidance for all Southeast Gas customers. This group processed 71,726 payments, worked 87,441 service orders, completed 3,910 installations, and conducted 24,453 line locations in 2021. This business segment provides the majority of the front-line care for our customers and our communities.

30,891
peak month number of customers

Gas Supply

Our gas supply segment ensures proper gas flow, as well as maintained system pressures to our largest industrial customers, to our seasonal residential customers, and everyone in between. Gas purchases and hedges by this group also provide consumers in all rate classes added rate stability assurance.

15,122
Mmcf of throughput in Fiscal 2021

Business Development

Our business development segment includes economic development and marketing services extended to Southeast Gas communities.

1,205
new service lines in Fiscal 2021

Regulatory Compliance

The regulatory compliance segment plays a crucial role in our commitment to the safety of our employees, customers, and neighbors. Southeast Gas committed significant resources for system improvements directly related to regulatory guidance in 2021. The company's transmission pipeline network is the largest among the nation's municipally-owned natural gas utilities.

600
miles of transmission main

1,694
miles of distribution main

Growing Communities One Neighborhood at a Time

Natural gas is available in more than 670 new homes in Southeast Alabama because of continued consumer, builder, and developer choice for the energy source in new construction builds in the region in FY 2021.

High consumer demand for new and existing homes coupled with record low mortgage rates drove strong buyer traffic in FY 2021. Areas like Dothan, Enterprise, Montgomery, Opelika, Pike Road, Headland, and Troy that are served by Southeast Gas continued to see a surge in new construction and home sales. While national conversations about electrification and the ban of fossil fuels continued to swirl, contractors in the area looked for ways to provide greater consumer choice while still providing reliable and affordable natural gas.

In addition to the new housing starts, developers also worked in conjunction with Southeast Gas to establish energy commitments that include natural gas for seven new developments and more than 700 homes planned in future single-family communities.

Southeast Gas maintains a reputation as a boutique-style service provider, offering large-volume regional and national contractors the same individualized experience our local contractors and developers receive. As a full-service natural gas utility, our professional team provides guidance for projects from inception and for years beyond as we then provide customers with exceptional service.

Our customized solutions for developers and builders allow the next generation of builder leaders to cast their vision for homes and neighborhoods first. Then, we explore ways that natural gas and service from Southeast Gas can enhance what they hope to accomplish.

Supply chain frustrations impacted our level of service to some extent in FY 2021, and our team grappled with ways to continue providing exceptional

care for contractors in spite of limited appliance availability. Homebuilders throughout our region were already impacted by the lumber pricing crisis and labor shortages, so we did not want to become another part of the problem.

While the Home Builders Association of Alabama (HBAA) and the National Association of Home Builders met with congressional leaders in May 2021 to express concerns over lumber prices and an overall increased cost in residential construction materials of 14%, Southeast Gas established new inventory procedures and tracking mechanisms to maintain seamless delivery of natural gas logs and water heaters to builders. And, while our inventory levels did get dangerously low, there were no instances of missing a deadline or causing a home closing or sale to be delayed as a result of delayed product or service delivery by our company.

We supported the work taking place at the national, state, and regional levels by continuing to support our local homebuilder organizations through sponsorship and committee and board affiliations as associate members.

With growing concerns over housing affordability, Southeast Gas looked for creative ways to provide aggressive rebates and incentives for builders and developers in FY 2021. We also offered, when possible, appliance discounts and bulk pricing for large appliance orders.

Consumer demand for affordable housing in our region continues to be strong. Our partnership with communities is far-reaching. Home ownership and a variety of choices for consumers when they make a housing choice matters to us. We're excited about the success Southeast Gas and the region we serve had in FY 2021. There is still work to be done in the areas of climate change, emissions, and affordable utility costs. And we are here for it. Together, we are building a better Southeast Alabama.

We explore ways that natural gas and service from Southeast Gas can enhance what they hope to accomplish.

Letter to Stakeholders

Throughout FY 2021, Southeast Gas continued to navigate and process COVID-related trials and challenges. Employees and their families were impacted. Slower-than-normal delivery times for materials and appliances caused us to regroup and implement different strategies to uphold our company's high standard of service. At times, gas purchasing deals were delayed, and industrial relocations and expansions paused. Our industry continued to be threatened by new waves of policies, articles targeting fossil fuels, and unrealistic expectations driven by a national move toward electrification.

And, yet, even as the events of 2021 continued to test us, Southeast Gas served, and we served well. Our system redundancy proved beneficial for our communities in 2021 when much of the south was devastated by February's Polar Vortex. Supply disruptions actually occurred throughout the country due to wellhead freeze offs. Within our Southeast Gas system, we lost about 7,000 MMBTU per day of flowing supply, but because we had storage field gas, we were able to replace all lost volumes, and more importantly, we did not have to reduce usage by any customers.

Our progress was steady as Southeast Gas continued retiring inactive services in compliance with the Alabama Public Service Commission's Rule 13 mandate. During FY 2021, more than 2,300 services were retired, and since inception of the program, we've retired more than 5,500 inactive services. Of those, 40% were galvanized or bare steel lines and 36% were mill wrap lines. The success we've had in identifying and retiring so many of these lines over the past two years is due in large part to the concerted efforts of our employees. We've made this project a priority, and it's evident.

A clear focus on system improvements and streamlining was not our only priority in FY 2021. In fact, we continued to see increases in residential natural gas heat load in 2021, as 77% of the new housing starts in our area included gas furnaces compared to 66% including gas furnaces in 2020. Overall, we experienced 2% customer growth in 2021.

We also saw significant increases in our industrial load, adding new customers like Abbeville Fibers, and expanding our service to customers like KW Plastics and Sanders Lead. sOverall, industrial load growth across the year through contracts executed in 2021 represents about 7,000 MMBtu per day.

This growth, coupled with an urgency to continue retiring inactive services to comply with Rule 13, meant many extra hours of work for our employees in FY 2021. We asked a lot of our employees in FY 2021. They responded by consistently executing the tasks at hand. Their unwavering commitment to serve created opportunities for us to gain the trust of our stakeholders, maintain the health and safety of our coworkers and our communities, and put our customers' needs first.

As we put our customers' needs first and witnessed first-hand the choice our communities were making to use natural gas, other cities and states across the country were removing customer choice – placing bans on the use of natural gas. Fortunately for Alabama's citizens, in May 2021 House Bill 446 was signed into law, protecting consumer energy choice and restricting municipal gas prohibitions.

We started valuable dialogue with our next generation of employees in FY 2021 that I hope will continue in the future. We asked them to share their personal perspectives about the natural gas industry and we are spending time helping educate them about the value of natural gas to our communities and our nation.

These employees also overwhelmingly agreed that they get excited about going to work, they feel safe at work, and that they feel a sense of belonging at our company.

Within this same feedback, I was also encouraged by employee comments about schedule flexibility and benefits. My desire is that we protect this culture that gives employees the freedom to express themselves, and where all employees feel their value. Some of the feedback we received was encouraging, and some of the feedback we received let us know we still have work to do. We've always been a company that says we put a priority on family, but my desire is that we don't just say it, we do it.

The success Southeast Gas experienced in FY 2021 is because of the team that serves on our company's behalf. We are doing important work together, and I'm excited to see what the future holds for Southeast Gas and for our industry.

J. Gregory Henderson
President & CEO

Independent Auditors' Report

We have audited the accompanying financial statements of The Southeast Alabama Gas District ("Southeast Gas") as of and for the years ended September 30, 2021 and 2020, and the related notes to the financial statements, as listed in the table of contents.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southeast Gas as of September 30, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 8-12 and the schedules of changes in net pension liability and related ratios and contributions for the Southeast Alabama Gas District Retirement Income Plan and the schedule of changes in net OPEB liability and related ratios for the Southeast Alabama Gas District Premium Supplement Plan on pages 52-57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.

Enterprise, Alabama
January 28, 2022

Management's Discussion and Analysis

Corporate Structure — The Southeast Alabama Gas District ("Southeast Gas") is a public corporation created on January 29, 1952, under Act No. 762 (the "Act"), General Laws of Alabama by 14 towns in southeast Alabama. It was established to provide natural gas service to domestic, commercial, and industrial customers located in 36 communities in the southeast portion of the state. Southeast Gas owns and operates 600 miles of transmission lines as well as 1,694 miles of distribution lines. Attached to those lines are approximately 30,000 customers located in 19 counties in southeast Alabama.

Member and Franchise Towns — The 14 towns that formed Southeast Gas are known as member towns and are entitled to all distributable income that is earned by Southeast Gas. Any portion that is earned but not distributed is carried forward to future years for distribution at the discretion of the Board of Directors. The other 22 towns are franchise towns and are only entitled to a fee of 1½% to 3% of the gross sales of gas in those towns.

Authority — The Act provides that Southeast Gas will establish rates and charges to produce revenues sufficient to cover its costs, including debt service. Since the Board of Directors is composed of elected and appointed representatives from each member town, it serves as the rate making regulatory body, which oversees Southeast Gas. The Act exempts Southeast Gas from all taxes and allows the issuance of tax exempt bonds and other obligations to finance the activities of Southeast Gas.

Proprietary Funds — Southeast Gas operates only one type of proprietary fund, the enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities.

Gas Supplies — Southeast Gas receives gas from external supply agreements. Southeast Gas has entered into several long-term supply arrangements from which Southeast Gas is expected to receive a firm supply of discounted gas during their 10–30 year terms. Under these pay-as-you-go arrangements, Southeast Gas has committed to buy specified volumes of gas at prevailing market prices less a discount when, and if, gas is delivered. Southeast Gas also has contracts in place to purchase gas from local natural gas producers residing in Southeast Gas's service territory. This gas amounts to approximately 4,800 MMBtu per day with an expected well life of five to seven years.

Notes to the Financial Statements — The notes provide additional information that is essential to understanding the data provided in the financial statements.

Overview of the Financial Statements — This discussion and analysis is intended to serve as an introduction to Southeast Gas's basic financial statements. These financial statements are designed to provide readers with an overview of Southeast Gas's finances, in a manner similar to private sector businesses.

The statements of net position present information on all of Southeast Gas's assets, liabilities and deferred inflows and outflows of resources with the difference between the two reported as net position. Current assets include significant cash reserves that are required by Southeast Gas's Certificate of Incorporation and various bond indentures with current liabilities consisting primarily of gas purchases and distributions payable to members.

The statements of revenues, expenses, and changes in net position present information showing how Southeast Gas's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., customer receivables and accrued retirement benefits).

Condensed Financial Statements

The following table reflects the condensed statements of net position and is compared to the previous two years.

September 30,	2021	Change	2020	Change	2019
ASSETS					
Current and other assets	**$ 34,687,352**	*(757,326)*	$ 35,444,678	*$ (2,365,092)*	$ 37,809,770
Capital assets, net	**82,512,369**	*1,698,158*	80,814,211	*(2,329,735)*	83,143,946
Total assets	**117,199,721**	*940,832*	116,258,889	*(4,694,827)*	120,953,716
Deferred outflows of resources	**5,183,544**	*1,514,141*	3,669,403	*(1,004,458)*	4,673,861
LIABILITIES					
Current liabilities	**23,237,639**	*1,965,566*	21,272,073	*3,618,344*	17,653,729
Other liabilities	**20,220,200**	*(6,102,814)*	26,323,014	*(6,717,793)*	33,040,807
Total liabilities	**43,457,839**	*(4,137,248)*	47,595,087	*(3,099,449)*	50,694,536
Deferred inflows of resources	**4,444,521**	*2,856,682*	1,587,839	*(1,830,816)*	3,418,655
NET POSITION					
Net investment in capital assets	**65,507,368**	*5,181,907*	60,325,461	*1,079,015*	59,246,446
Restricted for debt service	**330,326**	*(533)*	330,859	*(190,222)*	521,081
Unrestricted	**8,643,211**	*(1,445,835)*	10,089,046	*(1,657,813)*	11,746,859
Total net position	**$ 74,480,905**	*$ 3,735,539*	$ 70,745,366	*$ (769,020)*	$ 71,514,386

For more detailed information, see the accompanying statements of net position.

The following table compares the revenues, expenses and changes in net position for the current and two previous fiscal years.

September 30,	2021	Change	2020	Change	2019
Operating revenues	**$ 72,918,433**	*$ 6,122,009*	$ 66,796,424	*$ (9,975,048)*	$ 76,771,472
Operating expenses	**64,888,403**	*510,351*	64,378,052	*(6,362,781)*	70,740,833
Operating income (loss)	**8,030,030**	*5,611,658*	2,418,372	*(3,612,267)*	6,030,639
Non-operating revenues (expenses)	**(2,159,477)**	*(772,607)*	(1,386,870)	*(206,516)*	(1,180,354)
Increase (decrease) in net position before distributions	**5,870,553**	*4,839,051*	1,031,502	*(3,818,783)*	4,850,285
Distributions	**(2,135,014)**	*(334,492)*	(1,800,522)	*1,299,478*	(3,100,000)
Change in net position	**3,735,539**	*4,504,559*	(769,020)	*(2,519,305)*	1,750,285
Net position - beginning	**70,745,366**	*(769,020)*	71,514,386	*1,750,285*	69,764,101
Net position - ending	**$ 74,480,905**	*$ 3,735,539*	$ 70,745,366	*$ (769,020)*	$ 71,514,386

For more detailed information, see the accompanying statements of revenues, expenses and changes in net position.

Financial Analysis — 2021 Compared to 2020 and 2019

Operating Revenues — Distribution Revenue — Operating revenues are composed of revenues from distribution. In 2021, distribution revenues increased $6,122,000 due to higher tariff and industrial volumes sold as well as increased gas prices. For 2020, distribution revenues decreased $9,975,000 due to lower tariff, industrial and resale volumes sold.

