



DR. SEUSS FOUNDATION AND SUBSIDIARY
INDEPENDENT AUDITORS' REPORT
AND CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021



DR. SEUSS FOUNDATION AND SUBSIDIARY
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Dr. Seuss Foundation

Qualified Opinion

We have audited the accompanying consolidated financial statements of the Dr. Seuss Foundation (a nonprofit organization) and Subsidiary (collectively, the "Foundation"), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities and changes in net assets, the related consolidated statements of cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, except for the different method of accounting for the Foundation's investment in Dr. Seuss Enterprises, L.P. as discussed in the Basis for Qualified Opinion section of our report, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Dr. Seuss Foundation and Subsidiary as of December 31, 2022 and 2021, and the results of their activities and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

As more fully described in Note 5 to the consolidated financial statements, the Foundation reports its investment in Dr. Seuss Enterprises, L.P. on the equity method of accounting. In our opinion, accounting principles generally accepted in the United States of America require that profit organizations with a not-for-profit general partner which controls the for-profit organization be accounted for as a consolidated subsidiary. The effects on the consolidated financial statements of the departure from the accounting principles would have increased assets and liabilities by approximately \$83.8 million and \$7.4 million at December 31, 2022, and \$59.9 million and \$8.2 million at December 31, 2021, respectively.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

In performing an audit in accordance with generally accepted auditing standards, we:

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

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

San Diego, California
November 13, 2023

PKF San Diego, LLP

PKF San Diego, LLP

DR. SEUSS FOUNDATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2022 and 2021

<u>ASSETS</u>		
	2022	2021
Current assets:		
Cash	\$ 3,900,298	\$ 4,078,079
Investments at fair value	39,590,679	50,381,107
Other assets	22,500	662
Total current assets	43,513,477	54,459,848
Investment in Dr. Seuss Enterprises, L.P.	4,252,804	2,833,768
Total assets	\$ 47,766,281	\$ 57,293,616
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 86,844	\$ 80,802
Grants payable	2,070,506	-
Total current liabilities	2,157,350	80,802
Net assets without donor restrictions	45,608,931	\$ 57,212,814
Total liabilities and net assets	\$ 47,766,281	\$ 57,293,616

See the Independent Auditors' Report and accompanying notes to consolidated financial statements

DR. SEUSS FOUNDATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Support and other income (loss) without donor restrictions:		
Contribution income	\$ 15,000	\$ -
Investment income (loss)	(10,794,245)	5,644,367
Equity in earnings of Dr. Seuss Enterprises, L.P.	<u>2,214,780</u>	<u>1,920,913</u>
Total support and other income (loss) without donor restrictions	(8,564,465)	7,565,280
Expenses:		
Program services:		
Grants	2,070,506	-
Supporting services - general and administrative:		
Professional fees	459,367	288,670
Salaries and payroll taxes	364,658	225,419
Office supplies	26,140	47,799
Taxes	113,689	164,920
Insurance	<u>5,058</u>	<u>11,462</u>
Total expenses	<u>3,039,418</u>	<u>738,270</u>
Change in net assets without donor restrictions	(11,603,883)	6,827,010
Net assets without donor restrictions, beginning	<u>57,212,814</u>	<u>50,385,804</u>
Net assets without donor restrictions, ending	<u>\$ 45,608,931</u>	<u>\$ 57,212,814</u>

See the Independent Auditors' Report and accompanying notes to consolidated financial statements

DR. SEUSS FOUNDATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets without donor restrictions	\$ (11,603,883)	\$ 6,827,010
Adjustments to reconcile change in net assets without donor restrictions to net cash used in operating activities:		
Net losses (gains) on investments	10,708,511	(5,307,677)
Equity in earnings of Dr. Seuss Enterprises, L.P.	(2,214,780)	(1,920,913)
Changes in operating assets and liabilities:		
Other assets	(21,838)	7,742
Grants payable	2,070,506	-
Accounts payable	6,042	8,943
	(1,055,442)	(384,895)
Net cash used in operating activities	(1,055,442)	(384,895)
Cash flows from investing activities:		
Return of investment in Dr. Seuss Enterprises, L.P.	795,744	861,074
Purchases of investments	(6,409,256)	(12,310,212)
Proceeds on sales of investments	6,491,173	11,961,432
	877,661	512,294
Net cash provided by investing activities	877,661	512,294
Net (decrease) increase in cash	(177,781)	127,399
Cash, beginning of year	4,078,079	3,950,680
Cash, end of year	\$ 3,900,298	\$ 4,078,079
Supplemental disclosures of cash flow activities:		
Interest paid	\$ -	\$ -
Taxes paid	\$ 113,639	\$ 164,770

See the Independent Auditors' Report and accompanying notes to consolidated financial statements

DR. SEUSS FOUNDATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Organization and Summary of Significant Accounting Policies

Nature of Activities

Dr. Seuss 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 in 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 Dr. Seuss 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 Dr. Seuss Foundation and GSE (collectively, the “Foundation”). All significantly intercompany transactions and balances have been eliminated in consolidation.

