CONSUMERS UNION OF UNITED STATES, INC.

Consolidated Financial Statements

May 31, 2013 and 2012

(With Independent Auditors' Report Thereon)

KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Directors
Consumers Union of United States, Inc.:

We have audited the accompanying consolidated financial statements of Consumers Union of United States, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of May 31, 2013 and 2012, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; 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 auditors' 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Consumers Union of United States, Inc. and its subsidiaries as of May 31, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

September 18, 2013

CONSUMERS UNION OF UNITED STATES, INC.

Consolidated Balance Sheets

May 31, 2013 and 2012

Assets	**2013**	**2012**
Current assets:		
Cash	$ 21,509,000	8,255,000
Investments (note 5)	252,885,000	211,505,000
Trade receivables, net	5,972,000	7,031,000
Inventories (note 3)	2,261,000	2,000,000
Auto test inventory	1,833,000	2,546,000
Grants and other receivables (note 2)	3,589,000	3,050,000
Deferred promotion cost	20,081,000	20,648,000
Prepaid expenses and other current assets	8,313,000	8,339,000
Total current assets	316,443,000	263,374,000
Property and equipment, net (note 4)	59,383,000	61,877,000
Deferred promotion cost – long term	1,816,000	5,948,000
Other assets (notes 2 and 8)	3,356,000	3,265,000
Grants receivable – long term (note 2)	648,000	1,727,000
Total assets	$ 381,646,000	336,191,000
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 10,395,000	9,097,000
Accrued compensation	9,032,000	8,830,000
Unearned subscription revenue	116,397,000	114,985,000
Current portion of long-term debt (note 8)	1,200,000	1,175,000
Total current liabilities	137,024,000	134,087,000
Unearned subscription revenue – long term	33,239,000	32,581,000
Liability under derivative instrument (note 10)	6,420,000	8,936,000
Long-term debt (note 8)	43,800,000	45,000,000
Other liabilities (notes 6 and 11)	41,094,000	54,140,000
Total liabilities	261,577,000	274,744,000
Net assets:		
Unrestricted	113,006,000	55,350,000
Temporarily restricted (note 2)	7,063,000	6,097,000
Total net assets	120,069,000	61,447,000
Total liabilities and net assets	$ 381,646,000	336,191,000

See accompanying notes to consolidated financial statements.

CONSUMERS UNION OF UNITED STATES, INC.

Consolidated Statements of Activities

Years ended May 31, 2013 and 2012

	2013	2012
Operating:		
Change in unrestricted net assets:		
Revenue and support:		
Subscriptions, newsstand, and other sales	$ 234,177,000	231,339,000
Contributions	20,723,000	16,722,000
Net assets released from restrictions	3,879,000	3,974,000
Other	618,000	1,160,000
Total revenue and support	259,397,000	253,195,000
Operating expenses:		
Publication, promotion, and marketing expenses:		
Content development	83,880,000	85,741,000
Production and distribution	47,000,000	47,274,000
Promotion and marketing	78,205,000	81,981,000
	209,085,000	214,996,000
Consumer advocacy and education	15,554,000	16,523,000
General and administrative (notes 4, 12, and 13)	20,990,000	23,913,000
Fundraising	9,459,000	9,434,000
Total operating and other expenses	255,088,000	264,866,000
Total operating income (loss)	4,309,000	(11,671,000)
Nonoperating:		
Investment gain (loss), net (note 5)	31,366,000	(11,096,000)
Unrealized gain (loss) on interest rate swap (note 10)	2,516,000	(4,248,000)
Pension-related changes other than net periodic pension cost (note 6)	19,465,000	(13,504,000)
Total nonoperating gain (loss)	53,347,000	(28,848,000)
Increase (decrease) in unrestricted net assets	57,656,000	(40,519,000)
Change in temporarily restricted net assets:		
Grants received (note 2)	4,662,000	5,525,000
Net assets released from restrictions	(3,879,000)	(3,974,000)
Contribution revenue – other	126,000	100,000
Change in value of split-interest agreements (note 2)	57,000	40,000
Increase in temporarily restricted net assets	966,000	1,691,000
Increase (decrease) in net assets	58,622,000	(38,828,000)
Net assets at beginning of year	61,447,000	100,275,000
Net assets at end of year	$ 120,069,000	61,447,000

See accompanying notes to consolidated financial statements.

CONSUMERS UNION OF UNITED STATES, INC.

Consolidated Statements of Functional Expenses

Years ended May 31, 2013 and 2012

	Publication, promotion, and marketing	Consumer advocacy and education	General and administrative	Fundraising	2013 Total	Publication, promotion, and marketing	Consumer advocacy and education	General and administrative	Fundraising	2012 Total
Salaries, employee benefits, and payroll taxes	$ 63,484,000	9,029,000	15,049,000	2,187,000	**89,749,000**	64,984,000	9,518,000	18,267,000	2,165,000	**94,934,000**
Printing and publications	36,483,000	319,000	622,000	2,144,000	**39,568,000**	39,099,000	304,000	563,000	2,409,000	**42,375,000**
Postage and shipping	38,720,000	140,000	137,000	3,975,000	**42,972,000**	40,962,000	270,000	155,000	3,851,000	**45,238,000**
Sales and marketing	37,542,000	463,000	—	692,000	**38,697,000**	36,864,000	444,000	—	563,000	**37,871,000**
Product testing	3,985,000	174,000	—	—	**4,159,000**	3,949,000	40,000	—	—	**3,989,000**
Professional fees	7,630,000	1,487,000	2,326,000	134,000	**11,577,000**	6,215,000	1,862,000	2,094,000	156,000	**10,327,000**
Insurance	—	—	1,014,000	—	**1,014,000**	—	—	1,057,000	—	**1,057,000**
Fees, licenses, and permits	1,567,000	15,000	30,000	6,000	**1,618,000**	1,533,000	12,000	57,000	6,000	**1,608,000**
Occupancy	334,000	665,000	1,870,000	—	**2,869,000**	366,000	686,000	1,882,000	—	**2,934,000**
Grants and awards	—	527,000	—	—	**527,000**	—	803,000	—	—	**803,000**
Supplies	343,000	63,000	435,000	5,000	**846,000**	380,000	61,000	513,000	7,000	**961,000**
Telephone	87,000	91,000	279,000	2,000	**459,000**	103,000	103,000	331,000	2,000	**539,000**
Travel	572,000	368,000	225,000	28,000	**1,193,000**	583,000	424,000	246,000	30,000	**1,283,000**
Meetings and conferences	137,000	76,000	58,000	3,000	**274,000**	177,000	60,000	101,000	2,000	**340,000**
Dues and subscriptions	320,000	1,088,000	126,000	1,000	**1,535,000**	344,000	1,072,000	67,000	2,000	**1,485,000**
Interest (note 8)	—	—	1,477,000	—	**1,477,000**	—	—	1,491,000	—	**1,491,000**
Depreciation and amortization (note 4)	6,568,000	288,000	3,473,000	5,000	**10,334,000**	6,357,000	134,000	3,640,000	4,000	**10,135,000**
Sales tax	101,000	—	—	—	**101,000**	108,000	—	—	—	**108,000**
Discontinuance of health Web site (note 12)	—	—	—	—	**—**	—	—	1,574,000	—	**1,574,000**
Restructuring (note 13)	—	—	2,381,000	—	**2,381,000**	—	—	1,740,000	—	**1,740,000**
Other expenses	1,460,000	460,000	1,723,000	95,000	**3,738,000**	1,776,000	360,000	1,868,000	70,000	**4,074,000**
Subtotal	199,333,000	15,253,000	31,225,000	9,277,000	**255,088,000**	203,800,000	16,153,000	35,646,000	9,267,000	**264,866,000**
Allocation of direct supporting services	9,752,000	301,000	(10,235,000)	182,000	**—**	11,196,000	370,000	(11,733,000)	167,000	**—**
Total	$ 209,085,000	15,554,000	20,990,000	9,459,000	**255,088,000**	214,996,000	16,523,000	23,913,000	9,434,000	**264,866,000**

