



CONSUMERS UNION OF UNITED STATES, INC.

Consolidated Financial Statements

May 31, 2011 and 2010

(With Independent Auditors' Report Thereon)



KPMG LLP
345 Park Avenue
New York, NY 10154

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Consumers Union of United States, Inc. (the Organization) as of May 31, 2011 and 2010, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Consumers Union of United States, Inc. as of May 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

September 21, 2011

CONSUMERS UNION OF UNITED STATES, INC.

Consolidated Balance Sheets

May 31, 2011 and 2010

Assets	2011	2010
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Current assets:		
Cash	\$ 18,761,000	29,172,000
Investments (note 5)	224,766,000	175,186,000
Trade receivables, net	7,758,000	6,117,000
Inventories (note 3)	1,939,000	2,690,000
Auto test inventory	2,134,000	1,752,000
Grants and other receivables (note 2)	2,715,000	3,738,000
Deferred promotion cost	21,096,000	21,773,000
Prepaid expenses and other current assets	9,228,000	9,370,000
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Total current assets	288,397,000	249,798,000
Property and equipment, net (note 4)	63,717,000	63,146,000
Deferred promotion cost – long term	6,317,000	6,356,000
Other assets (notes 2, 8, and 12)	3,415,000	4,331,000
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Total assets	\$ 361,846,000	323,631,000
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Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 13,173,000	10,486,000
Accrued compensation	9,842,000	9,232,000
Unearned subscription revenue	116,410,000	114,182,000
Current portion of long-term debt (note 8)	1,125,000	—
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Total current liabilities	140,550,000	133,900,000
Unearned subscription revenue – long term	34,711,000	34,398,000
Liability under derivative instrument (note 10)	4,688,000	4,448,000
Long-term debt (note 8)	46,175,000	47,300,000
Other liabilities (notes 2, 6 and 11)	35,447,000	35,925,000
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Total liabilities	261,571,000	255,971,000
Net assets:		
Unrestricted	95,869,000	62,878,000
Temporarily restricted (note 2)	4,406,000	4,782,000
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Total net assets	100,275,000	67,660,000
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Total liabilities and net assets	\$ 361,846,000	323,631,000
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See accompanying notes to consolidated financial statements.

CONSUMERS UNION OF UNITED STATES, INC.

Consolidated Statements of Activities

Years ended May 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating:		
Change in unrestricted net assets:		
Revenue and support:		
Subscriptions, newsstand, and other sales	\$ 229,901,000	228,815,000
Contributions	17,432,000	17,221,000
Net assets released from restrictions	4,152,000	3,546,000
Other	960,000	292,000
	<u>252,445,000</u>	<u>249,874,000</u>
Total revenue and support		
Operating and other expenses:		
Publication, promotion, and marketing expenses:		
Content development	90,724,000	86,091,000
Production and distribution	37,662,000	38,364,000
Promotion and marketing	78,860,000	77,865,000
	<u>207,246,000</u>	<u>202,320,000</u>
Consumer advocacy and education	17,982,000	17,346,000
General and administrative	22,121,000	21,303,000
Fundraising	9,979,000	9,479,000
	<u>257,328,000</u>	<u>250,448,000</u>
Total operating and other expenses		
Total operating loss	<u>(4,883,000)</u>	<u>(574,000)</u>
Nonoperating:		
Investment gain, net (note 5)	34,338,000	22,499,000
Unrealized loss on interest rate swap (note 10)	(240,000)	(238,000)
Pension-related changes other than net periodic pension cost (note 6)	3,776,000	(8,298,000)
Loss on settlement of management pension plan (note 6)	—	(1,188,000)
	<u>37,874,000</u>	<u>12,775,000</u>
Total nonoperating gain		
Increase in unrestricted net assets	<u>32,991,000</u>	<u>12,201,000</u>
Change in temporarily restricted net assets:		
Grants received	3,724,000	553,000
Net assets released from restrictions	(4,152,000)	(3,546,000)
Contribution revenue – split-interest agreements	20,000	—
Contribution revenue – bequest	47,000	79,000
Change in value of split-interest agreements (note 2)	(15,000)	(197,000)
	<u>(376,000)</u>	<u>(3,111,000)</u>
Decrease in temporarily restricted net assets		
Increase in net assets	32,615,000	9,090,000
Net assets at beginning of year	<u>67,660,000</u>	<u>58,570,000</u>
Net assets at end of year	\$ <u>100,275,000</u>	\$ <u>67,660,000</u>

See accompanying notes to consolidated financial statements.