Net Assets

The financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”), which require the Foundation to report information regarding their financial position and activities according to the following net asset classifications:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and maybe expended for any purpose in performing the primary objectives of the Foundation. These net assets maybe used at the discretion of the Foundation’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, 2022 and 2021.

Use of Estimates

The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications

Cash and investments have been reclassified to conform to current year presentation.

DR. SEUSS FOUNDATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Investments

The Foundation carries investments in marketable securities with readily determinable fair values and investments in debt securities at fair value 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 investment income (loss) in the consolidated statements of activities and changes in net assets.

Equity Method Investments

The Foundation accounts for investments in the equity securities of other companies where it exercises significant influence but does not have control over the investee under the equity method (See Note 5). The investment balance is adjusted for the Foundation's share of net income or loss, increased for contributions paid and decreased for distributions received.

Income Taxes

Dr. Seuss Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code 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.

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.

The Foundation follows US GAAP related to the recognition of uncertain tax positions. The Foundation recognizes accrued interest and penalties associated with uncertain tax positions as part of the statements of activities and changes in net assets, when applicable. Management has determined that the Foundation has no uncertain tax positions at December 31, 2022 and 2021, and therefore, no amounts have been accrued. Management believes it is no longer subject to tax examinations for the years prior to 2019.

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 and changes in net assets as net assets released from restrictions.

DR. SEUSS FOUNDATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Functional Expense Allocations

The 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 Foundation 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 approximates fair value as of December 31, 2022 and 2021, due to the relative short maturities of these instruments. The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2022 and 2021.

Mutual Funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Foundation 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 Foundation are deemed to be actively traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement as of the reporting date.

Grants Payable

As of December 31, 2022 and 2021, grants payable totaled \$2.1 million and \$0, respectively. There were no grants commitments subject to conditions that are not included in grants payable and the grants payable are expected to be paid in 2023.

Subsequent Events

The Foundation has evaluated subsequent events through November 13, 2023, which is the date the financial statements were available to be issued.

DR. SEUSS FOUNDATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Concentration of Credit Risk

The Foundation maintains cash accounts at one financial institution, which, at times may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (“FDIC”) and the Securities Investor Protection Corporation (“SIPC”) up to \$250,000 and \$500,000, respectively, under current regulations. The Foundation has not experienced any losses in such accounts. The Foundation’s uninsured cash balance is \$896,965 as of December 31, 2022.

Note 3 – Liquidity and Availability of Assets

As part of the Foundation’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, 2022, the Foundation has approximately \$41,000,000 in financial assets available for general use.

Note 4 – Investments

The fair market value of investments is categorized as follows at December 31, 2022 and 2021:

Description	Assets at Fair Value at December 31, 2022			Total
	Level 1	Level 2	Level 3	
Stock and Equity	\$ 3,926,488	\$ -	\$ -	\$ 3,926,488
Mutual Funds - Diversified Strategies	35,664,191	-	-	35,664,191
	<u>\$ 39,590,679</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,590,679</u>

Description	Assets at Fair Value at December 31, 2021			Total
	Level 1	Level 2	Level 3	
Mutual Funds - Fixed Income	\$ 10,863,932	\$ -	\$ -	\$ 10,863,932
Mutual Funds - Diversified Strategies	39,517,175	-	-	39,517,175
	<u>\$ 50,381,107</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,381,107</u>

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 Accounting Standards Codification 958-810, *Not-for-Profit Entities - Consolidation*, 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% combined ownership interest.

DR. SEUSS FOUNDATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 – Investment in Dr. Seuss Enterprises, L.P. (continued)

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, which is a departure from US GAAP.

The following is a summary of DSE financial statements for 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Balance Sheets:		
Current assets	\$ 83,315,514	\$ 58,056,573
Other assets	4,695,656	4,650,415
Total assets	<u>\$ 88,011,170</u>	<u>\$ 62,706,988</u>
Current liabilities	\$ 4,550,153	\$ 5,419,032
Other liabilities	2,877,523	2,754,726
Total liabilities	<u>7,427,676</u>	<u>8,173,758</u>
Equity		
Dr. Seuss Foundation and Subsidiary equity	4,252,804	2,833,768
Other partners' equity	76,330,690	51,699,462
Total equity	<u>80,583,494</u>	<u>54,533,230</u>
Total liabilities and equity	<u>\$ 88,011,170</u>	<u>\$ 62,706,988</u>
Statements of Income:		
Royalties and investment income	\$ 54,512,058	\$ 48,544,320
Costs and operating expenses	14,461,794	13,808,087
Net income	<u>\$ 40,050,264</u>	<u>\$ 34,736,233</u>
Dr. Seuss Foundation and Subsidiary equity in earnings	<u>\$ 2,214,780</u>	<u>\$ 1,920,913</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, dividends, and interest income.

Federal excise tax expense for the years ended December 31, 2022 and 2021 was \$113,689 and \$164,920, respectively.