



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

DECEMBER 31, 2023 AND 2022



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, 2023 and 2022, 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, 2023 and 2022, 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 \$120.6 million and \$8.9 million at December 31, 2023, and \$83.8 million and \$7.4 million at December 31, 2022, 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 4, 2024

PKF San Diego, LLP

PKF San Diego, LLP

DR. SEUSS FOUNDATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2023 and 2022

| <u>ASSETS</u> | | |
|---|----------------------|----------------------|
| | 2023 | 2022 |
| Current assets: | | |
| Cash | \$ 3,256,824 | \$ 3,900,298 |
| Investments at fair value | 46,435,536 | 39,590,679 |
| Other assets | 104,729 | 22,500 |
| Total current assets | 49,797,089 | 43,513,477 |
| Investment in Dr. Seuss Enterprises, L.P. | 5,981,314 | 4,252,804 |
| Total assets | \$ 55,778,403 | \$ 47,766,281 |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Current liabilities: | | |
| Accounts payable | \$ 46,710 | \$ 86,844 |
| Grants payable | 2,161,638 | 2,070,506 |
| Total current liabilities | 2,208,348 | 2,157,350 |
| Net assets without donor restrictions | 53,570,055 | \$ 45,608,931 |
| Total liabilities and net assets | \$ 55,778,403 | \$ 47,766,281 |

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, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|---|-----------------------------|-----------------------------|
| Support and other income (loss) without donor restrictions: | | |
| Contribution income | \$ - | \$ 15,000 |
| Investment income (loss) | 8,122,013 | (10,794,245) |
| Equity in earnings of Dr. Seuss Enterprises, L.P. | <u>2,660,213</u> | <u>2,214,780</u> |
| Total support and other income (loss) without donor restrictions | 10,782,226 | (8,564,465) |
| Expenses: | | |
| Program services: | | |
| Grants | 2,091,132 | 2,070,506 |
| Supporting services - general and administrative: | | |
| Professional fees | 174,386 | 459,367 |
| Salaries and payroll taxes | 385,364 | 364,658 |
| Office supplies | 88,611 | 26,140 |
| Taxes | 74,982 | 113,689 |
| Insurance | <u>6,627</u> | <u>5,058</u> |
| Total expenses | 2,821,102 | 3,039,418 |
| Change in net assets without donor restrictions | 7,961,124 | (11,603,883) |
| Net assets without donor restrictions, beginning | <u>45,608,931</u> | <u>57,212,814</u> |
| Net assets without donor restrictions, ending | <u>\$ 53,570,055</u> | <u>\$ 45,608,931</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, 2023 and 2022

| | 2023 | 2022 |
|--|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Change in net assets without donor restrictions | \$ 7,961,124 | \$ (11,603,883) |
| Adjustments to reconcile change in net assets without donor restrictions to net cash used in operating activities: | | |
| Net losses (gains) on investments | (6,871,548) | 10,708,511 |
| Equity in earnings of Dr. Seuss Enterprises, L.P. | (2,660,213) | (2,214,780) |
| Changes in operating assets and liabilities: | | |
| Other assets | (82,229) | (21,838) |
| Grants payable | 91,132 | 2,070,506 |
| Accounts payable | (40,134) | 6,042 |
| Net cash used in operating activities | (1,601,868) | (1,055,442) |
| Cash flows from investing activities: | | |
| Return of investment in Dr. Seuss Enterprises, L.P. | 931,703 | 795,744 |
| Purchases of investments | (9,091,405) | (6,409,256) |
| Proceeds on sales of investments | 9,118,096 | 6,491,173 |
| Net cash provided by investing activities | 958,394 | 877,661 |
| Net decrease in cash | (643,474) | (177,781) |
| Cash, beginning of year | 3,900,298 | 4,078,079 |
| Cash, end of year | \$ 3,256,824 | \$ 3,900,298 |
| Supplemental disclosures of cash flow activities: | | |
| Interest paid | \$ - | \$ - |
| Taxes paid | \$ 125,634 | \$ 133,639 |

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, 2023 and 2022.

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 consolidated statements of activities and changes in net assets, when applicable. Management has determined that the Foundation has no uncertain tax positions at December 31, 2023 and 2022, and therefore, no amounts have been accrued. Management believes it is no longer subject to tax examinations for the years prior to 2020.

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, 2023 and 2022, 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, 2023 and 2022.

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.

Stock and Equity: Valued at the daily closing price as reported on the stock exchanges. Stock and Equity investments are made in publicly traded companies. Stock and Equity 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, 2023 and 2022, grants payable totaled approximately \$2.2 million and \$2.1 million, respectively. There were no grants commitments subject to conditions that are not included in grants payable and the 2023 grants payable are expected to be paid in 2024.

DR. SEUSS FOUNDATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Subsequent Events

The Foundation has evaluated subsequent events through November 4, 2024, which is the date the financial statements were available to be issued.

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 \$1,664,821 as of December 31, 2023.

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, 2023, the Foundation has approximately \$47.5 million in financial assets available for general use.

Note 4 – Investments

The fair market value of investments is categorized as follows at December 31, 2023 and 2022:

| Description | Assets at Fair Value at December 31, 2023 | | | Total |
|---------------------------------------|---|-------------|-------------|----------------------|
| | Level 1 | Level 2 | Level 3 | |
| Stock and Equity | \$ 6,299,789 | \$ - | \$ - | \$ 6,299,789 |
| Mutual Funds - Diversified Strategies | 40,135,747 | - | - | 40,135,747 |
| | <u>\$ 46,435,536</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 46,435,536</u> |

| Description | Assets at Fair Value at December 31, 2022 | | | Total |
|---------------------------------------|---|-------------|-------------|----------------------|
| | Level 1 | Level 2 | Level 3 | |
| Mutual Funds - Fixed Income | \$ 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> |

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 2023 and 2022:

| | 2023 | 2022 |
|--|----------------|---------------|
| Balance Sheets: | | |
| Current assets | \$ 116,219,273 | \$ 83,315,514 |
| Other assets | 4,339,499 | 4,695,656 |
| Total assets | \$ 120,558,772 | \$ 88,011,170 |
| | | |
| Current liabilities | \$ 5,598,482 | \$ 4,550,153 |
| Other liabilities | 3,271,682 | 2,877,523 |
| Total liabilities | 8,870,164 | 7,427,676 |
| | | |
| Equity | | |
| Dr. Seuss Foundation and Subsidiary equity | 5,981,314 | 4,252,804 |
| Other partners' equity | 105,707,294 | 76,330,690 |
| Total equity | 111,688,608 | 80,583,494 |
| Total liabilities and equity | \$ 120,558,772 | \$ 88,011,170 |
| | | |
| Statements of Income: | | |
| Royalties and investment income | \$ 65,173,503 | \$ 54,512,058 |
| Costs and operating expenses | 17,068,389 | 14,461,794 |
| Net income | \$ 48,105,114 | \$ 40,050,264 |
| | | |
| Dr. Seuss Foundation and Subsidiary equity in earnings | \$ 2,660,213 | \$ 2,214,780 |

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, 2023 and 2022 was \$74,982 and \$113,689, respectively.