CONSUMERS UNION OF UNITED STATES, INC.

Consolidated Statements of Functional Expenses

Years ended May 31, 2010 and 2009

	<u>Publication, promotion, and marketing</u>	<u>Consumer advocacy and education</u>	<u>General and administrative</u>	<u>Fundraising</u>	<u>2011 Total</u>	<u>Publication, promotion, and marketing</u>	<u>Consumer advocacy and education</u>	<u>General and administrative</u>	<u>Fundraising</u>	<u>2010 Total</u>
Salaries, employee benefits, and payroll taxes	\$ 60,080,000	9,017,000	19,070,000	2,222,000	90,389,000	56,426,000	8,692,000	18,004,000	1,884,000	85,006,000
Printing and publications	38,495,000	556,000	664,000	3,130,000	42,845,000	37,248,000	344,000	573,000	2,779,000	40,944,000
Postage and shipping	39,577,000	172,000	176,000	3,543,000	43,468,000	41,186,000	216,000	164,000	3,751,000	45,317,000
Sales and marketing	37,517,000	530,000	—	629,000	38,676,000	36,978,000	405,000	—	568,000	37,951,000
Product testing	4,068,000	—	—	—	4,068,000	3,764,000	—	—	—	3,764,000
Professional fees	5,705,000	3,303,000	2,517,000	129,000	11,654,000	4,787,000	2,906,000	2,144,000	179,000	10,016,000
Insurance	—	—	1,020,000	—	1,020,000	—	—	1,083,000	—	1,083,000
Fees, licenses, and permits	1,316,000	10,000	54,000	5,000	1,385,000	1,186,000	6,000	49,000	2,000	1,243,000
Occupancy	326,000	669,000	2,050,000	—	3,045,000	328,000	691,000	2,084,000	—	3,103,000
Grants and awards	—	633,000	—	—	633,000	—	896,000	—	—	896,000
Supplies	399,000	65,000	538,000	5,000	1,007,000	305,000	62,000	492,000	6,000	865,000
Telephone	141,000	96,000	260,000	2,000	499,000	131,000	90,000	225,000	1,000	447,000
Travel	621,000	606,000	254,000	36,000	1,517,000	507,000	450,000	245,000	27,000	1,229,000
Meetings and conferences	111,000	104,000	103,000	8,000	326,000	74,000	56,000	46,000	6,000	182,000
Dues and subscriptions	230,000	993,000	245,000	1,000	1,469,000	280,000	1,132,000	222,000	1,000	1,635,000
Interest	—	—	1,582,000	—	1,582,000	—	—	1,561,000	—	1,561,000
Depreciation and amortization	5,972,000	172,000	3,566,000	3,000	9,713,000	6,298,000	192,000	3,670,000	2,000	10,162,000
Sales tax	102,000	—	—	—	102,000	95,000	—	—	—	95,000
Other expenses	1,454,000	606,000	1,797,000	73,000	3,930,000	1,948,000	873,000	2,047,000	81,000	4,949,000
Subtotal	196,114,000	17,532,000	33,896,000	9,786,000	257,328,000	191,541,000	17,011,000	32,609,000	9,287,000	250,448,000
Allocation of direct supporting services	11,132,000	450,000	(11,775,000)	193,000	—	10,779,000	335,000	(11,306,000)	192,000	—
Total	\$ 207,246,000	17,982,000	22,121,000	9,979,000	257,328,000	202,320,000	17,346,000	21,303,000	9,479,000	250,448,000

See accompanying notes to consolidated financial statements.

CONSUMERS UNION OF UNITED STATES, INC.

