

THE SEMPRA ENERGY FOUNDATION

Independent Auditor's Report and Financial Statements
For the Year Ended December 31, 2009

**THE SEMPRA ENERGY FOUNDATION
FOR THE YEAR ENDED DECEMBER 31, 2009**

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Board of Directors
The Sempra Energy Foundation
San Diego, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statement of financial position of the Sempra Energy Foundation (the "Foundation"), a California nonprofit organization, as of December 31, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Macias Gini & O'Connell LLP

Certified Public Accountants
Sacramento, California

April 2, 2010

THE SEMPRA ENERGY FOUNDATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2009
(IN THOUSANDS)

ASSETS

Cash	\$ 15,780
Total assets	<u>\$ 15,780</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable	\$ 537
Accrued federal excise tax	1
Total liabilities	<u>538</u>
Net Assets	
Unrestricted	15,242
Total liabilities and net assets	<u>\$ 15,780</u>

See notes to financial statements.

THE SEMPRA ENERGY FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009
(IN THOUSANDS)

REVENUES AND OTHER SUPPORT:

Contributions		
Sempra Energy - donated services	\$	236
Interest income		54
Total revenues and other support		<u>290</u>

EXPENSES:

Program expenses		
Payments to charitable organizations		4,400
Matching employee gifts		876
Volunteer incentive programs		222
Administrative costs		227
Total expenses		<u>5,725</u>
Change in net assets		<u>(5,435)</u>
Net Assets at beginning of year		20,677
Net Assets at end of year	\$	<u><u>15,242</u></u>

See notes to financial statements.

**THE SEMPRA ENERGY FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009
(IN THOUSANDS)**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (5,435)
Adjustments to reconcile change in net assets to net cash used for operating activities:	
Increase in accounts payable	442
Decrease in accrued federal excise tax	(8)
Net cash used for operating activities	<u>(5,001)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,001)
CASH AND CASH EQUIVALENTS - Beginning of year	20,781
CASH AND CASH EQUIVALENTS - End of year	<u><u>\$ 15,780</u></u>

See notes to financial statements.

**THE SEMPRA ENERGY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of the Organization

The Sempra Energy Foundation (the "Foundation") was established in October 2007. It is a nonprofit public benefit corporation organized under California Nonprofit Public Benefit Corporation Law and is based in San Diego, California, USA. The Foundation was founded by Sempra Energy, a Fortune 250 energy services company that serves the largest customer base of any energy utility in the United States. The purpose of the Foundation is to provide support for measurable community-based change in energy technology and environmental awareness by creating innovative partnerships in local communities. The Foundation provides grant funding to charitable organizations that promote creative ideas and innovative approaches that can result in high-impact change in the sustainability and the advancement of new environmental and energy technologies, and infrastructure development and improvement.

Basis of Accounting

The financial statements of the Foundation are prepared on the accrual basis of accounting and in conformity with accounting principles generally accepted in the United States of America specific to nonprofit organizations. Accordingly, the Foundation's activities and related assets and liabilities are classified as unrestricted, temporarily restricted and permanently restricted according to the terms of the various contributions, grants and bequests and the donors' wishes or intentions.

Financial Statement Presentation

The Foundation accounts for contributions in accordance with Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 958-605 (Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made.*) Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted depending on the existence and/or nature of any donor restrictions.

The Foundation presents its financial statements in accordance with ASC Topic 958 Subtopics 205, 210, 225 and 230 (SFAS No. 117, *Financial Statements of Not-for-Profit Organizations.*) Under these standards, an organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**THE SEMPRA ENERGY FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2009**

**1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

A summary of these classifications and the related restrictions, where applicable, is as follows:

- Unrestricted Net Assets - Unrestricted net assets represent expendable funds available for operations that are not otherwise limited by donor restrictions.
- Temporarily Restricted Net Assets - These amounts consist of funds available that are expendable only for purposes specified by the donor or within a specified period of time. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. As of December 31, 2009, there were no temporarily restricted funds.
- Permanently Restricted Net Assets - Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations. As of December 31, 2009, the Foundation had no permanently restricted funds.

Cash and Cash Equivalents

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

Contributions

Contributions without donor-imposed restrictions are reported as unrestricted contributions in the period received. Donations and contracts with donor-imposed restrictions are reported as temporarily restricted support in the period received; however, support with donor-imposed restrictions whose restrictions are met in the same year are reported as unrestricted revenues.

Donated Services

Amounts for donated services are reflected in the financial statements and represent administration services provided by Sempra Energy Corporation. During the year ended December 31, 2009, the Foundation received \$235,598 in donated services, which includes the 2008 accrued excise tax paid by Sempra Energy Corporation on behalf of the Foundation.

Income Tax Status

The Foundation, a California not-for-profit corporation, is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as a private foundation as defined under Section 509(a) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code.

**THE SEMPRA ENERGY FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2009**

2. CASH AND CASH EQUIVALENTS

As of December 31, 2009, cash and cash equivalents were comprised of deposits and money market funds with a book balance of \$15,780,269 and a balance per financial institution of \$16,097,059, of which \$15,847,059 was uninsured by the Federal Deposit Insurance Corporation (FDIC).

3. FEDERAL TAXES

Under Section 4940 of the Internal Revenue Code, a federal excise tax of 2% is normally imposed on a private foundation's net investment income (principally interest, dividends and net realized gains, less expenses incurred in the production of investment income). This tax is reduced to 1% when a foundation meets certain distribution requirements. As of December 31, 2008, the Foundation has implemented ASC Topic 740-10-25 (Financial Accounting Standards Board Interpretation No. 48 *Accounting for Uncertainty in Income Taxes*), and has determined there is no impact on the financial statements.

4. EXPENSES BY FUNCTIONAL CLASSIFICATION

The expenses of providing the Foundation's programs have been summarized in the statement of activities. Program expenses include the payments to charitable organizations, and funds distributed for Sempra's matching employee gifts and volunteer incentive programs. Administration expense represents donated services and expenses paid by the Sempra Energy Corporation that allows the Foundation to carry out its daily operations and the cost of the Foundation's federal excise tax.

5. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2009, the Foundation received donated services in the amount of \$235,598 from Sempra Energy Corporation (the "Corporation") for general administrative expenses and there were no amounts payable to the Corporation at year end. For the year ended December 31, 2009, the Corporation made no donations to the Foundation.

6. SUBSEQUENT EVENTS

Management has evaluated all subsequent events from December 31, 2009 through March 31, 2010 (the issuance date) and has noted no events that would have a significant impact on the financial statements.