

# Dr. Seuss Foundation and Subsidiary

Consolidated Financial Statements

Years Ended December 31, 2020 and 2019



**DR. SEUSS FOUNDATION AND SUBSIDIARY**  
**Consolidated Financial Statements**  
Years Ended December 31, 2020 and 2019

---

**Table of Contents**

	<u>Page</u>
Independent Auditors' Report	1
Consolidated Financial Statements:	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Dr. Seuss Foundation and Subsidiary

We have audited the accompanying consolidated financial statements of Dr. Seuss Foundation (a nonprofit organization) and Subsidiary (collectively, the Organization), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated statements of activities, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

### **Basis for Qualified Opinion**

As more fully described in Note 5 to the consolidated financial statements, the Organization reports its investment in Dr. Seuss Enterprises, L.P. using the equity method of accounting. In our opinion, accounting principles generally accepted in the United States of America require that a for-profit organization controlled by a nonprofit organization be accounted for as a consolidated subsidiary of the nonprofit organization.

## INDEPENDENT AUDITORS' REPORT, CONTINUED

### Qualified Opinion

In our opinion, except for the method of accounting for the Organization's investment in Dr. Seuss Enterprises, L.P. as discussed in the "Basis for Qualified Opinion" paragraph above, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dr. Seuss Foundation and Subsidiary as of December 31, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Aldrich CPAs + Advisors LLP*

San Diego, California  
January 14, 2022

**DR. SEUSS FOUNDATION AND SUBSIDIARY**  
**Consolidated Statements of Financial Position**  
December 31, 2020 and 2019

---

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 3,690,494	\$ 183,989
Investments, at fair value	44,984,836	40,684,125
Other assets	<u>8,404</u>	<u>-</u>
Total Current Assets	48,683,734	40,868,114
Investment in Dr. Seuss Enterprises, L.P.	<u>1,773,929</u>	<u>-</u>
Total Assets	\$ <u><u>50,457,663</u></u>	\$ <u><u>40,868,114</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 71,859	\$ -
Net Assets without Donor Restrictions	<u>50,385,804</u>	<u>40,868,114</u>
Total Liabilities and Net Assets	\$ <u><u>50,457,663</u></u>	\$ <u><u>40,868,114</u></u>

**DR. SEUSS FOUNDATION AND SUBSIDIARY****Consolidated Statements of Activities**

Years Ended December 31, 2020 and 2019

	2020	2019
Support and Other Income without Donor Restrictions:		
Contribution income	\$ 4,709,991	\$ 37,000,000
Investment income	3,465,567	870,383
Contribution of interest in Dr. Seuss Enterprises, L.P.	1,573,753	-
Equity in earnings of Dr. Seuss Enterprises, L.P.	200,176	-
Total Support and Other Income without Donor Restrictions	9,949,487	37,870,383
Expenses:		
Program services:		
Grants	105,500	975,800
Supporting services - general and administrative:		
Professional fees	201,393	86,881
Salaries and payroll taxes	95,503	-
Office supplies	15,041	1,776
Taxes	12,142	85
Insurance	2,218	2,218
Total Expenses	431,797	1,066,760
Change in Net Assets without Donor Restrictions	9,517,690	36,803,623
Net Assets without Donor Restrictions, beginning	40,868,114	4,064,491
Net Assets without Donor Restrictions, ending	\$ 50,385,804	\$ 40,868,114

**DR. SEUSS FOUNDATION AND SUBSIDIARY****Consolidated Statements of Cash Flows**

Years Ended December 31, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities:		
Change in net assets without donor restrictions	\$ 9,517,690	\$ 36,803,623
Adjustments to reconcile change in net assets without donor restrictions to net cash provided by operating activities:		
Contribution of interest in Dr. Seuss Enterprises, L.P.	(1,573,753)	-
Net realized and unrealized gains on investments	(4,050,780)	(593,345)
Equity in earnings of Dr. Seuss Enterprises, L.P.	(200,176)	-
Changes in operating assets and liabilities:		
Other assets	(8,404)	-
Accounts payable and accrued expenses	71,859	-
Net Cash Provided by Operating Activities	3,756,436	36,210,278
Cash Flows from Investing Activities:		
Purchases of investments	(44,860,387)	(37,288,283)
Proceeds on sales of investments	44,610,456	961,245
Net Cash Used by Investing Activities	(249,931)	(36,327,038)
Net Change in Cash	3,506,505	(116,760)
Cash, beginning	183,989	300,749
Cash, ending	\$ 3,690,494	\$ 183,989