See accompanying notes to consolidated financial statements.

CONSUMERS UNION OF UNITED STATES, INC.

Consolidated Statements of Cash Flows

Years ended May 31, 2013 and 2012

		2013	2012
Cash flows from operating activities:			
Increase (decrease) in net assets	$	58,622,000	(38,828,000)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:			
Depreciation and amortization		10,334,000	10,135,000
Amortization of bond issuance costs		23,000	23,000
Pension-related changes other than net periodic pension cost		(19,465,000)	13,504,000
Net unrealized (gain) loss on investments		(32,841,000)	19,149,000
Net realized loss (gain) on investments		1,160,000	(5,087,000)
Unrealized (gain) loss on interest rate swap		(2,516,000)	4,248,000
Change in value of split-interest agreements		(56,000)	(40,000)
Pension expense		7,889,000	7,512,000
Loss on disposal of property and equipment		261,000	784,000
Other noncash items		(193,000)	130,000
Actuarial change in charitable gift annuity obligations		638,000	1,527,000
Pension contributions		(1,610,000)	(3,988,000)
Other changes in assets and liabilities:			
Trade receivable, net		1,059,000	727,000
Inventories and auto test inventory		452,000	(473,000)
Grants and other receivables		540,000	(2,062,000)
Deferred promotion		4,699,000	817,000
Prepaid expenses and other current assets		26,000	889,000
Other noncurrent assets		25,000	(9,000)
Accounts payable and accrued liabilities		1,331,000	(4,191,000)
Charitable gift annuity obligation		689,000	1,015,000
Accrued compensation		202,000	(1,012,000)
Unearned subscription revenue		2,070,000	(3,555,000)
Other liabilities		(289,000)	46,000
Net cash provided by operating activities		33,050,000	1,261,000
Cash flows from capital investments and other investing activities:			
Purchases of property and equipment		(2,681,000)	(2,046,000)
Payments for computer software and development		(5,420,000)	(7,033,000)
Purchase of investments		(60,961,000)	(561,582,000)
Proceeds from sales of investments		51,262,000	560,781,000
Net cash used in capital investments and other investing activities		(17,800,000)	(9,880,000)
Cash flows from financing activities:			
Repayment of long-term debt		(1,175,000)	(1,125,000)
Payments of charitable gift annuity obligations		(821,000)	(762,000)
Net cash used in financing activities		(1,996,000)	(1,887,000)
Net increase (decrease) in cash		13,254,000	(10,506,000)
Cash at beginning of year		8,255,000	18,761,000
Cash at end of year	$	21,509,000	8,255,000
Supplemental cash flow information:			
Cash paid for interest	$	1,455,000	1,467,000

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

Consumers Union of United States, Inc. (CU or the Organization) is the publisher of Consumer Reports and ConsumerReports.org, as well as other periodicals, publications, and consumer services. CU, a not-for-profit organization, is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code).

The Organization follows the standards of accounting and financial reporting for not-for-profit organizations as prescribed by the American Institute of Certified Public Accountants (AICPA). The following significant accounting policies are in accordance with U.S. generally accepted accounting principles (U.S. GAAP).

(b) Basis of Presentation

These consolidated financial statements are prepared on the accrual basis of accounting and include the accounts of CU and that of Consumers Union Action Fund, Inc. (CUAF), The Truman Avenue Foundation, Inc. (TAFI), and Consumer Media LLC (CML). CUAF is an affiliated organization incorporated in April 2006 as a nonmembership Delaware not-for-profit corporation. CUAF's operations focus on consumer-related grassroots legislative campaigns, and it is recognized by the Internal Revenue Service (IRS) as a tax-exempt organization under Section 501(c)(4) of the Code. TAFI is an affiliated Section 501(c)(3) not-for-profit corporation. It was incorporated in Delaware in September 2006 and is a supporting organization under Section 509(a)(3) of the Code; its sole member and "supported organization" is CU. TAFI's operations focus on holding contributed investment property. CML is a not-for-profit Delaware limited liability company whose sole member is CU. CML owns a consumer education Web site, consumerist.com. All intercompany balances and transactions have been eliminated in consolidation.

Net assets and revenues, and gains and losses are classified based on the existence or absence of donor- or grant-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

> *Unrestricted net assets* – Net assets that are not subject to donor- or grant-imposed stipulations.
>
> *Temporarily restricted net assets* – Net assets subject to donor- or grant-imposed stipulations that will be met either by actions of CU or by the passage of time.

Nonoperating items have been segregated in the accompanying consolidated statements of activities and include net investment gain (loss), unrealized gain (loss) on interest rate swap, and adjustments to pension liability other than net periodic pension costs.

In the consolidated statements of functional expenses for the years ended May 31, 2013 and 2012, information technology and facilities costs are allocated in the functional expense categories based on a percentage of the square foot usage of the Organization's facilities.

Amounts have been rounded to the nearest thousand for presentation purposes.

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(c) Revenue Recognition

Proceeds from subscriptions are recorded as unearned subscription revenue when received and recognized as revenue over the applicable terms of the subscription services, generally one to two years for print and one to twelve months for online products. Subscription services to be provided within one year are included as unearned subscription revenue, and the portion of the subscription services in excess of one year is classified as unearned subscription revenue – long term. Commission expense related to the sales of subscriptions is also recognized over the applicable terms of the subscription service. Deferred commission expense to be recognized within one year of $2,912,000 and $3,012,000 is included in prepaid expenses and other current assets for the years ended May 31, 2013 and 2012, respectively. Deferred commission expense to be recognized in excess of one year of $1,262,000 and $1,264,000 is included in other assets for the years ended May 31, 2013 and 2012, respectively.