Distribution revenue is derived from the sales to tariff customers, industrial customers, and gas sold for resale. Mcf sold for distribution revenue customers and the changes for each year are shown below.

Mcf sold	2021	Change	2020	Change	2019
Tariff	**2,015,007**	*170,075*	1,844,932	*(122,376)*	1,967,308
Industrial	**8,529,575**	*203,936*	8,325,639	*205,344*	8,120,295
Resale	**1,839,065**	*(872,048)*	2,711,113	*(344,811)*	3,055,924
Total	**12,383,647**	*(498,037)*	12,881,684	*(261,843)*	13,143,527

The increase in industrial units sold is due to the industrial customer, Westrock, load increasing for the full 2021 year. The decrease in resale Mcf sold is due largely to the decrease in volume of a resale customer in 2021.

Operating Revenues — Production Revenue — Revenues from the gas properties, production revenue, were derived from sales to contracted third parties based upon index pricing. Production revenue decreased to $2,217,000 in 2021 compared to the prior year. The wells were assigned to PGP Operating, Inc. on July 1, 2020. No revenues and expenses were recorded for fiscal year 2021.

Operating Expenses — The increase in 2021 operating expenses from 2020 was due primarily to an increase in gas costs due to increased purchases and increased volume sold. In addition, the per unit cost of gas decreased from $3.18 in 2019 to $2.83 in 2020, but increased to $4.37 in 2021. Distribution expenses increased $1,448,000 in 2021 compared to 2020 and decreased $63,000 in 2020 compared to 2019. Depreciation expense increased $195,000 in 2021 compared to 2020 and increased $108,000 in 2020 compared to 2019 as a result of an increase in general plant.

Nonoperating Income and Expense — Interest expense in 2021 decreased $40,000 compared to 2020 as a result of the normal amortization of interest payments. Interest expense decreased in 2020 by $78,000 from 2019 amounts.

Unearned Revenue from Gas Properties — In April 2003, the Board of Directors adopted a Contingency Reserve Policy which deferred all income generated from the gas properties in excess of $0.20 per MMBtu until the Contingency Reserve Fund was fully funded. In June 2013, the related Series 2003A and Series 2003B Bonds were retired eliminating the requirement to maintain the Contingency Reserve and as such the District then recognized $21,100,000 of unearned income. The remaining balance was being proportionately recognized over the next ten years. Southeast Gas recognized $0 in 2021 and $471,000 in 2020. As of July 2020, the gas wells were assigned to PGP Operating, Inc. and subsequently Southeast Gas wrote off the remaining balance of unearned revenue associated with the gas wells.

Distributions to Member Municipalities — Southeast Gas's Board chose to distribute $2,135,000 to member municipalities for 2021. Distributions for 2020 were $1,801,000 and $3,100,000 for 2019.

Total Assets and Total Liabilities — Southeast Gas had total assets at September 30, 2021 of $117,200,000 of which $32,176,000 was current assets, $82,512,000 capital assets, and $2,512,000 other noncurrent assets. At September 30, 2021, Southeast Gas had construction work in progress of $2,459,000 which consisted of approximately $1,572,000 for distribution, transmission and service line installations, $763,000 for meters, stations and line replacements, heavy equipment, vehicles, computers and software as well as the enhancement of land, buildings and furnishings in the amount of $124,000. Southeast Gas had total liabilities of $43,458,000 at September 30, 2021, of which $23,238,000 was current liabilities and the remaining $20,220,000 was noncurrent liabilities.

Deferred Inflows and Outflows of Resources — Southeast Gas reported deferred outflows of resources which included the fair value of derivatives as well as changes in assumptions, differences in actual and expected results and losses on investments related to the defined benefit pension plan. These amounts were $5,184,000 at September 30, 2021 and $3,669,000 at September 30, 2020. In addition, Southeast Gas also had deferred inflows of resources related to the pension and OPEB plans and fair value of derivatives. These amounts were $4,445,000 at September 30, 2021 and $1,588,000 at September 30, 2020.

Liquidity and Capital Resources — Southeast Gas had $17,897,000 in unrestricted cash and investments at September 30, 2021. In addition, there were restricted cash and investments of $330,000 invested in bond debt service funds. Accounts receivable from customers totaled $6,931,000, compared to accounts payable of $5,525,000 and a distribution payable to member towns of $2,135,000. Gas in storage at September 30, 2021, had a balance of $1,583,000 with an average cost of $2.72 per Mcf.

In April 2013, Southeast Gas entered into a three-year line of credit agreement for a maximum amount of $10,000,000. This agreement was renewed August 2016 and again August 2019 and expires August 2024. This line is used to fund general corporate needs such as gas storage purchases for inventory and monthly liquidity as well as additional costs for growth and Rule 13 compliance. The balance due on this line of credit at September 30, 2021 and 2020 was $5,000,000 and $6,260,000 respectively.

Net Position — Southeast Gas had total net position at September 30, 2021, of $74,481,000, an increase of $3,736,000 from September 30, 2020. Net position invested in capital assets totaled $65,508,000 at September 30, 2021. Total restricted net position was $330,000 composed of bond debt service funds. The remaining unrestricted net position was $8,643,000 at September 30, 2021.

Economic Outlook — Southeast Gas has a well-diversified gas supply and hedging program to temper the effect of gas price volatility and actively pursues long-term gas supply at discount prices. Southeast Gas continues to pursue economic development opportunities to grow and expand its customer base. In addition, Southeast Gas's rate structure offers a sound cost recovery framework. As such, there are no known conditions or decisions that will have a significant impact on Southeast Gas's financial position in the near future.

Statements of net position

September 30,	2021	2020
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and cash equivalents	**$ 12,150,420**	$ 13,872,366
Bond debt service funds-restricted	**330,326**	330,859
Investments	**5,746,577**	6,329,556
Receivable due from broker	–	580,828
Customer accounts receivable — net of allowance for uncollectible accounts of $212,190 and $194,933 in 2021 and 2020, respectively	**6,930,930**	5,319,415
Other accounts receivable	**983,737**	851,649
Materials and supplies	**3,987,190**	3,472,293
Gas in storage	**1,582,983**	2,100,737
Regulatory asset - hedging activities	–	213,530
Prepayments and other	**463,401**	387,652
Total current assets	**32,175,564**	33,458,885
NONCURRENT ASSETS		
CAPITAL ASSETS		
Gas utility plant in service — at original cost	**165,112,358**	161,603,514
Construction work in progress	**2,459,400**	2,401,830
Less accumulated depreciation	**(85,059,389)**	(83,191,133)
Total capital assets	**82,512,369**	80,814,211
Regulatory assets	**2,061,788**	1,535,793
Other assets	**450,000**	450,000
Total noncurrent assets	**85,024,157**	82,800,004
TOTAL ASSETS	**117,199,721**	116,258,889
DEFERRED OUTFLOWS OF RESOURCES		
Fair value of derivatives	**2,427,480**	–
Pension plan	**2,749,782**	3,662,553
OPEB plan	**6,282**	6,850
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**5,183,544**	3,669,403
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**122,383,265**	$ 119,928,292

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

(Continued)

Statements of net position | CONTINUED

September 30,	2021	2020
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES		
Current maturities of long-term debt	**$ 3,445,000**	$ 3,483,750
Accounts payable (including amounts for gas purchases of $3,116,013 and $1,992,559 in 2021 and 2020, respectively)	**5,525,469**	3,672,257
Distributions payable to member municipalities	**2,135,014**	1,800,522
Payable to gas properties	–	157,858
Line of Credit	**5,000,000**	6,260,000
Customer deposits	**2,918,492**	2,775,621
Regulatory liabilities — current	**1,102,145**	263,599
Accrued expenses	**3,111,519**	2,858,466
Total current liabilities	**23,237,639**	21,272,073
NONCURRENT LIABILITIES		
Series 2015A bonds	**3,926,250**	5,118,750
Series 2015B bonds	**4,236,250**	4,507,500
Series 2015C bonds	–	341,250
Series 2017 bonds	**5,397,500**	7,037,500
Net other postretirement benefit liability	**280,717**	262,615
Regulatory liabilities — noncurrent	**6,379,483**	9,055,399
Total noncurrent liabilities	**20,220,200**	26,323,014
TOTAL LIABILITIES	**43,457,839**	47,595,087
DEFERRED INFLOWS OF RESOURCES		
Fair value of derivatives	–	151,125
Pension Plan	**4,326,824**	1,307,392
OPEB Plan	**117,697**	129,322
Total deferred inflows of resources	**4,444,521**	1,587,839
NET POSITION		
Net investment in capital assets	**65,507,368**	60,325,461
Restricted	**330,326**	330,859
Unrestricted	**8,643,211**	10,089,046
Total net position	**74,480,905**	70,745,366
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	**$ 122,383,265**	$ 119,928,292

The accompanying notes are an integral part of these financial statements. *(Concluded)*

Statements of revenues, expenses and changes in net position |

Years ended September 30,	2021	2020
OPERATING REVENUES	**$ 72,918,433**	$ 66,796,424
OPERATING EXPENSES		
Natural gas purchases	**39,605,701**	34,027,778
Distribution expenses	**20,823,427**	19,375,374
Depreciation	**4,459,275**	4,263,850
Gas properties operating expenses	–	3,658,323
Depletion of gas properties	–	1,070,378
Loss on transfer of gas wells	–	1,982,349
Total operating expenses	**64,888,403**	64,378,052
OPERATING INCOME	**8,030,030**	2,418,372
NONOPERATING INCOME (EXPENSE)		
Interest income	**43,540**	246,289
Interest expense	**(752,296)**	(792,713)
Other — net	**(1,450,721)**	(1,311,938)
Net nonoperating expense	**(2,159,477)**	(1,858,362)
Recognition of unearned revenue from gas properties	–	471,492
CHANGE IN NET POSITION PRIOR TO DISTRIBUTION	**5,870,553**	1,031,502
Distributions to member municipalities	**(2,135,014)**	(1,800,522)
CHANGE IN NET POSITION	**3,735,539**	(769,020)
NET POSITION — Beginning of year	**70,745,366**	71,514,386
NET POSITION — End of year	**$ 74,480,905**	$ 70,745,366

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

Statements of cash flows

Years ended September 30,	2021	2020
OPERATING ACTIVITIES		
Receipts from distribution customers	**$ 71,174,830**	$ 62,614,910
Receipts from (payments to) gas properties customers	**(157,858)**	3,841,504
Payments to suppliers	**(48,095,239)**	(45,193,500)
Payments from (payments on) hedging activities — net	**(707,721)**	1,741,829
Payments to employees	**(11,486,951)**	(13,212,872)
Other receipts (payments)	**142,871**	173,062
Net cash provided by operating activities	**10,869,932**	9,964,933
INVESTING ACTIVITIES		
Net (purchases) redemption of investments	**582,979**	1,187,608
Interest receipts	**43,540**	246,289
Other	**(995,918)**	(514,825)
Net cash provided by (used in) investing activities	**(369,399)**	919,072
CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of short-term notes payable	**5,000,000**	6,260,000
Payments on short-term notes payable	**(6,260,000)**	(2,500,000)
Principal payments on long-term debt	**(3,483,750)**	(3,408,750)
Capital expenditures	**(5,161,513)**	(6,515,144)
Interest payments	**(517,227)**	(557,643)
Distributions paid to member municipalities	**(1,800,522)**	(3,100,000)
Capital project funds	**–**	189,626
Bond debt service funds	**533**	596
Net cash used in capital and related financing activities	**(12,222,479)**	(9,631,315)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,721,946)**	1,252,690
CASH AND CASH EQUIVALENTS — Beginning of year	**13,872,366**	12,619,676
CASH AND CASH EQUIVALENTS — End of year	**$ 12,150,420**	$ 13,872,366

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

(Continued)

Statements of cash flows | CONTINUED

Years ended September 30,	2021	2020
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	**$ 8,030,030**	$ 2,418,372
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	**4,459,275**	4,263,850
Depletion of gas properties	–	1,070,374
Loss on transfer of gas wells	–	1,982,349
Changes in certain assets and liabilities:		
Customer accounts receivable	**(1,611,515)**	(400,852)
Other accounts receivable	**(132,088)**	(58,522)
Payable to gas properties	**(157,858)**	119,364
Materials and supplies	**(514,897)**	(309,869)
Gas in storage	**517,754**	609,587
Prepayments and other	**(75,749)**	(20,956)
Other deferred charges	**7,723**	(13,515)
Accounts payable	**1,853,212**	384,402
Customer deposits	**142,871**	173,062
Accrued expenses	**253,053**	272,699
Regulatory liabilities — pension	**1,118,246**	503,667
Hedging activities — net	**(1,652,924)**	1,217,536
Deferred outflows — pension	**1,126,869**	(929,602)
Other — net	**(2,494,070)**	(1,317,013)
Total adjustments	**2,839,902**	7,546,561
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$ 10,869,932**	$ 9,964,933

The accompanying notes are an integral part of these financial statements. *(Concluded)*

Notes to Financial Statements

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business — The Southeast Alabama Gas District ("Southeast Gas") is an Alabama-based, municipally owned corporation whose primary line of business is natural gas distribution ("Distribution"). The Southeast Gas provides natural gas service to residential, commercial, and industrial customers located in 36 communities in the southeast portion of Alabama. Southeast Gas also offers natural gas operated merchandise for sale to the public and provides gas transportation services to qualified industrial customers.