## **DR. SEUSS FOUNDATION AND SUBSIDIARY**

### **Notes to Consolidated Financial Statements**

Years Ended December 31, 2020 and 2019

---

#### **Note 1 – Organization and Summary of Significant Accounting Policies**

##### Nature of Activities

Dr. Seuss Foundation (Foundation) is a tax-exempt foundation that serves as a catalyst for improved literacy, broadly conceived, through strategic partnerships and investments. The Dr. Seuss Foundation is based out of San Diego, California, and focuses on improved literacy that introduces new skills and knowledge in the multi-layered worlds of the arts and humanities, health and well-being, animal welfare, and the environment.

Geisel-Seuss Enterprises, Inc. (GSE), a for-profit entity, is an S corporation that exists to serve as the general partner in a limited partnership. In January 2020, the Foundation was gifted 100% interest in GSE and serves as its sole shareholder.

##### Principles of Consolidation

The consolidated financial statements include the accounts of the Foundation and GSE (collectively, the Organization). All significantly intercompany transactions and balances have been eliminated.

##### Net Assets

The consolidated financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles (US GAAP), which require the Organization to report information regarding its financial position and activities according to the following net asset classification:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the Board of Directors.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has passed, when the stipulated purpose for which the resource has been fulfilled, or both.

The Foundation did not have any donor restrictions that were temporary or perpetual in nature for the years ended December 31, 2020 and 2019.

##### Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

##### Investments

The Organization carries investments in marketable securities with readily determinable fair values and investments in debt securities at fair values in the consolidated statements of financial position. Investments acquired by gift are recorded at their fair market value at the date of the gift. Alternative investments, for which quoted market prices are not readily available, are valued at fair value by the investment manager based on factors deemed relevant by the manager including, but not limited to, market conditions, purchase price, estimated liquidation value, restrictions on transfer and meaningful third party transactions in the private market. Because of the inherent uncertainty of valuations, the estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed or had such investments been liquidated, and those differences could be material. Realized and unrealized gains and losses are included in the changes in net assets in the consolidated statements of activities.



**DR. SEUSS FOUNDATION AND SUBSIDIARY**  
**Notes to Consolidated Financial Statements**  
Years Ended December 31, 2020 and 2019

---

**Note 1 – Organization and Summary of Significant Accounting Policies, continued**

Income Taxes

Dr. Seuss Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC) and from California franchise and income tax under section 23701(d) of the Revenue and Taxation code. However, the Foundation remains subject to taxes on any net income which is derived from a trade or business regularly carried on and unrelated to its exempt purpose. The Foundation is also subject to federal excise tax on net investment income, including realized gains, as defined by the IRC. The Foundation follows accounting standards generally accepted in the United States of America related to the recognition of uncertain tax positions.

The Foundation recognizes accrued interest and penalties associated with uncertain tax positions as part of the statement of activities, when applicable. Management has determined that the Foundation has no uncertain tax positions at December 31, 2020 and 2019 and therefore no amounts have been accrued.

GSE has elected to be taxed under the provision of subchapter S of the Internal Revenue Code. Under those provisions, GSE does not pay federal corporation income taxes on its taxable income. Instead the shareholders are liable for federal and state income tax based on GSE's income. In addition, income of GSE is subject to California franchise tax.

Revenue Recognition

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Functional Expense Allocations

The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The Organization allocates expenses based on the direct allocation method.

Fair Value Measurements

Fair value measurement techniques maximize the use of observable inputs and minimize the use of unobservable inputs, and are categorized in a fair value hierarchy based on the transparency of inputs. The three levels are defined as follows:

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The carrying value of cash and time deposits approximates fair value as of December 31, 2020 and 2019, due to the relative short maturities of these instruments.

*Mutual Funds:* Valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. Mutual funds held by the Organization are deemed to be actively traded.

**DR. SEUSS FOUNDATION AND SUBSIDIARY**  
**Notes to Consolidated Financial Statements**  
Years Ended December 31, 2020 and 2019

---

**Note 1 – Organization and Summary of Significant Accounting Policies, continued**

Subsequent Events

The Foundation has evaluated subsequent events through January 14, 2022, which is the date the consolidated financial statements were available to be issued.