Sales to newsstand distributors are recognized as revenue in the month of distribution, using historical experience to estimate the ultimate sales of magazines on the newsstand. In the event that actual sales differ from estimates, adjustments are made in subsequent months. Historically, these adjustments have not been material.

Trade receivables are based on invoiced amounts, net of an estimated allowance for cancellations and nonpayment. This allowance is based on historical experience and was approximately $4,556,000 and $5,280,000 at May 31, 2013 and 2012, respectively. As of May 31, 2013, trade receivables primarily consist of receivables from subscriptions (65%), newsstand sales (24%), and other sales (11%). The Organization does not have any off-balance-sheet credit exposure related to its customers.

CU also enters into transactions in which it receives list names on a rental basis for its promotional mailings, and it also sells list names on a rental basis to certain companies for promotional purposes and a onetime use. The list exchanges are either on a cash or exchange/nonmonetary basis. For list names sold for cash, the associated revenue is recorded in revenue and support in the accompanying consolidated statements of activities. For list names acquired for cash, the associated expense is deferred and accounted for in accordance with the Subsections of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 340-20, *Other Assets and Deferred Costs – Capitalized Advertising Costs*. In accordance with Subsections of FASB ASC Subtopic 845-10, *Nonmonetary Transactions – Overall*, for list names exchanged on a nonmonetary basis, the associated expense or revenue is recorded using a fair market value rate, which is determined by using the average billed amount for that same period.

(d) Deferred Promotion Cost

CU defers certain promotion costs, which are primarily printing, list rental, and mailing costs, on most direct mail promotions for its applicable publications in accordance with ASC Subtopic 340-20. These costs are amortized over the periods of the subscriptions generated from these promotions, not to exceed 20 months. Deferred promotion costs to be amortized within one year are included as deferred promotion cost, and the portion of the deferred promotion costs to be amortized in excess of one year is classified as deferred promotion cost – long term. At May 31, 2013 and 2012, approximately $21,897,000 and $26,596,000, respectively, of promotion costs were deferred as assets. All other advertising and promotion expenses except these direct mail promotions are expensed at the time the advertising takes place. Amortization of deferred promotion costs, included in promotion and marketing expenses in the accompanying consolidated statements of activities, was $28,654,000 and $28,653,000 in 2013 and 2012, respectively. During the year ended May 31, 2012, CU recorded a write-down of deferred promotion asset to net realizable value in the amount of $421,000. There were no write-downs of deferred promotion assets in 2013.

(e) Investments

Investments are stated at fair value based upon quoted market prices except for the fair values of institutional mutual funds and commingled trust funds, which as a practical expedient are based on net asset values provided by the fund managers and general partners, respectively, based upon the underlying net assets of the funds. These values are reviewed and evaluated by management for reasonableness. Gains and losses, including unrealized amounts, are included in the accompanying consolidated statements of activities.

(f) Derivative Instruments

CU follows the provisions of FASB ASC Topic 815, *Derivatives and Hedging*, which requires that all derivative financial instruments be recognized in the financial statements and measured at fair value regardless of the purpose or intent for holding them. CU uses an interest-rate-related derivative instrument to manage its exposure to rising interest rates on long-term debt. The fair value of the derivative instrument held is based upon values provided by a third-party financial institution, which is reviewed by management for reasonableness and is valued based upon the present value of the discounted expected future cash flows with the swap counterparty according to FASB ASC Topic 820, *Fair Value Measurements*, as discussed in note 1(n). Unrealized gains and losses are included in the accompanying consolidated statements of activities.

(g) Inventories

Inventories, consisting primarily of paper for magazine production and books manufactured for resale, are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

(h) Auto Test Inventory

Auto test inventory represents automobiles used in CU's testing processes, reported at the lower of cost less depreciation or their estimated recoverable value. Other costs related to nonauto-related test projects are charged to expense when incurred.

(i) Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. The estimated useful life of buildings is 30 years; furniture, fixtures, and equipment is 3 to 5 years; and capitalized computer software is 3 years. Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful life of the asset. Building improvements are depreciated over the shorter of the remaining useful life of the building or the estimated useful life of the asset.

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In accordance with the Subsections of FASB ASC Subtopic 350-40, *Intangibles – Goodwill and Other Internal-Use Software*, and FASB ASC Subtopic 350-50, *Intangibles – Goodwill and Other Website Development Costs*, CU capitalizes certain computer software costs and enhancements for internal use and for products and services (primarily Web based) provided to subscribers. Costs such as coding, testing, and documentation are capitalized after the establishment of technological feasibility.

(j) Contributions

CU does not accept contributions from any corporation or business in any amount or form. The Organization accepts only individual gifts and gifts from foundations that are not directly or indirectly connected with a corporation.

Contributions are recognized as revenue in the period received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted net assets. However, if a restriction is fulfilled in the same fiscal year in which the contribution is received, the Organization records the contribution as unrestricted.

Contributed property is recorded in accordance with the fair value hierarchy at the date of donation. If donor-imposed restrictions impact the Organization's ability to dispose or sell the asset, the contribution is recorded as a temporarily restricted asset. In the absence of such restrictions, contributions of property are recorded as unrestricted revenue.

(k) Split-Interest Agreements

The Organization receives contributions of various types of split-interest agreements, including charitable gift annuities (CGA) and charitable remainder unitrusts (CRUTs). Under the CGA program, donors contribute cash to CU in exchange for a promise by CU to pay an annuity for the life of the donor. CU recognizes the agreement with the donor in the period in which the contract is executed. Cash received is subsequently invested in fixed-income and equity mutual funds and recorded at fair value based on quoted market prices. Based on requirements under various state laws, CGA investments within certain states have limitations on the amount of equities contained in the respective portfolio. The Organization's CGA investments are in compliance with all states' requirements. Gains and losses, including unrealized amounts, under this program are reported within investment gain, net in the accompanying consolidated statements of activities. The annuity payment liability, which is considered Level 3 in the fair value hierarchy, is recognized and subsequently revalued at the actuarially determined present value of future cash flows expected to be paid to the donor. The Applicable Federal Rate, also know as the IRS Discount Rate, is the discount rate used in determining the present value. Contribution revenue, which is the difference between these two amounts, is reported within contributions in CU's accompanying consolidated statements of activities. Amounts recognized relating to the CGA program are further discussed in note 11.