Regulatory Accounting — The accounting records of Southeast Gas are maintained on the accrual basis in accordance with accounting principles generally accepted in the United States of America ("GAAP") issued by the Governmental Accounting Standards Board ("GASB") applicable to governmental entities that use proprietary fund accounting. The accounts are maintained substantially in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission ("FERC"). Items such as merchandise and installation revenue, cost of merchandise and installation, and certain distributions are classified as nonoperating income or expense in the statements of revenue, expenses, and changes in net position consistent with the FERC Uniform System of Accounts as these items do not impact the ratemaking process, but for cash flow purposes, these items are considered operating activities. Southeast Gas also complies with policies and practices prescribed by its Board of Directors and with practices common in the natural gas distribution and production industries. As the Board of Directors sets rates on a cost of service basis, Southeast Gas follows the guidance contained in GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989 FASB and AICPA Pronouncements*, paragraphs 476 – 500, for regulated operations, which provides for the reporting of assets and liabilities consistent with the economic effect of the rate structure. Under GASB 62, regulatory assets are recorded to reflect probable future revenues associated with certain costs that are expected to be recovered from customers through the ratemaking process, and regulatory liabilities are recorded to reflect probable future reductions in revenues associated with amounts that are expected to be credited to customers through the ratemaking process.

Southeast Gas's regulatory assets and liabilities as of September 30, 2021 and 2020 consisted of the following:

September 30,	2021 Current	2021 Noncurrent	2020 Current	2020 Noncurrent
REGULATORY ASSETS				
Unamortized loss on reacquired debt	**$ -**	**$ 905,656**	$ -	$ 1,130,685
Unamortized debt expense	**-**	**94,682**	-	104,723
PGP assessment	**-**	**1,061,450**		-
Gas hedges (Note 11)	**-**	-	213,530	300,385
Total regulatory assets	**$ -**	**$ 2,061,788**	$ 213,530	$ 1,535,793
REGULATORY LIABILITIES				
Annuity payable	**$ -**	**$ 450,000**	$ -	$ 450,000
Unearned gas supply project rebates	**-**	**356,543**	-	348,820
Gas Hedges (Note 11)	**924,595**	**1,534,840**	106,657	-
Net pension liability	**-**	**3,108,354**	-	7,781,963
Other retirement liability	**177,550**	**929,746**	156,942	474,616
Total regulatory liabilities	**$ 1,102,145**	**$ 6,379,483**	$ 263,599	$ 9,055,399

Related Entities — In 2004, Southeast Gas and Municipal Gas Authority of Georgia ("MGAG") formed a limited liability corporation, Municipal Gas Marketing Services, LLC ("MGMS"), with equal ownership, for the purpose of acquiring, transporting, and marketing the sale of retail gas primarily from the Black Warrior Basin area. This transaction is further explained in Note 5.

The Southeast Alabama Gas Supply District ("SGS") is a gas district and a public corporation incorporated and organized pursuant to the Act by the member municipalities of Southeast Gas. Southeast Gas manages the day to day operations and accounting of SGS. In 2021, Southeast Gas purchased 1,276,850 MMBtu of natural gas and paid a total of $3,501,536 for the purchase through SGS Project 1. Southeast Gas purchased 365,000 MMBtu of natural gas and paid a total of $960,050 for the purchase through SGS Project 2. In 2020, Southeast Gas purchased 731,700 MMBtu of natural gas and paid a total of $1,299,027 for the purchase through SGS Project 1. Southeast Gas purchased 366,000 MMBtu of natural gas and paid a total of $595,320 for the purchase through SGS Project 2. Southeast Gas receives $0.005 per MMBtu from SGS for administrative fees. SGS paid $102,090 and $84,123 to Southeast Gas for administrative fees in 2021 and 2020, respectively. As of September 30, 2021 and 2020, Southeast Gas owed SGS $515,025 and $185,025, respectively, for purchases.

Southeast Energy Authority ("SEA") is a cooperative district and a public corporation incorporated and organized pursuant to the Act by the member municipalities of SGS and The City of Troy, Alabama.

Southeast Gas manages the day to day operations and accounting of SEA and in exchange receives an administrative fee of $0.005 per MMBtu. In 2021, Southeast Gas provided short-term operating capital to SEA to cover the initial startup costs of Projects 1 and 2. As of September 30, 2021, SEA owed Southeast Gas $416,288.

Use of Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect (1) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and (2) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Funding Requirements — The Articles of Incorporation of Southeast Gas (the "Articles") require, before distributions can be made to member municipalities, Southeast Gas to maintain (1) a capital reserve equal to a minimum of 1.25 times the average of the prior five years' capital expenditures of Distribution ($4,618,674 as of September 30, 2021) and (2) an operating reserve equal to a minimum of 50% of the estimated expenses of Distribution for the next 12 month period, excluding purchased gas cost ($10,421,014 as of September 30, 2021). The Articles provide for the distribution to member municipalities of an amount not exceeding annual net distributable income, defined as the excess of net assets plus depreciation and amortization over (i) all required principal and interest payments on outstanding bonds and required payments into special funds under any mortgage; (ii) all sums expended during the year for capital additions and improvements or for retirement of debt not previously funded and paid from internally generated funds; (iii) the required operating reserve; and (iv) the required capital reserve.

Any of the amounts discussed in (ii) above can be excluded from the computation of annual net distributable income by resolution of Southeast Gas's Board of Directors to the extent Southeast Gas has current assets sufficient to enable Southeast Gas to exclude such amounts from the computation. During the years ended September 30, 2021 and 2020, the Board of Directors did not exclude any amounts from the computation. If the distribution is less than the annual net distributable income, as defined, the remainder is carried forward to future years to be distributed to member municipalities at the discretion of the Board of Directors. For the years ended September 30, 2021 and 2020, the Board of Directors approved a distribution of $2,135,014 and $1,800,522, respectively.

Restricted Assets — It is the policy of Southeast Gas to use restricted assets before unrestricted assets when both are available to fund specific expenditures.

Gas Utility Plant — Gas utility plant is stated at original cost. Such costs include direct labor and materials, applicable general and administrative costs, and payroll-related costs such as taxes,pension, and other fringe benefits. Estimated interest cost associated with property under construction, based upon the interest rate on borrowings for specific projects, is capitalized as an allowance for borrowed funds used during construction. Southeast Gas had no capitalized interest for the years ended September 30, 2021 and 2020.

Gas Properties — Southeast Gas uses the successful efforts method of accounting for exploration and development costs. The costs of drilling exploratory wells are capitalized pending determination as to whether Southeast Gas has discovered proved commercial reserves. If proved commercial reserves are not discovered, such drilling costs are expensed. The costs of drilling developmental wells are capitalized as costs are incurred. Southeast Gas had no capitalized well costs in 2021 or 2020. As of July 2020, Southeast Gas transferred its ownership of the gas wells to PGP Operating, Inc. This transaction is explained more fully in Note 5.

Depreciation — Depreciation is provided based on a straight-line composite rate, which approximated 2.75% and 2.70% of the cost of the depreciable gas utility plant in service for the years ended September 30, 2021 and 2020, respectively. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its original cost, together with its cost of removal, less salvage, is charged to accumulated depreciation.

Depletion of Gas Properties — The provision for depletion of proved gas properties is calculated using the units-of-production method, based on total proved developed reserves.

Maintenance — Southeast Gas charges maintenance and repairs to maintenance expense accounts or applicable overhead accounts for allocation to expense accounts. Replacements of property are charged to the gas utility plant accounts.

Construction Work in Progress — Construction work in progress represents costs related to various projects in process. This amount primarily relates to station and line replacements, distribution and service line installations, and purchases of heavy equipment, vehicles, computers and software as well as the enhancement of buildings and furnishings.

Cash and Cash Equivalents — Cash and cash equivalents include cash on hand and in banks, short-term investments with original maturities of three months or less and various money market mutual funds.

Investments — Investments consist primarily of certificates of deposit. The investments are carried at amortized cost, which approximates market value at September 30, 2021 and 2020.

Customer Accounts Receivable — Southeast Gas extends credit to residential, commercial and industrial customers located primarily in southeast Alabama. An allowance for doubtful accounts is maintained at a level consistent with management's analysis of past due accounts on a monthly basis. Current earnings are charged (credited) with an increase (decrease) in the allowance account.

Other Accounts Receivable — Southeast Gas classifies certain amounts that do not represent customer receivables as other accounts receivable in the accompanying statements of net position. This amount includes receivables for gas sales to other municipalities for resale, transportation receivables, and interest receivable.

Materials and Supplies and Gas in Storage — Materials and supplies include merchandise and appliances and are valued at average cost. Gas in storage includes gas stored underground by Southeast Gas and is valued on a weighted-average cost basis.

Deferred Outflows/Inflows of Resources — In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. This represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred outflows and inflows as reported in the statements of net position consist of the fair value of derivative positions, changes in assumptions and differences in actual and expected experience related to the pension and OPEB plans, and the net difference between projected and actual earnings on pension plan investments.

Environmental Costs — Southeast Gas records liabilities when environmental assessments indicate that remediation efforts are probable and the costs can be reasonably estimated. A current-period expense is recognized for the liability when the cleanup efforts do not benefit future periods, unless it results in the creation of a new asset. Estimates of liabilities are based on currently available facts, existing technology, and presently enacted laws and regulations taking into consideration the likely effects of inflation and other societal and economic factors and include estimates of associated legal costs. These amounts also consider industry norms in remediating contaminated sites, other companies' cleanup experience, and data released by the Environmental Protection Agency or other organizations. These estimates are subject to revision in future periods based on actual costs or new circumstances and are included in the statements of net position in current and noncurrent liabilities at their discounted amounts. Recoveries from insurance coverage or government-sponsored programs are evaluated separately from the liability and, when recovery is assured, are recorded and reported as an asset separately from the associated liability in the financial statements. No environmental liabilities have been recorded as of September 30, 2021 and 2020.

Revenue Recognition — Distribution revenues are derived primarily from the sale and transportation of natural gas. Southeast Gas records these revenues when the gas is delivered to and received by the customer. Revenues from nonutility services, including gas storage, are recognized upon delivery of the service to customers.

Gas property revenues are derived principally through physical sales of natural gas. Revenues from natural gas sales are recorded upon the passage of title, including any royalty interests or other profit interests in the produced product. Costs associated with the transportation and delivery of production is included in gas properties operating expenses.

As discussed in Note 1 under "Related Entities", Southeast Gas has an equal ownership interest in MGMS for the purpose of acquiring, transporting, and marketing the sale of retail gas primarily from the Black Warrior Basin area. Volumes produced from the wells and sold to MGMS are recorded as gas properties revenue, net of hedging transactions, by Southeast Gas. In 2019, MGMS began to sell this gas to external customers. When Southeast Gas sells those volumes purchased from MGMS to customers, the proceeds are recorded as distribution revenues. Gross distribution revenues and gas

properties revenues, net of hedging transactions, for the years ended September 30, 2021 and 2020, are shown below along with the elimination to remove the effect of reporting such transactions twice.

September 30,	2021	2020
Distribution revenues	$ **72,918,433**	$ 63,074,284
Gas properties revenues — net of hedging transactions	-	3,722,140
Corporate eliminations	-	-
Operating revenues	**$ 72,918,433**	$ 66,796,424

Classification of Revenues — Operating revenues consist primarily of distribution and gas properties revenues. Nonoperating revenues include the sale and installation of those derived from capital and related financing, noncapital financing and investing activities such as investment earnings.

Purchased Gas — Southeast Gas has firm transportation contracts with two interstate natural gas pipelines. One guarantees daily deliveries of approximately 26,000 MMBtu and the other guarantees daily deliveries of 18,000 MMBtu for the month of October and 22,000 MMBtu for the months of November through March.

Southeast Gas entered into an agreement with Tennessee Energy Acquisition Corporation for the supply of 3,500 MMBtu per day also at an index-based price. This agreement began August 1, 2006, and will expire July 31, 2026.

Southeast Gas entered into a 15-year supply agreement with Main Street Natural Gas, Inc., for the delivery of 5,000 MMBtu per day for the winter months, November through March of each year, beginning November 2007. The price paid for this gas is variable based on the first of the month index. This agreement began February 1, 2007, and will expire January 31, 2022.

Southeast Gas entered into a 30-year supply agreement with The Blackbelt Energy Gas District for the supply of 500 to 700 MMBtu at an index-based price. This agreement began July 1, 2016 and will expire May 31, 2046.

Southeast Gas entered into a 30-year supply agreement with The Blackbelt Energy Gas District for the supply of 400 to 700 MMBtu at an index-based price. This agreement began July 1, 2017 and will expire June 30, 2047.

Southeast Gas entered into 30-year supply agreement with Tennessee Energy Acquisition Corporation for the supply of 1,900 to 3,600 MMBtu at an index-based price. This agreement began April 1, 2018 and will expire March 31, 2048.

Southeast Gas entered into 30-year supply agreement with Public Energy Authority of Kentucky for the supply of 1,000 to 1,400 MMBtu at an index-based price. This agreement began April 1, 2018 and will expire February 29, 2048.

Southeast Gas entered into 30-year supply agreement with Southeast Gas Supply for the supply of 1,000 to 5,000 MMBtu at an index-based price. This agreement began November 1, 2018 and will expire April 30, 2049.

Southeast Gas entered into 30-year supply agreement with Southeast Gas Supply for the supply of 500 to 4,500 MMBtu at an index-based price. This agreement began January 1, 2019 and will expire March 31, 2048.

Southeast Gas entered into 30-year supply agreement with Southeast Energy Authority for the supply of 500 to 10,000 MMBtu at an index-based price. This agreement begins November 1, 2021 and will expire October 31, 2051.