**Note 2 – Concentration of Credit Risk**

The Organization maintains cash accounts at one financial institution. The balance at times may exceed Federal Deposit Insurance Corporation (FDIC) limits. Accounts at the financial institution are insured by the FDIC up to \$250,000.

**Note 3 – Liquidity and Availability of Assets**

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. In addition, the Foundation invests cash in excess of its operating reserve and assets needed to fund grant commitments in short-term investments. As of December 31, 2020, the Foundation has \$48,683,734 in financial assets available for general use (\$40,868,144 as of December 31, 2019).

**Note 4 – Investments**

The fair market value of investments is categorized as follows at December 31, 2020 and 2019:

Assets at Fair Value at December 31, 2020				
Description	Level 1	Level 2	Level 3	Total
Cash	300,052	-	-	300,052
Time Deposit	11,000,000	-	-	11,000,000
Mututal Funds:				
Fixed Income	11,079,588	-	-	11,079,588
Large Growth	9,792,569	-	-	9,792,569
Mid Growth	718,747	-	-	718,747
Large Core	1,336,549	-	-	1,336,549
Small Core	24,500	-	-	24,500
Mid Core	498,807	-	-	498,807
Small Growth	214,369	-	-	214,369
Large Blend	1,506,265	-	-	1,506,265
Other	8,513,390	-	-	8,513,390
	<u>\$ 44,984,836</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,984,836</u>

Assets at Fair Value at December 31, 2019				
Description	Level 1	Level 2	Level 3	Total
Cash	\$ 18,534	\$ -	\$ -	\$ 18,534
Mutual Funds - Diversified Strategies	3,571,277	-	-	3,571,277
Mututal Funds - Fixed Income	37,094,314	-	-	37,094,314
	<u>\$ 40,684,125</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,684,125</u>

**DR. SEUSS FOUNDATION AND SUBSIDIARY**  
**Notes to Consolidated Financial Statements**  
Years Ended December 31, 2020 and 2019

---

**Note 5 – Investment in Dr. Seuss Enterprises, L.P.**

In January 2020, the Foundation received a distribution from a Trust, whereby the Foundation became the sole shareholder of GSE. In addition, the Foundation received a 4.40% interest in Dr. Seuss Enterprises, L.P. (DSE). GSE serves as the general partner of DSE, for the sole purpose of management and oversight of the limited partnership. GSE holds a 1.00% interest in DSE. According to ASU 958-810, general partners in a limited partnership are presumed to control that limited partnership regardless of the extent of the general partners' ownership interest in the limited partnership, which would result in the consolidation of the DSE financial statements, despite only a 5.40% ownership interest.

Management of the Foundation has elected to account for DSE under the equity method of accounting to represent its investment in DSE, representing its noncontrolling interest.

The following is a summary of DSE financial statements for 2020:

Balance Sheet:

Current assets	\$ 37,492,487
Other assets	4,361,497
Total assets	<u>\$ 41,853,984</u>

Current liabilities	\$ 5,715,863
Other liabilities	2,341,124
Total liabilities	<u>8,056,987</u>

Equity:

Dr. Seuss Foundation and Subsidiary equity	1,773,929
Other partners' equity	32,023,068
Total equity	<u>33,796,997</u>
Total liabilities and equity	<u>\$ 41,853,984</u>

Statement of Activities:

Royalties and investment income	\$ 26,043,408
Operating expenses	6,694,866
Change in net assets	<u>\$ 19,348,542</u>

Dr. Seuss Foundation and Subsidiary equity in earnings	<u>\$ 200,176</u>
--	-------------------

**Note 6 – Federal Excise Tax**

The Foundation is subject to federal excise tax imposed on private foundations at 1.39% if certain conditions are met. The excise tax is imposed on net investment income, as defined under federal law, which includes realized gains on the sale of investments. Federal excise tax expenses consist of the current provision on realized net investment income.

Federal excise tax expense for the year ended December 31, 2020 was \$1,674 and the Foundation had contribution carryover for the year ended December 31, 2020 of \$6,260,830. There was no federal excise tax expense for the year ended December 31, 2019.

**Note 7 – Contingencies**

COVID-19

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders, including California, where the Organization is headquartered. In response, the U.S. Government enacted the CARES Act, which includes significant provisions to provide relief and assistance to affected organizations. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of business closures, shelter-in-place orders, and the ultimate impact of the CARES Act and other governmental initiatives. It is at least reasonably possible that this matter will negatively impact the Organization. However, the financial impact and duration cannot be reasonably estimated at this time.