CRUTs are arrangements in which a donor establishes and funds a trust with specified distributions to be made to a designated beneficiary or beneficiaries over the trust's term. Upon termination of the trust, CU will receive the assets remaining in the trust. The distributions to the beneficiaries are for a specified percentage of the trust's fair market value as determined annually. Obligations to the beneficiaries are limited to the trust's assets. For CRUTs where CU is designated as trustee, the trust assets are recorded at the fair value on the date of the contribution along with the recognition of a liability to the beneficiaries, which represents the present value of the estimated future cash payments to the beneficiaries. The CRUT liabilities are discounted to present value at the prevailing published IRS Discount Rate and the life expectancy of the donors. The difference is recorded as temporarily restricted revenue in CU's accompanying consolidated statements of activities. For CRUTs where CU is not the trustee, the beneficial interest in the trust is recorded as a long-term receivable and temporarily restricted revenue in CU's accompanying consolidated statements of activities. CRUT assets are adjusted to the fair market value at each subsequent consolidated balance sheet date, and they consist of equity and debt securities, which are measured using quoted market prices. Subsequent changes in the fair value of the trust assets or the present value of the liability to beneficiaries are recorded as changes in value of split-interest agreements in temporarily restricted net assets in the accompanying consolidated statements of activities. The funds are classified as temporarily restricted until the termination of the trust when they become unrestricted.

(l) Impairment of Long-Lived Assets

In accordance with Impairment or Disposal of Long-Lived Assets Subsections of FASB ASC Subtopic 360-10, *Property, Plant, and Equipment – Overall*, long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. There were no impairments in 2013 and 2012.

(m) Use of Estimates

Consolidated financial statement preparation requires management to make a number of estimates and assumptions about a period, particularly as it relates to reported amounts of, assets and liabilities, disclosures of contingent assets and liabilities, and reported amounts of revenues and expenses. Significant estimates that affect the consolidated financial statements include, but are not limited to, collectibility of trade receivable and grants, amortization periods for deferred promotion costs, valuation of deferred promotion costs, estimated useful lives of property and equipment, valuation of other long-lived assets, valuation of pension liabilities, and valuation of CRUT and CGA liabilities. Actual results could vary from the estimates and assumptions used in the preparation of the accompanying consolidated financial statements.

(n) Fair Value Measurements

CU follows the provisions of ASC Topic 820 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety. CU categorizes investments recorded at net asset value with a net asset value per share (or its equivalent), that are redeemable within a month of the measurement date, within Level 2 of the fair value hierarchy.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The new standard does not extend the use of fair value but, rather, provides guidance about how fair value should be applied where it is already required or permitted under IFRS or U.S. GAAP. For U.S. GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS. The provisions of the ASU are effective for annual or interim reporting periods beginning after December 15, 2011. CU adopted the provisions of the ASU in 2013. The adoption of ASU 2011-04 did not have a material effect on the Organization's consolidated financial statements.

The fair values of the financial instruments represent management's best estimates of the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs.

The estimated fair value for specific groups of financial instruments is presented within the notes applicable to such items. The fair value of financial instruments for which estimated fair value amounts have not been specifically presented is estimated to approximate the related book value.

Effective June 1, 2008, the Organization adopted the provisions of the Subsections of FASB ASC Subtopic 825-10, *Financial Instruments – Overall*. ASC Subtopic 825-10 permits entities to elect to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. As permitted by ASC Subtopic 825-10 implementation options, the Organization chose not to elect the fair value option for its financial assets and liabilities that had not been previously measured at fair value. Therefore, material financial assets and liabilities, such as the Organization's long-term debt obligations, are reported at their historical carrying amounts.

(o) Reclassifications

Certain reclassifications have been made to the 2012 reported amounts to conform to the 2013 presentation.

(2) Temporarily Restricted Net Assets

Temporarily restricted net assets were $7,063,000 and $6,097,000 as of May 31, 2013 and 2012, respectively, and consist of the following:

		2013	2012
Split-interest agreements	$	515,000	458,000
Donor-imposed purpose restrictions		167,000	100,000
Grantor-imposed purpose restrictions		6,381,000	5,539,000
	$	7,063,000	6,097,000

As of May 31, 2013, there was $1,723,000 in CRUT assets that were presented at fair value using Level 1 inputs according to the fair value hierarchy of ASC Topic 820. CU did not enter into any new CRUT agreements with donors in 2013 and 2012.

Temporarily restricted net assets due to grant-imposed stipulations at May 31, 2013 and 2012 are available for the following purposes:

		2013	2012
Food Safety Grant (a)	$	1,755,000	—
Best Buy Drugs (b)		1,511,000	2,515,000
Health Care Delivery Platform (c)		984,000	—
Health Care Reform (d)		639,000	828,000
State of the Net (e)		412,000	500,000
Health Provider Performance (f)		73,000	577,000
Other grants outstanding less than $500,000 individually		1,007,000	1,119,000
	$	6,381,000	5,539,000

(a) Represents a grant received for CU to undertake a new food testing project to determine the prevalence and levels of contaminants in certain food items at the retail level, in particular, meat and poultry.

(b) Represents a grant received for the support and enhancement of *Consumer Reports Best Buy Drugs*. The project is to build a social marketing campaign, reaching millions of consumers with unbiased content about prescription drug effectiveness, cost safety, and off-label use.

(c) Represents a grant received to build public and policymaker support for proconsumer healthcare delivery reforms that improve the lives of low-income vulnerable older adults with multiple health problems.

(d) Represents grants received for CU to advocate for policies that advance the interests of consumers in health reform debates, health information technology, and patient safety in California.

(e) Represents a grant received for CU to create and distribute a special publication on the "*State of the Internet*," to support knowledge exchange gatherings, and to work toward regulatory policies that help control cable and Internet access prices while making the Internet more accessible to underserved areas and populations.

(f) Represents a grant received for CU to collaborate with partners and use multimedia tools to publish and disseminate comparative information on health provider performance.

All of the temporarily restricted assets due to grantor-imposed restrictions are included in cash or grants and other receivables. Grant cash of $2,837,000 and grant receivables of $3,915,000 combined exceed the grantor-imposed restricted fund balance by $371,000 due to grant-incurred expenses that have been incurred and billed to the grantor, but the Organization has not received payment by May 31, 2013.

(3) Inventories

Inventories at May 31, 2013 and 2012 consist of the following:

	2013	2012
Paper	$ 1,308,000	920,000
Books in process	7,000	—
Published books	946,000	1,080,000
	$ 2,261,000	2,000,000

(4) Property and Equipment

Property and equipment at May 31, 2013 and 2012 consist of the following:

	2013	2012
Land	$ 11,935,000	11,935,000
Buildings and building improvements	65,465,000	64,828,000
Furniture, fixtures, and equipment	14,106,000	15,552,000
Capitalized computer software	45,741,000	41,303,000
	137,247,000	133,618,000
Less accumulated depreciation and amortization	77,864,000	71,741,000
Net property and equipment	$ 59,383,000	61,877,000

Depreciation and amortization expense for the years ended May 31, 2013 and 2012 was $10,334,000 and $10,135,000, respectively. At May 31, 2013 and 2012, capitalized computer software was $10,447,000 and $11,587,000, respectively, net of accumulated amortization of $35,293,000 and $29,716,000, respectively. Amortization expense for capitalized computer software was $6,357,000 and $6,114,000 in 2013 and 2012, respectively.