Income Taxes — Southeast Gas is a municipally owned corporation and, therefore, is exempt from federal and state income taxes. Accordingly, no provision for such taxes is made in the accompanying financial statements.

Accounting for the Impairment of Long-Lived Assets — Southeast Gas continually evaluates whether events and circumstances have occurred that indicate the remaining balance of its long-lived assets may be impaired and not be recoverable. In performing this evaluation, Southeast Gas uses an estimate of the related cash flows expected to result from the use of asset groups and their eventual disposition. When this evaluation indicates the asset has been impaired, Southeast Gas will measure such impairment based on the asset's fair value.

Statements of Cash Flows — For purposes of the statements of cash flows, Southeast Gas considers cash on hand and in banks and short-term investments that have an original maturity of three months or less to be cash and cash equivalents.

Supplemental disclosure of cash flows information for the years ended September 30, 2021 and 2020 is as follows:

September 30,	2021	2020
Noncash transactions — declaration of distributions to member municipalities	**$ 2,135,014**	$ 1,800,522

Accounting for Derivative Investments and Hedging Activities — Southeast Gas follows GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement requires all derivatives to be recognized on the statements of net position and measured at fair value.

Derivative commodity contracts are used to convert certain long-term gas purchase/sales contracts from floating prices to fixed prices. The prices embedded in these commodity hedge contracts are incorporated in Southeast Gas's rate changes, thereby limiting customers' exposure to market volatility. The estimated fair value gains and losses from commodity hedge contracts are recorded as a deferred outflow or inflow with a corresponding amount recorded as a regulatory asset or regulatory liability. The actual gains and losses realized at settlement of the hedge contract are used to offset the actual purchase cost from Southeast Gas's physical supply contracts.

If a derivative instrument is terminated early because it is probable that a transaction or forecasted transaction will not occur, any gain or loss as of such date is immediately recognized in earnings. If such derivative is terminated early for other economic reasons, any gain or loss as of the termination date is deferred and recorded when the associated or forecasted transaction affects earnings.

Net realized losses for hedging transactions for the years ended September 30, 2021 and 2020 were $1,623 and $396,848 respectively. These gains or losses are reflected as either a decrease or an increase in natural gas purchases or an increase or a reduction of gas properties revenue in the accompanying statements of revenues, expenses, and changes in net position. Southeast Gas expects to recognize $924,595 of net gains into earnings in the next 12-month period.

All hedge transactions are subject to Southeast Gas's risk management policy, approved by the Board of Directors, which does not permit speculative positions. The maximum term over which Southeast Gas is hedging exposures to the variability of cash flows on gas purchased for normal distribution sales is through September 2024.

Fair Value Measurements — Southeast Gas's financial instruments consist of cash and cash equivalents, restricted cash, certificates of deposit, natural gas hedging contracts, and debt. Carrying amounts of cash and cash equivalents, restricted cash, receivables, accounts payable and accrued liabilities approximate fair value due to their short-term maturities. Natural gas hedging derivative instruments are recorded at estimated fair value.

Fair value is deemed to be the price that would be received for an asset or the amount paid to transfer a liability in an arm's length transaction between willing market participants. Fair value measurements are classified into three categories based on market data (observable inputs) and underlying assumptions (unobservable inputs). These categories are as follows:

Level 1 — Quoted market prices (unadjusted) for identical assets or liabilities in active markets;

Level 2 — Inputs other than quoted market prices that are observable for an asset or liability, either directly or indirectly;

Level 3 — Unobservable inputs.

The fair values of the natural gas hedging derivatives are based on the present value of each contract's future cash flows based on the contractual fixed price and market-based, forward price curves for

the underlying delivery points, as of the reporting date, and discounted using the LIBOR yield curve. Due to the long tenor of the contracts, considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that Southeast Gas could realize upon liquidation. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value. Fair values presented herein have not been comprehensively revalued since September 30, 2021. Accordingly, current estimates of fair value may differ significantly from those presented in these financial statements.

Asset Retirement Obligations — In June 2001, the FASB issued FASB ASC 410, *Asset Retirement and Environmental Obligations* (formerly FASB Statement No. 143, *Accounting for Asset Retirement Obligations)*, which became effective for Southeast Gas beginning October 1, 2002. This statement requires that legal obligations arising from retiring assets in the future be recognized in periods in which they are incurred. The adoption of this statement on October 1, 2002, had no impact on Southeast Gas's financial statements. However, in connection with its purchase of working interests in gas properties in December 2002, Southeast Gas assumed certain asset retirement obligations ("ARO") (see Note 14). As of July 2020, Southeast Gas transferred its ownership of the gas wells to PGP Operating, Inc. which relieved Southeast Gas of its related asset retirement obligation associated with the gas wells. See Note 5 for additional information regarding this transaction.

Impact of Recently Issued Accounting Standards — GASB has issued statements that will become effective in future years. These statements are as follows:

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, Leases, for interim financial reports,
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan,
- The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* as amended, and No. 74, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits,
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements,
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition,
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers,
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature, and
- Terminology used to refer to derivative instruments.

The requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.

- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.
- The requirements related to the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by: Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment, clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate, clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable, removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap, identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap, clarifying the definition of reference rate, as it is used in Statement 53, as amended. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* - This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, And Accounting And Financial Reporting For Internal Revenue Code Section 457 Deferred Compensation Plans — An Amendment of GASB Statements No. 14 And No. 84, And A Supersession of GASB Statement No. 32*. And the primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021.

Management is evaluating the requirements of the above recently issued statements and their impact on Southeast Gas's financial statements.

Subsequent Events — Southeast Gas has considered all other subsequent events for recognition or disclosure through January 28, 2022, the date the financial statements were available for issuance.

NOTE 2 — GAS UTILITY PLANT IN SERVICE

Southeast Gas's gas utility plant in service at September 30, 2021 and 2020 consisted of the following:

	October 1, 2020	Additions	Reductions	September 30, 2021
CONSTRUCTION IN PROGRESS	$ 2,401,830	$ 5,161,513	$ 5,103,943	**$ 2,459,400**
GAS UTILITY PLANT IN SERVICE				
Land	1,177,126	11,200	392	**1,187,934**
Transmission plant	45,968,730	97,343	-	**46,066,073**
Distribution plant	88,399,641	3,840,962	961,266	**91,279,337**
Production plant	12,529	-	-	**12,529**
Buildings	10,039,282	153,370	24,213	**10,168,439**
Equipment and other	16,006,206	1,001,068	609,228	**16,398,046**
	161,603,514	5,103,943	1,595,099	**165,112,358**
Accumulated depreciation	(83,191,133)	(4,459,275)	(2,591,019)	**(85,059,389)**
Gas utility plant in service — net	$ 80,814,211	$ 5,806,181	$ 4,108,023	**$ 82,512,369**

	October 1, 2019	Additions	Reductions	September 30, 2020
CONSTRUCTION IN PROGRESS	$ 2,747,399	$ 6,515,144	$ 6,860,713	**$ 2,401,830**
GAS UTILITY PLANT IN SERVICE				
Land	903,472	273,654	-	**1,177,126**
Transmission plant	45,816,268	238,324	85,862	**45,968,730**
Distribution plant	85,172,919	4,421,322	1,194,600	**88,399,641**
Production plant	12,529	-	-	**12,529**
Buildings	9,780,257	262,125	3,100	**10,039,282**
Equipment and other	14,469,646	1,665,288	128,728	**16,006,206**
	156,155,091	6,860,713	1,412,290	**161,603,514**
Accumulated depreciation	(80,854,403)	(4,263,850)	(1,927,120)	**(83,191,133)**
Gas utility plant in service — net	$ 78,048,087	$ 9,112,007	$ 6,345,883	**$ 80,814,211**

NOTE 3 — FINANCING ARRANGEMENTS

Series 2015A Bonds — In July 2015, Southeast Gas issued $10,205,000 of Series 2015A General System Revenue Bonds ("Series 2015A Bonds"), the purpose of which was to reacquire and defease $9,620,000 of the Series 2006A Bonds and to finance the costs of acquiring, constructing, and installing capital improvements to the system. These bonds have a long-term balance of $3,926,250 at September 30, 2021. The 2015A Bonds bear interest at a rate of 2.38% and mature at various dates ranging from 2021 through 2026.

Series 2015B Bonds — In July 2015, Southeast Gas issued $6,030,000 of Series 2015B General System Revenue Bonds ("Series 2015B Bonds"), to finance the costs of acquiring, constructing, and installing capital improvements to the system. These bonds have a long-term balance of $4,236,250 at September 30, 2021. The 2015B Bonds bear interest at a rate of 2.96% and mature at various dates ranging from 2021 through 2035.

Series 2015C Bonds — In July 2015, Southeast Gas issued $3,015,000 of Series 2015C General System Revenue Bonds ("Series 2015C Bonds"), to finance the costs of acquiring, constructing, and installing certain capital improvements to the system. These bonds have a long-term balance of $0 at September 30, 2021. The 2015C Bonds bear interest at a rate of 1.99% and mature at various dates in 2022.

Series 2017 Bonds — In January 2017, Southeast Gas issued $14,565,000 of Series 2017 General System Refunding and Improvement Revenue Bonds ("Series 2017 Bonds"), to refund the Series 2006A Bonds. These bonds have a long-term balance of $5,397,500 at September 30, 2021. The 2017 Bonds bear interest at a rate of 2.3% and mature at various dates ranging from 2021 through 2026.

Line of Credit — Southeast Gas has an unsecured line of credit agreement for an amount up to $10,000,000. This agreement was renewed August 2019 and expires August 2024. Interest payments are due monthly based on the outstanding principal amount at a variable rate based upon the 30-day London Interbank Offered Rate (LIBOR) subject to a floor of 2.00%. The rate in effect at September 30, 2021 was 2.00%. There was $5,000,000 and $6,260,000 outstanding at September 30, 2021 and 2020, respectively. The purpose of the line of credit is to provide funds for general corporate purposes as well as for growth and Rule 13 compliance.

Southeast Gas's bonds payable and line of credit and the related changes in those obligations were as follows as of and for the years ended September 30, 2021 and 2020:

September 30, 2021	Beginning Balance	Borrowings	Payments	Ending Balance	Due Within One Year
Series 2015A Bonds	$ 6,285,000	$ -	$ 1,166,250	$ 5,118,750	$ 1,192,500
Series 2015B Bonds	4,770,000	-	262,500	4,507,500	271,250
Series 2015C Bonds	792,500	-	451,250	341,250	341,250
Series 2017 Bonds	8,641,250	-	1,603,750	7,037,500	1,640,000
	$ 20,488,750	$ -	$ 3,483,750	$ 17,005,000	$ 3,445,000
Line of Credit (Expires August 2024)	$ 6,260,000	$ 5,000,000	$ 6,260,000	$ 5,000,000	$ -

September 30, 2020	Beginning Balance	Borrowings	Payments	Ending Balance	Due Within One Year
Series 2015A Bonds	$ 7,426,250	$ -	$ 1,141,250	$ 6,285,000	$ 1,166,250
Series 2015B Bonds	5,026,250	-	256,250	4,770,000	262,500
Series 2015C Bonds	1,235,000	-	442,500	792,500	451,250
Series 2017 Bonds	10,210,000	-	1,568,750	8,641,250	1,603,750
	$ 23,897,500	$ -	$ 3,408,750	$ 20,488,750	$ 3,483,750
Line of Credit (Expires August 2024)	$ 2,500,000	$ 6,260,000	$ 2,500,000	$ 6,260,000	$ -

Debt Service – The debt service requirements for bonds payable outstanding at September 30, 2021 are as follows:

Fiscal Year Ending September 30,	Series 2017 Bonds Principal	Series 2017 Bonds Interest	Series 2015 A, B and C Bonds Principal	Series 2015 A, B and C Bonds Interest
2022	$ 1,640,000	$ 146,621	$ 1,805,000	$ 244,770
2023	1,680,000	107,949	1,500,000	204,588
2024	1,718,750	68,538	1,540,000	166,750
2025	1,481,250	28,430	1,376,250	127,385
2026	517,500	5,015	673,750	100,866
2027–2031	-	-	1,662,500	341,686
2032–2035	-	-	1,410,000	82,432
Totals	$ 7,037,500	$ 356,553	$ 9,967,500	$ 1,268,477

As provided for by the master trust indenture and subsequent supplemental indentures, Southeast Gas has established the following funds:

As of September 30, 2021	Series 2017 Bonds	Series 2015 Bonds
Bond sinking funds	$ 135,834	$ 159,167
Debt service interest fund	13,488	21,837
	$ 149,322	$ 181,004

As of September 30, 2020	Series 2017 Bonds	Series 2015 Bonds
Bond sinking funds	$ 132,917	$ 155,834
Debt service interest fund	16,562	25,546
	$ 149,479	$ 181,380

Bond Reacquisitions and Refunding — January 2007, Southeast Gas issued $43,255,000 of Series2006A General System Revenue Bonds ("Series 2006A Bonds"), the purpose of which was to reacquire and defease the $26,690,000 of Series 2000A General System Revenue Bonds ("Series 2000A Bonds") outstanding and to refinance the costs of acquiring, constructing, and installing capital improvements to the system. The reacquisition of the Series 2000A Bonds resulted in a loss of $2,665,187, which is being amortized to interest expense over the original life of the Series 2000A Bond issuance. As of September 30, 2021, the unamortized loss on reacquired debt totaled $533,037.