Consolidated Statements of Cash Flows

Years ended May 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Increase in net assets	\$ 32,615,000	9,090,000
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	9,713,000	10,162,000
Amortization of bond issuance costs	24,000	24,000
Amortization of intangible assets	—	195,000
Net unrealized gain on investments	(32,519,000)	(16,742,000)
Net realized loss (gain) on investments	2,054,000	(1,503,000)
Unrealized loss on interest rate swap	240,000	238,000
Restricted contribution income	(67,000)	(79,000)
Change in value of split-interest agreements	15,000	197,000
Pension expense	5,537,000	5,190,000
Loss on settlement of management/exempt pension plan	—	1,188,000
Loss on disposal of property and equipment	58,000	653,000
Other noncash items	323,000	82,000
Actuarial change in charitable gift annuity obligations	278,000	(318,000)
Pension contributions	(3,352,000)	(4,903,000)
Other changes in assets and liabilities:		
Trade receivable, net	(1,641,000)	5,397,000
Inventories and auto test inventory	369,000	(67,000)
Grants and other receivables	1,023,000	22,000
Deferred promotion	716,000	2,205,000
Prepaid expenses and other current assets	142,000	1,033,000
Other noncurrent assets	1,197,000	2,332,000
Accounts payable and accrued liabilities	2,335,000	(722,000)
Charitable gift annuity obligation	1,439,000	927,000
Pension liability	(3,776,000)	8,298,000
Accrued compensation	610,000	118,000
Unearned subscription revenue	2,541,000	(1,650,000)
Other liabilities	(130,000)	(116,000)
Net cash provided by operating activities	<u>19,744,000</u>	<u>21,251,000</u>
Cash flows from capital investments and other investing activities:		
Purchases of property and equipment	(2,428,000)	(2,459,000)
Payments for computer software and development	(7,914,000)	(5,620,000)
Purchase of assets of a business (note 12)	—	(100,000)
Purchase of investments	(765,905,000)	(470,314,000)
Proceeds from sales of investments	746,790,000	470,306,000
Net cash used in capital investments and other investing activities	<u>(29,457,000)</u>	<u>(8,187,000)</u>
Cash flows from financing activity:		
Payments of charitable gift annuity obligations	(698,000)	(648,000)
Net cash used in financing activity	<u>(698,000)</u>	<u>(648,000)</u>
Net (decrease) increase in cash	(10,411,000)	12,416,000
Cash at beginning of year	29,172,000	16,756,000
Cash at end of year	\$ <u>18,761,000</u>	<u>29,172,000</u>
Supplemental cash flow information:		
Cash paid for interest	\$ 1,558,000	1,537,000

See accompanying notes to consolidated financial statements.

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2011 and 2010

(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

In June 2009, the Financial Accounting Standards Board (FASB) issued a standard regarding the FASB Accounting Standards Codification (the Codification or ASC) and the hierarchy of U.S. GAAP. The Codification does not alter current U.S. GAAP, but instead integrates existing accounting standards with other authoritative guidance. The Codification provides a single source of authoritative U.S. GAAP for nongovernmental entities and supersedes all other previously issued accounting and reporting guidance. This standard is effective for annual periods ending after September 15, 2009. The adoption of the Codification did not have any effect on the Company's financial statements. All prior references to U.S. GAAP have been revised to conform to the Codification. Updates to the Codification are issued in the form of Accounting Standards Updates (ASU).

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, expenses, 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.

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2011 and 2010

Temporarily restricted net assets – Net assets subject to donor- or grant-imposed stipulations that will be met either by actions of CU or the passage of time.

Nonoperating items have been segregated in the accompanying consolidated statements of activities and include a net investment gain, unrealized loss on an interest rate swap, an adjustment to pension liability, and a loss on settlement of the management pension plan.

In the consolidated statements of functional expenses for the years ended May 31, 2011 and 2010, information technology and facilities costs are allocated from general and administrative costs into the functional expense categories based on a percentage of the square foot usage of the Organization's facilities.

(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 – current, 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 \$2,791,000 and \$2,952,000 is included in prepaid expenses and other current assets for the years ended May 31, 2011 and 2010, respectively. Deferred commission expense to be recognized in excess of one year of \$1,255,000 and \$1,324,000 is included in other assets for the years ended May 31, 2011 and 2010, 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 \$5,994,000 and \$5,466,000 at May 31, 2011 and 2010, respectively. As of May 31, 2011, trade receivables primarily consist of receivables from subscriptions (71%), newsstand sales (20%), and other sales (9%).

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 one-time 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 FASB 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.

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2011 and 2010

(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 26 months. Deferred promotion costs to be amortized within one year are included as deferred promotion cost – current, 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, 2011 and 2010, approximately \$27,413,000 and \$28,129,000, 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 \$29,712,000 and \$31,572,000 in 2011 and 2010, respectively. During the years ended May 31, 2011 and 2010, CU recorded a write-down of deferred promotion asset to net realizable value in the amount of \$279,000 and \$298,000, respectively.

(e) *Investments*

Investments at May 31, 2011 and 2010 consist of U.S. Treasury, mortgage-backed securities, and debt, equity, and commodity commingled trust funds. Investments are stated at fair market value based upon quoted market prices except for the fair values of institutional mutual funds and comingled trust funds, which 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 according to FASB ASC Topic 820, *Fair Value Measurements*, as discussed in note 1(n). 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 and is valued based upon the present value of the discounted expected future cash flows with the swap counterparty according to ASC Topic 820 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, 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.