(Continued)

CU performs reviews of fixed assets to determine if there are assets no longer in service. During the year ended May 31, 2013, CU recognized a loss of $261,000 for retired assets no longer in service in the consolidated statements of activities in general and administrative expenses. During the year ended May 31, 2012, CU discontinued the online health product and certain mobile applications. As a result, a loss on disposal of $618,000 and $166,000 was recognized in the consolidated statements of activities in general and administrative and content development expenses, respectively. Amounts recognized relating to the discontinuance of the health Web site are further discussed in note 12.

(5) Investments

CU's investment policies restrict CU's investments to those issued, collateralized, insured, or guaranteed by the U.S. government, U.S. agencies, or U.S. instrumentalities and other respective branches as well as debt, equity, and commodity commingled trust funds. The investment policy statement governing CU's corporate investment portfolio was updated in 2012. The current policy reflects a target asset allocation of 25% fixed income, 35% domestic equity, 20% international equity, 10% Treasury Inflation Protected Securities (TIPS), and 10% commodities within a range of 5% of the target percentage. CU's investments are generally invested in broadly diversified commingled trust funds that employ an index replication approach. Commingled funds give the investors the right, subject to predetermined redemption procedures, to redeem their investment at net asset value. CU's commingled funds, as of May 31, 2013 have daily redemption frequencies (with the exception of International equity – commingled funds, which have semi-monthly redemption frequencies), with redemption periods of two days or less. There are no redemption restrictions as of May 31, 2013. All of CU's investments were fair valued as of May 31, 2013 and 2012 utilizing the fair value hierarchy according to ASC Topic 820. No investments were valued using Level 3 inputs.

The fair value of investments as of May 31, 2013 and 2012 consists of Level 1 investments (funds traded on an active exchange) and Level 2 investments (commingled funds and individual government agency bonds) as follows:

	Level 1	Level 2	Total
May 31, 2013:			
Equity funds:			
Domestic	$ 1,166,000	90,567,000	91,733,000
International	173,000	45,939,000	46,112,000
Fixed income funds:			
Bonds	20,221,000	42,243,000	62,464,000
U.S. Treasury	1,076,000	25,925,000	27,001,000
Commodities fund	—	24,517,000	24,517,000
U.S. government agency bonds	—	1,058,000	1,058,000
Total	$ 22,636,000	230,249,000	252,885,000

	Level 1	Level 2	Total
May 31, 2012:			
Equity funds:			
Domestic	$ 1,210,000	74,196,000	75,406,000
International	155,000	36,970,000	37,125,000
Fixed income funds:			
Bonds	243,000	53,477,000	53,720,000
U.S. Treasury	905,000	24,842,000	25,747,000
Commodities fund	—	18,482,000	18,482,000
U.S. government agency bonds	—	1,025,000	1,025,000
Total	$ 2,513,000	208,992,000	211,505,000

During 2013, in order to attempt to improve portfolio diversification, CU utilized $10,000,000 of cash and $10,000,000 from the sale of Level 2 investments, to purchase a $20,000,000 Level 1 investment. CU's policy is to record transfers between Level 2 and Level 1 on the actual date of the event or change in circumstances that caused the transfer.

Investment gains (losses) included in nonoperating gains (losses) in the accompanying consolidated statements of activities for the years ended May 31, 2013 and 2012 were composed of the following:

	2013	2012
Investment and dividend income	$ 180,000	3,389,000
Net unrealized gains (losses)	32,841,000	(19,149,000)
Net realized (losses) gains	(1,160,000)	5,087,000
Investment expenses	(495,000)	(423,000)
	$ 31,366,000	(11,096,000)

(Continued)

(6) Employee Benefits

(a) Defined Benefit Plan

CU maintains three defined benefit plans for its employees. Two of these plans are noncontributory defined benefit plans: one plan is administered by CU (the Management Plan) and the other plan is administered jointly by CU and the Newspaper Guild of New York (the Union Plan). The third plan is a noncontributory multiemployer pension plan providing supplemental pension benefits for all guild-represented employees (the Multiemployer Plan). Contributions to the Multiemployer Plan and the related expense recognized were $103,000 and $100,000 in 2013 and 2012, respectively.

The measurement date used to determine pension benefit measures for the Management Plan and the Union Plan is May 31, 2013.

On May 15, 2009, CU's board of directors approved a resolution suspending benefit accruals for all participants of the Management Plan, effective July 31, 2009. CU will continue to make contributions to the Management Plan in amounts sufficient to meet applicable funding requirements.

On April 5, 2013, CU and the Newspaper Guild of New York entered into a memorandum of agreement, which extended the terms of collective bargaining agreement through December 31 2014. In addition to other changes, the agreement suspended benefit accruals for all participants of the Union Plan, effective May 31, 2013. The suspension of benefit accruals for participants in the Union Plan met the criteria of a curtailment in accordance with the Subsections of FASB ASC Subtopic 715-30. The projected benefit obligation for the Union Plan was reduced by $13,561,000 to $67,895,000 as a result of the curtailment of benefits. Since benefit accruals are suspended, the projected benefit obligation is equal to the accumulated benefit obligation. CU will continue to make contributions to the Union Plan in amounts sufficient to meet applicable funding requirements.

(Continued)

(b) Obligations and Funded Status

At May 31:

		Pension benefits	
		2013	**2012**
Change in projected benefit obligation:			
Benefit obligation at the beginning of year	$	120,474,000	106,159,000
Service cost		4,577,000	3,993,000
Interest cost		4,501,000	5,189,000
Actuarial loss		3,910,000	5,700,000
Benefits and administrative expenses paid		(5,244,000)	(1,716,000)
Change in discount rate		1,025,000	6,638,000
Curtailment of the Union Plan		(13,561,000)	—
Settlement of Management Plan		(3,811,000)	(5,489,000)
Projected benefit obligation at the end of year		111,871,000	120,474,000
Change in plan assets:			
Fair value of plan assets at the beginning of year		78,953,000	81,666,000
Actual return on plan assets		12,028,000	504,000
Employer contributions		1,610,000	3,988,000
Benefits and administrative expenses paid		(5,244,000)	(1,716,000)
Settlement of Management Plan		(3,811,000)	(5,489,000)
Fair value of assets at the end of year		83,536,000	78,953,000
Funded status	$	(28,335,000)	(41,521,000)

The accumulated benefit obligation for all defined benefit pension plans was $111,871,000 and $106,745,000 at May 31, 2013 and 2012, respectively. The actuarial present value of the benefit obligations and the funded status of the Management Plan and Union Plan on a combined basis as of May 31, 2013 and 2012, as provided by CU's actuaries, were as follows:

		2013	**2012**
Funded status:			
Accumulated benefit obligation	$	111,871,000	106,745,000
Projected benefit obligation	$	111,871,000	120,474,000
Fair value of plan assets available for benefits		83,536,000	78,953,000
Funded status	$	(28,335,000)	(41,521,000)

		Management Plan	
		2013	**2012**
Funded status:			
Accumulated benefit obligation	$	43,976,000	45,110,000
Projected benefit obligation	$	43,976,000	45,110,000
Fair value of plan assets available for benefits		37,371,000	35,393,000
Funded status	$	(6,605,000)	(9,717,000)

		Union Plan	
		2013	**2012**
Funded status:			
Accumulated benefit obligation	$	67,895,000	61,635,000
Projected benefit obligation	$	67,895,000	75,364,000
Fair value of plan assets available for benefits		46,165,000	43,560,000
Funded status	$	(21,730,000)	(31,804,000)

The amounts recognized in the consolidated balance sheets and as an adjustment to unrestricted net assets for the Management Plan and Union Plan on a combined basis as of May 31, 2013 and 2012, as provided by CU's actuaries, were as follows:

		2013	**2012**
Amounts recognized in the consolidated balance sheet consist of:			
Noncurrent liabilities	$	(28,335,000)	(41,521,000)
Total	$	(28,335,000)	(41,521,000)
Total amounts recognized as an adjustment to unrestricted net assets consist of:			
Unrecognized actuarial loss	$	26,980,000	46,445,000
Total adjustment to unrestricted net assets	$	26,980,000	46,445,000

The amount in the adjustment to unrestricted net assets as of May 31, 2013 that is expected to be recognized as a component of net periodic benefit cost during the next fiscal year consisted of a $872,000 actuarial loss.

The change of the adjustment to unrestricted net assets of the plans resulted in an increase of $19,465,000 and a decrease of $13,504,000 in net assets and is recorded as pension-related changes other than net periodic pension cost in the nonoperating section on the accompanying consolidated statements of activities for the years ended May 31, 2013 and 2012, respectively.

The weighted average assumptions used to determine the benefit obligations in the actuarial valuations at May 31, 2013 and 2012 measurement dates were as follows:

	2013	2012
Discount rate:		
Management Plan (pre retirement and postretirement)	3.10%	3.45%
Union Plan (pre retirement and postretirement)	4.00	4.15
Future salary increases:		
Management Plan	N/A	N/A
Union Plan	N/A	3.00%

The discount rate is determined using a method that matches the timing of the pension plan's benefit payouts with the appropriate maturity of the bonds in the Citigroup above Median Yield Curve as of the end of the fiscal year. The individual interest rates in the yield curve are then converted to a single equivalent interest rate that would yield the same discounted value of the benefit payouts. This single equivalent interest rate, subject to rounding to the nearest 0.05%, is the year-end discount rate. As of May 31, 2013, future salary increases are not applicable for the calculation of the projected benefit obligation for both the Management Plan and the Union Plan because benefits are frozen in both plans.

Components for net periodic benefit cost for the Management Plan and the Union Plan on a combined basis for the years 2013 and 2012 were as follows:

	2013	2012
Service cost	$ 4,577,000	3,993,000
Interest cost	4,501,000	5,189,000
Expected return on plan assets	(4,834,000)	(5,332,000)
Amortization of net loss	2,380,000	1,400,000
Settlement loss	1,265,000	2,262,000
Net periodic benefit cost	$ 7,889,000	7,512,000

Due to significant lump-sum distributions, a $1,265,000 and $2,262,000 loss on settlement of management pension plan was recognized and is included in pension expense for the years ended May 31, 2013 and 2012, respectively.

(Continued)

The weighted average assumptions used to determine net periodic benefit cost for the years 2013 and 2012 were as follows:

	2013	2012
Discount rate:		
Management Plan (pre retirement and postretirement)	3.45%	4.35%
Union Plan (pre retirement and postretirement)	4.15	5.35
Expected return on plan assets:		
Management Plan	6.00%	6.00%
Union Plan	7.00	7.00
Future salary increases:		
Management Plan	N/A	N/A
Union Plan	3.00%	4.00%

The Organization’s overall expected long-term rate of return on plan assets is 6.0% for the Management Plan and 7.0% for the Union Plan. The returns are based exclusively on historical returns, without adjustments.

(c) Plan Assets

The weighted average asset allocation of the Management Plan’s assets at May 31, 2013 and 2012 was as follows:

	Management Plan's assets	
	2013	2012
Asset category:		
Domestic equities	28.5%	30.9%
International equities	22.9	23.7
Fixed income	40.6	43.6
Other (money market)	8.0	1.8
Total	100.0%	100.0%

The target allocation for assets of the Management Plan is 45% fixed-income securities, 30% domestic equity securities, and 25% international equity securities, within a range of 5% of the target percentage. A new investment policy statement was implemented during 2011 to take into consideration that benefit accruals were suspended for all participants in the Management Plan. The new policy uses an approach, which sets the target asset allocation based upon interest rates and the funded status of the plan. The policy is designed to systematically de-risk the portfolio by gradually matching the duration of fixed-income plan assets to plan liabilities.

(Continued)

All of the Management Plan’s assets were fair valued as of May 31, 2013 and 2012 using Level 2 inputs in the fair value hierarchy according to ASC Topic 820. No investments were valued using Level 1 or Level 3 inputs.

		Management Plan's assets	
		2013	**2012**
Domestic equity – commingled funds	$	10,660,000	10,942,000
International equity – commingled funds		8,555,000	8,369,000
Fixed income – commingled bond funds		15,152,000	15,438,000
Other (money market)		3,005,000	645,000
Total	$	37,372,000	35,394,000

The weighted average asset allocation of the Union Plan’s assets at May 31, 2013 and 2012 was as follows:

	Union Plan's assets	
	2013	**2012**
Asset category:		
Domestic commingled equities	41.2%	42.4%
International commingled equities	9.9	8.4
Fixed income – commingled bonds	46.9	47.7
Other (money market)	2.0	1.5
Total	100.0%	100.0%

The target allocation for assets of the Union Plan is 50% fixed-income securities, 40% U.S. equity securities, and 10% international equity securities, within a range of 10% of the target percentage.

The Union Plan’s assets were fair valued as of May 31, 2013 and 2012 using Level 1 and Level 2 inputs in the fair value hierarchy according to ASC Topic 820. No investments were valued using Level 3 inputs.