In July 2015, $9,620,000 of the Series 2006A bonds was refunded by the Series 2015A General System Revenue Bonds leaving the Series 2006A Bonds with a long-term balance of $13,515,000 at September 30, 2016. In January 2017, the remaining 2006A bonds were refunded by the issuance of the 2017 Series Bonds. The initial reacquisition of a portion of the Series 2006A Bonds resulted in a loss of $752,388, which is being amortized to interest expense over the original life of the Series 2006A Bond issuance. As of September 30, 2021, the unamortized loss on reacquired debt totaled $321,631.

The refunding of the remaining Series 2006A Bonds resulted in a loss of $101,973, which is being amortized to interest expense over the original life of the Series 2006A Bond issuance. As of September 30, 2020, the unamortized loss on refunded debt totaled $50,988.

NOTE 4 — FACILITIES AGREEMENT FOR GANTT PIPELINE

In 2000, Southeast Gas and PowerSouth entered into a facilities agreement relating to the Gantt Pipeline. The terms of the facilities agreement include sharing the total costs of construction, the total available capacity (approximately 254,000 MMBtu per day), and the total costs of operation by allocating 83% of such costs to PowerSouth and 17% of such costs to Southeast Gas, subject to certain adjustments contained in the facilities agreement. A portion of the capacity (83%) will be provided by Southeast Gas to PowerSouth in order to provide transportation of gas supplies to PowerSouth for electric generation at PowerSouth's combined cycle facility located in Gantt, Alabama. The remainder of such capacity (17%) will be retained by Southeast Gas to service its general system transportation needs.

Based upon the terms of the facilities agreement, Southeast Gas is essentially serving as a flow-through entity for PowerSouth's portion (83%) of the Gantt Pipeline. Southeast Gas operates the Gantt Pipeline. Upon completion of the Gantt Pipeline, Southeast Gas accounted for the facilities agreement as a direct financing lease and transferred plant in service costs to a lease receivable due from PowerSouth for its 83% portion of the Gantt Pipeline. Construction of the Gantt Pipeline was completed in 2001, and the total cost was transferred to receivables associated with Lateral Project Bonds in the accompanying statements of net position; the lease receivable was paid in full in April 2010.

NOTE 5 — ACQUISITION OF GAS PROPERTIES

On December 19, 2002, and effective January 1, 2003, MGAG purchased working and royalty interests in producing gas properties located in the coalbed methane fields in the Black Warrior Basin area near Tuscaloosa, Alabama. Operation of the wells included in the acquisition was subject to numerous existing agreements that remain in effect for the life of the field. As part of the acquisition, Southeast Gas and MGAG formed MGMS and entered into a production sharing agreement, whereby MGAG agreed to sell 50% of all gas produced for the life of the properties in return for Southeast Gas's agreement to pay 50% of all costs related to the gas properties. In May 2003, Southeast Gas exercised an option to purchase 50% of the gas wells from MGAG and financed the purchase through the issuance of the Series 2003A Taxable Bonds.

As of July 1, 2020, Southeast Gas transferred ownership of the Black Warrior Basin gas wells to PGP Operating, Inc. At this time all assets and liabilities related to the properties were written off and a loss of $1,982,349 was recognized on the transfer in the Statement of Revenues, Expenses and Changes in Net Position in 2020.

The results of operations for the gas properties for the years ended September 30, 2021 and 2020 are summarized below:

September 30,	2021	2020
Revenues	$ -	$ 3,722,140
Operating expenses	-	3,658,502
Depletion	-	1,070,379
Loss on transfer of wells	-	1,982,349
Total expenses	-	6,711,230
Recognition of unearned revenue from gas properties	-	471,492
Net revenues	$ -	$ (2,517,598)

NOTE 6 — DEFINED BENEFIT PENSION PLAN

Defined Benefit Pension Plan — In 2014, Southeast Gas implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Southeast Gas's statements of net position are presented in accordance with that standard. At September 30, 2021 and 2020, Southeast Gas had recorded a net pension liability of $3,108,354 and $7,781,963, respectively. These amounts are included in the non-current portion of the regulatory liability reported in the statement of net position. Pension expense amounted to approximately $1.1 million in 2021 and $1.6 million in 2020.

Defined Benefit Plan Description — Southeast Gas has a single employer defined benefit pension plan (the "Southeast Alabama Gas District Pension Plan" or the "Plan"). The Plan is governed by Southeast Gas, which may amend Plan provisions and which is responsible for the management of Plan assets. Southeast Gas retained a third-party administrator to administer the Plan assets.

Benefits Provided — The Plan provides retirement and death benefits covering substantially all common law employees hired prior to January 1, 2011 who are age 21 or older and have completed one year of service. Retirement benefits under the Plan are based on the average of the participant's highest five consecutive years of compensation out of the last 10 years of employment. Covered employees may retire at age 63 with full benefits. Early retirement is available at age 55 with reduced benefits. A death benefit equal to 50% of the participant's vested accrued benefit determined under the 50% joint and survivor option is payable to a surviving spouse. Employees who complete five years of vesting service and terminate employment before becoming eligible for retirement benefits are eligible for a termination benefit equal to his accrued benefit as of the date of termination. This termination benefit is payable beginning on the participant's normal retirement date.

Employees Covered by Benefit Terms — At September 30, 2021, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefits	133
Inactive employees entitled to but not yet receiving benefits	53
Active employees	95

Funding Policy — Southeast Gas's funding policy is consistent with the requirements of the Employee Retirement Income Security Act of 1974, and Southeast Gas provides all contributions to the Plan based on an actuarially determined rate recommended by an independent actuary. Required and actual contribution information was as follows:

Years ended September 30,	2021	2020
Actuarially determined required contribution	**$ 1,416,265**	$ 1,405,263
Actual contributions paid to the Plan	**$ 1,701,012**	$ 1,701,012

Net Pension Liability — The Plan's net pension liability was measured as of September 30, 2021, and the total pension liability used to calculate the net pension liability was determined by updating to the measurement date amounts determined from an actuarial valuation as of October 1, 2020. The update was made using generally accepted actuarial principles and practices. No significant changes in the plan or those covered by the plan occurred between the actuarial valuation and measurement dates.

Actuarial Assumptions — The total pension liability in the October 1, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry Age
Amortization method	Level dollar payments
Inflation	2.50%
Asset valuation method	Market value as of September 30, 2021
Projected salary increases	4.50%
Investment rate of return	7.25%
Retirement age	Age 63 or age at valuation date if later
Mortality	The Pri-2012 Mortality Table, projected by the MP-2020 Mortality Improvement Scale

Actuarial assumptions are selected in conformance with Actuarial Standards of Practice No. 27 *Selection of Economic Assumptions for Measuring Pension Obligations* and No. 35 *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations*. The mortality improvement scale was updated from the MP-2019 Scale to the MP-2020 Scale during 2021.

The 7.25% long-term expected rate of return on pension plan investments was determined following discussions between the employer and the Plan's investment counsel regarding the fund's investment portfolio and expected future returns thereon.

The allocation of the Plan's portfolio by class of investment was as follows:

Asset Class	Allocation Percentage
Equity investments	48.00 %
Fixed income investments	21.00 %
Cash and cash equivalents	24.00 %
Real estate	4.00 %
Other	3.00 %

Discount Rate — The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made equal to the actuarially determined contribution rate. Based on this assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following table presents Southeast Gas's net pension liability calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point higher (8.25%) or one percentage point lower (6.25%) than the current rate as of September 30, 2021:

	1% Decrease (6.25%)	Current Rate (7.25%)	1% Increase (8.25%)
Total pension liability	$ 49,953,415	$ 44,898,507	$ 40,613,701
Plan fiduciary net position	$ 41,790,153	$ 41,790,153	$ 41,790,153
Net pension liability	$ 8,163,262	$ 3,108,354	$ (1,176,452)

Changes in Net Pension Liability — The changes in the net pension liability are summarized as follows:

September 30, 2021	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at September 30, 2020	$ 43,280,339	$ 35,498,376	$ 7,781,963
Service cost	523,346	-	523,346
Interest	3,119,204	-	3,119,204
Differences between expected and actual experience	320,100	-	320,100
Changes of assumptions	(140,175)	-	(140,175)
Differences between projected and actual investment earnings	-	4,250,006	(4,250,006)
Contributions - employer	-	1,701,012	(1,701,012)
Projected investment income	-	2,545,066	(2,545,066)
Benefit payments	(2,204,307)	(2,204,307)	-
Administrative expenses	-	-	-
Balances at September 30, 2021	$ 44,898,507	$ 41,790,153	$ 3,108,354

September 30, 2020	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at September 30, 2019	$ 41,288,142	$ 34,637,629	$ 6,650,513
Service cost	537,212	-	537,212
Interest	3,003,331	-	3,003,331
Differences between expected and actual experience	645,069	-	645,069
Changes of assumptions	(54,161)	-	(54,161)
Differences between projected and actual investment earnings	-	2,484,621	(2,484,621)
Contributions - employer	-	1,701,012	(1,701,012)
Projected investment income	-	(1,185,632)	1,185,632
Benefit payments	(2,139,254)	(2,139,254)	-
Administrative expenses	-	-	-
Balances at September 30, 2020	$ 43,280,339	$ 35,498,376	$ 7,781,963

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions — Southeast Gas reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

September 30, 2021	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 850,987	$ 435,948
Changes in assumptions and other inputs	708,109	456,430
Net difference in projected and actual earnings on plan investments	1,190,686	3,434,446
	2,749,782	$ 4,326,824

September 30, 2020	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,092,112	$ 555,256
Changes in assumptions and other inputs	902,975	495,723
Net difference in projected and actual earnings on plan investments	1,667,466	256,413
	$ 3,662,553	$ 1,307,392

Amounts reported as deferred outflows of resources and deferred inflows of resources as of September 30, 2021 will be recognized in pension expense as follows:

Balances at September 30,	Deferred Outflows	Deferred Inflows	Net
2022	$ 1,152,128	$ (1,166,266)	$ (14,138)
2023	875,011	(1,092,347)	(217,336)
2024	512,075	(1,048,122)	(536,047)
2025	189,267	(1,001,480)	(812,213)
2026	21,301	(18,609)	2,692
2027 and after	-	-	-
Total	$ 2,749,782	$ (4,326,824)	$ (1,577,042)

The actuarial valuation was prepared as of the current valuation date. Deferred outflow and inflows related to differences between expected and actual experience and changes in assumptions will be recognized in pension expense, beginning in the current reporting period, over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active and inactive employees), determined as of the beginning of the measurement period. Differences between projected and actual earnings on plan investments is amortized into pension expense over a closed five-year period.

NOTE 7 — DEFINED CONTRIBUTION RETIREMENT PLAN

The Southeast Alabama Gas District Defined Contribution Retirement Program (the "Program") is sponsored by Southeast Gas. The Program is a Section 401(a) Defined Contribution Plan, which provides for employer contributions. All full-time employees hired after January 1, 2011, who are 18 years of age and older, are in the Program. All full-time employees hired after January 1, 2011, Southeast Gas matches the participants' contributions up to 5% of the participants' base compensation. Southeast Gas's matching contributions for the participants are fully vested upon entering the plan. Southeast Gas also gives a basic contribution of 5% of the participant's base compensation to the plan, annually, after completing one year of service. The annual contribution is made at the end of the plan year. As of September 30, 2021 and 2020, the annual basic contribution was recorded as a liability in the amount of $177,550 and $156,942, respectively. Participants fully vest in the employer basic contributions after five years of service. Although it has not expressed any intent to do so, Southeast Gas may amend the plan at the Board's discretion. The plan is administered by a third party administrator. For the years ended September 30, 2021 and 2020, Southeast Gas had total contributions to this plan of $394,604 and $328,217, respectively.

NOTE 8 — DEFERRED COMPENSATION PLAN

Southeast Gas has a deferred compensation plan which qualifies as a defined contribution plan pursuant to Section 457 of the Internal Revenue Code, which allows plan participants to defer and contribute to the plan, through Southeast Gas, a specified portion of the participants' compensation subject to IRS limits. Employees hired prior to January 1, 2011 are eligible to participate in this plan. Southeast Gas matches the participants' contributions up to 2% of the participants' base compensation. Participants are fully vested upon entering the plan. The plan is administered by a third party administrator. Although it has not expressed any intent to do so, Southeast Gas may amend the plan at Board's discretion. Southeast Gas has no discretionary authority or control over any assets of the plan, which are the property of the participants. Southeast Gas's contributions to this plan totaled $87,889 in 2021 and $115,977 in 2020.

NOTE 9 – POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Southeast Alabama Gas District Premium Supplement Plan is a single employer defined benefit postretirement plan that provides eligible retirees a premium supplement to assist with the cost of retiree health insurance until the retiree reaches age 65 or seven years from the date of retirement, whichever occurs first. Southeast Gas pays a supplement of $75 per month for single coverage and $200 per month for family coverage for each eligible participating retiree. The retiree is responsible for the cost of health insurance premiums in excess of the supplement. The Plan is funded on a pay-as-you-go basis. The Plan is governed by Southeast Gas, which may amend Plan provisions and which is responsible for the management of the Plan.

As of September 30, 2021, there were the following plan participants:

Retirees	4
Spouses	3
Active plan members	171

The components of Southeast Gas's net OPEB liability at September 30, 2021 and 2020, is as follows:

September 30,	2021	2020
Net OPEB Liability	**$ 280,717**	$ 262,615

The Plan's fiduciary net position as a percentage of its total OPEB liability is 0%.