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2011 and 2010

(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.

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 at fair value 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), charitable remainder unitrusts (CRUTs), and retained life estate agreements. 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 is recognized and subsequently revalued at the actuarially determined present value of future cash flows expected to be paid to the donor. Contribution

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2011 and 2010

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 designated as temporarily restricted until the termination of the trust when they become unrestricted.

Under retained life estate agreements, CU records the contribution of property as temporarily restricted contribution revenue as the donor has continued use of the donated property. Revenue is calculated based on the difference between the fair value of the donated property and the actuarially determined present value of an annuity for the life of the donor. The property is adjusted to fair market value at each subsequent consolidated balance sheet date and is valued using comparable sales within the same geographic area. Subsequent changes in the fair value of the contributed property and the present value of annuity payments are recorded as changes in value of split-interest agreement in temporarily restricted net assets in the accompanying consolidated statements of activities.

(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. Assets to be disposed of would be separately presented in the consolidated balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held-for-sale would be presented separately in the appropriate asset and

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2011 and 2010

liability sections of the consolidated balance sheets. There were no impairments in 2011. In 2010, an impairment loss of \$354,000 was recognized and is included in content development expenses in the accompanying consolidated statements of activities. The impairment loss is further discussed in note 12.

(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, 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 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.

On June 1, 2009, the Organization applied the provisions of ASC Topic 820 to fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. Applying these provisions did not have any impact on its financial position and results of operations.

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2011 and 2010

The fair values of the financial instruments as of May 31, 2011 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 2010 reported amounts to conform to the 2011 presentation.

(2) **Temporarily Restricted Net Assets**

Temporarily restricted net assets were \$4,406,000 and \$4,782,000 as of May 31, 2011 and 2010, respectively, and consist of the following:

	<u>2011</u>	<u>2010</u>
Split-interest agreements	\$ 418,000	412,000
Bequest receivable	670,000	1,308,000
Grantor-imposed purpose restrictions	<u>3,318,000</u>	<u>3,062,000</u>
	<u>\$ 4,406,000</u>	<u>4,782,000</u>

On September 7, 2005, CU entered into a retained life estate agreement with a donor for a property with a fair value of \$1,300,000, which was recorded and included in other assets. In addition, the donor received an annuity in exchange for the property. In 2010, the fair market value of the property using Level 2 inputs according to the fair value hierarchy of ASC Topic 820 decreased to \$550,000 and the value of the liabilities decreased by \$22,000. The net decrease of \$292,000 was recorded as a change in value of split-interest agreements in the accompanying consolidated statement of activities for the year ended May 31, 2010. In March 2010, the donor agreed to exchange the life estate agreement for a second annuity. As a result, the property with a fair market value of \$550,000 became available for sale and was reclassified from other assets to prepaid expenses and other current assets in the accompanying consolidated balance sheet as of May 31, 2010. In November 2010, the property was sold for \$453,000 and

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2011 and 2010

a loss of \$97,000 was recognized and included in general and administration in the accompanying statement of activities for the year ended May 31, 2011.

CU entered into one CRUT with donors in 2011. Initial trust assets of \$107,000 and liabilities to donors of \$87,000 were recognized in 2011, and are included in other assets and other liabilities, respectively, in the consolidated balance sheet as of May 31, 2011. In relation to this arrangement, CU recorded \$20,000 of temporarily restricted contribution revenue, which is included in the accompanying consolidated statement of activities for the year ended May 31 2011. As of May 31, 2011, there was \$1,724,000 in CRUT assets that were presented at fair value using Level 1 inputs according to the fair value hierarchy of ASC Topic 820.

On July 9, 2007, CU received correspondence that it was named as a beneficiary of a bequest. The bequest consisted of two promissory notes in addition to a payment related to the liquidation of other assets of donor's estate. The promissory notes indicated that \$3,427,000 will be paid to CU in five annual installments of \$685,000 beginning on July 10, 2007 with the final payment on July 10, 2011. The third and fourth payments of \$685,000 were received and recorded as assets released from restriction in the accompanying consolidated statements of activities for the years ended May 31, 2011 and 2010. Since the portion of the bequest that was not received as of the consolidated balance sheet date is restricted because it is to be received in future years, a receivable of \$685,000 is included in grants and other receivables in the accompanying consolidated balance sheet as of May 31, 2011. This amount was collected in July 2011.