		Union Plan's assets		
		Level 1	**Level 2**	**Total**
May 31, 2013:				
Domestic equity – commingled funds	$	—	19,037,000	19,037,000
International equity funds		2,297,000	—	2,297,000
International equity – commingled funds		—	2,261,000	2,261,000
Fixed-income funds		21,655,000	—	21,655,000
Other (money market)		915,000	—	915,000
Total	$	24,867,000	21,298,000	46,165,000

		Union Plan's assets	
	Level 1	**Level 2**	**Total**
May 31, 2012:			
Domestic equity – commingled funds	$ —	18,475,000	18,475,000
International equity funds	1,870,000	—	1,870,000
International equity – commingled funds	—	1,799,000	1,799,000
Fixed-income funds	20,781,000	—	20,781,000
Other (money market)	635,000	—	635,000
Total	$ 23,286,000	20,274,000	43,560,000

CU's investment goal is to prudently maximize the return on investments while maintaining the preservation of capital, consistent with Employee Retirement Income Security Act requirements and the terms of the trust agreement and the plan. The investment policy prohibits direct investment in individual equity securities and fixed-income obligations of individual companies. Pension assets are diversified by the use of mutual funds and commingled trust funds whose underlying investments are in readily marketable domestic fixed-income and equity securities. These funds can be liquidated to fund benefit payments obligations as they become payable.

(d) Cash Flows

In order to meet contribution requirements, CU expects to contribute $500,000 to the Management Plan and $1,000,000 to the Union Plan for the fiscal year ending May 31, 2014.

The benefits, primarily in the form of lump sums, expected to be paid out from the pension plans if all active participants were to retire at their assumed retirement age are as follows:

	Management Plan	**Union Plan**
Year ending May 31:		
2014	$ 3,928,000	4,784,000
2015	2,884,000	3,846,000
2016	5,272,000	3,217,000
2017	2,432,000	3,335,000
2018	3,126,000	3,264,000
2019-2023	14,452,000	21,144,000

The expected benefits are based on the same assumptions used to measure CU's benefit obligation at May 31, 2013 and include estimated future employee service.

(e) Other Benefit Plans

CU administers 401(k) plans for guild-represented and management/exempt employees that allow participants to make pretax contributions to their accounts, which are invested in investments from several alternatives selected by the trustees of the plans. For both plans, CU matches employee contributions up to 2% of the employee's salary, subject to certain maximum limitations. Employees vest immediately to the employer matching contribution. Since July 31, 2009, all management/exempt employees receive an 8% employer nonmatching contribution in lieu of ongoing benefit accruals in the defined benefit plan. These contributions to an employee's account vest 20% per annum over a five-year period. CU's total employer contributions to the 401(k) plans were $3,533,000 and $3,800,000 in 2013 and 2012, respectively.

Additionally, CU's board of directors adopted a Supplemental Executive Retirement Plan (SERP) under Section 457(f) of the Code for certain executive employees effective October 1994. The IRS approved the qualification of the plan through October 31, 1996. This benefit plan suspended accruals effective December 31, 2002; an alternative SERP plan was established for certain executive employees effective January 1, 2003 that would qualify under Section 457(b) of the Code. Employer contributions relating to this plan were $70,000 and $82,000 in 2013 and 2012, respectively.

(7) Commitments and Contingencies

(a) Leases

CU leases office facilities for which rental expense was $567,000 and $577,000 in 2013 and 2012, respectively. Certain leases obligate CU to reimburse the owners of the office facilities for increases in real estate taxes. The leases have remaining terms of up to eight years. Minimum lease payments under operating leases are recognized on a straight-line basis over the term of the lease, including any periods of free rent.

Future minimum cash payments under noncancelable leases are as follows:

Year ending May 31:		
2014	$	588,000
2015		526,000
2016		534,000
2017		280,000
2018		192,000
2019 and thereafter		592,000
	$	2,712,000

(b) Legal Proceedings

Various claims and legal threats are made against the Organization during the ordinary course of business. It is management's opinion that the ultimate disposition of these matters will not have a material adverse effect on the Organization's consolidated financial position, changes in net assets, or liquidity.

(8) Long-Term Debt

On December 22, 2005, CU and the City of Yonkers Industrial Development Agency (IDA) issued $47,300,000 Series 2005 Multi-Modal Civic Facility Revenue Bonds (2005 Revenue Bonds). The 2005 Revenue Bonds were issued for the purpose of providing funds for the refunding of the prior bonds, which was $34,750,000 (1989, 1991, and 1994 Revenue Bonds), financing certain costs associated with the reconstructing, renovating, and equipping CU's National Research and Testing Center and headquarters and financing of capital expenditures, including the acquisition and installation of various items of machinery, equipment, and other tangible personal property totaling $9,980,000, and paying certain costs and expenses incidental to the issuance of the 2005 Revenue Bonds.

The 2005 Revenue Bonds were initially issued as Auction Rate Securities. These bonds were continuously remarketed and the rate was reset weekly. Since these bonds were variable rate debt, they exposed CU to interest rate risk. In order to mitigate this risk, CU entered into an interest rate swap agreement on approximately 70.0% of the bonds at a fixed interest rate. Additional information regarding the interest rate swap is in note 10.

On May 29, 2008, the Second Amendment to the Indenture of Trust was entered into between City of Yonkers IDA and The Bank of New York, as Trustee. The Amendment provides for a mode change from the weekly auction rate mode to a variable rate demand bond mode. The average variable rate for the demand bonds for 2013 and 2012 was 0.17% and 0.11%, respectively. The Amendment provides for additional credit enhancement as security for the bonds through a direct-pay letter of credit, issued on May 29, 2008 by JPMorgan Chase Bank (JPMorgan). This letter of credit is discussed in more detail in note 9.

CU also entered into a Remarketing Agreement with Merrill Lynch Pierce, Fenner & Smith Incorporated (Merrill Lynch). As remarketing agent, Merrill Lynch markets CU's bonds on a weekly basis. The rate of interest CU pays on its debt is reset weekly based upon market conditions.

The 2005 Revenue Bonds are subject to mandatory sinking fund requirements, which began in 2012. The first and second principal payments of $1,125,000 and $1,175,000 were made in June 2011 and 2012, respectively. Total long-term annual sinking fund requirements for the revenue bonds are as follows:

Year ending May 31:		
2014	$	1,200,000
2015		1,250,000
2016		1,300,000
2017		1,350,000
2018		1,400,000
2019-2036		38,500,000
	$	45,000,000

The issuance costs related to the mode change amounted to $416,000 and were paid out of cash from operations. The issuance costs related to the mode change will continue to be amortized into interest expense using the effective-interest method over the remaining life of the bond. The unamortized amounts are included in other assets on the accompanying consolidated balance sheets as of May 31, 2013 and 2012.

CU is in compliance with certain financial ratios, as well as other financial and operational requirements, in accordance with the applicable bond documents and insurance policy.

Interest expense including the letter-of-credit fees (note 9), and the net interest rate swap activity (note 10) for long-term debt for 2013 and 2012 was $1,477,000 and $1,491,000, respectively, and is included in general and administrative expenses in the accompanying consolidated statements of activities. The average rate of debt costs on all outstanding debt was 3.3% and 3.2% for the years ended May 31, 2013 and 2012, respectively.