The total OPEB liability was determined as of September 30, 2021 (the measurement date), using the following actuarial methods and assumptions:

Actual cost method	Entry Age, cost increasing at inflation
Discount rate	2.26%
Inflation rate	2.50%
Long-term expected rate of return	N/A
Mortality table	Pri-H-2012 Mortality Table, projected by the MP-2020 Mortality Improvement Scale
Medical Trend	N/A

The discount rate used to measure the OPEB liability was the discount rate shown above, which is the 2021 20-year tax-free municipal bond (Bond Buyer 20-Bond General Obligation Index) yield of 2.26%. The Plan is not funded.

The following represents the net OPEB liability calculated using the stated discount rate, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower and 1-percentage point higher than the current rate.

	1% Decrease (1.26%)	Current Rate (2.26%)	1% Increase (3.26%)
Total OPEB liability	$ 295,119	$ 280,717	$ 266,884

Changes in Net OPEB Liability — The changes in the net OPEB liability are summarized as follows:

September 30, 2021	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balances at September 30, 2020	$ 262,615	$ -	$ 262,615
Service cost	13,103	-	13,103
Interest	6,191	-	6,191
Changes in assumptions	8	-	8
Benefit payments	(1,200)	-	(1,200)
Balances at September 30, 2021	$ 280,717	$ -	$ 280,717

September 30, 2020	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balances at September 30, 2019	$ 267,690	$ -	$ 267,690
Service cost	13,228	-	13,228
Interest	7,366	-	7,366
Changes in assumptions	(17,594)	-	(17,594)
Benefit payments	(8,075)	-	(8,075)
Balances at September 30, 2020	$ 262,615	$ -	$ 262,615

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions — Southeast Gas reported deferred outflows and inflows of resources related to the OPEB of the following sources:

September 30, 2021	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 21,146
Changes in assumptions and other inputs	6,282	96,551
	$ 6,282	$ 117,697

September 30, 2020	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 23,082
Changes in assumptions and other inputs	6,850	106,240
	$ 6,850	$ 129,322

Amounts reported as deferred outflows of resources and deferred inflows of resources as of September 30, 2021 will be recognized in OPEB expense as follows:

Balances at September 30,	Deferred Outflows	Deferred Inflows	Net
2022	$ 576	$ (11,625)	$ (11,049)
2023	576	(11,625)	(11,049)
2024	576	(11,625)	(11,049)
2025	576	(11,625)	(11,049)
2026	576	(11,625)	(11,049)
2027 and after	3,402	(59,572)	(56,170)
Total	$ 6,282	$ (117,697)	$ (111,415)

NOTE 10 — DEPOSITS, INVESTMENTS, AND CONCENTRATION OF CREDIT RISK

At September 30, 2021, Southeast Gas's deposit and investment balances (as defined by GASB Statement No. 40, *Deposit and Investment Risk Disclosures* — an amendment of GASB Statement No. 3) were as follows:

Investment Type	Fair Value	Percent to Total	Maturities	Rating
CASH AND CASH EQUIVALENTS				
Cash	$ 12,116,397	66 %	Current	N/A
Money market funds	34,023	1 %	Current	N/A
Total cash and cash equivalents	12,150,420	67 %		
INVESTMENTS				
Certificates of deposit	5,746,577	32 %	Nov 2021 - Sept 2024	N/A
Bond debt service funds	330,326	1 %	Current	N/A
TOTAL CASH AND INVESTMENTS	$ 18,227,323	100 %		

Interest Rate Risk — Southeast Gas's investment philosophy is to stagger certificate of deposit maturities monthly over a one to three-year period. Southeast Gas has no term policy on purchased governmental securities.

Credit Risk — Southeast Gas's policy regarding credit risk on investments is governed by indenture requirements, which require investments in agencies of the federal government and state and local governments with a rating from one of the rating agencies in one of the two highest rating categories. Southeast Gas is also allowed to acquire certificates of deposits in amounts which are not to exceed Federal Depository Insurance Coverage ("FDIC"). Certificates of deposit which exceed FDIC limits must be collateralized by the local banking institutions.

Concentration of Credit Risk — Southeast Gas places no limit on the amount that may be invested in any one issuer. Southeast Gas requires residential and commercial customers to maintain a deposit based on the type of service provided and the customer's credit history. These customer deposits are held by Southeast Gas in either certificates of deposit with varying maturity dates or money market accounts. Industrial customers typically maintain surety bonds or letters of credit and also have specified minimum monthly bill requirements based on the individual contracts.

Southeast Gas's primary source of revenue is distribution revenues. Southeast Gas had three customers that accounted for 19% in 2021 and two customers that accounted for 13% in 2020 of Southeast Gas's total distribution revenues. In addition, distribution revenues include transportation revenues to a transportation customer that accounted for 40% and 38% of total throughput for the years ended September 30, 2021 and 2020, respectively. The transportation revenues totaled $1,179,023 for the year ended September 30, 2021, and $1,128,488 for the year ended September 30, 2020. In management's opinion, Southeast Gas has in place adequate cash deposits and prepayments from customers, as well as reserves related to customer accounts receivable to mitigate the risk of material loss.

NOTE 11 — DERIVATIVES AND HEDGING ACTIVITIES

Southeast Gas employs hedging techniques utilizing exchange traded derivative instruments, primarily NYMEX natural gas futures contracts, to manage the gas commodity price exposure inherent in the purchase, storage and sale of natural gas in its everyday service to customers. Long positions in these futures contracts effectively fix a purchase price for natural gas, whereas short positions effectively fix a selling price. Southeast Gas also utilizes options, swaps and forward contracts on occasion as part of its overall hedging strategy.

As outlined in Note 5, Southeast Gas transferred the Black Warrior Basin Gas wells to PGP Operating, Inc. as of July 1, 2020. Southeast Gas subsequently bought hedges to unwind our positions for August 2020 through September 2021. A gain on this position unwind is shown in the amount of $213,530 and is recorded as a current regulatory asset as of September 30, 2020. Southeast Gas is exposed to market gas price risk in the event of nonperformance by the counterparty; however, Southeast Gas does not anticipate nonperformance. In the normal course of acquiring gas for distribution customers, Southeast Gas also entered into futures contracts. In connection with entering into such agreements, Southeast Gas has obtained a $1.75 million letter of credit from its largest customer. The combined fair market value of these hedging derivative positions was a gain of $2,427,480 and a loss of $151,125 at September 30, 2021 and 2020, respectively. These amounts have been recorded as a deferred outflow or inflow under fair value of derivatives and as a regulatory liability or asset in the accompanying statements of net position.

Under GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* Southeast Gas must adhere to guidelines addressing the recognition, measurement, and disclosure of information regarding derivative instruments. The Statement defines derivative instruments and items that may be hedged, provides criteria for "hedging derivative instruments" and "investment derivative instruments", prescribes methods for determining "effectiveness" as a hedging derivative instrument, and outlines accounting and financial statement reporting and disclosure requirements.

By applying the consistent critical terms methodology, Southeast Gas has determined that each of its hedge positions is "effective", and is thus a hedging derivative instrument under GASB 53. As such, the fair market value of derivative positions is recorded as a deferred inflow or deferred outflow on the balance sheet, depending on whether the value is positive or negative from Southeast Gas's perspective. Southeast Gas will continue to assess the effectiveness of each hedge, on an annual basis, applying one of the methodologies prescribed under GASB 53.

Terms and Objectives of Hedging Derivatives Instruments

Instrument Type	Objective	Total Notional Volume (Mmbtu)	Effective Dates	Expiration Dates	Terms	Fair Value	Increase (Decrease) in Fair Value
September 30, 2021							
NG futures - NYMEX Henry Hub - long position	Cashflow hedge for the purchase price of natural gas	2,615,000	June 2017 - Sept 2021	Nov 2021 - Sept 2024	Southeast Gas pays fixed price for natural gas delivery	$ (3,866,270)	$ (3,691,995)
NG futures - NYMEX Henry Hub - short position	Cashflow hedge for the selling price of natural gas	540,000	June 2017 - Sept 2021	Nov 2021 - Mar 2022	Southeast Gas receives a fixed price for the sale of natural gas	$ 1,438,790	$ 1,113,390
September 30, 2020							
NG futures - NYMEX Henry Hub - long position	Cashflow hedge for the purchase price of natural gas	4,600,000	March 2014 - Sept 2018	Nov 2019 - Sept 2024	Southeast Gas pays fixed price for natural gas delivery	$ (174,275)	$ 1,449,055
NG futures - NYMEX Henry Hub - short position	Cashflow hedge for the selling price of natural gas	1,110,000	Sept 2019	Nov 2019 - Sept 2021	Southeast Gas receives a fixed price for the sale of natural gas	$ 325,400	$ 141,340

Credit Risk — Southeast Gas does not bear counterparty risk on its hedging derivative instruments. Essentially all of its hedging derivative instruments consist of futures contracts traded on the NYMEX. With a futures contract, the exchange clearing house acts as the counterparty to both parties in the contract, mitigating the risk of counterparty non-performance. In addition, all futures positions are marked to market daily with margins required to be posted and maintained by all participants at all times further mitigating the risk of non-performance of a counterparty.

Basis Risk — Southeast Gas bears basis risk due to locational differences associated with the spot price of natural gas at various delivery points and the spot price of natural gas at the Henry Hub. These differences arise as a result of regional factors such as location, pipeline transmission costs, and supply and demand. Southeast Gas monitors this price differential on an ongoing basis as part of its hedging strategy and determined that the impact has not been material to its operations.

Interest Rate Risk — Southeast Gas does not bear interest rate risk on any of its derivative commodity contracts.

Termination Risk — Southeast Gas does not bear termination risk on any of its futures contracts as both parties to the contract are obligated to perform according to the terms of the contract with no provision for termination.

Rollover Risk — Southeast Gas is not exposed to rollover risk due to the fact that the maturities of the hedging derivative instruments and the underlying hedged item are matched.

Foreign Currency Risk — All hedging derivative instruments and underlying hedged items are denominated in US Dollars, thus Southeast Gas is not exposed to foreign currency risk.

NOTE 12 — RISK MANAGEMENT

Southeast Gas is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees and others; and natural disasters. Southeast Gas carries commercial insurance, subject to certain limits and deductibles, to reduce the financial impact of claims arising from such matters.

NOTE 13 — COMMITMENTS AND CONTINGENCIES

Litigation — Southeast Gas is subject to certain claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the financial position or results of operations of Southeast Gas.

There are three matters of pending litigation: (1) a 2017 suit arising from an explosion in Headland, Alabama, (2) a 2018 suit arising from a scalding death at a home in which Southeast Gas had installed a water heater and (3) a 2020 suit seeking property damage from a house fire in Enterprise, Alabama. The lawsuits are ongoing, and outcomes cannot be predicted at this time. However, management feels that liabilities resulting from unfavorable verdicts, if any, would not exceed commercial insurance coverage.

Capital Budget — Southeast Gas's capital expenditures expected to be funded by current operations are currently estimated to total $4.3 million in 2022, $4 million in 2023, and $4 million in 2024. The capital budget is subject to periodic review and revision, and actual capital costs incurred may vary from estimates because of changes in such factors as business conditions; environmental regulations; load projections; the cost and efficiency of construction labor, equipment, and materials; and the cost of capital.

Gas Supply Agreements — On November 16, 2004, Southeast Gas was among the original seven public gas and electric utilities that signed an agreement to form a gas supply agency called Public Gas Partners, Inc. (PGP). PGP was created to secure economical, long-term wholesale natural gas supplies for its member

agencies to stabilize and reduce the cost of natural gas for the mutual benefit of all their customers. The partnership was motivated by the common need for a long term, secure stream of economical natural gas supplies.

As a PGP member, Southeast Gas has entered into three Natural Gas Production Sharing Agreements (PSA) with PGP. Each PSA obligates Southeast Gas to pay its share of all costs incurred by the related PGP pool. The PSAs include a step up provision that could obligate Southeast Gas to increase its participation up to 125% of its original participation in the event of default of another member.

The members of Pool 1 are Southeast Gas, MGAG, Florida Municipal Power Agency, Patriots Energy Group, and Tennessee Energy Acquisition Corporation. The acquisition period for Pool 1 closed effective November 2007. Under the Pool 1 PSA, Southeast Gas has an 18% participation share. As of June 2021, total Pool 1 interests owned were estimated at approximately 4 Bcfe of natural gas. As of June 2021, production from such interests was approximately 5,700 Mcfe per day. Southeast Gas's share of that production is 1,013 Mcfe per day. The acquisitions were financed through PGP. Southeast Gas's share of the outstanding debt is approximately $13 million. Based on index gas prices as of September 30, 2021, minimum annual payments to PGP for these committed volumes are estimated to be $1.6 million. The gas purchased under these arrangements is used in serving Southeast Gas's customers, and is included in "Natural Gas Purchases" in the accompanying statements of revenues, expenses, and changes in net position. Approximately 49% of Southeast Gas's committed volumes were committed on behalf of PowerSouth, Marshall County Gas District, Northwest Alabama Gas District, Scottsboro Water, Sewer and Gas Board, and Cullman Jefferson Counties Gas District. These companies have signed natural gas production agreements with Southeast Gas with the same terms and conditions as the agreement between Southeast Gas and PGP.

Pool 2 is composed of five members, Southeast Gas, MGAG, Florida Municipal Power Agency, Patriots Energy Group, and Tennessee Energy Acquisition Corporation. The acquisition period for Pool 2 expired in June 2008. As of June 2021, production from such interests was approximately 426 Mcfe per day. Southeast Gas's share of that production is 21 Mcfe per day. The debt associated with these properties is approximately $28.2 million with Southeast Gas's share being approximately $1.4 million, financed by PGP. Southeast Gas's share of the debt balance of Pool 2 is 5%, with a maximum participation share of 6.3%. Based on index gas prices as of September 30, 2021, minimum annual payments to PGP for these committed volumes are estimated to be $33,000. The gas purchased under these arrangements is used in serving Southeast Gas's customers, and is included in "Natural Gas Purchases" in the accompanying statements of revenues, expenses, and changes in net position.