Temporarily restricted net assets due to grant-imposed stipulations at May 31, 2011 and 2010 are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Health Care Reform (a)	\$ 1,204,000	519,000
Dietary Supplement Safety (b)	750,000	—
California Endowment (c)	729,000	31,000
American Institutes for Research (d)	166,000	—
Best Buy Drugs (e)	47,000	1,914,000
Knowledge Exchange (f)	17,000	197,000
Other grants outstanding less than \$100,000 individually	405,000	401,000
	<u>\$ 3,318,000</u>	<u>3,062,000</u>

- (a) Represents a grant received for CU to advocate for policies that advance the interests of consumers in the current healthcare reform debate.
- (b) Represents a court ordered payment received for CU to establish programs to investigate the safety and efficacy of dietary supplements, develop nationwide supplement education programs, remove hazardous supplements from the market, and promote honest representation of supplements through research, education, and advocacy.
- (c) Represents a grant received to coordinate a broad-based coalition that seeks to advance the role of consumers in the comprehensive healthcare reform movement in California.

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2011 and 2010

- (d) Represents a grant received to complete a small-scale pilot to find, help train, and support consumers and caregivers to advise comparative effectiveness researchers.
- (e) 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.
- (f) Represents a grant received for CU to organize and manage four knowledge exchange meetings on broadband and net neutrality issues.

All of the temporarily restricted assets due to grantor-imposed restrictions are included in cash or grants and other receivables. Grant cash of \$2,056,000 and grant receivables of \$2,112,000 combined exceed the grantor-imposed restricted fund balance by \$850,000 due to grant-incurred expenses that have been incurred and billed to the grantor, but the Organization has not received payment by May 31, 2011.

(3) Inventories

Inventories at May 31, 2011 and 2010 consist of the following:

	2011	2010
Paper	\$ 961,000	1,749,000
Books in process	135,000	80,000
Published books	843,000	861,000
	\$ 1,939,000	2,690,000

(4) Property and Equipment

Property and equipment at May 31, 2011 and 2010 consist of the following:

	2011	2010
Land	\$ 11,935,000	11,935,000
Buildings and building improvements	64,028,000	65,313,000
Furniture, fixtures, and equipment	14,615,000	33,614,000
Capitalized computer software	37,034,000	37,764,000
	127,612,000	148,626,000
Less accumulated depreciation and amortization	63,895,000	85,480,000
Net property and equipment	\$ 63,717,000	63,146,000

Depreciation and amortization expense for the years ended May 31, 2011 and 2010 was \$9,713,000 and \$10,162,000, respectively. At May 31, 2011 and 2010, capitalized computer software was \$11,422,000 and \$9,185,000, respectively, net of accumulated amortization of \$25,612,000 and \$28,579,000, respectively. Amortization expense for capitalized computer software was \$5,677,000 and \$5,896,000 in 2011 and 2010, respectively. In addition, certain capitalized software projects were discontinued and a loss on disposal of

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2011 and 2010

\$653,000 was recognized and is included in general and administrative expenses in the accompanying consolidated statement of activities for the year ended May 31, 2010. There were no discontinued capitalized software projects in 2011.

In 2011, CU performed a review of fixed assets to determine if there were fully depreciated assets on the books no longer in service by the Organization. The review resulted in the removal of \$31,314,000 of gross fixed assets with a net book value of \$58,000 which was recorded as a loss on disposal in content development on the accompanying consolidated statement of activities for the year ended May 31, 2011.

(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. All of CU's investments were fair valued as of May 31, 2011 and 2010 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.

The fair value of investments as of May 31, 2011 and 2010 consists of the following:

	<u>2011</u>	<u>2010</u>
Equity and debt securities – commingled trust funds	\$ 158,263,000	128,332,000
Commodities – commingled trust funds	15,465,000	—
Mortgage-backed securities	24,776,000	22,667,000
U.S. Treasury securities	26,262,000	24,187,000
	<u>\$ 224,766,000</u>	<u>175,186,000</u>

Investment gains included in the nonoperating gains in the accompanying consolidated statements of activities for the years ended May 31, 2011 and 2010 were composed of:

	<u>2011</u>	<u>2010</u>
Investment and dividend income	\$ 4,281,000	4,602,000
Net unrealized gains	32,519,000	16,742,000
Net realized (losses) gains	(2,054,000)	1,503,000
Investment expenses	(408,000)	(348,000)
	<u>\$ 34,338,000</u>	<u>22,499,000</u>

The investment policy statement governing CU's corporate investment portfolio was updated in June 2010. 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. Fixed income holdings are invested in U.S. dollar-denominated obligations of the U.S. government and its agencies and instrumentalities, and an intermediate credit index fund. The objective of the fixed income allocation is to provide a rate of return comparable to the Barclays

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2011 and 2010

Capital Intermediate Aggregate Index. Equity, TIPS, and commodity holdings are invested in broadly diversified commingled trust funds that employ an index replication approach.