(9) Bank Borrowings

CU has an unused line of credit totaling $10,000,000 at May 31, 2013. Terms of this line allow CU to draw down on the line with interest at the higher of the federal funds rate plus 0.5% or the prime rate less 1.0%. At May 31, 2013 and 2012, CU has no amount outstanding under the line-of-credit agreement.

As part of the May 29, 2008 modification of the bond from auction rate securities to variable rate demand bonds, CU entered into a three-year letter of credit in the amount of $45,503,000. Amendments have been executed extending the term of the letter of credit through May 31, 2016. A fee of 0.5% on the letter of credit is included in interest expense for long-term debt included in general and administrative expenses in the accompanying consolidated statements of activities. The terms of the letter of credit allow it to be drawn upon only if CU were to default on the existing bonds and represents coverage for the $45,000,000 balance of the bonds in addition to $503,000 representing 34 days of interest at the highest rate (12.0%) allowable by the indenture. The applicable rate of any amount drawn upon would be based on the higher of the JPMorgan's prime rate or the Federal Funds Rate plus 0.5% in addition to 1.0% to 4.0% based on the length of time the letter of credit contained an outstanding balance. As of May 31, 2013 and 2012, there was no amount outstanding under the letter-of-credit agreement.

(10) Derivative Instruments and Hedging Activities

CU entered into an Interest Rate Swap Agreement (the Swap) in order to manage its interest-rate-related exposure on its debt. The Swap is pursuant to an International Swaps and Derivatives Association, Inc. Master Agreement with Morgan Stanley Capital Services, Inc. (Swap Provider) dated November 14, 2005 in a notional principal amount of $32,900,000. The hedge agreement extends for the period from January 19, 2006 to June 1, 2036 (subject to prior sinking fund redemption). Sinking fund redemptions scheduled for the $47,300,000 debt issue coincide with the scheduled proportional reductions in the notional principal amount of the Swap. As of May 31, 2013, the notional principal amount of the Swap is $31,290,000.

The municipal bond insurance policy, which guarantees the payment of principal and interest on the 2005 Revenue Bonds, also insured payments to the Swap Provider. The Swap requires the insurer to maintain certain financial ratings. On November 5, 2008, Moody's downgraded the insurer from Aa3 to Baa1, which is below the threshold required by the Swap. In order to avoid a forced termination of the Swap, CU and the Swap Provider amended the Swap to terminate the insurance and increase the fixed rate payable under the Swap from 3.65% to 3.67%, payable monthly effective December 1, 2008, on the first day of each month until the termination date. The floating rate payable under the Swap by the Swap Provider remains unchanged and is equal to 68.0% of weekly resets of the one-month LIBOR index, payable weekly to CU on each Friday commencing January 27, 2006 through the termination date.

As of May 31, 2013 and 2012, the fair value of the Swap using Level 2 inputs under the fair value hierarchy under ASC Topic 820, including the amendment, is $(6,420,000) and $(8,936,000), respectively. These amounts are reflected on the accompanying consolidated balance sheets, and the associated gain (loss) is included in the accompanying consolidated statements of activities as unrealized gain (loss) on interest rate swap.

(11) Charitable Gift Annuities

As discussed in note 1, the Organization maintains a CGA program. The Organization's investments pertaining to the CGA program were valued at $13,638,000 and $12,242,000 at May 31, 2013 and 2012, respectively. The Organization's liability associated with CGAs was $10,501,000 and $9,995,000, utilizing discount rates of 1.2% and 1.6% at May 31, 2013 and 2012, respectively. During 2013 and 2012, respectively, CU recognized $232,000 and $353,000 in net unrestricted contribution revenue attributable to new CGAs. Additionally, principally because of changes in the discount rate used to present value the liability, the liability increased by $638,000 in 2013 and increased by $1,527,000 in 2012.

(12) Discontinuance of Health Web Site

In order to maximize the impact of the health-related content while reducing costs, CU decided to discontinue the separate subscription-based health Web site in October 2011. As a result, $2,414,000 of gross Web site development costs with a net book value of $618,000 were written off for the year ended May 31, 2012. In addition, six positions were eliminated which resulted in $159,000 of severance benefits. There was also $497,000 of contract termination costs related to the content license agreements and $300,000 of other costs related to shutting down the Web site. The total loss on discontinuance of the Web site was $1,574,000 and is included in general administrative expenses in the accompanying consolidated statement of activities for the year ended May 31, 2012.

As compensation for discontinuing the health Web site, all of the existing subscribers were given a complementary annual subscription to the Health Letter. As a result, the remaining unearned revenue balance of $931,000 at the time of the discontinuance of the Web site was recognized on a straight-line basis over the 12-month subscription period ended September 2012.

(13) Restructuring

CU implemented additional cost-cutting measures beginning in 2012 order to reduce operating expenses and position the Organization for a return to operating profitability including the reduction of staff levels. The reduction of staff began in November 2011 and lasted through May 31, 2013. This resulted in the layoff of 21 employees who combined received severance benefits totaling $1,740,000 in 2012 and 37 employees who combined received severance benefits totaling $2,381,000 in 2013. The severance benefits are a combination of cash payments, continuation of health benefits, and outplacement benefits. These amounts are included in general and administrative expenses in the consolidated accompanying consolidated statement of activities.

(14) Other Relationships

The Organization is a member of Consumers International (CI), a nonprofit organization headquartered in the United Kingdom, which focuses on global consumer concerns. Acting as the member's representative, an officer of the Organization serves, without compensation, as president of the board of directors of CI. Membership payments and expense were $970,000 and $969,000 for the years ended May 31, 2013 and 2012, respectively, and were included in consumer advocacy and education on the accompanying consolidated statements of activities.

In May 2005, CU became a member shareholder of International Consumer Research and Testing Limited (ICRT), a United Kingdom company. ICRT is an association of international testing organizations that promotes cooperation in areas such as the regulation of research and testing consumer products, services, and other consumer issues, and the promotion of assistance in joint comparative product testing of its member organizations. Through 2013, CU's investment in ICRT was $93,000 for two capital shares. The investment was recorded as expense when paid as CU's ownership percentage and voting interest does not provide CU with significant influence over the operations of ICRT. In 2013 and 2012, CU also paid ICRT membership fees of $115,000 and $124,000, respectively. In 2013 and 2012, CU made payments of $496,000 and $529,000, respectively, for certain product testing results. Additionally, CU received $615,000 and $553,000 during 2013 and 2012, respectively, from sales of certain product testing results, and this is included in revenue and support in the accompanying consolidated statements of activities. Acting as the shareholder's representative, an officer of CU serves, without compensation, on the board of directors of ICRT.

(15) Subsequent Events

The Organization has evaluated subsequent events from the balance sheet date through September 18, 2013, the date at which the financial statements were issued, and determined there are no other items to disclose.