Pool 3 is composed of four members, Southeast Gas, MGAG, Patriots Energy Group, and National Public Gas Agency. As of June 2021, total Pool 3 interests owned were estimated at approximately 131 Bcfe of natural gas. As of June 2021, production from such interests was approximately 27,000 Mcfe per day. Southeast Gas's share of that production is approximately 2,700 Mcfe per day. The outstanding debt associated with these properties is $67.5 million with Southeast Gas's share being approximately $6.7 million, financed by PGP. Southeast Gas's share of the costs associated with Pool 3 is 10% with a maximum participation share of 13%. Based on index gas prices as of September 30, 2021, minimum annual payments to PGP for these

committed volumes are estimated to be $4.2 million. The gas purchased under these arrangements is used in serving Southeast Gas's customers, and is included in "Natural Gas Purchases" in the accompanying statements of revenues, expenses, and changes in net position. Approximately 17% of Southeast Gas's committed volumes were committed on behalf of Marshall County Gas District, and Northwest Alabama Gas District. These companies have signed natural gas production agreements with Southeast Gas with the same terms and conditions as the agreement between Southeast Gas and PGP.

Total expenses related to these gas supply arrangements with PGP were $3.4 million and $3.4 million for the years ended September 30, 2021 and 2020, respectively, and are included in "Natural Gas Purchases" in the accompanying statements of revenues, expenses, and changes in net position.

NOTE 14 — ASSET RETIREMENT OBLIGATIONS

Southeast Gas's gas distribution system operates under various property easement agreements primarily related to public rights-of-way. In some instances, the entity granting the easement retains the option to require certain actions in the event Southeast Gas abandons the asset. Since Southeast Gas expects its gas distribution assets will be operated in perpetuity and historical abandonment costs resulting from such easement agreements have been de minimis, no ARO has been recorded for gas distribution assets.

NOTE 15 — DISTRIBUTIONS TO MEMBER MUNICIPALITIES

The Board of Directors declares each year distributions to be paid in November to the member municipalities. The amounts declared for fiscal years ended September 30, 2021 and 2020, were $2,135,014 and $1,800,522 respectively. Those amounts were reflected as distributions to member municipalities in the accompanying statements of revenues, expenses, and changes in net position for the years then ended.

NOTE 16 — FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of financial instruments have been determined by Southeast Gas using market information and appropriate valuation methodologies. The estimates presented are not necessarily indicative of the amounts that Southeast Gas could realize in a current market exchange.

The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair market value.

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and accrued interest payable are estimated to approximate fair value because of their short-term nature. The carrying amount of derivative instruments equals fair value.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by category:

September 30, 2021	Total	Level 1	Level 2	Level 3
Natural gas futures contracts	$ (2,427,480)	$ -	$ (2,427,480)	$ -

September 30, 2020	Total	Level 1	Level 2	Level 3
Natural gas futures contracts	$ 151,125	$ -	$ 151,125	$ -

The carrying amount and fair value of the Series 2017 Bonds, Series 2015A Bonds, Series 2015B Bonds and Series 2015C bonds, based on interest rates that are currently available to Southeast Gas for issuance of debt with similar terms and remaining maturities are as follows at September 30:

	2021		2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Series 2017Bonds	**$ 7,037,500**	**$ 7,154,413**	$ 8,641,250	$ 8,849,251
Series 2015A Bonds	**$ 5,118,750**	**$ 5,212,505**	$ 6,285,000	$ 6,449,520
Series 2015B Bonds	**$ 4,507,500**	**$ 5,022,514**	$ 4,770,000	$ 5,384,930
Series 2015C Bonds	**$ 341,250**	**$ 339,796**	$ 792,500	$ 793,573

NOTE 17 — UNCERTAINTIES

In March 2020, the World Health Organization made the assessment that the outbreak of the novel coronavirus (COVID-19) can be characterized as a pandemic. As a result, uncertainties have arisen that may have a significant negative impact on the ongoing operating activities and the future results of Southeast Gas. The occurrence and extent of such an impact will depend on future developments, including (i) the and spread of the virus, (ii) government quarantine measures, (iii) voluntary and precautionary restrictions on travel or meetings, (iv) the effects on the financial markets, and (v) the effects on the economy overall, all of which are uncertain.

On January 1, 2020, Gas Pipeline Safety Section of the Alabama Public Service Commission enacted Rule 13. The rule has various requirements for specific types of service lines, but generally mandates that any service line that has been inactive for a period of three years, five in some scenarios, be physically abandoned or retired from service. The rule also mandates compliance with specific record keeping and record retention requirements. Management has had and expects this rule to have a continued effect on the operations and maintenance of Southeast Gas's distribution system. Southeast Gas is currently working to convert as many of the inactive service lines as possible to active customers and is in the process of retiring the inactive service lines that are not converted to active.

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Schedule of changes in net pension liability and related ratios – Southeast Alabama Gas District Retirement Income Plan Last 10 Fiscal Years

September 30,	2021	2020	2019	2018	2017
TOTAL PENSION LIABILITY					
Service cost	$ 523,346	$ 537,212	$ 547,546	$ 568,707	$ 630,808
Interest	3,119,204	3,003,331	2,868,026	2,743,459	2,646,584
Differences between expected and actual experience	320,100	645,069	571,729	256,990	245,538
Change of assumptions	(140,175)	(54,161)	(120,018)	(224,513)	(472,307)
Benefit payments	(2,204,307)	(2,139,254)	(1,998,979)	(1,772,121)	(1,570,943)
Net change in total pension liability	1,618,168	1,992,197	1,868,304	1,572,522	1,479,680
Total pension liability - Beginning	43,280,339	41,288,142	39,419,838	37,847,316	36,367,636
Total Pension Liability - Ending	44,898,507	43,280,339	41,288,142	39,419,838	37,847,316
PLAN FIDUCIARY NET POSITION					
Contributions - employer	1,701,012	1,701,012	1,842,763	1,559,261	1,691,918
Net investment income	6,795,072	1,298,989	1,216,150	2,435,407	2,983,973
Benefit payments	(2,204,307)	(2,139,254)	(1,998,979)	(1,772,121)	(1,570,943)
Administrative expenses	-	-	-	-	(5,792)
Net change in plan fiduciary net position	6,291,777	860,747	1,059,934	2,222,547	3,099,156
Plan fiduciary net position - Beginning	35,498,376	34,637,629	33,577,695	31,355,148	28,255,992
Plan fiduciary net position - Ending	41,790,153	35,498,376	34,637,629	33,577,695	31,355,148
Net pension liability - Ending	$ 3,108,354	$ 7,781,963	$ 6,650,513	$ 5,842,143	$ 6,492,168
Plan fiduciary net position as a percentage of total pension liability	93.08 %	82.02 %	83.89 %	85.18 %	82.85 %
COVERED PAYROLL	$ 5,983,191	$ 6,118,773	$ 6,847,906	$ 6,884,768	$ 7,069,177
Net pension liability as a percentage of covered payroll	51.95 %	127.18 %	97.12 %	84.86 %	91.84 %

2016	2015	2014	2013	2012
$ 650,875	$ 674,710	$ 696,338		
2,397,367	2,347,144	2,209,542		
(1,151,796)	241,772	-		
1,636,311	266,370	-		
(1,406,486)	(1,352,951)	(1,243,338)		
2,126,271	2,177,045	1,662,542		
34,241,365	32,064,320	30,401,778	26,840,209	24,704,328
36,367,636	34,241,365	32,064,320	30,401,778	26,840,209
1,646,448	1,750,002	2,200,003	1,445,454	1,400,004
2,550,832	(126,019)	1,901,148	1,632,591	2,606,825
(1,406,486)	(1,352,951)	(1,243,338)	(1,217,437)	(1,200,170)
(19,015)	(18,630)	(16,638)	(15,709)	(8,169)
2,771,779	252,402	2,841,175	1,844,899	2,798,490
25,484,213	25,231,811	22,390,636	20,545,737	17,747,247
28,255,992	25,484,213	25,231,811	22,390,636	20,545,737
$ 8,111,644	$ 8,757,152	$ 6,832,509	$ 8,011,142	$ 6,294,472
77.70 %	74.43 %	78.69 %	73.65 %	76.55 %
$ 7,343,670	$ 7,391,947	$ 7,769,122	$ 7,611,248	$ 7,111,867
110.46 %	118.47 %	87.94 %	105.25 %	88.51 %

The Southeast Alabama Gas District Schedule of Contributions – Southeast Alabama Gas District Retirement Income Plan Last 10 Fiscal Years

September 30,	2021	2020	2019	2018	2017
Actuarially determined contribution	$ 1,416,265	$ 1,405,263	$ 1,448,233	$ 1,495,202	$ 1,691,915
Contribution in relation to the actuarially determined contribution	1,701,012	1,701,012	1,842,763	1,559,261	1,691,918
Contribution deficiency (excess)	(284,747)	(295,749)	(394,530)	(64,059)	(3)
Covered payroll	5,983,191	6,118,773	6,847,906	6,884,768	7,069,177
Contributions as a percentage of covered payroll	28.43 %	27.80 %	26.91 %	22.65 %	23.93 %

List of Assumptions for Actuarially Determined Contribution

Valuation date	Beginning of plan year (October 1)
Actuarially determined contribution is calculated as of the middle of plan year	
Actuarial cost method	Aggregate
Asset valuation method	4 year smoothed method
Salary increases	4.50 %
Investment rate of return	7.25 %
Retirement age	Age 63 or age at valuation date if later
Mortality	The Pri-2012 Mortality Table projected with Mortality Improvement Scale MP-2020 for annuitants and non-annutitants

2016	2015	2014	2013	2012
$ 1,516,014	$ 1,701,455	$ 1,790,160	$ 1,449,984	$ 1,370,652
1,646,448	1,750,002	2,200,003	1,445,454	1,400,004
(130,434)	(48,547)	(409,843)	4,530	(29,352)
7,343,670	7,391,947	7,769,122	7,611,248	7,111,867
22.42 %	23.67 %	28.32 %	18.99 %	19.69 %

Schedule of changes in net OPEB liability and related ratios – Southeast Alabama Gas District Premium Supplement Plan

Last 10 Fiscal Years*

September 30,	2021	2020
TOTAL OPEB LIABILITY		
Service cost	$ 13,103	$ 13,228
Interest	6,191	7,366
Differences between expected and actual experience	-	(25,019)
Change of assumptions	8	7,425
Benefit payments	(1,200)	(8,075)
Net change in total pension liability	18,102	(5,075)
Total OPEB liability - Beginning	262,615	267,690
Total OPEB Liability - Ending	280,717	262,615
PLAN FIDUCIARY NET POSITION		
Net investment income	-	-
Benefit payments	-	-
Administrative expenses	-	-
Net change in Plan Fiduciary net position	-	-
Plan Fiduciary net position - Beginning	-	-
Plan Fiduciary net position - Ending	-	-
Net OPEB liability - Ending	$ 280,717	$ 262,615
COVERED-EMPLOYEE PAYROLL	$ 10,078,518	$ 10,695,569
Net pension liability as a percentage of covered-employee payroll	2.8 %	2.5 %

**Only four years of historical data were available for presentation at September 30, 2021*

2019	2018
$ 15,636	$ 17,463
15,496	13,152
-	-
(108,863)	(18,121)
(8,850)	(6,150)
(86,581)	6,344
354,271	347,927
267,690	354,271
-	-
-	-
-	-
-	-
-	-
-	-
$ 267,690	$ 354,271
$ 10,060,777	$ 9,230,197
2.7 %	3.8 %

Selected operating data (Unaudited)

