

**SEMPRA ENERGY FOUNDATION**

Independent Auditor's Report and Financial Statements  
Years Ended December 31, 2010 and 2009

**SEMPRA ENERGY FOUNDATION**  
Years Ended December 31, 2010 and 2009

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Sempra Energy Foundation  
San Diego, California

We have audited the accompanying statements of financial position of Sempra Energy Foundation (the "Foundation"), a California nonprofit organization, as of December 31, 2010 and 2009, and the related statements of activities and cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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 Sempra Energy Foundation as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Macias Gini & Cunnell LLP*  
San Diego, California  
August 3, 2011

**SEMPRA ENERGY FOUNDATION**

## Statements of Financial Position

December 31, 2010 and 2009

(In Thousands)

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
<b>ASSETS</b>		
Cash and equivalents	\$ 8,793	\$ 15,780
Total assets	<u>\$ 8,793</u>	<u>\$ 15,780</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ -	\$ 537
Accrued federal excise tax	<u>1</u>	<u>1</u>
Total liabilities	1	538
<b>NET ASSETS - UNRESTRICTED</b>	<u>8,792</u>	<u>15,242</u>
Total liabilities and net assets	<u>\$ 8,793</u>	<u>\$ 15,780</u>

See notes to financial statements.

**SEMPRA ENERGY FOUNDATION**  
 Statements of Activities  
 Years Ended December 31, 2010 and 2009  
 (In Thousands)

	<b>2010</b>	<b>2009</b>
<b>REVENUES AND OTHER SUPPORT</b>		
Contributions		
Sempra Energy - donated services	\$ 113	\$ 236
Other income	41	54
	154	290
<b>EXPENSES</b>		
Program expenses		
Payments to charitable organizations	5,619	4,400
Matching employee gifts	648	876
Volunteer incentive programs	224	222
Administrative costs	113	227
	6,604	5,725
Total expenses		
Change in net assets	(6,450)	(5,435)
<b>NET ASSETS - unrestricted</b>		
Beginning of year	15,242	20,677
End of year	\$ 8,792	\$ 15,242

See notes to financial statements.

**SEMPRA ENERGY FOUNDATION**  
 Statements of Cash Flows  
 Years Ended December 31, 2010 and 2009  
 (In Thousands)

	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (6,450)	\$ (5,435)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Changes in operating assets and liabilities		
Accounts payable	(537)	442
Accrued federal excise tax	-	(8)
	(6,987)	(5,001)
Net cash used by operating activities	(6,987)	(5,001)
<b>NET DECREASE IN CASH AND EQUIVALENTS</b>	(6,987)	(5,001)
<b>CASH AND EQUIVALENTS</b>		
Beginning of year	15,780	20,781
End of year	\$ 8,793	\$ 15,780

See notes to financial statements.

**SEMPRA ENERGY FOUNDATION**  
Notes to Financial Statements

**1. ORGANIZATION**

Sempra Energy Foundation (the “Foundation”) was established in October 2007. The Foundation is a nonprofit public benefit corporation organized under California Public Benefit Corporation Law and is based in San Diego, California, USA. The Foundation was founded by Sempra Energy, a Fortune 500 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 through community-based grantmaking to advance causes, encourage collaboration and support the personal engagement and involvement of employees of the Sempra Energy family of companies. The Foundation provides funding to public charities that benefit communities, especially at a grassroots level, in the areas of environment, education and disaster response and safety. On occasion, and as a response to regional needs assessments, grants are made through community-based initiatives that target a particular focus area and/or geographic region.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of accounting and presentation** – 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.

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 Organization*). 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.

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 – Temporarily restricted net assets 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, 2010 and 2009, there were no temporarily restricted net assets.
- 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, 2010 and 2009, the Foundation had no permanently restricted net assets.

**SEMPRA ENERGY FOUNDATION**  
Notes to Financial Statements (Continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Use of estimates** – The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts and disclosures in the financial statements. Accordingly, actual results could differ from such estimates.

**Cash and equivalents** – 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 years ended December 31, 2010 and 2009, the Foundation received donated services of \$112,978 and \$235,598, respectively.

**Income tax status** – The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code and is classified as a private foundation as defined under Section 509(a) of the Internal Revenue Code.

**3. CASH AND EQUIVALENTS**

As of December 31, 2010 and 2009, cash and equivalents were comprised of deposits and money market funds with a book balance of \$8,792,686 and \$15,780,269, respectively, and a balance per financial institution of \$10,164,834 and \$16,097,059, respectively, of which \$9,914,834 and \$15,847,059, respectively, was uninsured by the Federal Deposit Insurance Corporation (FDIC).

**4. 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.

**5. EXPENSES BY FUNCTIONAL CLASSIFICATION**

The expenses of providing the Foundation's programs have been summarized in the statements of activities. Program expenses include the payments to charitable organizations, and funds distributed for the Foundation'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.

**SEMPRA ENERGY FOUNDATION**  
Notes to Financial Statements (Continued)

**6. RELATED PARTY TRANSACTIONS**

During the years ended December 31, 2010 and 2009, the Foundation received donated services in the amount of \$112,978 and \$235,598 respectively, from Sempra Energy Corporation (the "Corporation") for general administrative expenses.

**7. SUBSEQUENT EVENTS**

The Foundation's management has reviewed the results of activities for the period of time from its year ended December 31, 2010 through August 3, 2011, the date these financial statements were available to be issued and has determined that no adjustments are necessary to the amounts reported in the accompanied financial statements nor have any subsequent events occurred, the nature of which would require disclosure.