(6) Employee Benefits

(a) Defined Benefit Plan

CU maintained three defined benefit plans for its employees during 2011 and 2010. 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 Guild Plan). Contributions to the Guild Plan and the related expense recognized were \$104,000 and \$95,000 in 2011 and 2010, respectively.

The measurement date used to determine pension benefit measures for the Management Plan and the Union Plan is May 31, 2011.

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. The suspension of benefit accruals for participants in the Management Plan met the criteria of a curtailment in accordance with the Subsections of FASB ASC Subtopic 715-30, *Compensation – Retirement Benefits – Defined Benefit Plans – Pension – Settlements, Curtailments, and Certain Termination Benefits*. The projected benefit obligation for the Management Plan was reduced by \$6,336,000 to \$35,199,000 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 Management Plan in amounts sufficient to meet applicable funding requirements.

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2011 and 2010

(b) Obligations and Funded Status

At May 31:

	Pension benefits	
	2011	2010
Change in projected benefit obligation:		
Benefit obligation at the beginning of year	\$ 94,895,000	75,202,000
Service cost	3,630,000	2,830,000
Interest cost	5,148,000	5,400,000
Actuarial loss	232,000	1,935,000
Benefits and administrative expenses paid	(2,435,000)	(1,198,000)
Change in discount rate	4,689,000	13,673,000
Change due to settlement of Management Plan	—	(2,947,000)
Projected benefit obligation at the end of year	<u>106,159,000</u>	<u>94,895,000</u>
Change in plan assets:		
Fair value of plan assets at the beginning of year	68,811,000	58,893,000
Actual return on plan assets	11,938,000	9,160,000
Employer contributions	3,352,000	4,903,000
Benefits and administrative expenses paid	(2,435,000)	(1,198,000)
Change due to settlement of Management Plan	—	(2,947,000)
Fair value of assets at the end of year	<u>81,666,000</u>	<u>68,811,000</u>
Funded status	<u>\$ (24,493,000)</u>	<u>(26,084,000)</u>

The accumulated benefit obligation for all defined benefit pension plans was \$92,342,000 and \$82,661,000 at May 31, 2011 and 2010, 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, 2011 and 2010, as provided by CU's actuaries, were as follows:

	2011	2010
Funded status:		
Accumulated benefit obligation	\$ 92,342,000	82,661,000
Projected benefit obligation	\$ 106,159,000	94,895,000
Fair value of plan assets available for benefits	<u>81,666,000</u>	<u>68,811,000</u>
Funded status	<u>\$ (24,493,000)</u>	<u>(26,084,000)</u>

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2011 and 2010

	Management Plan	
	2011	2010
Funded status:		
Accumulated benefit obligation	\$ 43,841,000	40,223,000
Projected benefit obligation	\$ 43,841,000	40,223,000
Fair value of plan assets available for benefits	39,950,000	34,273,000
Funded status	<u>\$ (3,891,000)</u>	<u>(5,950,000)</u>

	Union Plan	
	2011	2010
Funded status:		
Accumulated benefit obligation	\$ 48,501,000	42,438,000
Projected benefit obligation	\$ 62,318,000	54,672,000
Fair value of plan assets available for benefits	41,716,000	34,538,000
Funded status	<u>\$ (20,602,000)</u>	<u>(20,134,000)</u>

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, 2011 and 2010, as provided by CU's actuaries, were as follows:

	2011	2010
Amounts recognized in the consolidated balance sheet consist of:		
Noncurrent liabilities	\$ (24,493,000)	(26,084,000)
Total	<u>\$ (24,493,000)</u>	<u>(26,084,000)</u>
Amounts recognized as an adjustment to unrestricted net assets consist of:		
Unrecognized actuarial loss	\$ 32,941,000	36,717,000
Total adjustment to unrestricted net assets	<u>\$ 32,941,000</u>	<u>36,717,000</u>

The amount in the adjustment to unrestricted net assets as of May 31, 2011 that is expected to be recognized as a component of net periodic benefit cost during the next fiscal year consisted of a \$1,387,000 actuarial loss.

The change of the adjustment to unrestricted net assets of the plans resulted in an increase of \$3,776,000 and a decrease of \$8,298,000 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, 2011 and 2010, respectively.