For the years ended	September 30, 2021	September 30, 2020	September 30, 2019 (Restated)	September 30, 2018	September 30, 2017	September 30, 2016
Distribution revenues	$ 72,918,433	$ 63,074,284	$ 71,789,411	$ 68,108,136	$ 62,975,244	$ 53,086,890
Gas property revenues	-	3,722,140	5,670,261	6,986,586	8,569,795	9,495,886
Gas sales to supply project participants	-	-	-	-	-	-
Corporate eliminations	-	-	(688,200)	(7,774,875)	(8,341,330)	(6,160,988)
Total operating revenues	72,918,433	66,796,424	76,771,472	67,319,847	63,203,709	56,421,788
OPERATING EXPENSES						
Natural gas purchases	39,605,701	34,027,778	41,813,566	37,805,943	35,688,788	25,359,373
Corporate eliminations	-	-	(688,200)	(7,774,875)	(8,341,330)	(6,160,988)
Distribution expenses	20,823,427	19,375,374	19,437,909	18,492,412	18,996,313	17,877,174
Depreciation	4,459,275	4,263,850	4,155,452	4,011,885	4,115,673	3,878,347
Gas properties operating expenses	-	3,658,323	4,811,057	6,072,845	6,383,752	6,604,629
Depletion of gas properties	-	3,052,727	1,211,049	7,040,964	10,713,029	5,987,335
Total operating expenses	64,888,403	64,378,052	70,740,833	65,649,174	67,556,225	53,545,870
Gain on termination of 2007 Gas Supply Project	-	-	-	-	-	-
OPERATING INCOME	8,030,030	2,418,372	6,030,639	1,670,673	(4,352,516)	2,875,918
Non-operating income (expense)						
Interest expense	(752,296)	(792,713)	(870,916)	(948,776)	(978,085)	(1,447,198)
Interest income	43,540	246,289	475,827	62,426	82,917	65,817
Other, net	(1,450,721)	(1,311,938)	(1,413,921)	(1,314,504)	(1,115,408)	(1,454,798)
Net non-operating income (expense)	(2,159,477)	(1,858,362)	(1,809,010)	(2,200,854)	(2,010,576)	(2,836,179)
Deferred income from gas properties	-	471,492	628,656	628,656	628,656	628,656
Deferred billings-2007 Gas Supply Project	-	-	-	-	-	-
Net position before distributions	$ 5,870,553	$ 1,031,502	$ 4,850,285	$ 98,475	$ (5,734,436)	$ 668,395
Distribution to member municipalities	$ 2,135,014	$ 1,800,522	$ 3,100,000	$ 3,780,908	$ 2,538,673	$ 3,518,369
DISTRIBUTION MMCF SALES:						
General service	746	671	695	722	576	644
Commercial	1,129	1,046	1,117	1,071	966	1,033
Industrial interruptible	8,579	8,376	8,183	8,005	7,961	6,332
Public housing authorities	3	2	2	2	2	2
Optional	88	75	91	83	64	80
Gas sold for resale	1,839	2,711	2,893	2,191	973	991
Gross distribution sales	12,384	12,881	12,981	12,074	10,542	9,082
Transportation only	2,738	2,561	2,815	2,501	2,000	2,700
Total throughput (Mmcf)	15,122	15,442	15,796	14,575	12,542	11,782
Distribution revenues:						
General service	$ 13,923,105	$ 12,753,958	$ 12,585,472	$ 12,781,185	$ 10,733,086	$ 11,281,810
Commercial	17,423,053	16,270,196	16,456,964	15,748,167	14,468,236	14,410,155
Industrial interruptible	33,708,541	26,364,513	31,231,520	30,887,510	32,768,277	22,951,059
Public housing authorities	37,251	36,018	35,140	34,157	28,348	31,399
Optional	1,196,828	1,003,180	1,207,024	1,068,957	757,617	993,128
Transportation and other	6,629,655	6,646,419	10,273,291	7,588,160	4,219,680	3,419,339
Distribution revenues	$ 72,918,433	$ 63,074,284	$ 71,789,411	$ 68,108,136	$ 62,975,244	$ 53,086,890
Peak month number of customers	30,891	30,188	29,856	29,535	29,188	29,101
Average distribution revenue per Mcf excluding transportation, excess gas and other operating revenues)	$ 6.29	$ 5.55	$ 6.10	$ 6.12	$ 6.14	$ 6.14

September 30, 2015 (Restated)	September 30, 2014	September 30, 2013	September 30, 2012	September 30, 2011	September 30, 2010	September 30, 2009	September 30, 2008
$ 63,492,766	$ 73,552,734	$ 64,893,095	$ 62,745,585	$ 77,007,682	$ 79,907,167	$ 80,870,791	$ 116,850,843
13,684,128	16,687,583	18,439,765	23,931,063	28,053,434	30,961,697	32,383,660	23,575,058
-	-	-	12,147,234	55,327,238	53,419,823	52,642,108	32,671,996
(8,440,013)	(11,722,238)	(9,879,375)	(14,731,384)	(11,276,475)	(12,349,650)	(12,948,900)	(25,017,450)
68,736,881	78,518,079	73,453,485	84,092,498	149,111,879	151,939,037	152,947,659	148,080,447
36,432,824	47,239,315	40,636,680	56,170,198	84,342,174	84,716,715	90,900,493	106,786,918
(8,440,013)	(11,722,238)	(9,879,375)	(14,731,384)	(11,276,475)	(12,349,650)	(12,948,900)	(25,017,450)
19,006,352	17,723,098	19,692,799	19,685,242	18,688,631	18,539,457	17,100,449	16,149,664
3,477,413	3,114,342	2,992,915	2,632,326	2,568,647	2,502,765	2,426,174	2,369,993
7,765,311	8,179,299	8,540,020	8,800,562	8,158,263	9,388,222	9,706,227	11,750,949
5,097,630	3,528,569	4,507,412	6,012,761	4,209,271	4,587,351	4,520,043	3,493,723
63,339,517	68,062,385	66,490,451	78,569,705	106,690,511	107,384,860	111,704,486	115,533,797
-	-	-	100,979,389	-	-	-	-
5,397,364	10,455,694	6,963,034	106,502,182	42,421,368	44,554,177	41,243,173	32,546,650
(1,400,922)	(1,512,404)	(2,467,548)	(17,357,799)	(38,777,026)	(40,608,838)	(42,894,664)	(44,166,350)
77,603	15,716	133,815	9,844,529	547,223	2,107,160	2,470,745	2,881,732
(1,734,206)	(1,283,687)	(1,534,727)	(1,465,706)	(942,768)	(554,064)	(373,702)	(166,053)
(3,057,525)	(2,780,375)	(3,868,460)	(8,978,976)	(39,172,571)	(39,055,742)	(40,797,621)	(41,450,671)
628,656	628,656	21,100,000	-	-	-	-	(165)
-	13,322	683,059	(86,708,934)	12,415,410	13,448,186	14,637,100	17,483,778
$ 2,968,495	$ 8,317,297	$ 24,877,633	$ 10,814,272	$ 15,664,207	$ 18,946,621	$ 15,082,652	$ 8,579,592
$ 4,836,856	$ 5,268,220	$ 4,030,032	$ 6,333,025	$ 6,226,379	$ 8,399,734	$ 7,489,739	$ 3,002,490
775	839	749	641	858	982	1,014	1,288
1,117	1,134	1,061	993	1,172	1,243	846	568
6,507	6,948	6,704	6,416	6,518	6,353	6,478	6,404
3	3	3	6	7	8	8	9
74	59	63	59	42	74	67	53
1,577	1,318	1,598	2,357	3,026	2,472	1,738	1,956
10,053	10,301	10,178	10,472	11,623	11,132	10,151	10,278
2,521	2,671	2,261	2,087	1,874	1,810	1,002	501
12,574	12,972	12,439	12,559	13,497	12,942	11,153	10,779
$ 12,329,568	$ 12,994,834	$ 11,254,320	$ 9,872,602	$ 12,386,299	$ 13,748,276	$ 16,668,850	$ 23,728,731
14,758,223	14,709,256	13,880,077	13,096,628	14,563,101	15,102,501	11,513,467	9,491,482
28,741,419	37,479,800	31,810,449	26,678,880	35,050,334	36,452,626	41,225,797	64,250,911
34,311	43,994	49,881	90,581	102,860	119,321	139,477	171,046
985,469	737,619	702,318	731,433	540,620	923,620	1,196,745	818,593
6,643,776	7,587,231	7,196,050	12,275,461	14,364,468	13,560,823	10,126,456	18,390,080
$ 63,492,766	$ 73,552,734	$ 64,893,095	$ 62,745,585	$ 77,007,682	$ 79,907,167	$ 80,870,792	$ 116,850,843
28,868	29,316	29,379	29,591	29,869	29,917	30,017	30,187
$ 6.71	$ 7.34	$ 6.72	$ 6.22	$ 7.29	$ 7.66	$ 8.41	$ 11.83

Gas utility plant (Unaudited)

For the Year Ended September 30, 2021	September 30, 2020	Additions	Retirements/ Other	September 30, 2021
TRANSMISSION PLANT				
Mains	$ 18,004,875	$ (213,508)	$ -	$ 17,791,367
The Waters - section A	4,201,486	-	-	4,201,486
The Waters - section B	5,783,406	-	-	5,783,406
Intake & border stations	4,621,428	123,802	-	4,745,230
Lateral AEC & SEAGD	8,315,445	-	-	8,315,445
20” pipeline - SEAGD portion	4,362,783	-	-	4,362,783
20” pipeline - AEC portion	5,546	-	-	5,546
Other	1,069,512	37,956	-	1,107,468
Total	46,364,481	(51,750)	-	46,312,731
DISTRIBUTION PLANT				
Expansion - Ashford & Cottonwood	2,778,073	-	-	2,778,073
Snowden project	1,012,027	-	-	1,012,027
The Waters - section C	332,679	-	-	332,679
Fort Rucker	610,244	-	-	610,244
Opelika	6,305,657	-	-	6,305,657
Brannon Stand	586,953	-	-	586,953
Mains	41,029,523	1,737,672	(44,657)	42,722,538
Services	19,690,627	1,020,619	(648,673)	20,062,573
Meters & installations	10,271,622	694,415	(265,708)	10,700,329
Regulators & installation	2,813,567	77,666	-	2,891,233
Measuring & regulating	1,342,354	318,478	(2,228)	1,658,604
Structures	210,024	-	-	210,024
Land	14,523	-	-	14,523
Other	3,751,061	109,144	-	3,860,205
Total	90,748,934	3,957,994	(961,266)	93,745,662
PRODUCTION PLANT	12,529	-	-	12,529
DISTRIBUTION PLANT				
Structures	9,832,387	217,278	(24,213)	10,025,452
Office furniture & equipment	2,400,921	344,886	(208,205)	2,537,602
Transportation equipment	7,147,400	404,694	(401,024)	7,151,070
Tools	1,118,014	26,981	-	1,144,995
Communication equipment	779,630	7,500	-	787,130
Stores & laboratory equipment	555,390	128,404	-	683,794
Land	1,039,284	9,800	(391)	1,048,693
Computer software	3,925,506	115,726	-	4,041,232
Total	26,798,532	1,255,269	(633,833)	27,419,968
ORGANIZATION, FRANCHISE CONSENTS, AND INTANGIBLE PLANT	80,868	-		80,868
Total Gas Utility Plant	$ 164,005,344	$ 5,161,513	$ (1,595,099)	$ 167,571,758

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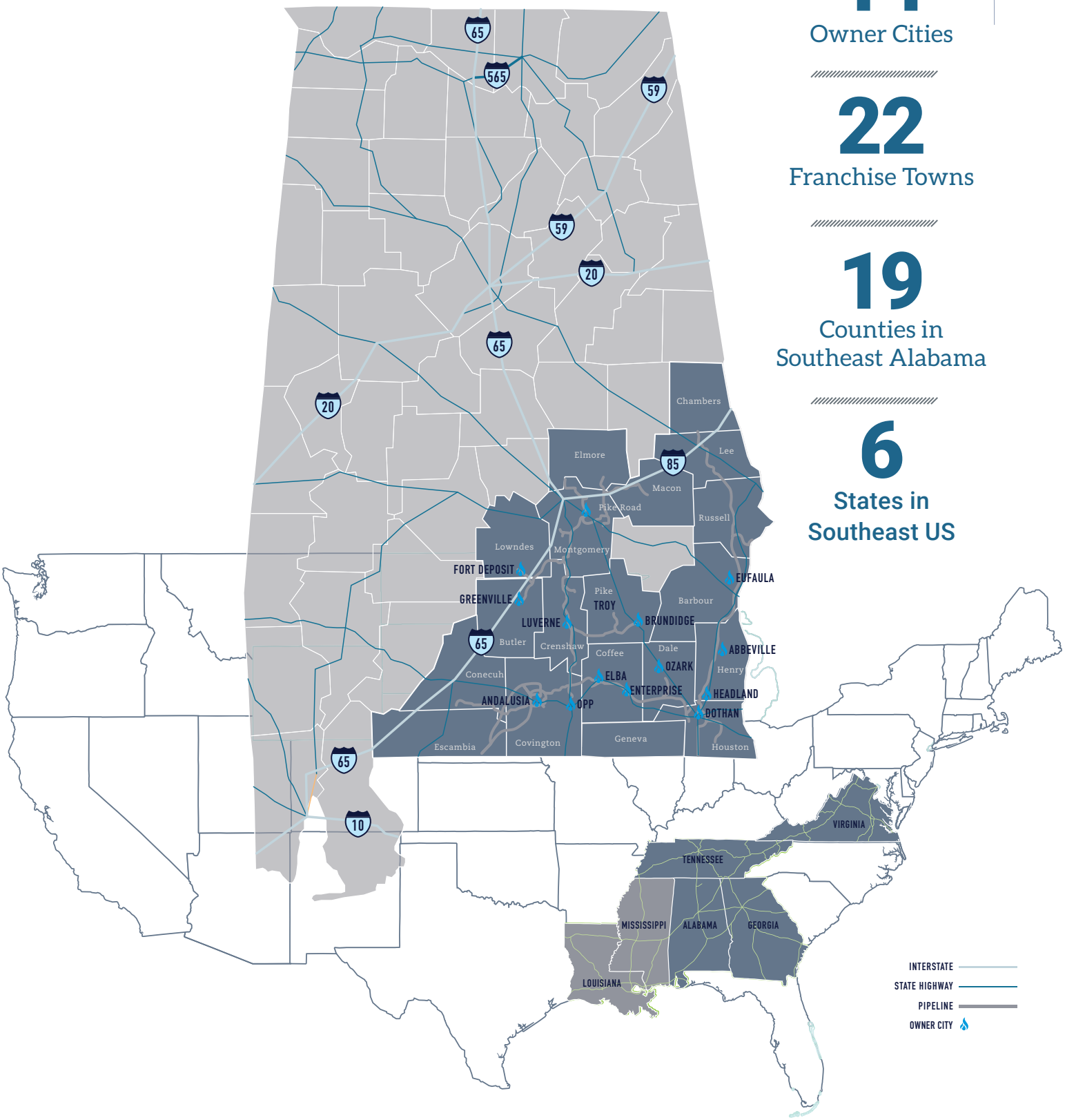
14
Owner Cities

22
Franchise Towns

19
Counties in Southeast Alabama

6
States in Southeast US



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