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2011 and 2010

The weighted average assumptions used to determine the benefit obligations in the actuarial valuations at May 31, 2011 and 2010 measurement dates were as follows:

	<u>2011</u>	<u>2010</u>
Discount rate:		
Management Plan (pre-retirement)/(postretirement)	4.35%/4.35%	5.15%/5.15%
Union Plan (pre-retirement)/(postretirement)	5.35/5.35	5.80/5.80
Future salary increases:		
Management Plan	N/A	N/A
Union Plan	4.00%	4.00%

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-down to the nearest 0.05%, is the year-end discount rate. Future salary increases are not applicable for the Management Plan because of the curtailment of the plan.

Components for net periodic benefit cost for the years 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Service cost	\$ 3,630,000	2,830,000
Interest cost	5,148,000	5,400,000
Expected return on plan assets	(4,856,000)	(4,143,000)
Amortization of net loss	1,615,000	1,103,000
Net periodic benefit cost	<u>\$ 5,537,000</u>	<u>5,190,000</u>

The weighted average assumptions used to determine net periodic benefit cost for the years 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Discount rate:		
Management Plan (pre-retirement)/(postretirement)	5.15%/5.15%	7.25%/7.25%
Union Plan (pre-retirement)/(postretirement)	5.80/5.80	7.70/7.70
Expected return on plan assets:		
Management Plan	6.75%	7.50%
Union Plan	7.50	7.50
Future salary increases:		
Management Plan	N/A	N/A
Union Plan	4.00%	4.00%

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2011 and 2010

The Organization's overall expected long-term rate of return on plan assets is 6.75% for the Management Plan and 7.50% for the Union Plan. The expected long-term rate of return is based on the portfolio as a whole and not the sum of returns on individual asset categories. The returns are based exclusively on historical returns, without adjustments.

(c) Plan Assets

The weighted average asset allocation of CU's pension assets at May 31, 2011 and 2010 was as follows:

	Management Plan assets	
	2011	2010
Asset category:		
U.S. equities	17.8%	33.9%
International equities	15.0	7.3
Debt securities	60.9	54.1
Other (money market)	6.3	4.7
Total	<u>100.0%</u>	<u>100.0%</u>

As of May 31, 2011, the target allocation for assets of the Management Plan is 65% fixed income securities, 35% 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.

All of the Management Plan assets were fair valued as of May 31, 2011 and 2010 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.

	Union Plan assets	
	2011	2010
Asset category:		
U.S. equities	42.4%	37.6%
International equities	10.2	9.1
Debt securities	44.3	50.5
Other (money market)	3.1	2.8
Total	<u>100.0%</u>	<u>100.0%</u>

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.

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2011 and 2010

The Union Plan assets were fair valued as of May 31, 2011 and 2010 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 assets		
				Level 1	Level 2	Total
May 31, 2011:						
Asset category:						
U.S. equities	\$	—		17,685,000		17,685,000
International equities		2,164,000		2,114,000		4,278,000
Debt securities		18,463,000		—		18,463,000
Other (money market)		1,290,000		—		1,290,000
Total	\$	<u>21,917,000</u>		<u>19,799,000</u>		<u>41,716,000</u>

				Union Plan assets		
				Level 1	Level 2	Total
May 31, 2010:						
Asset category:						
U.S. equities	\$	—		13,016,000		13,016,000
International equities		1,578,000		1,548,000		3,126,000
Debt securities		17,457,000		—		17,457,000
Other (money market)		939,000		—		939,000
Total	\$	<u>19,974,000</u>		<u>14,564,000</u>		<u>34,538,000</u>

CU's investment goal is to prudently maximize the return on investment 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 make a contribution of \$2,097,000 to the Union Plan for the year ended May 31, 2011. CU does not expect to make a contribution to the Management Plan for the year ended May 31, 2011.

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2011 and 2010

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:

	<u>Management Plan</u>	<u>Union Plan</u>
Year ending May 31,		
2012	\$ 12,460,000	5,633,000
2013	3,790,000	1,573,000
2014	3,154,000	2,609,000
2015	2,499,000	3,471,000
2016	4,205,000	2,316,000
2017 – 2021	13,083,000	22,066,000

The expected benefits are based on the same assumptions used to measure CU's benefits obligation at May 31, 2011 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 by CU amount to 8% of an employee's salary, subject to certain maximum limitations. 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 \$3,396,000 and \$3,299,000 in 2011 and 2010, 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 \$78,000 and \$92,000 in 2011 and 2010, respectively.

(7) Commitments and Contingencies

(a) Leases

CU leases office facilities and certain equipment for which rental expense was \$540,000 and \$557,000 in 2011 and 2010, 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 nine 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.

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2011 and 2010

Future minimum cash payments under noncancelable leases are as follows:

Year ending May 31,	
2012	\$ 390,000
2013	384,000
2014	396,000
2015	334,000
2016	342,000
2017 and thereafter	87,000
	<hr/>
	\$ 1,933,000
	<hr/> <hr/>

(b) Legal Proceedings

The Organization is the defendant in various claims and legal actions arising 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, results of operations, 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 are continuously remarketed and the rate is reset weekly. These bonds were variable rate debt used to finance certain capital expenditures and 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 2011 was 0.25%. The mode change does not change significant terms of the original indenture except how the bonds are being marketed. The bonds are covered by a municipal bond insurance policy; however, due to liquidity questions of the insurer, CU wrote off the unamortized balance of the prepaid bond insurance in 2008. 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.

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2011 and 2010

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 starting in 2011. Total long-term annual sinking fund requirements for the revenue bonds are as follows:

Year ending May 31,	
2012	\$ 1,125,000
2013	1,175,000
2014	1,200,000
2015	1,250,000
2016	1,300,000
2017 – 2036	<u>41,250,000</u>
	<u>\$ 47,300,000</u>

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. These amounts are included in other assets on the accompanying consolidated balance sheets as of May 31, 2011 and 2010.

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 2011 and 2010 was \$1,582,000 and \$1,561,000, 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% for the years ended May 31, 2011 and 2010.

(9) Bank Borrowings

CU has an unused line of credit totaling \$10,000,000 at May 31, 2011. 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, 2011 and 2010, 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 \$47,829,000. An amendment was executed in 2010 extending the term of the letter of credit an additional 2 years to May 31, 2013. 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 \$47,300,000 balance of the bonds in addition to \$529,000 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, 2011 and 2010, there was no amount outstanding under the letter-of-credit agreement.

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2011 and 2010

(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 hedge 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. The mode change of the long-term debt did not have any impact on the principal payment schedule or the interest rate swap.

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, 2011 and 2010, the fair value of the Swap using Level 2 inputs under the fair value hierarchy under ASC Topic 820, including the amendment, is \$(4,688,000) and \$(4,448,000), respectively. These amounts are reflected on the accompanying consolidated balance sheets, and the associated loss is included in the accompanying consolidated statements of activities as unrealized 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 \$11,908,000 and \$9,712,000 at May 31, 2011 and 2010, respectively. The Organization's liability associated with CGAs was \$8,215,000 and \$7,196,000, utilizing discount rates of 3.0% and 3.4% at May 31, 2011 and 2010, respectively. During 2011 and 2010, respectively, CU recognized \$472,000 and \$282,000 in net unrestricted contribution revenue attributable to new CGAs. Additionally, because of changes in the discount rate used to present value the liability, the liability increased by \$278,000 in 2011 and decreased by \$318,000 in 2010.

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2011 and 2010

(12) Acquisition

On December 31, 2008, the Organization entered into an asset purchase agreement to purchase certain assets from Gawker Media LLC mostly consisting of a popular consumer news, tips, and empowerment Web site, www.consumerist.com. The purchased Web site's target audience is a younger demographic than what the Organization currently reaches. The aggregate purchase price was \$600,000 in cash made in two installments, \$537,000 in December 2008 and \$100,000 in December 2009. The organization has allocated the entire purchase price of \$600,000 plus \$37,000 in direct acquisition expenses to intangible assets, which was to be amortized over three years. The amortization period was an estimate based on the current estimated life of technology-based assets, consistent with the useful life of software and Web site development costs. In April 2010, CU performed an impairment test on the purchase price of the Web site and it was determined that the asset was impaired and the remaining intangible balance of \$354,000 was recorded as an impairment loss included in content development in the accompanying consolidated statement of activities for the year ended May 31, 2010. Prior to the impairment, amortization expense of \$195,000 was recorded for the year ended May 31, 2010.

(13) 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 was \$904,000 and \$1,020,000 for the years ended May 31, 2011 and 2010, respectively, and was 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 2011, 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 2011 and 2010, CU also paid ICRT membership fees of \$108,000 and \$165,000, respectively. In 2011 and 2010, CU made payments of \$287,000 and \$283,000, respectively, for certain product testing results. Additionally, CU received \$743,000 and \$296,000 during 2011 and 2010, 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.

(14) Subsequent Events

The Organization has evaluated subsequent events from the balance sheet date through September 21, 2011, the date at which the financial statements were issued, and determined there are no other items to disclose.